



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 € 947.325.264 (dati approvati dall'Assemblea dei soci del 29/4/2017)

COMUNICATO STAMPA

Banca Popolare di Sondrio: Dagong Europe conferma il rating di lungo termine a "BBB", di breve termine ad "A-3" e outlook "stabile".

La Banca Popolare di Sondrio informa che l'agenzia Dagong Europe - affiliata alla casamadre cinese "Dagong Global Credit Rating" - ha confermato i rating di Long-Term Credit Rating a "BBB", di Short-Term Credit Rating ad "A-3" e outlook "stable".

Si allega il comunicato stampa pubblicato da Dagong Europe.

Sondrio, 7 febbraio 2018

BANCA POPOLARE DI SONDRIO SCPA

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RATING ACTION REPORT

07 February 2018

Dagong Global Affirms the Long-Term Credit Rating of Banca Popolare di Sondrio S.c.p.A. at 'BBB', Outlook 'Stable'

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Dagong Global has affirmed the Long-Term Credit Rating of Banca Popolare di Sondrio S.c.p.A. (BPS) at 'BBB', with Outlook 'Stable'. The Short-Term Credit Rating is affirmed at 'A-3'.

RATING RATIONALE

The Long-Term Credit Rating takes into account the Individual Financial Strength Assessment (IFSA) at 'bbb', and our External Support Assessment (ESA) of 'Low', reflecting a low potential to receive National Systemic Support. The level of support considers the fact that the bank is under the Banking Recovery and Resolution Directive (BRRD), which does not allow any form of government support.

The IFSA reflects BPS's stable franchise in terms of loans and deposits in its home market of Lombardy in Northern Italy. It also reflects the bank's profitable and stable traditional banking model, retail-based funding, strong liquidity, very strong capitalisation and adequate non-performing loans coverage. The IFSA is constrained by the bank's still large stock of non-performing loans (NPL) and relatively small size, which limits any material improvement in its geographic scope and competitive positioning. The main considerations for the IFSA are laid out below.

Sustainable franchise

BPS has kept a traditional banking business model with focus on lending and deposit-taking in Northern Italy, which historically has shown better economic growth than the rest of Italy. At local level in the province of Sondrio, the bank enjoys a stable and large market share in terms of loans of about 43% as of 3Q17, while in the overall region of Lombardy its market share is 3.7% and in Italy it is 1.2%. In our view, the bank keeps a balanced composition of earnings from core banking activities, with net interest representing 48.9% of operating income.

Stable funding structure and liquidity

BPS's funding consists mainly of deposits (78% of average total funding for 3Q17) which is a common strength of local traditional banks and in particular of co-operative banks in Italy. The remainder comes from market funds (13%) and net interbank funding (9%, of which ECB TLTRO¹ is about 74%).

Liquidity, in our opinion, is ample and comes from a sizeable portfolio of ECB eligible assets that amounts to EUR 12.3Bn, with current usage at EUR 5.3Bn. We expect that the funding structure will remain mostly based on customers' deposits, however, market funds could increase their relative importance following the need of MREL² in the medium term.

¹ Targeted Longer-Term Refinancing Operations

² Minimum Requirement for own funds and Eligible Liabilities

Capital

BPS had successfully raised capital in the past, in anticipation of the Comprehensive Assessment conducted by the ECB (European Central Bank) and the EBA (European Banking Authority). In addition, following the requirements after the implementation of the BRRD and the SREP³, the bank has been able to improve its capitalisation through internal capital generation and to reach a Tier 1 ratio of 11.6% by 3Q17 (11.1% at YE16), which we expect to increase further in the medium term. We view this level as adequate, considering the 7.25% minimum required by the ECB. In our opinion, BPS has a sufficient capital buffer to support lending growth and to weather off potential unlikely increases in credit risk.

Credit Risk

Asset quality remains the main challenge for BPS. Loan loss provision expenditure (LLP) increased substantially in the period 2012-2014, affecting profitability and hence the bank's internal capital generation. In 2015, the bank was able to change the trend and improve asset quality, which allowed it to reduce the cost of risk and reach a level of 101bps as of YE16 (from the peak of 194bps in 2013). For YE16 and 3Q17 the bank is showing further improvements in asset quality, with NPL⁴ at 15.6% of gross loans based on Dagong calculations for 3Q17, compared to 16.1% by YE16. We expect this trend to persist following the more active approach to reduce NPL implemented by the bank last year.

Geographic Diversification and Competitive Position

BPS's geographic diversification is in our view moderate, given its presence mostly in selected Italian regions and Switzerland through its fully owned subsidiary Banca Popolare di Sondrio (SUISSE) SA. The current portfolio composition in terms of gross loans with Lombardy 56.5%, Lazio 10.5% and Switzerland 13.4% as of 3Q17, does not contribute enough diversification to mitigate the still relatively weak growth prospects of the Italian economy, in our opinion. However, some additional diversification coming from the potential acquisition of Cassa di Risparmio di Cento in the region of Emilia-Romagna will likely be materialised during 2018.

External Support Assessment

We assess the possibility of national systemic support as 'Low' for BPS. Our view takes into account the application of the BRRD since January 2016. This directive gives the Single Resolution Committee (at EU level) the power to decide on resolution plans, and identify the most appropriate actions to preserve the financial stability of the Euro area in the need of implementing a resolution procedure for any bank. We recognise that for BPS – now under the direct supervision of the ECB and the BRRD – any forthcoming direct support is to be structured through the Banking Resolution Mechanism, using the approved tools including the centralised Single Resolution Fund.

RATING OUTLOOK

The 'Stable' outlook reflects our view on the bank's stable financial performance, with internal capital generation growing in the next two years and sufficient to cover additional potential losses from current and expected problematic assets, without material effects on capital ratios. In addition, the stable outlook incorporates the expected cautious organic growth strategy within the bank's current geographic scope and a smooth reduction of NPL. We also expect a slow recovery of profitability during 2018-2019 following a stabilisation of net interest margins and a reduction of loan loss provisions, and a stable and ample liquidity buffer supported by a large pool of ECB eligible assets.

RATING SENSITIVITIES

We would consider a positive rating action if we see a material and sustainable improvement in core profitability levels in a more resilient and growing economic context, further strengthened capital, or a material reduction of problematic assets.

We would consider a negative rating action if we see a deterioration of capital ratios, most likely triggered by a worse-than-expected evolution of the bank's asset quality and hence weaker profitability. A downgrade could also be triggered by a reduction of coverage levels for the NPL portfolio.

³ Supervisory Review and Evaluation Process

⁴ NPL definition used by EBA that includes 'sofferenze', 'inadempienze probabili' and 'esposizioni scadute'.

COMPANY PROFILE

BPS was established in 1871 in Sondrio and incorporated as a ‘banca popolare’⁵. The bank focuses on traditional banking services, providing plain vanilla banking products mainly to households and local small and medium-sized corporates in its home region, Lombardy. The bank has a network of 350 branches, located in 8 regions and 31 provinces, mainly in Northern Italy and Rome. The bank is grouped within the medium-sized banks in Italy, with EUR 27.6Bn in consolidated gross loans and EUR 40.0Bn in consolidated assets as of 3Q17. In terms of market share, the bank is relatively small for the Italian market (1.2% market share in terms of loans in September 2017), but benefits from a significant market share in the province of Sondrio (42.8%).

BPS has two important subsidiaries that help to diversify geographically and business-wise:

- (1) Banca Popolare di Sondrio (SUISSE) SA, established in 1995 and headquartered in Lugano, Switzerland. 100% controlled by BPS, it is incorporated under Swiss law and supervised by the Swiss National Bank. It provides lending to individuals and corporates, as well as private banking and asset management services, through its 20 branches in Switzerland and one branch in Monaco. On a consolidated basis, it accounts for 13% of BPS’s total loans as of 3Q17.
- (2) Factorit, a factoring company which operates mainly in Italy and of which BPS holds 60.5%.

FULL LIST OF SOLICITED RATINGS**Banca Popolare di Sondrio S.c.p.A.**

Long-Term Credit Rating (FC&LC)	BBB
Short-Term Credit Rating (FC&LC)	A-3
Outlook	Stable
IFSA	bbb
ESA	Low, National Systemic

FC&LC: Foreign Currency and Local Currency

RATING HISTORY

Banca Popolare di Sondrio S.c.p.A.	BBB/A-3/Stable (16 February 2017)
Banca Popolare di Sondrio S.c.p.A.	BBB/A-3/Stable (22 February 2016)
Banca Popolare di Sondrio S.c.p.A.	BBB/A-3/Stable (26 February 2015)

CRITERIA APPLIED

Criteria for Rating Financial Institutions (10 July 2017)

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<http://www.dagongeuropa.com/procedures.php>

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⁵ Movement of co-operative banks developed in Italy since 1864 with the foundation of several banking institutions that follow the cooperative model (one stakeholder, one vote) with the objective of promoting the economic development of a specific region or territory.

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