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Insight beyond the rating.

Ratings

Issuer	Obligation	Rating	Rating Action	Trend
Banca Sella Holding SpA	Long-Term Issuer Rating	BBB (low)	Confirmed May' 19	Stable
Banca Sella Holding SpA	Short-Term Issuer Rating	R-2 (middle)	Confirmed May' 19	Stable
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See back of report for complete rating list.

Rating Drivers

Factors with Positive Rating Implications

Positive rating pressure would require a further reduction in NPLs supported by adequate capital buffers, as well as improvements in efficiency levels and profitability.

Factors with Negative Rating Implications

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 Considerations

Franchise Strength:

Small banking franchise with a solid market position in its home province of Biella, in the Piedmont region. The franchise is well diversified with growing private banking and payment system activities.

Good/Moderate

Earnings Power:

Profitability has been more resilient than similar peers supported by revenue diversification and lower cost of risk. Returns and efficiency however remain modest.

Moderate/Weak

Risk Profile:

Large, albeit reducing, stock of Non-Performing Loans (NPLs).

Moderate

Liquidity and Funding:

Stable funding and liquidity position, underpinned by a large retail deposit base and sizable stock of eligible assets.

Good

Capitalisation:

Moderate capital buffers over the minimum supervisory requirements.

Moderate

Financial Information

Banca Sella Holding SpA

EUR Millions

	2018Y	2017Y	2016Y	2015Y	2014Y
Total Assets	14,280	13,797	13,298	13,968	14,258
Equity Attributable to Parent	888	924	895	832	774
Income Before Provisions and Taxes (IBPT)	99	139	142	165	300
Net Attributable Income	24	52	80	29	70
IBPT over Avg RWAs (%)	1.29	1.86	1.90	2.14	3.74
Cost / Income ratio (%)	84.35	78.34	77.13	73.48	59.39
Return on Avg Equity (ROAE) (%)	2.66	5.74	9.07	3.55	9.56
Gross NPLs over Gross Loans ⁽¹⁾ (%)	7.25	11.75	13.96	14.33	15.44
CET1 Ratio (Phased-In) (%)	11.28	12.23	12.23	11.59	8.95

Source: DBRS Analysis, Copyright © 2019, S&P Global Market Intelligence*. (1) Loans to customers include financial securities

Issuer Description

Based in Biella (Italy), [Banca Sella Holding SpA](#) (Sella or the Group) is the parent company of the Sella Group. The Group’s main activities are retail & commercial banking, asset management and private banking, payment systems, leasing and consumer finance.

Rating Rationale

In May 2019, 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 confirmation of the ratings, and the Stable trend, took into account the Group’s improving asset quality profile, evidenced by the lower stock of non-performing loans, 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, NPL stock.

Franchise Strength

Grid Grade: Good/Moderate

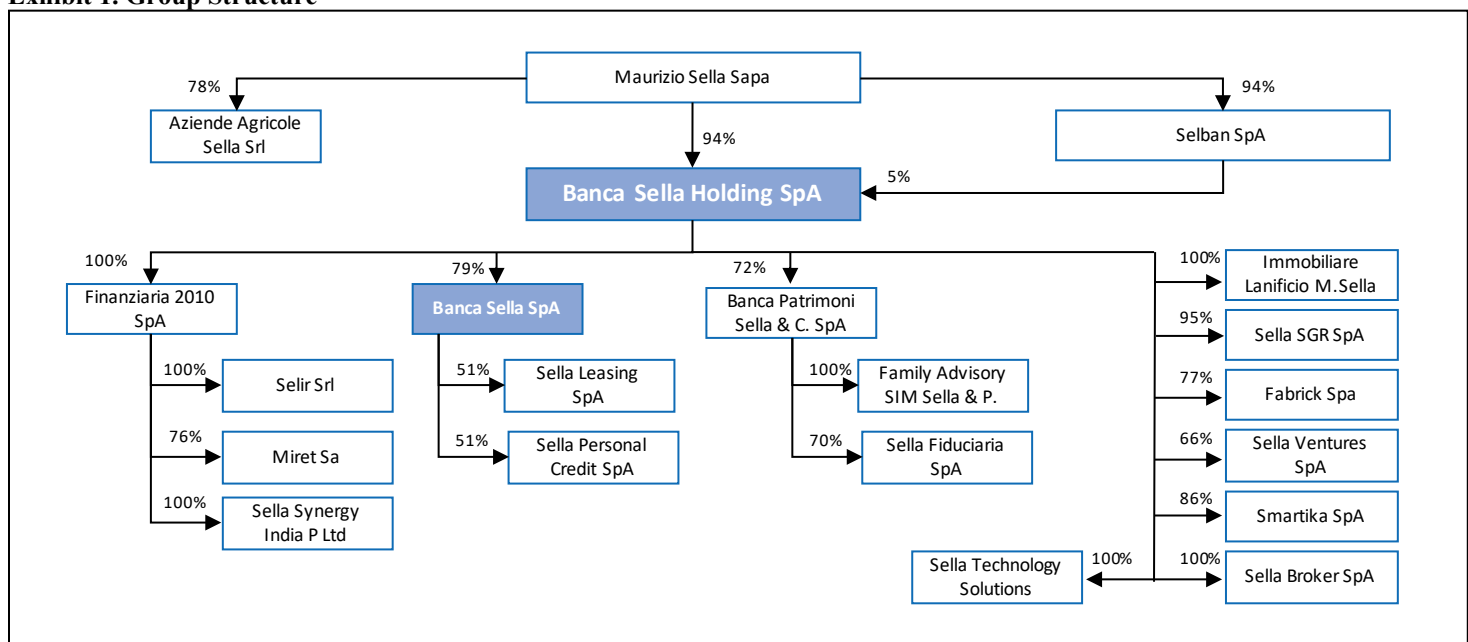
Banca Sella Holding is a small Italian bank with EUR 15 billion in total assets as of March 2019. The bank maintains a solid market position in retail and commercial banking in its home province of Biella, in the region of Piedmont. Unlike many peers of similar size, Sella’s franchise is more diversified with its growing private banking and asset management activities, and its solid market position in the payment system business. In addition, the Group is present in the leasing and consumer finance business.

The Group has historically been controlled by the Sella family, which is also broadly involved in the Group’s corporate governance. The Sella family controls the Group via Maurizio Sella Sapa which owns 94% of Banca Sella Holding SpA (Exhibit 1). In DBRS’ view, the corporate governance risks potentially associated with the family ownership are mitigated by the Group’s limited exposure to the family.

Legally a bank, Banca Sella Holding SpA acts as the Group’s treasury and manages the funding with institutional counterparties, including the ECB, the Group’s trading portfolio, as well as the overall business strategy and planning. Deposit collection, lending to households and SMEs, and payment system business are provided via the main operating subsidiary, Banca Sella SpA which operates roughly 300 branches. Private banking and asset management products are offered via both the private banking unit of Banca Sella SpA and Banca Patrimoni Sella SpA, while corporate and investment banking services are provided by Sella CIB, created at end-2018.

In recent years, Sella has stepped up its investments in new technologies and digital banking. The Group has controlling interests in several start-up companies active in FinTech, digital payment systems and open banking platforms. These include Vipera Ltd, Fabrick SpA, Kubique SpA, and Axerve SpA which owns the digital banking platform “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 platforms 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, capital and operational risks.

Exhibit 1. Group Structure



Sources: Company data, DBRS. Group structure as of December 2018.

Earnings Power

Grid Grade: Moderate/Weak

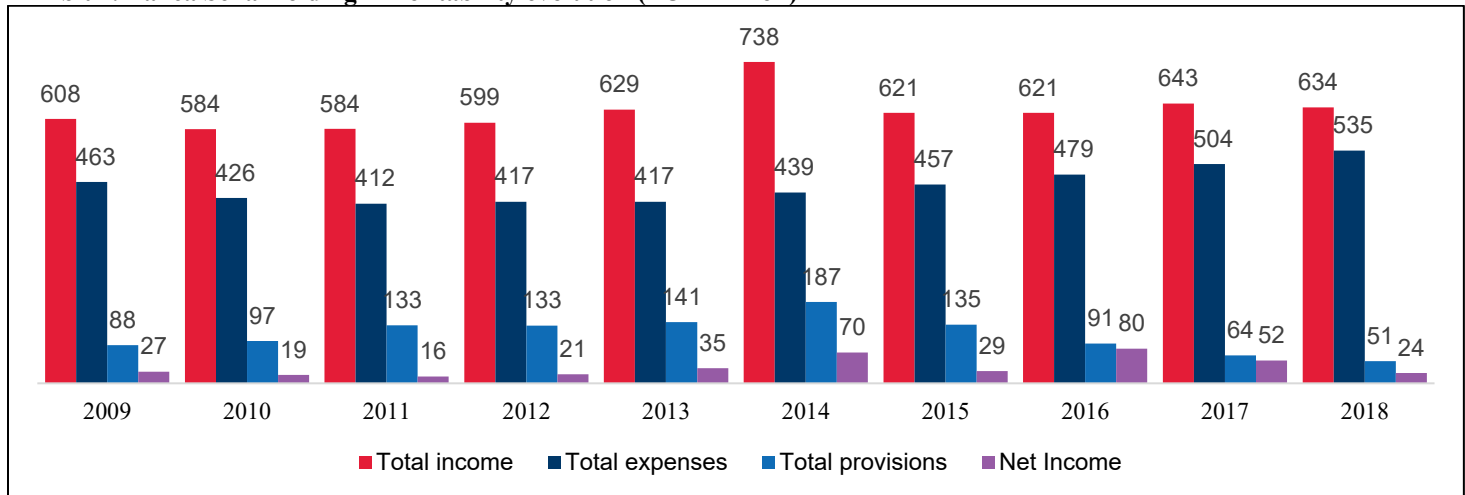
The Group's profitability remained modest in 2018 reflecting subdued net interest income and higher costs. Consolidated net income was EUR 24.1 million in FY18, down from EUR 52.2 million in FY17 (Exhibit 2). Nonetheless, the 2017 results were positively impacted by non-recurring items from asset disposals, including the sale of the minority stake in Compagnie Financière Martin Maurel.

The Group's net interest income continued to reflect pressure from the low interest environment and intense market competition, however fees and commissions, which account for the majority of the Group's total core revenues (55% in FY18), continued to benefit from the growth in the payment system and digital banking business.

Efficiency levels remained modest with the Group's FY18 cost to income ratio increasing to a level above 80%. Operating costs were up 9% year-on-year (YoY), based on the Bank's reclassified accounts, mainly due to the investments in digital banking and fintech. In DBRS's view, given the small dimension of its franchise, the Group has limited flexibility in reducing costs.

In 1Q19, Sella reported a net income of EUR 7.8 million, slightly down from EUR 8.4 million in 1Q18. During the same period, the Group's main operating entity, Banca Sella SpA, reported net income of EUR 5.6 million, down from EUR 7.6 million in 1Q18, mainly as a result of higher provisioning costs.

Exhibit 2. Banca Sella Holding - Profitability evolution (EUR million)



Sources: Source: DBRS Analysis, Copyright © 2019, S&P Global Market Intelligence*. Note: Total provisions include LLPs and impairments on financial assets. Consolidated numbers

Risk Profile

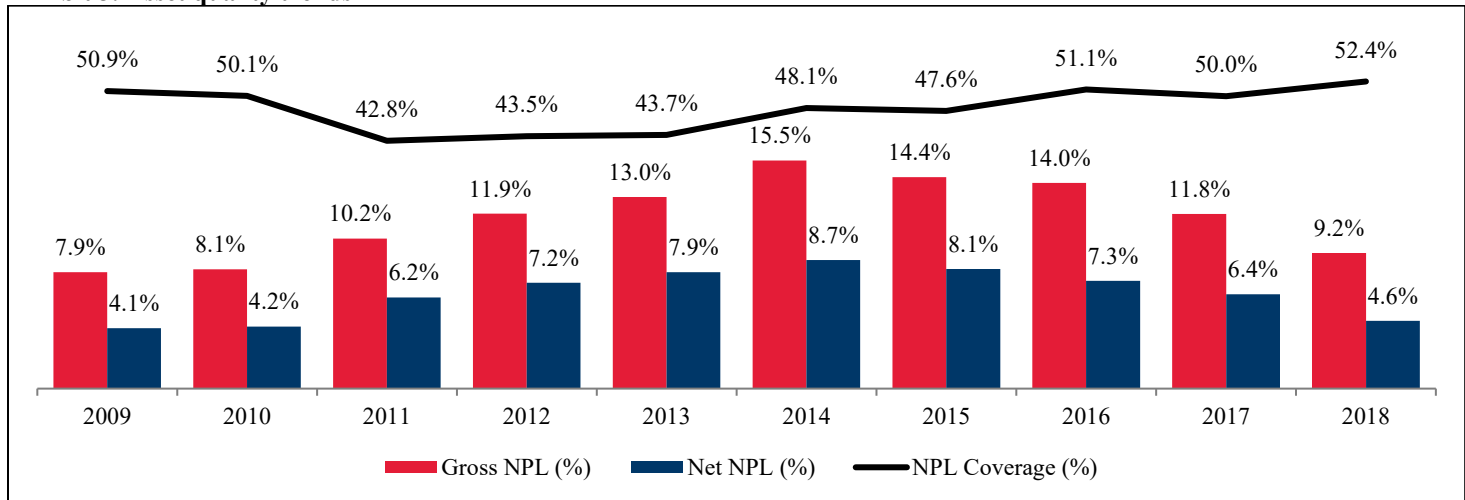
Grid Grade: Moderate

Approximately 85% of the Group's total risk weighted assets (RWAs) are linked to credit and counterparty risk. Most of the lending activity is carried out by the operating entity "Banca Sella SpA", which provides approximately 80% of the Group's net loans to customers. The Bank's lending is primarily to retail, SME and corporate clients and is largely represented by mortgages (46%), credit cards and personal loans (16%) and leasing (12%) at FY18.

Sella continues to make progress in reducing its stock of non-performing loans (Exhibit 3). However, its asset quality metrics continue to compare unfavourably with the European average. The gross NPL stock decreased to EUR 0.8 billion at end-2018 from EUR 1 billion at FY17. The improvement was mainly supported by approximately EUR 210 million of disposals and increasing recoveries. The gross NPL ratio decreased to 9.2% at FY18 from 11.9% at FY17, and decreased further to 9.0% in 1Q19. On a net basis, the NPL ratio decreased to 4.4% in 1Q19 from 6.4% at FY17, whereas the total Texas ratio was reported at 56.6%, down from 57.6% at FY18 and 66.1% at FY17.

Total NPL coverage strengthened to 53.3% in 1Q19 from 49.8% at FY17, with the coverage of bad loans (sofferenze) increasing to 63.7% from 59.8% at FY17 following the first-time adoption of the new accounting standard IFRS 9. At FY18, the coverage for unlikely-to-pay loans at 31% remains weaker compared to the Italian domestic peers.

Exhibit 3. Asset quality trends



Sources: DBRS, Company Reports. Note: Loans to customers net of financial securities.

Sella maintains a significant exposure to the Italian sovereign via its securities portfolio. Total government bonds outstanding at FY18 were EUR 2.6 billion, representing approximately 2.9 times the Group’s CET1 capital. As of December 2018, the Group’s trading book was EUR 371 million, with a duration of 1.67 years, interest rate sensitivity of EUR 15 million to a 100-bps parallel shift in the yield curve and a Value at Risk (3 months, 99% confidence) of circa EUR 30 million.

Funding and Liquidity

Grid Grade: Good

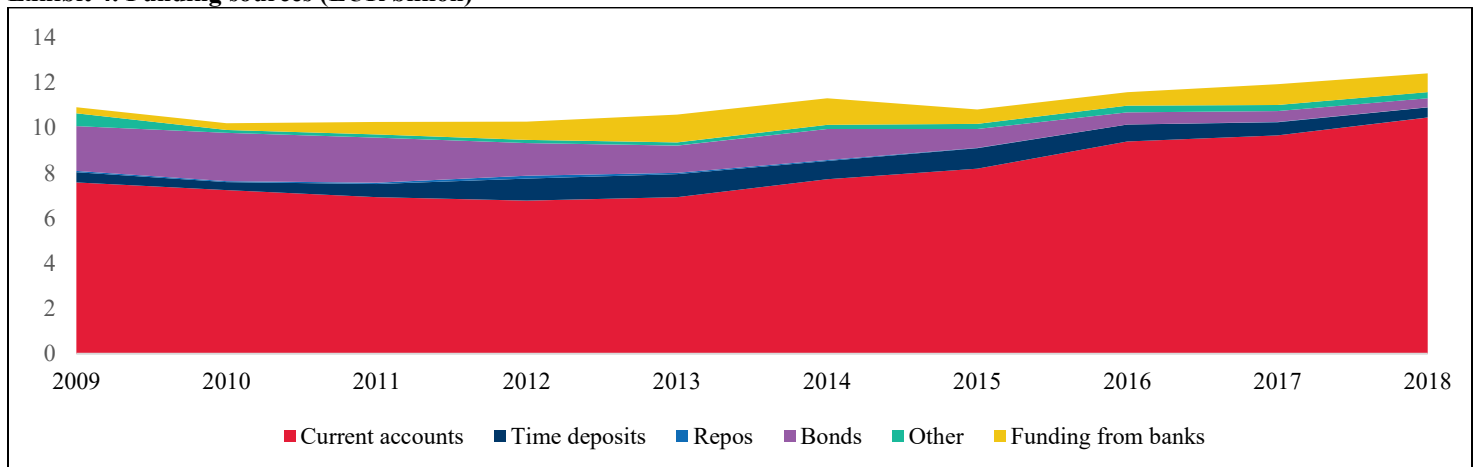
A stable and large deposit base underpins the Bank’s stable funding profile (Exhibit 4). At FY18, customer deposits, from retail and corporate clients, accounted for 90% of funding, with the bulk of Sella’s deposits being held by Banca Sella SpA, the Group’s commercial bank.

Current accounts and time deposits increased to EUR 10.9 billion from EUR 10.2 billion at FY17, with the net loan-to-deposit ratio at 68%, down from 72% in 2017. Concurrently, total bonds decreased to EUR 402 million from EUR 487 million in 2017, in line with Group’s strategy to reduce funding costs.

The Group’s wholesale funding mainly comprises the EUR 730 million of the ECB’s TLTRO II funds, with maturity expected between June 2020 and March 2021, as well as asset backed securities and subordinated bonds (Tier 2).

The Group’s liquidity position is underpinned by a sizable stock of eligible assets, mainly comprised by Italian sovereign bonds. At end-Q19, Sella reported a liquidity coverage ratio (LCR) of 191% and a net stable funding ratio (NSFR) of 129%.

Exhibit 4. Funding sources (EUR billion)



Sources: DBRS, Company Reports.

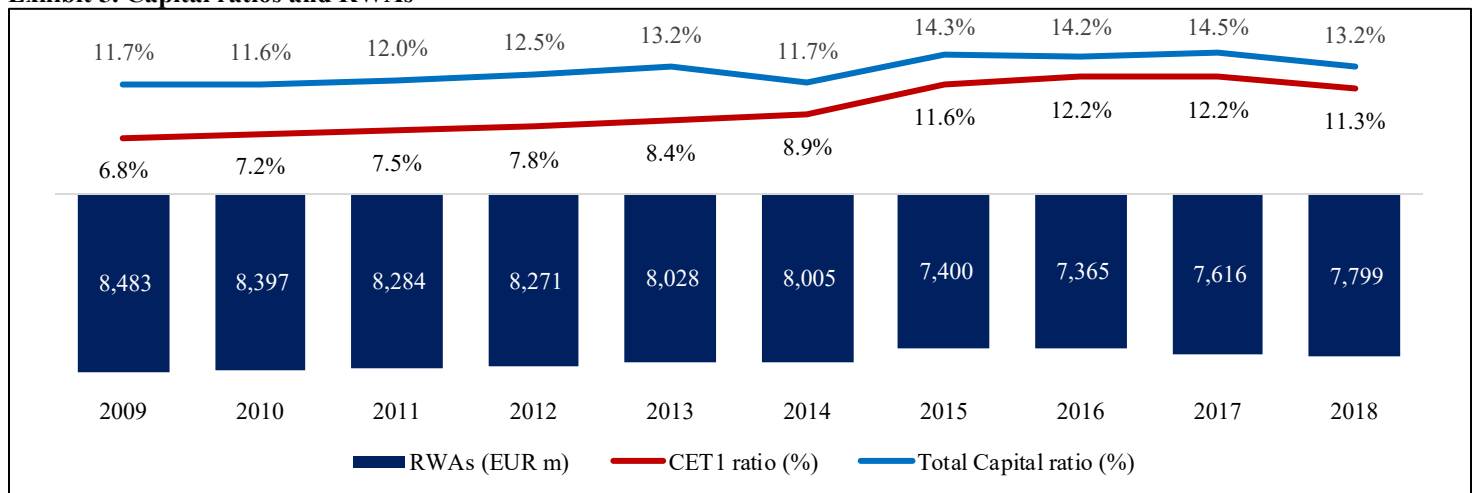
Capitalisation

Grid Grade: Moderate

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 (Exhibit 5). Banca Sella SpA, the main operating subsidiary, reported a CET1 ratio of 14.5% and TCR of 17.7% at end-1Q19.

The capital reduction was mainly driven by higher RWAs for credit risk in consumer finance, as well as acquisitions and ongoing investments in digital banking. Nevertheless, the Group’s capital ratios continue to provide adequate buffers over the minimum SREP requirements set by the Bank of Italy, which include a CET1 ratio of 7.28% and a total capital requirement of 11.0%. DBRS notes that these requirements increased by 65bps compared to the previous year, mainly due to the gradual implementation of the capital conservation buffer.

Exhibit 5. Capital ratios and RWAs



Sources: DBRS, Company Reports.. Notes: Core Tier 1 (%) from 2009-2013, CET1 (%) from 2014 (phased-in).

	Banca Sella Holding SpA	Banca Sella Holding SpA	Banca Sella Holding SpA	Banca Sella Holding SpA	Banca Sella Holding SpA
EUR Millions	2018Y	2017Y	2016Y	2015Y	2014Y
Balance Sheet	31/12/2018	31/12/2017	31/12/2016	31/12/2015	31/12/2014
Cash and Deposits with Central Banks	1,249	2,090	1,542	131	131
Lending to/Deposits with Credit Institutions	534	262	300	304	1,199
Financial Securities	1,232	2,409	2,604	2,997	3,790
Financial Derivatives Instruments	104	118	148	152	189
Net Lending to Customers	10,149	8,025	7,911	8,036	8,063
- Gross Lending to Customers	NA	8,560	8,563	8,675	8,764
- Loan Loss Reserves	NA	535	652	639	701
Investment in Associates or Subsidiaries	4	2	12	11	16
Total Intangible Assets	146	90	86	85	81
Fixed Assets	248	248	203	210	207
Insurance Assets	NA	NA	NA	0	54
Other Assets (including DTAs)	614	552	492	2,042	527
Assets	14,280	13,797	13,298	13,968	14,258
Deposits from Banks	829	924	604	639	1,178
Deposits from Central Banks	724	727	349	280	839
Deposits from Credit Institutions	105	197	255	359	340
Deposits from Customers	11,240	10,641	10,549	9,353	8,794
Issued Debt Securities	NA	131	215	476	1,019
Issued Subordinated Debt	NA	356	313	355	349
Financial Derivatives Instruments	98	117	143	147	177
Insurance Liabilities	0	0	0	0	1,315
Other Liabilities	1,035	513	391	1,955	558
Equity Attributable to Parent	888	924	895	832	774
Minority Interests	190	192	189	211	93
Liabilities & Equity	14,280	13,797	13,298	13,968	14,258

	Banca Sella Holding SpA	Banca Sella Holding SpA	Banca Sella Holding SpA	Banca Sella Holding SpA	Banca Sella Holding SpA
EUR Millions	2018Y	2017Y	2016Y	2015Y	2014Y
Income Statement	31/12/2018	31/12/2017	31/12/2016	31/12/2015	31/12/2014
Interest Income	302	286	309	345	428
Interest Expenses	64	62	69	93	123
Net Interest Income	238	224	240	253	305
Net Fees and Commissions	285	274	246	228	217
Results from Financial Operations	26	70	31	60	148
Equity Method Results	3	0	1	1	1
Net Income from Insurance Operations	0	0	0	0	-10
Other Operating Income	81	75	104	79	77
Total Operating Income	634	643	621	621	738
Staff Costs	260	246	237	230	225
Other Operating Costs	233	221	209	195	184
Depreciation/Amortisation	42	37	33	31	29
Total Operating Expenses	535	504	479	457	439
Income Before Provisions and Taxes (IBPT)	99	139	142	165	300
Loan Loss Provisions	50	48	83	129	181
Securities & Other Financial Assets Impairments	0	16	8	5	5
Other Impairments	1	0	0	1	1
Other Non-Operating Income (Net)	-1	0	50	0	0
Income Before Taxes (IBT)	48	75	101	30	113
Tax on Profit	17	18	9	8	43
Discontinued Operations	0	1	2	10	0
Other After-tax Items	0	0	0	0	0
Minority Interest	7	6	14	3	-1
Net Attributable Income	24	52	80	29	70

Source: DBRS Analysis, Copyright © 2019, S&P Global Market Intelligence*

	Banca Sella Holding SpA	Banca Sella Holding SpA	Banca Sella Holding SpA	Banca Sella Holding SpA	Banca Sella Holding SpA
	2018Y	2017Y	2016Y	2015Y	2014Y
Earnings Power					
Earnings					
Net Interest Margin (%)	1.86	1.68	1.92	2.03	2.37
Yield on Average Earning Assets (%)	2.35	2.14	2.46	2.77	3.31
Cost of Interest Bearing Liabilities (%)	0.52	0.49	0.58	0.82	1.10
IBPT over Avg Assets (%)	0.71	0.98	1.02	1.17	2.17
IBPT over Avg RWAs (%)	1.29	1.86	1.90	2.14	3.74
Expenses					
Cost / Income ratio (%)	84.35	78.34	77.13	73.48	59.39
Operating Expenses by Employee	122,602	122,767	116,068	109,948	105,390
LLP / IBPT (%)	50.07	34.23	58.19	78.46	60.26
Profitability Returns					
Return on Avg Equity (ROAE) (%)	2.66	5.74	9.07	3.55	9.56
Return on Avg Assets (ROAA) (%)	0.22	0.41	0.67	0.22	0.51
Return on Avg RWAs (%)	0.40	0.77	1.26	0.41	0.87
Dividend Payout Ratio (%)	NA	NA	NA	NA	NA
Risk Profile ⁽¹⁾					
Gross NPLs over Gross Loans (%)	7.25	11.75	13.96	14.33	15.44
Net NPLs over Net Loans (%)	3.15	5.86	6.86	7.51	8.10
NPL Coverage Ratio (%)	58.39	53.21	54.57	51.42	51.77
Net NPLs over IBPT (%)	322.03	337.88	382.05	366.52	217.69
Net NPLs over CET1 (%)	36.33	50.50	60.28	70.42	91.16
Texas Ratio (%)	50.32	60.92	68.86	73.91	86.33
Cost of Risk (%)	0.62	0.60	1.03	1.60	2.17
Level 2 Assets/ Total Assets (%)	0.47	0.33	0.36	0.37	0.49
Level 3 Assets/ Total Assets (%)	1.01	0.58	0.78	0.60	0.37
Funding and Liquidity					
Bank Deposits over Funding (%)	6.68	7.81	5.27	6.06	10.71
- Interbank over Funding (%)	0.88	1.79	2.29	3.47	3.35
- Central Bank over Funding (%)	5.80	6.02	2.99	2.59	7.37
Customer Deposits over Funding (%)	90.10	88.15	90.21	86.27	77.27
Wholesale Funding over Funding (%)	3.22	4.03	4.51	7.67	12.02
- Debt Securities over Funding (%)	0.67	1.08	1.84	4.39	8.95
- Subordinated Debt over Funding (%)	2.56	2.95	2.68	3.28	3.07
Liquid Assets over Assets (%)	21.11	34.51	33.43	24.57	35.91
Non-Deposit Funding Ratio (%)	14.86	16.09	13.64	27.64	34.33
Net Loan to Deposit Ratio (%)	90.29	75.42	74.99	85.92	91.69
LCR (Phased-in) (%)	178.00	170.50	219.50	197.90	180.00
NSFR (%)	131.80	129.60	124.00	122.40	116.10
Capitalisation					
CET1 Ratio (Phased-In) (%)	11.28	12.23	12.23	11.59	8.95
Tier 1 Capital Ratio (Phased-In) (%)	11.57	12.47	12.37	11.68	8.96
Total Capital Ratio (Phased-In) (%)	13.16	14.47	14.16	14.29	11.72
Tang. Equity / Tang. Assets (%)	6.59	7.48	7.55	6.89	5.54
Leverage Ratio (DBRS) (%)	6.27	6.86	6.89	6.24	5.12
Growth					
Net Attributable Income YoY (%)	-53.9	-34.4	179.1	-59.6	102.0
Net Fees and Commissions YoY (%)	4.2	11.4	7.7	5.2	-0.9
Total Operating Expenses YoY (%)	6.1	5.1	5.0	4.1	5.1
IBPT YoY (%)	-28.8	-2.0	-13.7	-45.1	41.7
Assets YoY (%)	3.5	3.7	-4.8	-2.0	6.7
Gross Lending to Customers YoY (%)	23.8	0.0	-1.3	-1.0	-1.2
Net Lending to Customers YoY (%)	26.5	1.4	-1.6	-0.3	-3.1
Loan Loss Provisions YoY (%)	4.2	-42.4	-36.0	-28.5	28.9
Deposits from Customers YoY (%)	5.5	0.9	12.7	6.1	6.6

Source: DBRS Analysis, Copyright © 2019, S&P Global Market Intelligence*. (1) Loans to customers include financial securities

Rating Methodology

The applicable methodology is the Global Methodology for Rating Banks and Banking Organisations (June 2019), which can be found on our website under Methodologies.

Ratings

Issuer	Obligation	Rating	Rating Action	Trend
Banca Sella Holding SpA	Long-Term Issuer Rating	BBB (low)	Confirmed	Stable
Banca Sella Holding SpA	Short-Term Issuer Rating	R-2 (middle)	Confirmed	Stable
Banca Sella Holding SpA	Long-Term Senior Debt	BBB (low)	Confirmed	Stable
Banca Sella Holding SpA	Short-Term Debt	R-2 (middle)	Confirmed	Stable
Banca Sella Holding SpA	Long-Term Deposits	BBB	Confirmed	Stable
Banca Sella Holding SpA	Short-Term Deposits	R-2 (high)	Confirmed	Stable
Banca Sella S.p.A.	Long-Term Issuer Rating	BBB (low)	Confirmed	Stable
Banca Sella S.p.A.	Short-Term Issuer Rating	R-2 (middle)	Confirmed	Stable
Banca Sella S.p.A.	Long-Term Senior Debt	BBB (low)	Confirmed	Stable
Banca Sella S.p.A.	Short-Term Debt	R-2 (middle)	Confirmed	Stable
Banca Sella S.p.A.	Long-Term Deposits	BBB	Confirmed	Stable
Banca Sella S.p.A.	Short-Term Deposits	R-2 (high)	Confirmed	Stable
Banca Sella S.p.A.	Mandatory Pay Subordinated Debt (ISIN: XS1311567314)	BB	Confirmed	Stable
Banca Sella S.p.A.	Mandatory Pay Subordinated Debt (ISIN: XS1687277555)	BB	Confirmed	Stable

Ratings History

Issuer	Obligation	Current	2018	2017	2016
Banca Sella Holding SpA	Long-Term Issuer Rating	BBB (low)	BBB (low)	BBB (low)	BBB (low)
Banca Sella Holding SpA	Short-Term Issuer Rating	R-2 (middle)	R-2 (middle)	R-2 (middle)	-
Banca Sella Holding SpA	Long-Term Senior Debt	BBB (low)	BBB (low)	BBB (low)	BBB (low)
Banca Sella Holding SpA	Short-Term Debt	R-2 (middle)	R-2 (middle)	R-2 (middle)	R-2 (middle)
Banca Sella Holding SpA	Long-Term Deposits	BBB	BBB	BBB (low)	-
Banca Sella Holding SpA	Short-Term Deposits	R-2 (high)	R-2 (high)	R-2 (middle)	-
Banca Sella S.p.A.	Long-Term Issuer Rating	BBB (low)	BBB (low)	BBB (low)	BBB (low)
Banca Sella S.p.A.	Short-Term Issuer Rating	R-2 (middle)	R-2 (middle)	R-2 (middle)	-
Banca Sella S.p.A.	Long-Term Senior Debt	BBB (low)	BBB (low)	BBB (low)	BBB (low)
Banca Sella S.p.A.	Short-Term Debt	R-2 (middle)	R-2 (middle)	R-2 (middle)	R-2 (middle)
Banca Sella S.p.A.	Long-Term Deposits	BBB	BBB	BBB (low)	-
Banca Sella S.p.A.	Short-Term Deposits	R-2 (high)	R-2 (high)	R-2 (middle)	-
Banca Sella S.p.A.	Mandatory Pay Subordinated Debt (ISIN: XS1311567314)	BB	BB	BB	BB (high)
Banca Sella S.p.A.	Mandatory Pay Subordinated Debt (ISIN: XS1687277555)	BB	BB	BB	-

Previous Actions

- [DBRS Confirms Banca Sella Holding SpA and Banca Sella SpA at BBB \(low\)/R-2 \(middle\); Stable Trend](#), May 14, 2019
- [DBRS Upgrades Deposit Ratings of Certain Italian Banks](#), December 14, 2018.
- [DBRS Confirms Banca Sella Holding SpA and Banca Sella SpA at BBB \(low\); Stable Trend](#), May 21, 2018.
- [DBRS Assigns BB Rating to Banca Sella's EUR 100 million Tier 2 Subordinated Debt](#), September 18, 2017.

Related Research

- [DBRS: TLTRO-III Removes Medium-Term Refinancing Risk at European Banks](#), June 18, 2019
- [DBRS: What's Next For European Banks' NPLs](#), June 4, 2019
- [Italian Banks made progress in 2018, but face uncertain environment](#), February 18, 2019
- [Italian Banks – Focus on NPLs to Continue in 2019; Stronger Economic and Market Headwinds](#), January 30, 2019

Previous Report

- Banca Sella Holding SpA, [Rating Report](#), July 19, 2018.

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