

Credit Rating Announcement

20 November 2019

Scope affirms and publishes BBB-/Positive rating on Banca Popolare di Sondrio

The BBB- issuer rating reflects Scope Ratings' assessment of the bank's focused regional franchise, solid capital position and resilient profitability. The Positive Outlook reflects Scope's expectation that the bank will accelerate de-risking.

Rating action

Scope affirms and publishes its BBB-/Positive issuer rating on Banca Popolare di Sondrio SCpA (BPS).

Key rating drivers

The rating is based on BPS' focused franchise in the Italian region of Lombardy, one of the wealthiest areas in Europe. BPS is a medium-sized cooperative bank primarily operating in Milan and other provinces in Lombardy. The bank also has activities in Rome and a more marginal presence in several other northern Italian regions. BPS is the parent company of the BPS group, which includes a small bank in Switzerland (BPS Suisse), Banca della Nuova Terra and Factorit, a factoring joint venture with Banco BPM.

Like other Italian banks, BPS saw a material deterioration in asset quality during the crisis, though ratios have more recently started to improve. BPS' asset quality has recovered more slowly compared to the sector's, but de-risking will accelerate thanks to the sale of EUR 1bn in NPLs, planned for the beginning of 2020. This amount represents almost a quarter of the bank's total stock of NPEs. Once completed, such a sale would allow BPS to significantly reduce its NPE ratio, from the current 13% to c. 10%, addressing what Scope sees as a key weakness of the bank.

The bank's capital ratios improved significantly in the first nine months of 2019, supported in part by the adoption of advanced internal-ratings-based models for credit risk. At the end of Q3 2019, BPS reported a CET1 ratio of 15.9% and a total capital ratio of 18.7%. These levels are materially above the 2019 SREP requirements of 9.25% for CET1 and 12.75% for total capital. The ample headroom to requirements allows BPS strategic flexibility to further accelerate de-risking if needed.

BPS' profitability is low but resilient, hovering around the mid-single-digit range. The bank maintained a solid earnings track record during the crisis and has displayed an ability to absorb bad-loan provisions through operating profitability.

Outlook and rating-change drivers

The Positive Outlook is based on Scope's expectation that BPS will accelerate the derisking of its balance sheet. The NPE ratio decline, which had been slow in previous years, has already been accelerating in recent quarters, from 14.75% at the end of 2018 to 13.03% in September. This level remains high compared to that of both national and international peers. A further improvement in asset quality could result in an upward rating revision.

Scope flags that a material worsening in BPS' operating performance would be negative for the rating. Another key negative rating-change driver would be a rekindling of speculation about Italy's exit from the European Monetary Union. Such an event, which Scope sees as extremely unlikely, could result in a multiple-notch downgrade for BPS, as well as for other Italian banks.

Stress testing & cash flow analysis

No stress testing was performed. No cash flow analysis was performed.

Methodology

The methodology used for this rating and/or rating outlook Bank Rating Methodology is available on www.scooperatings.com.

Historical default rates of the entities rated by Scope Ratings can be viewed in the rating performance report on <https://www.scooperatings.com/#governance-and-policies/regulatory-ESMA>. Please also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): <http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>. A comprehensive clarification of Scope's definition of default as well as definitions of rating notations can be found in Scope's public credit rating methodologies on www.scooperatings.com.

The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information

The rated entity and/or its agents participated in the rating process.

The following substantially material sources of information were used to prepare the credit rating: public domain, the rated entity and third parties.

Scope considers the quality of information available to Scope on the rated entity or instrument to be satisfactory. The information and data supporting Scope's ratings originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data.

Prior to the issuance of the rating or outlook action, the rated entity was given the opportunity to review the rating and/or outlook and the principal grounds on which the credit rating and/or outlook is based. Following that review, the rating was not amended before being issued.

Regulatory disclosures

This credit rating and/or rating outlook is issued by Scope Ratings GmbH.

Lead analyst Marco Troiano, Executive Director

Person responsible for approval of the rating: Dierk Brandenburg, Managing Director

The rating/outlook was first released by Scope on 10 September 2018. The rating/outlook was last updated on 16 September 2019.

Potential conflicts

Please see www.scooperatings.com for a list of potential conflicts of interest related to the issuance of credit ratings.

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