

DBRS Morningstar Confirms Banca Popolare di Sondrio at BBB (low), Trend Revised to Negative

BANKING ORGANIZATIONS

DBRS Ratings GmbH (DBRS Morningstar) confirmed the ratings of Banca Popolare di Sondrio S.C.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 the Group's long-term and short-term ratings has been revised to Negative from Stable. DBRS Morningstar has also maintained the Intrinsic Assessment (IA) of the Bank is BBB (low) and the Support Assessment is SA3. See a full list of ratings at the end of this press release.

KEY RATING CONSIDERATIONS

The rationale behind the change of trend to negative reflects our view that the wide and growing scale of economic and market disruptions resulting from the coronavirus (Covid-19) pandemic will put additional pressure on the operating environment in Italy and most likely negatively affect revenues and asset quality for Italian banks. In particular, we expect higher loan loss provisions which will negatively affect the Banks' profitability. Nevertheless, unprecedented support measures have been put in place by the Italian and European authorities as well as relaxed criteria from regulators, which, in our view, could help mitigate the negative impact of the crisis. However, should the crisis be prolonged, we estimate higher downward pressure on the ratings.

The confirmation of the Long-Term Issuer rating at BBB (low) reflects the Bank's small national position but solid franchise in the region of Lombardy, especially in the province of Sondrio, with a long and proven track record and a robust retail funding base. However, Lombardy remains one of the most affected regions in Italy by the global coronavirus pandemic, which in our view could potentially pressure the Bank's franchise. BPS's ratings are underpinned by its modest but resilient track record on profitability, which could however experience strain if the epidemic and subsequent lockdown are prolonged. The ratings also take into account the Bank's large, albeit reducing, stock of non-performing exposures (NPEs). We believe that the current situation could bring delays to the Bank's planned NPE reduction, which has lagged behind domestic peers, as well as increase pressure on the Bank's risk profile. In addition, this could also create additional challenges regarding the Bank's pending legal transformation into a joint stock company, expected by end-2020.

Nevertheless, the confirmation of the ratings also reflects BPS's sound capital position that benefits from ample capital buffers over the supervisory requirements. Ratings are also further underpinned the Bank's solid funding and liquidity position, with BPS diversifying its funding mix in view of upcoming MREL requirements, through inaugural issuances of Tier 2 instruments and Senior Debt in 2019. Whilst we do not see short-term downside risk on funding given the ECB's assistance, most notably TLTRO, we believe that smaller institutions like BPS could experience difficulties in accessing wholesale funding markets. This is however mitigated by the fact that the Bank has relatively little funding through wholesale markets.

RATING DRIVERS

Any upgrade is unlikely in the short-term given the recent change of trend. However, the trend on the Long-Term ratings could revert to Stable if the Bank were able to demonstrate limited earnings and asset quality impact from the global coronavirus pandemic.

A downgrade would likely be driven by a significant deterioration of the Bank's franchise and profitability as a result of the global coronavirus pandemic and significant challenges or delays in the Bank's planned NPE reductions.

ESG CONSIDERATIONS

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework and its methodologies can be found at: <https://www.dbrsmorningstar.com/research/357792>.

The Grid Summary Grades for BPS are as follows: Franchise Strength – Good/Moderate; Earnings – Moderate/Weak; Risk Profile – Weak; Funding/Liquidity – Good/Moderate; Capitalisation – Moderate.

Notes:

All figures are in EUR unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (11 June 2019) <https://www.dbrsmorningstar.com/research/346375/global-methodology-for-rating-banks-and-banking-organisations>.

For more information regarding rating methodologies and Coronavirus Disease (COVID-19), please see the following DBRS Morningstar press release: <https://www.dbrsmorningstar.com/research/357883>

The sources of information used for this rating include Company Documents, BPS 3Q 2019 Interim Report, BPS 2019 Press Release and S&P Global Market Intelligence. DBRS Morningstar considers the information available to it for the purposes of providing this rating to be of satisfactory quality.

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

Generally, the conditions that lead to the assignment of a Negative or Positive trend are resolved within a 12-month period. DBRS Morningstar's outlooks and 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: <http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>.

The sensitivity analysis of the relevant key rating assumptions can be found at: <https://www.dbrsmorningstar.com/research/359165>

Ratings assigned by DBRS Ratings GmbH are subject to EU and U.S. regulations only.

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Initial Rating Date: November 18, 2019

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For more information on this credit or on this industry, visit www.dbrsmorningstar.com.

Ratings

Banca Popolare di Sondrio S.C.p.A.

Date Issued	Debt Rated	Action	Rating	Trend	Issued
02-Apr-20	Long-Term Issuer Rating	Trend Change	BBB (low)	Neg	
02-Apr-20	Short-Term Issuer Rating	Trend Change	R-2 (middle)	Neg	
02-Apr-20	Long-Term Deposits	Trend Change	BBB	Neg	
02-Apr-20	Long-Term Senior Debt	Trend Change	BBB (low)	Neg	
02-Apr-20	Short-Term Debt	Trend Change	R-2 (middle)	Neg	
02-Apr-20	Short-Term Deposits	Trend Change	R-2 (high)	Neg	

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