

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

### 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 Stable. DBRS Morningstar has also maintained the Intrinsic Assessment (IA) for Banca Sella S.p.A. 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 78.63% ownership by Banca Sella Holding S.p.A. DBRS Morningstar rates Banca Sella S.p.A. and Banca Sella Holding S.p.A. at the same level as they are both regulated banking entities. A full list of rating actions is included at the end of this press release.

### KEY RATING CONSIDERATIONS

The confirmation of the ratings continues to reflect Sella's relatively small but solid and diversified franchise. Ratings are also underpinned by Sella's stable funding and liquidity position. The ratings level also considers the Group's improved core profitability driven by higher operating efficiency and lower cost of risk when compared to peers. We view that revenues will continue to benefit over the medium term from digital banking, a strong contribution from non-interest income, higher rates and stabilisation of the cost base, as laid out in its strategic plan. Nevertheless, despite improvement, the Group continues to report relatively weak efficiency ratios relative to peers due to franchise reinvestment.

In addition, ratings take into account Sella's asset quality with the Non-Performing Exposure (NPE) ratio now in range with its domestic and European peers. However, we expect geopolitical tensions, rising interest rates and high inflation to lead to a rise in defaults, although we view Sella's improved asset quality metrics to be a mitigating factor.

We also take into account that capital ratios have notably improved in 2022 thanks to the implementation of the AIRB (advanced internal ratings-based approach) in 2022. However, we also note that capital ratios remain at the low end of the peer group and, as a non-listed bank, the Group has less capital flexibility.

### RATING DRIVERS

An upgrade of the Long-Term ratings would require a material improvement in profitability or further structural strengthening of 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

### Franchise Combined Building Block (BB) Assessment: Moderate / Weak

The ratings incorporate Sella's stable market position in retail and commercial banking in its home region of Piedmont, as well as its relatively diversified business profile. The Group benefits from growing private banking, asset management, and digital banking, as well as a small but solid market position in the payment system business. In addition, the Group is active in digital banking, through its growing mobile application, "Hype", in which Sella remains a shareholder despite the recent sale of a 50% stake in the company.

### Earnings Combined Building Block (BB) Assessment: Moderate

In 2022, the Group reported net attributable income of EUR 91.9 million, down by 15% YoY from 108.3 million in 2021. However, when excluding the non-recurrent effect from the capital gains stemming from the deconsolidation of Hype, following the setup of the joint-venture with Illimity in 2021, the Group's net income actually went up by 68% from EUR 56 million. Results were supported by higher revenues and lower provisions which offset higher operating expenses. Whilst the Group's cost to income ratio remains high as a result of Sella's investments in new technologies and innovative banking products, operating efficiency has improved since the deconsolidation of Hype and the cost to income ratio as calculated by DBRS Morningstar stood at 68.8%, compared to 72.3% a year earlier. Provisions were down around 33% YoY and are now back to 2019 levels. As a result, the cost of risk normalised at 37 bps in 2022 compared to 58 bps in 2021.

### Risk Combined Building Block (BB) Assessment: Moderate

Sella's loan book includes a 36% exposure to SMEs, which is twice the average for the Italian banking sector. Interest rate risk is low, with market risk mostly arising from the Group's fixed-income portfolio, including its large exposure to Italian sovereign debt. Whilst NPEs have been declining in recent years, we expect geopolitical tensions, rising interest rates and high inflation to lead to a rise in defaults, although we view Sella's improved asset quality metrics to be a mitigating factor. The Group's asset quality has continued to improve in 2022 with the gross NPE ratio standing at 3.5% at end-2022, down from 4.2% at end-2021. We now see this level as now comparing favourably to domestic banks and more in line with the average for European banks. The net NPL ratio was 1.8% at end-2022 compared to 2.2% at end-2021.

### Funding and Liquidity Combined Building Block (BB) Assessment: Good

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 III funds, and asset backed securities. DBRS Morningstar notes that despite early repayments following the ECB's changes to the TLTRO III programme, the Group had EUR 1.3 billion of ECB's TLTRO III funds, which still represents 7% of the Group's total funding. At end-2022, Sella's liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) remained well above regulatory requirements at 167% and 133% respectively.

### Capitalisation Combined Building Block (BB) Assessment: Moderate / Weak

Whilst Sella's capitalisation remains modest, the bank has continued to build capital ratios in 2022 thanks to internal capital generation, bad loan disposals and the implementation of the AIRB models. Sella reported a phased-in and fully loaded CET1 ratio of 13.2% at end-2022 compared to 12.3% at end-2021. The phased-in and fully loaded Total Capital ratio was 15.1%, up from 14.2% at end-2021. This provides the Group with adequate cushions over the minimum requirements set by the Bank of Italy for 2023 for CET1 of 7.65% and 11.65% for Total Capital according to the Supervisory Review and Evaluation Process (SREP). Sella also

reported a transitional leverage ratio of 5.3% at end-2022.

Further details on the Scorecard Indicators and Building Block Assessments can be found at <https://www.dbrsmorningstar.com/research/413641>.

## ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

There were no Environmental, Social, or Governance factors that had a significant or relevant effect on the credit analysis

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/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings> (17 May 2022)

### Notes:

All figures are in EUR unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations <https://www.dbrsmorningstar.com/research/398692> (23 June 2022). In addition DBRS Morningstar uses the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings <https://www.dbrsmorningstar.com/research/396929/> in its consideration of ESG factors.

The credit rating methodologies used in the analysis of this transaction can be found at: <https://www.dbrsmorningstar.com/about/methodologies>

The sources of information used for this rating include Morningstar Inc. and Company Documents, Sella Q4 2022 Press Release, Sella Consolidated 2022 Report. 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.

The conditions that lead to the assignment of a Negative or Positive trend are generally 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: <https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>. For further information on DBRS Morningstar historical default rates published by the Financial Conduct Authority (FCA) in a central repository, see <https://data.fca.org.uk/#/ceres/craStats>.

The sensitivity analysis of the relevant key rating assumptions can be found at: <https://www.dbrsmorningstar.com/research/413642>.

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

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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](http://www.dbrsmorningstar.com).

## Ratings

### Banca Sella Holding SpA

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
08-May-23	Long-Term Issuer Rating	Confirmed	BBB (low)	Stb	<b>EU</b> <b>U</b>
08-May-23	Short-Term Issuer Rating	Confirmed	R-2 (middle)	Stb	<b>EU</b> <b>U</b>
08-May-23	Long-Term Senior Debt	Confirmed	BBB (low)	Stb	<b>EU</b> <b>U</b>
08-May-23	Short-Term Debt	Confirmed	R-2 (middle)	Stb	<b>EU</b> <b>U</b>
08-May-23	Short-Term Deposits	Confirmed	R-2 (high)	Stb	<b>EU</b> <b>U</b>
08-May-23	Long-Term Deposits	Confirmed	BBB	Stb	<b>EU</b> <b>U</b>

### Banca Sella S.p.A.

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
08-May-23	Long-Term Issuer Rating	Confirmed	BBB (low)	Stb	<b>EU</b> <b>U</b>
08-May-23	Short-Term Issuer Rating	Confirmed	R-2 (middle)	Stb	<b>EU</b> <b>U</b>
08-May-23	Long-Term Senior Debt	Confirmed	BBB (low)	Stb	<b>EU</b> <b>U</b>
08-May-23	Short-Term Debt	Confirmed	R-2 (middle)	Stb	<b>EU</b> <b>U</b>
08-May-23	Short-Term Deposits	Confirmed	R-2 (high)	Stb	<b>EU</b> <b>U</b>
08-May-23	Long-Term Deposits	Confirmed	BBB	Stb	<b>EU</b> <b>U</b>

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
08-May-23	Mandatory Pay Subordinated Debt (ISIN: XS1687277555)	Confirmed	BB	Stb	<b>EU</b> <b>U</b>
08-May-23	Mandatory Pay Subordinated Debt (ISIN: XS2030489632)	Confirmed	BB	Stb	<b>EU</b> <b>U</b>

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