

Research Update:

Italy-Based Banca Popolare di Sondrio Assigned 'BBB-/A-3' Ratings; Outlook Stable

February 26, 2024

Overview

- Banca Popolare di Sondrio's (BPS's) well-established franchise in the wealthiest northern regions of Italy will continue to support its creditworthiness.
- We also believe that BPS's solid capitalization and track record of prudent risk management will continue to support the ratings.
- We therefore assigned our 'BBB-/A-3' long- and short-term issuer credit ratings and our 'BBB/A-2' long- and short-term resolution counterparty ratings to the bank.
- The stable outlook reflects our view that BPS will continue to execute its business strategy of revenue diversification and digitalization, which should further consolidate the group's competitive advantage.

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Rating Action

On Feb. 26, 2024, S&P Global Ratings assigned its 'BBB-/A-3' long- and short-term issuer credit ratings to Banco Banca Popolare di Sondrio SpA. The outlook is stable. We also assigned our 'BBB/A-2' long- and short-term resolution counterparty ratings (RCRs) to the bank.

Rationale

BPS will continue to preserve its solid historical franchise. BPS, founded in 1871 as a traditional Italian cooperative bank, has maintained its strong ties with the entrepreneurial and social ecosystem of the territories where it operates and, in particular, of the Lombardy region, one of the wealthiest in Italy. We think the bank will continue to consolidate its competitive advantage, further focusing on diversifying its product offering while advancing in its digital agenda. We see the top management's stability--in particular, the CEO being in charge since 2012 and employed with the bank since 1977--as supporting the ratings.

We expect BPS will focus on revenue diversification, to reduce its dependence on net interest income. As per its 2022-2025 strategic plan, BPS will continue to focus on developing ancillary activities and business lines to complement its lending products to core customers, which are mainly corporates and small and midsize enterprises. In particular, we think it will further reap the benefits from its expansion in the factoring business via subsidiary Factorit, and its salary-backed consumer finance business via its subsidiary BNT; develop its asset under management and bancassurance businesses; and explore car rental opportunities. The bank's risk profile benefits from its established presence in Switzerland since 1995, via its BPS Suisse subsidiary, which is mostly active in mortgage lending. The Swiss portfolio constitutes about 15% of the group's customer portfolio and adds geographical diversification to the bank's loans than most of its peers.

We expect that BPS's asset quality will continue to evolve at least in line with the Italian system average, thereby containing the bank's prospective cost-of-risk. While its gross nonperforming exposure (NPE) ratio, at 3.7% of the group's customer loans as of December 2023, is aligned with that of the system, BPS did not have to proceed--unlike most peers--with a major restructuring via significant portfolio sales of its balance sheet over the past decade. The decrease in the stock of NPEs was driven by internal workout and ad hoc sales, which did not adversely affect to the group's profitability. We assume that BPS's gross NPE ratio could remain close to 4% in 2024-2026 and its cost-of-risk at about 60 basis points, slightly below the 70 basis points we expect at the system level. The higher recovery rate that characterizes the northern Italian regions--with a more efficient judicial system--the additional loan loss provisions taken in fourth-quarter 2023, and the €200 million management overlay support our view.

Sound profitability, prudent capital management, and moderate growth will underpin BPS's capitalization. We expect the bank will continue to expand organically, by an average of 2.5%-3.0% per year in 2025 and 2026, after a temporary slowdown in 2024. We anticipate that BPS will post increasing net income of €390 million-€400 million per year (up from the €251 million reported at year-end 2022), corresponding to a return on equity of 9%-10% in 2024-2026. We assume BPS will continue to distribute to its shareholders 50% of its yearly net income. These dynamics will maintain our risk-adjusted capital ratios sustainably above 7.0%, up from 6.8% calculated at year-end 2022.

We expect BPS's solid franchise will provide a stable source of funding. Its granular customer deposits will continue to represent more than 70% of its funding base. As of end-2023, the bank's regulatory liquidity coverage ratio stood at a good 188%. With above €4 billion of excess liquidity deposited at the European Central Bank (ECB) as of Dec. 31, 2023, we anticipate BPS will comfortably manage the refinancing risks related to its remaining ECB targeted longer-term refinancing operations, which amounted to €4.5 billion as of end-2023. We consider that the ECB funding does not cover the bank's structural financing needs.

Our long-term 'BBB' RCR on BPS is one notch above the long-term issuer credit rating. An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institutions. RCRs apply to issuers in jurisdictions where we assess the resolution regime to be effective and consider the issuer likely to be subject to a resolution that entails a bail-in if it reaches nonviability.

Outlook

The stable outlook reflects our view that BPS will maintain its strong franchise in northern Italy and will continue to execute its strategy, which should lead to a more diversified revenue base throughout the credit cycle, focusing increasingly on wealth management and bancassurance activities. The outlook also reflects our expectations that the bank will continue to rely on a solid capital base, with a projected RAC ratio sustainably above 7%, and maintaining its track record of prudent risk management and sound asset quality.

Downside scenario

We could lower our long-term rating on BPS if we were to consider that the bank is unable to maintain its RAC ratio above 7% in 2024-2026. This may happen if BPS's earnings capacity proves to be weaker-than-expected in a scenario of decreasing interest rates. We could also consider a downgrade if the bank asset quality were to show a significant deterioration, materially departing from Italian system average.

Upside scenario

Given the 'BBB' rating and stable outlook on the Italian sovereign, our peer comparison, and recognition of the bank's solid franchise in our assessment of the SACP, an upgrade is unlikely over the next 18-24 months.

Ratings Score Snapshot

Issuer Credit Rating	BBB-/Stable/A-3
SACP	bbb-
Anchor	bbb-
Business position	Adequate
Capital and earnings	Adequate
Risk position	Adequate
Funding	Adequate
Liquidity	Adequate
Comparable rating analysis	0
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0
Stand-alone credit profile	bbb-

Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

New Rating

Banca Popolare di Sondrio SpA

Resolution Counterparty Rating BBB/--/A-2

Issuer Credit Rating BBB-/Stable/A-3

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceld/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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