MOODY'S INVESTORS SERVICE

CREDIT OPINION

27 July 2023

Update

Send Your Feedback

RATINGS

Banca Sella Holding S.p.A.

Domicile	Biella, 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Long Term Debt	Withdrawn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Outlook	Rating(s) WithDrawn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	Stable

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.

Contacts

Fabio Iannò +33.1.5330.3356
VP-Sr Credit Officer
fabio.ianno@moodys.com

Riccardo Magnoni +33.1.5330.3431
Associate Analyst
riccardo.magnoni@moodys.com

Alain Laurin +33.1.5330.1059
Associate Managing Director
alain.laurin@moodys.com

Banca Sella Holding S.p.A.

Update to credit analysis

Summary

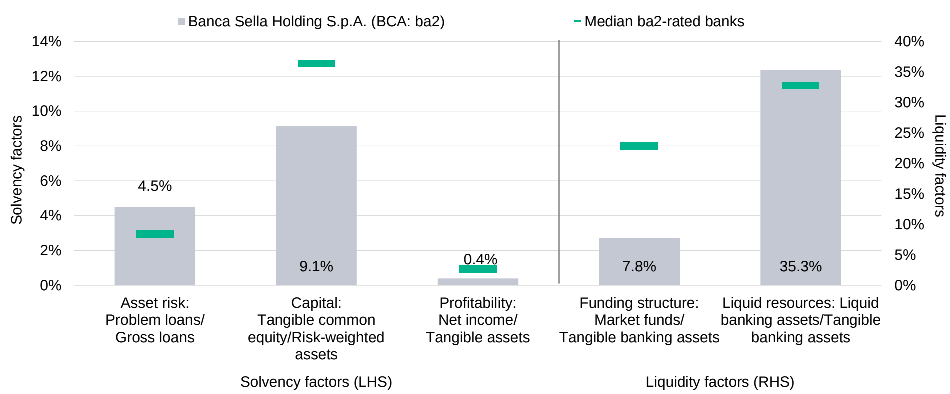
Banca Sella Holding S.p.A.'s (Sella) Baa3 deposit ratings are driven by the bank's ba2 standalone Baseline Credit Assessment (BCA) and very low loss given failure under our Advanced Loss Given Failure (LGF) analysis, which results in two notches of uplift.

Sella's BCA reflects the focus on SMEs lending as well as a significant role in the domestic payment services relative to the size of the bank and its high stock of nonperforming loans (NPLs). The BCA also factors in Sella's weak profitability under pressure from the high cost structure and rise of loan loss provisions, as well as the weak capitalisation. The BCA also considers the bank's sound retail funding and strong level of liquidity.

The outlook on Sella's deposit ratings is stable.

Exhibit 1

Rating Scorecard - Key financial ratios



Source: Moody's Investors Service

This report was republished on 20 October 2023 with corrected key financial ratios as of December 2022.

Credit strengths

» Strong retail funding profile

» High stock of liquid assets

Credit challenges

» High exposure to small and medium-sized enterprises (SMEs)

» Weak recurrent profitability

Outlook

The outlook on Sella's long-term deposit ratings is stable, reflecting expected steady performance over the next 12-18 months against a backdrop of high inflation and slowing economic growth.

Factors that could lead to an upgrade

Sella's deposit ratings could be upgraded following an upgrade of the BCA. An upgrade of the bank's BCA would be driven by a significant improvement in asset quality or a material strengthening of its capital position.

The deposit ratings could also be upgraded if the bank were to significantly increase its outstanding amount of senior unsecured or subordinated debt, or both.

Factors that could lead to a downgrade

A downgrade of Sella's BCA of ba2 would likely lead to a downgrade of its deposit ratings. The BCA could be downgraded in case of a significant deterioration in the bank's asset quality, capital and profitability.

The deposit ratings could also be downgraded if the bank's amount of senior unsecured or subordinated debt, or both, were to significantly reduce.

Key indicators

Exhibit 2
Banca Sella Holding S.p.A. (Consolidated Financials) [1]

	12-22[2]	12-21[2]	12-20[2]	12-19[2]	12-18[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	20,335.5	20,478.6	17,846.1	15,004.1	14,283.4	9.2[4]
Total Assets (USD Million)	21,703.0	23,204.4	21,835.7	16,842.1	16,328.0	7.4[4]
Tangible Common Equity (EUR Million)	910.2	849.7	767.5	757.8	748.9	5.0[4]
Tangible Common Equity (USD Million)	971.4	962.8	939.1	850.6	856.1	3.2[4]
Problem Loans / Gross Loans (%)	3.5	4.3	5.7	6.9	9.2	5.9[5]
Tangible Common Equity / Risk Weighted Assets (%)	9.1	8.3	8.0	7.9	8.3	8.3[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	32.6	37.9	47.5	54.0	64.2	47.2[5]
Net Interest Margin (%)	--	1.4	1.5	1.7	1.7	1.6[5]
PPI / Average RWA (%)	2.2	1.7	1.3	1.3	1.2	1.6[6]
Net Income / Tangible Assets (%)	0.5	0.4	0.2	0.3	0.2	0.3[5]
Cost / Income Ratio (%)	76.0	79.4	82.9	82.4	83.3	80.8[5]
Market Funds / Tangible Banking Assets (%)	7.8	13.1	11.8	4.4	7.6	8.9[5]
Liquid Banking Assets / Tangible Banking Assets (%)	35.3	41.5	40.7	34.4	35.4	37.5[5]
Gross Loans / Due to Customers (%)	65.1	63.6	65.4	69.8	74.6	67.7[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 because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Investors Service and company filings

Profile

Banca Sella Holding S.p.A. (Sella) is a small bank based in the north-west of Italy with total consolidated assets of €21.3 billion as of March 2023. The bank provides a broad range of financial services, including commercial banking, leasing, insurance, asset management, fund management, private banking, payment systems, brokerage and consumer finance. Sella benefits from a significant market share in payment services in Italy relative to its size, having a market share in the merchant acquiring and issuing businesses of 8.98% and 2.23%, respectively as of December 2022.

Sella operates in Italy through a network of more than 300 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. (23) as of December 2022.

Sella has developed open banking activities and services for the financial industry and a digital bank (called Hype) in a 50:50 joint venture with illimity Bank S.p.A. (illimity).

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

Detailed credit considerations

Weak asset quality with high exposure to SME segment

We view Sella's asset quality as one of its weaknesses. We assign an Asset Risk score of ba3, three notches below the initial Macro-Adjusted score. The score reflects our view on several aspects of the bank, such as its limited franchise despite diversified activities, some operational risks arising from its open banking activities for other banks, and its problem loan ratio and concentration on SMEs and Italian government bonds (Baa3 negative).

As of March 2023, the bank non-performing loan ratio stood at 3.7%, improving from 4.3% as of December 2021. This improvement was mainly driven by dynamic lending activity (+8.3% in 2022) and the sale of €60 million stock of non-performing loans in 2022. Despite these improvements, Sella's problem loan ratio is higher than the Italian banking system average of 2.8% as of December 2022[1] (last available data). We expect problem loans to increase in the next 12 to 18 months in a volatile economic environment, with still high inflation. The amount of Stage 2 loans as of December 2022 was €1.3 billion, or equivalent to 11.7% of Sella's gross loans, which compares favorably with the Italian average of 12.2% as of December 2022[2]. The coverage of non-performing loans as of the end of December 2022 was 49.5%, in line with the previous year but still below the Italian average of 53.5% as of December 2022[3].

Our Asset Risk score also factors in Sella's high loan concentration in the SME segment, accounting for around one-third of the total loan book which amounted €10.8 billion as of December 2022, although this is mainly in the economically stronger north of Italy, and is mitigated by good sectors diversification. Sella's investments in Italian government bonds also represent a significant share of the bank's assets, representing around 17% of total assets, overall in line with the Italian banks' average.

Weak capitalisation despite increasing regulatory capital buffer

We assign a b1 Capital score to Sella, one notch below the Macro-Adjusted score of ba3 to reflect expected risk-weighted assets (RWA) growth due to the bank's growth strategy and some moderate weakening in borrowers creditworthiness in the high interest rates environment. Sella's Moody's-adjusted tangible common equity (TCE)/RWA as of December 2022 was 9.1%, which is materially lower than the bank's CET1 ratio because of the bank's high exposure to the Italian government bond holdings, accounting for more than twice Sella's equity, to which we apply a 50% risk weight according to our Banks methodology[4].

As of March 2023, Sella's CET1 capital ratio stood at 13.3%, up from 12.3% as of December 2021. This improvement is mostly due to the adoption of advanced internal ratings-based models for the computation of RWA, authorized by Bank of Italy and adopted by the bank in September 2022. However, the CET1 still compares unfavourably with the Italian average as of December 2022, which was 15.3% according to the Bank of Italy [5] (last available data).

The bank's capital ratio is well above the CET1 prudential regulatory requirement set by the Bank of Italy. For 2022, this requirement was 7.65% including a 4.5% Pillar I requirement, a capital conservation buffer of 2.5% and a 0.65% Pillar II requirement based on the Supervisory Review and Evaluation Process (SREP).

Profitability under pressure from high administrative costs and loan loss provisions

We assign a profitability score of b1 to Sella, one notch below the initial Macro-Adjusted score. The adjustment reflects our expectation that Sella's profitability will be under pressure from loan loss provisions and a relatively high operating cost structure.

Sella reported a net income of €91.9 million in 2022, corresponding to a return on assets of 0.5%, compared to adjusted net income in 2021 of €56.0 million[6] Sella's profitability in 2022 benefited from the higher interest rate environment and from the ongoing rise in electronic payment transactions, in which the bank has significant market presence. This was reflected in higher net interest income (+42.6% year on year, YoY) and higher net fees and commission income (+7.5% YoY). Compared with banks of similar size, Sella's revenue is well diversified; fee and commission income accounted for around 47% of its revenue in year-end 2022 increasing to about €400 million from €372 million a year earlier.

In Q1 2023, Sella posted a net income of €48.0 million, which however included approximately €15.7 million non-recurring gain from the sale to Sesa group of the open finance services. Recurring net income for the period would therefore be €32.3 million, slightly lower than €35.0 million reported a year earlier. This result was mainly affected by higher operating costs (+13.3% YoY) mainly due to inflationary pressure and higher loan loss provisions (+77.5% YoY) following deteriorated macroeconomic assumptions for the computation of the cost of risk. This increase in costs was partially offset by the hike in net interest income (+60.0% YoY) driven by the higher interest rates.

Moody's-calculated cost-to-income ratio in 2022 improved to 76.0% from 79.4% one year earlier, but still reflects a high administrative cost base, which also included large investment costs mainly on new technologies. The improvement in the ratio is primarily driven by an increase in revenues higher than the dynamic growth of costs.

Sella reported a cost of risk of 37 bps in 2022, below the 58 bps booked in 2021, but we expect the higher inflow of problem loans and NPL disposals to require higher provisioning in 2023. We expect in particular the volatile economic environment coupled with high inflation to weigh on Sella's SME loan book quality.

Strong retail funding profile and large stock of liquid assets

Funding is one of the strengths of Sella, with a loan-to-deposit ratio below 66% as of December 2022. The a3 Funding Structure score, which is in line with the initial Macro-Adjusted score, reflects the bank's strong retail deposit base, and strong liquidity, which has so far limited the need to issue bonds in the wholesale markets.

As of December 2022, Sella's wholesale funding represented only around 8% of its funding needs, and was mainly made of the European Central Bank's (ECB) targeted longer-term refinancing operations (TLTRO III) borrowing. As of the end of December 2022, after having repaid €0.9 billion TLTRO III, the bank had €1.3 billion in ECB TLTRO III funding outstanding. In February 2023, Sella issued its first €100 million green bond in the market.

In our analysis, we deduct the part of ECB TLTRO that is redeposited at the ECB (in excess to the ordinary amount) from banks' funding ratios, liquidity ratios and tangible banking assets. This resource, which is not used to fund a bank's normal activity but rather to benefit from current attractive remuneration terms, will only be relied upon temporarily.

Sella's liquid resources score is baa2, two notches below the initial Macro-Adjusted score, to reflect some asset encumbrance. Sella's liquidity is a key strength, accounting for 35.3% of its tangible banking assets as of December 2022. The structural excess liquidity is mainly invested in highly liquid domestic sovereign debt.

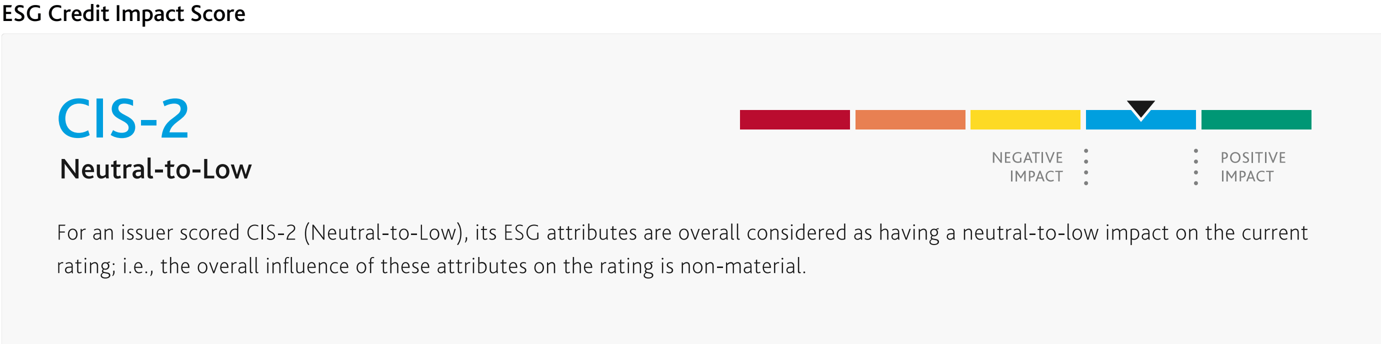
In addition, Sella has a portfolio of government bonds amounting to €3.7 billion as of December 2022, with a total of €2.9 billion classified at amortized cost, which exposes the bank to market risk as the market value of government bonds have decreased following the sharp rise in interest rates.

As of March 2023, the bank reported a liquidity coverage ratio (LCR) of 167% and a net stable funding ratio of 127%. We expect the LCR to be maintained at good levels even after the full repayment of TLTRO III.

ESG considerations

Banca Sella Holding S.p.A.'s ESG Credit Impact Score is Neutral-to-Low CIS-2

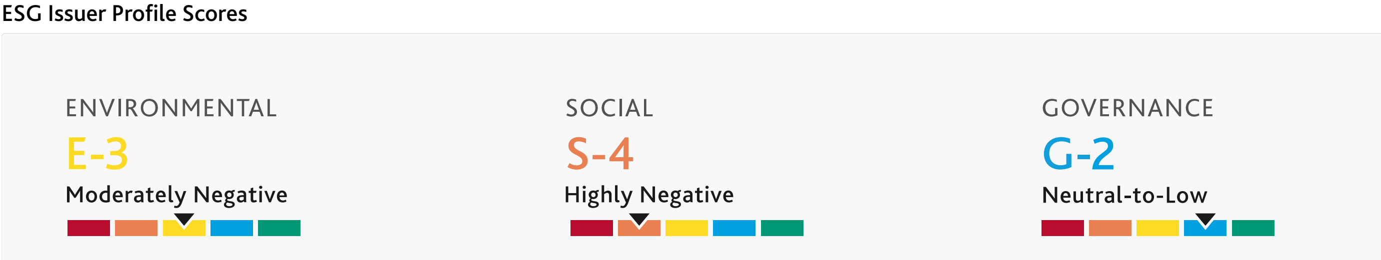
Exhibit 3
ESG Credit Impact Score



Source: Moody's Investors Service

Sella's ESG Credit Impact Score is neutral-to-low (**CIS-2**), reflecting the limited credit impact of environment and social factors on the ratings to date and neutral-to-low governance risks.

Exhibit 4
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

Sella faces moderate exposure to environmental risks primarily because of its portfolio exposure to carbon transition risks as a diversified bank operating in Italy. In line with its peers, Sella is facing mounting business risks and stakeholders' pressure to meet more demanding carbon transition targets. In response, Sella has taken steps to further develop its comprehensive risk management and climate risk reporting frameworks.

Social

Sella faces high industrywide social risks related to regulatory risk and litigation exposure, in particular in the area of customer relationships, and is required to meet high compliance standards. These risks are mitigated by the bank's developed policies and procedures. High cyber and personal data risks are mitigated by a sound IT framework.

Governance

Sella faces neutral-to-low governance risks because its risk management, policies and procedures are in line with industry practices. Sella is controlled by a single family, therefore exposed to potential excessive influence by the family over the board. This risk is mitigated by the high number of independent board members and Italy's developed institutional framework. Moreover, Sella family's interests are concentrated in banking activities hence the risk entailed with related party exposures is negligible.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Loss Given Failure (LGF) analysis

Sella is subject to the EU Bank Recovery and Resolution Directive, which is an operational resolution regime. Our analysis assumes a residual TCE of 3%, 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 assumptions 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 Sella's deposits are likely to face a 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, the subordinated and senior unsecured debt, and the volume of junior deposits.

Government support considerations

There is a low likelihood of government support for 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 Sella being significantly smaller than the country's two largest banks.

Counterparty Risk (CR) Assessment

Sella's CR Assessment is Baa2(cr)

The long-term CR Assessment of Baa2(cr) is three notches above the bank's standalone BCA, based on the substantial buffer against default provided by substantial subordinated instruments to the senior obligations represented by the CR Assessment. The low probability of government support does not result in any further uplift.

Counterparty Risk Ratings (CRRs)

Sella's CRRs are Baa2

The long-term CRRs of Baa2 are three notches above the bank's standalone BCA. The uplift derives from the buffer against default provided to the operating obligations by substantial bail-in-able debt and deposits. The low probability of government support does not result in any further uplift.

Rating methodology and scorecard factors

Exhibit 5

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		4.5%	baa3	↓↓	ba3	Expected trend	Sector concentration
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)		9.1%	ba3	↓	b1	Expected trend	
Profitability							
Net Income / Tangible Assets		0.4%	ba3	↔	b1	Expected trend	Earnings quality
Combined Solvency Score			ba2		b1		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		7.8%	a3	↔	a3		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		35.3%	a3	↔	baa2	Stock of liquid assets	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		
BCA Scorecard-indicated Outcome - 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	3,160	15.7%	4,811	23.9%
Deposits	16,183	80.4%	14,532	72.2%
Preferred deposits	11,975	59.5%	11,377	56.5%
Junior deposits	4,208	20.9%	3,156	15.7%
Senior unsecured bank debt	1	0.0%	1	0.0%
Dated subordinated bank debt	184	0.9%	184	0.9%
Equity	604	3.0%	604	3.0%
Total Tangible Banking Assets	20,132	100.0%	20,132	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	19.6%	19.6%	19.6%	19.6%	3	3	3	3	0	baa2
Counterparty Risk Assessment	19.6%	19.6%	19.6%	19.6%	3	3	3	3	0	baa2 (cr)
Deposits	19.6%	3.9%	19.6%	3.9%	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 6

Category	Moody's Rating
BANCA SELLA HOLDING S.P.A.	
Outlook	Stable
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 Bank of Italy, Financial Stability Report No. 1/2023.

2 EBA Q4 2022 data dashboard

3 EBA Q4 2022 data dashboard

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 Bank of Italy, Financial Stability Report

6 Reported net profit for 2021 was €108.3 million which included €57.3 million of non-recurring capital gain related to the effects of the joint venture operation in Hype with illimity bank.

REPORT NUMBER 1350624

CLIENT SERVICES

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

MOODY'S INVESTORS SERVICE