



# 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 € 1.360.157.331 - Riserve € € 1.157.414.409  
(dati approvati dall'Assemblea dei soci del 12/6/2020)

## COMUNICATO STAMPA

**Fitch Ratings ha rimosso tutti i Rating Watch Negative (RWN) attribuiti il 24 marzo 2020 alla Banca Popolare di Sondrio, confermando il rating a lungo termine a 'BB+'.**

In data odierna l'agenzia di valutazione del credito Fitch Ratings ha confermato i rating attribuiti alla Banca Popolare di Sondrio, rimuovendo i Rating Watch Negative (RWN) attribuiti il 24 marzo 2020 che implicavano l'accresciuta probabilità nel breve termine di un abbassamento dei giudizi. A seguito di tale decisione, il rating a lungo termine è stato confermato a 'BB+' (outlook negativo).

Per il quadro completo delle azioni di rating si rimanda all'allegato comunicato stampa reso noto da Fitch.

Sondrio, 25 settembre 2020

BANCA POPOLARE DI SONDRIO SCPA

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## PRESS RELEASE

**Fitch Ratings has removed all the Rating Watch Negative (RWN) attributed on 24 March 2020 to the ratings of Banca Popolare di Sondrio, confirming the long-term rating at 'BB +'.**

Today, the credit rating agency Fitch Ratings confirmed the ratings assigned to Banca Popolare di Sondrio, removing the Rating Watch Negative attributed on March 24, 2020 which implied the increased probability in the short term of a lowering of ratings. Following this decision, the long-term rating was confirmed at 'BB +' (negative outlook).

For the full picture of the rating actions, please refer to the attached press release published by Fitch.

Sondrio, 25 September 2020

BANCA POPOLARE DI SONDRIO SCPA

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*The English translation is provided only for the benefit of the reader. In the case of discrepancies the Italian version will prevail.*



## RATING ACTION COMMENTARY

# Fitch Affirms Banca Popolare di Sondrio at 'BB+'; Outlook Negative

Fri 25 Sep, 2020 - 11:46 AM ET

Fitch Ratings - Milan/London - 25 Sep 2020: Fitch Ratings has affirmed Banca Popolare di Sondrio's (Sondrio) Long-Term Issuer Default Rating (IDR) at 'BB+' and removed it from Rating Watch Negative. The Outlook is Negative.

A full list of rating actions is detailed below.

The affirmation of the ratings primarily reflects Sondrio's progress in improving asset quality following the deconsolidation of EUR1 billion of legacy impaired loans in 1H20, which we believe has reduced near-term pressure on the bank's ratings. The affirmation also acknowledges the relative strength of Sondrio's capitalisation and funding, which are supported by satisfactory capital buffers and a stable deposit base.

The Negative Outlook reflects downside risks to our assessment of asset quality and profitability, which could face a sharper or more sustained weakening than we currently expect, particularly in case of a more severe or protracted economic deterioration than in our base case. This could eventually put pressure on capitalisation through significantly increased capital encumbrance by unreserved impaired loans, despite the currently high regulatory common equity Tier 1 (CET1) ratio of 15.7%.

Under Fitch's forecasts, Italy's GDP is likely to contract by 10% in 2020 before seeing a partial recovery in 2021. Italy has been one of the worst-hit countries globally but has managed to contain the coronavirus outbreak owing to its stringent quarantine rules. Similar to other eurozone countries, Italy is experiencing a resurgence in new cases but the government has been quick to act to stem the contagion while insisting that no new country-wide restrictions will be imposed.

## KEY RATING DRIVERS

### IDRS, VR AND SENIOR PREFERRED DEBT

The ratings of Sondrio reflect its weak asset quality and pressures on operating profitability. The ratings also reflect the bank's adequate franchise in its regions of operations, which results in stable deposits underpinning a sound funding and liquidity profile. The bank's Viability Rating (VR) also reflects the relative strength of its regulatory capitalisation with ample buffers over requirements.

In June 2020, Sondrio completed a EUR1 billion gross doubtful loans securitization, which improved the impaired loans ratio to 9.4% at end-1H20 from 12.9% at end-1Q20. We expect asset quality to deteriorate in the coming quarters as a result of the economic downturn, although, in our base case, we expect asset quality to be supported by further EUR400 million gross doubtful loans disposal by year-end. The bank's strengthened work-out process and continuous focus on internal workout activities, together with government support measures, should also allow the bank to compensate for rising credit risk and to continue working through its impaired loan stock.

The bank's impaired loans coverage ratio of about 60% at end-1H20 is one of the highest among direct domestic peers'. We believe this is adequate as the residual impaired loans exposure, after the recent and pro-forma for planned disposals, includes a large portion of unlikely-to-pay exposures, which the bank has the potential to cure.

Capitalisation (15.7% CET1 ratio at end-1H20) has ample buffers over regulatory requirements and capacity to withstand some degree of deterioration. The bank's capital encumbrance by unreserved impaired loans has improved to 40% at end-1H20 from its peak of 74% at end-2016, and in our base case we expect it to remain under control as new NPL inflows in 2H20 should be compensated for by planned loan disposals. Our assessment also factors that Sondrio's capitalisation remains at risk from its large exposure to Italian government bond holdings at about 200% of CET1 capital at end-1H20.

Sondrio's operating profitability is modest both by international standards and compared with stronger domestic rated banks, although so far aided by good cost efficiency. The bank reported an operating loss in 1H20 largely on the back of the EUR48 million loss from the sale of the junior and mezzanine tranches issued in the doubtful loan securitisation, while net interest income remained broadly stable year-on-year thanks to higher loan volumes (partly the result of payment suspensions). Net commission income suffered from reduced transaction volumes during lockdown but started to recover from May and should support revenue in the remainder of 2020. We maintain a negative view on profitability as we expect it remain weak in the near-to-medium term as a result of high loan impairment charges. The bank's expectation of growing loan volumes and the benefit of TLTRO utilisation should mitigate the effect of low interest rates. The bank is also concentrating on its wealth management activities to sustain net commission income.

The bank's funding and liquidity profile is sound. Customer deposits have been stable, benefiting from the bank's adequate franchise in its regions of operations and strong client relationships. Funding sources are increasingly diversified due to its access to both secured and unsecured wholesale funding. Liquidity remains sound also thanks to adequate buffers of unencumbered eligible assets and access to ECB financing, which increased due to Sondrio's participation in the June 2020 ECB T-LTRO3 auction.

Sondrio's Short-Term IDR of 'B' is the only option mapping to a 'BB+' Long-Term IDR.

Sondrio's long-term senior preferred notes are rated in line with the bank's Long-Term IDR. We expect the bank to use senior preferred debt to meet its minimum requirement for own funds and eligible liabilities. We also do not expect the bank to build up buffers of subordinated and senior non-preferred debt in excess of 10% of risk-weighted assets (RWAs), which is required under our criteria to rate senior preferred debt above the Long-Term IDR.

## SUPPORT RATING AND SUPPORT RATING FLOOR

The Support Rating (SR) of '5' and Support Rating Floor (SRF) of 'No Floor' reflect Fitch's view that, although external support is possible, it cannot be relied upon. Senior creditors can no longer expect to receive full extraordinary support from the sovereign in the event that the bank becomes non-viable.

The EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism for eurozone banks provide a framework for the resolution of banks that requires senior

creditors to participate in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

## SUBORDINATED DEBT

Tier 2 subordinated debt of Sondrio is notched down twice from its VR for loss severity to reflect poor recovery prospects. No notching is applied for incremental non-performance risk because write-down of the notes will only occur once the point of non-viability is reached and there is no coupon flexibility before non-viability.

## DEPOSIT RATINGS

Sondrio's long-term deposit rating of 'BBB-' is one-notch above the bank's Long-Term IDR to reflect the protection offered by lower-ranking senior preferred and Tier 2 debt. The one-notch uplift also reflects our expectation that the bank will maintain sufficient buffers, given the need to comply with minimum requirement for own funds and eligible liabilities.

Its short-term deposit rating of 'F3' is in line with our rating correspondence table for banks with 'BBB-' long-term deposit ratings.

## RATING SENSITIVITIES

Factors that could, individually or collectively, lead to a positive rating action/upgrade:

Sondrio's Outlook could be revised to Stable in case of a lower-than-expected shock to the bank's asset quality and earnings and if downside risks to our forecasts reduce. The Outlook could also be revised to Stable if following the initial moderate deterioration in asset quality and profitability, the bank's impaired loans and operating profit return over the medium term to the more normalised levels observed pre-crisis.

While rating upside is currently limited given the Negative Outlook, Sondrio's ratings could be upgraded on evidence of easing pressures on asset quality and earnings that have arisen from the economic fallout from the coronavirus pandemic. This would need to be accompanied by a further significant impaired loans reduction, reduced capital encumbrance by unreserved impaired loans and improved operating profitability.

We would upgrade the long-term senior preferred debt by one notch if resolution buffers were to be met with senior non-preferred debt and more junior instruments or if, at some

point in the future, the size of the combined buffer of junior and senior non-preferred debt is expected to sustainably exceed 10% of RWAs.

An upgrade of the SR and upward revision of the SRF of Sondrio would be contingent on a positive change in the sovereign's propensity to support the bank. In Fitch's view, this is highly unlikely, although not impossible.

Factors that could, individually or collectively, lead to a negative rating action/downgrade:

Sondrio's IDRs, VR and senior preferred debt ratings are sensitive to the depth and duration of the economic crisis caused by the pandemic and its impact on its financial profile. If the economic fallout from the pandemic results in a more prolonged and substantial damage to the bank's asset quality and earnings causing significant capital erosion, including from higher-than-expected capital encumbrance from unreserved impaired loans, the bank's ratings could be downgraded. Sondrio's ratings are also sensitive to a lower operating environment assessment by Fitch for Italian banks.

The deposit ratings would likely be downgraded if the banks' Long-Term IDR was downgraded. The deposit ratings are also sensitive to a reduction in the size of the senior and junior debt buffers to below 10% of RWAs.

The subordinated debt's rating is primarily sensitive to changes in the VR, from which it is notched. The rating is also sensitive to a change in the notes' notching, which could arise if Fitch changes its assessment of their non-performance relative to the risk captured in the VR.

## **BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [<https://www.fitchratings.com/site/re/10111579>]

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## ESG CONSIDERATIONS

The highest level of ESG credit relevance, if present, is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

## RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR	
Banca Popolare di Sondrio-Societa' Cooperativa per Azioni	LT IDR	BB+	Rating Outlook Negative	Affirmed	BB+ Rating Watch Negative
	ST IDR	B		Affirmed	B
	Viability	bb+		Affirmed	bb+ Rating Watch Negative
	Support	5		Affirmed	5
	Support Floor	NF		Affirmed	NF

[VIEW ADDITIONAL RATING DETAILS](#)

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**APPLICABLE CRITERIA**

[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

**ADDITIONAL DISCLOSURES**

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

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Banca Popolare di Sondrio-Societa' Cooperativa per Azioni

EU Issued

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