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
Capitale Sociale € 924.443.955 - Riserve € 776.611.007 (Dati approvati dall'assemblea dei Soci del 27 aprile 2013)

COMUNICATO STAMPA

Banca Popolare di Sondrio : Fitch Ratings rivede il rating di lungo termine a "BBB" da "BBB+", di breve termine a "F3" da "F2" e il Viability Rating a "bbb" da "bbb+". L'outlook permane "negativo".

La Banca Popolare di Sondrio informa che in data odierna l'agenzia londinese Fitch Ratings ha rivisto il rating di Long-term a "BBB" da "BBB+", di Short-term a "F3" da "F2" e il Viability Rating a "bbb" da "bbb+". L'outlook permane "negativo".

Si allega il comunicato stampa pubblicato da Fitch Ratings.

Sondrio, 26 luglio 2013

BANCA POPOLARE DI SONDRIO SCPA

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Fitch Takes Rating Action on Italian Mid-Sized Banks

Ratings Endorsement Policy

26 Jul 2013 12:37 PM (EDT)

Link to Fitch Ratings' Report: Peer Review: Italian Mid-Sized Banks

Fitch Ratings-London-26 July 2013: Fitch Ratings has downgraded Banca Popolare di Sondrio's (BPS) Long-term Issuer Default Ratings (IDR) to 'BBB' from 'BBB+', Banca Popolare dell'Emilia Romagna's (BPER) to 'BB+' from 'BBB and Banca Carige's (Carige) to 'BB' from 'BB+'. The agency has also placed Banca Popolare di Milano's (BPM) 'BBB-' Long-term IDR on Rating Watch Negative (RWN). Simultaneously, Fitch has affirmed Banco di Desio e della Brianza's (BDB) and Credito Emiliano's (Credem) Long-term IDRs at 'BBB+' and Banca Popolare di Vicenza's (BPV) and Credito Valtellinese's (Creval) Long-term IDRs at 'BB+'.

The Outlooks on the banks' Long-term IDRs are Negative, with the exception of BPM, whose Long-term IDR is on RWN. The Negative Outlooks on BDB, Credem, BPS, Creval and BPV's Long-term IDRs reflect these banks' vulnerability to the recessionary domestic environment. Fitch sees downside risk to its forecast for Italy's GDP growth, and a further weakening of individual banks' fundamentals could result in a downgrade of their IDRs. The Negative Outlooks on BPER and Carige's Long-term IDRs, which are at their respective Support Rating Floors (SRFs), relate to the Negative Outlook on Italy's Long-term IDR and reflect Fitch's view that a downgrade of Italy's sovereign rating could change the agency's view on the availability of support for Italian banks.

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

The rating actions follow a periodic review of the eight banking groups. Fitch has published the main findings of this review in a new report, ' Peer Review: Italian Mid-Sized Banks ', available at www.fitchratings.com. Fitch concludes that the Italian mid-sized banks are still vulnerable to a further deterioration of the domestic economy. However, the agency believes that while profitability will remain low, banks have stabilised their funding and liquidity and some progress is being made to strengthen capitalisation. Fitch expects impaired loan ratios to deteriorate further throughout 2013 and does not see an improvement until signs of a domestic recovery become evident. Fitch still sees the main risk for further assets quality deterioration arising from the banks' exposure to the SME segment. The real estate and construction and the manufacturing sectors remain the most volatile. Rising unemployment represents an additional threat to asset quality, but residential mortgage loans have continued to perform well.

After the Italian banking regulator completed an inspection at those banks that will likely be subject to European supervision, reserve coverage ratios of impaired loans have remained stable despite severe asset quality deterioration helped by significant impairment charges in H212 and H113. The inspection resulted in a more conservative valuation of collateral that underlies impaired loans. Fitch considers it unlikely that the Italian mid-sized banks' impaired loans coverage ratio will decrease significantly over the coming quarters.

Over the medium-term capital ratios should increase to more adequate levels given the risks of the banks' business models. The losses reported by most of the rated Italian mid-sized banks, combined with most of them being subject to supervision by the European Central Bank, has made the need to increase capital more pressing. Fitch expects more new share capital increases than those already announced to take place. Initiatives to reduce risk-weighted assets and plans to move to advanced internal ratings based approach models continue.

Access to customer funding and longer-term refinancing operations (LTROs) helped stabilise the mid-sized banks' funding profiles. Funding plans for 2013 largely rely on issuance of long-term debt through the branch networks but a number of banks are ready for public institutional issues in preparation for LTROs maturities. The weak demand for lending, ECB access, increasing customer deposits and the absence of large wholesale market maturities have helped Italian mid-sized banks maintain adequate liquidity reserves.

Fitch expects the weak operating profitability of the Italian mid-sized banks to remain under pressure throughout H213 and until signs of a domestic recovery materialise. Operating revenues are hurt by declining net interest income (NII), which still represents their largest revenue source, and high loan impairment charges (LICs). Higher net fees and commissions and lower non-interest expenses should relieve some of the pressure on operating profit.

KEY RATING DRIVERS - IDRs, VRs AND SENIOR DEBT
BDB's IDRs and VR have been affirmed as the bank's performance has been resilient, despite the difficult operating

environment. Its results have continued to benefit from its prudent lending policies and a well-diversified loan book - both by borrower and by industry. During the recession, asset quality deterioration has been moderate compared to most domestic peers (its impaired loans ratio was equal to nearly 7% at end-2012 against an average 10% for peers) and the bank can rely on a large and stable customer deposit base, its extremely low access to wholesale funding, and sound capitalisation (Fitch Core Capital (FCC) ratio was equal to 12.5% at end-Q113).

Credem's IDRs and VR have been affirmed as the bank has been able to generate positive returns despite the difficult operating environment mainly thanks to lower than peers' LICs which reflect its prudent credit risk approach and conservative underwriting practices. Credem's credit risk management remains sound and its attitude to credit risk prudent, which results in still adequate asset quality ratios, with gross impaired loans accounting for just 5% of gross loans at end-Q113, the lowest level among its peers. The ratings affirmation also reflects Credem's adequate capitalisation in light of its asset quality and solid internal capital generation capabilities. In Q313 Credem completed a EUR500m covered bond issue on the institutional market at a pricing below that of Italian government debt with equivalent maturity, demonstrating the bank's good market access, which Fitch considers a valuable addition to its strong customer funding base, also in anticipation of upcoming LTRO maturities.

BPS' IDR and VR have been downgraded to reflect its weakening capital ratios and delays in adopting effective measures to strengthen its capital in connection with Fitch's expectations that the operating environment will remain difficult and LICs high. Nonetheless, asset quality remains manageable and better than at most domestic peers with gross impaired loans accounting for 6.85% of gross loans at end-Q113, and the bank's performance deteriorated less than at most peers'. Funding and liquidity remain stable and benefit from the bank's solid customer base.

BPM's IDRs and VR have been placed on RWN to reflect Fitch's view that the ratings would come under pressure if the bank is unable to complete its reorganisation by strengthening corporate governance. BPM's ratings reflect Fitch's expectation that it will raise EUR500m fresh capital through a new share issue to service the reimbursement of the government hybrid capital received in 2009 and which took place in June 2013. BPM's efficiency ratio has improved, which should help operating profitability, and funding and liquidity are stable and acceptable. BPM's ratings continue to reflect its deteriorating asset quality, its above-average exposure to the real estate and construction sectors and increasing impaired loans.

BPER's IDRs and VR have been downgraded to reflect its deteriorated asset quality, which, in Fitch's view, represents the bank's major weakness. BPER's level of impaired loans is the highest among peers with end-Q113 gross impaired loans representing a very high 15% of total gross loans. Consequently, profitability is dented by high LICs, which in both Q113 and 2012 absorbed all of BPER's pre-impairment operating profit. Fitch expects LICs to remain high throughout 2013, threatening operating profitability and the effect of management progress in reducing personnel and administrative expenses and sustaining operating revenues. The high level of unreserved impaired loans, accounting for more than 100% of FCC, means that BPER's capitalisation with a FCC ratio of 9.2% is, in Fitch's opinion, tight. BPER's ratings reflect its adequate liquidity position thanks to its customer deposit base, the large availability of unencumbered eligible assets for refinancing operations and the absence of wholesale bonds maturities in H213 and 2014.

BPV's IDRs and VR have been affirmed to reflect progress in strengthening capital to more adequate levels through a EUR250m new share issue in the process of being completed and the issue of additional EUR250m debt, convertible into equity at the option of the bank during 2015, which allows the bank to improve capitalisation further in a reasonable time frame. BPV's IDRs and VR continue to reflect its weak asset quality and modest profitability - although these remained more resilient than most of its immediate peers during 2012. The ratings also factor in the bank's improved funding and liquidity profile, which however remains weaker than at most peers.

Creval's IDRs and VR have been affirmed as the asset quality deterioration and weak performance experienced by the bank have remained in line with Fitch's expectations. Creval's capitalisation remains modest compared to peers' despite actions taken to improve it. Funding and liquidity are acceptable and in line with peers.

Carige's Long-term IDR and VR have been downgraded and the latter has been placed on RWN to reflect the execution risk in its current capital strengthening plan to restore its tight capitalisation to more acceptable levels. Carige's FCC ratio stood at 6.2% at end-Q113, which Fitch considers weak considering the high level of unreserved impaired loans that account for more than 100% of FCC. Carige needs to raise EUR800m capital through a combination of asset disposals and a new share issue, whose implementation remains however uncertain under current market conditions. Carige's IDRs and VRs reflect its weak profitability, deteriorated asset quality, and some reliance on ECB funding.

RATING SENSITIVITIES - IDRs, VRs AND SENIOR DEBT
BDB's IDRs and Outlook are in line with Italy's sovereign IDRs and Outlook and are currently capped at that level. A downgrade of the sovereign rating would result in a downgrade of BDB's ratings, in line with Fitch's criteria. Greater-than-expected asset quality deterioration, significant reported losses or a weakening of BDB's funding and liquidity position would put pressure on its ratings.

Credem's IDRs and Outlook are in line with Italy's sovereign IDRs and Outlook and are currently capped at that level.

A downgrade of the sovereign rating would result in a downgrade of Credem's ratings, in line with Fitch's criteria. At the same time, material asset quality deterioration, which Fitch currently does not expect given the bank's sound underwriting standards, or a weakening of its funding and liquidity position would put pressure on its ratings.

BPS's IDR and VR could be upgraded if the bank strengthened its capitalisation through the economic cycle, and if internal capital generation was sufficient to maintain significant capital buffers above the regulatory minimum despite the bank's high dividend pay-out policy. Material asset quality deterioration, material losses or a weakening of its funding and liquidity position would put further pressure on BPS's ratings.

Fitch expects to resolve the RWN on BPM's IDRs and VR by early 2014, by when the bank's shareholders are expected to have taken decisions on whether to continue the strengthening of BPM's corporate governance. The ratings would come under pressure if improvements in the bank's corporate governance were delayed, which in Fitch's opinion would increase the risk that the bank did not continue the progress made to date in improving cost efficiency, strengthening loan underwriting standards and credit risk monitoring procedures as well as strengthening capital through a recently approved EUR500m capital increase. BPM's VR and IDRs would also come under pressure if asset quality continued to deteriorate materially, or if liquidity and funding weakened.

BPV's IDR and VR would come under pressure if operating profitability deteriorated further or if the inflow of new impaired loans rose materially above Fitch's current expectations. An upgrade of the ratings would require evidence that the bank can improve asset quality from its current weak levels, which would likely require an improvement of the operating environment.

BPER's Long-term IDR is based on the bank's 'bb+' VR. A downgrade of BPER's VR would only trigger a downgrade of its Long-term IDR if the bank's 'BB+' SRF was revised downwards.

BPER's VR would come under further pressure if the bank's operating profitability failed to recover despite management's efforts to improve efficiency and revenue generation. Failure to slow the increase in the bank's stock of impaired loans, which have to date required significant LICs and represent a burden to be managed, or an unexpected material inflow of new impaired exposure could trigger a downgrade of its 'bb+' VR. An upgrade of the VR, which is unlikely in the short-term, would require evidence that the bank can return to generate operating profit and improve asset quality from its currently weak levels.

Creval's IDR and VR would come under pressure if asset quality were to deteriorate further and capitalisation got tighter. The ratings are also sensitive to a deterioration of the bank's funding structure. Upward pressure on the ratings would require a material improvement of asset quality and a stronger capitalisation.

Carige's Long-term IDR is currently based on the bank's 'bb' VR. A downgrade of Carige's VR to below its 'BB' SRF would not result in a downgrade of its Long-term IDR as the latter is currently at the same level as its SRF. The resolution of the RWN on Carige's VR is subject to the successful completion of its capital strengthening plan within the timeframe indicated by the bank by year-end. Failure or substantial delays in raising the necessary amount of capital would likely result in a downgrade of its VR, potentially by more than one notch.

KEY RATING DRIVERS - SUPPORT RATING AND SUPPORT RATING FLOOR
Fitch has affirmed the Support Ratings (SRs) and SRFs for the eight banks. The SRs reflect Fitch's expectation of the probability that the authorities would provide support to the banks if needed. Fitch notes that the medium-sized banks have strong local franchises and relatively large customer funding bases. Customer funding from retail clients also includes senior and, to a lesser extent, subordinated debt distributed through the banks' branch network.

Fitch's assumptions for support are based on the expectation that in the current difficult market environment the propensity to support local banks remains high. The SRFs reflect Fitch's view of the ranking of the banks by size and franchise. The SRs of all banks is '3', with the exception of BDB, whose '4' SR and 'B+' SRF reflects its ownership structure and its relatively small size.

RATING SENSITVITIES - SUPPORT RATING AND SUPPORT RATING FLOOR
The SRs and SRFs are sensitive to any change in assumptions around the propensity or ability of the Italian authorities to provide timely support to the banks.

The Italian state's ability to provide such support is dependent upon its creditworthiness, reflected in its 'BBB+/Negative' Long-term IDR. A downgrade of Italy's sovereign rating could change the agency's view on availability of support for Italian banks.

The SRs and SRFs are also sensitive to a change in Fitch's assumptions around the availability of sovereign support for Italian financial institutions. There is a clear political intention to ultimately reduce the implicit state support for banks in Europe, as demonstrated by a series of policy and regulatory initiatives aimed at curbing systemic risk posed by the banking industry. This may result in Fitch revising SRFs down in the medium term, although the timing and degree of any change would depend on ongoing developments and policy discussions around support and "bail-in" for eurozone banks. Resolution legislation is developing quickly and the implementation of creditor "bail-in" is starting to make it look more feasible for taxpayers and creditors to share the burden of supporting banks.

KEY RATING DRIVERS AND SENSITIVITIES - SUBORDINATED DEBT AND OTHER HYBRID SECURITIES
Subordinated debt and other hybrid capital issued by Italian mid-sized banks are all notched down from their respective VRs in accordance with Fitch's assessment of each instrument's respective non-performance and relative loss severity risk profiles. Their ratings are primarily sensitive to any change in the banks' VRs but also to any change in Fitch's view of non-performance or loss severity risk relative to the banks' viability.

The rating actions are as follows:

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

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'
Senior unsecured notes and EMTN programme: affirmed at 'BBB+'

Banca Popolare di Sondrio
Long-term IDR: downgraded to 'BBB' from 'BBB+'; Outlook Negative
Short-term IDR: downgraded to 'F3' from 'F2'
Viability Rating: downgraded to 'bbb' from 'bbb+'
Support Rating: affirmed at '3'
Support Rating Floor: affirmed at 'BB'

Banca Popolare di Milano
Long-term IDR: 'BBB-' placed on RWN
Short-term IDR: 'F3' placed on RWN
Viability Rating: 'bbb-' placed on RWN
Support Rating: affirmed at '3'
Support Rating Floor: affirmed at 'BB+'
Senior unsecured notes and EMTN programme: 'BBB-'/'F3' placed on RWN
Subordinated Lower Tier 2 debt: 'BB+' placed on RWN
Preferred stock and hybrid capital instruments: affirmed at 'CCC'

Banca Popolare dell'Emilia Romagna
Long-term IDR: downgraded to 'BB+' from 'BBB'; Outlook Negative
Short-term IDR: downgraded to 'B' from 'F3'
Viability Rating: downgraded to 'bb+' from 'bbb'
Support Rating: affirmed at '3'
Support Rating Floor: affirmed at 'BB+'
Senior unsecured notes and EMTN programme: long-term rating downgraded to 'BB+' from 'bbb', short-term rating downgraded to 'B' from 'F3'
Subordinated notes: downgraded to 'BB' from 'BBB-'

Banca Popolare di Vicenza
Long-term IDR: affirmed at 'BB+'; Outlook Negative
Short-term IDR: affirmed at 'B'
Viability Rating: affirmed at 'bb+'
Support Rating: affirmed at '3'
Support Rating Floor: affirmed at 'BB'
Senior unsecured notes and EMTN programme: affirmed at 'BB+'/'B'
Market-linked senior notes: affirmed at 'BB+emr'
Subordinated Lower Tier 2 notes: affirmed at 'BB'

Credito Valtellinese
Long-term IDR: affirmed at 'BB+'; Outlook Negative
Short-term IDR: affirmed at 'B'
Viability Rating: affirmed at 'bb+'

Support Rating: affirmed at '3'
Support Rating Floor: affirmed at 'BB'
Senior unsecured notes, including notes guaranteed by Credito Valtellinese, and EMTN programme: affirmed at 'BB+'/'B'

Banca Carige
Long-term IDR: downgraded to 'BB' from 'BB+'; Negative Outlook
Short-term IDR: affirmed at 'B'
Viability Rating: downgraded to 'bb' from 'bb+' and placed on RWN
Support Rating: affirmed at '3'
Support Rating Floor: affirmed at 'BB'
Senior unsecured notes: long-term rating downgraded to 'BB' from 'BB+'; short-term rating affirmed at 'B'
Subordinated notes: downgraded to 'BB-' from 'BB' and placed on RWN

Any rating impact from the above rating actions on banks' mortgage covered bonds will be detailed in a separate comment.

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Additional information is available on www.fitchratings.com.

Applicable criteria, Applicable criteria "Global Financial Institutions Rating Criteria" dated 15 August 2012, "Evaluating Corporate Governance" dated 12 December 2012, "Assessing and Rating Bank Subordinated and Hybrid Securities" dated 5 December 2012 are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Global Financial Institutions Rating Criteria
Evaluating Corporate Governance
Assessing and Rating Bank Subordinated and Hybrid Securities

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