

FITCH AFFIRMS BANCA POPOLARE DI SONDRIO AT 'A'; OUTLOOK STABLE

Fitch Ratings-London/Milan-30 October 2009: Fitch Ratings has today affirmed Italy-based Banca Popolare di Sondrio's (BPS) Long-term Issuer Default Rating (IDR) at 'A' with a Stable Outlook. The agency has simultaneously affirmed BPS's Short-term IDR of 'F1', Individual Rating of 'B', Support Rating of '3' and Support Rating Floor of 'BB'.

BPS's ratings reflect its sound and resilient profitability, good asset quality, despite some deterioration, low appetite for market risk and healthy capital adequacy. They also reflect its moderate size and geographic concentration. The Stable Outlook captures BPS's cautious expansion and conservative risk approach.

The bank's operating profitability has been solid in recent years, although 2008 operating income was depressed by unrealised write-downs on the bank's securities portfolio, which contains a high proportion of Italian government bonds. In the first six months of 2009, reported operating profitability improved, benefiting from the recovery in the value of the securities portfolio. Excluding these valuation movements in 2008 and H109, the bank's performance remained sound, and Fitch expects profitability to remain resilient in the medium term despite the challenging economic environment.

During 2008, BPS's loan portfolio grew a significant 22%. However, this growth is expected to slow to 9% in 2009. Lending is diversified across a range of industry sectors, reflecting the variety of Lombardy's regional economy. Despite some deterioration, reflecting the weaker economic environment, BPS's asset quality remains good and compares well with its peers. At end-June 2009, gross impaired loans accounted for a relatively low 2.75% of gross loans, which was only moderately worse than the end-2008 ratio of 2.30%.

Exposure to market risk is low and controls are adequate for the bank's activities. The bank's funding and liquidity benefit from its stable customer deposit base and small reliance on wholesale funding. BPS's capital is strong with a Tier 1 regulatory capital ratio of 10.46% at end-June 2009. The bank's capital is also of high quality consisting entirely of core capital.

BPS is a medium-sized cooperative bank based in Lombardy, near the Italian-Swiss border. As of end-June 2009, it had total assets of EUR22bn. The bank offers traditional retail banking services to a core client base of households and SMEs and also a full range of products through specialised product companies. BPS has a fully controlled subsidiary in Lugano, Banca Popolare di Sondrio (Suisse), which is active in private and traditional retail banking.

In Fitch's rating criteria, a bank's standalone risk is reflected in Fitch's Individual ratings and the prospect of external support is reflected in Fitch's Support ratings. Collectively these ratings drive Fitch's Long- and Short-term IDRs.

A credit analysis on BPS will be available shortly on the agency's website, www.fitchratings.com under Financial Institutions/Banks/Full Rating Reports.

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