

Rating Action: Moody's affirms Sella's Baa3 deposit ratings and changes outlook to stable

01 Jul 2022

Paris, July 01, 2022 -- Moody's Investors Service ("Moody's") today affirmed the Baa3 long-term deposit ratings of Banca Sella Holding S.p.A. (Sella) and the long-term Counterparty Risk Ratings (CRR) of Baa2.

Moody's also affirmed the ba2 Baseline Credit Assessment (BCA).

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

A full list of affected ratings and assessments can be found at the end of this press release.

RATINGS RATIONALE

The affirmation of Sella's BCA of ba2 reflects Moody's unchanged view on the bank's limited franchise, its weak solvency but also its sound liquidity profile.

Moody's views Sella's asset quality as one of its weaknesses. Sella's loan portfolio remains structurally concentrated on the small and medium-sized companies' segment, which Moody's considers makes it more vulnerable to economic downturns. The bank improved its problem loan ratio by completing disposals but also because of a dynamic lending activity (+15% between December 2019 and December 2021). Despite this improvement Sella's problem loan ratio is at 4.3% of total loans in December 2021 compared to the Italian average of 3.4% according to the Bank of Italy.

Moody's measure of Tangible Common Equity (TCE) / risk-weighted assets (RWA) is at a weak 8.3% as of December 2021 materially lower than the reported Common Equity Tier 1 (CET1) ratio of 12.3%. This is because of Moody's adjustment on the bank's material investment in Italian government bonds which are 50% risk weighted as per Moody's calculation of capital ratios.

Sella's recurrent profitability remains limited. The return on assets adjusted by Moody's for exceptional items was a mere 0.2% in 2021. The bank faces high level of administrative costs with a cost to income ratio of 79.4% at December 2021 according to Moody's. This is due to the large investments required by its focus on new technologies, which is compounded by Sella's lack of scale. On its traditional lending activity, Sella also bears significant loan loss provisions : it was 50 basis points (bps) in 2021 and 76bps in 2020 according to Moody's estimates.

Nevertheless, Sella's funding and liquidity profiles are sound. Sella's structural excess of deposits over loans, reflected by a loan to deposit ratio of 64% at year-end 2021, offers ample liquidity buffers. Hence the bank doesn't rely on the wholesale bond market. Its extensive use of the European Central Bank's Targeted longer-term refinancing operations (TLTRO) is solely driven by current attractive remuneration terms.

The Baa3 long-term deposit ratings of Sella benefits from an unchanged very low loss given failure under Moody's Advanced Loss Given Failure (LGF) analysis. This results in two notches of uplift for deposit ratings from the BCA.

Moody's also left unchanged its assumption of a low probability of government support in view of the small size of Sella. This results in no additional rating uplift for long-term deposit ratings.

OUTLOOK

The change of the outlook on Sella's long-term deposit ratings to stable from negative firstly reflects Moody's view that the bank was successful in protecting its soundness against a challenging environment.

Secondly the stable outlook assumes that the bank's financials will remain broadly unchanged over the next 12-18 months despite the deteriorated operating conditions in Italy. Moody's expects Italian GDP to grow by 2.3% in 2022 and 1.7% in 2023 compared with a 6.6% in 2021.

In Moody's view the Italian banking system will witness a moderate asset quality deterioration also considering the gradual withdrawal of the public support measures adopted during the pandemic. However, Sella's further disposals of problem loans will somehow offset new inflows.

Sella's capital ratios will only slightly improve in the mid-term despite the adoption of an internal ratings-based model for the computation of its RWAs because the capital gain will be partially absorbed by lending growth.

Moody's also expects Sella's recurrent profitability to remain subdued despite expected rise of interest income and fees and commissions.

In its forward-looking view, Moody's also factored in that Sella's liquidity and funding profile will remain sound.

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

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

The deposit ratings could be also upgraded if the bank were to significantly issue senior unsecured or subordinated debt, or both.

Conversely, a downgrade of Sella's BCA of ba2 would likely lead to a downgrade of all its ratings and assessments. The 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. The deposit ratings could be also downgraded if the bank's amount of senior unsecured or subordinated debt, or both were to significantly reduce.

LIST OF AFFECTED RATINGS

Issuer: Banca Sella Holding S.p.A.

..Affirmations:

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

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

....Long-term Bank Deposits, affirmed Baa3, outlook changed to Stable from Negative

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

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

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

....Baseline Credit Assessment, affirmed ba2

....Adjusted Baseline Credit Assessment, affirmed ba2

..Outlook Actions:

....Outlook changed to Stable from Negative

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/api/rmc-documents/71997> . Alternatively, please see the Rating Methodologies page on <https://ratings.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 on <https://ratings.moodys.com/rating-definitions> .

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