

Rating Action: Moody's confirms Banca Sella's Baa3 deposits ratings and changes outlook to negative

19 Oct 2020

Baseline Credit Assessment of ba2 confirmed

Paris, October 19, 2020 -- Moody's Investors Service, ("Moody's") today confirmed the Baa3 long-term deposits ratings of Banca Sella Holding S.p.A. (Banca Sella).

Moody's also confirmed the ba2 Baseline Credit Assessment (BCA) and Adjusted BCA.

Today's rating action concludes the review that was opened on 26 March 2020 ("Moody's takes actions on 15 Italian banks"; https://www.moodys.com/research/--PR_420258).

The rating agency also changed the outlook on the long-term deposits to negative from ratings under review.

The full list of affected ratings is at the end of the press release.

RATINGS RATIONALE

Today's action on Banca Sella's BCA reflects Moody's opinion that the bank will be able to maintain its solvency and liquidity within the difficult operating conditions related to the current economic downturn.

The confirmation of the bank's deposits ratings also reflects the stability of the bank's funding structure, which results in no change to the very low loss-given-failure on this instrument.

Over the last few years the bank has improved its asset quality by selling bad assets and reducing its stock of non-performing loans which will reach a low point of 6% of total loans by year-end 2020, slightly below the current average ratio reported by Italian banks. Nevertheless, the bank's loan book is concentrated on the small and medium-sized companies' segment, which Moody's considers makes it more vulnerable to the recession induced by the pandemic.

Despite the importance of the revenues stemming from its fee and commission-based activities, Banca Sella's recurrent profitability will come under pressure in the current low interest rate environment and likely rise in impairment charges, given Moody's expectation of a 10.8% drop in Italy's real GDP in 2020 followed by a partial 6.5% recovery in 2021, despite government and European Union supporting measures.

Banca Sella's capital is modest with a Common Equity Tier 1 (CET1) ratio at 11.6% as of June 2020 (on a phased-in and standardized approach). Moody's preferred measure of Tangible Common Equity / Risk-Weighted Assets is materially lower than this, given the bank's high exposure to Italian government bonds holdings, accounting for more than three times Banca Sella's equity. Banca Sella's capital ratio will however benefit from the partial sale of two subsidiaries ("Fabrik" and "Hype") on top of regulatory measures yet to be booked.

The bank recently slightly improved its liquidity, benefitting from increased European Central Bank funding through the targeted longer-term refinancing operations (TLTRO III). Banca Sella's liquid assets increased by €1.7 billion in the first half of 2020, accounting for the biggest share of the €2 billion increase of its total assets. Moody's anticipates that the bank's liquidity will remain sound. The bank's Liquidity Coverage Ratio increased to a high 211% as of June from 191% six months earlier.

OUTLOOK

The outlook on Banca Sella's long-term deposit ratings was changed to negative from ratings under review.

This reflects the deteriorating operating environment in Italy because of the coronavirus pandemic and the associated downside risks to the bank's standalone credit profile, particularly the likely rise in problem loans to small and medium-sized companies, falling profitability and potentially declining capital.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade of Banca Sella's BCA is unlikely given the negative outlook.

However, the deposits ratings could be upgraded if the bank were to issue more bail-in-able debt.

A downgrade of Banca Sella's BCA and Adjusted BCA of ba2 would likely lead to a downgrade of all its ratings and assessments. The BCA and Adjusted BCA could be downgraded in case of a material deterioration in the operating environment leading to a worsening of the bank's asset quality, capital, and profitability.

LIST OF AFFECTED RATINGS

Issuer: Banca Sella Holding S.p.A.

..Confirmations:

...Long-term Counterparty Risk Ratings, confirmed Baa2

...Short-term Counterparty Risk Ratings, confirmed P-2

...Long-term Bank Deposits, confirmed Baa3, outlook changed to Negative from Ratings under Review

...Short-term Bank Deposits, confirmed P-3

...Long-term Counterparty Risk Assessment, confirmed Baa2(cr)

...Short-term Counterparty Risk Assessment, confirmed P-2(cr)

...Baseline Credit Assessment, confirmed ba2

...Adjusted Baseline Credit Assessment, confirmed ba2

..Outlook Action:

...Outlook changed to Negative from Ratings under Review

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1147865. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Guy Combot
Vice President - Senior Analyst
Financial Institutions Group
Moody's France SAS
96 Boulevard Haussmann
Paris 75008
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Nicholas Hill
MD - Banking
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's France SAS
96 Boulevard Haussmann
Paris 75008
France
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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