

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

Fitch Ratings-London-28 July 2010: 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 also affirmed BPS's Short-term IDR of 'F1', Individual Rating of 'B'; Support Rating of '3' and Support Rating Floor of 'BB'.

The affirmation of the bank's ratings reflects its sound profitability, which derives from its strong franchise in a wealthy province in Lombardy and its moderately low risk profile. As a result, asset quality has remained good despite some deterioration, market risk is low and liquidity and capital are sound. BPS' ratings also reflect its moderate size, limited geographic diversification, as well as name and industry concentrations in its loan book.

The bank's profitability has been sound in recent years, despite being impacted by unrealised writedowns on its securities portfolios in 2008 and benefiting from their rebound in value in 2009. Some valuation writedowns in this portfolio, which contains a high proportion of Italian government bonds, are expected at end-June 2010 but these are likely to be moderate and bottom line results are not anticipated to be unduly affected. BPS is also expected to feel the impact of a lower interest rate scenario in 2010, with some pressure on its net interest margins.

BPS' asset quality deteriorated in 2009 and in the first quarter of 2010, in similarity to all Italian banks, reflecting the negative macroeconomic environment in Italy in 2009 and the slow recovery of the domestic economy in 2010. However, the bank's asset quality remains better-than-average compared to its peers, reflecting a cautious approach to lending and its position in a wealthy area in northern Lombardy. BPS has developed a small concentration in its largest loans as well as in its exposure to the real estate sector. Although these are not large enough to warrant negative rating action at present, any additional concentration will put the bank's ratings under pressure.

Funding and liquidity are supported by a stable and large customer base with little reliance on wholesale funding. At end-2009, the bank was relatively well capitalised with a Fitch Eligible Capital/Risk Weighted Assets ratio of 10.63%.

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

Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 29 December 2009, are available on [www.fitchratings.com](http://www.fitchratings.com).

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Additional information is available on [www.fitchratings.com](http://www.fitchratings.com).

Related Research:

Global Financial Institutions Rating Criteria

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