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
Al 31/12/2013: Capitale Sociale € 924.443.955 - Riserve € 833.815.944 (Dati approvati dall'assemblea dei Soci del 26 aprile 2014)

COMUNICATO STAMPA

Banca Popolare di Sondrio : Fitch Ratings conferma il rating di lungo termine a "BBB", di breve termine a "F3" e il Viability Rating a "bbb". L'outlook permane "negativo".

La Banca Popolare di Sondrio informa che in data odierna l'agenzia londinese Fitch Ratings ha confermato il rating di Long-term a "BBB", di Short-term a "F3" e il Viability Rating a "bbb". L'outlook permane "negativo".

Si allega il comunicato stampa pubblicato da Fitch Ratings.

Sondrio, 10 luglio 2014

BANCA POPOLARE DI SONDRIO SCPA

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FITCH TAKES RATING ACTION ON 7 ITALIAN MEDIUM-SIZED BANKS

Fitch Ratings-Milan/London-10 July 2014: Fitch Ratings has downgraded Credito Valtellinese's (Creval) Long-term Issuer Default Ratings (IDR) to 'BB' from 'BB+'. The Outlook is Stable. Simultaneously, Fitch has affirmed the Long-term IDRs of Credito Emiliano (Credem) at 'BBB+', Banca Popolare di Sondrio (BPS) at 'BBB', Banca Popolare dell'Emilia Romagna (BPER) at 'BB+', Banca Popolare di Milano (BPM) at 'BB+' and Banca Carige (Carige) at 'BB'. The Outlooks remain Negative. The agency has maintained Banco di Desio e della Brianza's (BDB) 'BBB+' Long-term IDR on Rating Watch Negative (RWN). Fitch also downgraded the Viability Ratings (VRs) of BPER and Creval to 'bb' from 'bb+'.

A full list of rating actions is at the end of this rating action commentary.

The rating actions follow a periodic review of Italian medium-sized banking groups. Fitch will shortly publish the main findings of this review in a report, ' Peer Review: Italian Medium-Sized Banks ', available at www.fitchratings.com.

KEY RATING DRIVERS- SUPPORT RATINGS AND SUPPORT RATING FLOORS (ALL BANKS) AND BPER, BPM AND CARIGE's IDRs AND SENIOR DEBT

The banks' (excluding BDB) Support Rating (SRs) of '3' and Support Rating Floors (SRFs) of 'BB+' or 'BB' reflect their varying degrees of regional importance to Italy and Fitch's view that there is a moderate probability that the authorities would provide support to the banks if required because of the banks' strong franchises in their home regions and fairly large customer funding bases. BDB's SR of '4' and SRF of 'B+' reflect its mainly private ownership structure and its fairly small size.

BPM's, BPER's and Carige's Long- and Short-term IDRs and senior debt ratings are based on external support from authorities as reflected in their SRFs.

The Negative Outlooks on the Long-term IDRs of BPM, BPER and Carige reflect Fitch's view there is a clear intention ultimately to reduce implicit state support for financial institutions in the EU, as demonstrated by a series of legislative, regulatory and policy initiatives. We expect the EU's Bank Recovery and Resolution Directive (BRRD) to be implemented into national legislation later in 2014 or in 1H15. We also expect progress towards the Single Resolution Mechanism (SRM) for eurozone banks in this timeframe. In Fitch's view, these two developments will dilute the influence Italy has in deciding how Italian banks are resolved and increase the likelihood of senior debt losses in its banks if they fail solvability assessments.

RATING SENSITIVITIES- SRs AND SRFs (ALL BANKS) AND BPER, BPM AND CARIGE's IDRs AND SENIOR DEBT

As BPM's, BPER's and Carige's Long- and Short-term IDRs and senior debt ratings are at the banks' SRFs, the sensitivities of their IDRs and senior debt ratings are predominantly the same as those for the SRFs.

The seven banks' SRs and SRFs are primarily sensitive to further progress made in implementing the BRRD and the SRM. The directive requires 'bail in' of creditors by 2016 before an insolvent bank can be recapitalised with state funds. A functioning SRM and progress on making banks 'resolvable' without jeopardising the wider financial system are areas of focus for eurozone policymakers. Once these are operational they will become an overriding rating factor, as the likelihood of banks senior creditors receiving full support from the sovereign if ever required, despite their systemic importance, will diminish substantially, unless mitigating factors arise in the meantime.

Fitch expects that the BRRD will be enacted into EU legislation in the near team and progress made on establishing the SRM is looking close to being ready in the next one to two years. Fitch expects the banks' SRs to be downgraded to '5' and SRFs to be revised downwards to 'No Floor'. The timing at this stage is likely to be some point in late 2014 or in 1H15. A downward revision of the SRFs would result in downgrades of BPM's, BPER's and Carige's Long- and Short-term IDRs and senior debt ratings to the level of the banks' VRs.

The SRs and SRFs are also sensitive to any change in Fitch's assumptions about the sovereign's ability (for example, triggered by a downgrade of Italy's sovereign rating) to provide support.

KEY RATING DRIVERS - VRs (ALL BANKS) AND CREDEM, BDB, BPS AND CREVAL'S IDRs AND SENIOR DEBT

BPER's and Creval's VRs have been downgraded by one notch and the VRs of five other banks have been affirmed. BDB's VR and IDRs remain on RWN. The rating actions on the banks' VRs reflect the capital strengthening measures undertaken by most of these banks, further deterioration in asset quality and structurally weak profitability in their commercial businesses.

There have been signs of slowing growth of impaired loans in 2014 but the fragile recovery has not yet resulted in a stabilisation in asset quality, which is one of the main rating drivers for most of these banks, with the exception of BPM. Credem benefits from the best asset quality, followed by BDB and BPS. The quality of lending is weak at Creval, BPER and Carige. High levels of unreserved impaired loans at the three banks in relation to their Fitch core capital make their capitalisation vulnerable to further deterioration in asset quality, despite the recent capital increases. In Fitch's view, capitalisation and leverage is one of the main rating drivers for the banks, with the exception of BPM.

Earnings in 2013 were supported by income from the banks' securities books (primarily consisting of Italian government bonds). Excluding those, structural profitability of the commercial business has been weak and Fitch expects further pressure as the nascent economic recovery in Italy is fragile.

The affirmation of Credem's IDRs and VR reflects asset quality that is better than peers, even in a deteriorating environment, thanks to its conservative underwriting practices and prudent risk management. As a result, loan impairment charges only absorbed 15% of pre-impairment operating profit in 2013. Even once the capital injections at peer banks are completed, Credem's Fitch core capital (FCC) to weighted risks ratio of nearly 11% at end-1Q14 will continue to compare well with peers, in particular because of a lower level of unreserved impaired loans. The Outlook on Credem's Long-term IDR remains Negative as the structural profitability of its commercial activities (i.e. excluding income from the securities portfolio) remains weak and under pressure.

The RWN on BDB's IDRs and VR reflects the negative impact that the announced acquisition of cooperative bank Banca Popolare di Spoleto (BPSpoleto) will have on BDB's asset quality and, to a lower extent, on capital, the inherent execution risks in the transaction and BPSpoleto's ultimate ownership structure, which will include minority interests. The ratings continue to reflect the bank's more resilient profitability than most peers, its relatively prudent lending policies and a well-diversified loan book by both borrower and by industry, resulting in better than system-average asset quality ratios. Capitalisation is sound.

The affirmation of BPS' IDRs and VR reflects the strengthening of the bank's capitalisation, after the successful conclusion of a EUR350m new share issue, at a time when Fitch sees signs of normalisation in the operating environment in Italy. However, the capital increase only temporarily compensates for deteriorating asset quality and the weak profitability of BPS's commercial banking activities. The affirmation also reflects BPS's manageable asset quality, although this continues to weaken, hence the Negative Outlook on the Long-term IDR.

The downgrade of BPER's VR to 'bb' from 'bb+' reflects that Fitch considers the bank's ongoing capital strengthening not sufficient to compensate for the strong deterioration in asset quality. BPER's level of impaired loans is one of the highest among peers, with end-1Q14 gross impaired loans representing almost 20% of total gross loans. Unreserved impaired loans will continue to account for more than 100% of FCC, even after the ongoing EUR750m capital increase is completed, reflecting the high encumbrance of capital by assets that do not generate earnings and might conversely bring further losses. The downgrade also reflects BPER's structurally weak profitability.

The downgrade of Creval's Long-term IDR and VR reflects pressure from the accelerating asset quality deterioration and low coverage levels, with unreserved impaired loans accounting for more than 95% of FCC even after the successful completion of the EUR400m capital increase. The downgrade also reflects Creval's structurally weak profitability. However, Fitch's opinion that there are initial signs of normalisation in the operating environment and financial markets in Italy drives the Stable Outlook on its Long-term IDR.

BPM's VR reflects Fitch's opinion of the bank's weak corporate governance, which acts as a constraint on the rating. Fitch views the bank's corporate governance, which is significantly influenced by minority shareholders, as convoluted and suboptimal. The bank successfully raised EUR500m capital to strengthen its balance sheet in May 2014, while the Bank of Italy removed the punitive risk weightings (EUR8.1bn) imposed on the bank back in 2011. These actions strengthened the bank's capitalisation to a level that compares adequately with its direct domestic peers and put the bank in a stronger position ahead of the Asset Quality Review undertaken by the European Central Bank. The pace of asset quality deterioration at BPM remains in line with sector trends. The bank's exposure to the real estate and construction sectors has decreased considerably since 2011 but continues to influence BPM's credit risk profile.

Carige's VR has been affirmed and removed from RWN following the completion of the EUR800m capital increase announced in 2013. The VR continues to reflect weaknesses in the bank's management and corporate governance, although Fitch believes that changes introduced in the past year - including an overhaul of the top management and the entrance of new institutional investors in the bank's ownership structure, reducing the dominant ownership and influence of Carige's largest shareholder, banking foundation Fondazione Carige - could be beneficial to the bank's ratings over time. The VR remains lower than all other rated Italian medium-sized banks because Carige's financial position remains weak, in Fitch's opinion. Asset quality deteriorated sharply in 2013 with impaired loans equal to about 20% of gross loans and unreserved impaired loans still accounting for more than 150% of FCC at end-2013.

RATING SENSITIVITIES - VRs (ALL BANKS) AND CREDEM, BDB, BPS AND CREVAL'S IDRs AND SENIOR DEBT

The Negative Outlooks on Credem and BPS mainly reflect pressure on their ratings relative to similarly rated peers. Failure to restore structural profitability to acceptable and sustainable levels in the next 12 months would result in a downgrade of Credem's and BPS's VRs and IDRs. At the same time, material asset quality and capital deterioration, which Fitch currently does not expect, given the banks' sound underwriting standards, would put pressure on their ratings. The combination of a turnaround in profitability and stabilisation of asset quality would be required for the Outlooks to be revised to Stable.

Creval's and BPER's VRs would come under pressure if asset quality were to deteriorate and capitalisation to weaken above the agency's expectations as a result of the Asset Quality Review or higher inflows of impaired loans. Upward movements in the ratings are unlikely at the moment and would require a material improvement of asset quality, a turnaround in the structural profitability of commercial activities and adequate capitalisation.

Fitch expects to resolve the RWN on BDB once the acquisition is formally complete, which is expected to take place in 2H14. The acquisition of BPSpoleto will result in weaker asset quality and capital but in the longer term could provide BDB with more room for cost efficiencies than currently available and ultimately support its revenue generation capacity. Fitch believes that a downgrade would most likely be of two notches.

Any upgrade of BPM's VR is contingent on a credible strengthening of its corporate governance standards. An upgrade of Carige's VR would require a material improvement in asset quality and profit generation. The disposal of the bank's two insurance subsidiaries would be an indicator of the bank's improved risk appetite and could also positively affect the VR.

KEY RATING DRIVERS AND SENSITIVITIES - SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Subordinated debt and other hybrid capital issued by the banks are all notched down from their VRs in accordance with Fitch's assessment of each instrument's respective non-performance and relative loss severity risk profiles, which vary considerably. Their ratings are primarily sensitive to any change in the VRs, which drive the ratings, but also to any change in Fitch's view of non-performance or loss severity risk relative to the banks' viability.

Legacy Lower Tier 2 debt is notched once off the banks' respective VRs to reflect Fitch's view of loss severity risk based on their level of subordination, while the absence of coupon flexibility means that non-performance risk is minimal hence no further notching is applied.

The ratings of BPM's and Carige's subordinated notes and preferred securities reflect Fitch's opinion that non-performance risk in the form of non-payment of coupons is high, given the weak standalone profile of the two banks.The rating of Carige's subordinated notes is vulnerable to a potential capital shortfall that might result from the European Banking Authority's stress tests, which might impose some write down of the principal to cover for the shortfall.

The rating actions are as follows:

Credito Emiliano
Long-term IDR: affirmed at 'BBB+'; Outlook Negative
Short-term IDR: affirmed at 'F2'
Viability Rating: affirmed at 'bbb+'
Support Rating: affirmed at '3'
Support Rating Floor: affirmed at 'BB'
Long-term senior unsecured debt (EMTN): affirmed at 'BBB+'

Banco di Desio e della Brianza
Long-term IDR: 'BBB+'; RWN maintained
Short-term IDR: 'F2'; RWN maintained
Viability Rating: 'bbb+'; RWN maintained
Support Rating: affirmed at '4'
Support Rating Floor: affirmed at 'B+'

Banca Popolare di Sondrio
Long-term IDR: affirmed at 'BBB'; Outlook Negative
Short-term IDR: affirmed at 'F3'
Viability Rating: affirmed at 'bbb'
Support Rating: affirmed at '3'

Support Rating Floor: affirmed at 'BB'

Banca Popolare dell'Emilia Romagna
Long-term IDR: affirmed at 'BB+'; Outlook Negative
Short-term IDR: affirmed at 'B'
Viability Rating: downgraded to 'bb' from 'bb+'
Support Rating: affirmed at '3'
Support Rating Floor: affirmed at 'BB+'
Senior unsecured notes (including EMTN): affirmed at 'BB+'/'B'
Subordinated notes: downgraded to 'BB-' from 'BB'

Banca Popolare di Milano
Long-term IDR: affirmed at 'BB+'; Outlook Negative
Short-term IDR: affirmed at 'B'
Viability Rating: affirmed at 'b+'
Support Rating: affirmed at '3'
Support Rating Floor: affirmed at 'BB+'
Senior unsecured notes (including EMTN): affirmed at 'BB+'/'B'
Commercial paper: affirmed at 'B'
Subordinated lower tier 2 debt: affirmed at 'B'
Preferred stock and hybrid capital instrument: affirmed at 'CCC'

Credito Valtellinese
Long-term IDR: downgraded to 'BB' from 'BB+'; Outlook Stable
Short-term IDR: affirmed at 'B'
Viability Rating: downgraded to 'bb' from 'bb+'
Support Rating: affirmed at '3'
Support Rating Floor: affirmed at 'BB'
Senior unsecured notes, including notes guaranteed by Credito Valtellinese and EMTN: Long-term rating downgraded to 'BB' from 'BB+'; Short-term rating affirmed at 'B'

Banca Carige
Long-term IDR: affirmed at 'BB'; Negative Outlook
Short-term IDR: affirmed at 'B'
Viability Rating: affirmed at 'b-'; off RWN
Support Rating: affirmed at '3'
Support Rating Floor: affirmed at 'BB'
Senior unsecured notes: affirmed at 'BB'/'B'
Subordinated notes: affirmed at 'CCC'; off RWN

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Additional information is available on www.fitchratings.com

Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 31 January 2014, 'Assessing and Rating Bank Subordinated and Hybrid Securities', dated 31 January 2014, are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Global Financial Institutions Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=732397
Assessing and Rating Bank Subordinated and Hybrid Securities Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=732137