

FITCH REVISES BANCA POPOLARE DI SONDRIO'S OUTLOOK TO NEGATIVE; AFFIRMS AT 'A'

Fitch Ratings-Milan/London-09 August 2011: Fitch Ratings has revised Banca Popolare di Sondrio (BPS)'s Outlook to Negative from Stable and affirmed its Long-term Issuer Default Rating (IDR) at 'A'. A full rating breakdown is at the end of this comment.

The revision of the Outlook to Negative reflects the challenges the bank faces in the difficult operating environment, especially in light of the fast lending growth in the past which has increased the bank's reliance on interbank funding and means liquidity has tightened. The bank's IDRs could be downgraded if it is unable to execute plans to re-balance its funding profile and reduce its net interbank borrower position.

BPS's IDRs and Viability Rating continue to reflect its sound credit risk management, which has resulted in the bank maintaining healthy asset quality compared to peers, resilient profitability and sound funding. BPS's Support Rating and Support Rating floor reflect the moderate probability of support from authorities.

BPS's funding is supported by ample, stable customer deposits. However, liquidity has tightened as a result of loan growth and the acquisition of factoring company Factorit in 2010. The bank's loans-to-customer funding ratio rose to 106% at end-March 2011 from 91% in 2008, while its net interbank borrowings have increased to EUR1.9bn at end-2010 from EUR0.8bn at end-2009.

BPS's loan book is generally fragmented and diversified by sector reflecting its presence in wealthy Lombardy, where BPS's branch network is deeply rooted. Lending has grown significantly since 2007. Asset quality has remained healthy despite an increase in gross impaired loans to 3.7% of total gross loans at end-March 2011, which remains much lower than the average for the banking system.

Cost control allows the bank to continue generate adequate profitability with an operating ROAE at nearly 15% in Q111. The bank was able to achieve sound profitability despite increased pressures in an uncertain operating environment. Lower net interest income, due to sluggish margins, and negative results from the trading activity, due to valuation write-downs of the bank's holdings of Italian government bonds, were mitigated by cost control. Fitch does not expect that the increase in LICs in H111 will be repeated in H2 as they related to a review of the bank's legacy impaired loans.

BPS's capitalisation is of high quality with a Fitch core capital ratio of 8.3% and a regulatory Tier1 ratio of 8% at end-2010. Its shareholders have allowed management to regularly raise new capital to sustain the bank's organic growth. BPS is considering supporting overall capitalisation with a new share issue in 2012.

BPS is a cooperative bank based in wealthy Lombardy, in northern Italy. It has markets shares of 3% of loans and 4.3% of deposits in the region. The bank owns a subsidiary in Switzerland and holds a 60.5% stake in the factoring company Factorit.

The rating actions are as follows:

BPS

Long-term IDR: affirmed at 'A'; Outlook revised to Negative

Short term IDR: affirmed at 'F1'

Viability Rating: affirmed at 'a'

Individual Rating: affirmed at 'B'

Support Rating: affirmed at '3'

Support Rating Floor: affirmed at 'BB'

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Additional information is available on www.fitchratings.com.

Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 16 August 2010 and 'Short-Term Ratings Criteria for Corporate Finance', dated 2 November 2010, are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Global Financial Institutions Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=547685

Short-Term Ratings Criteria for Corporate Finance

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=568726

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