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## Research Update:

# Banca Popolare dell'Alto Adige Outlook Revised To Positive From Stable; 'BB/B' Ratings Affirmed

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## Research Update:

# Banca Popolare dell'Alto Adige Outlook Revised To Positive From Stable; 'BB/B' Ratings Affirmed

## Overview

- We expect that Banca Popolare dell'Alto Adige's (BPAA) asset quality--after the merger with Popolare di Marostica--could recover faster than Italian peers'.
- Our improving forecast for BPAA is supported by our view of more favorable economic and operating conditions for Italy's banking sector.
- We are therefore revising the outlook on BPAA to positive from stable and affirming our 'BB/B' long- and short-term counterparty credit ratings on the bank.
- The positive outlook on BPAA reflects our opinion that the bank's better-than-peers risk management and expected customer loans growth could result in a consistently lower-risk profile loan book.

## Rating Action

On May 23, 2016, S&P Global Ratings revised the outlook on Banca Popolare dell'Alto Adige (BPAA) to positive from stable. At the same time, we affirmed our 'BB/B' long- and short-term counterparty credit ratings on the bank.

## Rationale

The outlook revision on BPAA reflects our view that the bank's asset quality--after the merger with Popolare di Marostica--is likely to perform better than we previously expected, and therefore likely to recover faster than the Italian system average.

Our new forecasts are driven by our view of more supportive economic and operating conditions for Italy's banking sector over the next couple of years. In addition, we believe that BPAA can benefit from the increasingly favorable operating environment that characterizes the northeastern regions of Italy, in particular, the wealthy Trentino Alto Adige, traditionally displaying higher than average GDP per capita values and lower unemployment rates.

We understand that BPAA has successfully completed the review of all the positions in Marostica's customer loans portfolio as part of the acquisition process. In addition, Marostica had already cleaned up part of its portfolio before merging with BPAA, increasing its coverage through provisions to about 48% at end-2014, before its acquisition. Therefore, in the context of a more positive economic environment, we expect BPAA's credit losses to remain below the level we expect for the Italian system average over the next two

years--estimated at 0.80 basis points of customer loans at end-2017.

We estimate a decreasing trend for BPAA's gross nonperforming assets (NPAs) as a percentage of its customer loans from a post-merger value of 15.2% at end-2015. We think that BPAA's stronger-than-peers risk management practices, in addition to higher growth in customer loans than the industry average, could contribute to an improving asset quality trend.

We believe that BPAA will be able to consolidate its market share in the Veneto region--ex-Marostica's historical market--thanks to the ongoing advantageous competitive situation, created by the progressive franchise loss by other peers operating in the region.

We anticipate that the bank will be able to support its asset growth, thanks to the €96 million capital increase successfully completed in February 2016, while keeping its projected risk-adjusted capital (RAC) ratio sustainably above 5.0% over the next two years.

BPAA's profitability will remain positive but modest. We believe that BPAA will support a slightly increasing net interest margin through assets growth on one side and cost-of-funding reduction on the other.

## Outlook

The positive outlook on BPAA reflects our opinion that BPAA's asset quality will likely continue to outperform the Italian system average over the next 12-18 months.

As such, we could raise the long-term rating on BPAA if the bank:

- Improves its net NPA ratio to close to 6%, the level of BPAA at end-2014 before the acquisition of BP Marostica;
- Reduces its gross NPA ratio to at least 13%, compared to 15.2% at end-2015, thus outperforming our expectations for the system average; and
- Demonstrates resilience in interest margins, and maintains its RAC ratio sustainably above 5%.

Alternatively, we could also raise the ratings if we anticipated an improvement in the economic and operating environment in Italy, supported by stronger projected capitalization.

We could revise the outlook to stable if BPAA's asset quality metrics were not outperforming the Italian banking system average and if we were to take a less positive view of the economic and funding conditions affecting Italian banks.

## Ratings Score Snapshot

To

From

Issuer Credit Rating	BB/Positive/B	BB/Stable/B
SACP	bb	bb
Anchor	bb+	bb+
Business Position	Moderate(-1)	Moderate (-1)
Capital and Earnings	Moderate (0)	Moderate (0)
Risk Position	Adequate (0)	Adequate (0)
Funding and Liquidity	Average and Adequate (0)	Average and Adequate (0)
Support	0	0
ALAC Support	0	0
GRE Support	0	0
Group Support	0	0
Sovereign Support	0	0
Additional Factors	0	0

## Related Criteria And Research

- Group Rating Methodology, Nov. 19, 2013
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Commercial Paper I: Banks, March 23, 2004

## Ratings List

Ratings Affirmed; Outlook Action	To	From
Banca Popolare dell'Alto Adige Counterparty Credit Rating	BB/Positive/B	BB/Stable/B

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