

04 Apr 2025 Rating Watch

Fitch Places Banca Popolare di Sondrio on Rating Watch Positive on BPER's Exchange Offer

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Fitch Ratings - Milan - 04 Apr 2025: Fitch Ratings has placed Banca Popolare di Sondrio - Societa per Azioni's (BPSO) 'BBB-' Long-Term Issuer Default Ratings (IDR) on Rating Watch Positive (RWP).

The RWP reflects that a successful completion of BPER Banca S.p.A's (BPER, BBB-/Positive/bbb-) exchange offer on all of BPSO's ordinary shares would likely result in an affirmation of BPSO's IDRs and revision of the Outlook to Positive, in line with that on BPER.

We believe that there is a high probability that the offer is successful, in which case BPSO's credit profile will ultimately benefit from shareholder support from a controlling and comparatively stronger owner in case of need. The transaction is subject to regulatory approval and its success is subject to a minimum acceptance rate of above 50%, which BPER could lower to above 35% at its sole discretion. There is some uncertainty about the timing of the completion of the exchange offer, particularly given BPSO's fragmented shareholder structure.

We will resolve the RWP on completion of the exchange offer, which could take longer than six months, for example, if the transaction is delayed.

Fitch has affirmed BPSO's Viability Rating (VR) at 'bbb-' as it is not immediately affected by BPER's voluntary public exchange offer.

Key Rating Drivers

Potential Change in Support Assessment: The RWP on BPSO's Long-Term IDR reflects Fitch's view that if BPSO is acquired by BPER, its credit profile would benefit from becoming part of a larger and stronger group and potential institutional support from a controlling owner in case of need. If acquired, Fitch would likely base BPSO's IDRs on shareholder support and assign it a Shareholder Support Rating (SSR).

Improved Standalone Profile: BPSO's ratings also reflect its second-tier regional franchise as a traditional commercial bank, its well-established position in the wealthy Lombardy region, and its good product diversification. They also consider the bank's ambitious updated medium-term targets and continued improvements in asset quality, growing revenue diversification, satisfactory capitalisation and sound funding and liquidity profile.

Regional Franchise, Moderate Diversification: BPSO has a deeply entrenched franchise in northern Lombardy, although pricing power is limited given strong competition. BPSO's Swiss subsidiary and operations provide some diversification in a low-risk environment. The bank is progressively enhancing its revenue diversification, focusing on expanding its fee-generating activities as part of its growth strategy and as an independent bank.

Adequate Risk Profile: BPSO's moderate risk appetite benefits from operations concentrated in the highly productive northern regions. Risk discipline is sound and state guarantee-lending above the domestic average. The continued active management of impaired loans has enabled the bank to gradually reduce its impaired loans ratio towards the sector average. Our assessment also considers the large and above peer average exposure to Italian sovereign debt, which we expect to remain around 1.6x common equity Tier 1 (CET1) capital over the next three years.

Above-average Coverage Levels: BPSO's impaired loans ratio materially improved to 2.9% at end-2024 (end-2023: 3.9%) driven by continued impaired loan disposals and limited new formation. We expect the ratio to stabilise around 3% in 2025 and 2026, despite modest economic growth in Italy, as the bank continues to proactively manage its impaired loans. BPSO's loan loss allowance coverage of approximately 90% provides a robust buffer to absorb potential asset quality deterioration, although we expect this to trend down.

Adequate Profitability, Sound Cost-Efficiency: BPSO's operating profit reached its peak at 3.6% in 2024, driven by strong growth net interest income, enhanced operating efficiency, and reduced loan impairment charges. We expect BPSO's operating profit/risk-weighted assets (RWAs) ratio to remain above 2.5% in 2025-2027, supported by growth in fee-driven activities, which will help mitigate the impact of falling interest rates. The bank's better cost-efficiency compared with similarly sized domestic peers contributes to its profitability record.

Comfortable Capital Buffers, Low Encumbrance: Fitch expects BPSO's CET1 ratio to remain above 14% over the next two years, which compares well with medium-sized domestic and southern European peers. In 2024, capital encumbrance from unreserved impaired loans significantly reduced to the low end among similarly-rated peers.

Stable Funding and Liquidity: BPSO's funding benefits from a granular retail deposit base, which fully funds the loan book. BPSO has adequate access to wholesale funding markets but is a less frequent issuer than larger domestic peers. BPSO maintains healthy liquidity buffers (unencumbered eligible assets accounted for around 18% of end-2024 total assets) and sound regulatory liquidity ratios.

Better Business Prospects: Italian banks' asset quality and profitability prospects could benefit from an improvement in Italy's operating environment, particularly from Italy's modest but positive growth prospects supporting banks' business opportunities and asset quality resilience.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

We would likely remove the RWP and affirm BPSO's Long-Term IDR with a Stable Outlook, if the exchange offer does not proceed or if we believe that upon completion of the transaction potential shareholder support from BPER is weak and would not warrant an equalisation of BPSO's IDR with its new owner.

In the absence of a deal, BPSO's ratings could be downgraded if the impaired loans ratio increases to well above 4% and operating profit falls to below 1.5% of RWAs without prospects of recovery in the short term, ultimately resulting in the CET1 ratio falling below 13% and capital encumbrance by unreserved impaired loans materially increasing. A sustained increase in risk appetite or a materially more aggressive capital management could also ultimately pressure ratings if these are not accompanied by stronger asset quality or earnings.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Successful completion of the exchange offer, with a relatively high percentage of ownership, for instance above 50%, would likely result in an affirmation of BPSO's IDRs and a Positive Outlook, in line with that of BPER. Over time, BPSO's VR could see upside rating pressure from forming part of a larger and scalable banking group and potential integration benefits and synergies. However, any positive impact will ultimately be subject to greater visibility on progress in integration.

Outside of an action related to BPER's exchange offer, and absent any material structural improvement in the Italian operating environment, rating upside would require BPSO to diversify its business model and achieve significant franchise growth while maintaining a conservative risk appetite. In addition, the bank should maintain an operating profit/RWAs sustainably around 3%, its impaired loans ratio below 3% and a prudent CET1 ratio of at least 14%.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

BPSO's debt ratings are unaffected by the offer, as they are in line with BPER's.

BPSO's long-term deposit rating is one notch above its Long-Term IDR, reflecting full depositor preference in Italy and the bank's use of senior preferred debt and more junior debt to meet its minimum requirement for own funds and eligible liabilities (MREL, set at 26% for 2025), resulting in a lower probability of default on deposits relative to its Long-Term IDR.

The bank's short-term deposit rating of 'F3' is the lower of two options for a 'BBB' long-term deposit rating, because its funding and liquidity score is not high enough to achieve a higher short-term rating.

BPSO's senior preferred debt is rated in line with the bank's Long-Term IDR because the bank uses senior preferred debt to meet its MREL and the buffer of subordinated debt and other junior instruments is lower than 10% of RWAs.

The subordinated (Tier 2) debt is rated two notches below BPSO's VR, from which it is notched for loss severity to reflect poor recovery prospects. No notching is applied for incremental non-performance risk because a write-down of the notes will only occur once the point of non-viability is reached, and there is no coupon flexibility before non-viability.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

BPSO's long- and short-term senior preferred debt and deposit ratings are primarily sensitive to changes in the Long-Term IDR. In addition, the senior debt ratings could also be upgraded by one notch if we expected the bank to meet its resolution buffer requirements with senior non-preferred or more junior instruments.

The deposit ratings could be downgraded by one notch and be aligned with the IDRs in the event of a reduction in the size of the senior and junior debt buffers, although we view this as unlikely in light of BPSO's current and future MREL compliance strategy.

BPSO's subordinated Tier 2 notes are primarily sensitive to changes in the bank's VR. We could also downgrade the notes in case of an unfavourable 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.

BPSO's Government Support Rating (GSR) of 'no support' (ns) will likely be withdrawn and be replaced by an SSR if BPER successfully completes the acquisition of BPSO.

Outside of an action related to the RWP, 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 'bbb' operating environment score is below the 'a' implied category score due to the following adjustment reason: sovereign rating (negative).

The asset quality score of 'bbb-' has been assigned above the 'bb' implied category score due to the following adjustment reason: historical and future metrics (positive).

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.

Public Ratings with Credit Linkage to other ratings

The RWP on BPSO's Long-term IDR is linked to the Long-term IDR and Outlook of BPER.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Banca Popolare di Sondrio - Societa per Azioni	LT IDR	BBB- 	Rating Watch On	BBB- 
	ST IDR	F3	Affirmed	F3
	Viability	bbb-	Affirmed	bbb-
	Government	ns	Affirmed	ns

ENTITY/DEBT		RATING		RECOVERY		PRIOR
Support						
• Senior preferred	LT	BBB-		Affirmed		BBB-
• subordinated	LT	BB		Affirmed		BB
• long-term deposits	LT	BBB		Affirmed		BBB
• short-term deposits	ST	F3		Affirmed		F3

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◆
NEGATIVE	⊖	◆
EVOLVING	◉	◆
STABLE	○	

Applicable Criteria

[Bank Rating Criteria \(pub.21 Mar 2025\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

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