



Banca Popolare di Sondrio

PRESS RELEASE

MORNINGSTAR DBRS UPGRADES BANCA POPOLARE DI SONDRIO

THE BANK'S ISSUER RATING IS AT INVESTMENT GRADE "BBB"

WITH "STABLE" TREND

Banca Popolare di Sondrio informs that today the Morningstar DBRS agency, at the end of its annual rating review process, has improved the Bank's credit rating.

In particular, the Long-term Issuer Rating now stands at investment grade "BBB", with a "stable" trend.

Below are the details of the ratings currently assigned to the Bank:

- Long-Term Issuer Rating: "BBB"
- Short-Term Issuer Rating : "R-2 (high)"
- Long-Term Senior Debt: "BBB"
- Short-Term Debt: "R-2 (high)"
- Long-Term Deposits: "BBB (high)"
- Short-Term Deposits: "R-1 (low)"
- Subordinated Debt: "BB (high)"

The rating upgrade issued by the agency reflects the positive evolution of the Bank's financial fundamentals: the structural improvement in profitability is combined with the maintenance of solid asset quality achieved through the implementation of a careful derisking policy and the adoption of high levels of non-performing loans coverage.

The ratings currently assigned are also well supported by the Bank's ample capital buffers against regulatory requirements, its adequate funding and liquidity profile, and its long and proven positive track record with respect to its ability to generate profits.

Please find attached the press release issued by Morningstar DBRS.

Sondrio, 23 October 2024

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



PRESS RELEASE

OCTOBER 23, 2024

Morningstar DBRS Upgrades Banca Popolare di Sondrio S.p.A.'s Long-Term Issuer Rating to BBB, Changes Trend to Stable

BANKING ORGANIZATIONS

DBRS Ratings GmbH (Morningstar DBRS) upgraded the credit ratings of Banca Popolare di Sondrio S.p.A. (BPS or the Bank), including the Long-Term Issuer Rating to BBB from BBB (low). Concurrently, Morningstar DBRS upgraded the Bank's Long-Term Deposits to BBB (high), which is one notch above the Intrinsic Assessment (IA), reflecting the legal framework in place in Italy, which has full depositor preference in bank insolvency and resolution proceedings. Morningstar DBRS also changed the trends on all credit ratings to Stable from Positive. Morningstar DBRS upgraded the Bank's IA to BBB from BBB (low), and its Support Assessment remains SA3. A full list of credit rating actions is included at the end of this press release.

KEY CREDIT RATING CONSIDERATIONS

The credit rating upgrades and Stable trends reflect the Bank's structural improvement in its profitability, mainly helped by higher interest margins, cost control, and more contained loan loss provisions (LLPs). At the same time, Morningstar DBRS considers that BPS has further strengthened its balance sheet over the past 12 months on the back of limited new nonperforming exposure (NPE) inflows, which have been offset by de-risking efforts as well as prudent coverage levels and loan book expansion despite higher interest rates. Morningstar DBRS expects BPS to maintain profitability levels that are stronger than its historical average and sound asset quality metrics in the near future despite the expected interest rate cuts, and potentially higher LLPs because of new asset quality risks in the current still-high interest rate environment. BPS' strong operating efficiency, coupled with the revenue diversification stemming from its fee income businesses, and its conservative approach around loan coverage will contribute to mitigate the expected negative impact resulting from interest margin compression, and potentially higher NPE inflows resulting in higher credit costs.

The credit ratings continue to incorporate the Bank's modest national market position but solid franchise in the Lombardy region, especially in the province of Sondrio. BPS also has a long and proven earnings track record as well as an adequate funding and liquidity profile, which mainly relies on its stable retail deposit base in its home market. Moreover, the credit ratings are underpinned by BPS' ample capital buffers over supervisory requirements.

CREDIT RATING DRIVERS

An upgrade of the Long-Term Issuer Rating would require further improvements in the Bank's risk profile while maintaining its improved profitability metrics on a sustained basis and sound capital buffers. An improvement in the degree of diversification of the Bank's revenue streams and funding structure might also contribute to an upgrade.

A downgrade of the credit ratings would occur in the event of a material deterioration in the Bank's asset quality and/or if its profitability reverted to substantially weaker levels.

CREDIT RATING RATIONALE

Franchise Combined Building Block (BB) Assessment: Moderate

Established in 1871, BPS is a small to medium-sized bank based in Sondrio (Lombardy), with EUR 57 billion in total assets at end-June 2024. The Bank's main activities include retail and commercial banking. The Bank has 3,639 employees and 379 branches, distributed across 10 Italian regions, primarily in Northern Italy. Outside Italy, BPS has a small presence in retail and commercial banking in Switzerland. BPS is the market leader for loans and deposits in the small province of Sondrio; however, the Bank's market shares remain modest on a national scale. BPS has a leading market position in Italian public administration payment systems. Pursuant to the Italian law for the reform of the mutual banking sector, since end-2021 BPS has transformed into a joint-stock company from a cooperative bank. Unipol Group is BPS' main shareholder holding 19.7% of the Bank's share capital.

Earnings Combined Building Block (BB) Assessment: Good/Moderate

BPS' profitability has improved, mainly reflecting higher interest margins, cost control, and more contained LLPs. In Morningstar DBRS' view, the Bank's earnings power will remain stronger overall than its historical average in the near future despite the expected interest rate cuts, higher funding costs, and potentially higher LLPs because of new asset quality risks. BPS' strong operating efficiency and the benefit to its revenue mix stemming from fee income diversification will contribute to mitigate the negative impact resulting from interest margin compression and higher credit costs. BPS' net attributable income was up 27% year-over-year (YOY) in H1 2024, mainly driven by higher net interest income because of higher interest rates and low deposit costs, as well as by an increase in net fees on the back of a good performance in all segments. BPS' cost/income ratio, as calculated by Morningstar DBRS, was around 40% in H1 2024, down from 46% in H1 2023. The Bank's annualised cost of risk stood at 60 basis points (bps) in H1 2024, broadly in line with the level reported in FY 2023.

Risk Combined Building Block (BB) Assessment: Good/Moderate

In recent years, the Bank has made progress in reducing its NPEs through disposals, securitisations, and organic workouts. The de-risking resulted in BPS' asset quality comparing more favourably with domestic peers ahead of any potential deterioration the Bank might face in the current still-high interest rate environment. BPS' stock of gross NPEs totalled EUR 1.4 billion at end-June 2024, up 3% compared with end-2023, and the gross NPE ratio stood at 3.8%, slightly above 3.7% at end-2023 but below 4.3% at end-2022. Nonetheless, on a net basis, the NPL ratio was 1.6% at end-June 2024, flat compared with end-2023 but down from 1.8% at end-2022, helped by higher coverage levels and loan book expansion. The Group typically maintains a higher-than-peers NPE coverage ratio, which stood at 59% at end-June 2024, up from 57.3% at end-2023. The coverage ratio on performing loans reached 0.79% at end-June 2024, up from 0.53% one year earlier. BPS maintains a significant exposure to sovereign debt, mainly attributable to Italy, which represented around 3.2 times (x) its phased-in common equity tier 1 (CET1) capital at end-June 2024, albeit down from 3.8x at end-2022.

Funding and Liquidity Combined Building Block (BB) Assessment: Good/Moderate

Morningstar DBRS views BPS' funding profile as adequate, underpinned by its stable retail deposit base in its home market. Customer deposits accounted for 69% of the Bank's total funding at end-June 2024, mainly consisting of current accounts and sight deposits raised from individuals and SMEs although time deposits have increased in recent times. The Bank's loan-to-deposit ratio, as calculated by Morningstar DBRS, was around 98% at end-June 2024, down from 99% at end-2023. BPS' recourse to central bank funding decreased to around 8% of its total funding as of end-June 2024 from 9% at end-2023 as a result of TLTRO III repayments. Morningstar DBRS also views positively that the Bank has gradually become a more regular issuer on the wholesale markets in recent years, contributing to diversifying its funding sources. This resulted in debt securities issued increasing by 18% in H1 2024. BPS maintains a solid liquidity position with around EUR 10 billion unencumbered securities, a counterbalancing capacity of around EUR 13 billion, a liquidity coverage ratio of 179%, and a net stable funding ratio of 126% at end-June 2024.

Capitalisation Combined Building Block (BB) Assessment: Good/Moderate

The Bank's capitalisation has strengthened in recent times mainly through retained earnings as well as stronger balance sheet and higher issuances. The CET1 ratio, phased-in, was 15.9% at end-June 2024 (15.8% fully loaded), up from 15.4% at end-2023. The Total Capital ratio, phased-in, was 18.8% (18.6% fully loaded), up from 17.7% at end-2023. The current capital ratios ensure ample

cushions of around 740 bps and 550 bps respectively over the supervisory requirements for the phased-in CET1 and Total Capital ratios (720 bps and 540 bps on a fully loaded basis, respectively). The supervisory requirements for 2024 include a Pillar 2 Requirement of 2.79%, up from the previous 2.66%. Reported capital ratios are net of around EUR 145 million of dividends accrued in H1 2024, which correspond to a pay-out ratio of approximately 55%, in line with the Bank's recent strategy.

Further details on the Scorecard Indicators and Building Block Assessments can be found at <https://dbrs.morningstar.com/research/441614>.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS

There were no Environmental/Social/Governance factors that had a significant or relevant effect on the credit analysis.

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings (13 August 2024) <https://dbrs.morningstar.com/research/437781>.

Notes:

All figures are in euros unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (4 June 2024) <https://dbrs.morningstar.com/research/433881>. In addition, Morningstar DBRS uses the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings <https://dbrs.morningstar.com/research/437781> in its consideration of ESG factors.

The credit rating methodologies used in the analysis of this transaction can be found at: <https://dbrs.morningstar.com/about/methodologies>

The sources of information used for this credit rating include Morningstar, Inc. and company documents, BPS H1 2024 Report, BPS H1 2024 Results Press Release, BPS H1 2024 Results Presentation, BPS 2020-2023 Annual Reports, BPS H1 2024 Pillar 3 Report, BPS 2023 Non-Financial Statement, and BPS 2023 TCFD Report. Morningstar DBRS considers the information available to it for the purposes of providing this credit rating to be of satisfactory quality.

Morningstar DBRS does not audit the information it receives in connection with the credit rating process, and it does not and cannot independently verify that information in every instance.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. Morningstar DBRS' outlooks and credit ratings are under regular surveillance.

For further information on Morningstar DBRS historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: <https://registers.esma.europa.eu/cerep-publication>. For further information on Morningstar DBRS historical default rates published by the Financial Conduct Authority (FCA) in a central repository, see <https://data.fca.org.uk/#/ceres/craStats>.

The sensitivity analysis of the relevant key credit rating assumptions can be found at: <https://dbrs.morningstar.com/research/441615>.

This credit rating is endorsed by DBRS Ratings Limited for use in the United Kingdom.

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For more information on this credit or on this industry, visit <https://dbrs.morningstar.com>.

Ratings

Banca Popolare di Sondrio S.p.A.

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
23-Oct-24	Long-Term Issuer Rating	Trend Change	BBB (low)	Stb	EU U
23-Oct-24	Long-Term Issuer Rating	Upgraded	BBB	Stb	EU U
23-Oct-24	Short-Term Issuer Rating	Trend Change	R-2 (middle)	Stb	EU U
23-Oct-24	Short-Term Issuer Rating	Upgraded	R-2 (high)	Stb	EU U
23-Oct-24	Long-Term Deposits	Trend Change	BBB	Stb	EU U
23-Oct-24	Long-Term Deposits	Upgraded	BBB (high)	Stb	EU U
23-Oct-24	Long-Term Senior Debt	Trend Change	BBB (low)	Stb	EU U
23-Oct-24	Long-Term Senior Debt	Upgraded	BBB	Stb	EU U
23-Oct-24	Short-Term Debt	Trend Change	R-2 (middle)	Stb	EU U
23-Oct-24	Short-Term Debt	Upgraded	R-2 (high)	Stb	EU U
23-Oct-24	Short-Term Deposits	Trend Change	R-2 (high)	Stb	EU U
23-Oct-24	Short-Term Deposits	Upgraded	R-1 (low)	Stb	EU U
23-Oct-24	Subordinated Debt	Trend Change	BB	Stb	EU U

Date Issued	Debt Rated	Action	Rating	Trend	Attribu
23-Oct-24	Subordinated Debt	Upgraded	BB (high)	Stb	EU U

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