Banca Popolare di Sondrio SpA Issuer Rating Report

SCOPE BBB STABLE

Scope's credit view (summary)

The **BBB issuer rating** is anchored by Banca Popolare di Sondrio (BPS)' established retail and commercial banking franchise and solid market shares in the wealthy Italian region of Lombardy, which generates moderately stable and predictable revenues and earnings. BPS has immaterial market shares in Italy but a dominant position in its home province of Sondrio and relevant market positions in the provinces of Lecco and Como.

While low by international standards, BPS' profitability has been 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 group maintain a positive bottom line for the past decade. This sets it apart from many peers, which have required material capital injections.

BPS' operating results have been solid in recent years thanks to loan growth, resilient fee and commission income, and contained credit losses. Like its peers, the group has benefitted from widening interest margins on the back of higher policy rates in 2022, reporting a return on equity of 8%. We maintain a favourable view of the group's future operating performance given the higher interest rate environment.

BPS' quality over the last several years has materially improved. Having peaked at EUR 4.5bn in early 2017, the group's non-performing exposures have declined to EUR 1.5bn as of YE 2022, primarily due to asset disposals and securitisations. The gross NPE ratio now stands at 4.3%, just above the Italian sector average. This reduction in risk has also been recognised by supervisors, with the group's Pillar 2 requirement declining in each of the last two years.

BPS is committed to maintaining a solid solvency profile, targeting a 15.6% CET1 ratio by 2025, 20bp higher than the level at YE 2022. Over the past year, internal capital generation offset the 5% increase in RWAs and temporary market losses on financial securities. Scope also considers the group's comfortable funding position, underpinned by a large and stable customer deposit base.

Outlook

The **Stable Outlook** reflects our view that the BPS' credit profile will remain unchanged over the next 12-18 months. We expect the group's operating performance to benefit from higher interest rates over the next few quarters, providing a buffer to comfortably manage an increase in credit losses in the event of a weaker economy.

What could move the rating down/up:

- We currently see limited upside to BPS' issuer rating given the group's lower business diversification compared to peers. The rating already incorporates the group's greatly improved asset quality profile as well as the comfortable capital and funding positions.

What could move the rating up/down:

- A significant reduction in the group's buffer to capital requirements, currently a key support for the rating.
- A material increase in non-performing loans linked to a worsening of operating conditions.

Ratings & Outlook

Issuer rating	BBB
Outlook	Stable

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Issuer profile

Founded in Sondrio in 1871, Banca Popolare di Sondrio is a medium-sized bank operating primarily in the wealthy Italian region of Lombardy and Rome. The bank's branch presence in several other northern Italian regions is sparser. It is also the parent company of the group (BPS) that includes BPS Suisse (with 20 branches in Switzerland), Factorit and BNT Banca. The group's activities focus on traditional commercial banking activities (loans, deposits and payment services) mainly for households and local SMEs. Over the years, the BPS group has developed solid, longstanding relations with customers, especially in its home province of Sondrio.

The group's operations are segmented as follows:

Enterprises: including banking and leasing activities with non-financial companies and producer households

Individuals and others: encompassing banking activities with retail customers, public administrations, financial companies and nonprofit organisations

Securities: comprising the management of client portfolios, direct trading and the placement of financial, insurance, and pension products; the segment also includes commissions from the distribution of third-party services.

Central functions: including the results from the group's proprietary portfolio and equity stakes

Recent events

- In February 2023, the group reported solid 2022 results. Widening interest margins and resilient fees and commissions more than offset the impact of temporary trading losses. Despite ongoing NPL disposals, BPS' cost of risk remained in line with the plan's target thanks to low default rates. The group's return on equity stood at 8%.
- In December 2022, BPS sold EUR 243m of bad loans as part of its de-risking strategy. Its gross NPL ratio declined to below 4.5%.
- In December 2022, BPS announced that the ECB had decided to lower the group's Pillar 2 requirement by 0.11% to 2.66%. The new requirement took effect on 1 January 2023.

Summary rationale for the rating construct

Step		Assessment	Summary rationale
STEP 1	Operating environment	Very supportive	• Italy is a wealthy country in the euro area, but its high level of public debt may constrain fiscal policy. • Italy is part of the European banking union. • The banking sector is fragmented and suffers from structurally low profitability.
		Supportive	
		Moderately supportive	
		Constraining	
		Very constraining	
	Business model	Very resilient	• Regional bank with a sound franchise in the wealthy Lombardy region • Business model hinges on traditional commercial banking activities, with good market shares in its territories • Trading portfolio is a source of revenue and earnings volatility
		Resilient	
		Consistent	
		Focused	
		Narrow	
	Mapping refinement	High	• Lack of business diversification compared to similarly mapped peers
		Low	
	Initial mapping	**bbb-/bbb**	
	Long-term sustainability	Best in class	• Transformation into joint stock company and continuous improvements in corporate governance • BPS will face more competition as digital banking gains momentum. • Strong social responsibility embedded in cooperative corporate DNA • The group is working on assessing the environmental footprint of its lending activity.
		Advanced	
		Developing	
		Constrained	
		Lagging	
	Adjusted anchor	**bbb-**	
STEP 2	Earnings capacity & risk exposures	Very supportive	• Stronger earnings record than Italian peer average • Headline asset quality metrics have greatly improved and are in line with close peers but still compare poorly to larger banks. • Sizeable domestic sovereign bond portfolio, mainly held at amortised cost and with contained sensitivity to changes in yields
		Supportive	
		Neutral	
		Constraining	
		Very constraining	
	Financial viability management	Ample	• Healthy buffers to capital requirements • Comfortable funding and liquidity positions supported by a large deposit base
		Comfortable	
		Adequate	
		Limited	
		Stretched	
		At risk	
	Additional factors	Significant upside factor	• No further considerations
		Material upside factor	
		Neutral	
		Material downside factor	
		Significant downside factor	
	Standalone	**bbb**	
STEP 3	External support	Not applicable	
Issuer rating		**BBB**	

Focused regional franchise in the wealthy Italian region of Lombardy

The 'consistent' business model assessment is based on BPS' deep-rooted retail and commercial banking franchise in a few provinces in Lombardy, Italy's wealthiest region. The soundness of BPS' business model is evidenced by its secular record of positive net results. The assessment is limited by the group's sub-national profile and low business diversification compared to peers.

The 'supportive' operating environment assessment reflects Italy's large, diversified economy within the euro area, whose regulatory and supervisory environment we deem highly supportive of banks' financial stability. The assessment is constrained by the limited fiscal space of the Italian government and the banking system's high fragmentation.

Predominantly retail banking activities with a focus on individuals and SMEs

The group's business model hinges on traditional commercial banking activities mainly for households and local entrepreneurs (micro and small businesses). Over the years, BPS has developed solid customer relationships, especially in its home province of Sondrio.

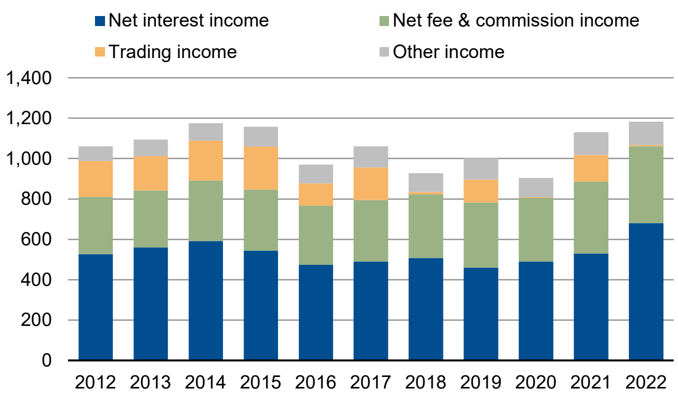
Through its branch network, the bank also distributes leasing, life and non-life insurance products offered by the companies in which it owns stakes (Alba Leasing 19.3%, Arca Vita 14.8%). It also holds 34.7% of Arca Holding, which fully owns Arca Fondi, an asset management firm. The group entered the market for payroll/pension-deducted loans by acquiring PrestiNuova in 2018. In 2019, PrestiNuova was merged into BNT Banca, which previously only specialised in agricultural loans. Finally, BPS is active in factoring through its subsidiary Factorit (now fully owned), one of the largest players in Italy.

Regional bank with good market presence in Lombardy

As of YE 2022, BPS had immaterial market shares in Italy (2.3% of branches) but a dominant position in its home province of Sondrio (53% of branches) and relevant market positions in Lecco and Como (around 23% in both). Its branch market share in Lombardy was 9%. Its main competitor in the province of Sondrio is Credit Agricole Italia, whereas Intesa, UniCredit and Banco BPM are its strongest rivals in Lombardy.

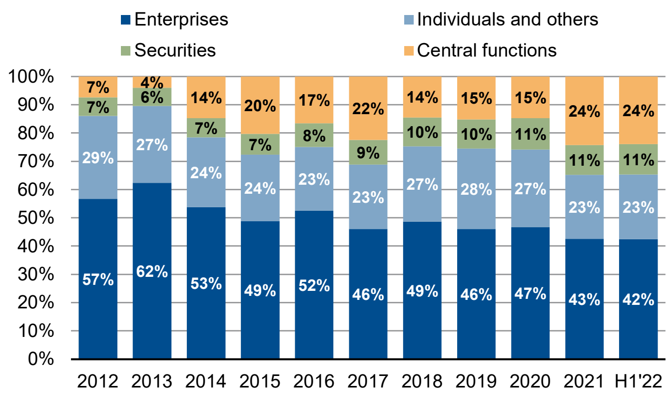
The group operates in Switzerland through BPS Suisse, specialised in residential mortgages and private banking, with a limited cost of credit Swiss activities account for approximately 10% of the group's revenues and assets.

Figure 1: Revenue breakdown by type, historical (EUR m)



Source: SNL, Scope Ratings

Figure 2: Revenue breakdown by segment, historical



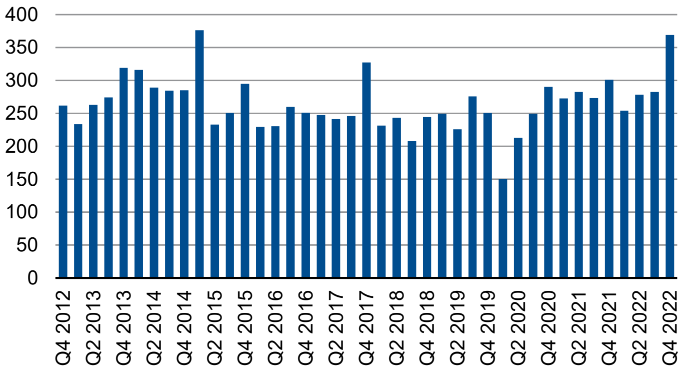
Source: SNL, Scope Ratings

Proprietary portfolio is a source of earnings volatility

Following trading losses reported in the wake of the financial crisis, the volatility of the group's top line has decreased. Even so, the main source of revenue and earnings remains the volatility in the group's proprietary portfolio, in particular the portion held for trading. In fact, during the past five years, the only quarterly loss was due to market losses at the beginning of the pandemic (Figure 4).

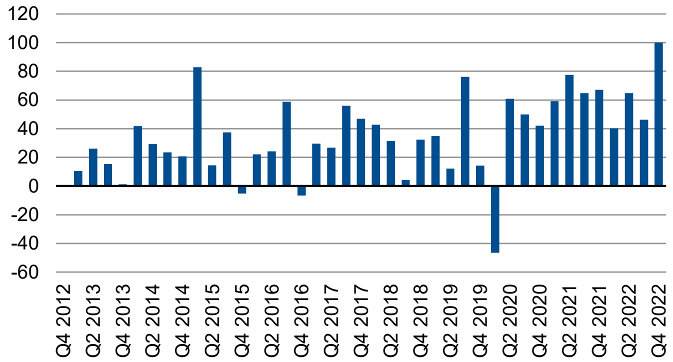
Management has committed itself to reducing the volatility of the group's top line, particularly by cutting the group's exposure to mutual funds, which are accounted as financial assets held for trading.

Figure 3: BPS – quarterly revenues (EUR m), historical



Source: SNL, Scope Ratings

Figure 4: BPS – quarterly net profit (EUR m), historical



Source: SNL, Scope Ratings

In contrast to other Italian banks, BPS has not shrunk its branch network in recent years, opting instead for continued, measured expansion. This approach has enabled the group to extend its customer reach while maintaining good cost efficiency metrics.

2022-25 business plan

In June 2022, following its transformation to a joint-stock company, BPS released its first public business plan.

The group's new strategy hinges on three main guidelines:

I. Focus on 'distinctive areas', which are either the most profitable for the group or areas where it has a competitive edge. These include banking activities with SMEs and institutional entities (e.g. universities and private pension schemes) and the group's Swiss subsidiary, BPS Suisse. The group also envisages further cross-selling opportunities (e.g. insurance products).

II. 'Qualified growth in high-value areas', such as the distribution of third-party asset management and insurance products, and the payment business

III. 'Digital evolution of customer relationships' to achieve multi-channel interactions. The plan entails sizeable investments in IT to hire additional resources and strengthen the group's technological infrastructure and data management. BPS also aims to expand its digital products offer with products like instant lending.

Management foresees a compounded annual growth rate (CAGR) of close to 4% for the group's revenue, driven by an increase in interest margins, loan book expansion (16% growth by 2025) and a 12% CAGR in distributed wealth management and bancassurance products. Despite an increase in IT expenses from EUR 86m in 2021 to EUR 120m in 2025, overall cost growth should be contained (CAGR of about 2.6%). At the same time, cost of risk is projected to remain below 50 bps. Return on average equity is expected to not drop below 8% over the course of the business plan and to reach 9.2% in 2025.

Box A: Focus on BPS' operating environment: Italy

Macroeconomic assessment – key credit considerations

- Italy is the world's eighth largest economy and the EU's third largest economy after Germany and France. It is the second largest manufacturer in the EU, with a significant trade surplus that has increased over the past decade.
- The economy is diversified, although one of its defining traits is the prevalence of small and micro enterprises, which are often family-owned. This is mirrored in banks' loan books, where SME loans often account for the lion's share.
- As of YE 2022, the country's real GDP per capita was in line with the EU average. However, wealth is concentrated in the north, while southern regions are behind in many social and economic aspects, such as growth, employment, infrastructure development and education.
- Historically, the country has suffered from low GDP growth, low growth potential, an ageing population and a lack of investment and structural reform.
- The government debt-to-GDP ratio is the second highest in Europe. High indebtedness, in the context of the rigid European fiscal framework, has constrained the government's ability to deploy countercyclical measures in past recessions.
- Italy is renowned for its chronic political instability (the country has had 68 governments in 76 years). Political turmoil can weigh on investor confidence and influence the spread between 10-year Italian bond yields and their German equivalent.

Key economic indicators	2020	2021	2022	2023F	2024F
GDP per capita (USD' 000s)	31.8	35.6	34.3	NF	NF
Real GDP, % change	-9.1	6.7	3.9	0.5	1.5
Unemployment rate, %	9.3	9.5	8.1	8.5	8.5
CPI, % change	-0.2	2.0	8.4	5.2	2.0
Policy rate, %	-0.50	-0.50	2.00	3.75	3.25
General government debt, % of GDP	155	150	146	145	145

Source: Scope Ratings, Scope Macroeconomic Board's forecasts, SNL
Note: NF stands for 'not forecasted'

Soundness of the banking sector – key credit considerations

- The Italian banking system is moderately fragmented, with a handful of banks competing at the national level beside regional and cooperative banks. Physical branches are still the predominant distribution channel.
- Over the past 10 years, the historical balance of power between UniCredit and Intesa has shifted towards the latter. It has absorbed weaker competitors, while UniCredit has tended to shrink and refocus its business model. In 2020, Intesa acquired UBI, cementing its market leadership. We believe Intesa's growth increases pressure not only on UniCredit but also on smaller banks.
- Consolidation is ongoing among medium-sized former popolari banks, with BPER emerging as an active consolidator. French group Crédit Agricole has also been expanding, taking over Creval and showing interest in further inorganic growth.
- The sector is characterised by low margins, high provisions (due to Global Financial Crisis-related non-performing loans) and lacklustre profitability. Customer deposits are the main source of funding for the system and have benefited greatly from targeted longer-term refinancing operations (TLTRO).
- Italy is part of the European banking union. Significantly important banks are directly supervised by the ECB within the Single Supervisory Mechanism.

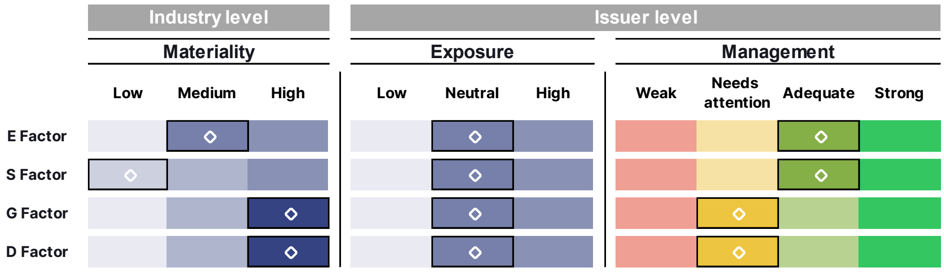
Banking system indicators	2017	2018	2019	2020	2021
ROAA, %	0.6	0.5	0.4	0.1	0.4
ROAE, %	8.3	6.2	5.8	1.6	6.0
Net interest margin, %	1.3	1.4	1.4	1.3	1.2
CET1 ratio, %	13.7	13.2	14.2	15.5	16.7
Problem loans/gross customer loans, %	13.8	8.2	6.3	4.4	3.4
Loan-to-deposit ratio, %	114.3	120.2	120.1	113.2	108.8

Source: Scope Ratings, SNL
Note: loans include securities held at amortised costs

Improved corporate governance and strong social commitment to its territory

The 'developing' long-term sustainability assessment reflects the group's progress on improving its corporate governance, including the recent transformation to a joint stock company and managerial reorganisation. The assessment also considers the group's cooperative roots and its attention to the territories where it operates, which indicate a strong sense of social responsibility and good balancing of different stakeholder interests. However, we believe that there is material room for improvement in terms of preparedness for digital competition.

Figure 5: Exposure to and management of key ESG-D factors[1]



Source: Scope Ratings

Customer behaviour is rapidly changing in Italy and in Europe as a whole. With basic banking products facing a process of commoditisation, BPS needs to increase investments in IT to keep up with a rapidly changing market.

As a former cooperative and regional player, BPS still values customer proximity and a physical presence in its territory. Rather than closing branches, the group has decided to modernise them in order to accommodate changing customer needs. For instance, branch employees' work capacity will move towards commercial and advisory practises, whereas traditional services will be provided more and more online.

BPS will face more competition as digital banking gains momentum

We believe that BPS' relatively small size constrains the budget it can deploy to develop digital solutions. Over time this could turn into a competitive challenge, especially with respect to larger peers.

In December 2021, the group approved the bank's transformation to a joint stock company. This event ended the one person, one vote principle that had governed the group's members' meeting, thus allowing for greater participation on the part of institutional investors.

Ongoing improvement in BPS' corporate governance

Nudged by supervisors, BPS has recently reorganised its management team, aligning it with market norms for listed companies. Top management now comprises a chief financial officer, a chief risk officer and a chief lending officer. We believe that room for improvement remains, for instance with respect to the staggered election of board directors and the number of independent directors (currently one third of the board). That being said, BPS is on a gradual but steady path of improving governance.

We note that while the previous governance setup may have looked unusual, the group has a strong governance track record and has managed to stay out of the headlines when mis-selling scandals hit peers. We take this as a sign of a conservative risk culture.

[1] The overview table illustrates how each factor informs our overall long-term sustainability assessment. The materiality table shows how we view the credit relevance of each factor for the industry at large. The exposure table shows how we see the issuer's degree of exposure to each ESG-D factor. The management table shows how we view the issuer's management of these exposures.

With respect to the 'social' factor, we view positively the group's strong ties to its territory and its community as well as its stated mission to support the fabric of the local economy. We do not expect the social DNA of the group to change materially along with its legal form. We believe the bank has still a lot of work to do with respect to gender diversity in top management and gender pay gap.

BPS has recently stepped up its efforts to manage environmental risks and is now catching up with the sector trend. We highlight actions such as the approval in 2021 of a climate policy to reduce direct impact and manage the impacts from lending/investing and the definition in 2022 of a path towards carbon neutrality and portfolio alignment.

Strong track record of low but resilient profitability coupled with greatly improved asset quality

The 'neutral' assessment of earning capacity and risk exposures is based on BPS' demonstrated ability to generate earnings throughout the cycle. It also acknowledges a material improvement in asset quality since 2017, with headline metrics now close to domestic and European peers.

BPS has a solid earnings track record. It remained profitable after the Global Financial Crisis and the euro crisis, which led to many banks in Italy needing to be recapitalised. This was thanks to a mix of factors, including resilient income from fees and commissions, a leaner-than-average cost structure, the absence of restructuring and legal costs and a cost of risk that was under control (although high by international standards).

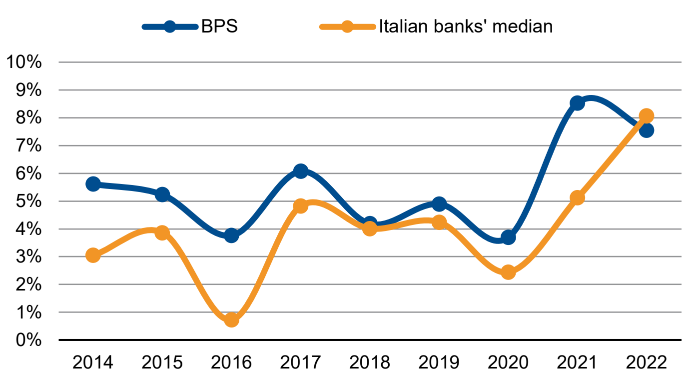
Encouraging performance during the Covid crisis

Like most of its peers, BPS reported solid results during the pandemic. Its net interest income was supported by the TLTRO III take-up and state-backed lending. Net fees and commissions did not plunge in 2020 thanks to BPS' lower-than-average exposure to cyclical segments, such as advisory and credit card lending. Finally, credit-loss provisions have continued to decline thanks to public support measures and lower losses related to non-performing loan (NPL) disposals.

Strong results in 2022 despite bearish financial markets

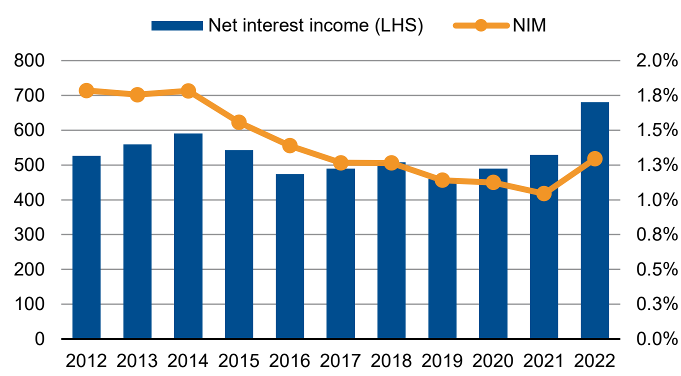
In 2022, BPS reported an 8% return on equity. Higher margins on origination and coupons from inflation-linked and floating rate notes more than offset the decline in trading income. The group continued to outperform the sector in fee and commission income, which grew by more than 6%. Credit losses remained under control given a low default rate, while the impact from NPL disposals was marginal.

Figure 6: Return on average equity, BPS vs Italian banks*



Source: Company data, Scope Ratings
*Includes the Italian peers listed on page 13

Figure 7: BPS' net interest margin rebounded in 2022



Source: SNL, Scope Ratings
Note: Net interest income in EUR m

Thanks to higher interest rates, BPS' earnings outlook for the medium term has considerably improved. Balance sheet repricing will more than offset the revenue loss from the phase-out of the TLTRO III programme in 2023. In addition, net fee and commission income will be supported by inflation and the group's strategic initiatives but may be strained by the economic slowdown. On the flip side, persistent high inflation could put pressure on the group's operating expenses, particularly salaries.

Management has guided for a cost of risk of 50 bps for 2023. This figure is low compared to the group's historical average and reflects the reduced need to provision against legacy NPEs.

Material improvement in asset quality in the past two years

In the aftermath of the financial crisis, BPS accumulated a high stock of gross NPLs. This reached a peak of EUR 4.5bn at the beginning of 2017, equivalent to 15.5% of customer loans. Since then, NPEs have started declining, partly as a result of an improved economic environment. Unlike most Italian banks, the group initially embraced a softer approach in dealing with NPEs, preferring internal management over large disposals until 2020.

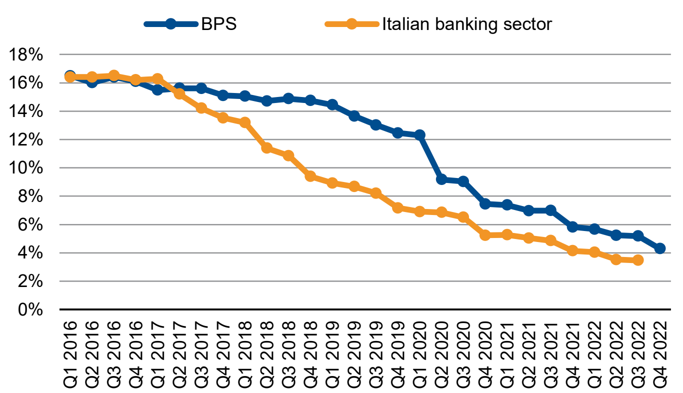
De-risking activity is credit-positive

Faced with mounting supervisory pressure, the group accelerated NPE disposals in 2020, when it closed two deals for a total amount of EUR 1.4bn. In December 2021, BPS was part of a multi-originator sale of NPLs, selling EUR 421m of bad loans. A similar operation took place in December 2022, when the group disposed of EUR 243m of bad loans. All these transactions substantiate a renewed strategic mindset and a more proactive approach to NPL management. The group is now targeting a 3.8% gross NPL ratio by 2025. Therefore, we do not exclude further sizeable NPL disposals going forward.

As at YE 2022, the group's NPE ratio stood at 4.3%, slightly higher than Italian and international peers. Coverage was high at 58%.

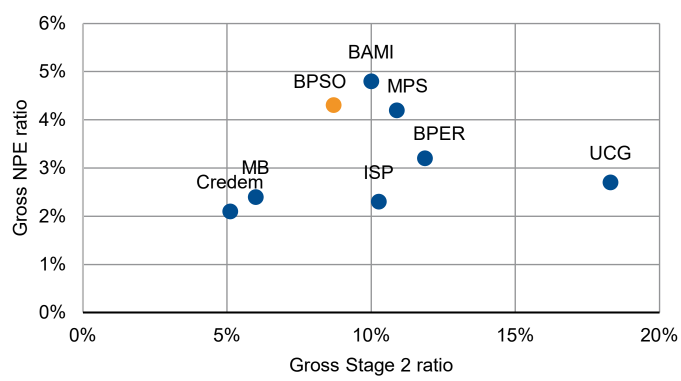
We believe that the successful execution of planned deals has alleviated supervisory scrutiny of the group, as demonstrated by declines in the Pillar 2 requirement both in 2022 and 2023.

Figure 8: Decline in NPEs accelerated since 2020 (gross NPE ratio)



Source: Company data, Bank of Italy, Scope Ratings

Figure 9: Gross NPE and Stage 2 ratios as of Q4 2022



Source: Company data, Scope Ratings
Note: Stage 2 ratio data for Credem and MPS as of Q2 2022

Loan book performance was resilient during and after Covid

The Covid crisis had no impact on the group's asset quality. In fact, the group's default ratio remained below 1% even after borrower support measures expired.

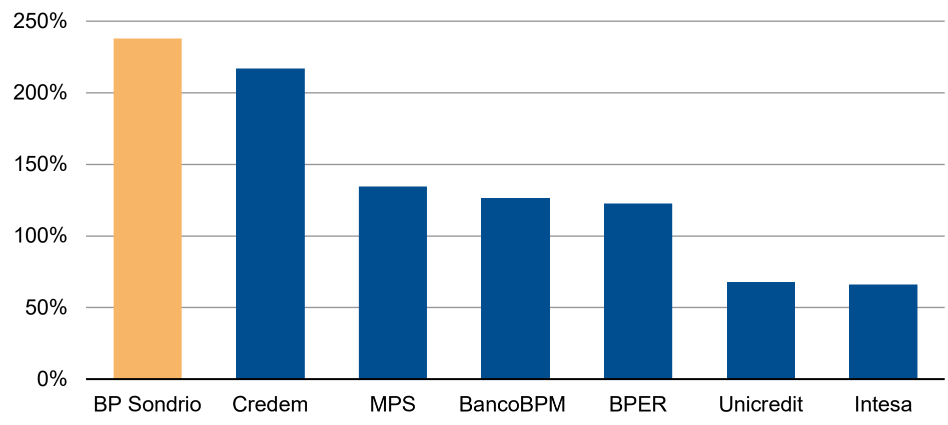
As of YE 2022, the group's Stage 2 ratio was around 8.5%, which is lower than the domestic peer average. Over the past year, the group increased generic provisions due to a more uncertain economic outlook. Management overlays amounted to EUR 60m as of YE 2022, equivalent to slightly less 20 bps of customer loans.

High exposure to domestic sovereign risk

Among large and mid-tier Italian banks, BPS has the largest and most concentrated exposures to Italian sovereign bonds. As of December 2022, it held EUR 7.8bn in Italian government bonds, roughly 240% of its CET1 capital base and 74% of the total sovereign portfolio. Most of its Italian bonds are held at amortised cost, limiting the sensitivity of the group's regulatory capital ratios to sovereign spread volatility.

As of YE 2022, the modified duration of the group's sovereign bond portfolio was contained (1.56 years) thanks mostly to the exposure to floating notes.

Figure 10: Italian sovereign bond portfolio as % of CET1 capital, YE 2022

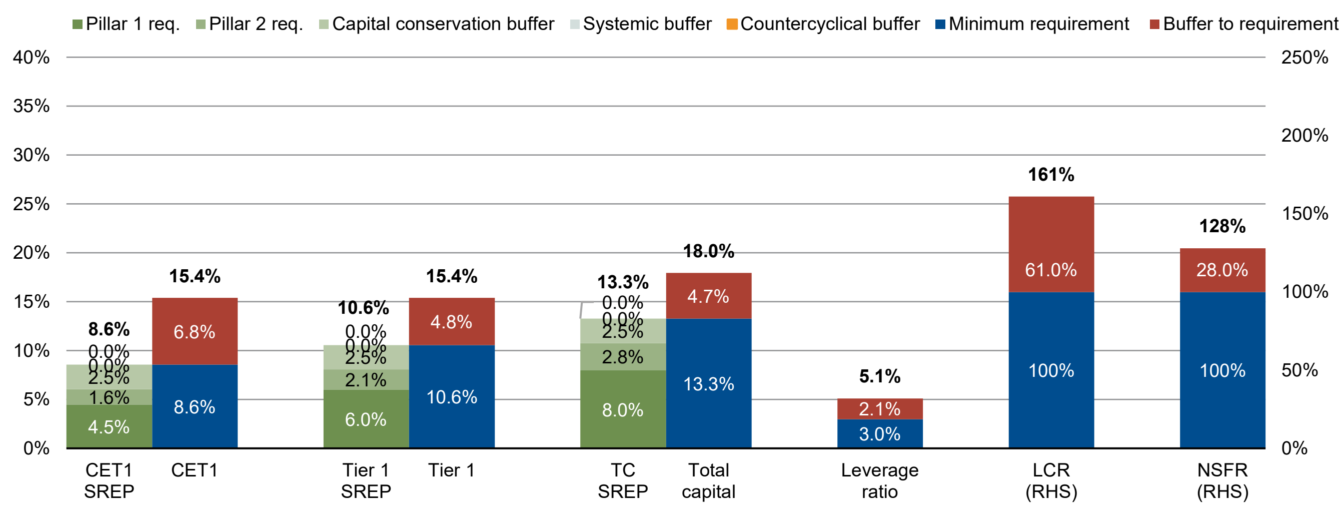


Source: Company data, Scope Ratings

Comfortable financial viability, with material headroom to minimum requirements

The 'comfortable' financial viability management assessment reflects not only BPS' current high buffers over regulatory requirements but also our view that the group will continue to maintain them.

Figure 11: Overview of BPS' buffers above minimum requirements, Q4 2022



Source: SNL, Company data, Scope Ratings

The group's capital position greatly improved in May 2019, when the ECB approved the parent bank's AIRB models to assess the credit risk of corporate and retail portfolios. This headroom gave the group more strategic flexibility to accelerate balance sheet de-risking. Over the past three years, the group's capital ratios have remained stable, as internal generation was offset by business growth and dividends. In 2022, the impact from temporary market losses due to a drop in bond prices was contained.

The ECB has reduced BPS' Pillar 2 requirement twice in the past two years: from 3% for 2021 to 2.66% for 2023. Going forward, further decreases in the Pillar 2 requirement are possible given the ongoing improvements in the group's governance and asset quality.

High-quality capital

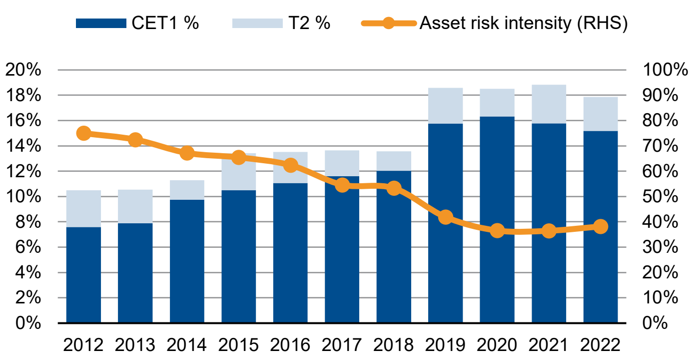
We note that the group could further optimise its capital structure through the issuance of AT1 securities, releasing CET1 capital that could be used for further balance sheet cleanup or growth. BPS has no outstanding CRD4-compliant AT1 notes. In November 2021, it issued its second Tier 2 bond for EUR 300m, adding around 130 bps to its total capital ratio.

The most stringent capital requirement is at the level of Tier 1 capital, reflecting the lack of AT1 capital in the capital structure. However, the buffer to the requirement is still very comfortable at around 480 bps. This could be materially raised (by about 200 bps) if the group made full use of the AT1 bucket.

CET1 ratio to remain above 15% during the next few years

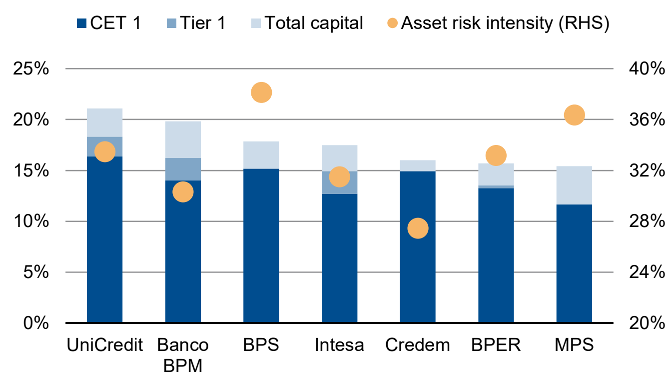
BPS targets a CET1 ratio of 15.6% by the end of 2025, which is close to the current level. This target factors in the extension of the AIRB models to the group's fully owned subsidiary Factorit, with 80 bps of expected capital relief. We praise BPS' prudent approach of committing itself to high capital buffers throughout the business plan, despite a 50% payout policy.

Figure 12: Phased in capital ratios, historical



Source: SNL, Scope Ratings

Figure 13: Italian peers: capital position vs asset risk intensity*



Source: SNL, Scope Ratings
*Asset risk intensity = RWAs/total assets

BPS' balance sheet is mostly funded by deposits and central bank lines

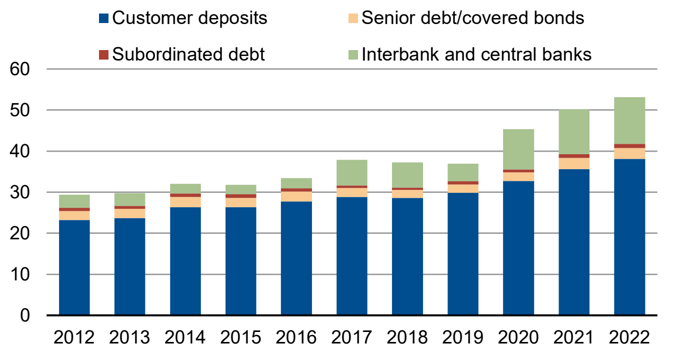
The group funds itself primarily via current accounts and sight deposits, a common feature among Italian commercial banks. Deposits accounted for about 71% of total cash funding as of December 2022. The growth of the deposit base has gone hand in hand with the expansion of the balance sheet over the past few years.

As of June 2022, retail deposits accounted for more than half of total, with the balance split among non-financial companies (about 27%), general government (13%), and non-bank financial institutions (7%)[2].

Historically, BPS has drawn from the TLTRO programme, making sizeable use of it in 2020 by taking up the maximum amount (EUR 8.9bn, more than 15% of total balance sheet). Despite the change in TLTRO terms, the group did not anticipate repayments. Half of the ECB funding will expire in 2023.

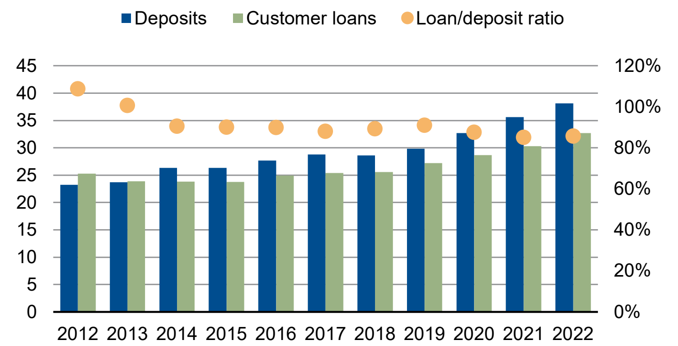
Debt issuance outstanding (retail + wholesale) amounts to EUR 3.6bn and makes up about 8.7% of the group's total funding. BPS aims to become a regular issuer in the institutional market in the next few years as it needs to increase bond funding for MREL purposes.

Figure 14: Breakdown of funding (EUR bn), historical



Source: SNL, Scope Ratings

Figure 15: Loans and deposits (EUR bn), historical



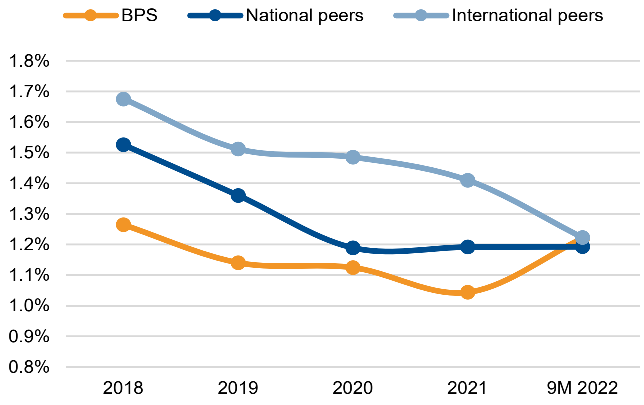
Source: SNL, Scope Ratings

In December 2021, BPS disclosed its intermediate and fully phased-in MREL requirements. As of January 2022, the group must meet an MREL requirement of 22.82% of risk-weighted assets and 5.90% of leverage exposure on a consolidated basis. From 1 January 2024, the group's MREL requirement calculated on a risk-weighted asset basis will be the same as the intermediate, while the requirement calculated based on leverage exposure will be slightly higher, at 5.92%. The group has not received any subordination requirement from the authorities.

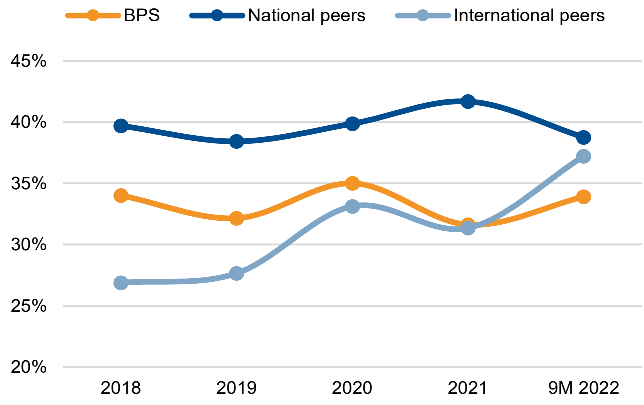
[2] Source: EBA - Transparency exercise

I. Appendix: Peer comparison

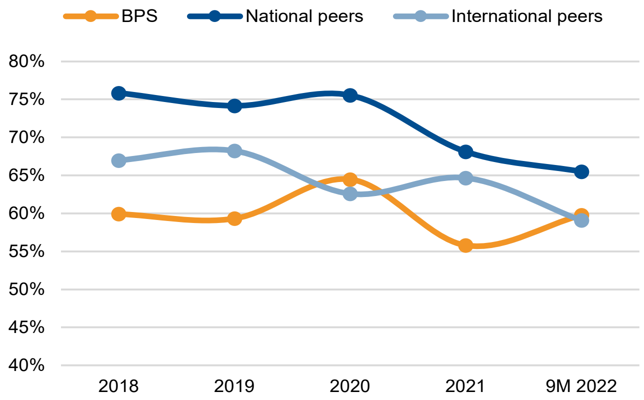
Net interest margin



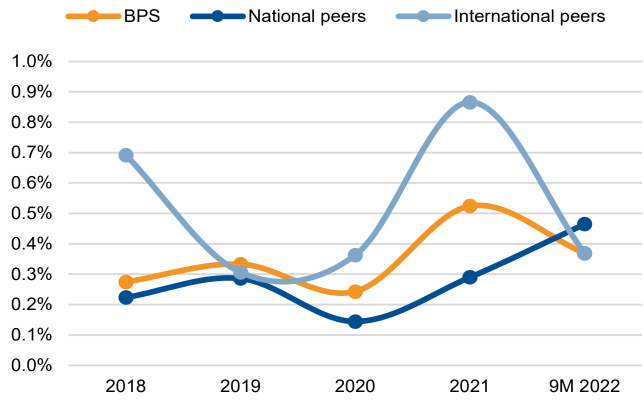
Fees & commissions, % revenues



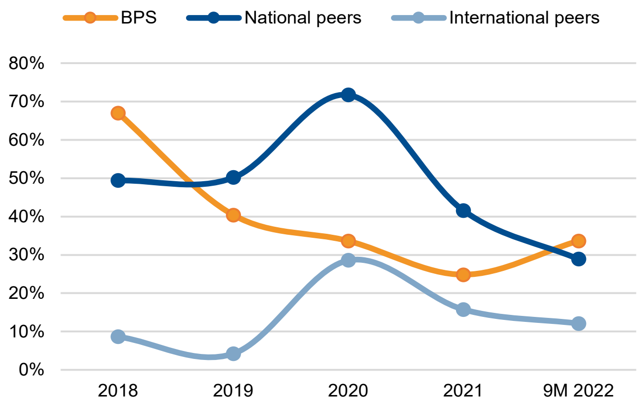
Cost-to-income ratio



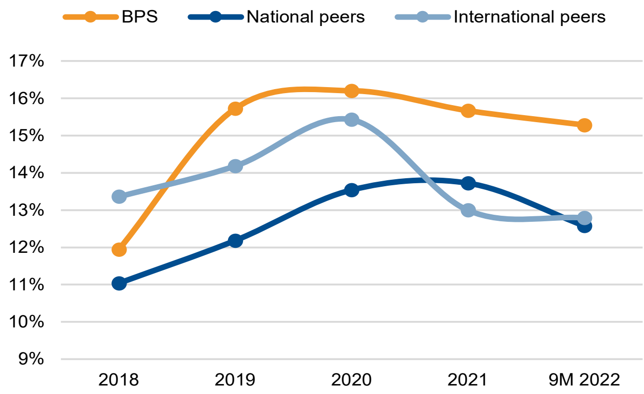
Return on average assets



Impairment on financial assets/pre-impairment profits



CET1 ratio (%, fully loaded)



Source: Scope Ratings, SNL

National peers: Intesa, Unicredit, Monte dei Paschi di Siena, Banco BPM, BPER, Credem, Carige, Banco Desio, Banca Sella, BP Bari, BP Alto Adige, CR Asti
International peers: Unicaja, Ibercaja, Liberbank, Bank Burgenland, Oberbank AG, Totens Sparebank, Bausparkasse Wüstenrot AG

II. Appendix: Selected financial information – Banca Popolare di Sondrio SpA

	2018	2019	2020	2021	2022
Balance sheet summary (EUR m)					
Assets					
Cash and interbank assets	2,898	2,894	8,687	8,929	8,856
Total securities	5,076	3,237	3,496	4,130	3,810
of which, derivatives	32	32	60	29	NA
Net loans to customers	31,758	33,393	35,900	39,845	42,005
Other assets	1,396	1,623	1,724	2,111	3,183
Total assets	**41,128**	**41,146**	**49,808**	**55,016**	**57,854**
Liabilities					
Interbank liabilities	6,166	4,328	9,827	10,875	11,382
Senior debt	1,907	2,091	2,132	NA	NA
Derivatives	74	78	40	107	116
Deposits from customers	28,630	29,817	32,728	35,603	38,122
Subordinated debt	525	714	699	NA	NA
Other liabilities	1,082	1,182	1,286	NA	NA
Total liabilities	**38,384**	**38,209**	**46,712**	**51,641**	**54,467**
Ordinary equity	2,651	2,842	2,998	3,270	3,387
Equity hybrids	0	0	0	0	0
Minority interests	93	95	98	105	0
Total liabilities and equity	**41,128**	**41,146**	**49,808**	**55,016**	**57,854**
Core tier 1/ common equity tier 1 capital	*2,636*	*2,712*	*2,967*	*3,163*	*3,240*
Income statement summary (EUR m)					
Net interest income	508	460	490	529	681
Net fee & commission income	316	322	316	358	381
Net trading income	11	114	2	131	5
Other income	94	106	95	113	117
Operating income	**928**	**1,002**	**904**	**1,131**	**1,184**
Operating expenses	556	594	583	631	657
Pre-provision income	**372**	**408**	**321**	**500**	**527**
Credit and other financial impairments	249	165	108	124	173
Other impairments	1	3	7	2	NA
Non-recurring income	21	0	0	0	0
Non-recurring expense	0	45	49	0	0
Pre-tax profit	**143**	**195**	**157**	**375**	**354**
Income from discontinued operations	0	0	0	0	0
Income tax expense	29	56	47	100	103
Other after-tax Items	0	0	0	0	0
Net profit attributable to minority interests	3	2	3	6	0
Net profit attributable to parent	**111**	**137**	**107**	**269**	**251**

Source: SNL, Scope Ratings

III. Appendix: Selected financial information – Banca Popolare di Sondrio SpA

	2018	2019	2020	2021	2022
Funding and liquidity					
Net loans/ deposits (%)	110%	111%	109%	111%	110%
Liquidity coverage ratio (%)	148%	173%	188%	226%	161%
Net stable funding ratio (%)	NA	NA	128%	132%	NA
Asset mix, quality and growth					
Net loans/ assets (%)	77.2%	81.2%	72.1%	72.4%	72.6%
Problem loans/ gross customer loans (%)	12.2%	10.5%	6.1%	4.6%	3.4%
Loan loss reserves/ problem loans (%)	58.5%	61.1%	60.0%	61.7%	68.3%
Net loan growth (%)	23.3%	5.1%	7.5%	11.0%	5.4%
Problem loans/ tangible equity & reserves (%)	81.0%	71.9%	51.6%	41.7%	33.6%
Asset growth (%)	-1.2%	0.0%	21.1%	10.5%	5.2%
Earnings and profitability					
Net interest margin (%)	1.3%	1.1%	1.1%	1.0%	1.3%
Net interest income/ average RWAs (%)	2.3%	2.4%	2.8%	2.9%	3.3%
Net interest income/ operating income (%)	54.8%	45.9%	54.2%	46.8%	57.5%
Net fees & commissions/ operating income (%)	34.0%	32.2%	35.0%	31.6%	32.2%
Cost/ income ratio (%)	59.9%	59.3%	64.5%	55.8%	55.5%
Operating expenses/ average RWAs (%)	2.5%	3.1%	3.3%	3.4%	3.2%
Pre-impairment operating profit/ average RWAs (%)	1.7%	2.2%	1.8%	2.7%	2.6%
Impairment on financial assets / pre-impairment income (%)	67.0%	40.4%	33.6%	24.8%	32.8%
Loan loss provision/ average gross loans (%)	0.8%	0.5%	0.3%	0.4%	0.4%
Pre-tax profit/ average RWAs (%)	0.6%	1.0%	0.9%	2.0%	1.7%
Return on average assets (%)	0.3%	0.3%	0.2%	0.5%	0.5%
Return on average RWAs (%)	0.5%	0.7%	0.6%	1.5%	1.2%
Return on average equity (%)	4.2%	4.9%	3.7%	8.5%	7.6%
Capital and risk protection					
Common equity tier 1 ratio (%, fully loaded)	11.9%	15.7%	16.2%	15.7%	15.3%
Common equity tier 1 ratio (%, transitional)	12.0%	15.7%	16.3%	15.8%	15.4%
Tier 1 capital ratio (%, transitional)	12.1%	15.8%	16.4%	15.8%	15.4%
Total capital ratio (%, transitional)	13.6%	18.6%	18.5%	18.9%	18.0%
Leverage ratio (%)	5.8%	6.1%	5.5%	5.3%	5.1%
Asset risk intensity (RWAs/ total assets, %)	53.3%	41.9%	36.5%	36.4%	36.4%
Market indicators					
Price/ book (x)	0.4x	0.3x	0.3x	0.5x	0.5x
Price/ tangible book (x)	0.5x	0.3x	0.3x	0.5x	0.5x
Dividend payout ratio (%)	20.8%	NA	25.0%	33.9%	NA

Source: SNL, Scope Ratings

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