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DBRS Confirms Banca Sella Holding SpA and Banca Sella SpA at BBB (low)/R-2 (middle); Stable Trend

Industry: Fin.Svc.--Banks & Trusts

DBRS Ratings GmbH (DBRS) confirmed the ratings of Banca Sella Holding SpA (Sella or the Group) and its main operating subsidiary Banca Sella SpA (the Bank), including the Long-Term Issuer Ratings of BBB (low) and the Short-Term Issuer Ratings of R-2 (middle). The trend on all ratings remains Stable. The Intrinsic Assessment for both entities is BBB (low), while the Support Assessment is unchanged at SA3 for Banca Sella Holding SpA and SA1 for Banca Sella SpA. The SA1 reflects Banca Sella SpA's strong integration with the parent and its 79.136% ownership by Banca Sella Holding SpA. As a result, DBRS rates Banca Sella SpA and Banca Sella Holding SpA at the same level. A full list of rating actions is included at the end of this press release.

KEY RATING CONSIDERATIONS

The confirmation of the ratings, and the Stable trend, takes into account the Group's improving asset quality profile, evidenced by the lower stock of non-performing loans (or NPLs), the diversified franchise, as well as the stable funding and liquidity position. The ratings also take into consideration the Group's modest profitability and its still large, albeit decreasing, stock of NPLs.

RATING DRIVERS

Positive rating pressure would require a further reduction in NPLs supported by adequate capital buffers, as well as improvements in efficiency levels and profitability. Negative rating implications could arise should the Group face a significant deterioration in capital. Any material weakening in Sella's franchise could also contribute to negative rating pressure.

RATING RATIONALE

Sella maintains a stable market position in retail and commercial banking in its home region of Piedmont, as well as a diversified business profile. The Group benefits from growing private banking and asset management businesses, as well as its solid market position in the payment system business. Furthermore, the Group is actively investing in digital banking, with the strategic focus being around the growth of "Hype". Launched in February 2015 as mobile application, Hype was able to expand its client base to over 600 thousand customers at end-2018. DBRS views Sella's digital banking platform as a potential source of cross selling opportunities and revenues diversification for the Group. Nonetheless, the required investments to support its development pose challenges in terms of costs,

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capital and operational risks.

The Group's profitability remained modest in 2018 reflecting subdued net interest income and higher costs. Reported net income in FY18 was EUR 24.1 million, down from EUR 52.2 million in FY17, however the 2017 results were positively impacted by non-recurring items from asset disposals. The Group's net interest income continued to reflect pressure from the low interest environment and intense market competition. Efficiency levels remained modest with the Group's FY18 cost to income ratio increasing to 80.7% from the 74.4% level in FY17. Operating costs were up 9% year-on-year (YoY) mainly due to the investments in digital banking and fintech.

In 2018 and 1Q19, Sella continued to make progress in reducing its stock of non-performing loans. DBRS expects the Group's asset quality to improve gradually in the medium to long-term. Total gross NPLs decreased to EUR 0.8 billion at FY18 from EUR 1 billion at FY17, supported by approximately EUR 210 million of disposals and increasing recoveries. The gross NPL ratio stood at 9.0% at end-1Q19, down from 11.9% at FY17, whilst the net NPL ratio decreased to 4.4% from 6.4% supported by higher provisioning levels. Total NPL coverage strengthened to 53.3% in 1Q19 from 49.8% at FY17. Nonetheless, the Bank's NPL ratios continue to compare unfavourably with the European average.

A stable and large deposit base underpins the Bank's solid funding profile. The Group's wholesale funding is mainly composed by ECB funding, in the form of TLTRO 2 funds, and asset backed securities. For 1Q19, the Group reported its liquidity coverage ratio (LCR) at 191% and net stable funding ratio (NSFR) at 129%.

The Group's capital position weakened in 2018 and 1Q19, with the phased-in Common Equity Tier 1 (CET1) ratio down to 11.2% at end-1Q19 from 11.3% at end-2018 (12.2% at end-2017). The Total Capital Ratio (TCR) was 13.0%, down from 13.2% at end-2018 (14.5% at end-2017) and is at the lower-end of Sella's peers. The reduction was mainly driven by higher RWAs for credit risk in consumer finance, as well as acquisitions and ongoing investments in digital banking. For the medium to long-term, Sella expects some capital benefits from the targeted implementation of the AIRB models.

The Group's main operating entity, Banca Sella SpA, reported net income of EUR 25 million in 2018, up from EUR 14 million in 2017. The gross NPL ratio improved to 8.8% at end-1Q19 from 11.8% at end-2017, while the net NPL ratio fell to 4.3% from 6.4%. Despite maintaining an adequate level of capitalisation, the Bank's CET1 ratio decreased to 14.5% in 1Q19 from 15.1% for FY17, while the TCR was reported at 17.7%, down from 19.5% for FY17.

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The Grid Summary Grades for Banca Sella Holding SpA 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 applicable methodology is the Global Methodology for Rating Banks and Banking Organisations (July 2018). This can be found can be found at:
<http://www.dbrs.com/about/methodologies>

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

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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 historical default rates published by the European Securities and Markets Authority ("ESMA") in a central repository, see:
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Initial Rating Date: July 07, 2014
Last Rating Date: May 21, 2018

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Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Banca Sella Holding SpA	Long-Term Issuer Rating	Confirmed	BBB (low)	Stb	May 14, 2019
Banca Sella Holding SpA	Short-Term Issuer Rating	Confirmed	R-2 (middle)	Stb	May 14, 2019
Banca Sella Holding SpA	Long-Term Senior Debt	Confirmed	BBB (low)	Stb	May 14, 2019
Banca Sella Holding SpA	Short-Term Debt	Confirmed	R-2 (middle)	Stb	May 14, 2019
Banca Sella Holding SpA	Long-Term Deposits	Confirmed	BBB	Stb	May 14, 2019
Banca Sella Holding SpA	Short-Term Deposits	Confirmed	R-2 (high)	Stb	May 14, 2019
Banca Sella S.p.A.	Long-Term Issuer Rating	Confirmed	BBB (low)	Stb	May 14, 2019
Banca Sella S.p.A.	Short-Term Issuer Rating	Confirmed	R-2 (middle)	Stb	May 14, 2019
Banca Sella S.p.A.	Long-Term Senior Debt	Confirmed	BBB (low)	Stb	May 14, 2019
Banca Sella S.p.A.	Short-Term Debt	Confirmed	R-2 (middle)	Stb	May 14, 2019
Banca Sella S.p.A.	Long-Term Deposits	Confirmed	BBB	Stb	May 14, 2019
Banca Sella S.p.A.	Short-Term Deposits	Confirmed	R-2 (high)	Stb	May 14, 2019
Banca Sella S.p.A.	Mandatory Pay Subordinated Debt (ISIN: XS1311567314)	Confirmed	BB	Stb	May 14, 2019
Banca Sella S.p.A.	Mandatory Pay Subordinated Debt (ISIN: XS1687277555)	Confirmed	BB	Stb	May 14, 2019

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