

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

BANKING ORGANIZATIONS

DBRS Ratings GmbH (Morningstar DBRS) confirmed the credit 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 their Long-Term Issuer Ratings of BBB (low) and Short-Term Issuer Ratings of R-2 (middle). The Bank's Deposit ratings were confirmed at BBB/R-2 (high), one notch above its Intrinsic Assessment (IA), reflecting the legal framework in place in Italy, which has full depositor preference in bank insolvency and resolution proceedings. The trends on all credit ratings remain Stable. Morningstar DBRS also maintained the IA of Banca Sella S.p.A. at BBB (low) and the Support Assessments at SA3 for the Group, and at SA1 for the Bank. The Support Assessment of SA1 reflects the Bank's strong integration with the parent company and its ownership structure. Morningstar DBRS rates the Group and the Bank at the same level also reflecting the fact that they are both banking entities regulated by the Bank of Italy.

At the same time, Morningstar DBRS discontinued the credit rating on the Bank's Mandatory Pay Subordinated Debt (ISIN: XS2030489632) as these instruments have been repaid. A full list of credit rating actions is included at the end of this press release.

KEY CREDIT RATING CONSIDERATIONS

The confirmation of the credit ratings and the Stable trends reflect the Group's relatively small but stable and diversified franchise in its home region of Piedmont. The credit ratings continue to be underpinned by Sella's stable funding and liquidity position, which relies on a large and granular deposit base. The confirmation of the credit ratings also considers the Group's moderate profitability profile, which reflects, on one hand, a diversified revenue mix and lower credit costs, and, on the other hand, a high-cost base. The latter also reflects in part the ongoing investments in new technologies and digitalisation.

In Morningstar DBRS' view, Sella's asset quality metrics compare more favourably with its domestic and European peers. New inflows to nonperforming exposure (NPE) have been limited to date and have been offset by de-risking efforts as well as stable coverage and loan book expansion despite higher interest rates. In Morningstar DBRS' view, Sella's asset quality profile is in a stronger position to withstand a potential deterioration in the economic environment. Finally, the credit ratings consider the Group's adequate capital buffers over supervisory requirements.

The Bank's IA of BBB (low) is at the lower end of the Intrinsic Assessment Range. This mostly reflects the Bank's lower profitability and capitalisation levels compared with those of higher rated peers.

CREDIT RATING DRIVERS

An upgrade of the credit ratings would require a significant improvement in operating efficiency as well as higher capital buffers whilst maintaining a sound risk profile.

A downgrade of the credit ratings would arise from a significant deterioration in the Group's capitalisation or risk profile.

CREDIT RATING RATIONALE

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

Sella has a stable market position in retail and commercial banking in its home region of Piedmont, as well as a relatively diversified business profile. The Group has historically been controlled by the Sella family, which is also broadly involved in its corporate governance. The Group is small with around EUR 24 billion in total assets; however, it benefits from operations in private banking and asset management, 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 mobile application, Hype, a 50%-50% joint venture between Sella and Illimity Bank. Sella is also shareholder of Illimity Bank, a bank that has recently received a public tender offer from Banca Ifis. Morningstar DBRS will assess the implications arising from this transaction.

Earnings Combined Building Block (BB) Assessment: Moderate

Morningstar DBRS views Sella's profitability as moderate, supported by good revenue diversification and moderate credit costs albeit constrained by relatively weak operating efficiency. Morningstar DBRS expects the diversification of the Group's revenues to help mitigate the negative impact of the ongoing interest rates' reduction. In the first nine months of 2024 (9M 2024), the Group reported net attributable income of around EUR 95 million, down 9% year on year (YOY) or up 7% YOY when excluding a nonrecurring gain earned in 9M 2023 stemming from the partnership with Sesa Group.

The results for 9M 2024 were driven by higher revenues that were offset by higher operating expenses, higher provisions, and the reimbursements to customers affected by the IT problem that occurred in April 2024. Net interest income was up 7% YOY in 9M 2024, supported by positive dynamics in commercial spread, higher loan volumes, and sound management of funding costs. Net fees were up 7% YOY with solid performances reported in all segments. The Group's cost-to-income ratio rose to around 73% in 9M 2024 from 69% in 9M 2023, as calculated by Morningstar DBRS, remaining among the highest levels compared with those of domestic peers. The Group's annualised cost of risk stood at around 30 basis points (bps) in 9M 2024, down from average 50 bps in 2019-23.

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

Most of Sella's risk profile relates to credit and counterparty risks associated to its retail and commercial banking business. Market risk is low, mostly arising from the Group's fixed-income portfolio, including its large exposure to Italian sovereign bonds. Sella's loan book is significantly exposed to small and medium-size enterprises. SMEs exposure appears higher than the Italian banking sector's average.

In 9M 2024, Sella continued to improve its asset quality ratios despite its total stock of gross NPEs remaining unchanged in the period. The Group's gross NPE ratio stood at 2.9% at end-September 2024, down from 3% at end-2023, and its net NPE ratio was reduced to 1.5% from 1.6% in the same period. This was mainly driven by the loan book which has grown, unlike its Italian peers. The Group's total coverage ratio stood at 49% at end-September 2024, stable in recent years. Morningstar DBRS sees the Group's current asset quality metrics more in line with the domestic and European averages. NPEs have been reduced in recent years, however, Morningstar DBRS expects some deterioration from the still-high interest rates and sluggish economic forecasts.

In terms of operational risk, Morningstar DBRS notes that Sella's online banking services have experienced operating disruption in 2024 due to technical issues. However, since that, it seems that that the Group has taken the necessary remedial actions to restore the systems while also reimbursing the customers affected.

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

Morningstar DBRS views Sella's funding profile as stable, although less diversified relative to peers. The funding structure is supported by its large deposit retail franchise. Due to customers remain the Group's primary source of funding, accounting for around 91% of its total funding at end-September 2024. Due to customers, up 4% in 9M 2024, mainly consist of deposits and around half of deposits is covered by the Interbank Deposit Protection Scheme. Notwithstanding a large part of the Group's deposits

being corporate deposits, which are more volatile in nature, the deposit base is very granular and mostly consists of current accounts and sight deposits. However, Morningstar DBRS notes that time deposits have increased recently to accommodate customers' search for higher remuneration. Sella has fully repaid its central bank funding of TLTRO III sources. Debt securities issued, including retail and wholesale bonds, represented 7% of Sella's total funding at end-September 2024. Sella's liquidity coverage ratio was 207.14% at end-September 2024, whereas its net stable funding ratio was 143.15%, and its loan-to-deposit ratio, as calculated by Morningstar DBRS, stood at around 71%, or 63% when excluding reverse repos.

Capitalisation Combined Building Block (BB) Assessment: Moderate

Sella's capitalisation has stabilised recently as business growth offset a steady retained earnings generation. Nonetheless, in Morningstar DBRS' view, the Group's ownership structure constrains its flexibility to raise capital, if required. Sella reported a CET1 ratio of 13.4% at end-September 2024, flat compared with end-2023, while the Group's Total Capital ratio slightly increased to 15.6% from 15.5% in the same period. This provides the Group with adequate cushions over the 2024 minimum requirements of 7.8% for CET1 and 11.9% for Total Capital. Sella reported a leverage ratio of 5.3% at end-September 2024. The Group is also building its minimum requirement for own funds and eligible liabilities position, which should be equal to 21.75%, including combined buffers, as per the Bank of Italy's requirements that will come into force in January 2027.

Further details on the Scorecard Indicators and Building Block Assessments can be found at <https://www.dbrsmorningstar.com/research/446279>.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS

ESG Considerations had a relevant effect on the credit analysis.

Social (S) Factors

Morningstar DBRS considers the Social factor "Product Governance" as relevant to Sella's credit ratings following the disruption to its 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. While Sella solved the problem after a few days, the Group experienced negative media coverage and reimbursed customers that were affected. Morningstar DBRS notes that this was not a cyber risk issue.

Governance (G) Factors

Morningstar DBRS views the Governance factor "Corporate Governance" as relevant to Sella's credit ratings 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 as being 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.

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

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 Factors in Credit Ratings (13 August 2024) <https://dbrs.morningstar.com/research/437781>.

Notes:

All figures are in euros unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (4 June 2024), <https://dbrs.morningstar.com/research/433881>. In addition Morningstar DBRS uses the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings <https://dbrs.morningstar.com/research/437781> 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 9M 2024 Results Press Release, Sella H1 2024 Report, Sella 2019-2023 Annual Reports, Sella 2023 Pillar 3 Report, and Sella 2023 Non-Financial Statement. 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' trends 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/446280>.

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

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Initial Rating Date: 07 July 2014

Last Rating Date: 06 May 2024

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Ratings

Banca Sella Holding SpA

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
23-Jan-25	Long-Term Issuer Rating	Confirmed	BBB (low)	Stb	EU U

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
23-Jan-25	Short-Term Issuer Rating	Confirmed	R-2 (middle)	Stb	EU U
23-Jan-25	Long-Term Senior Debt	Confirmed	BBB (low)	Stb	EU U
23-Jan-25	Short-Term Debt	Confirmed	R-2 (middle)	Stb	EU U
23-Jan-25	Short-Term Deposits	Confirmed	R-2 (high)	Stb	EU U
23-Jan-25	Long-Term Deposits	Confirmed	BBB	Stb	EU U
23-Jan-25	Subordinated Debt	Confirmed	BB	Stb	EU U

Banca Sella S.p.A.

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
23-Jan-25	Long-Term Issuer Rating	Confirmed	BBB (low)	Stb	EU U
23-Jan-25	Short-Term Issuer Rating	Confirmed	R-2 (middle)	Stb	EU U
23-Jan-25	Long-Term Senior Debt	Confirmed	BBB (low)	Stb	EU U
23-Jan-25	Short-Term Debt	Confirmed	R-2 (middle)	Stb	EU U
23-Jan-25	Short-Term Deposits	Confirmed	R-2 (high)	Stb	EU U
23-Jan-25	Long-Term Deposits	Confirmed	BBB	Stb	EU U
23-Jan-25	Mandatory Pay Subordinated Debt (ISIN: XS2030489632)	Disc.- Repaid	Discontinued	--	EU

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