

## CREDIT OPINION

11 December 2017

Update

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### RATINGS

#### Banca Sella Holding S.p.A.

Domicile	Italy
Long Term Debt	Withdrawn
Type	Senior Unsecured - Dom Curr
Outlook	Rating(s) WithDrawn
Long Term Deposit	Baa3
Type	LT Bank Deposits - Fgn Curr
Outlook	Negative

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.

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## Banca Sella Holding S.p.A.

### Update to credit analysis

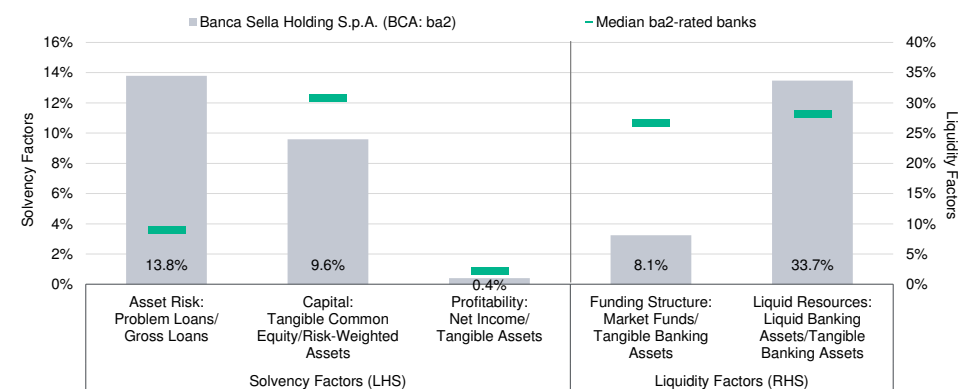
#### Summary Rating Rationale

[Banca Sella Holding S.p.A.](#)'s (Banca Sella) Baa3 deposit rating is driven by the bank's ba2 standalone baseline credit assessment (BCA) and very low loss-given-failure under our Loss Given Failure (LGF) analysis.

Banca Sella's BCA is driven by the bank's modest capital, large stock of problem loans, and weak profitability, offset by sound liquidity.

Exhibit 1

#### Rating Scorecard - Key Financial Ratios



Source: Moody's Financial Metrics

### Credit Strengths

- » Retail funding profile and large stock of liquid assets

### Credit Challenges

- » Modest capital
- » Large stock of problem loans
- » Weak but improving profitability

### Rating Outlook

The outlook on Banca Sella's long-term deposit ratings is negative, reflecting our expectations that the outstanding bail-in-able liabilities will continue to reduce over time, thereby increasing the loss-given-failure for deposits.

## Factors that Could Lead to an Upgrade

Banca Sella's BCA could be upgraded following further improvements in capital, a larger than-expected reduction in the stock of problem loans and an improvement in profitability.

The deposit rating could be upgraded following an upgrade in the BCA or an increase in the stock of bail-in-able debt reducing the loss-given-failure of deposits.

## Factors that Could Lead to a Downgrade

Banca Sella Holding's BCA could be downgraded following a material increase in the stock of problem loans or net losses reducing capital.

The deposit ratings could be downgraded following a downgrade of the BCA or as a result of a reduction in the stock of bail-in-able debt increasing the loss-given-failure of deposits.

## Key indicators

Exhibit 2

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

	6-17 <sup>2</sup>	12-16 <sup>2</sup>	12-15 <sup>2</sup>	12-14 <sup>2</sup>	12-13 <sup>3</sup>	CAGR/Avg. <sup>4</sup>
Total Assets (EUR million)	14,254	13,298	12,451	14,258	13,360	1.9 <sup>5</sup>
Total Assets (USD million)	16,257	14,026	13,525	17,253	18,410	-3.5 <sup>5</sup>
Tangible Common Equity (EUR million)	813	779	700	674	616	8.3 <sup>5</sup>
Tangible Common Equity (USD million)	928	821	760	816	849	2.6 <sup>5</sup>
Problem Loans / Gross Loans (%)	11.6	14.0	14.3	15.4	13.0	13.7 <sup>6</sup>
Tangible Common Equity / Risk Weighted Assets (%)	9.6	9.3	8.1	7.4	6.7	8.6 <sup>7</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	76.4	83.5	92.8	98.4	98.8	90.0 <sup>6</sup>
Net Interest Margin (%)	1.8	1.9	1.9	2.2	2.3	2.0 <sup>6</sup>
PPI / Average RWA (%)	2.5	1.5	1.9	3.3	2.4	2.3 <sup>7</sup>
Net Income / Tangible Assets (%)	0.6	0.3	0.2	0.5	0.3	0.4 <sup>6</sup>
Cost / Income Ratio (%)	69.0	78.4	73.0	58.2	65.7	68.9 <sup>6</sup>
Market Funds / Tangible Banking Assets (%)	13.5	8.1	10.4	18.9	18.8	13.9 <sup>6</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	35.5	33.7	27.8	30.3	24.7	30.4 <sup>6</sup>
Gross Loans / Due to Customers (%)	83.2	81.9	92.7	100.0	108.8	93.3 <sup>6</sup>

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel III - fully-loaded or transitional phase-in; IFRS [3] Basel II; IFRS [4] May include rounding differences due to scale of reported amounts [5] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime [6] Simple average of periods presented for the latest accounting regime. [7] Simple average of Basel III periods presented

Source: Moody's Financial Metrics

## Profile

[Banca Sella Holding S.p.A.](#) provides a range of financial services, including commercial banking, leasing, insurance, asset management, fund management, private banking, payment systems, brokerage and consumer finance through 17 subsidiaries (including one in liquidation). The group reported total consolidated assets of €13.3 billion at the end of December 2016.

As of 31 December 2016, Banca Sella Holding operated in Italy through a network of 300 branches, including its head office and the branches of its subsidiaries, Banca Sella S.p.A. (287) and Banca Patrimoni Sella & C. S.p.A. (12).

Banca Sella Holding traces its origins to 1886 with the formation of Banca Gaudenzio Sella & Co., a limited partnership established by members of the Sella family. It acquired its current name in March 2008. The group is almost fully owned by the Sella family.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## Detailed Rating Considerations

### Large stock of problem loans

We view Banca Sella Holding's asset risk as a key weakness, and we score it b2, in line with the bank's macro-adjusted score.

In the first half of 2017 Banca Sella reported problem loans<sup>1</sup> of 11.6% of gross loans, a reduction from the 14% reported in 2016 following the sale of problem loans. Banca Sella's stock of problem loans, although high, compares favourably with the 16.4% system average at June 2017<sup>2</sup>.

Coverage of problem loans is now 48%, lower than the 53.5% average for Italian banks. The decrease with respect to the 51% reported in December 2016 is due to the sale of problem loans, which were characterised by a higher coverage level.

### Modest capital

We view Banca Sella Holding's capital as modest, both in terms of risk-adjusted and absolute level (leverage). Our score for capital is ba3 in line with the macro-adjusted score.

In June 2017 the bank reported a Common Equity Tier 1 (CET1) ratio of 12.1%<sup>3</sup>, and Tangible Common Equity to adjusted risk-weighted assets of 9.6%<sup>4</sup>; the difference mostly derives from our adjustment that we apply to government bonds of Italy and some other European countries<sup>5</sup>.

Banca Sella undertook a series of measures aimed at improving its CET1 ratio, which rose to 12.2% in December 2016 from 9% in December 2014. In particular, the group executed (i) a €120 million capital increase at its commercial banking subsidiary Banca Sella SpA (unrated), (ii) the sale of its insurance subsidiary CBA Vita (unrated), and (iii) the sale of a stake in [Istituto Centrale delle Banche Popolari Italiane](#) (corporate family rating Ba2, stable outlook).

### Weak but improving profitability

Banca Sella's profitability is weak; our score is ba3, in line with the macro-adjusted score.

Compared with banks of similar size, Banca Sella's revenues are better diversified; its net profits have been sustained by the group's government bond trading and wealth management business.

In June 2017, Banca Sella reported a net profit equivalent to 0.6% of tangible assets, up from 0.3% in December 2016. However, both periods were affected by extraordinary items: the June 2017 result was positively affected by the sale of an equity stake and negatively affected by the write-down of the investment in the Atlante bank rescue fund and the voluntary contributions to the Interbank Deposit Protection Fund; the 2016 result was positively affected by the €50 million gain from the sale of Banca Sella's insurance subsidiary CBA Vita and the investment VISA Europe.

Pre-provision income increased to 2.5% of average risk-weighted assets from 1.5% and efficiency (as measured by the cost-to-income ratio) improved to 69% from 78% in December 2016. Furthermore, the bank reported a significant decrease in loan loss charges from €82 million to €26 million. We expect lower provisions to support profitability next year.

### Retail funding profile and large stock of liquid assets

The a3 score for funding structure, in line with the macro-adjusted score, reflects the bank's retail funding profile, the bank's key strength.

Banca Sella's wholesale funding represents just 8.1% of the bank's tangible banking assets. This is limited to the ECB's TLTRO II facility, which has been used to purchase government bonds and boost profitability.

Compared to larger banks, Banca Sella's funding is therefore less diversified, with no wholesale bonds, covered bonds or securitisations. We do not expect these to be needed however, in case of need, it would take time to set up, for example, a covered bond program or a securitisation.

Our score for liquid resources is baa1, in line with the macro-adjusted score, reflecting a large stock of liquid assets (mostly composed of Italian government bonds) which represent 34% of tangible banking assets.

### Family ownership is neutral for Banca Sella Holding's ratings

Banca Sella is almost entirely owned by the Sella family, appointing all board members. Although the family ownership could potentially affect the independence of risk management and controls, we view it as neutral for the bank's ratings, considering the following mitigating factors: (1) there is sufficient transparency of the ownership structure, which includes holdings incorporated in Italy as opposed to less transparent jurisdictions; (2) related parties exposures are limited and publicly disclosed according to international best practices; and (3) other non-banking businesses of the Sella family are non material, reducing potential conflict of interests between the bank and other activities.

## Notching Considerations

### Loss Given Failure

Banca Sella is subject to the EU Bank Recovery and Resolution Directive (BRRD), which we consider to be an Operational Resolution Regime. Our analysis assumes residual tangible common equity of 3% and losses post-failure of 8% of tangible banking assets, a 25% run-off in "junior" wholesale deposits, a 5% run-off in preferred deposits and 26% of junior deposits over total deposits. These 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 Loss Given Failure analysis indicates that Banca Sella Holding's deposits are likely to face very low loss-given-failure, leading to an uplift of two notches above the Adjusted BCA. This is due to the loss absorption provided by the residual equity that we expect in resolution, subordinated debt and senior unsecured debt, as well as the volume of deposits themselves, and it is supported by the combination of deposit volume and subordination.

### Government Support

We believe that there is a low likelihood of government support for Banca Sella's debt and rated wholesale deposits in the event of its failure, which does not result in any uplift; this probability reflects the bank's position in the Italian market, with Banca Sella being significantly smaller than the country's two largest banks. As such, we do not believe Banca Sella to be a sufficiently systemically important bank to give any uplift to the ratings.

### Counterparty Risk Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default, and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g. swaps), letters of credit, guarantees and liquid facilities.

### **Banca Sella's Counterparty Risk Assessment (CR Assessment) is positioned at Baa2(cr)/P-2(cr).**

The CR Assessment is positioned three notches above the bank's BCA. Banca Sella's CR Assessment is driven by the bank's ba2 BCA, and by substantial bail-in-able debt and deposits likely to support the operating obligations. Low probability of government support does not result in any further uplift.

## Rating methodology and scorecard factors

Exhibit 3

Banca Sella Holding S.p.A.

### Macro Factors

<b>Weighted Macro Profile</b>	<b>Moderate</b>	<b>100%</b>
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Factor	Historic Ratio	Macro Adjusted Score	Credit Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	13.8%	b2	← →	b2	Quality of assets	
Capital						
TCE / RWA	9.6%	ba3	← →	ba3	Expected trend	
Profitability						
Net Income / Tangible Assets	0.4%	ba3	↓	ba3	Expected trend	
Combined Solvency Score		b1		b1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	8.1%	a3	← →	a3	Market funding quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	33.7%	baa1	← →	baa1	Stock of liquid assets	
Combined Liquidity Score		a3		a3		
Financial Profile						
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				Baa2		
Scorecard Calculated BCA 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	2,772	19.6%	3,855	27.2%
Deposits	10,613	74.9%	9,531	67.3%
Preferred deposits	7,854	55.4%	7,461	52.7%
Junior Deposits	2,759	19.5%	2,070	14.6%
Senior unsecured bank debt	66	0.5%	66	0.5%
Dated subordinated bank debt	292	2.1%	292	2.1%
Equity	425	3.0%	425	3.0%
Total Tangible Banking Assets	14,168	100%	14,168	100%

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 Assessment	20.1%	20.1%	20.1%	20.1%	3	3	3	3	0	baa2 (cr)
Deposits	20.1%	5.1%	20.1%	5.5%	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
Deposits	2	0	baa3	0	Baa3	Baa3

Source: Moody's Financial Metrics

## Ratings

Exhibit 4

Category	Moody's Rating
<b>BANCA SELLA HOLDING S.P.A.</b>	
Outlook	Negative
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](#) Problem loans is the sum of three categories (from worst to best): (1) Bad loans (in Italian, "sofferenze"; (2) Unlikely to pay (in Italian, "inadempienze probabili"); (3) Past Due - by more than 90 days (in Italian, "esposizioni scadute e/o sconfinanti". For further details please refer to our Sector In-Depth entitled "[Italian Banks Implement New Problem Loan Definition; Our View on Asset Risk Is Unchanged](#)", published in October 2015.
- [2](#) Source: Bank of Italy, Financial Stability Report published in November 2017.
- [3](#) Source: Banca Sella Holding S.p.A.'s semiannual June 2017 financial statement.
- [4](#) Unless noted otherwise, data in this report is sourced from company reports and Moody's Banking Financial Metric.
- [5](#) 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.

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