MOODY'S
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CREDIT OPINION
8 October 2019

Update

Rate this Research

RATINGS

Banca Sella Holding S.p.A.

Domicile	Italy
Long Term CRR	Baa2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Withdrawn
Type	Senior Unsecured - Dom Curr
Outlook	Rating(s) WithDrawn
Long Term Deposit	Baa3
Type	LT Bank Deposits - Fgn Curr
Outlook	Positive

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Banca Sella Holding S.p.A.

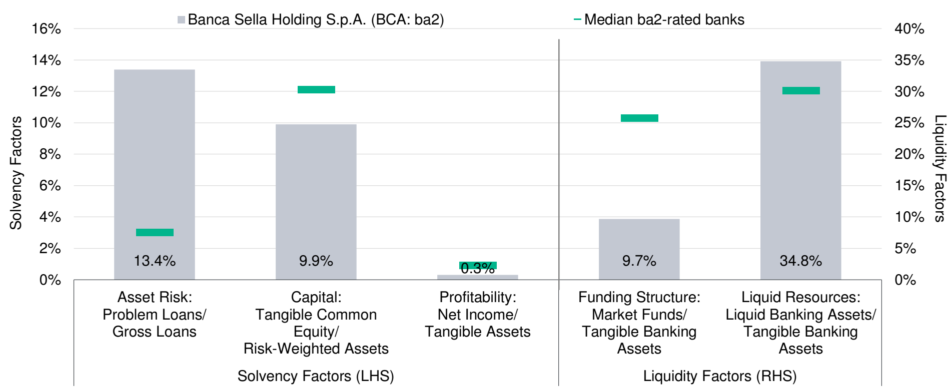
Update to credit analysis

Summary

Banca Sella Holding S.p.A.'s (Banca Sella) Baa3 deposit rating is driven by the bank's ba2 standalone Baseline Credit Assessment (BCA) and very low loss given failure under our Loss Given Failure (LGF) analysis, which results in a two- notch uplift for deposit ratings.

Banca Sella's BCA reflects the bank's still-large stock of problem loans in the European context and its modest profitability, as well as its strong liquidity and retail funding profiles.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

» Strong retail funding profile and large stock of liquid assets

» Satisfactory capital buffer

Credit challenges

» Large but declining stock of problem loans

» Weak profitability

Rating outlook

The outlook on Banca Sella's long-term deposit rating is positive, reflecting our expectation that the bank will continue to improve its solvency profile, in particular its asset risk and profitability, over the outlook horizon.

Factors that could lead to an upgrade

Banca Sella's BCA could be upgraded following an improvement in its profitability and capital, as well as a reduction in its problem loans.

The deposit rating could be upgraded following an upgrade in the BCA or an increase in the stock of bail-in-able instruments, which would result in a greater protection for deposits.

Factors that could lead to a downgrade

Banca Sella's BCA could be downgraded following a material increase in the stock of problem loans or reduced capital.

The deposit ratings could be downgraded following a downgrade of the bank's BCA, a reduction in subordinated debt or in the stock of junior deposits increasing deposits' loss given failure, or both.

Key indicators

Exhibit 2

Banca Sella Holding S.p.A. (Consolidated Financials) [1]

	12-18[2]	12-17[2]	12-16[2]	12-15[2]	12-14[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	14,280.3	13,797.1	13,298.4	12,450.9	14,257.8	0.0[4]
Total Assets (USD Million)	16,324.5	16,567.5	14,026.5	13,525.3	17,252.7	(1.4)[4]
Tangible Common Equity (EUR Million)	747.6	820.7	778.7	699.9	674.5	2.6[4]
Tangible Common Equity (USD Million)	854.7	985.5	821.3	760.3	816.2	1.2[4]
Problem Loans / Gross Loans (%)	9.2	11.8	14.0	14.3	15.4	12.9[5]
Tangible Common Equity / Risk Weighted Assets (%)	8.2	9.9	9.3	8.1	7.4	8.6[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	64.2	74.2	83.5	92.8	98.4	82.6[5]
Net Interest Margin (%)	1.7	1.7	1.9	1.9	2.2	1.9[5]
PPI / Average RWA (%)	1.2	1.9	1.5	1.9	3.3	2.0[6]
Net Income / Tangible Assets (%)	0.2	0.4	0.3	0.2	0.5	0.3[5]
Cost / Income Ratio (%)	83.5	74.9	78.4	73.0	58.2	73.6[5]
Market Funds / Tangible Banking Assets (%)	7.6	9.7	8.2	10.5	19.2	11.0[5]
Liquid Banking Assets / Tangible Banking Assets (%)	34.1	34.8	33.7	27.8	30.3	32.1[5]
Gross Loans / Due to Customers (%)	74.7	81.4	82.0	92.9	100.5	86.3[5]

[1]All figures and ratios are adjusted using Moody's standard adjustments. [2]Basel III - fully-loaded or transitional phase-in; IFRS. [3]May include rounding differences due to scale of reported amounts. [4]Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime. [5]Simple average of periods presented for the latest accounting regime. [6]Simple average of Basel III periods presented.

Source: Moody's Investors Service; Company Filings

Profile

Banca Sella Holding S.p.A. (Banca Sella) provides a range of financial services, including commercial banking, leasing, insurance, asset management, fund management, private banking, payment systems, brokerage and consumer finance through 24 subsidiaries. The group reported total consolidated assets of €14.2 billion as of December 2018.

Banca Sella operates in Italy through a network of 298 branches, including its head office and the branches of its subsidiaries, Banca Sella S.p.A. (283) and Banca Patrimoni Sella & C. S.p.A. (14).

Banca Sella was set up in 1886 with the formation of Banca Gaudenzio Sella & Co., a limited partnership established by members of the Sella family. It acquired its current name in March 2008. The group is almost fully owned by the Sella family.

Detailed credit considerations

Large but declining stock of problem loans

We view Banca Sella's Asset Risk as a key weakness, and we score it b1, consistent with the problem loan ratio of 9.2% as of December 2018 and one notch above the initial Macro-Adjusted score to reflect the ongoing improvement.

Banca Sella's asset risk remains high in the European context. As of year-end 2018, the bank's problem loans[1] were 9.2% of gross loans compared with the Italian system average of 8.7%.[2]

We expect a further reduction in problem loans, which should reach a level equivalent to 8% of gross loans in 2020, through the continuation of disposals in the market and internal workouts. The bank's problem loan disposals remain dependent on the continued benign economic environment and market conditions.

Satisfactory capital buffer

We consider Banca Sella's capital buffer as limited, taking into account the bank's risk profile and its 11.3% Common Equity Tier 1 (CET1) capital ratio disclosed as of December 2018. This ratio compares with 12.2% a year earlier. The negative impact on CET1 capital recorded in 2018 stems from, among other things, several acquisitions and disposals as well as the first-time adoption of IFRS 9.[3] Banca Sella opted for the transitional regime.

The bank's CET1 capital ratio remains well above the 7.28% CET1 prudential regulatory requirement for 2019 (made of 4.5% Pillar I requirement, capital conservation buffer of 2.5% and 0.28% Pillar II based on the European Central Bank's Supervisory Review and Evaluation Process, "SREP").

We assign a Capital score of ba3, one notch above the initial Macro-Adjusted score to reflect the expected improvement driven by higher profitability, which will help the bank increase its own funds through retained earnings. Our tangible common equity (TCE) ratio adjusted by risk-weighted assets (RWA) was 8.2% as of December 2018 compared with 9.9% as of December 2017. This decline was mainly driven by a higher exposure to the Italian sovereign bonds.

The difference between CET1 and our TCE capital ratios comes from our adjustment to the risk weight applied to the bank's exposures to the Italian government (50% versus 0% in bank's calculations) and some other European countries.[4]

Banca Sella undertook a series of measures aimed at improving its CET1 capital ratio, which rose to 12.2% in December 2017 from 9% in December 2014. In particular, the group executed (1) a €120 million capital increase at its commercial banking subsidiary Banca Sella S.p.A. in 2015; (2) the sale of its insurance subsidiary CBA Vita in 2017; and (3) the sale of a stake in Nexi, formerly called Istituto Centrale delle Banche Popolari Italiane in 2015.

We expect Banca Sella to maintain its CET1 capital ratio, currently at 11.3%, above 11% over the outlook horizon. The positive impact of retained earnings as well as the benefits stemming from the expected adoption of internal ratings-based models for the computation of RWA could be partially offset by additional IT costs, for example, for digitalization transformation. This will leave Banca Sella with adequate capacity over the bank's anticipated minimum prudential requirements. That said, compared to EU peers, Banca Sella's SREP and CET1 capital ratio are both at a low level.

Weak profitability should improve

Banca Sella's profitability is currently modest and constrained by its modest efficiency: our score is b1, one notch above the initial Macro-Adjusted score to reflect increasing fees earnings and lower loan-loss provisions.

The bank's return on assets was 0.2% in December 2018 and was supported by capital gains. Banca Sella's recurring net income was almost flat at €24 million in December 2018 from €27 million in 2017, affected by low interest rates environment and limited economic growth. The increase in banking revenues (net interest income and net fees grew by 3.5% in 2018) partly mitigated higher operating costs.

We believe that the bank will improve its pre-provision income compared with its average RWA (currently at 1.2% as of December 2018) thanks to higher fees and commissions. It will also reduce its high cost-to-income ratio (83.5%).

The bank's reported net income was €24 million as of year-end 2018 compared with €53 million a year earlier, which, however, included an extraordinary profit of €28.7 million mainly because of the sale of the participation in la Compagnie Financière Martin Maurel.

Compared with banks of similar size, Banca Sella's revenue is better diversified because fees represented 52% of net profit as of year-end 2018. Also, unlike many Italian banks, Banca Sella has not posted losses since the beginning of the 2008 crisis.

Strong retail funding profile and large stock of liquid assets

The baa1 Funding Structure score, one notch below the initial Macro-Adjusted score, reflects the bank's retail funding profile, the bank's key strength and limited market access to medium-term funding programs, wholesale bonds or securitization.

As of December 2018, Banca Sella's wholesale funding represented 7.6% of the bank's tangible banking assets, which mainly consist of the bank's funding from the European Central Bank's TLTRO II facility (€730 million).

So far, the bank has not publicly communicated its policy on Minimum Requirement for own funds and Eligible Liabilities (“MREL”).

Our score for Liquid Resources is baa2, one notch below the initial Macro-Adjusted score and also a key strength, reflecting a large stock of liquid assets (largely Italian government bonds with short maturities), which represent 16% of tangible banking assets with an asset encumbrance of 6% as of December 2018.

Environmental, social and governance considerations

In line with our general view for the banking sector, Banca Sella has low exposure to environmental risks and moderate exposure to social risks. See our environmental heatmap for further information.[5]

Governance is highly relevant for Bank Sella, as it is to all participants in the banking industry. Corporate governance weaknesses can lead to a deterioration in a company’s credit quality, while governance strengths can benefit its credit profile. Governance risks are largely internal rather than externally driven, and for Banca Sella, we do not have any particular governance concern. However Banca Sella is almost entirely owned by the Sella family, which appoints all the board members. Although this set-up could potentially affect the independence of risk management and controls, we have viewed it so far as neutral for the bank's ratings, considering the following mitigating factors: (1) there is sufficient transparency of the ownership structure — the bank's holdings are incorporated in Italy as opposed to less-transparent jurisdictions; (2) related-party exposures are limited and publicly disclosed according to international best practices; and (3) other non-banking businesses of the Sella family are nonmaterial, reducing the potential conflict of interests between the bank and other activities.

Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

Support and structural considerations

Loss given failure

Banca Sella is subject to the European Union's Bank Recovery and Resolution Directive, which we consider an operational resolution regime. Our analysis assumes residual TCE of 3% and post-failure losses of 8% of tangible banking assets, a 25% runoff in junior wholesale deposits, a 5% runoff in preferred deposits and 26% of junior deposits over total deposits. These are in line with our standard assumptions. Furthermore, we take into account the full depositor preference whereby junior deposits are preferred over senior debt creditors in accordance with a law decree introducing full depositor preference in Italy starting from 2019.

Our LGF analysis indicates that Banca Sella's deposits are likely to face very low loss given failure, leading to an uplift of two notches above the Adjusted BCA. This is because of the loss absorption provided by the residual equity that we expect in resolution, subordinated debt and senior unsecured debt, as well as the volume of junior deposits, and it is supported by the combination of deposit volume and subordination.

Government support

We believe that there is a low likelihood of government support for Banca Sella's debt and rated wholesale deposits in the event of its failure, which results in no uplift; this probability reflects the bank's position in the Italian market, with Banca Sella being significantly smaller than the country's two largest banks. As such, we do not believe Banca Sella to be a sufficiently systemically important to justify any uplift to its ratings.

Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default, and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example swaps), letters of credit, guarantees and liquid facilities.

Banca Sella's CR Assessment is positioned at Baa2(cr)/P-2(cr)

The CR Assessment is positioned three notches above the bank's standalone BCA of ba2, based on the substantial buffer against default provided by substantial subordinated instruments to the senior obligations represented by the CR Assessment.Low probability of government support does not result in any further uplift.

Counterparty Risk Ratings (CRRs)

Our CRRs are opinions on the ability of entities to honor the uncollateralized portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event that such liabilities are not honored. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralized portion of payables arising from derivative transactions and the uncollateralized portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

Banca Sella's CRRs are positioned at Baa2/P-2

The long-term CRRs are positioned three notches above the bank's standalone BCA of ba2. The uplift derives from the buffer against default provided to the operating obligations by substantial bail-in-able debt and deposits.

Low probability of government support does not result in any further uplift.

Rating methodology and scorecard factors

Exhibit 3

Banca Sella Holding S.p.A.

Macro Factors		
Weighted Macro Profile	**Moderate +**	**100%**

Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	11.6%	b2	←→	b1	Expected trend	
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	8.2%	b1	←→	ba3	Expected trend	
Profitability						
Net Income / Tangible Assets	0.2%	b2	←→	b1	Expected trend	
Combined Solvency Score		b2		b1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	7.6%	a3	←→	baa1	Market funding quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	34.1%	baa1	←→	baa2	Asset encumbrance	
Combined Liquidity Score		a3		baa1		
Financial Profile				ba2		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Baa3		
Scorecard Calculated BCA range				ba1 - ba3		
Assigned BCA				ba2		
Affiliate Support notching				0		
Adjusted BCA				ba2		

Balance Sheet	in-scope (EUR Million)	% in-scope	at-failure (EUR Million)	% at-failure
Other liabilities	2,187	15.5%	3,327	23.5%
Deposits	11,179	79.1%	10,039	71.0%
Preferred deposits	8,273	58.5%	7,859	55.6%
Junior deposits	2,907	20.6%	2,180	15.4%
Senior unsecured bank debt	25	0.2%	25	0.2%
Dated subordinated bank debt	319	2.3%	319	2.3%
Equity	424	3.0%	424	3.0%
Total Tangible Banking Assets	14,134	100.0%	14,134	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	20.9%	20.9%	20.9%	20.9%	3	3	3	3	0	baa2
Counterparty Risk Assessment	20.9%	20.9%	20.9%	20.9%	3	3	3	3	0	baa2 (cr)
Deposits	20.9%	5.3%	20.9%	5.4%	2	2	2	2	0	baa3

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	baa2	0	Baa2	Baa2
Counterparty Risk Assessment	3	0	baa2 (cr)	0	Baa2(cr)	
Deposits	2	0	baa3	0	Baa3	Baa3

[1]Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 4

Category	Moody's Rating
BANCA SELLA HOLDING S.P.A.	
Outlook	Positive
Counterparty Risk Rating	Baa2/P-2
Bank Deposits	Baa3/P-3
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	ba2
Counterparty Risk Assessment	Baa2(cr)/P-2(cr)

Source: Moody's Investors Service

Endnotes

1 Problem loans are the sum of three categories (from worst to best): (1) bad loans (in Italian, sofferenze); (2) unlikely to pay (inadempienze probabili); and (3) past due — by more than 90 days (esposizioni scadute e/o sconfinanti). For further details, please refer to our Sector In-Depth titled Italian Banks Implement New Problem Loan Definition; Our View on Asset Risk Is Unchanged, published in October 2015.

2 Source: Bank of Italy, Financial Stability Report.

3 Under the IFRS 9 accounting standard, which took effect on 1 January 2018, loan-loss provisioning requirements are based on expected losses rather than incurred losses, and must be recognized at an earlier stage. As with other accounting standard changes, banks were permitted to absorb the costs related to the first-time adoption through equity rather than the income statement. They were also given the option of phasing in the impact on Common Equity Tier 1 (CET1) until 2023.

4 See Moody's Adjustment to Increase the Risk Weightings of Sovereign Debt Securities in the Analysis of Banks: Frequently Asked Questions, published in September 2013.

5 Environmental heat map.

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Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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