



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 € 942.519.617 (dati approvati dall'Assemblea dei soci del 23/ 4/ 2016)

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, 16 febbraio 2017

BANCA POPOLARE DI SONDRIO SCPA

CONTATTI SOCIETARI

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Dagong Europe Affirms 'BBB' Long-Term Credit Rating for Banca Popolare di Sondrio Scpa, Outlook Stable

Milan, 16 February 2017

Rating Action Report

Dagong Europe has affirmed the Long-Term Credit Rating at 'BBB', and equivalent Short-Term Credit Rating at 'A-3' for Italy-based Banca Popolare di Sondrio Scpa (BP Sondrio). The Outlook is affirmed as 'Stable'.

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' potential to receive National Systemic Support. The level of support is considered 'Low', as from 1 January 2016 the bank has been under the Banking Recovery and Resolution Directive (BRRD), which does not allow any form of government support. We consider also that the recent Law Decree approved by the Italian government related to exceptional guarantees for banks' debt does not change our view on support.

The IFSA reflects BP Sondrio'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 relatively small size compared to its national peers, which limits any material improvement in its geographic scope and competitive positioning; still significant loan concentration in the real-estate/construction sector; and large stock of non-performing loans (NPL).

Our credit opinion is based on the following factors:

- **Sustainable and valued franchise, with a traditional banking business model, and focus on lending and deposit-taking in Northern Italy:** BP Sondrio's development strategy focuses on traditional banking services, targeting Northern Italy (specifically the province of Sondrio), which historically has shown better growth prospects and asset quality performance than the Italian banking system on average. At local level in the province of Sondrio, the bank enjoys a stable and large market share in terms of loans of about 40% as of 3Q16, while in the overall region of Lombardy its market share decreases to 3.6% and at an aggregate Italian level to 1.2%. In our view, the bank keeps a balanced composition of earnings from core banking activities, with net interest representing 50% of operating income and fees and commissions 30% for a 3-year period up to 3Q16.
- **Stable funding structure derived mainly from retail customers and strong liquidity supported by a large pool of ECB eligible assets:** BP Sondrio's funding is mainly composed by its deposits' base (83% of total funding for a 3-year average up to 3Q16) which is a common strength of local traditional-based banking models, particularly from co-operative banks in Italy. The remainder consists of market funds (about 9%) and net interbank funding (5% of overall

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funding, of which ECB TLTRO¹ is about 70%). Liquidity, in our opinion, is ample and comes from a sizeable portfolio of ECB eligible assets that amounts to EUR 8.1Bn, with current usage at EUR 1.1Bn as per the existing TLTRO.

- **Strengthened capital with Tier 1 ratio of 11.09% by YE16:** BP Sondrio had successfully raised capital in the past, in anticipation of the ECB (European Central Bank) and the EBA's (European Banking Authority) Comprehensive Assessment, published in October 2014. In addition, following the requirements after the implementation of the BRRD and SREP² exercise, the bank has been able to achieve a preliminary CET 1 ratio at 11.09% by YE16 (11.2% for 3Q16), which we expect will increase further in the medium-term. We view this level as adequate based on the 7.25% minimum required by the ECB. We consider that the bank has a sufficient capital buffer to support potential increases in credit risk, as well as for expected lending growth, which we see as limited in 2017 due to the current economic growth prospects.
- **Credit risk remains the main challenge for BP Sondrio. We caution especially on the bank's real-estate portfolio, which accounts for about 21.3% of the gross loans:** Loan loss provision expenditure (LLP) has 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 reduce LLP which allowed it to reduce the cost of risk, despite deteriorated loans as well as NPL still increasing y-o-y. With preliminary data for 3Q16 showing already signs of recovery for NPL (8.9% of gross loans based on Dagong Europe calculations compared to 9.3% by YE15), we expect this trend to further improve but at a slow pace.
- **Limited prospects for further improvements in terms of geographic diversification and competitive positioning:** We view the geographic diversification as moderate given its presence mostly in selected Italian regions (Lombardy 56.5% of gross loans, Lazio 10.5%). The bank's presence in Switzerland (13.4% of gross loans) through BP Sondrio (Suisse) adds a degree of country diversification that at this stage, in our opinion, does not contribute enough to mitigate the relatively weak growth prospects of the Italian business. BP Sondrio's competitive positioning shows significant differences within the different Italian regions (market share in the province of Sondrio at 42% while at aggregate Italian level 1.2%). Since the bank's growth strategy is mainly focused in its home region, we expect these relative limitations to persist in the long term.

We assess the possibility of national systemic External Support to be 'Low' for BP Sondrio. 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 BP Sondrio – now under the direct supervision of the ECB and the BRRD – any forthcoming direct support is to be restructured through the Banking Resolution Mechanism, using the approved tools including the centralised Single Resolution Fund.

In addition, we assess the applicability of the law decree (n.237/2016) passed by the Italian Government in December 2016, which allows the possibility of granting a state guarantee on the debt and recapitalisation of Italian banks. However, the scope of the decree is limited to debt

¹ Targeted Long Term Refinancing Operations

² Supervisory Review and Evaluation Process

instruments issued after its entry into force and up to YE17. In that context, we evaluate its application to BP Sondrio as unlikely.

OUTLOOK - STABLE

BP Sondrio's ratings carry a 'Stable' outlook. This reflects our view on its expected stable financial performance, with internal capital generation sufficient to cover additional potential losses from current and expected problematic assets, while keeping capital ratios at their currently sufficient levels. The stable outlook incorporates what we expect will be a cautious organic growth strategy within the bank's current geographic scope and a smooth reduction of NPL. In addition, we expect a reduction of profitability due to the longer than expected low interest rate scenario with net interest margins at similar level of YE16, and a stable and ample liquidity buffer supported by a large pool of ECB eligible assets.

UPSIDE - DOWNSIDE POTENTIAL FOR THE RATING

The ratings could be upgraded if we see a material and sustainable improvement in core profitability levels in a more resilient and growing economic context, further strengthened capital, and/or by a material reduction of problematic assets.

The ratings could be downgraded 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 impaired portfolio as well as for NPL.

COMPANY PROFILE

BP Sondrio was established in 1871 in Sondrio and incorporated as a 'banca popolare'³. The bank focuses on a traditional banking model, 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 337 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 24.4Bn in loans and EUR 35.4Bn in assets as of 3Q16. In terms of market share, the bank is relatively small for the Italian market (1.16% market share in terms of loans by Oct-16), but benefits from a significant market share in the province of Sondrio (41.7% by Oct-16).

BP Sondrio 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. Controlled in 100% by BP Sondrio, 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 BP Sondrio's total loans as of 3Q16. (2) Factorit, a factoring company which operates mainly in Italy and of which BP Sondrio holds 60.5% (other shareholders are Banca Popolare di Milano and Banco Popolare). Factorit was established in 1978 and distributes its factoring products through the Italian 'banche popolari' network of about 7,500 branches, and its 7 direct branches.

³ 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.

FULL LIST OF RATINGS, SOLICITED AND DISCLOSED TO THE ISSUER(S):

Banca Popolare di Sondrio Scpa

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

FC & LC: Foreign Currency and Local Currency

RATINGS HISTORY

Rating affirmation on 22 February 2016
Banca Popolare di Sondrio Scpa BBB/A-3/Stable

Rating Assignment on 26 February 2015
Banca Popolare di Sondrio Scpa BBB/A-3/Stable

CRITERIA APPLIED

- [Dagong Europe Criteria for Rating Financial Institutions, published on 2 August 2013](#)
- [Dagong Europe Ratings Definitions, published on 16 March 2016](#)

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<http://www.dagongeuropa.com/ratingcriteria>

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