

Banca Popolare di Sondrio Outlook Revised To Positive Following BPER Banca Offer; Ratings On Both Banks Affirmed

February 13, 2025

- On Feb. 6, BPER Banca announced a voluntary offer on Banca Popolare di Sondrio (BPS), through a share exchange, for €4.3 billion.
- If effectively executed, we believe the business combination could strengthen BPER's market position and pave the way for a more effective and diversified group.
- Under current terms, the impact on BPER's capitalization appears manageable.
- We therefore affirmed our 'BBB-/A-3' ratings on BPER and maintained the positive outlook. We also affirmed our 'BBB-A-3' ratings on BPS.
- We revised our outlook on our long-term rating on BPS to positive from stable.
- The positive outlook on BPS primarily reflects that the bank could become a core subsidiary of the higher rated group.

MILAN (S&P Global Ratings) Feb. 13, 2025--S&P Global Ratings today affirmed its 'BBB-/A-3' long- and short-term counterparty credit ratings on Italy-based banks BPER Banca and Banca Popolare di Sondrio (BPS). Our outlook on our long-term rating on BPER Banca remains positive.

We revised our outlook on our long-term rating on BPS to positive from stable.

Our outlook revision on BPS follows BPER's offer on the bank and reflects our opinion that BPS's creditworthiness could improve as a result of the business combination. This could occur if, following the offer, BPER acquires control of BPS--namely holding more than 50% of shares--and we conclude that BPS is to become an integral part of a higher-rated large and well-diversified group.

According to the initial offer, BPER is offering 29 new shares for every 20 BPS shares for a total consideration of €4.3 billion. BPER's goal is to start the offer in the summer after receiving all required approvals from the authorities. If successful, we view the business combination positively given the strong strategic rationale for BPER, the geographic and business fit, and limited overlaps. Overall, the business combination will lead to a larger and more effective group with stronger market positions as increasing digitalization and the need to enhance revenue diversification will require scale and continuous investments.

Likely helping the integration, the two banks share the same main shareholder--leading Italian insurer Unipol--which currently controls around 24.7% of BPER (directly and through derivatives) and 19% of BPS. Both banks have a bancassurance partnership with Unipol that we expect will

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While there is typically execution risk related to mergers and acquisitions, we think this is likely to be lower than for other recently announced business combinations in Italy. This is largely because BPER's track record in acquiring and smoothly integrating acquired institutions into a well-functioning group has been notable.

BPS has a strong and established franchise in Lombardy, one of Italy's wealthiest regions, and maintains long-standing ties with local businesses and communities. The bank has benefited from a good track record of prudent management and effective strategies over the past decade.

We consider that preserving franchise value while extracting synergies will represent the key challenge for BPER's management.

Beside the strategic rationale, we anticipate that, under the current terms, the impact on BPER's capitalization will be manageable. We forecast that its risk-adjusted capital will hover around 7% in 2026 broadly in line with our existing stand-alone projections. We consider that the €290 million in synergies BPER anticipates by 2027 seem achievable at this stage. In our view, the acquisition of BPS would not materially affect BPER's asset quality in the years to come, although it will slightly increase its exposure to corporates and SMEs compared to BPER's current portfolio composition. Both banks have sound funding and liquidity positions.

At the time of the offer, our outlook on BPER was positive, primarily stemming from our view of the improving operating conditions in Italy as well as the bank recently showing stronger performance compared to peers.

Outlooks

BPER Banca

The positive outlook reflects the possibility that we could raise our long- and short-term ratings in the next 12-24 months if we conclude that operating conditions for Italian banks have improved and/or BPER is likely to continue to perform better than similarly rated peers, inside and outside Italy, which could also result from a successful business combination with BPS.

Downside scenario

We could revise the outlook to stable if we no longer see upside for BPER's intrinsic creditworthiness.

Upside scenario

We could raise the ratings on BPER if we conclude that operating conditions have improved, while the bank continues to report stronger earnings than peers and enhances its capitalization while maintaining sound asset quality, funding, and liquidity metrics. We could also raise the ratings if we think the bank can maintain sound asset quality and funding and liquidity while reporting stronger earnings than its peers and enhancing its capitalization.

Banca Popolare di Sondrio

The positive outlook reflects our view that the bank could become an integral part of a potentially higher rated banking group. The positive outlook mirrors that on BPER.

Downside scenario

We could revise the outlook to stable over the next 12 months if we were to consider that the BPS offer was not going to happen, all else remaining equal.

Upside scenario

We could upgrade BPS over the next 18-24 months if BPER were to acquire control of BPS and if we upgraded BPER. In this case, upgrading BPS would hinge on us concluding that BPS had become an integral part of the BPER group. We could also upgrade BPS if we were observed operating conditions improving and we concluded that BPS' creditworthiness had strengthened.

Rating Score Snapshots

Banca Popolare di Sondrio

	To	From
Issuer Credit Rating	BBB-/Positive/A-3	BBB-/Stable/A-3
Stand-alone credit profile	bbb-	bbb-
Anchor	bbb-	bbb-
Business position	Adequate (0)	Adequate (0)
Capital and earnings	Adequate (0)	Adequate (0)
Risk position	Adequate (0)	Adequate (0)
Funding and liquidity	Adequate and adequate (0)	Adequate and adequate (0)
Comparable ratings analysis	0	0
Support	0	0
ALAC support	0	0
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity.

BPER Banca

	To	From
Issuer Credit Rating	BBB-/Positive/A-3	BBB-/Positive/A-3
Stand-alone credit profile	bbb-	bbb-
Anchor	bbb-	bbb-
Business position	Adequate (0)	Adequate (0)

BPER Banca (cont.)

	To	From
Capital and earnings	Adequate (0)	Adequate (0)
Risk position	Adequate (0)	Adequate (0)
Funding and liquidity	Adequate and adequate (0)	Adequate and adequate (0)
Comparable ratings analysis	0	0
Support		
ALAC support	0	0
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, Feb. 10, 2025
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Italian Banking Sector Outlook 2025: Big changes ahead, Jan. 15, 2025
- Banca Popolare di Sondrio, Dec. 13, 2024
- BPER Banca, June 24, 2024

Ratings List

***** BPER Banca S.p.A. *****		
Ratings Affirmed		
BPER Banca S.p.A.		
Issuer Credit Rating	BBB-/Positive/A-3	
Resolution Counterparty Rating	BBB/--/A-2	
BPER Banca S.p.A.		
Senior Unsecured	BBB-	
***** Banca Popolare di Sondrio SpA *****		
Ratings Affirmed		
Banca Popolare di Sondrio SpA		
Resolution Counterparty Rating	BBB/--/A-2	
Banca Popolare di Sondrio SpA		
Senior Unsecured	BBB-	
Subordinated	BB	
Ratings Affirmed; Outlook Action		
	To	From
Banca Popolare di Sondrio SpA		
Issuer Credit Rating	BBB-/Positive/A-3	BBB-/Stable/A-3

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceld/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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