



# Banca Popolare di Sondrio

Società cooperativa per azioni - fondata nel 1871  
Sede sociale e direzione generale: I - 23100 Sondrio So - Piazza Garibaldi 16  
Iscritta al Registro delle Imprese di Sondrio al n. 00053810149  
Iscritta all'Albo delle Banche al n. 842  
Capogruppo del Gruppo bancario Banca Popolare di Sondrio, iscritto all'Albo dei Gruppi bancari al n. 5696.0  
Iscritta all'Albo delle Società Cooperative al n. A160536  
Aderente al Fondo Interbancario di Tutela dei Depositi  
Codice fiscale e Partita IVA: 00053810149  
Capitale Sociale € 1.360.157.331 - Riserve € 1.253.388.214  
(dati approvati dall'Assemblea dei soci dell'11/5/2021)

## COMUNICATO STAMPA

**Banca Popolare di Sondrio:  
Fitch Ratings conferma il rating a lungo termine a "BB+";  
migliorato l'outlook che viene portato a "stabile" da "negativo".**

Si informa che in data odierna l'agenzia di valutazione del credito Fitch Ratings, al termine del processo di revisione annuale, ha confermato tutti i rating assegnati alla Banca Popolare di Sondrio. Nel contempo l'outlook viene portato a "stabile" da "negativo".

Di seguito, il dettaglio dei rating assegnati alla banca:

- Long-term Issuer Default Rating ("IDR"): "BB+"
- Short-term Issuer Default Rating ("IDR"): "B"
- Viability Rating: "bb+"
- Support rating: "5"
- Support rating floor: "No Floor"
- Long-term Deposit Rating: "BBB-"
- Short-term Deposit Rating: "F3"
- Senior Preferred Debt: "BB+"
- Subordinated Tier 2 Debt: "BB-"
- Outlook: "Stabile"

Il miglioramento dell'outlook riflette l'opinione positiva, formulata da parte dell'agenzia di rating, relativamente all'attenuazione dei rischi correlati alla pandemia inerenti in particolare alla qualità dell'attivo e ai conseguenti impatti sulla redditività della banca.

Si allega il comunicato stampa pubblicato da Fitch Ratings.

Sondrio, 1° settembre 2021

BANCA POPOLARE DI SONDRIO SCPA

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# Banca Popolare di Sondrio

Co-operative Society by shares - founded in 1871  
Head office and general management: I - 23100 Sondrio So - Piazza Garibaldi 16  
Registered in the Register of Companies of Sondrio at no. 00053810149  
Registered in the Register of Banks under no. 842.  
Parent Bank of the Banca Popolare di Sondrio Banking Group, registered in the Register of Banking Groups under no. 5696.0  
Registered in the Register of Cooperative Societies under no. A160536  
Member of the Interbank Deposit Protection Fund  
Tax code and VAT number: 00053810149  
Share Capital € 1,360,157,331 - Reserves € 1,253,388,214  
(data approved by the Shareholders' Meeting of 11/5/2021)

## PRESS RELEASE

### **Banca Popolare di Sondrio: Fitch Ratings confirms the long-term issuer default rating at "BB+"; outlook improved to "stable" from "negative".**

Please note that today the credit rating agency Fitch Ratings, at the end of its annual review process, confirmed all the ratings assigned to Banca Popolare di Sondrio. The outlook at the same time was raised to "stable" from "negative".

Below are the details of the ratings assigned to the bank:

- Long-term Issuer Default Rating ("IDR"): "BB+"
- Short-term Issuer Default Rating ("IDR"): "B"
- Viability Rating: "bb+"
- Support rating: "5"
- Support rating floor: "No Floor"
- Long-term Deposit Rating: "BBB-"
- Short-term Deposit Rating: "F3"
- Senior Preferred Debt: "BB+"
- Subordinated Tier 2 Debt: "BB-"
- Outlook: "Stable"

The improved outlook reflects the rating agency's positive view regarding the mitigation of risks related to the pandemic, in particular relating to asset quality and the associated impact on the bank's profitability.

The press release issued by Fitch Ratings is attached.

Sondrio, 1<sup>st</sup> September 2021

BANCA POPOLARE DI SONDRIO SCPA

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*The English translation is provided only for the benefit of the reader and in the case of discrepancies the Italian version shall prevail.*

**RATING ACTION COMMENTARY**

# Fitch Revises Banca Popolare di Sondrio's Outlook to Stable; Affirms at 'BB+'

Wed 01 Sep, 2021 - 12:11 ET

Fitch Ratings - Milan - 01 Sep 2021: Fitch Ratings has revised the Outlook on Banca Popolare di Sondrio's (Sondrio) Long-Term Issuer Default Rating (IDR) to Stable from Negative and affirmed the IDR at 'BB+' and Viability Rating (VR) at 'bb+'. A full list of rating actions is below.

The revision of the Outlook reflects our view that the pandemic-related downside risks for the bank's asset quality and profitability have eased. Sondrio's performance in 1H21 and our medium-term expectations for its performance should provide some headroom to absorb moderate deterioration of its profitability and asset quality that may arise from the remaining pandemic-related risks to the economic recovery in Italy.

**KEY RATING DRIVERS****IDRS, VR AND SENIOR PREFERRED DEBT**

Sondrio's ratings reflect its still weak asset quality and modest profitability. However, we expect that the bank's average risk appetite and its credible impaired loan strategy should mitigate asset quality pressure from the pandemic, and that profitability should benefit from loan impairment charges (LICs) remaining under control and strategic initiatives aimed at improving earnings generation.

The ratings also reflect the bank's satisfactory regulatory capitalisation and our expectation that it will maintain capital ratios with ample buffers over requirements.

Sondrio benefits from adequate franchises in its regions of operations, which results in a stable customer deposit base, underpinning a sound funding and liquidity profile.

Sondrio's asset quality is a rating weakness, with an impaired loan ratio of around 7% at end-June 2021, which is higher than the domestic industry average of around 6% and weak compared with international peers. The impaired loans reserve coverage ratio of over 62% at end-June 2021 is adequate for the bank's credit risks.

We expect Sondrio's impaired loan ratio to remain under control, even in case of a weaker-than-expected economic recovery in Italy, as the bank should be able to compensate possible asset quality deterioration once the government support measures gradually unwind through a combination of sales and effective workout. Furthermore, the bank's contained amount of loan moratoria at end-June 2021, at below 4% of gross performing loans, and better-than-expected performance of loan moratoria with limited default rates to date should mitigate near- to medium-term risks.

Sondrio's operating profitability is modest by international standards and compared with stronger domestic rated banks, despite good cost efficiency. Its operating profit/risk-weighted assets (RWA) recovered to around 2.0% in 1H21 from 0.7% in 2020, due to re-established business activities, increased core revenue and the positive contribution of securities investments. In 1H21, LICs decreased by over 40% yoy (including 1H20 losses from the doubtful loans disposal). The benign impaired loan inflows and improving macroeconomic scenario allowed for some releases of provisions in 1H21, which could continue in the coming quarters and sustain the bank's profits.

The improved 1H21 performance suggests that the bank is in a position to benefit from the economic recovery in Italy. We expect profitability to stabilise at around 1% of RWA in the medium term, benefiting from higher business volumes if the economy rebounds in line with our current expectations, continuing use of the Targeted-Longer Term Refinancing Operations (TLTRO) facilities to mitigate pressure on the interest margin, a strategy aimed at expanding wealth management activities and ongoing cost efficiency.

Sondrio's capitalisation is satisfactory, with a common equity Tier 1 (CET1) ratio of 16.7% at end-June 2021, sustained by acceptable earning generation and historically prudent dividend payouts, which allowed to maintain ample buffers over regulatory requirements. Capital encumbrance by unreserved impaired loans improved to below 28% at end-June 2021 from its peak of 74% at end-2016, and we expect it to remain under control, in line with our expectations on asset quality. However, capitalisation remains at risk from large exposure to Italian government bond holdings at about 240% of CET1 capital at end-June 2021.

The bank's funding and liquidity profile is sound. Customer deposits are a stable source of funding, benefiting from the bank's adequate franchise in its home regions and strong client relationships. Funding sources are increasingly diversified through the bank's access to both secured and unsecured wholesale funding markets. Liquidity remains sound, thanks to adequate buffers of unencumbered eligible assets and access to ECB financing.

Sondrio's 'B' Short-Term IDR is the only option mapping to a 'BB+' Long-Term IDR.

Sondrio's long-term senior preferred notes are rated in line with the bank's Long-Term IDR. We expect the bank to use senior preferred debt to meet its minimum requirement for own funds and eligible liabilities. We also do not expect the bank to build up buffers of subordinated and senior non-preferred debt in excess of 10% of RWA, which is required under our criteria to rate senior preferred debt above the Long-Term IDR.

## DEPOSIT RATINGS

Sondrio's 'BBB-' long-term deposit rating is one-notch above the bank's Long-Term IDR to reflect protection from lower-ranking senior preferred and Tier 2 debt buffer, as full depositor preference is in force in Italy. The one-notch uplift also reflects our expectation that the bank will maintain these buffers, given the need to comply with minimum requirement for own funds and eligible liabilities. The short-term deposit rating of 'F3' is in line with our rating correspondence table for banks with 'BBB-' long-term deposit ratings.

## SUBORDINATED DEBT

Tier 2 debt is rated two notches below Sondrio's VR to reflect poor recovery prospects. No notching is applied for incremental non-performance risk because write-down of the notes will only occur once the point of non-viability is reached and there is no coupon flexibility before non-viability.

## SUPPORT RATING AND SUPPORT RATING FLOOR

The Support Rating (SR) of '5' and Support Rating Floor (SRF) of 'No Floor' reflect Fitch's view that although external support is possible, it cannot be relied upon. Senior creditors can no longer expect to receive full extraordinary support from the sovereign in the event that the bank becomes non-viable. The EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism for eurozone banks provide a framework for the resolution of banks that requires senior creditors to participate in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

## RATING SENSITIVITIES

### IDRS, VR AND SENIOR PREFERRED DEBT

Factors that could, individually or collectively, lead to positive rating action/upgrade:

While rating upside is currently limited, a stronger and more stable operating environment combined with improved asset quality could be positive for the ratings. These factors would have to be accompanied by more diversified income sources, supporting sustained profitability enhancement.

We would upgrade the long-term senior preferred debt by one notch if resolution buffers were to be met with senior non-preferred debt and more junior instruments or if the size of the combined buffer of junior and senior non-preferred debt is expected to exceed 10% of RWAs on a sustained basis.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

Sondrio's ratings remain sensitive to a significant weakening of the operating environment in Italy, which would result in a prolonged and substantial damage to the bank's asset quality and earnings causing significant capital erosion, including from higher-than-expected capital encumbrance from unreserved impaired loans. The bank's ratings could be downgraded if we expect its CET1 ratio to edge closer to 13% and its impaired loan ratio deteriorates to above 10%, especially if these result in capital encumbrance by impaired loans to increase close to or above 50%, without the prospect of recovery in the short term.

### SR AND SRF

An upgrade of the SR and upward revision of the SRF would be contingent on a positive change in the sovereign's propensity to support the bank. In Fitch's view, this is highly unlikely, although not impossible.

### DEPOSIT RATINGS

The deposit ratings would likely be downgraded if the bank's Long-Term IDR was downgraded. The deposit ratings are also sensitive to a reduction in the size of the senior and junior debt buffers to below 10% of RWAs.

### SUBORDINATED DEBT



The subordinated debt rating is primarily sensitive to changes in the VR, from which it is notched. The rating is also sensitive to a change in the notes' notching, which could arise if Fitch changes its assessment of their non-performance relative to the risk captured in the VR.

## BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

### RATING ACTIONS

ENTITY/DEBT	RATING		PRIOR	
Banca Popolare di Sondrio-Societa' Cooperativa per Azioni	LT IDR	BB+ Rating Outlook Stable	Affirmed	BB+ Rating Outlook Negative
	ST IDR	B	Affirmed	B

ENTITY/DEBT	RATING			PRIOR
	Viability	bb+	Affirmed	bb+
	Support	5	Affirmed	5
	Support	NF	Affirmed	NF

[VIEW ADDITIONAL RATING DETAILS](#)

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## APPLICABLE CRITERIA

[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

## ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

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## ENDORSEMENT STATUS

Banca Popolare di Sondrio-Societa' Cooperativa per Azioni

EU,UK Endorsed

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