



Banca Popolare di Sondrio

COMUNICATO STAMPA

DBRS MORNINGSTAR MIGLIORA IL TREND DI BANCA POPOLARE DI SONDRIO DA "STABILE" A "POSITIVO" GRAZIE AI SOLIDI FONDAMENTALI FINANZIARI

CONFERMATO IL RATING EMITTENTE DI LUNGO TERMINE AL LIVELLO INVESTMENT GRADE "BBB (low)"

Si comunica che in data odierna l'agenzia DBRS Morningstar, al termine del processo di revisione annuale del giudizio, ha confermato tutti i rating assegnati a Banca Popolare di Sondrio ("BPS"), tra i quali quello emittente di lungo termine al livello *investment grade* "BBB(low)", e al contempo ha migliorato il *trend* da "stabile" a "positivo".

Di seguito, il dettaglio dei rating attualmente assegnati alla banca:

- Long-Term Issuer Rating: "BBB (low)"
- Short-Term Issuer Rating : "R-2 (middle)"
- Long-Term Senior Debt: "BBB (low)"
- Short-Term Debt: "R-2 (middle)"
- Long-Term Deposits: "BBB"
- Short-Term Deposits: "R-2 (high)"
- Subordinated Debt: "BB"

Il miglioramento del *trend* riflette la valutazione dell'agenzia di rating riguardo all'evoluzione positiva dei fondamentali finanziari di BPS: il profilo della qualità degli attivi esprime delle metriche ora più in linea con i *peers* europei e la redditività *core* si è

rafforzata, non solo grazie al significativo incremento del margine di interesse ma anche per la solida crescita delle commissioni.

I rating attualmente assegnati trovano, inoltre, un solido sostegno negli ampi *buffer* patrimoniali di cui la banca dispone rispetto ai requisiti regolamentari, nella robusta base di *funding* da clientela *retail* e nel *track record* positivo in termine di efficienza operativa.

Si allega il comunicato stampa pubblicato da DBRS Morningstar.

Sondrio, 13 novembre 2023

Contatti societari:

Investor Relations

Michele Minelli

0342-528.745

michele.minelli@popso.it

Relazioni esterne

Paolo Lorenzini

0342-528.212

paolo.lorenzini@popso.it

Image Building

Cristina Fossati

Anna Pirtali

02-890.11.300

popso@imagebuilding.it



Banca Popolare di Sondrio

PRESS RELEASE

DBRS MORNINGSTAR UPGRADES BANCA POPOLARE DI SONDRIO'S TREND FROM 'STABLE' TO 'POSITIVE' DUE TO STRONG FINANCIAL FUNDAMENTALS

LONG-TERM ISSUER RATING CONFIRMED AT INVESTMENT GRADE 'BBB (low)'

It is informed that today the DBRS Morningstar agency, at the end of its annual rating review process, confirmed all the ratings assigned to Banca Popolare di Sondrio ("BPS"), including the long-term issuer rating at *investment grade* "BBB(low)", and at the same time improved the *trend* from "stable" to "positive".

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

- Long-Term Issuer Rating: "BBB (low) "
- Short-Term Issuer Rating : "R-2 (middle)".
- Long-Term Senior Debt: 'BBB (low)'.
- Short-Term Debt: "R-2 (middle)".
- Long-Term Deposits: 'BBB'.
- Short-Term Deposits: "R-2 (high)".
- Subordinated Debt: 'BB

The improvement in the *trend* reflects the rating agency's assessment of the positive evolution of BPS's financial fundamentals: the asset quality profile now expresses metrics that are more in line with European *peers* and *core* profitability has

strengthened, not only due to the significant increase in net interest income, but also due to solid growth in commissions.

The ratings currently assigned are also solidly supported by the bank's ample capital *buffers* against regulatory requirements, its robust *funding* base from *retail* customers, and its positive *track record* in terms of operational efficiency.

Please find attached the press release issued by DBRS Morningstar.

Sondrio, 13 November 2023

Company contacts:

Investor Relations

Michele Minelli

0342-528.745

michele.minelli@popso.it

External Relations

Paolo Lorenzini

0342-528.212

paolo.lorenzini@popso.it

Image Building

Cristina Fossati

Anna Pirtali

02-890.11.300

popso@imagebuilding.it

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

DBRS Morningstar Revises Trend on Banca Popolare di Sondrio to Positive, Confirms BBB (low) Long-Term Issuer Rating

BANKING ORGANIZATIONS

DBRS Ratings GmbH (DBRS Morningstar) confirmed the ratings of Banca Popolare di Sondrio S.p.A. (BPS or the Bank), including the Long-Term Issuer Rating of BBB (low) and the Short-Term Issuer rating of R-2 (middle). The Bank's Deposit ratings were confirmed at BBB/R-2 (high), one notch above the IA, reflecting the legal framework in place in Italy, which has full depositor preference in bank insolvency and resolution proceedings. The trend on all credit ratings was changed to Positive from Stable. DBRS Morningstar has also maintained the Intrinsic Assessment (IA) at BBB (low) and the Support Assessment at SA3. A full list of credit rating actions is included at the end of this press release.

KEY CREDIT RATING CONSIDERATIONS

The change of the trend to Positive reflects our view that the Group has improved asset quality profile, evidenced by the lower stock of non-performing exposures (NPEs). We view that asset quality metrics are now more in line with European peers. In DBRS Morningstar's view, this will help BPS mitigate the expected negative implications for asset quality due to higher interest rates, high inflation, and weaker economic prospects. The change in Trend also reflects our view that core profitability has improved, as net interest income benefited from higher interest rates but also thanks to sound growth in fees and commissions. On top of this, we incorporate BPS's sound operating efficiency which remains at the higher end of its peer group. Nevertheless, we also take into account that the Bank's cost of risk, although contained so far, remains above the European average, and we can expect a deterioration in future quarters stemming from the current environment, with inflation and higher interest rates impacting borrowers. Additionally, DBRS Morningstar expects NII to normalise in 2023, although BPS revenues should continue to benefit from higher fee and commissions.

The credit ratings incorporate the Bank's very modest national market position but solid franchise in the Lombardy region, especially in the province of Sondrio. BPS also has a long and proven earnings track record and a robust retail funding base. In addition, the ratings are underpinned by BPS's ample capital buffers above supervisory requirements.

CREDIT RATING DRIVERS

An upgrade of the credit ratings would require the bank to maintain sustained profitability metrics together with their current risk profile and capital levels.

The credit ratings would be downgraded should the bank's profitability materially reduce. A significant weakening of the capital base could also lead to a downgrade.

CREDIT RATING RATIONALE

Franchise Combined Building Block (BB) Assessment: Moderate

Established in 1871, Banca Popolare di Sondrio is a small to medium-sized bank based in Sondrio (Lombardy), with EUR 54.8 billion in total assets as of end-September 2023. The Bank's main activities include retail and commercial banking. The Bank has 3,539 employees and 373 branches, distributed across 8 Italian regions, primarily in Northern Italy. Outside Italy, BPS has a small presence in retail and commercial banking in neighbouring 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 a leading market position in Italian public administration payment systems. BPS transformed from a cooperative bank into a joint-stock company at end-2021, as per the Italian law for the reform of the mutual banking sector.

Earnings Combined Building Block (BB) Assessment: Moderate

In DBRS Morningstar's view, profitability has improved thanks to a combination of lower cost of risk and improving core revenues. Continued de-risking resulted in lower pressure from loan loss provisions on the income statement. In addition, core revenues are mostly benefiting from higher interest rates, but also stronger commissions brought by business diversification implemented in previous years. The Bank's NII has improved significantly as expected, given its high sensitivity to interest rate increases. However, we see NII to be close to its peak considering our expectation of a slowdown in the tightening of the European Central Bank (ECB)'s monetary policy, as well as potential margin compression as banks attempt to retain market shares, lower new loan volumes, and the upcoming removal of the contribution from the mandatory reserve held at the central bank following the recent policy change. The cost of risk should remain contained overall, as current default rates remain below expectations, despite the current environment. BPS's net attributable income grew more than twofold at 348.6 million in 9M 2023 from EUR 151,2 million in 9M 2022. This was mainly driven by a boost in net interest income from the high interest rates and low deposit costs resulting in an increase in the commercial margin. Operating expenses were up 7.5% YOY, impacted by inflation, growth in the number of employees and anticipation of an increase in the labour costs. Nevertheless, the cost-income ratio as calculated by DBRS Morningstar improved to 43.9% from 57.6% in for the same period a year ago. The Bank's cost of risk stood at 41 bps in 9M 2023, in line with the level of the same period last year.

Risk Combined Building Block (BB) Assessment: Moderate

In recent years, the Bank has made progress in reducing its NPEs, mostly through disposals and securitisations, but also organic workouts. This de-risking resulted in BPS's asset quality moving more in line with other Italian banks and providing a much better starting point for any potential deterioration the Bank might face in the current challenging environment. BPS's asset quality has continued to improve in 2022 and 9M 2023, following substantial NPL disposals in 2022. As a result, the total stock of gross non-performing exposures (NPEs) decreased to EUR 1.4 billion at end-September 2023, stable from end-2022 but down from EUR 1.9 billion at end-2021 and the gross NPE ratio stood at 4.3%, stable from end-2022 but improved from 5.8% at end-2021. The net NPL ratio was 1.7% at end-September 2023, down from 1.8% at end-2022 and 2.7% at end-2021. We now view BPS's asset quality as more in line with the European average. The Group typically maintains a higher than peers coverage ratio, which stood at 62.5% at end-September 2023, improved from 58.3% at end-2022.

Funding and Liquidity Combined Building Block (BB) Assessment: Good/Moderate

DBRS Morningstar views BPS's funding profile as adequate, underpinned by its stable retail deposit franchise in its home market. At end-September 2023, customer deposits accounted for 70% of the Bank's total funding, whilst the proportion of central bank funding decreased to around 10% from 18% at end-2022 following the repayment of EUR 4.4 billion of TLTRO. We also view as positive that the Bank has diversified its funding sources in recent years, thanks to issuances on the wholesale markets. A key strength supporting the credit ratings is the Bank's solid liquidity position. At end-September 2023, BPS had around EUR 8.4 billion of unencumbered securities, amply covering outstanding net short-term funding. Also, the Bank reported at end-September 2023, LCR and NSFR ratios well above the regulatory requirements at 187% and 128% respectively.

Capitalisation Combined Building Block (BB) Assessment: Good/Moderate

The Bank's capital ratios were further reinforced through issuances, which helped diversify the capital base and build-up the total loss absorption capacity. Furthermore, thanks to the de-risking process undertaken in previous years, we see BPS's capital as less pressured by the NPE stock, although we could expect some deterioration in coming quarters as a result of the current environment. The CET1 ratio (fully loaded) was 16.2% at end-September 2023 up from 15.3% at end-2022. The fully loaded total capital ratio stood at 18.7% at end-September 2023 compared to 17.9% at end-2022. We view positively that BPS maintains an ample buffer above its regulatory minimum capital requirements, including 780 bps above the CET1 and 564 bps over the Total Capital requirements. BPS also announced in regard of the windfall tax that they would allocate around EUR 107 million to non-distributable reserve.

Further details on the Scorecard Indicators and Building Block Assessments can be found at <https://www.dbrsmorningstar.com/research/423246>.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

There were no Environmental, Social or Governance factors that had a significant or relevant effect on the credit analysis.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (4 July 2023) - <https://www.dbrsmorningstar.com/research/416784/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings>

Notes:

All figures are in EUR unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations <https://www.dbrsmorningstar.com/research/415978/global-methodology-for-rating-banks-and-banking-organisations> (22 June 2023). In addition DBRS Morningstar uses the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings <https://www.dbrsmorningstar.com/research/416784/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings> in its consideration of ESG factors.

The credit rating methodologies used in the analysis of this transaction can be found at: <https://www.dbrsmorningstar.com/about/methodologies>

The sources of information used for this credit rating include Morningstar Inc. and Company Documents, BPS 9M 2023, H1 2023 and 2022 Press Releases, BPS H1 2023 Interim Report, BPS 2022 Annual Report, BPS H1 2023 and 2022 Pillar III Reports and BPS 2022 Sustainability Report. DBRS Morningstar considers the information available to it for the purposes of providing this credit rating to be of satisfactory quality.

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

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. DBRS Morningstar's outlooks and credit 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: <https://registers.esma.europa.eu/cerep-publication>. For further information on DBRS Morningstar historical default rates published by the Financial Conduct Authority (FCA) in a central repository, see <https://data.fca.org.uk/#/ceres/craStats>.

The sensitivity analysis of the relevant key credit rating assumptions can be found at: <https://www.dbrsmorningstar.com/research/423245>.

This credit rating is endorsed by DBRS Ratings Limited for use in the United Kingdom.

Lead Analyst: Arnaud Journois, Vice President – European Financial Institutions
 Rating Committee Chair: Elisabeth Rudman – Managing Director, Head of Global FIG
 Initial Rating Date: November 18, 2019
 Last Rating Date: November 14, 2022

DBRS Ratings GmbH
 Neue Mainzer Straße 75
 Tel. +49 (69) 8088 3500
 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.dbrsmorningstar.com.

Ratings

Banca Popolare di Sondrio S.p.A.

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
13-Nov-23	Long-Term Issuer Rating	Confirmed	BBB (low)	Stb	EU U
13-Nov-23	Long-Term Issuer Rating	Trend Change	BBB (low)	Pos	EU U
13-Nov-23	Short-Term Issuer Rating	Confirmed	R-2 (middle)	Stb	EU U
13-Nov-23	Short-Term Issuer Rating	Trend Change	R-2 (middle)	Pos	EU U
13-Nov-23	Long-Term Deposits	Confirmed	BBB	Stb	EU U
13-Nov-23	Long-Term Deposits	Trend Change	BBB	Pos	EU U
13-Nov-23	Long-Term Senior Debt	Confirmed	BBB (low)	Stb	EU U

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
13-Nov-23	Long-Term Senior Debt	Trend Change	BBB (low)	Pos	EU U
13-Nov-23	Short-Term Debt	Confirmed	R-2 (middle)	Stb	EU U
13-Nov-23	Short-Term Debt	Trend Change	R-2 (middle)	Pos	EU U
13-Nov-23	Short-Term Deposits	Confirmed	R-2 (high)	Stb	EU U
13-Nov-23	Short-Term Deposits	Trend Change	R-2 (high)	Pos	EU U
13-Nov-23	Subordinated Debt	Confirmed	BB	Stb	EU U
13-Nov-23	Subordinated Debt	Trend Change	BB	Pos	EU U

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.DBRSMorningStar.COM.

Contacts

Arnaud Journois

Vice President, Credit Ratings - European Financial Institutions

+49 69 8088 3526

arnaud.journois@dbrsmorningstar.com

Elisabeth Rudman

Managing Director, Credit Ratings - Global Fundamental Ratings

+44 20 7855 6655

elisabeth.rudman@dbrsmorningstar.com

The DBRS Morningstar 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)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). DBRS Morningstar does not hold an Australian financial services license. DBRS Morningstar credit ratings, and other types of credit opinions and reports, are not intended for Australian residents or entities. DBRS Morningstar does not authorize their distribution to Australian resident individuals or entities, and accepts no responsibility or liability whatsoever for the actions of third parties in this respect. For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: <https://www.dbrsmorningstar.com/research/highlights.pdf>.

The DBRS Morningstar group of companies are wholly-owned subsidiaries of Morningstar, Inc. © 2023 DBRS Morningstar. All Rights Reserved.

The information upon which DBRS Morningstar credit ratings and other types of credit opinions and reports are based is obtained by DBRS Morningstar from sources DBRS Morningstar believes to be reliable. DBRS Morningstar 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 Morningstar credit ratings, other types of credit opinions, reports and any other information provided by DBRS Morningstar are provided "as is" and without representation or warranty of any kind and DBRS Morningstar assumes no obligation to update any such ratings, opinions, reports or other information. DBRS Morningstar 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 Morningstar or its directors, officers, employees, independent contractors, agents, affiliates and representatives (collectively, DBRS Morningstar 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 credit ratings, other types of credit opinions and reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS Morningstar or any DBRS Morningstar Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. IN ANY EVENT, TO THE EXTENT PERMITTED BY LAW, THE AGGREGATE LIABILITY OF DBRS MORNINGSTAR AND THE DBRS MORNINGSTAR REPRESENTATIVES FOR ANY REASON WHATSOEVER SHALL NOT EXCEED THE GREATER OF (A) THE TOTAL AMOUNT PAID BY THE USER FOR SERVICES PROVIDED BY DBRS MORNINGSTAR DURING THE TWELVE (12) MONTHS IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO LIABILITY, AND (B) U.S. \$100. DBRS Morningstar does not act as a fiduciary or an investment advisor. DBRS Morningstar does not provide investment, financial or other advice.

Credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar (a) 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; (b) do not take into account your personal objectives, financial situations or needs; (c) should be weighed, if at all, solely as one factor in any investment or credit decision; (d) are not intended for use by retail investors; and (e) address only credit risk and do not address other investment risks, such as liquidity risk or market volatility risk. Accordingly, credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar are not a substitute for due care and the study and evaluation of each investment decision, security or credit that one may consider making, purchasing, holding, selling, or providing, as applicable.

A report with respect to a DBRS Morningstar credit 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 Morningstar may receive compensation for its credit ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities.

This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS Morningstar. ALL DBRS MORNINGSTAR CREDIT RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DEFINITIONS, LIMITATIONS, POLICIES AND METHODOLOGIES THAT ARE AVAILABLE ON <https://www.dbrsmorningstar.com>. Users may, through hypertext or other computer links, gain access to or from websites operated by persons other than DBRS Morningstar. Such hyperlinks or other computer links are provided for convenience only. DBRS Morningstar does not endorse the content, the operator or operations of third party websites. DBRS Morningstar is not responsible for the content or operation of such third party websites and DBRS Morningstar shall have no liability to you or any other person or entity for the use of third party websites.