

**DBRS CONFERMA
IL RATING DI CREDITO VALTELLINESE A BBB (LOW),
L'OUTLOOK RIMANE NEGATIVO**

Sondrio, 23 maggio 2014 – DBRS Ratings Limited ha confermato in data odierna i seguenti rating assegnati al Credito Valtellinese:

Senior Long-Term Debt and Deposits	BBB (low)	Rating trend: Negativo
Short-Term Debt and Deposits	R-2 (low)	Rating trend: Negativo
Intrinsic Assessment	BBB (low)	
Support Assessment	SA-3	

Il testo completo del comunicato stampa di DBRS è allegato.

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DBRS Confirms Credito Valtellinese at BBB (low); Negative Trend

Industry: Fin.Svc.--Banks & Trusts

DBRS Ratings Limited (DBRS) has today confirmed the ratings of Gruppo Bancario Credito Valtellinese (Credito Valtellinese, Creval, the Bank or the Group). These include a Senior Long-Term Debt and Deposit Rating of BBB (low) and a Short-Term Debt and Deposit Rating of R-2 (low). The trend on all ratings remains Negative.

At the same time, DBRS confirmed the Bank's Intrinsic Assessment (IA) of BBB (low) and maintained a support assessment of SA-3 which does not incorporate the expectation of systemic support for the Group in the event of a highly stressed scenario. As such, the final debt and deposit rating for Creval of BBB (low) remains equal to the IA.

The confirmation of Creval's ratings reflects the resilient franchise and improved funding profile, as well as progress achieved on the Group's reorganisation and capital plan, including DBRS' expectation that the EUR 400 million capital increase will be finalised in the coming weeks. The Negative trend reflects DBRS's view that the Bank continues to face a number of challenges, including weak asset quality and uncertainty over future capital requirements linked to the ongoing European Central Bank (ECB) asset quality review (AQR) and upcoming 2014 stress tests, and therefore risks remain skewed to the downside.

DBRS notes that downward rating pressure could result from further significant weakening of Creval's asset quality profile, or if the Bank is unable to manage any future capital requirements. Given the Negative trend, upward rating pressure is unlikely in the medium term. A change in the trend to Stable would require the Bank's earnings and asset quality to improve. Key benchmarks could include the future consistency of core earnings, achieving the efficiency goals targeted in Creval's strategic plan, as well as the eventual reduction of impaired lending levels.

In DBRS' view, Creval's franchise has remained resilient, despite the still difficult economic environment in Italy. In 2013, the Bank has maintained a strong market position in its home province of Sondrio, the core geographic base of the Bank's franchise, and in DBRS' view, the Group's simplified legal structure and new commercial partnerships are helping Creval to broaden the product offering, while maintaining its core client base. Likewise, the increasingly streamlined Group structure should allow the Bank to further improve its corporate governance and risk management and



planning capabilities.

DBRS views Creval's track record of earnings as modest and reflective of the difficult banking conditions in Italy. Following its first significant loss of EUR 322 million in 2012, the Bank generated a small profit of EUR 12 million in 2013. Despite the positive direction, the Bank's future earnings generation capacity remains constrained by the subdued growth prospects of the Italian economy, and could also be impacted by the results of the ECB's ongoing AQR.

Overall, the Bank's core revenues remain under pressure due to high funding costs, the low interest rate environment, as well as deleveraging. Offsets to this include Creval's still resilient commission income and ongoing improvements in the cost base. A continuation of these trends will be needed for future earnings stability, as earnings from the carry trade and capital gains on the Sovereign bond portfolio are expected to diminish. At present, the overall combination has helped the Bank to cover higher credit costs as the weak economic environment in Italy continues to weigh on the Bank's asset quality.

The Bank's loan portfolio is fairly diversified by sector and client name although it is concentrated geographically in the wealthy region of Lombardy. Nevertheless, the Bank's asset quality remains affected by the on-going weakening of the Italian economy and the particular weaknesses of small- and medium-sized enterprises (SMEs) reliant on domestic business. Creval's total gross impaired lending ratio increased to 19% and 21% in 2013 and Q1 2014, respectively, which compares unfavourably with the Italian system average (15.9% at December 2013). The higher impaired lending percentage was also impacted by Creval's deleveraging efforts which resulted in an 8% decrease in overall lending during 2013.

As a result of asset quality deterioration, the Bank strengthened its provisioning levels in 2012-2013 and again in Q1 2014. Nonetheless, coverage levels for some impaired categories remain weak relative to some peers and further increases in provisioning could result from the ongoing AQR by the ECB.

DBRS views Creval's funding profile as solid, reflecting the Bank's well entrenched retail funding base. Combined with ECB Long-Term Refinancing Operations (LTRO) borrowings, retail funding was key towards helping the Bank manage through the difficult market liquidity situation in recent years. Combined with the Bank's success in deleveraging, Creval's loan-to-deposit ratio improved to 103% in Q1 2014 from 115% in 2012, according to DBRS' calculation.

More recently, Creval's funding and liquidity conditions have benefited from the easing of the Italian



sovereign bonds spreads. This has helped Creval to return to the secured wholesale market while reducing funding dependency on the ECB Long-Term Refinancing Operations. Narrowing sovereign spreads also helped to reduce overall funding costs and improved the Bank's overall liquidity position. Creval's liquidity buffer appears satisfactory in DBRS view. Total unencumbered assets, which are mainly comprised of Italian government bonds, amounted to EUR 4.5 billion at March 2014, and provide a buffer over future LTRO repayments of EUR 2.2 billion, as well as bond redemptions over 2014 and 2015.

Creval has strengthened its capital ratios and buffer ahead of the ECB AQR and European Banking Authority (EBA) stress tests. In March 2014, Creval approved a capital increase up to a maximum amount of EUR 400 million, with a pre-underwriting agreement in place. The transaction is expected to be completed in the first half of 2014 and it will strengthen the Bank's regulatory capital by approximately 230 bps. As such, the pro-forma fully loaded Basel III Common Equity Tier 1 (CET1) should increase to 11.5%, compared to 9.2% at March 2014. Although DBRS views positively Creval's recent capital actions, the outcome of the AQR and stress test remains uncertain and possible future requirement to strengthen capital further cannot be ruled out.

Notes:

All figures are in Euros (EUR) unless otherwise noted.

The principal applicable methodology is the Global Methodology for Rating Banks and Banking Organisations. Other methodologies used include the following: DBRS Criteria: Support Assessment for Banks and Banking Organisations and DBRS Criteria: Rating Bank Capital Securities – Subordinated, Hybrid, Preferred & Contingent Capital Securities. These can be found at: <http://www.dbrs.com/about/methodologies>

The sources of information used for this rating include company documents, Bank of Italy and SNL Financial. DBRS considers the information available to it for the purposes of providing this rating was of satisfactory quality.

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

Generally, the conditions that lead to the assignment of a Negative or Positive trend are resolved within a twelve month period. DBRS's outlooks and ratings are under regular surveillance.



For further information on DBRS historic default rates published by the European Securities and Markets Administration (“ESMA”) in a central repository, see:
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For additional information on this rating, please refer to the linking document located at:
<http://www.dbrs.com/research/236983/banks-and-banking-organisations-linking-document.pdf>

Information regarding DBRS ratings, including definitions, policies and methodologies are available on www.dbrs.com.

Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Gruppo Bancario Credito Valtellinese	Senior Long-Term Debt and Deposits	Confirmed	BBB (low)	Neg	May 23, 2014
Gruppo Bancario Credito Valtellinese	Short-Term Debt and Deposits	Confirmed	R-2 (low)	Neg	May 23, 2014

For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

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