MOODY'S
INVESTORS SERVICE

CREDIT OPINION
9 June 2017

Update

Rate this Research

RATINGS

Banca Sella Holding S.p.A.

Domicile	Italy
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.

Contacts

Carlo Gori 44-20-7772-1076
VP-Senior Analyst
carlo.gori@moodys.com

Valentino Balletta 44-20-7772-1744
Associate Analyst
valentino.balletta@moodys.com

Alain Laurin 33-1-5330-1059
Associate Managing Director
alain.laurin@moodys.com

Banca Sella Holding S.p.A.

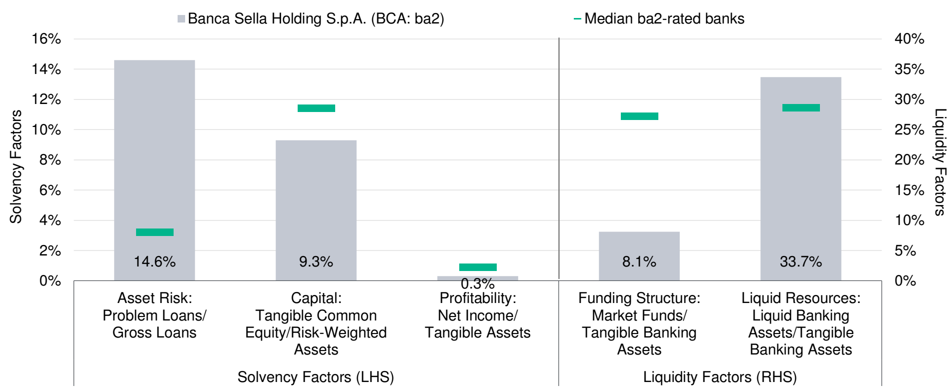
Periodic Update

Summary Rating Rationale

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

Exhibit 1
Rating Scorecard - Key Financial Ratios



Source: Moody's Financial Metrics

Credit Strengths

» Retail funding profile

» Large stock of liquid assets

Credit Challenges

» Modest capital

» Large stock of problem loans

» Weak profitability

Rating Outlook

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

Factors that Could Lead to an Upgrade

Banca Sella Holding's BCA could be upgraded following further improvements in capital, larger than-expected reduction in the stock of problem loans, and an improvement in the profits coming from the commercial banking activities.

The deposit rating could be upgraded following an upgrade in the BCA, provided that the bank's stock of bail-in-able debt and volume of junior deposits would increase.

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, net losses, or a capital reduction.

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 or volume of junior deposits.

Key Indicators

Exhibit 2

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

	12-16[2]	12-15[2]	12-14[2]	12-13[3]	12-12[3]	CAGR/Avg.[4]
Total Assets (EUR million)	13,298	12,451	14,258	13,360	13,136	0.3[5]
Total Assets (USD million)	14,026	13,525	17,253	18,410	17,318	-5.1[5]
Tangible Common Equity (EUR million)	779	700	674	616	488	12.4[5]
Tangible Common Equity (USD million)	821	760	816	849	643	6.3[5]
Problem Loans / Gross Loans (%)	14.0	14.3	15.4	13.0	11.8	13.7[6]
Tangible Common Equity / Risk Weighted Assets (%)	9.3	8.1	7.4	6.7	5.4	8.3[7]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	83.5	92.8	98.4	98.8	107.9	96.3[6]
Net Interest Margin (%)	1.9	1.9	2.2	2.3	2.4	2.1[6]
PPI / Average RWA (%)	1.5	1.9	3.3	2.4	2.2	2.2[7]
Net Income / Tangible Assets (%)	0.3	0.2	0.5	0.3	0.2	0.3[6]
Cost / Income Ratio (%)	78.4	73.0	58.2	65.7	68.4	68.7[6]
Market Funds / Tangible Banking Assets (%)	8.1	10.4	18.9	18.8	17.2	14.7[6]
Liquid Banking Assets / Tangible Banking Assets (%)	33.7	27.8	30.3	24.7	19.6	27.2[6]
Gross Loans / Due to Customers (%)	81.9	92.7	100.0	108.8	114.0	99.5[6]

[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

Detailed Rating Considerations

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 December 2016 the bank reported a Common Equity Tier 1 (CET1) ratio of 12.2%, which is equivalent to our Tangible Common Equity over adjusted risk-weighted assets of 9.3%[1]; the difference mostly derives from our adjustment that we apply to government bonds of some European countries[2].

In 2015 Banca Sella Holding undertook a series of measures aimed at improving its Common Equity Tier 1 (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 with stable outlook).

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 2016 Banca Sella Holding reported problem loans[3] of 14% of gross loans, a reduction from the 15.4% reported in 2014; the decrease largely derived from the disposal of a portfolio of non-performing consumer loans. Banca Sella Holding's stock of problem loans, although high, compares favourably with the 17.3% system average as of December 2016 (source: Bank of Italy).

Coverage is just adequate at 55%, which is however higher than the 51% average for Italian banks.

Weak profitability

Banca Sella Holding's profitability is weak; our score for Banca Sella Holding's profitability is b3, two notches below our b1 macro-adjusted score. The adjustment is driven by our expectations that the bank's net profitability will decline in an environment characterised by very low interest rates and high competition amongst banks. This will only be partially offset by lower loan loss charges/provisions going forward.

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

In 2016 Banca Sella Holding reported a net profit equivalent to 0.3% of tangible assets, up from 0.2% in 2015. The improvement was however mostly driven by extraordinary gains reported in 2016, and a substantially reduced cost of credit, while pre-provision income reduced to 1.5% of average risk-weighted assets from 1.9% and efficiency deteriorated to a modest 78%. In 2016 Banca Sella Holding reported a €50 million gain from the sale of its insurance subsidiary CBA Vita and the investment VISA Europe. Furthermore, the bank reported a significant 36% reduction in loan loss charges to €82 million.

Retail funding profile and large stock of liquid assets

Banca Sella Holding's funding profile is mostly retail, with wholesale funding representing only 8.1% of the bank's tangible banking assets. The a3 score for funding structure, in line with the macro-adjusted score, reflects the fact that the majority of outstanding bonds have been sold to retail clients and represents a stable source of funding. Thanks to its large stock of retail funding, currently Banca Sella Holding's wholesale funding is limited to ECB facility which has been used to purchase government bonds and boost profitability.

Our score for liquid resources is baa1, also in line with the macro-adjusted score, reflecting a large stock of liquid assets, mostly made up of Italian government bonds.

Family ownership is neutral for Banca Sella Holding's ratings

Banca Sella Holding is almost entirely owned by the Sella family, which appoints 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 Holding 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.

We believe that Banca Sella Holding's deposits are likely to face very low loss-given-failure, 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. This is supported by the combination of deposit volume and subordination. This results in an uplift of two notches from the bank's BCA. The deposit rating could be downgraded if the subordination reduces below 6% (from 6.1%) and deposit volume and subordination reduce below 16% (from 21.5%).

Government Support

We believe that there is a low likelihood of government support for Banca Sella Holding'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 Holding being significantly smaller than the country's two largest banks. As such, we do not believe Banca Sella Holding to be a sufficiently systemically important bank to give any uplift to the ratings.

Counterparty Risk Assessment

Banca Sella Holding's Baa2(cr)/P-2(cr) Counterparty Risk Assessment (CR Assessment) is three notches above the bank's BCA. Banca Sella Holding'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.

The CR Assessment, which is not a rating, reflects an issuer's probability of defaulting on certain bank operating liabilities, such as covered bonds, derivatives, letters of credit and other contractual commitments. In assigning the CR Assessment, we evaluate the issuer's standalone strength and the likelihood, should the need arise, of affiliate and government support, as well as the anticipated seniority of counterparty obligations under our advanced Loss Given Failure framework. The CR Assessment also assumes that authorities will likely take steps to preserve the continuity of a bank's key operations, maintain payment flows, and avoid contagion should the bank enter a resolution.

Rating Methodology and Scorecard Factors

Exhibit 3

Banca Sella Holding S.p.A.

Macro Factors		
Weighted Macro Profile	**Moderate +**	**100%**

Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	14.6%	b2	←→	b2	Quality of assets	
Capital						
TCE / RWA	9.3%	ba3	←→	ba3	Expected trend	
Profitability						
Net Income / Tangible Assets	0.3%	b1	←→	b3	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				ba2		
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	1,954	14.8%	3,020	22.9%
Deposits	10,455	79.1%	9,389	71.1%
Preferred deposits	7,737	58.6%	7,350	55.6%
Junior Deposits	2,718	20.6%	2,039	15.4%
Senior unsecured bank debt	95	0.7%	95	0.7%
Dated subordinated bank debt	313	2.4%	313	2.4%
Equity	396	3.0%	396	3.0%
Total Tangible Banking Assets	13,213	100%	13,213	100%

Debt class	De jure waterfall		De facto waterfall		Notching		LGF notching guidance versus 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	21.5%	21.5%	21.5%	21.5%	3	3	3	3	0	baa2 (cr)
Deposits	21.5%	5.4%	21.5%	6.1%	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 Assessment	3	0	baa2 (cr)	0	Baa2 (cr)	--
Deposits	2	0	baa3	0	Baa3	Baa3

Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
BANCA SELLA HOLDING S.P.A.	
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 Unless noted otherwise, data in this report is sourced from company reports and Moody's Banking Financial Metric.

2 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.

3 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

REPORT NUMBER 1074900

MOODY'S
INVESTORS SERVICE