

Rating Action: Moody's changes Banca Sella Holding's outlook to positive from negative

03 Oct 2018

Deposit ratings affirmed at Baa3

London, 03 October 2018 -- Moody's Investors Service ("Moody's") today affirmed the Baa3/Prime-3 long- and short-term deposit ratings and ba2 standalone baseline credit assessment (BCA) of Banca Sella Holding S.p.A. (Banca Sella) and changed the outlook on the bank's long-term deposit ratings to positive from negative.

The affirmation reflects Banca Sella's progress in reducing asset risk, in line with Moody's expectations and consistent with the current ratings.

The positive outlook indicates the rating agency's expectations that the bank will improve its solvency profile, in particular its profitability.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

Moody's affirmed Banca Sella's ba2 standalone BCA to reflect the bank's still large stock of problem loans in the European context and its modest profitability.

Banca Sella's asset risk remains high in the European context. At end-June 2018, the bank's problem loans were 9.6% of gross loans, more than double the average for the European Union of 3.9%, according to data for March 2018 published by the European Banking Authority. This is however a material improvement from the bank's problem loan ratio of 15.4% at end-2014, mainly due to sales to the market.

Moody's considers Banca Sella's capital buffer as adequate taking into account the bank's risk profile and its 11.5% Common Equity Tier 1 (CET1) ratio compared to its 6.625% CET1 prudential regulatory requirement for 2018.

Banca Sella's profitability is modest and constrained by weak efficiency. The bank's return on assets (ROA) was just 0.4% in 2017 and supported by capital gains. Recurring net income declined to €16 million in June 2018, from €22 million in June 2017, despite the bank's revenue diversification and the importance of fees and commissions generated by its asset management and payment systems businesses.

The bank's standalone BCA remains supported by Banca Sella's strong liquidity and retail funding profile, with market funds (entirely ECB refinancing) accounting for 9% of its funding, comfortably covered by abundant liquid resources totaling 35% of assets.

Moody's affirmed Banca Sella's Baa3 deposit rating based upon (i) the affirmation of the ba2 standalone BCA; (ii) very low loss-given-failure under the rating agency's advanced Loss Given Failure (LGF) analysis, which results in a two-notch uplift; and (iii) Moody's assessment of a low probability of government support, which does not result in any uplift.

POSITIVE OUTLOOK DRIVEN BY HIGHER LIKELIHOOD OF FURTHER SOLVENCY IMPROVEMENTS

Moody's changed the outlook on Banca Sella's long-term deposit ratings to positive from negative, indicating the increased likelihood that the improvements made by the bank in 2017 and the first half of 2018 will continue over the outlook horizon.

Moody's expects a further reduction in problem loans, which should reach a level equivalent to 8% of gross loans in 2020, through further disposals and internal work-outs. This will be facilitated by provisioning coverage of problem loans of 51%. However, Moody's said that the bank's problem loan disposals remain partly dependent on continued benign economic environment and market conditions.

Moody's expects Banca Sella to maintain a CET1 ratio well above 11% over the next two years, albeit lifted in

part due to the expected adoption of internal ratings-based models for the computation of risk weighted assets over the coming years. This will leave Banca Sella with adequate headroom over the bank's anticipated minimum prudential requirements.

Moody's expects Banca Sella to reach a return on assets of 0.4% in 2019, without the benefit of capital gains, helped by revenue diversification towards asset management and payment systems and the bank's digital transformation. At the same time, Moody's believes that the bank still faces considerable challenges in the current environment of moderate growth, margin erosion and regulatory pressure.

The negative outlook on the deposit ratings was driven by the expected maturities of senior retail bonds in Moody's Loss Given Failure analysis. All the bank's senior retail bonds have matured and have been largely replaced by deposits but the expected increase of loss-given-failure has been offset by a subordinated debt issue, which provides greater protection for deposits.

FACTORS THAT COULD LEAD TO AN UPGRADE

Moody's could upgrade Banca Sella's BCA following an improvement in profitability and capital and/or a reduction in problem loans.

Moody's could upgrade the deposit ratings following an upgrade of the BCA or an increase in the stock of bail-in-able instruments, which would result in greater protection for deposits.

FACTORS THAT COULD LEAD TO A DOWNGRADE

Moody's could downgrade Banca Sella's BCA following a material increase in the stock of problem loans or net losses reducing capital.

The rating agency could downgrade the deposit ratings following a downgrade of the BCA or a reduction in the stock of deposits increasing their loss-given-failure.

LIST OF AFFECTED RATINGS

Issuer: Banca Sella Holding S.p.A.

..Affirmations:

- Long-term Counterparty Risk Ratings, affirmed Baa2
- Short-term Counterparty Risk Ratings, affirmed P-2
- Long-term Bank Deposits, affirmed Baa3, outlook changed to Positive from Negative
- Short-term Bank Deposits, affirmed P-3
- Long-term Counterparty Risk Assessment, affirmed Baa2(cr)
- Short-term Counterparty Risk Assessment, affirmed P-2(cr)
- Baseline Credit Assessment, affirmed ba2
- Adjusted Baseline Credit Assessment, affirmed ba2

..Outlook Actions:

-Outlook changed to Positive from Negative

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in August 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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