22 April 2022

Financial Institutions

Banca Popolare di Sondrio S.p.A.
Issuer Rating Report

SCOPE BBB- POSITIVE

Scope's credit view (summary)

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.

The recent improvement in our long-term sustainability assessment from 'lagging' to 'developing' acknowledges the group's progress in improving its corporate governance, including its recent transformation into a joint stock company and managerial reorganisation.

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.

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. The healthy buffers to capital requirements, alongside comfortable liquidity and funding regulatory ratios, are a key support to the rating.

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

Credit strengths

- A sound franchise in some of Lombardy's provinces
- Low but resilient profitability across the whole business cycle
- Comfortable capital and funding position

Credit weaknesses

- Limited geographic diversification
- Lagging, but improving, governance organisation and processes
- Despite improvement in recent years, weak asset quality still constrains the rating

Positive rating-change drivers

- 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

Negative rating-change drivers

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

Ratings & Outlook

Issuer rating	BBB-
Outlook	Positive

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Issuer profile

Founded in 1871 in Sondrio, BPS 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 BPS group, which includes BPS Suisse, with about 20 branches in Switzerland, Factorit and BNT Banca. The group's activities are focused on traditional commercial banking activities (loans, deposits and payment services) mainly extended to households and local SMEs. Over the years, the BPS group has developed solid and 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 non-profit organisations

Securities comprising the management of clients' 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:

- On 1 March 2022, the group announced having acquired 39.5% of Factorit's share capital from Banco BPM, raising its stake to 100%. We do not expect the transaction to materially impact capital metrics.
- The bank announced its 2021 preliminary results on 8 February 2022. The group reported its highest ever net profit (EUR 269m), equivalent to an 8.9% return on equity. The strong performance was driven by robust core revenue growth (net interest income + 7.9%, net fees and commissions + 13%), sound trading performance (almost 2.5x) and a declining cost of risk (from 74bps to 43bps). Asset quality continued to improve. At YE 2021, the group's gross non-performing exposure (NPE) ratio stood at 5.8%, 1.6pp lower YoY.
- On 3 February 2022, the group communicated its SREP requirement for the year. The CET1 requirement decreased by 13bps thanks to the reduction of the pillar 2 requirement, from 3% to 2.77%.
- On 29 December 2021, the extraordinary shareholders meeting approved the transformation of BPS into a joint stock company. Consequently, the group adopted new articles of association. One major change pertained to the voting principle, from 'one head, one vote' to 'one share, one vote'. Among the Italian cooperative banks with a balance sheet above EUR 8bn, BPS was the only one left which had yet to conform with law 33/2015.

Focused regional franchise in the wealthy Italian region of Lombardy

Predominantly retail banking activities, focused on individuals and SMEs

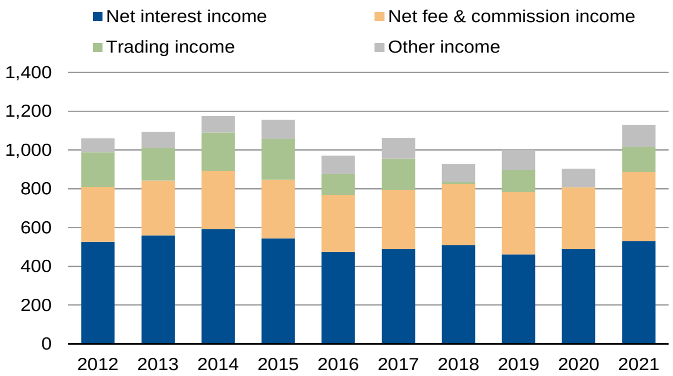
The group's business model hinges on traditional commercial banking activities mainly extended to households and local entrepreneurs (micro and small businesses). Over the years, BPS has developed solid customer relationships, especially in its home province of Sondrio.

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 itself fully owns Arca Fondi, an asset management firm. The group entered the market of 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. After deducting minority interest, Factorit accounted for 3.6% of the group's consolidated net profits in 2021.

Regional bank with good market presence in Lombardy

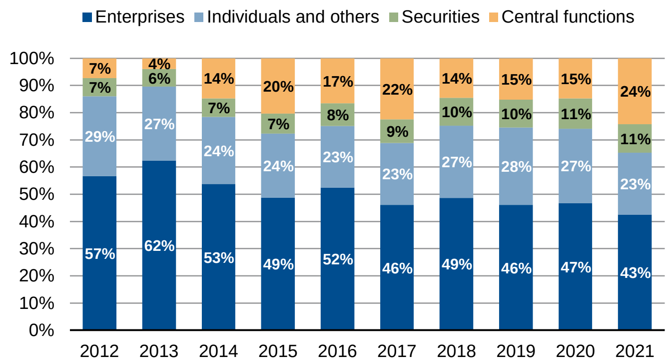
BPS has immaterial market shares in Italy (2.2% of branches) but a dominant position in its home province of Sondrio (52% of branches) and relevant market positions in Lecco and Como (around 22% in both). Its branch market share in Lombardy is 8.9%. Its main competitor is Credito Valtellinese in the province of Sondrio, whereas in Lombardy Intesa, UniCredit and Banco BPM are the strongest rivals.

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



Source: SNL, Scope Ratings

Figure 2: Revenue breakdown by segment, historical



Source: SNL, Scope Ratings

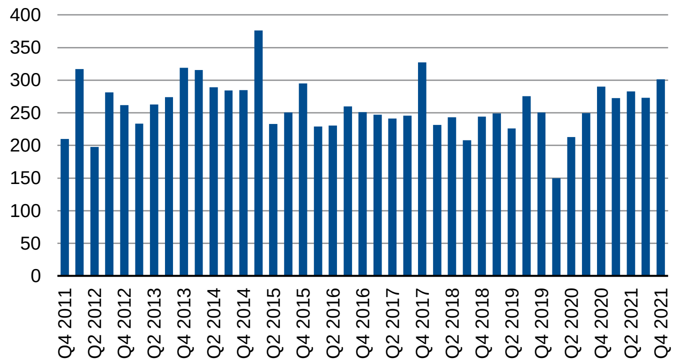
Following the trading losses reported in the wake of the financial crisis, the volatility of the group's top line has decreased. In the past few years, revenues have been pressured by falling interest margins, a trend only partially offset by resilient (and increasing) net fees and commissions.

Proprietary portfolio is a source of earnings volatility

The main source of revenue and earnings volatility is the group's proprietary portfolio, in particular the portion held for trading. In Q1 2020, BPS reported a negative result of EUR 46m mainly ascribable to market losses. Nonetheless, we note that on an annual basis, trading income has consistently made a positive contribution to BPS' top line since 2012.

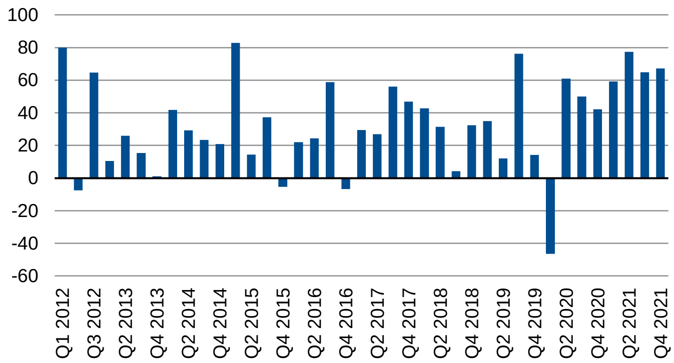
Notwithstanding the initial quarterly loss, group performance during the pandemic has been robust.

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

New public business plan in 2022

Historically, the group has not published a strategic plan. However, following the transformation into an S.p.A., it announced that it would publish one in early 2022. The publication of the plan, initially expected for the end of March 2022, was delayed due to the rapidly changing macroeconomic environment in the wake of the war in Ukraine.

Following many years of derisking, we expect the group's strategy to be centred on growth. The recent acquisition of the Factorit minorities in Q1 2022 could presage more appetite for growth.

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

Box A: Operating environment for financial institutions in Italy

Economic 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 and an exporter with a significant trade surplus, which has increased over the past decade.
- The economy is diverse, 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 of exposures.
- As of YE 2021, the country's real GDP per capita was in line with the EU average. However, wealth is concentrated in the north, while southern regions lag behind in many social and economic aspects, such as growth, employment, infrastructure development and education.
- Historically, the country has suffered from low GDP growth and growth potential, with unfavourable demographics and the need for investment and structural reforms.
- The ratio of public debt to GDP 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 67 government in 75 years). Political turmoil can weigh on investor confidence and influence the spread between 10-year Italian bond yields and the German equivalent.

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. 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, which has absorbed weaker competitors while UniCredit tended to shrink and refocus its business model. In 2020, Intesa acquired UBI, cementing its market leadership. We believe Intesa's ascendance raises the pressure not only on UniCredit but also on smaller sized banks.
- Consolidation is also ongoing among medium-sized former popolari banks, with BPER emerging as an active consolidator, while French group Credit Agricole has also been expanding its reach, taking over Creval and showing interest in further inorganic growth.
- The sector is characterised by low margins, high provisions (due to the crisis-related legacy of non-performing loans) and lacklustre profitability. Customer deposits are the main source of funding for the system, which has also benefited greatly from TLTRO programmes.
- Italy is part of the European Banking Union. Significantly important banks, including BPS, are directly supervised by the ECB within the Single Supervisory Mechanism framework.

Selected economic indicators	2018	2019	2020	2021E	2022F
GDP per capita (USD'000s)	34.9	33.5	31.6	35.6	38.2
Real GDP, % change	0.9	0.3	-8.9	6.5	4.1
Unemployment rate, %	10.7	10.0	9.3	9.5	8.6
CPI, % change	1.2	0.6	-0.1	1.9	3.5
Policy rate, %	-0.4	-0.5	-0.5	-0.5	-0.5
General government debt, % of GDP	134.4	134.3	155.6	150.4	146.8

Source: Scope Ratings' forecasts

Banking system indicators	2017	2018	2019	2020	2021
ROAA, %	0.57	0.44	0.41	0.10	0.34
ROAE, %	7.93	5.94	5.62	1.39	5.01
Net interest margin, %	1.34	1.45	1.40	1.27	NA
CET1 ratio, %	13.70	13.21	14.24	15.51	NA
Problem loans/ gross customer loans, %	13.99	8.39	6.47	4.56	NA
Loan-to-deposit ratio, %	114.42	120.24	120.20	113.92	NA

Source: Scope Ratings, SNL

Improved corporate governance and strong social commitment to its territory

BPS will face more competition as digital banking gains momentum

As a former cooperative and regional player, the group values customer proximity and a physical presence in its territory. Its digital banking solution, Scrigno, is seen as an ancillary service to branch-based customer relationships, rather than a standalone banking concept. However, customer behaviour is rapidly changing in Italy as well as Europe. With basic banking products facing a process of commoditisation, BPS will need to raise investments in IT to keep up with a rapidly changing market. 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's members' meeting approved the bank's transformation into a joint stock company. Among the Italian cooperative banks with a balance sheet above EUR 8bn, BPS was the only one left which had not yet conformed with law 33/2015.

The transformation ended the one head-one vote principle, which had governed the group's members' meeting, and will allow for the greater participation of institutional investors.

Ongoing improvement in BPS' corporate governance

Nudged by supervisors, BPS has reorganised its management team, aligning it with listed companies' market norms. Now, top management 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. However, BPS is set on a gradual but steady path of improving governance.

We note that while the previous governance set up 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. It has also maintained stronger credit performance than its closest peer Credito Valtellinese, which operates in the same region. We take this as a sign of a conservative risk culture.

With respect to other ESG factors, we view positively the group's strong ties with 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.

BPS has recently stepped up its efforts to manage environmental risks. However, we see considerable room for improvement with respect to disclosures and efforts to manage environmental risks.

Strong track record of low but resilient profitability challenged by low interest rate environment

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 which was under control (although high by international standards).

Encouraging performance during the Covid crisis

The group 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). In 2021, net fees and commissions grew by 13%. After a muted 2020, trading income quadrupled on the back of bullish financial markets in 2021.

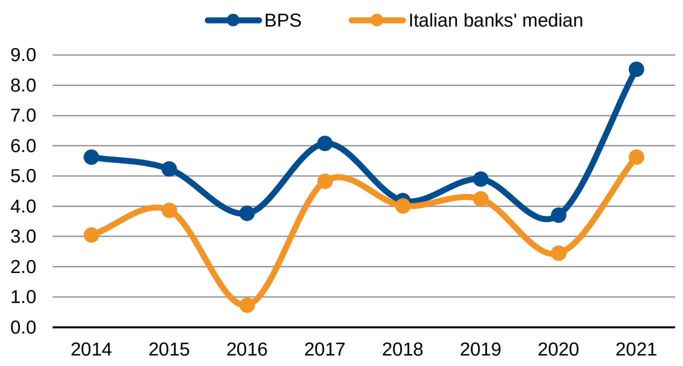
Credit-loss provisions continued to decline thanks to both public support measures and lower losses related to non-performing loan (NPL) disposals. In 2021, cost of risk stood at 43bps. The combination of strong revenues and low credit losses was the main driver behind the healthy 8.9% return on average equity in 2021.

Sustainability of profits a key issue for the group

Looking forward, a question mark remains over the sustainability of revenues, which will be dependent on the overall interest rate environment. The expiration of the TLTRO III bonus rate and the phase-out of the programme could put pressure on the group's net interest income.

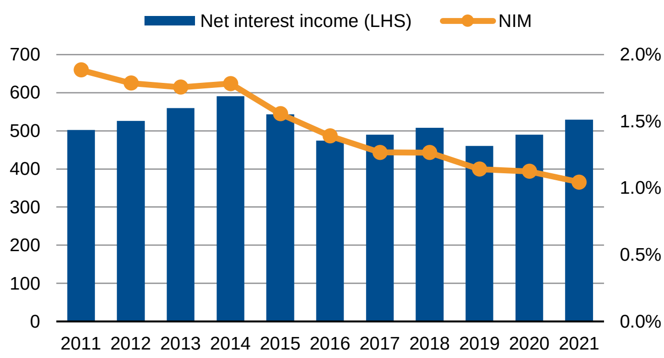
Further, the need to invest in IT development could also weigh on BPS' profitability. Positively, these headwinds will be softened by the lower need to provision against legacy NPEs.

Figure 5: BPS vs Italian banks* return on average equity (%)



Source: Company data, Scope Ratings
*Includes the Italian peers listed on page 11

Figure 6: BPS' interest margins have been under pressure for a decade



Source: SNL, Scope Ratings

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, which reached a peak of EUR 4.3bn in the beginning of 2016, equivalent to 16.5% 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.

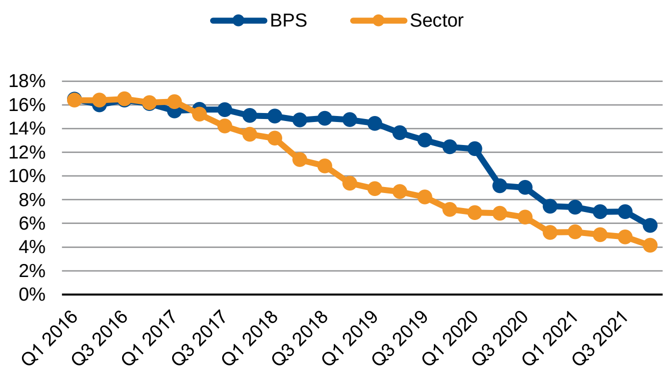
The somewhat delayed tackling of legacy NPEs had been a factor in BPS' frustrated attempts at inorganic growth in the recent past. The group did not receive the necessary authorisations to acquire Cassa di Risparmio di Cento (October 2019) or Farbanca (February 2020) despite a material capital excess over its requirements, with supervisors stressing the need to prioritise planned derisking and conserve the excess capital.

Accelerated derisking in 2020 and 2021 is positive

More recently, the group accelerated on NPEs 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. These transactions substantiate a renewed strategic mindset and a more proactive approach to NPL management. At this stage, we do not expect further sizeable NPL disposals going forward. As at YE 2021, the group's NPE ratio stood at 5.8%, still higher than Italian and international peers.

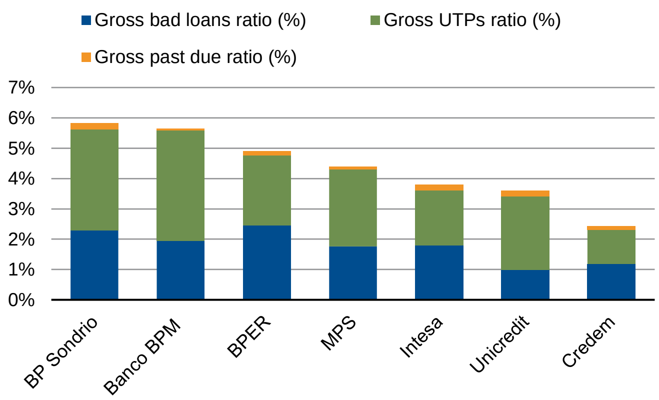
We believe that the successful execution of the planned deals has alleviated the supervisory scrutiny of the group, as demonstrated by the lower SREP requirement for 2022 and by the recent acquisition of the minority interest in Factorit.

Figure 7: Decline in NPEs accelerated since 2020 (gross NPE ratio)



Source: Company data, Bank of Italy, Scope Ratings

Figure 8: Italian banks – NPE breakdown by type as of YE 2021



Source: Company data, Scope Ratings
Note: MPS as of Q3 2021

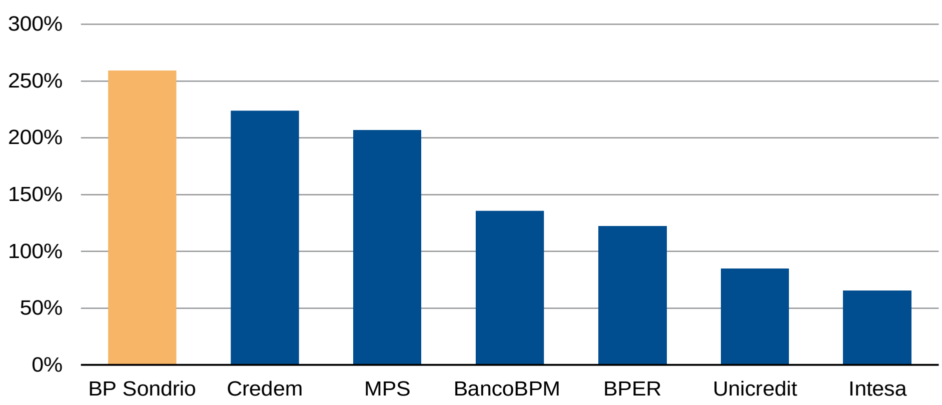
Loan book performance was resilient during Covid

The Covid crisis has had limited impacts on the group's asset quality so far. In 2020, the group granted moratoriums affecting EUR 4.7bn in customer loans, i.e. 15% of the total, in line with other regional Italian banks. Most of these cases have expired and clients have resumed regular payments. Nonetheless, we still expect a pick-up in defaults, although with a manageable impact on the group's cost of risk.

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 2021, it held EUR 8.2bn in Italian government bonds, c. 260% of its CET1 capital base. Around 70% of the Italian bonds were held at amortised cost, thereby limiting the sensitivity of the group's regulatory capital ratios to volatility in sovereign spread.

Figure 9: Italian sovereign bond portfolio as % of CET1 capital, YE 2021

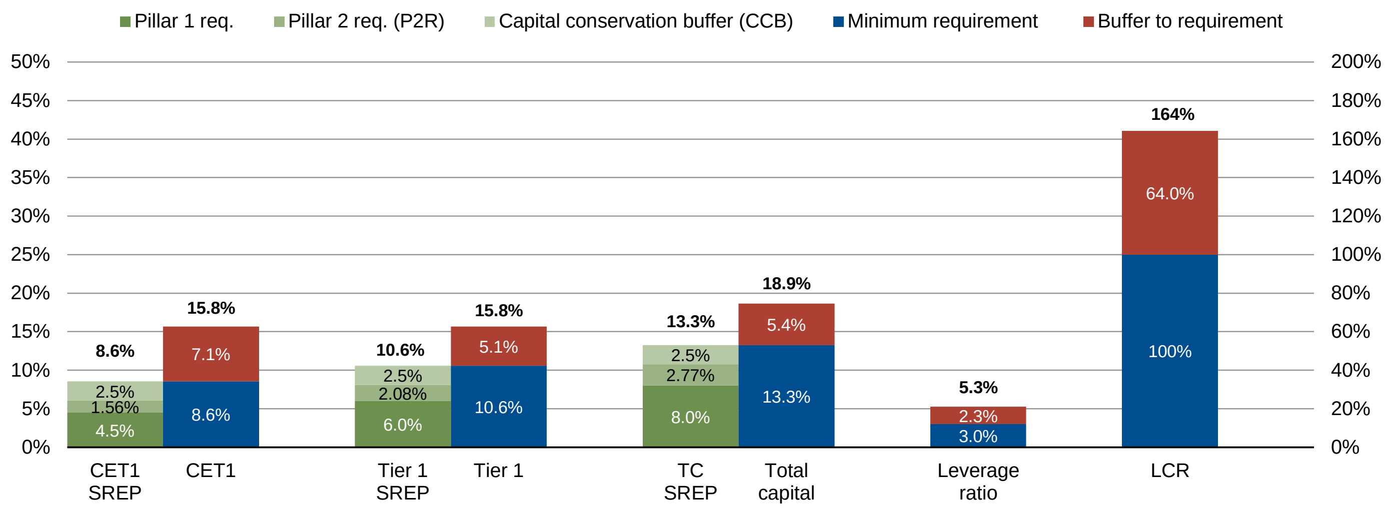


Source: Company data, Scope Ratings

Comfortable financial viability, with material headroom to minimum requirements

BPS is directly supervised by the ECB and is well ahead of its prudential capital and liquidity requirements.

Figure 10: Overview of distance to requirements, as of end-December 2021



Note: Transitional capital ratios. 2022 SREP requirements
Source: SNL, Company data, Scope Ratings

The group 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 the derisking of NPLs.

The ECB has reduced BPS' pillar 2 requirement to 2.77% from 3% for 2022. Going forward, further decreases in the pillar 2 requirement are possible given the ongoing improvements in the group's governance.

High-quality capital

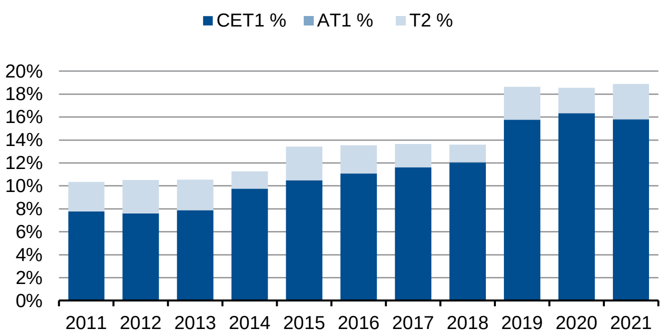
We note that the group could further optimise its capital structure through the issuance of AT1 securities, releasing CET1 capital that could be used for further balance sheet clean-up or growth. BPS had no outstanding CRD4-compliant AT1 notes. In November 2021, it issued its second tier 2 bond for EUR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

The most stringent capital requirement is on 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 over 500bps. This could be materially raised (about 170bps) if the group were to make full use of the AT1 bucket.

Good results in the ECB's 2021 stress test

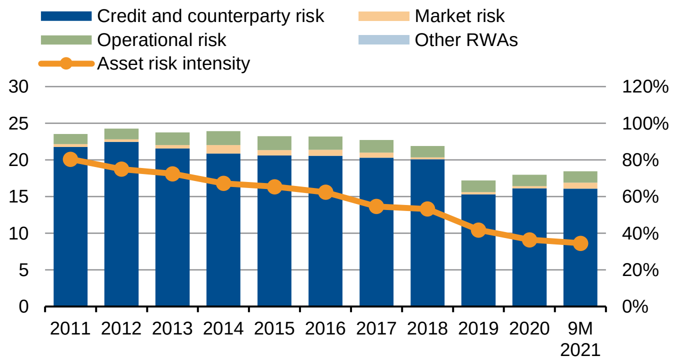
In 2021, the group was subject to the stress test in the ECB sample. Under an adverse scenario entailing a prolonged and unfavourable economic stagnation, the group's fully loaded CET1 ratio would decrease by 610bps from YE 2020 to YE 2023. The projected fully loaded CET1 ratio of 10.1% by 2023 would still be significantly above the group's SREP requirements.

Figure 11: Phased in capital ratios, historical



Source: SNL, Scope Ratings

Figure 12: RWAs (EUR bn) split vs RWAs intensity



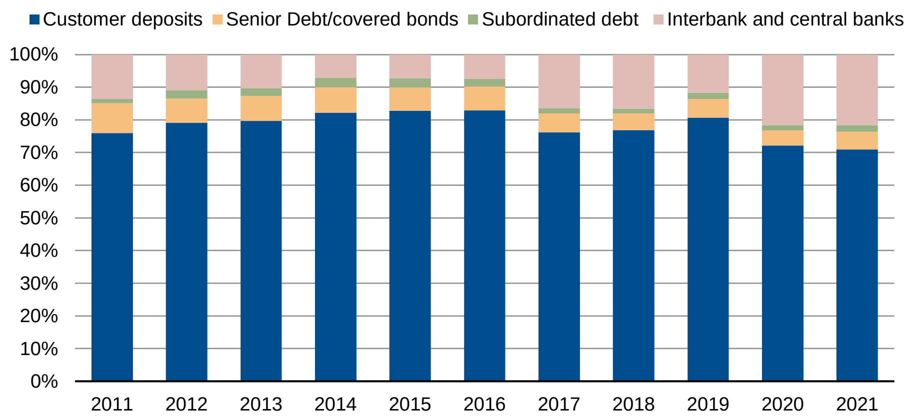
Source: SNL, Scope Ratings

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

The group funds itself primarily via current accounts and sight deposits, which accounted for about 65% of the balance sheet as of December 2021. The growth of the deposit base has gone hand in hand with the expansion of the balance sheet over the past years.

Historically, BPS has drawn from the TLTRO programme, making sizeable use of it in 2020 by drawing the maximum amount. As of Q4 2021, the group's take-up stood at EUR 8.8bn (17% of total balance sheet).

Figure 13: Breakdown of funding, historical

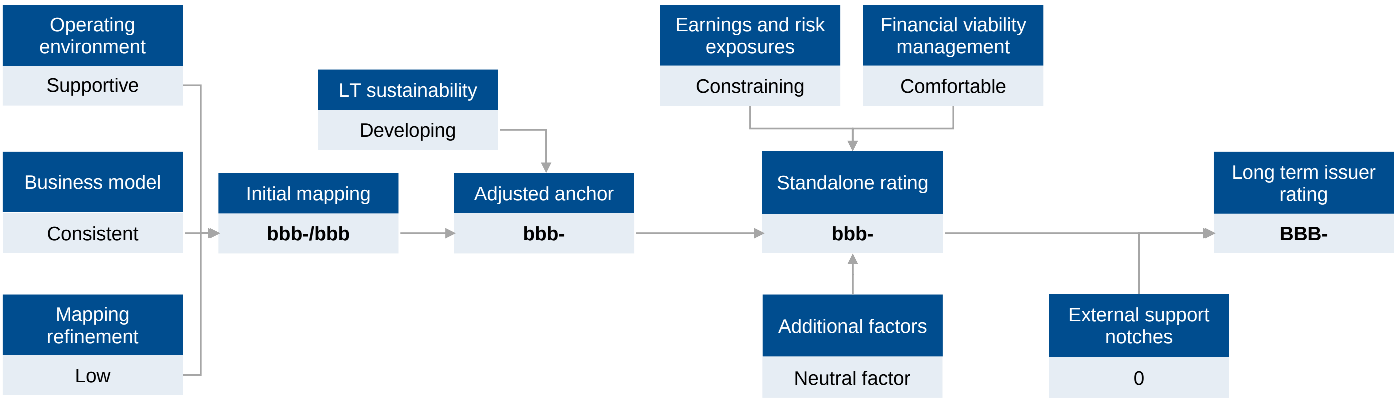


Source: SNL, Scope Ratings.

In December 2021, BPS disclosed its intermediate and fully phased in MREL requirements. As of January 2022, the group has to 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 on leverage exposure will be slightly higher, at 5.92%. The group has not received any subordination requirement from the authorities.

As of September 2021, the group's ratios were well above requirements. Its MREL stack stood at 29.09% of the total risk exposure amount, and at 10.06% of the leverage ratio exposure

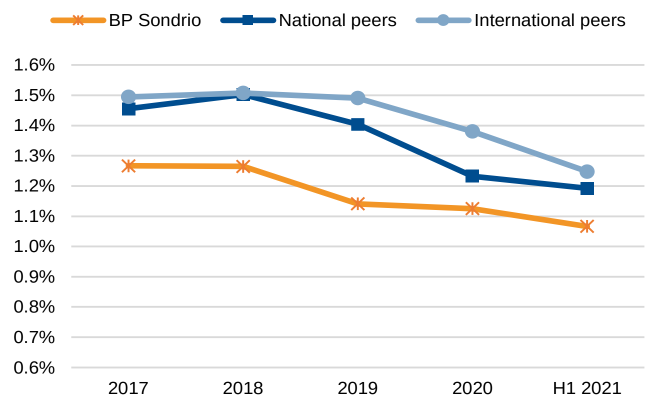
I. Appendix: Overview of the rating process



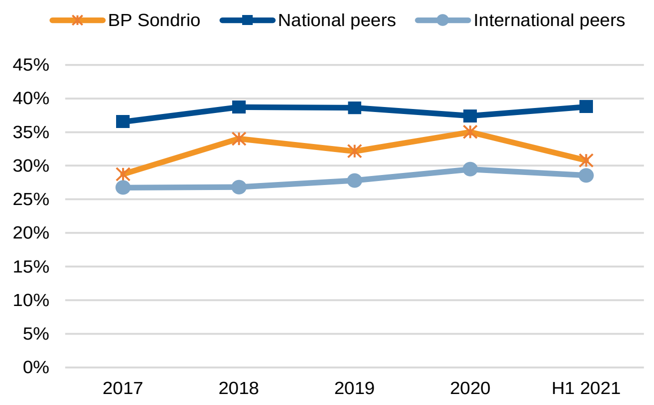
Step		Assessment	Summary rationale
STEP 1	Operating environment	Very supportive	• Italy is a wealthy country in the euro area, but the high level of public debt may constrain fiscal policy. • Italy is part of the European Banking Union. • The banking sector is fragmented and suffers from structurally 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 diversification constrains the rating
		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	
		Lagging	
	Adjusted anchor	**bbb-**	
STEP 2	Earnings capacity & risk exposures	Very supportive	• Headline asset quality metrics have greatly improved and are in line with close peers but still compare poorly to larger banks. • Strong profitability track record compared to Italian peers • High exposure to domestic sovereign debt
		Supportive	
		Neutral'	
		Constraining	
		Very constraining	
	Financial viability management	Ample	• Healthy buffers to capital requirements • Comfortable funding and liquidity positions supported by material usage of TLTRO III lines
		Comfortable	
		Adequate	
		Limited	
		Stretched	
		At risk	
	Additional factors	Significant support factor	• No further considerations
		Material support factor	
		Neutral	
		Material downside factor	
		Significant downside factor	
	Standalone	**bbb-**	
STEP 3	External support	Not applicable	
Issuer rating		**BBB-**	

II. Appendix: Peer comparison

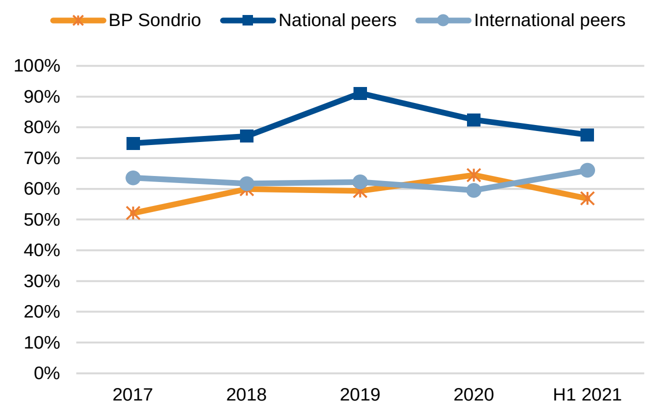
Net interest margin



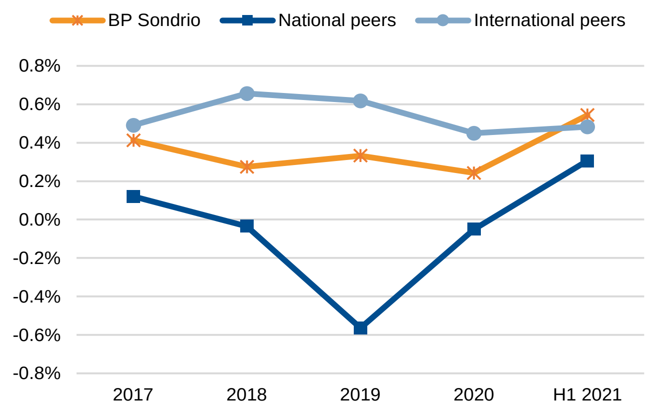
Fees & commissions, % revenues



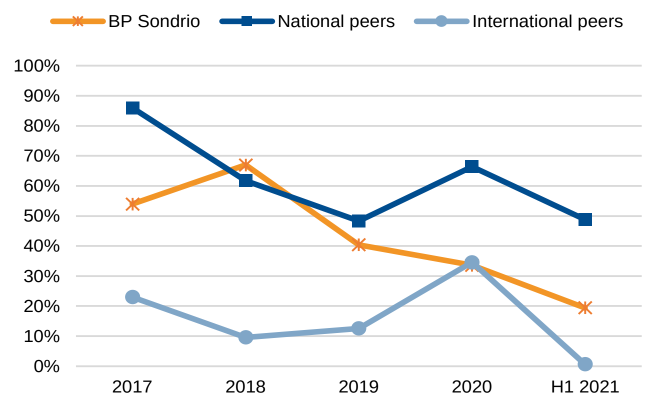
Cost/income ratio



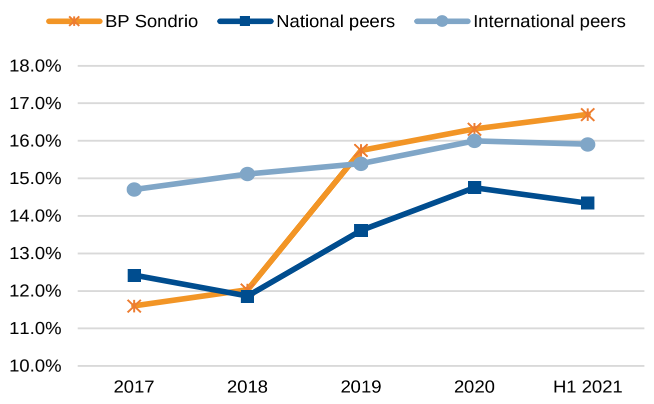
Return on average assets



Impairment on financial assets/pre-impairment profits



CET1 ratio (%, transitional)



Source: Scope Ratings, SNL

National peers: Credito Valtellinese, Banco Desio, Banco BPM, BPER, Credem, Intesa, Unicredit, Monte dei Paschi di Siena, UBI, Carige, Banca Sella, BP Bari, BP Alto Adige, CR Asti

International peers: Unicaja, Ibercaja, Liberbank, Bank Burgenland, Salzburger Landes-Hypothekenbank, Oberbank AG, Totens Sparebank

III. Appendix: Selected financial information – Banca Popolare di Sondrio S.p.A.

	2017	2018	2019	2020	2021
Balance sheet summary (EUR m)					
Assets					
Cash and interbank assets	2,620	2,898	2,894	8,687	8,929
Total securities	11,893	5,076	3,237	3,496	4,534
of which, derivatives	98	32	32	60	NA
Net loans to customers	25,756	31,758	33,393	35,900	39,441
Other assets	1,356	1,396	1,623	1,724	2,111
Total assets	**41,625**	**41,128**	**41,146**	**49,808**	**55,016**
Liabilities					
Interbank liabilities	6,205	6,166	4,328	9,827	10,875
Senior debt	2,220	1,907	2,091	2,132	NA
Derivatives	54	74	78	40	107
Deposits from customers	28,801	28,630	29,817	32,728	35,603
Subordinated debt	613	525	714	699	NA
Other liabilities	962	1,082	1,182	1,286	NA
Total liabilities	**38,855**	**38,384**	**38,209**	**46,712**	**51,641**
Ordinary equity	2,679	2,651	2,842	2,998	3,270
Equity hybrids	0	0	0	0	0
Minority interests	91	93	95	98	105
Total liabilities and equity	**41,625**	**41,128**	**41,146**	**49,808**	**55,016**
Core tier 1/ common equity tier 1 capital	*2,638*	*2,636*	*2,712*	*2,967*	*3,163*
Income statement summary (EUR m)					
Net interest income	490	508	460	490	529
Net fee & commission income	305	316	322	316	358
Net trading income	161	11	114	2	131
Other income	105	94	106	95	112
Operating income	**1,062**	**928**	**1,002**	**904**	**1,130**
Operating expenses	553	556	594	583	631
Pre-provision income	**508**	**372**	**408**	**321**	**499**
Credit and other financial impairments	274	249	165	108	124
Other impairments	0	1	3	7	NA
Non-recurring income	0	21	0	0	0
Non-recurring expense	0	0	45	49	0
Pre-tax profit	**234**	**143**	**195**	**157**	**375**
Income from discontinued operations	0	0	0	0	0
Income tax expense	68	29	56	47	100
Other after-tax Items	0	0	0	0	0
Net profit attributable to minority interests	6	3	2	3	6
Net profit attributable to parent	**159**	**111**	**137**	**107**	**269**

Source: SNL, Scope Ratings

IV. Appendix: Selected financial information – Banca Popolare di Sondrio S.p.A.

	2017	2018	2019	2020	2021
Funding and liquidity					
Net loans/ deposits (%)	89%	110%	111%	109%	111%
Liquidity coverage ratio (%)	NA	148%	173%	188%	164%
Net stable funding ratio (%)	NA	NA	NA	NA	NA
Asset mix, quality and growth					
Net loans/ assets (%)	61.9%	77.2%	81.2%	72.1%	71.7%
Problem loans/ gross customer loans (%)	15.1%	12.2%	10.5%	6.1%	4.6%
Loan loss reserves/ problem loans (%)	53.9%	58.5%	61.1%	60.0%	61.7%
Net loan growth (%)	1.7%	23.3%	5.1%	7.5%	9.9%
Problem loans/ tangible equity & reserves (%)	84.1%	81.0%	71.9%	51.6%	41.7%
Asset growth (%)	11.9%	-1.2%	0.0%	21.1%	10.5%
Earnings and profitability					
Net interest margin (%)	1.3%	1.3%	1.1%	1.1%	1.0%
Net interest income/ average RWAs (%)	2.1%	2.3%	2.4%	2.8%	2.9%
Net interest income/ operating income (%)	46.1%	54.8%	45.9%	54.2%	46.8%
Net fees & commissions/ operating income (%)	28.7%	34.0%	32.2%	35.0%	31.7%
Cost/ income ratio (%)	52.1%	59.9%	59.3%	64.5%	55.9%
Operating expenses/ average RWAs (%)	2.4%	2.5%	3.1%	3.3%	3.4%
Pre-impairment operating profit/ average RWAs (%)	2.2%	1.7%	2.2%	1.8%	2.7%
Impairment on financial assets / pre-impairment income (%)	54.0%	67.0%	40.4%	33.6%	24.9%
Loan loss provision/ average gross loans (%)	0.9%	0.8%	0.5%	0.3%	0.3%
Pre-tax profit/ average RWAs (%)	1.0%	0.6%	1.0%	0.9%	2.0%
Return on average assets (%)	0.4%	0.3%	0.3%	0.2%	0.5%
Return on average RWAs (%)	0.7%	0.5%	0.7%	0.6%	1.5%
Return on average equity (%)	6.1%	4.2%	4.9%	3.7%	8.5%
Capital and risk protection					
Common equity tier 1 ratio (%, fully loaded)	11.5%	11.9%	15.7%	16.2%	15.7%
Common equity tier 1 ratio (%, transitional)	11.6%	12.0%	15.7%	16.3%	15.8%
Tier 1 capital ratio (%, transitional)	11.6%	12.1%	15.8%	16.4%	15.8%
Total capital ratio (%, transitional)	13.7%	13.6%	18.6%	18.5%	18.9%
Leverage ratio (%)	5.7%	5.8%	6.1%	6.3%	5.3%
Asset risk intensity (RWAs/ total assets, %)	54.6%	53.3%	41.9%	36.5%	36.4%
Market indicators					
Price/ book (x)	0.5x	0.4x	0.3x	0.3x	0.5x
Price/ tangible book (x)	0.5x	0.5x	0.3x	0.3x	0.5x
Dividend payout ratio (%)	20.0%	20.8%	NA	25.0%	NA

Source: SNL, Scope Ratings

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