



# Banca Popolare di Sondrio

COMUNICATO STAMPA

FITCH RATINGS CONFERMA TUTTI I RATING DI BANCA POPOLARE DI SONDRIO

IL RATING EMITTENTE DELLA BANCA È AL LIVELLO "BB+", CON OUTLOOK "STABILE"

Banca Popolare di Sondrio informa che, in data odierna, l'agenzia Fitch Ratings, a conclusione del processo di revisione annuale del giudizio, ha mantenuto invariati tutti i rating assegnati.

In particolare, il rating emittente Long-term Issuer Default Rating ("IDR") della Banca è stato confermato a "BB+", con outlook "stabile".

Di seguito, il dettaglio dei rating assegnati alla banca:

- Long-term Issuer Default Rating ("IDR"): "BB+"
- Short-term Issuer Default Rating ("IDR"): "B"
- Viability Rating: "bb+"
- Government Support Rating: "ns"
- Long-term Deposit Rating: "BBB-"
- Short-term Deposit Rating: "F3"
- Senior Preferred Debt: "BB+"
- Subordinated Tier 2 Debt: "BB-"
- Outlook: "Stabile"

Si allega il comunicato stampa pubblicato da Fitch Ratings.

Sondrio, 6 luglio 2023

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**Contatti societari:**

Investor Relations

Michele Minelli

0342-528.745

[michele.minelli@popso.it](mailto:michele.minelli@popso.it)

Relazioni esterne

Paolo Lorenzini

0342-528.212

[paolo.lorenzini@popso.it](mailto:paolo.lorenzini@popso.it)

Image Building

Cristina Fossati

Anna Pirtali

02-890.11.300

[popso@imagebuilding.it](mailto:popso@imagebuilding.it)



## RATING ACTION COMMENTARY

# Fitch Affirms Banca Popolare di Sondrio at 'BB+'/Stable

Thu 06 Jul, 2023 - 11:38 AM ET

Fitch Ratings - Milan - 06 Jul 2023: Fitch Ratings has affirmed Banca Popolare di Sondrio - Societa per Azioni's (Sondrio) Long-Term Issuer Default Rating (IDR) at 'BB+' and Viability Rating (VR) at 'bb+'. The Outlook on the Long-Term IDR is Stable. A full list of rating actions is below.

## KEY RATING DRIVERS

**Second-Tier Regional Bank:** Sondrio's ratings reflect its second-tier franchise as a regional bank with a traditional commercial banking business model and small national market shares. The ratings also consider the bank's adequate capitalisation and funding and liquidity profile, the latter underpinned by its stable customer deposits. Fitch believes that the bank's ability to support structural improvements in its earnings generation and sustainability over the cycles will largely depend on its delivery on strategic initiatives aimed at strengthening its business profile.

**Moderate Risk Profile:** Sondrio's franchise in wealthy Lombardy somewhat mitigates risks from lending mainly to SMEs and small retail businesses. Its tightened loan underwriting and risk monitoring should reduce the risk of a significant inflow of new impaired loans from higher interest rates and economic slowdown. These, together with the proactive management of impaired loans, have improved asset quality over the past four years.

Nevertheless, our assessment considers our expectation that the bank will keep an impaired loans ratio above industry level. Sondrio's exposure to the Italian sovereign in its securities holdings will remain sizeable, but unrealised losses in the portfolio are moderate and are unlikely to materialise given the bank's sound funding and liquidity profile.

**Above-Sector-Average Impaired Loans:** Sondrio's impaired loans ratio of 4.4% at end-March 2023 (4.3% at end-2022) was broadly stable thanks to benign default rates, effective collections and small portfolio sales. However, the ratio still lags behind the

domestic industry of about 3%. This improvement, however, provides Sondrio a margin of maneuver to navigate expected asset-quality deterioration from higher interest rates and inflation and weaker economic growth.

We expect the impaired loans ratio to remain broadly stable at about 4.5% for the next two years, helped by continued inorganic actions. Our forecasts are moderately above the target set by the bank under its strategic plan.

**Improving Operating Profitability:** Sondrio is well positioned to benefit from higher interest rates, and we expect the bank to continue improving its operating profit/risk-weighted assets (RWAs) in 2023 and 2024 heading towards the 2% level. This will also be supported by greater revenue diversification through the higher distribution of wealth and insurance products, although their contribution will likely lag behind the bank's direct domestic peers. Higher revenue should help offset higher funding costs and the likely increase in loan impairment charges.

**Adequate Capital Buffers:** Sondrio maintains sound capital ratios and we expect it to operate with a common equity Tier 1 (CET1) ratio of at least 15% in the next two years, sustained by organic capital generation despite increased dividend distribution compared with the past. We expect capital encumbrance by Italian government bonds to remain high at about 1.7x of CET1 capital, while encumbrance by net impaired loans should remain under control close to current levels (nearly 13% at end-March 2023) over the medium term.

**Stable Funding, Ample Liquidity:** Customer deposits are a large and stable source of funding, due to the bank's established franchise in its home region and strong client relationships, and fully fund the loan book. Wholesale funding sources are adequately diversified given Sondrio's business profile, although access to markets is less frequent and more price-sensitive than at higher-rated domestic peers. Liquidity is sound (liquid assets were 30% of total assets at end-March 2023), with the bank's LCR at 155% at end-March 2023.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

Sondrio's ratings are vulnerable to a significant weakening of the operating environment in Italy, due for example to a much slower economic growth than our forecasts, and persistently high inflation, negatively affecting the bank's overall financial performance.

The ratings will likely be downgraded if the impaired loans ratio increases above 6% and operating profitability falls below 1% of RWAs without the prospect of recovery in the

short term. This is especially the case if the CET1 ratio falls closer to 13% and capital encumbrance by unreserved impaired loans rises on a sustained basis with no signs of reversion.

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

An upgrade would require a broader and more diversified business model, resulting in more resilient earnings generation through the interest rate cycle, for instance by increasing the contribution of commission income to total revenue, more in line with peers'.

An upgrade would also require an operating profit of at least 2% of RWAs on a sustained basis, an impaired loans ratio consistently below 4% and reduced capital encumbrance by Italian government bonds, while maintaining a CET1 ratio of at least 14%. An improvement in the operating environment would also be rating positive.

## **OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS**

### **DEPOSIT RATINGS**

Sondrio's long-term deposit rating is one-notch above its Long-Term IDR, reflecting full depositor preference in Italy and the protection offered by the combined buffers of junior and senior debt to deposits given the compliance with minimum requirement for own funds and eligible liabilities (MREL).

The short-term deposit rating of 'F3' maps to a 'BBB-' long-term deposit rating.

### **SENIOR PREFERRED DEBT**

Sondrio's senior preferred (SP) debt is rated in line with the bank's Long-Term IDR because the bank uses SP debt to meet its MREL.

### **SUBORDINATED DEBT**

The subordinated debt is rated two notches below its VR for loss severity to reflect poor recovery prospects. No notching is applied for incremental non-performance risk because a 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.

**No Support:** Sondrio's Government Support Rating (GSR) of 'ns' reflects Fitch's view that although external extraordinary sovereign 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 resolving banks that requires senior creditors participating in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

## **OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES**

The senior debt and deposit ratings are primarily sensitive to changes in Sondrio's Long-Term IDR.

The deposit ratings could be downgraded by one notch and be aligned with the IDRs in the event of a reduction in the size of the senior and junior debt buffers, although we view this as unlikely in light of Sondrio's current and future MREL.

Sondrio's senior debt ratings could also be upgraded by one notch if at some point the bank is expected to meet the resolution buffer requirements with non-preferred instruments.

An upgrade of the GSR 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.

## **VR ADJUSTMENTS**

The business profile score of 'bb+' is below the 'bbb' category implied score because of the following adjustment reason: Market position (negative).

## **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

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/esg>.

## RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
Banca Popolare di Sondrio - Societa per Azioni	LT IDR	BB+ Rating Outlook Stable		BB+ Rating Outlook Stable
	Affirmed			
	ST IDR	B	Affirmed	B
	Viability	bb+	Affirmed	bb+
	Government Support	ns	Affirmed	ns
long-term deposits	LT	BBB-	Affirmed	BBB-
Senior preferred	LT	BB+	Affirmed	BB+
subordinated	LT	BB-	Affirmed	BB-
short-term deposits	ST	F3	Affirmed	F3

[VIEW ADDITIONAL RATING DETAILS](#)

## FITCH RATINGS ANALYSTS

### Valeria Pasto

Director

Primary Rating Analyst

International

+39 02 9475 8304

valeria.pasto@fitchratings.com

Fitch Ratings Ireland Limited Sede Secondaria Italiana

Via Morigi, 6 Ingresso Via Privata Maria Teresa, 8 Milan 20123

### Manuela Banfi

Associate Director

Secondary Rating Analyst

+39 02 9475 6226

manuela.banfi@fitchratings.com

### Cristina Torrella Fajas

Senior Director

Committee Chairperson

+34 93 323 8405

cristina.torrellafajas@fitchratings.com

## MEDIA CONTACTS

### Peter Fitzpatrick

London

+44 20 3530 1103

peter.fitzpatrick@thefitchgroup.com

### Stefano Bravi

Milan

+39 02 9475 8030

stefano.bravi@fitchratings.com

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

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## APPLICABLE CRITERIA

[Bank Rating Criteria \(pub. 07 Sep 2022\) \(including rating assumption sensitivity\)](#)

## ADDITIONAL DISCLOSURES

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Banca Popolare di Sondrio - Societa per Azioni

EU Issued, UK Endorsed

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