

## 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. 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 78.57% 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 take into account the Group's modest profitability due to the low interest rate environment, the Group's high cost base, and the higher cost of risk stemming from increased provisioning on the back of the deterioration of macroeconomic scenarios. However, we expect revenues to benefit over the medium term from digital banking, strong contribution from non-interest income and stabilisation of the cost base. Nevertheless, Sella will likely, as for other Italian banks, continue to face short-time challenges stemming from the low interest rate environment and the expected asset quality deterioration.

In addition, the Negative Trend reflects Sella's high exposure to SMEs totalling around 40% of the Group's loan book, which is twice the average for the Italian banking sector. DBRS Morningstar views the latter as potentially at risk as we see SMEs as more vulnerable to the current challenging environment. In addition, the stock of NPEs, albeit declining in recent years, remains relatively large and we expect new NPEs will likely appear in 2021 with the end of the support provided by the moratoria schemes. However, our expectation is that the NPL increase will overall be manageable for Sella.

Finally, the Negative Trend reflects Sella's capital levels, which remain at the lower-end of its peer group. We view the capital levels as posing challenges in the current environment as we expect new NPEs to materialise when support measures expire in 2021 and Sella still has a large, albeit declining, stock of unreserved NPEs compared to European peers. Nevertheless, capital ratios remain comfortably above regulatory requirements and we expect them to improve due to the implementation of AIRB models.

The confirmation of the ratings continues to reflect Sella's solid and diversified franchise. In particular, Sella's good positioning in digital and open banking has allowed the Bank to better cope with the lockdown through its digital banking channel. Ratings are also underpinned by Sella's stable funding and liquidity position.

### RATING DRIVERS

An upgrade is unlikely given the Negative Trend and Italy's current challenging economic outlook. The Trend could revert to Stable if the Bank demonstrates limited asset quality impact from the crisis whilst maintaining current capital levels. An upgrade of the Long-Term ratings would require improvements in efficiency levels and profitability as well as improved capitalisation levels. A downgrade would arise from a substantial deterioration in capital, a material increase in NPLs or significant negative impact on profitability.

## 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 open banking, as well as a solid market position in the payment system business. In addition, the Bank is very active in digital banking, through the ever-growing mobile application, "Hype" in which the Sella remains a shareholder despite the recent sale of a 50% stake in the company. We believe that Sella's positioning in online services has limited the impact of the COVID-19 pandemic on revenues, as the Group already benefited from an existing framework for its clients..

In 2020, the Group reported net attributable income of EUR 30.2 million, down 11.2% year-on-year (YoY) from EUR 34.0 million whilst the Bank reported net attributable income of EUR 28.1 million, down 20.6% YoY from EUR 35.4 million in 2019. This was mainly due to higher cost of risk from provisions incorporating the deterioration of the macroeconomic scenarios and higher operating costs despite higher core revenues. The Group's cost to income ratio remains high also as a result of the ongoing investments in technology and innovation. The cost to income ratio stood at 79.6%, compared to 79.7% a year earlier. Any significant improvement in efficiency via cost saving initiatives is unlikely in our view.

The Group's asset quality improved slightly in 2020. The total stock of gross non-performing exposures (NPEs) decreased to EUR 0.5 billion at end-2020 from EUR 0.6 billion at end-2019. The Group's gross NPE ratio stood at 5.7% as of end-2020, down from 6.8% at end-2019. Whilst we now see the NPE ratio as in line with the average for Italian banks, this continues to compare negatively with the average for European banks. The net NPE ratio was 2.9% as of end- 2020, improved from 3.6% at end-2019. Nevertheless, we expect the ratios to deteriorate going forward when government support measures expire.

DBRS Morningstar views Sella's funding profile as good, supported by its large deposit retail franchise and limited reliance on wholesale funds. The Group's wholesale funding is mainly composed of ECB funding, in the form of TLTRO 3 funds, and asset backed securities. At end-2020, Sella's liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) remained well above regulatory requirements at 218% and 135.4% respectively.

Sella's capitalisation remains modest. We understand that Sella's capital ratios will benefit over the medium term from bad loan disposals, the partial sale of Hype and the targeted implementation of the AIRB models. However, capital levels remain at the lower-end of Sella's peer group and pressured by the large, albeit declining, stock of unreserved NPEs. We view the latter as posing a challenge in the current environment as we expect new NPEs to materialise when support measures expire in 2021. Sella reported a phased-in CET1 ratio of 12.22% at end-2020, compared to 11.41% last year. The phased-in Total Capital ratio was 14.13%, up from 13.44% last year. This provides the Group with an adequate cushion over the minimum requirements set by the Bank of Italy for 2020 for a CET1 ratio of 7.28%.

## ESG CONSIDERATIONS

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at <https://www.dbrsmorningstar.com/research/373262>.

The Grid Summary Grades for Banca Sella Holding S.p.A. are as follows: Franchise Strength – Good/Moderate; Earnings – Weak; Risk Profile – Moderate/Weak; 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 (June 8, 2020) <https://www.dbrsmorningstar.com/research/362170/global-methodology-for-rating-banks-and-banking-organisations>. Other applicable methodologies include the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (February 3, 2021) <https://www.dbrsmorningstar.com/research/373262/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings>.

For more information regarding rating methodologies and Coronavirus Disease (COVID-19), please see the following DBRS Morningstar press release: <https://www.dbrsmorningstar.com/research/357883>.

The sources of information used for this rating include Company Documents, Sella H1 2020 Report, Sella 2020 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>. DBRS Morningstar understands further information on DBRS Morningstar historical default rates may be published by the Financial Conduct Authority (FCA) on its webpage: <https://www.fca.org.uk/firms/credit-rating-agencies>.

The sensitivity analysis of the relevant key rating assumptions can be found at: <https://www.dbrsmorningstar.com/research/378122>.

This rating is endorsed by DBRS Ratings Limited for use in the United Kingdom.

Lead Analyst: Arnaud Journois, Vice President – European Financial Institutions

Rating Committee Chair: Elisabeth Rudman - Managing Director, Head of European FIG - Global FIG

Initial Rating Date: July 7, 2014

Last Rating Date: May 11, 2020

DBRS Ratings GmbH

Neue Mainzer Straße 75

Tel. +49 (69) 8088 3500

60311 Frankfurt am Main Deutschland

Geschäftsführer: Detlef Scholz

Amtsgericht Frankfurt am Main, HRB 110259

For more information on this credit or on this industry, visit [www.dbrsmorningstar.com](http://www.dbrsmorningstar.com).

## Ratings

### Banca Sella Holding SpA

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
07-May-21	Long-Term Issuer Rating	Confirmed	BBB (low)	Neg	<b>EU</b> <b>U</b>
07-May-21	Short-Term Issuer Rating	Confirmed	R-2 (middle)	Neg	<b>EU</b> <b>U</b>
07-May-21	Long-Term Senior Debt	Confirmed	BBB (low)	Neg	<b>EU</b> <b>U</b>
07-May-21	Short-Term Debt	Confirmed	R-2 (middle)	Neg	<b>EU</b> <b>U</b>
07-May-21	Short-Term Deposits	Confirmed	R-2 (high)	Neg	<b>EU</b> <b>U</b>
07-May-21	Long-Term Deposits	Confirmed	BBB	Neg	<b>EU</b> <b>U</b>

### Banca Sella S.p.A.

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
07-May-21	Long-Term Issuer Rating	Confirmed	BBB (low)	Neg	<b>EU</b> <b>U</b>
07-May-21	Short-Term Issuer Rating	Confirmed	R-2 (middle)	Neg	<b>EU</b> <b>U</b>
07-May-21	Long-Term Senior Debt	Confirmed	BBB (low)	Neg	<b>EU</b> <b>U</b>
07-May-21	Short-Term Debt	Confirmed	R-2 (middle)	Neg	<b>EU</b> <b>U</b>
07-May-21	Short-Term Deposits	Confirmed	R-2 (high)	Neg	<b>EU</b> <b>U</b>
07-May-21	Long-Term Deposits	Confirmed	BBB	Neg	<b>EU</b> <b>U</b>
07-May-21	Mandatory Pay Subordinated Debt (ISIN: XS1311567314)	Confirmed	BB	Neg	<b>EU</b> <b>U</b>
07-May-21	Mandatory Pay Subordinated Debt (ISIN: XS1687277555)	Confirmed	BB	Neg	<b>EU</b> <b>U</b>
07-May-21	Mandatory Pay Subordinated Debt (ISIN: XS2030489632)	Confirmed	BB	Neg	<b>EU</b> <b>U</b>

ALL DBRS RATINGS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE [DISCLAIMERS AND LIMITATIONS](#). ADDITIONAL INFORMATION REGARDING DBRS RATINGS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON [WWW.DBRS.COM](http://WWW.DBRS.COM).

## **Contacts**

### **Arnaud Journois**

*Vice President - European Financial Institutions*

+49 69 8088 3526

[arnaud.journois@dbrsmorningstar.com](mailto:arnaud.journois@dbrsmorningstar.com)

### **Elisabeth Rudman**

*Managing Director, Head of European FIG - Global FIG*

+44 20 7855 6655

[elisabeth.rudman@dbrsmorningstar.com](mailto:elisabeth.rudman@dbrsmorningstar.com)

The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: <https://www.dbrsmorningstar.com/research/highlights.pdf>.

The DBRS Morningstar group of companies are wholly-owned subsidiaries of Morningstar, Inc. © 2021 DBRS Morningstar. All Rights Reserved.

The information upon which DBRS Morningstar ratings and other types of credit opinions and reports are based is obtained by DBRS Morningstar from sources DBRS Morningstar believes to be reliable. DBRS Morningstar does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS Morningstar ratings, other types of credit opinions, reports and any other information provided by DBRS Morningstar are provided "as is" and without representation or warranty of any kind. DBRS Morningstar hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS Morningstar or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Morningstar Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS Morningstar or any DBRS Morningstar Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. No DBRS Morningstar entity is an investment advisor. DBRS Morningstar does not provide investment, financial or other advice. Ratings, other types of credit opinions, other analysis and research issued or published by DBRS Morningstar are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities. A report with respect to a DBRS Morningstar rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS Morningstar may receive compensation for its ratings and other credit opinions from, among <https://www.dbrsmorningstar.com/disclaimer/> others, issuers, insurers, guarantors and/or underwriters of debt securities. DBRS Morningstar is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS Morningstar shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS Morningstar. ALL DBRS MORNINGSTAR RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT <https://www.dbrsmorningstar.com/about/disclaimer>. ADDITIONAL INFORMATION REGARDING DBRS MORNINGSTAR RATINGS AND OTHER TYPES OF CREDIT OPINIONS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON <https://www.dbrsmorningstar.com>. Users may, through hypertext or other computer links, gain access to websites operated by persons other than DBRS Morningstar. Such hyperlinks are provided for convenience only, and are the exclusive responsibility of the owners of such websites. DBRS Morningstar does not endorse the content, the operator or operations of third party websites. DBRS Morningstar is not responsible for the content or operation of such websites and DBRS Morningstar shall have no liability to you or any other person or entity for the use of third party websites.