

DBRS Morningstar Confirms Banca Sella's LT Issuer Rating at BBB (low), Trend Remains Negative

BANKING ORGANIZATIONS

DBRS Ratings GmbH (DBRS Morningstar) confirmed the ratings of Banca Sella Holding S.p.A. (Sella or the Group) and its main operating subsidiary Banca Sella S.p.A. (the Bank), including the Long-Term Issuer Rating of BBB (low) and the R-2 (middle) Short-Term Issuer Rating. This follows a full annual review of the Group's ratings. The Bank's Deposit ratings were confirmed at BBB/R-2 (high), one notch above the IA, reflecting the legal framework in place in Italy which has full depositor preference in bank insolvency and resolution proceedings. The trend on the Group's long-term and short-term ratings remains Negative. DBRS Morningstar has also maintained the Intrinsic Assessment for both entities at BBB (low) and the Support Assessment at SA3 for Banca Sella Holding S.p.A. and SA1 for Banca Sella S.p.A.. The SA1 reflects Banca Sella S.p.A.'s strong integration with the parent and its 79.18% ownership by Banca Sella Holding S.p.A.. As a result, DBRS Morningstar rates Banca Sella S.p.A. and Banca Sella Holding S.p.A. at the same level. A full list of rating actions is included at the end of this press release.

KEY RATING CONSIDERATIONS

In maintaining the Negative Trend, we continue to consider that the wide scale of economic and market disruption resulting from the coronavirus (COVID-19) pandemic will pressure the Bank's profitability and balance sheet. The challenging operating environment in Italy will likely affect the Bank's revenues, asset quality and cost of risk. The impact will likely emerge in Q2 2020, whilst the implications for the medium to long-term will depend on the evolution of the pandemic, the pace of easing of lockdown measures still currently in place in Italy and the recovery of economic activity. Downward rating pressure would intensify should the crisis be prolonged.

We will continue to monitor the performance of the Bank's asset quality and earnings, as well as the measures being taken to support its franchise and customer base, including the implementation of the debt moratoriums. At the same time, we take into account the impact of unprecedented support measures implemented by the Italian government, as well as several other international authorities and central banks. In our view, the measures put in place in Italy will help mitigate the impact of the crisis in the retail and SME sectors.

The confirmation of the ratings takes into account the Group's improved asset quality profile, evidenced by the lower stock of non-performing exposures (NPEs) as well as the small, albeit solid and diversified franchise of the Bank. In particular, the Bank's solid positioning in digital and open banking has allowed the Bank to better cope with the lockdown through its digital banking channel. In addition, the ratings are underpinned by Sella's stable funding and liquidity position. However, the ratings also take into account the Bank's still modest profitability, and the high stock of NPEs compared to European peers.

RATING DRIVERS

Given the Negative Trend, an upgrade is unlikely in the short-term. The trend on the Long-Term ratings could revert to Stable if the Bank were able to demonstrate limited earnings and asset quality impact from the global coronavirus pandemic whilst maintaining

satisfactory capital levels.

A downgrade would likely be driven by a significant deterioration of the Bank's profitability, especially due to a reduction in fees - on which the bank is very reliant - or a substantial increase in provisioning, as well as pressure on capital levels as a result of the global coronavirus pandemic.

RATING RATIONALE

The ratings incorporate Sella's stable market position in retail and commercial banking in its home region of Piedmont, as well as its diversified business profile. The Group benefits from growing private banking, asset management, and digital banking, as well as a solid market position in the payment system business. In addition, the Bank is very active in digital banking, through its ever-growing mobile application, "Hype". We see this as a factor that has allowed the Bank to cope with the lockdown in place in Italy by providing an online solution to the Bank's clients.

The ratings also continue to reflect Sella's modest profitability, which could experience further strain depending on the evolution of the pandemic and pace of easing of lockdown measures. In addition, any additional cost savings initiative to improve the Group's modest efficiency levels may prove challenging at this time. Nevertheless, we view Sella as having some flexibility on the cost side, given the traditionally high investments in digital banking that could be put on hold. In 2019, Banca Sella Holding reported net income of EUR 34.0 million, up 28.7% year-on-year (YoY) from 24.5 million, which was positively affected by the sale of the stake in Banque Martin Maurel. The Bank reported net attributable income of EUR 35.4 million, up 39.5% YoY from EUR 25.4 million in 2018. This was mainly driven by higher core revenues and lower provisions which offset higher operating expenses. Net interest income was flat YoY in 2019, thanks to volume growth despite the low interest rate environment whilst net fees and commissions were up 3.3%, thanks to growth across business lines. The Bank's cost to income ratio remained high at 75.3%, partly as a result of the Bank's continued investments in new technologies and innovative banking products.

The Bank's asset quality continued to improve in 2019. The total stock of gross NPEs decreased to EUR 0.6 billion at end-2019 from EUR 0.8 billion at end-2018. The improvement is mainly due to the disposal of approximately EUR 81 million of NPEs, as well as the ongoing internal workout and risk management activities. The Group's gross NPE ratio decreased to 6.8% at end-2019 from 10.0% at end-2018, whilst the net NPE ratio slightly improved to 3.6% from 4.6% in the same period. Nevertheless, the Group's NPE ratios remain above the European average and we also expect the ratios to deteriorate going forward.

Sella has a solid funding and liquidity position, and whilst we do not see short-term downside risk on funding given the measures put in place by the ECB, we believe that smaller institutions like Sella could experience difficulties in accessing wholesale funding markets. The Group's wholesale funding is mainly composed of ECB funding, in the form of TLTRO 2 funds, and asset backed securities. At end-2019, Sella's liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) remained well above regulatory requirements at respectively 191.3% and 136.8%.

In 2019, Sella's capitalisation remained adequate, albeit at the lower-end of its peer group which could pose challenges in the current environment. In addition, we consider the Bank's capital remains pressured by the large stock of unreserved NPEs. Nevertheless, Sella announced that they would not distribute a dividend in 2020 for the 2019 net profit, which will provide some additional flexibility. Sella reported at end-2019 a phased-in CET1 ratio of 11.41% compared to 11.28% last year. The phased-in Total Capital ratio was 13.44%, up from 13.16% last year. This provides the Group with an adequate cushion over the minimum requirements set by the Bank of Italy for 2019 for the CET1 ratio of 7.28%. For the medium to long-term, Sella expects some capital benefits from the targeted implementation of the AIRB models.

ESG CONSIDERATIONS

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework and its methodologies can be found at: <https://www.dbrsmorningstar.com/research/357792>.

The Grid Summary Grades for Banca Sella Holding S.p.A. are as follows: Franchise Strength – Good/Moderate; Earnings – Moderate/Weak; Risk Profile – Moderate; Funding & Liquidity – Good; Capitalisation – Moderate.

Notes:

All figures are in EUR unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (11 June 2019) <https://www.dbrsmorningstar.com/research/346375/global-methodology-for-rating-banks-and-banking-organisations>.

The sources of information used for this rating include Company Documents, Sella H1 2019 Report, Sella 2019 Press Release, and S&P Global Market Intelligence. DBRS Morningstar considers the information available to it for the purposes of providing this rating to be of satisfactory quality.

DBRS Morningstar 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 12-month period. DBRS Morningstar's outlooks and ratings are under regular surveillance.

For further information on DBRS Morningstar historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: <http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>.

The sensitivity analysis of the relevant key rating assumptions can be found at: <https://www.dbrsmorningstar.com/research/360865>

Ratings assigned by DBRS Ratings GmbH are subject to EU and U.S. regulations only.

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Initial Rating Date: July 7, 2014

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For more information on this credit or on this industry, visit www.dbrsmorningstar.com.

Ratings

Banca Sella Holding SpA

Date Issued	Debt Rated	Action	Rating	Trend	Issued
11-May-20	Long-Term Issuer Rating	Confirmed	BBB (low)	Neg	EU
11-May-20	Short-Term Issuer Rating	Confirmed	R-2 (middle)	Neg	EU
11-May-20	Long-Term Senior Debt	Confirmed	BBB (low)	Neg	EU
11-May-20	Short-Term Debt	Confirmed	R-2 (middle)	Neg	EU
11-May-20	Short-Term Deposits	Confirmed	R-2 (high)	Neg	EU
11-May-20	Long-Term Deposits	Confirmed	BBB	Neg	EU

Banca Sella S.p.A.

Date Issued	Debt Rated	Action	Rating	Trend	Issued
11-May-20	Long-Term Issuer Rating	Confirmed	BBB (low)	Neg	EU
11-May-20	Short-Term Issuer Rating	Confirmed	R-2 (middle)	Neg	EU
11-May-20	Long-Term Senior Debt	Confirmed	BBB (low)	Neg	EU
11-May-20	Short-Term Debt	Confirmed	R-2 (middle)	Neg	EU
11-May-20	Short-Term Deposits	Confirmed	R-2 (high)	Neg	EU
11-May-20	Long-Term Deposits	Confirmed	BBB	Neg	EU
11-May-20	Mandatory Pay Subordinated Debt (ISIN: XS1311567314)	Confirmed	BB	Neg	EU
11-May-20	Mandatory Pay Subordinated Debt (ISIN: XS1687277555)	Confirmed	BB	Neg	EU
11-May-20	Mandatory Pay Subordinated Debt (ISIN: XS2030489632)	Confirmed	BB	Neg	EU

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