



# Banca Popolare di Sondrio

## PRESS RELEASE

### BANCA POPOLARE DI SONDRIO:

- SCOPE RATINGS UPGRADES THE OUTLOOK FROM "STABLE" TO "POSITIVE" DUE TO THE STRONG FINANCIAL FUNDAMENTALS
- ISSUER RATING CONFIRMED AT THE INVESTMENT GRADE "BBB-"

Please advised that the agency Scope Ratings, at the end of the annual rating review process, confirmed the issuer rating assigned to Banca Popolare di Sondrio at investment grade "BBB-" and improved the outlook from "stable" to "positive".

The improvement in the outlook reflects the rating agency's assessment of the positive evolution of the Bank's financial fundamentals over the last two years, characterised in particular by the strong action taken to reduce impaired loans, whose stock was halved, bringing the gross NPL ratio to 5.8%.

The agency's expectation is that the credit profile over the next 12-18 months will continue to improve, taken into account that capital ratios at the end of last year - with the CET 1 ratio phased-in at 15.8% and fully loaded at 15.7% - were already well above regulatory requirements.

Scope Ratings also points out that Banca Popolare di Sondrio has maintained a good performance even during the difficult context related to the pandemic, confirming its

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historical track record of profitability that places it above the average of Italian banking institutions.

Please find attached the press release issued late yesterday evening by Scope Ratings.

Sondrio, 24 March 2022

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*The English translation is provided only for the benefit of the reader and in the case of discrepancies the Italian version shall prevail.*

## Scope affirms BBB- issuer rating on Banca Popolare di Sondrio, changes Outlook to Positive

**The change in Outlook is driven by the improvement in the group's financial fundamentals.**

### Rating action

Scope Ratings GmbH (Scope) has today affirmed its issuer rating of BBB- to Banca Popolare di Sondrio SpA (BPS) and changed the Outlook to Positive from Stable.

### Rating rationale

The change in Outlook is driven by the improvement in BPS' credit fundamentals over the past two years. In particular, the bank managed to halve its stock of non-performing exposures, selling more than EUR 1.8bn of loans. At year-end 2021, the gross non-performing exposure ratio stood at 5.8% of loans. While this is still above average for large Italian banking groups, BPS is no longer an outlier. Scope also has a favourable view of the group's performance throughout the pandemic. Despite precautionary provisions and volatile trading income, profitability remained resilient in 2020 and rebounded strongly in 2021, driven by strong growth in core revenues. 2021 net profit of EUR 268m was the highest on record for the group.

The issuer rating reflects BPS' established retail and commercial banking franchise with solid market shares in the wealthy Italian region of Lombardy, which produces a moderately stable and predictable revenue and earnings stream. BPS has immaterial market shares in Italy but a dominant position in its home province of Sondrio and relevant market positions in the Lecco and Como provinces. BPS is also the parent company of the BPS group, which includes a small bank in Switzerland (BPS Suisse), Factorit and BNT Banca, which specialises in agricultural business loans and payroll deductible loans.

The improvement in Scope's long-term sustainability assessment from 'lagging' to 'developing' acknowledges the group's progress in improving its corporate governance, including the recent transformation into a joint stock company and managerial reorganisation. The corporate transformation was completed in December 2021 and has not resulted in a material weakening of the group's financial profile. Scope's long-term sustainability analysis also considers the group's cooperative roots and its attention to the territories in which it operates, indicating strong social responsibility and a good balancing of the different stakeholders' interests. Scope believes that there is material room for improvement in the bank's preparedness for digital competition.

While low by international standards, BPS' profitability track record is better than the average for Italian banks. Stable revenues, good cost efficiency, a moderate level of loan losses and the lack of large one-off restructuring costs have helped the issuer maintain a positive bottom line for the past decade. This sets it apart from many peers, which have required material capital injections.

At the end of December 2021, BPS had a CET1 ratio of 15.8% on a transitional basis (15.7% fully loaded), which is well ahead of requirements. Scope notes that the bank could further optimise its capital structure via the issuance of capital securities, which are currently underutilised. The healthy buffers to capital requirements, alongside comfortable liquidity and funding regulatory ratios, are a key support to the rating. BPS is primarily funded by deposits, though it also uses the ECB's TLTRO lines.

### Outlook and rating-change drivers

The Outlook is Positive, reflecting Scope's expectation that the issuer's credit profile will continue to improve over the next 12-18 months. Scope expects BPS' strategic focus to start to shift from balance sheet repair to revenue and earnings growth.

#### **What could move the credit rating up:**

- Further improvements in the group's asset quality, and confirmation that asset quality will not materially deteriorate as a result of the decline in the macro outlook.
- Material growth in revenues without a significant change in the group's overall risk profile.

## What could move the credit rating down:

- A significant deterioration in the group's buffer to capital requirements, currently a key support for the rating.

## Overview of BPS' rating construct

Operating environment: supportive

Business model: consistent

Initial mapping refinement: low

Initial mapping: bbb-/bbb

Long-term sustainability: developing

Adjusted anchor: bbb-

Earnings capacity and risk exposures: constraining

Financial viability management: comfortable

Additional rating factors: neutral

Standalone assessment: bbb-

External support: not applicable

Issuer rating: BBB-

### Stress testing & cash flow analysis

No stress testing was performed. No cash flow analysis was performed.

### Methodology

The methodology used for this Credit Rating and Outlook, (Financial Institutions Rating Methodology, 28 January 2022), is available on <https://scoperatings.com/governance-and-policies/rating-governance/methodologies>.

Scope Ratings GmbH and Scope Ratings UK Limited apply the same methodologies/models and key rating assumptions for their credit rating services, while Scope Hamburg GmbH's methodologies/models and key rating assumptions are different from those of Scope Ratings GmbH and Scope Ratings UK Limited.

Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in 'Rating Definitions – Credit Ratings, Ancillary and Other Services', published on <https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales>. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at <https://scoperatings.com/governance-and-policies/regulatory/eu-regulation>. Also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): <http://cerp.esma.europa.eu/cerp-web/statistics/defaults.xhtml>. A comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at <https://www.scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales>. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on <https://scoperatings.com/governance-and-policies/rating-governance/methodologies>.

The Outlook indicates the most likely direction of the Credit Rating if the Credit Rating was to change within the next 12 to 18 months.

### Solicitation, key sources and quality of information

The Rated Entity and/or its Related Third Parties participated in the Credit Rating process.

The following substantially material sources of information were used to prepare the Credit Rating: public domain, the Rated Entity and Scope Ratings' internal sources.

Scope Ratings considers the quality of information available to Scope Ratings on the Rated Entity or instrument to be satisfactory. The information and data supporting this Credit Rating originate from sources Scope Ratings considers to be reliable and accurate. Scope Ratings does not, however, independently verify the reliability and accuracy of the information and data.

Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Rating and Outlook and the principal grounds on which the Credit Rating and Outlook are based. Following that review, the Credit Rating was not amended before being issued.

### Regulatory disclosures

The Credit Rating and Outlook is issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. The Credit Rating and Outlook is UK-endorsed.

Lead analyst: Marco Troiano, Managing Director

Person responsible for approval of the Credit Rating: Pauline Lambert, Executive Director

The Credit Rating/Outlook was first released by Scope Ratings on 10 September 2018. The Credit Rating/Outlook was last updated on 31 March 2021.

### Potential conflicts

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