

## DBRS Morningstar Assigns BBB (low)/R-2 (middle) Issuer Ratings to Banca Popolare di Sondrio

### BANKING ORGANIZATIONS

DBRS Ratings GmbH (DBRS Morningstar) assigned first-time ratings to Banca Popolare di Sondrio S.C.p.A. (BPS or the Bank). These ratings include a Long-Term Issuer Rating of BBB (low) and a Short-Term Issuer Rating of R-2 (middle). The trend on all ratings is Stable. Concurrently, DBRS Morningstar assigned an Intrinsic Assessment (IA) to the Bank of BBB (low) and a support assessment of SA3, which reflects the low likelihood of timely systemic support for the Bank in case of need. DBRS Morningstar also assigned Long-Term and Short-Term Deposit ratings of BBB and R-2 (high), one notch above the IA, to reflect the legal framework in place in Italy which has full depositor preference in bank insolvency and resolution proceedings. A full list of rating actions is included at the end of this press release.

### KEY RATING CONSIDERATIONS

The Assigned Long-Term Issuer rating of BBB (low) and the Stable trend reflect the Bank's small national position but solid franchise in the region of Lombardy, especially in the province of Sondrio, with a robust retail funding base, its modest but resilient profitability, as well as ample capital buffers over the supervisory requirements. The ratings also take into account the Bank's large, albeit reducing, stock of non-performing exposures (NPEs) and the challenges that the bank may face to complete its pending legal transformation into a joint stock company, expected by end-2020.

### RATING DRIVERS

Upward rating pressure would require a significant further reduction in the NPE stock beyond the planned GACS transaction, supported by adequate capital levels.

Downward rating pressure could arise if the Bank faces challenges in reducing NPEs. A material deterioration in profitability and capital could also lead to downward rating pressure.

### RATING RATIONALE

BPS is a medium-sized mutual bank (Banca Popolare) focused on retail and commercial banking. Based in Sondrio (Lombardy), the Bank had EUR 43.6 billion in total assets as of end-September 2019 and 365 branches, primarily in the North of Italy. Outside Italy, BPS has a small presence in retail and commercial banking in neighboring Switzerland. BPS is the market leader for loans and deposits in the small province of Sondrio. However, the Bank's national market shares are more modest at around 2%. In addition, BPS has leading market position in Italy in the sector of payment systems with public administration and in the delivery of services for the internationalisation of enterprises. BPS' legal structure is expected to be transformed into a joint-stock company as per the Italian law for the reform of the mutual banking sector. However, the process is still pending a verdict from the European Court of Justice following an appeal from some shareholders.

DBRS Morningstar sees the Bank's profitability as modest, due to ongoing revenue pressure and a high cost of risk, despite its good operating efficiency compared to its domestic peers. In 9M19, the Bank posted net attributable profit of EUR 123.2 million, up 57.1% from EUR 78.4 million in 9M18, however results included higher results from financial activities on the back of capital gains on the sale of sovereign bonds. Net interest income (NII), the Bank's main source of revenue, was down 8.3% YoY in 9M19, impacted by the low interest rate environment, whilst fees and commissions remained fairly stable YoY. Operating expenses grew by 2.0% YoY in 9M19 and the cost-income ratio was 57% in 9M19. Loan loss provisions were down 12.9% in 9M19 YoY, despite additional provisions to improve coverage levels ahead of the NPE disposal, and the cost of risk stood at 63 bps in 9M19 compared to 98 bps in 2018, in line with the average for most domestic peers.

The Bank's overall asset quality is weak with a large stock of NPEs. Deteriorating economic conditions for Italian SMEs, especially in real estate & construction, have contributed to the buildup of problem loans. At end-September 2019, the total stock of gross NPEs totaled EUR 3.9 billion, representing 13.0% of total gross loans at that date, which is significantly higher than the European average. The Bank has recently announced additional measures to speed up its NPL reduction, including the approval in July of an NPL disposal of EUR 1 billion. The transaction, which will take place in 1Q20 via a securitisation with the government GACS scheme, should help to reduce BPS's gross NPE ratio to around 10%.

The Bank has a solid funding and liquidity position, underpinned by its large and stable deposit retail franchise. At end-September 2019, total customer deposits accounted for 76% of the Bank's total funding. A key consideration for the rating was that the Bank has started to increasingly diversify its funding sources through issuances in the wholesale markets in view of the upcoming MREL requirements. The Bank issued its inaugural EUR 200 million of Tier 2 in August 2019 and its first senior debt issuance as part of its EMTN programme for EUR 500 million in March 2019. Moreover, the Bank has a sound liquidity position. At end-September 2019, the Bank's liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) were well above regulatory requirements.

DBRS Morningstar views the Bank's capital remains pressured by the large stock of unreserved NPEs but considers the Bank has sound cushions over minimum regulatory requirements. In September 2019, the CET1 ratio (fully loaded) increased to 15.9% from 11.9% at end-2018, reflecting the ECB approval in May to use Advanced IRB models. In addition, the Phased-in CET1 ratio was 15.9% and the phased-in total capital ratio stood at 18.7% at end-September 2019, which provide around 670 bps and 600 bps of cushions over the minimum requirements of 9.25% and 12.75%.

The Grid Summary Grades for BPS are as follows: Franchise Strength – Moderate; Earnings – Moderate; Risk Profile – Moderate/Weak; Funding/Liquidity – Good/Moderate; Capitalisation – Moderate.

Notes:

All figures are in EUR unless otherwise noted.

The principal applicable methodology is the Global Methodology for Rating Banks and Banking Organisations (June 2019). This can be found can be found at: <http://www.dbrs.com/about/methodologies>

The sources of information used for this rating include Company Documents, the European Banking Authority, the European Central Bank and S&P Global Market Intelligence. DBRS Morningstar considers the information available to it for the purposes of providing this rating to be of satisfactory quality.

This rating concerns a newly rated issuer. This is the first DBRS Morningstar rating on this issuer.

DBRS Morningstar does not audit the information it receives in connection with the rating process, and it does not and cannot independently verify that information in every instance.

Generally, the conditions that lead to the assignment of a Negative or Positive Trend are resolved within a twelve month period. DBRS Morningstar's outlooks and ratings are under regular surveillance

For further information on DBRS Morningstar historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see:

<http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>.

Ratings assigned by DBRS Ratings GmbH are subject to EU and US regulations only.

Lead Analyst: Arnaud Journois, Vice President, Global FIG

Rating Committee Chair: Elisabeth Rudman - Managing Director, Head of European FIG - Global FIG

Initial Rating Date: November 18, 2019

Last Rating Date: Not applicable as no last rating date.

DBRS Ratings GmbH

Neue Mainzer Straße 75

60311 Frankfurt am Main Deutschland







Geschäftsführer: Detlef Scholz

Amtsgericht Frankfurt am Main, HRB 110259

For more information on this credit or on this industry, visit [www.dbrs.com](http://www.dbrs.com).

## Ratings

### Banca Popolare di Sondrio S.C.p.A.

Date Issued	Debt Rated	Action	Rating	Trend	Issued
18-Nov-19	Long-Term Issuer Rating	New Rating	BBB (low)	Stb	
18-Nov-19	Short-Term Issuer Rating	New Rating	R-2 (middle)	Stb	
18-Nov-19	Long-Term Deposits	New Rating	BBB	Stb	
18-Nov-19	Long-Term Senior Debt	New Rating	BBB (low)	Stb	
18-Nov-19	Short-Term Debt	New Rating	R-2 (middle)	Stb	
18-Nov-19	Short-Term Deposits	New Rating	R-2 (high)	Stb	

ALL DBRS RATINGS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE [DISCLAIMERS AND LIMITATIONS](#). ADDITIONAL INFORMATION REGARDING DBRS RATINGS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON [WWW.DBRS.COM](http://WWW.DBRS.COM).

## **Contacts**

### **Arnaud Journois**

*Vice President - European Financial Institutions*

+49 69 8088 3526

[ajournois@dbrs.com](mailto:ajournois@dbrs.com)

### **Elisabeth Rudman**

*Managing Director, Head of European FIG - Global FIG*

+44 20 7855 6655

[erudman@dbrs.com](mailto:erudman@dbrs.com)

The DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(CRA, NRSRO affiliate, DRO affiliate). Morningstar Credit Ratings, LLC is a separately registered NRSRO and NRSRO affiliate of DBRS, Inc. For more information on regulatory registrations, recognitions and approvals of DBRS group of companies and Morningstar Credit Ratings, LLC, please see: <http://www.dbrs.com/research/highlights.pdf>. The DBRS group and Morningstar Credit Ratings, LLC are wholly-owned subsidiaries of Morningstar, Inc.© 2019 Morningstar. All Rights Reserved. © 2019, DBRS. All rights reserved. The information upon which DBRS ratings and other types of credit opinions and reports are based is obtained by DBRS from sources DBRS believes to be reliable. DBRS does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS ratings, other types of credit opinions, reports and any other information provided by DBRS are provided "as is" and without representation or warranty of any kind. DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS or any DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. No DBRS entity is an investment advisor. DBRS does not provide investment, financial or other advice. Ratings, other types of credit opinions, other analysis and research issued or published by DBRS are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities. A report with respect to a DBRS rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS may receive compensation for its ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities. DBRS is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS. ALL DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT <http://www.dbrs.com/about/disclaimer>. ADDITIONAL INFORMATION REGARDING DBRS RATINGS AND OTHER TYPES OF CREDIT OPINIONS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON <http://www.dbrs.com>.