

Morningstar DBRS Confirms Banca Sella's LT Issuer Rating at BBB (low), Stable Trend

BANKING ORGANIZATIONS

DBRS Ratings GmbH (Morningstar DBRS) confirmed the ratings of Banca Sella Holding S.p.A. (Sella or the Group) and its main operating subsidiary Banca Sella S.p.A. (the Bank), including the Long-Term Issuer Rating of BBB (low) and the R-2 (middle) Short-Term Issuer Rating. The Bank's Deposit ratings were confirmed at BBB/R-2 (high), one notch above the IA, reflecting the legal framework in place in Italy which has full depositor preference in bank insolvency and resolution proceedings. The trend on the Group's long-term and short-term ratings remains Stable. Morningstar DBRS has also maintained the Intrinsic Assessment (IA) for Banca Sella S.p.A. at BBB (low) and the Support Assessment at SA3 for Banca Sella Holding S.p.A. and SA1 for Banca Sella S.p.A. The SA1 reflects Banca Sella S.p.A.'s strong integration with the parent and its ownership by Banca Sella Holding S.p.A. Morningstar DBRS rates Banca Sella S.p.A. and Banca Sella Holding S.p.A. at the same level as they are both regulated banking entities by the Bank of Italy. A full list of rating actions is included at the end of this press release.

KEY CREDIT RATING CONSIDERATIONS

The confirmation of the credit ratings continues to reflect Sella's relatively small but solid and diversified franchise in its home region of Biella. Credit ratings continue to be underpinned by Sella's stable funding and liquidity position, supported by a resilient and granular deposit base. The confirmation of the credit ratings takes into account the improvement in profitability, driven by higher core revenues against a background of higher interest rates, positive operating jaws and lower loan loss provisions. However, Morningstar DBRS also notes that overall profitability remains at the lower end-of the peer group as a result of the high cost base in part related to investments in new technologies and digital banking.

In addition, credit ratings reflect Sella's asset quality metrics, marked by further reduction of Non-Performing Exposures (NPE), and in line with its domestic and European peers. Whilst asset quality deterioration has not materialised, Morningstar DBRS expects the current environment to lead to a rise in defaults, although Sella's current asset quality profile provides a sound starting point to face these headwinds.

Finally, credit ratings consider Sella's capital ratios, which have continued to gradually improve, although they remain at the low end of the peer group.

CREDIT RATING DRIVERS

An upgrade of the credit ratings would require a material improvement in operating efficiency and further structural strengthening of capitalisation levels whilst maintaining a sound risk profile.

A downgrade would arise from a substantial deterioration in capital, or a significant deterioration in the Group's risk profile.

CREDIT RATING RATIONALE

Franchise Combined Building Block (BB) Assessment: Moderate/Weak

The credit ratings incorporate Sella's stable market position in retail and commercial banking in its home region of Piedmont, as well as its relatively diversified business profile. The Group benefits from growing private banking, asset management, and digital banking, as well as a small but solid market position in the payment system business. In addition, the Group is active in digital banking, through its growing mobile application, "Hype", in which Sella remains a majority shareholder.

Earnings Combined Building Block (BB) Assessment: Moderate

In 2023, the Group reported net attributable income of EUR 107.5 million, up by 16.9% YoY from EUR 91.9 million in 2022. Results were driven by higher revenues, which offset both higher provisions and operating expenses. Net interest income for the Group was up 48.2% YoY in 2023, due to solid volume growth as well as higher interest rates. Net fees and commissions were up 10.1%, thanks to diversification of activities, with solid performance reported in virtually all segments. Operating expenses were up 14.4% YOY due to the ongoing investments in technologies and innovative banking products as well as inflation. Nevertheless, operating efficiency improved due to positive operating jaws, with the cost-to-income ratio reducing to 72.9% in 2023, compared to 76.6% a year earlier as calculated by Morningstar DBRS. However, whilst Morningstar DBRS notes the improvement, Sella's cost-to-income ratio remains high when compared to Italian peers. Provisions were up 21.6% YoY leading to a higher cost of risk of 39 bps in 2023 against 31 bps in 2022, a level Morningstar DBRS views as in line with domestic peers.

Risk Combined Building Block (BB) Assessment: Good/Moderate

Sella's loan book includes a close to 40% exposure to SMEs, which is twice the average for the Italian banking sector. Morningstar DBRS considers the Group's interest rate risk is low, with market risk mostly arising from the Group's fixed-income portfolio, including its large exposure to Italian sovereign debt. Whilst NPEs have been declining in recent years, Morningstar DBRS expects that Sella's asset quality will deteriorate during coming quarters given the challenging economic environment, characterised by tighter financial conditions, inflation and weaker economic dynamics. Nevertheless, Morningstar DBRS views Sella's sounder starting point and tightened underwriting standards as mitigating factors, providing the Bank with some flexibility to weather the headwinds ahead. Morningstar DBRS notes that Sella has continued to deliver on its announced business strategy to reduce the Group's stock of NPEs. As a result, the Group's asset quality has continued to improve in 2023 with the total stock of gross non-performing exposures (NPEs) decreasing further to EUR 340 million at end-2023 from EUR 378 million at end-2022. The Group's gross NPE ratio stood at 3.0% at end-2023 compared to 3.5% at end-2022. Morningstar DBRS now sees this level as in line with the average for domestic and European banks. The net NPL ratio reached 1.5% at end-2023 compared to 1.8% at end-2022 as calculated by Morningstar DBRS. The Group's total coverage ratio stood at 48.8% at end-2023, fairly stable in recent years and in line with domestic peers.

Funding and Liquidity Combined Building Block (BB) Assessment: Good/Moderate

Morningstar DBRS views Sella's funding profile as adequate, although not very diversified, supported by its large deposit retail franchise and limited reliance on wholesale funds. Customer deposits remain the primary source of funding, accounting for 90% of the Group's total funding. Around half of total deposits are covered by the Deposit Guarantee Scheme. Reflective of Sella's business model, Morningstar DBRS also notes a large part of the Group's deposits are corporate deposits, which are more volatile in nature. However, Morningstar DBRS considers the deposit base to be very granular. Morningstar DBRS notes Sella has repaid the vast majority of its TLTRO exposures, with only EUR 925 million of remaining at end-2023, which still represents 5% of the Group's total funding. At end-2023, Sella's liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) remained well above regulatory requirements at respectively 231% and 143%.

Capitalisation Combined Building Block (BB) Assessment: Moderate

Sella's capitalisation has continued to strengthen in 2023 mostly thanks to internal capital generation. Sella reported a CET1 ratio of 13.4% at end-2023, up from 13.2% at end-2022 and a Total Capital ratio of 15.5%, up from 15.1% at end-2022. This provides the Group with adequate cushions over the minimum requirements set by the Bank of Italy for 2024 for CET1 of 7.65% and 11.65% for Total Capital according to the Supervisory Review and Evaluation Process (SREP). Sella also reported a transitional leverage ratio of 5.4% at end-2023, fairly stable YOY. The Group has also built up its MREL position, and Morningstar DBRS understands they are

compliant with the requirements set by the Bank of Italy which will come into force in 2026.

Further details on the Scorecard Indicators and Building Block Assessments can be found at <https://www.dbrsmorningstar.com/research/432350>.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS

There were no Environmental factors that had a significant or relevant effect on the credit analysis.

The Social factor “Product Governance” was not relevant in the last rating action. However, Morningstar DBRS now views the Social factor “Product Governance” as relevant on the credit analysis for Sella following the recent disruption to Sella’s online banking services in which a significant part of the Group’s customer base (around three million customers) temporarily lost online access to their accounts in early April 2024. Whilst Sella solved the problem after a few days, the Group experienced negative media coverage and will still need to reimburse customers that were affected. Morningstar DBRS notes that this was not a cyber risk issue.

The Governance factor “Corporate Governance” was not relevant in the last rating action. However, Morningstar DBRS now views this factor as relevant on the credit analysis for Sella because of a limited level of independence at the Board level. The Group has historically been majority owned and controlled by the Sella family. Morningstar DBRS also views this risk partly mitigated by the limited exposure of the Group to the Sella family and by the fact that the main activity of the family is the banking business.

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (23 January 2024) <https://dbrs.morningstar.com/research/427030/morningstar-dbrs-criteria:-approach-to-environmental,-social,-and-governance-risk-factors-in-credit-ratings>

Notes:

All figures are in Euros unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (15 April 2024) <https://dbrs.morningstar.com/research/431155/global-methodology-for-rating-banks-and-banking-organisations> In addition Morningstar DBRS uses the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (23 January 2024) <https://dbrs.morningstar.com/research/427030/morningstar-dbrs-criteria:-approach-to-environmental,-social,-and-governance-risk-factors-in-credit-ratings> in its consideration of ESG factors.

The credit rating methodologies used in the analysis of this transaction can be found at: <https://dbrs.morningstar.com/about/methodologies>.

The sources of information used for these credit ratings include Morningstar Inc. and company documents, Sella Q4 2023 Press Release and Sella Consolidated 2023 Report. Morningstar DBRS considers the information available to it for the purposes of providing these credit ratings to be of satisfactory quality.

Morningstar DBRS does not audit the information it receives in connection with the credit rating process, and it does not and cannot independently verify that information in every instance.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. Morningstar DBRS's outlooks and credit ratings are under regular surveillance.

For further information on Morningstar DBRS historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: <https://registers.esma.europa.eu/cerep-publication>. For further information on Morningstar DBRS historical default rates published by the Financial Conduct Authority (FCA) in a central repository, see <https://data.fca.org.uk/#/ceres/craStats>.

The sensitivity analysis of the relevant key credit rating assumptions can be found at <https://www.dbrsmorningstar.com/research/432348>.

These credit ratings are endorsed by DBRS Ratings Limited for use in the United Kingdom.

Lead Analyst: Arnaud Journois, Vice President – European Financial Institutions

Rating Committee Chair: Vitaline Yeterian, Senior Vice President – European Financial Institutions

Initial Rating Date: July 07, 2014

Last Rating Date: May 8, 2023

For more information on this credit or on this industry, visit dbrs.morningstar.com.

Ratings

Banca Sella Holding SpA

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
06-May-24	Long-Term Issuer Rating	Confirmed	BBB (low)	Stb	EU U
06-May-24	Short-Term Issuer Rating	Confirmed	R-2 (middle)	Stb	EU U
06-May-24	Long-Term Senior Debt	Confirmed	BBB (low)	Stb	EU U
06-May-24	Short-Term Debt	Confirmed	R-2 (middle)	Stb	EU U
06-May-24	Short-Term Deposits	Confirmed	R-2 (high)	Stb	EU U
06-May-24	Long-Term Deposits	Confirmed	BBB	Stb	EU U
06-May-24	Subordinated Debt	Confirmed	BB	Stb	EU U

Banca Sella S.p.A.

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
06-May-24	Long-Term Issuer Rating	Confirmed	BBB (low)	Stb	EU U
06-May-24	Short-Term Issuer Rating	Confirmed	R-2 (middle)	Stb	EU U
06-May-24	Long-Term Senior Debt	Confirmed	BBB (low)	Stb	EU U

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
06-May-24	Short-Term Debt	Confirmed	R-2 (middle)	Stb	EU U
06-May-24	Short-Term Deposits	Confirmed	R-2 (high)	Stb	EU U
06-May-24	Long-Term Deposits	Confirmed	BBB	Stb	EU U
06-May-24	Mandatory Pay Subordinated Debt (ISIN: XS2030489632)	Confirmed	BB	Stb	EU U

ALL MORNINGSTAR DBRS CREDIT RATINGS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE [DISCLAIMERS AND LIMITATIONS](#). ADDITIONAL INFORMATION REGARDING DBRS RATINGS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON [DBRS.MORNINGSTAR.COM](#).

Contacts

Arnaud Journois

Vice President - European Financial Institution Ratings

+(49) 69 8088 3526

arnaud.journois@morningstar.com

Vitaline Yeterian

Senior Vice President - European Financial Institution Ratings

+(44) 20 7855 6623

vitaline.yeterian@morningstar.com

The Morningstar DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). Morningstar DBRS does not hold an Australian financial services license. Morningstar DBRS credit ratings, and other types of credit opinions and reports, are not intended for Australian residents or entities. Morningstar DBRS does not authorize their distribution to Australian resident individuals or entities, and accepts no responsibility or liability whatsoever for the actions of third parties in this respect. For more information on regulatory registrations, recognitions and approvals of the Morningstar DBRS group of companies, please see: <https://dbrs.morningstar.com/research/highlights.pdf>.

The Morningstar DBRS group of companies are wholly-owned subsidiaries of Morningstar, Inc. © 2024 Morningstar DBRS. All Rights Reserved.

The information upon which Morningstar DBRS credit ratings and other types of credit opinions and reports are based is obtained by Morningstar DBRS from sources Morningstar DBRS believes to be reliable. Morningstar DBRS does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. Morningstar DBRS credit ratings, other types of credit opinions, reports and any other information provided by Morningstar DBRS are provided "as is" and without representation or warranty of any kind and Morningstar DBRS assumes no obligation to update any such ratings, opinions, reports or other information. Morningstar DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall Morningstar DBRS or its directors, officers, employees, independent contractors, agents, affiliates and representatives (collectively, Morningstar DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of credit ratings, other types of credit opinions and reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of Morningstar DBRS or any Morningstar DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. IN ANY EVENT, TO THE EXTENT PERMITTED BY LAW, THE AGGREGATE LIABILITY OF MORNINGSTAR DBRS AND THE MORNINGSTAR DBRS REPRESENTATIVES FOR ANY REASON WHATSOEVER SHALL NOT EXCEED THE GREATER OF (A) THE TOTAL AMOUNT PAID BY THE USER FOR SERVICES PROVIDED BY MORNINGSTAR DBRS DURING THE TWELVE (12) MONTHS IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO LIABILITY, AND (B) U.S. \$100. Morningstar DBRS does not act as a fiduciary or an investment advisor. Morningstar DBRS does not provide investment, financial or other advice.

Credit ratings, other types of credit opinions and other analysis and research issued by Morningstar DBRS (a) are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities; (b) do not take into account your personal objectives, financial situations or needs; (c) should be weighed, if at all, solely as one factor in any investment or credit decision; (d) are not intended for use by retail investors; and (e) address only credit risk and do not address other investment risks, such as liquidity risk or market volatility risk. Accordingly, credit ratings, other types of credit opinions and other analysis and research issued by Morningstar DBRS are not a substitute for due care and the study and evaluation of each investment decision, security or credit that one may consider making, purchasing, holding, selling, or providing, as applicable.

A report with respect to a Morningstar DBRS credit rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities.

Morningstar DBRS may receive compensation for its credit ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities.

This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of Morningstar DBRS. ALL MORNINGSTAR DBRS CREDIT RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DEFINITIONS, LIMITATIONS, POLICIES AND METHODOLOGIES THAT ARE AVAILABLE ON <https://dbrs.morningstar.com>. Users may, through hypertext or other computer links, gain access to or from websites operated by persons other than Morningstar DBRS. Such hyperlinks or other computer links are provided for convenience only. Morningstar DBRS does not endorse the content, the operator or operations of third party websites. Morningstar DBRS is not responsible for the content or operation of such third party websites and Morningstar DBRS shall have no liability to you or any other person or entity for the use of third party websites.