MOODY'S
INVESTORS SERVICE

CREDIT OPINION
25 July 2022

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Long Term Debt	Withdrawn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Outlook	Rating(s) WithDrawn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

Guy Combot +33.1.5330.5981
VP-Senior Analyst
guy.combot@moodys.com

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

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

Banca Sella Holding S.p.A.

Update following rating affirmation, outlook changed to stable

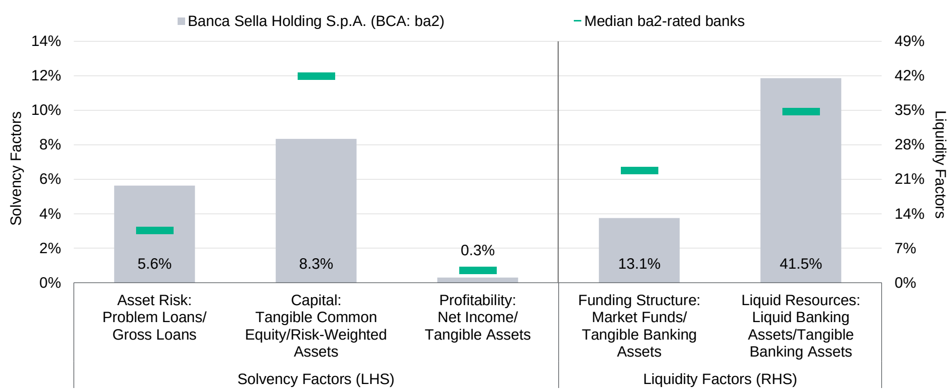
Summary

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 a two-notch uplift.

Sella's BCA reflects the bank's still-large stock of nonperforming loans (NPLs) and asset-quality strain stemming from the deterioration in the operating environment in Italy. The bank's profitability and capitalisation are moderate, whereas its liquidity is robust.

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 27 June 2022 with a corrected SREP of 7.28% in the capital section.

Credit strengths

» Good regulatory capital buffer

» Strong retail funding profile and a large stock of liquid assets

Credit challenges

» High exposure to small and medium-sized enterprises (SMEs), which could result in additional problem loans in the current deteriorated operating environment

» High exposure to domestic government bonds, which is affected by high volatility in prices

» 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 higher inflation rates and lower economic growth.

Factors that could lead to an upgrade

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

The deposit ratings could also be upgraded if the bank were to significantly issue 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 all its ratings and assessments. The BCA could be downgraded in case of a significant deterioration in the operating environment leading to a worsening of 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]

	12-21[2]	12-20[2]	12-19[2]	12-18[2]	12-17[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	20,478.6	17,846.1	15,004.1	14,283.4	13,797.1	10.4[4]
Total Assets (USD Million)	23,204.4	21,835.7	16,842.1	16,328.0	16,567.5	8.8[4]
Tangible Common Equity (EUR Million)	849.7	767.5	757.8	748.9	820.7	0.9[4]
Tangible Common Equity (USD Million)	962.8	939.1	850.6	856.1	985.5	(0.6)[4]
Problem Loans / Gross Loans (%)	4.3	5.7	6.9	9.2	11.8	7.6[5]
Tangible Common Equity / Risk Weighted Assets (%)	8.3	8.0	7.9	8.3	9.9	8.5[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	37.9	47.5	54.0	64.2	74.2	55.6[5]
Net Interest Margin (%)	1.4	1.5	1.7	1.7	1.7	1.6[5]
PPI / Average RWA (%)	1.7	1.3	1.3	1.2	1.9	1.5[6]
Net Income / Tangible Assets (%)	0.4	0.2	0.3	0.2	0.4	0.3[5]
Cost / Income Ratio (%)	79.4	82.9	82.4	83.3	74.9	80.6[5]
Market Funds / Tangible Banking Assets (%)	13.1	11.8	4.4	7.6	9.7	9.3[5]
Liquid Banking Assets / Tangible Banking Assets (%)	41.5	40.7	34.4	35.4	34.8	37.4[5]
Gross Loans / Due to Customers (%)	63.6	65.4	69.8	74.6	81.4	71.0[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 that provides a broad range of financial services, including commercial banking, leasing, insurance, asset management, fund management, private banking, payment systems, brokerage and consumer finance, through 24 subsidiaries. Sella benefits from a significant market share in payment services in Italy relative to its size.

The group reported total consolidated assets of €20.5 billion as of December 2021.

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. (19).

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

Concentration in the SME segment drives problem loans

We view Sella's asset quality as one of its weaknesses. We assign an Asset Risk score of ba3, one notch 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 last but not the least important its problem loan ratio and concentration on SMEs and Italian government bonds (Baa3 stable).

The bank improved its problem loan ratio to 4.3% as of December 2021 from 5.7% as of December 2020 by completing disposals, as well as because of dynamic lending activity (+15% between December 2019 and December 2021). Despite this improvement, Sella's problem loan ratio of 4.3% compared unfavourably with the Italian banking system average of 3.4% as of December 2021 and the European average of 2.0% over the same period[1].

However, the inflow of problem loans is likely to increase in 2022 and 2023 because of a deteriorated economic environment, inflationary pressure and new definition of default applied from January 2021. Moreover, recoveries on and the ongoing disposal of problem loans might not be fully achieved.

Our Asset Risk score also factors in Sella's high concentration in the SME segment, which is more at risk in the current economic environment. The bank's loan book included around 35% of SME exposures, more than 2x the Italian banking system average (16.8% as of December 2021[2]). This significant exposure to SMEs, mainly in the North of Italy, is mitigated by the loan book's good diversification in terms of sectors.

Sella's investments in Italian government bonds also represent a significant share of the bank's assets. These holdings represented around 13.5% of the bank's total assets, in line with the share of domestic sovereign debt average held by Italian banks as of December 2021. Sella's high exposure is driven mainly by the higher amount of deposits than loans. As of December 2021, 20% of these government debt holdings had a maturity of less than six months, in line with Sella's market-making activities of these instruments.

Weak capitalisation despite increasing regulatory capital buffer

Sella's weak b1 Capital score reflects a rather limited regulatory Common Equity Tier 1 (CET1) capital ratio and our negative adjustment based on the bank's significant investment in Italian government bonds. We also assume that the capital ratios will only slightly improve in the next 18 months despite the adoption of an internal ratings-based model for the computation of its risk-weighted assets (RWA) because the capital gain will be partially absorbed by lending growth.

Sella's CET1 capital ratio was 12.3% as of December 2021 (phased-in and based on the Basel 3 standardised approach). This compares unfavourably with the European Union (EU) average as of December 2021, which is 3.4 percentage points higher according to the European Banking Authority[3].

Sella's tangible common equity (TCE)/RWA, our preferred measure of capital, is significantly lower than the CET1 ratio at 8.3% as of December 2021 (slightly above the 8% reported as of year-end 2020). This is because of the bank's high exposure to the Italian government bond holdings, which accounted for more than 2x Sella's equity. We apply a 50% risk weight on these investments according to our Banks methodology[4] (versus 0% in the bank's calculations).

However, the bank's capital ratio remains well above the CET1 prudential regulatory requirement set by the Bank of Italy. For 2021[5], this requirement was 7.28% including a 4.5% Pillar I requirement, a capital conservation buffer of 2.5% and a 0.28% Pillar II requirement based on the Supervisory Review and Evaluation Process (SREP).

Subdued recurrent profitability because of high administrative costs and loan loss provisions

Sella's recurrent profitability remains limited, and we assign a Profitability score of b2, one notch below the initial Macro-Adjusted score. The return on assets adjusted for exceptional items was a mere 0.2% in 2021.

Similar to other banks, Sella will gradually benefit from the likely increase in interest rates and the ongoing rise in electronic payment transactions. In 2021, the bank's performance improved as a result of a 15.4% rise in net fees and income, mainly because of an increase in electronic payment transactions. Compared with banks of similar size, Sella's revenue is well diversified; fee and commission income accounted for around 53% of its revenue in 2021 increasing to €372 million from €322 million a year earlier.

However, the bank faces high administrative costs, with a cost-to-income ratio of 79.4% as of December 2021 according to our calculations. This is because of the large investments required as a result of Sella's focus on new technologies, which is compounded by its lack of scale. Operating costs increased by 8% in December 2021 compared to last year and we expect this trend to continue over the next 18 months.

Sella also has significant loan loss provisions on its loan book. The bank's cost of risk was 48 bps as of December 2021 compared with 74 bps as of December 2020 according to Moody's calculations. We expect the continued inflow of problem loans and NPL disposals to require continuous significant provisioning in 2022 and 2023. We expect the deteriorated economic environment to weigh on Sella's SME loan book.

The bank reported a net income of €126.3 million in 2021 and €36.5 million in 2020. This increase was mainly the result of a €57.3 million profit from the disposal of the 50% share capital in Hype as part of the efforts to create the joint venture with Fabrick and illimity. Sella expects this partial sale to result in lower losses in the next two years and some increase in dividends received from its equity shares in illimity. As of December 2021, Sella made a €3.4 million gain on the joint venture with illimity. Sella received illimity's equity shares as the main part of the settlement of the joint-venture transaction.

Strong retail funding profile and large stock of liquid assets

Funding is one of the strengths of Sella, with a loan-to-deposit ratio of 63.6% as of December 2021. The a3 Funding Structure score, one notch above with the initial Macro-Adjusted score, reflects the bank's strong retail deposit base, and persistent excess liquidity, which has so far limited the need to tap the capital markets (wholesale bonds or securitisation).

We expect Sella to issue a limited amount of bonds in the next 12-18 months. Sella is likely to have a relatively low level of minimum requirement for own funds and eligible liabilities (MREL). This limited constrain is because the preferred strategy in case of a default will be liquidation rather than resolution because of the size of the bank and hence its MREL will be equal to its capital requirement.

As of December 2021, Sella's wholesale funding represented a small part of its funding needs. The increase in market funding to 13% from 4% as of December 2019 was driven mainly by the increased use of the European Central Bank's (ECB) targeted longer-term refinancing operations (TLTRO III) facility. As of December 2021, the bank had €2.2 billion in ECB TLTRO III funding. We expect this funding structure to remain at least constant over the next two years.

As of December 2021, Sella's deposits at the ECB (€4.3 billion) exceeded by €2.1 billion all the TLTRO borrowed funds (€2.2 billion). 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 liquidity is also a key strength. The bank's liquidity accounted for 42% of its tangible banking assets as of December 2021, benefiting from a large stock of short-dated Italian government bonds. The structural excess liquidity is mainly invested in highly liquid domestic sovereign debt.

However, the bank's Liquid Resources score is baa1, one notch below the initial Macro-Adjusted score to reflect some asset encumbrance (28% of its tangible banking assets as of December 2021).

As of December 2021, the bank reported a liquidity coverage ratio of 199% and a net stable funding ratio of 134%.

ESG considerations

In line with our general view of the banking sector, Sella has low exposure to environmental risks and moderate exposure to social risks. See our environmental risk heat map and social risk heat map for further information.

We regard the pandemic as a social risk under our environmental, social and governance (ESG) framework because of the substantial implications for public health and safety.

Governance is highly relevant for Sella, as it is to all participants in the banking industry. Corporate governance weaknesses can lead to a deterioration in a bank's credit quality, while governance strengths can benefit its credit profile. Governance risks are largely internal rather than externally driven, and for Sella, we do not have any particular governance concern.

However, Sella is almost entirely owned by the Sella family, which appoints all the board members. Although this setup could potentially affect the independence of management, it is neutral for the bank's rating, taking into account the following mitigating factors: there is sufficient transparency of the ownership structure — the bank's holdings are incorporated in Italy as opposed to less transparent jurisdictions; related-party exposures are limited and publicly disclosed according to international best practices; other non-banking businesses of the Sella family are nonmaterial, reducing the potential conflicts of interest between the bank and other activities; and four of the 13 members on the board are independent members (See Banks - Italy: New "fit and proper" board criteria will reinforce Italian bank governance, June 2021). Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

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 3

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		5.6%	ba2	↔	ba3	Expected trend	Sector concentration
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)		8.3%	b1	↔	b1	Expected trend	Risk-weighted capitalisation
Profitability							
Net Income / Tangible Assets		0.3%	b1	↓	b2	Expected trend	Earnings quality
Combined Solvency Score			ba3		b1		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		13.1%	baa1	↑↑	a3	Expected trend	Lack of market access
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		41.5%	a3	↓↓	baa1	Stock of liquid assets	Asset encumbrance
Combined Liquidity Score			baa1		a3		
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	1,830	10.2%	3,347	18.6%
Deposits	15,416	85.7%	13,843	76.9%
Preferred deposits	11,408	63.4%	10,837	60.2%
Junior deposits	4,008	22.3%	3,006	16.7%
Senior unsecured bank debt	2	0.0%	2	0.0%
Dated subordinated bank debt	208	1.2%	263	1.5%
Equity	540	3.0%	540	3.0%
Total Tangible Banking Assets	17,996	100.0%	17,996	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	21.2%	21.2%	21.2%	21.2%	3	3	3	3	0	baa2
Counterparty Risk Assessment	21.2%	21.2%	21.2%	21.2%	3	3	3	3	0	baa2 (cr)
Deposits	21.2%	4.5%	21.2%	4.5%	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
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 4

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 and European Banking Authority, Risk Dashboard, Q1 2022.

2 European Banking Authority, Risk Dashboard, Q1 2022.

3 European Banking Authority, Risk Dashboard, Q1 2022.

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 last data available.

REPORT NUMBER 1332388

CLIENT SERVICES

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