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DBRS Confirms Banca Sella Holding SpA and Banca Sella SpA at BBB (low); Trend changed to Stable

Industry: Fin.Svc.--Banks & Trusts

DBRS has today confirmed the Issuer and Senior Long-Term Debt and Deposit Rating for Banca Sella Holding SpA (Sella or the Group) and its main operating subsidiary, Banca Sella SpA, at BBB (low). Concurrently, DBRS confirmed Banca Sella Holding SpA and Banca Sella SpA's Short-Term Debt and Deposit Rating at R-2 (middle). The trend on the ratings was changed to Stable from Negative. The rating on Banca Sella SpA's Mandatory Pay Subordinated Debt (ISIN: XS1311567314) of BB (high) remains Under Review with Negative Implications (URN) due to DBRS' specific review on European Subordinated Debt. The support assessment remains unchanged at SA3 for Banca Sella Holding, and SA1 for Banca Sella SpA.

The confirmation of the ratings and the Stable trend reflect the Group's strengthened capital position as well as some progress in asset quality, as evidenced by a lower stock of gross and net non-performing loans (NPLs). The ratings also take into consideration Sella's stable market position in its home province of Biella, diversified franchise, solid funding and liquidity profile, modest profitability, still high stock of NPLs, as well as challenging operating and regulatory environment.

In DBRS' view, Sella maintains a stable market position in retail and commercial banking across the region of Piedmont, in particular in the home province of Biella. Despite the recent asset disposals, the Group maintains a diversified franchise, with growing private banking activities and strong market position in the payment system business.

The Group's profitability has been volatile in recent years, mainly as a result of asset disposals. In 2016, Sella Group's net profit increased to EUR 79.6 million, from EUR 28.5 million in 2015, driven by one-off gains on the disposal of the insurance subsidiary (C.B.A. Vita) and the minority stake in Visa Europe, as well as lower credit provisions. For 1Q 2017, Sella's net profit increased to EUR 34.2 million, from EUR 10 million in 1Q 2016, supported by one-off gains on the sale of the stake in Compagnie Financière Martin Maurel. Excluding non-recurring items, however, the Group's profitability remains modest, reflecting subdued net interest margins, still high cost of credit and modest operating efficiency.

The Group's stock of NPLs continued to decrease in 2016 and 1Q 2017, thanks to a combination of

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lower inflows, disposals and higher provisioning levels. At March 2017, Sella's total net NPLs decreased to EUR 571 million from EUR 585 million at end-2016 and EUR 635 million at March 2016. Sella's total NPL cash coverage strengthened to 52% in 1Q 2017, from 51% at year-end 2016 and 49% in 1Q 2016, which is in line with the average of Italian peers. Despite the improvement, the Group's gross and net NPL ratios (net of repos), which stood at 13.8% and 7.2% in 1Q 2017, respectively, remain high compared to the European average.

In DBRS' view, Sella maintains a solid funding position which is underpinned by the Bank's large and growing retail deposit base and limited reliance on wholesale funds. With EUR 3.3 billion in free eligible assets and Central Bank overnight deposits at April 2017, the Group has a sizeable liquidity buffer for future bond maturities.

Sella's capital position continued to strengthen mainly thanks to asset disposals. At March 2017, the Group reported a Common Equity Tier 1 (CET1) ratio (phased-in) and a Total Capital ratio of 11.96% and 13.53%, respectively, which compares well with the minimum CET1 ratio of 6% and minimum Total Capital ratio of 9.75% set by the Bank of Italy under the SREP process for 2017. At March 2017, Banca Sella SpA, the main operating subsidiary, reported a CET1 ratio of 15.27% and a Total Capital ratio of 18.49%.

RATING DRIVERS

Upward rating pressure would require further improvement in the Group's profitability and risk profile supported by adequate capital levels. Conversely, negative rating implications could result from a material deterioration in Sella's franchise, risk profile or financial position.

Notes:

All figures are in Euros unless otherwise noted.

The principal applicable methodology is the Global Methodology for Rating Banks and Banking Organisations (July 2016). Other applicable methodologies include the DBRS Criteria: Support Assessments for Banks and Banking Organisations (March 2017), DBRS Criteria: Rating Bank Capital Securities – Subordinated, Hybrid, Preferred & Contingent Capital Securities (February 2017). These can be found at: <http://www.dbrs.com/about/methodologies>

The sources of information used for this rating include company reports and SNL Financial. DBRS considers the information available to it for the purposes of providing this rating to be of satisfactory quality.

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Generally, the conditions that lead to the assignment of a Negative or Positive Trend are resolved within a twelve month period. DBRS's outlooks and ratings are under regular surveillance.

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Initial Rating Date: July 7, 2014
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Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Banca Sella Holding SpA	Issuer Rating	Trend Change	BBB (low)	Stb	May 15, 2017
Banca Sella Holding SpA	Senior Long-Term Debt and Deposit	Trend Change	BBB (low)	Stb	May 15, 2017
Banca Sella Holding SpA	Short-Term Debt and Deposit	Trend Change	R-2 (middle)	Stb	May 15, 2017
Banca Sella S.p.A.	Issuer Rating	Trend Change	BBB (low)	Stb	May 15, 2017

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Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Banca Sella S.p.A.	Senior Long-Term Debt and Deposit	Trend Change	BBB (low)	Stb	May 15, 2017
Banca Sella S.p.A.	Short-Term Debt and Deposit	Trend Change	R-2 (middle)	Stb	May 15, 2017
Banca Sella S.p.A.	Mandatory Pay Subordinated Debt (ISIN: XS1311567314)	Under Review - Negative	BB (high)	--	May 15, 2017

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