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DBRS Confirms Banca Sella Holding SpA and Banca Sella SpA at BBB (low); Trends Remain Negative

Industry: Fin.Svc.--Banks & Trusts

DBRS Ratings Limited (DBRS) has today confirmed its BBB (low) Senior Long-Term Debt and Deposit rating for Banca Sella Holding SpA (Sella, or the Group) and its BBB (low) Senior Long-Term Debt and Deposit rating at its main subsidiary, Banca Sella SpA. Concurrently, DBRS upgraded the Short-Term Debt and Deposit ratings of both entities to R-2 (middle) from R-2 (low) and maintained an Intrinsic Assessment (IA) of BBB (low) for the Group, as well as Banca Sella SpA. The support assessment remains unchanged at SA3 for Banca Sella Holding, and SA1 for Banca Sella SpA. The trend on all ratings remains Negative. The rating actions are detailed in the table at the end of this press release.

The Senior Long-Term Debt and Deposit rating confirmation reflects the Group's stable market position in its home province of Biella, its solid funding and liquidity profile and improved capitalisation, as well as Sella's modest profitability and asset quality profile. The upgrade of the Short-Term Debt and Deposit ratings to R-2 (middle) reflects the improvements in the Bank's funding position.

The Negative trend primarily reflects the challenges for the Group's earnings and asset quality posed by the difficult economic environment in Italy. Upward rating pressure would require sustained improved earnings and further improvement in asset quality. On the other hand, any material deterioration of the Group's capital position would be viewed negatively.

In DBRS' view, Sella's franchise has remained resilient, despite the still difficult economic environment in Italy. Within its home province of Biella, the Group maintains a leading market position in retail and commercial banking via its main operating bank, Banca Sella Spa. In addition, Sella's franchise benefits from meaningful diversification into private banking, as well as payment system activity and services.

In DBRS' view, the Group's earnings capacity remains modest. In 2015, Sella's net income was down to EUR 28.5 million, from EUR 70.5 million in 2014 which, had benefitted from one-off profits on Banca Sella SpA's government bond portfolio. Even excluding the one-off impacts, Sella's core earnings narrowed in 2015 mainly as a result of lower net interest income, as well as higher costs



linked to contribution to the resolution fund. Despite the improvement in 2015, Sella's cost of credit remains high at 161 bps.

Although better than the Italian average, Sella's credit quality remains weak by international standards. More positively, the Group's asset quality improved in 2015, thanks to lower non-performing loan (NPL) inflows, as well as NPL disposals at Banca Sella SpA and Consel, the Group's consumer finance division. Sella's total stock of gross impaired loans decreased to EUR 1,243 million at year-end 2015 from EUR 1,354 million in 2014. As a result, the Group's gross impaired ratio improved to 14.3% of total gross loans from 15.4% in 2014. On the other hand, total cash coverage for impaired loans weakened to 47.7% from 48.1% in 2014. Sella's risk profile also reflects the large holdings of sovereign securities which pose material risks for the Group, should sovereign yields widen again.

In DBRS' view, funding and liquidity remain a key strength for Sella. The Group's funding profile is underpinned by its solid retail base and limited reliance on wholesale market. More recently, Sella's retail funding base expanded as a result of flight to quality and inflows from some weaker banks. Sella's liquidity buffer appears satisfactory in DBRS' view. The Group's counterbalancing capacity amounted to approximately EUR 3 billion in April 2016 (corresponding to 21% of the total asset base), and provides a solid buffer over future maturities in 2016-2018.

In 2015, the Group's capital position improved to a more adequate level thanks to various capital actions, including the capital increase at Banca Sella SpA, as well as a corporate reorganisation and a reduction in RWAs. The Group's CET1 ratio (phased-in) strengthened to 11.59% from 8.95% in 2014. Concurrently, Sella's total capital ratio improved to 14.29% from 11.72% in 2014 and provides a 379 bps buffer (or EUR 280 million) over the 10.5% minimum threshold set by the Bank of Italy under the SREP process. In the same way, Banca Sella's CET1 and total capital ratios increased to 14.67% and 19.77% in 2015, from 10.81% and 15.48% respectively in 2014.

Notes:

All figures are in EUR unless otherwise noted.

The principal applicable methodology is the Global Methodology for Rating Banks and Banking Organisations (December 2015). Other applicable methodologies include the DBRS Criteria: Support Assessments for Banks and Banking Organisations (March 2016) and DBRS Criteria: Rating Bank Capital Securities – Subordinated, Hybrid, Preferred & Contingent Capital Securities (February 2016). These can be found at: <http://www.dbrs.com/about/methodologies>

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Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Banca Sella Holding SpA	Issuer Rating	Confirmed	BBB (low)	Neg	May 11, 2016
Banca Sella Holding SpA	Senior Long-Term Debt and Deposit	Confirmed	BBB (low)	Neg	May 11, 2016

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Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Banca Sella Holding SpA	Short-Term Debt and Deposit	Upgraded	R-2 (middle)	Neg	May 11, 2016
Banca Sella S.p.A.	Issuer Rating	Confirmed	BBB (low)	Neg	May 11, 2016
Banca Sella S.p.A.	Senior Long-Term Debt and Deposit	Confirmed	BBB (low)	Neg	May 11, 2016
Banca Sella S.p.A.	Short-Term Debt and Deposit	Upgraded	R-2 (middle)	Neg	May 11, 2016
Banca Sella S.p.A.	Mandatory Pay Subordinated Debt (ISIN: XS1311567314)	Confirmed	BB (high)	Neg	May 11, 2016

For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

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