

**DBRS ASSEGNA AL GRUPPO CREDITO VALTELLINESE  
IL RATING BBB (LOW), OUTLOOK NEGATIVO,**

**Sondrio, 8 febbraio 2013** – L’Agenzia DBRS Ratings Limited ha assegnato, per la prima volta, i seguenti rating al Gruppo Credito Valtellinese:

Senior Unsecured Debt & Deposits                      BBB (low)              Rating trend: Negativo

Short-Term Debt & 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 Assigns BBB (low) Rating to Gruppo Bancario Credito Valtellinese, Trend Negative**

**Industry: Fin.Svc.--Banks & Trusts**

On February 7, 2013, DBRS Ratings Limited (DBRS) assigned new ratings to Gruppo Bancario Credito Valtellinese (Creval, the Bank or the Group). These ratings 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 both ratings is Negative. At the same time, DBRS assigned an Intrinsic Assessment (IA) to the Group of BBB (low) and a support assessment of SA-3.

The IA of BBB (low) reflects Creval's acceptable credit fundamentals and the Bank's strong base in its home province of Sondrio. As Italy's 13th largest banking Group, DBRS does not view Creval as systemically important and thus the ratings do not incorporate the expectation of timely support for the Group in the event of a highly stressed scenario. As such, DBRS has assigned an SA-3 support designation which does not provide upward rating support for the IA. The final rating for Creval of BBB (low) is thus equal to the IA. The Negative Trend primarily reflects the considerable downside risks to economic growth in Italy, reflected in DBRS's sovereign rating and the direct challenges this difficult environment poses for the Bank.

Supporting Creval's BBB (low) rating level is the Group's strong franchise in and around the province of Sondrio, as well as its moderate market share in the Central regions of Marche, Lazio and on the island of Sicilia. Based in Sondrio in the northern Italian region of Lombardia, Creval ranks as Italy's 13th largest bank and is active across 11 Italian regions with a national market share of 1.2% in loans and 1.6% in deposits. Although DBRS views Creval's franchise as somewhat small and vulnerable nationally, its local market shares can be very meaningful with more than 30% in core areas such as Sondrio. Apart from Lombardia and the regions noted above, Creval has a small presence in portions of Veneto, Piemonte and Trentino, located in Italy's wealthy North.

The resilience of Creval's franchise is viewed positively by DBRS. Indeed, the customer relationship is integrated into the fabric of the Bank's ownership structure. The Bank operates on the principles of "solidarity" with its shareholders/customers. Creval is listed on the FTSE Italia Mid Cap and most of its 150,000 shareholders/members are loyal family, producer household and SME customers of the Bank. Although maintaining this close customer relationship can have an economic cost on performance and capital flexibility in the current environment, , DBRS views Creval's strong



relationships as critical to its long term success

DBRS views Creval's track record of earnings as acceptable given the difficult banking conditions in Italy. During the past 18 months profitability has deteriorated due to higher funding costs system wide and the Bank's decision to maintain somewhat favourable conditions for customers. Yet given the Bank's meaningful producer household and SME customer base which on average is more profitable than retail operations, Creval's Income Before Provisioning and Taxes (IBPT) has remained positive at roughly EUR 300 million annually for the 2008-2011 period. Although IBPT generation weakened during 1H12 to EUR 123 million (as calculated by DBRS), this and earlier levels have consistently exceeded credit provisions and have allowed the Bank to absorb increasingly higher credit costs.

Creval's funding profile is viewed favourably by DBRS as it is strongly supported by a stable deposit base and is balanced with lending activity. Creval's customers provide most of the funding needs of the Bank. Maintaining and improving funding has also been a primary objective for Creval management in the current environment. Despite banking system deterioration, Creval has been able to largely maintain or slightly improve its market share of retail deposits. Close customer relationships have also allowed Creval to increase the volume and to extend the maturity of time deposits. Current accounts remain stable and reflect the working capital and cash flow accounts of core customers. Nonetheless, should the economic situation in Italy erode further, DBRS notes that Creval's funding could deteriorate as its core customer base could also be impacted. This could put further pressure on the Bank's ability to maintain its long-term goal of 1:1 balance between deposits and lending. Although Creval's liquidity buffer is sound, DBRS notes that the Bank's position is highly reliant on the ECB via LTRO borrowings of EUR 3.2 billion, as well as for discounting assets. Absent a normalization of bank funding markets in Italy, Creval will be challenged to reduce this dependence. In DBRS's view, this could influence future investment as well as the strategic flexibility of the Bank, particularly outside its strong home base.

DBRS views Creval's risk profile as moderate and in line with its mandate to serve its members across its local markets. Lending is primarily to families, family businesses and SMEs and largely consists of first mortgages and current account lending. Roughly 90% of Creval's total risk is credit linked and the Bank reports underwriting standards which DBRS views as conservative by international standards. LTV for the residential mortgage book as a whole is below 46% and new mortgage lending is rarely done at levels above 80%. As a policy, the Bank concentrates on cash flow measures which ensure that mortgage payments ordinarily do not exceed 30% of a household's monthly gross income. Across the entire portfolio, granularity of lending is evident as Creval's largest 100 exposures amount to only 14% of gross lending. The geographic distribution of loans reflects the



Bank's core relationships, with lending in Lombardia accounting for 59% of the total. For each region, the bank has customised its lending criteria and strategy to fit local client needs and to reflect risk differentials. For example, in the southern regions of Italy, Creval applies more stringent lending criteria, whereas deposit gathering activities are more meaningful. This regional mismatch also reflects the net savings dynamic of these areas in which there is typically a balance of net deposits. An important consequence of this strategy is that lending and deposit levels are not matched within each region, with the Sicilian market, for example, providing a surplus of deposit funding which is then employed for lending in other, arguably less risky, regions. DBRS views Creval's success in this respect as evident in the regional asset quality figures which show that the Bank's exposure in Sicilia performs as well as that in Lombardia despite harsher conditions.

In DBRS's view, definitions of impaired credit exposures for the Italian banking system are broader than in many countries. Creval's impaired exposures include non-performing, watch list, restructured and past due loans. Incorporating all four categories, Creval's asset quality has deteriorated significantly to more than 13% of total lending as of end 3Q12. This is roughly in line with the deterioration observed across the Italian banking system, yet DBRS views credit policies and procedures as relatively more conservative at Creval relative to the Italian average. This is supported by the quality of the Bank's internal monitoring and early interaction. Yet clearly asset quality is weakening, impacted by the length of the Italian economic downturn which has slowly eroded the credit profile of some borrowers and domestically focussed commercial segments.

Given the Bank's largely retail and credit risk driven profile, DBRS views Creval's capitalisation as acceptable. Creval reported a Tier 1 regulatory capital ratio of 7.8% at end-September 2012, up from 7.3% at year-end 2011 which are low by international standards. This includes EUR 200 million in government supported bonds (so-called "Tremonti bonds") which were issued in 2009 in order to provide additional capital cushion quickly for Italian banks. As these are basically a mechanism for the government to inject temporary capital, DBRS views these as rather weak in quality. For year-end 2012, the Bank expects to report a Tier 1 ratio of roughly 8.3% with Total capital ratio remaining above 11.6%. DBRS expects that most Italian banks, including Creval will find it difficult to significantly improve regulatory ratios in the current environment. However, DBRS sees conservatism in the both the standardized approach used by Creval and the risk weightings assigned to SME and mortgage lending by the Bank of Italy which can be materially higher than in other European jurisdictions. This is evident in the high ratio of RWA to Total Assets for Creval, which has consistently remained above 70%. DBRS points out that the Bank's overall leverage as measured by tangible common equity over tangible assets is only moderate at 3.72% at 1H12.



**Notes:**

All figures are in EUR unless otherwise noted.

The principal applicable methodology is the Global Methodology for Rating Banks and Banking Organisations. Other methodologies used include the DBRS Criteria – Intrinsic and Support Assessments. Both can be found on the DBRS website under 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.

Ratings assigned by DBRS Ratings Limited are subject to EU regulations only.

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Rating Committee Chair: Alan G. Reid  
Initial Rating Date: 7 February 2013  
Most Recent Rating Update: 7 February 2013

For additional information on this rating, please refer to the linking document under Related Research.

Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Gruppo Bancario Credito Valtellinese	Senior Long-Term Debt and Deposits	New Rating	BBB (low)	Neg	Feb 7, 2013
Gruppo Bancario Credito Valtellinese	Short-Term Debt and Deposits	New Rating	R-2 (low)	Neg	Feb 7, 2013

For more information on this credit or on this industry, visit [www.dbrs.com](http://www.dbrs.com) or contact us at [info@dbrs.com](mailto:info@dbrs.com).

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