



# 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".

A seguito della pubblicazione da parte dell'agenzia nel novembre 2021 della metodologia aggiornata riguardante i criteri dei rating bancari, il Support Rating pari a "5" e il Support Rating Floor pari a "No Floor" sono stati ritirati in quanto non più rilevanti ed è stato assegnato il nuovo Government Support Rating (GSR) pari a "no support" (ns).

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"

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Si allega il comunicato stampa pubblicato da Fitch Ratings.

Sondrio, 27 luglio 2022

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## RATING ACTION COMMENTARY

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

Wed 27 Jul, 2022 - 11:10 ET

Fitch Ratings - Milan - 27 Jul 2022: Fitch Ratings has affirmed Banca Popolare di Sondrio'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.

Fitch has withdrawn Sondrio's Support Rating of '5' and Support Rating Floor of 'No Floor' as they are no longer relevant to the agency's coverage following the publication of its updated Bank Rating Criteria in November 2021. In line with the updated criteria, Fitch has assigned Sondrio a Government Support Rating (GSR) of 'no support' (ns).

## KEY RATING DRIVERS

**Second-Tier Regional Bank:** Sondrio's ratings reflect its second-tier franchise as a regional bank with small national market shares and traditional commercial-banking business model. They also consider the bank's satisfactory regulatory capitalisation and buffers, a sound funding and liquidity profile as well as our expectations that asset quality will improve to levels that are fully commensurate with its 'bb+' VR.

**Moderate Risk Profile:** Sondrio's risk profile benefits from operating mostly in the wealthy region of Lombardy, where default rates are below the national average. Its lending exposure to SMEs and companies is well-diversified by sector and borrower. Risk-taking and control processes are in line with market standards. Sondrio's risk appetite features sizeable own sovereign direct exposure through securities holdings.

**Asset Quality Near Industry Average:** Sondrio has reduced its impaired loan ratio to 5.8% at end-1Q22 from 13% at end-2019, closer to the industry average of about 4.5% at end-2021, on tightened underwriting and monitoring and small impaired loan sales.

Fitch expects impaired loan disposals to continue and compensate for likely asset-quality deterioration resulting from rising inflation and weaker economic growth. We forecast Sondrio's impaired loan ratio to remain stable over the next two years, moderately above the target set by the bank under its strategic plan.

**Prospects of Higher Revenue:** Fees from the sale of investment and insurance products have been increasing over the past four years, contributing to revenue growth. Operating profitability was supported by acceptable cost efficiency. We expect this trend to continue in line with the bank's recently refreshed business strategy. We forecast the bank's operating profit to increase to about 1.5% of risk-weighted assets (RWAs) by 2023, as higher revenue should more than compensate for an expected increase in loan impairment charges (LICs) and despite inflation pressure affecting costs.

**Lower Capital Encumbrance Expected:** Sondrio's common equity Tier 1 (CET1) ratio of 15.3% at end-1Q22 had ample buffers over regulatory requirements. While we expect capital encumbrance by impaired loans to remain broadly stable over the next two years, capital encumbrance by Italian government bonds will start reducing as TLTRO facilities mature, to a more contained 170% of CET1 by 2025, which nonetheless remains higher than at higher-rated banks.

**Stable Funding, Ample Liquidity:** The bank's funding and liquidity profile is sound. Customer deposits are a large and stable source of funding, due to the bank's adequate franchise in its home region and strong client relationships. Funding sources are increasingly diversified through access to wholesale funding markets, although less so than at higher-rated domestic peers. Sound liquidity is underpinned by adequate buffers of unencumbered eligible assets and access to ECB financing.

## **RATING SENSITIVITIES**

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

Sondrio's ratings and Outlook are vulnerable to a significant weakening of the operating environment in Italy, due for example to much slower economic growth than our forecasts, which could result in increased default rates and ultimately lead to deterioration of the bank's asset quality beyond our current expectations, and/or capital and profitability metrics that are weaker than our expectations.

The ratings could also be downgraded if Sondrio increases its risk appetite, for example due to a loosening of underwriting standards to pursue business growth, leading to material deterioration in its asset quality and causing significant capital erosion, including through higher-than-expected capital encumbrance by unreserved impaired loans.

In particular, the ratings could be downgraded if we expect its CET1 ratio to edge closer to 13%, its impaired loan ratio deteriorates towards 10% and capital encumbrance by unreserved NPLs rises close to 50%, without the prospect of recovery in the short term.

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

Rating upside is currently limited, unless Sondrio sees improvement in asset quality with an impaired loan ratio consistently below 4%, a more diversified business model resulting in operating profit sustainably above 1.5% of RWAs and stronger capitalisation in the form of stable regulatory ratios and reduced encumbrance by Italian government bonds.

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

Sondrio's long-term deposit rating of 'BBB-' is one-notch above the bank's Long-Term IDR to reflect protection from lower-ranking senior preferred and Tier 2 debt buffers, given full depositor preference in Italy. The one-notch uplift also reflects our expectation that the bank will maintain these buffers over time, given the need to comply 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.

The subordinated debt of Sondrio is rated two notches below its VR for loss severity to reflect poor recovery prospects.

**No Support:** Sondrio's 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 long-term deposit rating is sensitive to changes in the Long-Term IDR. It would also be downgraded in the event of a reduction in the buffers of senior and junior debt, or if the bank fails to comply with its MREL.

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.

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 reasons: market position (negative).

The asset quality score of 'bb' is above the 'b' category implied score due to the following adjustment reason: historical and future metrics (positive).

The capitalisation & leverage score of 'bb+' is below the 'bbb' category implied score due to the following adjustment reason: risk profile and business model (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+
	Support	WD	Withdrawn		5
	Support Floor		WD	Withdrawn	NF
	Government Support		ns	New Rating	
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](#)

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**APPLICABLE CRITERIA**



## Bank Rating Criteria (pub. 12 Nov 2021) (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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