Creditreform Bank Rating

Intesa Sanpaolo S.p.A. (Group) as parent of
Intesa Sanpaolo Bank Ireland Plc

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Rating object	Rating information		
Intesa Sanpaolo S.p.A. (Group) as parent of Intesa Sanpaolo Bank Ireland Plc	**Long Term Issuer Rating / Outlook:** **BBB / stable**		**Short Term:** **L3**
	Rating of Bank Capital and Unsecured Debt Instruments:		
	Senior Unsecured **BBB**	Tier 2 **BB-**	Additional Tier 1 **B+**
Creditreform ID: 400987918 Incorporation: 2007 (Main-) Industry: Banks Management: Carlo Messina (Managing Director and CEO) Stefano Del Punta (CFO) Gian Maria Gros-Pietro (Chairman of the Board of Directors)	Rating Date: **31 August 2018** Monitoring until: withdrawal of the rating Rating Type: **unsolicited** Rating Methodology: bank ratings; rating of bank capital and unsecured debt instruments		

Our rating of Intesa Sanpaolo Bank Ireland Plc is reflected by our rating opinion of Intesa Sanpaolo S.p.A. (Group) due to its group structure. Therefore we refer to our rating report of Intesa Sanpaolo S.p.A. (Group) from 16 April 2018:

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Analysts

Daniel Keller
d.keller@creditreform-rating.de
Lead-Analyst

Philipp J. Beckmann
p.beckmann@creditreform-rating.de
Senior Analyst

Neuss, Germany

SWOT-Analysis

Strengths

\+ Second largest bank in Italy and systemically important institution
\+ Constantly improving earnings figures
\+ Diversified income sources
\+ Constantly generating a net profit in the past years

Weaknesses

\- Low asset quality
\- Below-average capital ratios
\- Relatively high NPL ratio
\- Moderate growth opportunities in the core market
\- Relatively high branch network in connection with a correspondingly relatively high number of employees

Opportunities / Threats

\+ Improvement of profitability and asset quality through the "Business Plan 2018-2021"
\+ Continuous digitalization and innovation processes
+/- Acquisition of Banca Popolare di Vicenza and Veneto Banca
+/- Business activities in Eastern Europe and North Africa
\- High dependency on the Italian market
\- Difficult economic environment in its core market Italy
\- Low-interest policy of the ECB puts pressure on profitability
\- Increasing banking regulation leads to rising costs

Company Overview

Intesa Sanpaolo S.p.A. (hereafter ISA) is a banking group formed by the merger of *Banca Intesa* and Sanpaolo IMI in 2007. The group's headquarters are in Torino. The Bank of Italy has identified ISA as "other systemically important institution" (O-SII) and the group must therefore comply with additional regulatory requirements. With 87.352 employees (average number in 2017) and about 5,843 branches, the group serves approximately 19.9 million customers (12.3 million in Italy and 7.6 million abroad) and had total assets of €796 billion in 2017.

ISA has a commercial banking presence in 12 countries, primarily in Italy, Eastern Europe and North Africa with approximately 1,100 branches abroad. Moreover, the group has an international network with a presence in 25 countries to support cross-border activities of corporate customers.

The group is divided into seven business areas. *Banca dei Territori* contributed 49.6% to the group's operating income in 2017 and focuses on the domestic business activities such as lending and deposit collecting in Italy. *Corporate and Investment Banking* represents roughly 18.7% (of which capital market and investment banking 7.2%) of ISA's operating income and deals with corporate banking, investment banking and public finance in Italy and abroad. The third largest contributor to ISA's operating income with 10.9% is the business segment *International Subsidiary Banks*. This business line is responsible for the group's commercial operations on international markets through subsidiary and affiliated banks primarily involved in retail banking businesses. *Private Banking* contributed 10.4% to the group's operating income in 2017 and serves the private client and high net worth individuals' customer segment (approximately 87,000 clients). The business segment *Insurance* represents 6 % of the group's operating income in 2017 and oversees management of the subsidiaries of the insurance group Intesa Sanpaolo Vita, and Fideuram Vita. The lowest amount is contributed by the business segment *Asset Management* with 4.4%, which is tasked with the development of asset management solutions for the group.

In addition, the groups *Corporate Centre* is responsible for guidance, coordination and control of the group as a whole as well as the management of assets and liabilities, the treasury and the Capital Light Bank, which deals with the group's bad loans and repossessed assets as well as the sale of non-strategic investments.

ISA is currently pursuing its 2018-2021 business plan. According to the plan, ISA intends to improve its group's risk profile by reducing the stock of non-performing assets while increasing its capital base. In addition, cost reduction is targeted through the simplification/digitalization of the operating model as well as the growth of the revenues by capturing new business opportunities, in particular to increase its net fee and commission income.

On 26 June 2017, ISA acquired certain assets and liabilities as well as certain legal relationships of Banca Popolare di Vicenza S.p.A. and Veneto Banca S.p.A. for a token price of €1. Both banks were considered failing or likely to fail by the European Central Bank; however, the responsible authorities decided that the start of the resolution procedure is not in the public interest. Acknowledging this decision, the Italian Government and the Bank of Italy decided to start the compulsory administrative liquidation proceedings under national law. As a result, ISA acquired both banks. The group received a public contribution of €3.5 bn to offset the impacts on its capital ratios deriving from the acquisition, and of €1.285 bn to support the corporate restructuring measures that ISA must activate to fulfil the commitments made to the European Commission.

The principal subsidiaries and investments of ISA can be found in the following chart:

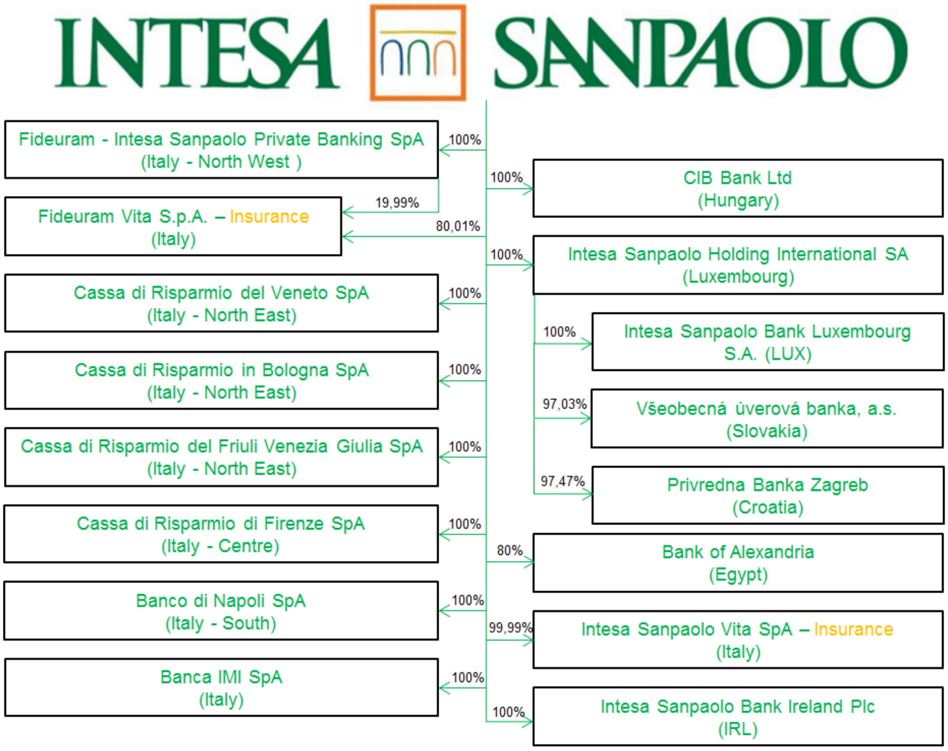

Chart 1: Principal subsidiaries and investments of Intesa Sanpaolo S.p.A.
(Source: Own presentation based on data of S&P Global Market Intelligence and annual report 2017 of Intesa Sanpaolo S.p.A.)

The shareholder structure of Intesa Sanpaolo S.p.A. is as follows:

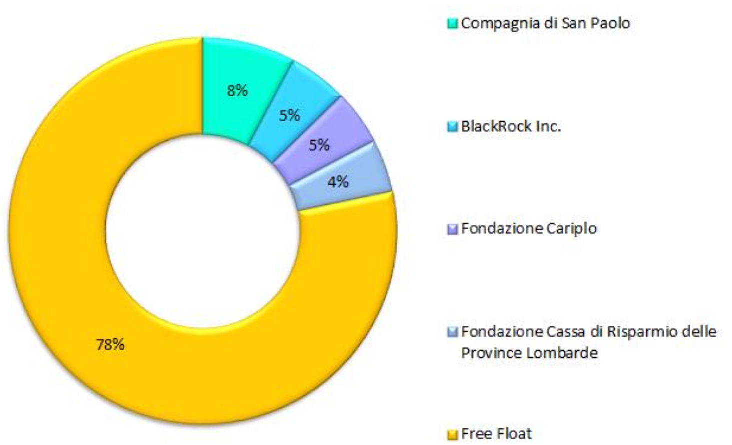

Chart 2: Major shareholders of Intesa Sanpaolo S.p.A.
(Source: Own presentation based on data of S&P Global Market Intelligence)

Business Development

Profitability

ISA's operating income amounted to 18.6 billion in 2017, increasing by 8.3% in a year-over-year comparison (€1.4 billion). Net interest income contributed almost half of the operating income, accounting for 45.7%, and decreased by 1% compared to the previous year (€88 million) as a result of a decrease in interest income from loans to customers as in the previous years. Fees and commissions accounted for 39.8% of operating income, increasing by 10.2% (€693 million) YOY, mainly due to an increase in different insignificant positions like fees on credit and debit cards as well as fees in relation with the portfolio management. At 13.8%, net trading income contributed the lowest share of the three main drivers of operating income, however increasing by 1.5% in comparison to the previous year (€38 million) due to an increased net gain on securities held at fair value.

ISA's net insurance income is negative (€2,195 million) as in the previous years, taking total net premiums (€6,817 million) and total net insurance expenses (€9,012 million) into account and exclude other related income such as income from investments and changes in technical reserves. By contrast, in 2016 ISA generated a surplus of €434 million considering only premiums and claims. In general, ISA's insurance business consists primarily of the "Life business" segment. Equity accounted results amounted to €1,150 million in 2017, increasing by €1,025 million YOY, mainly due to the profits on the disposal of ISA's entire stake in AllFunds Bank S.A. of €811 million. Other non-interest income remained roughly unchanged YOY (+€1 million) and consists primarily of recoveries of expenses.

Operating expenses amounted to €12.8 billion in 2017, increasing by 20.3% in a year-over-year comparison (€2,164 million). Personnel expenses accounted for 56% of total expenses in 2017, increasing by 30.6% YOY (€1,683 million), and are the main driver of ISA's increase in operating expenses. The increase is mainly a result of charges for the incentive-driven exit plans for the employees in particular relating to the integration of both Venetian Banks. Moreover, the group records an increase in its average number of employees YOY. Other expenses, accounting for 17.6% of operating expenses, remained roughly at the same level YOY and consists of different insignificant balance sheet items. The slight decrease in this position is mainly a result of lower contributions to the Single Resolution Fund and the Deposit Guarantee Fund (2017: €290 million; 2016: €578 million).

ISA's operating net profit amounted to €7.354 billion in 2017, increasing by 129.8% (€4,154 million) in comparison to the previous year. This increase is mainly attributable to the aforementioned public cash contribution. Net of the effects of the public cash contribution, the consolidated net profit for 2017 would have been €3.8 billion, according to the group. Asset write-downs, decreasing by 4.3% YOY (€143 million) as a result of lowered impairment losses on loans. After consideration of nonrecurring events, primarily attributable to the aforementioned public contribution in the total amount of €4,785 million, ISA records a pre-tax profit of €7,818 million in 2017. Considering tax deductions ISA records a net profit of €7.3 billion in 2017.

ISA's revenues through discontinued operations in 2016 are mainly related to the sale of investments in Setefi, Intesa Sanpaolo Card Zagreb, Intesa Sanpaolo Card BH and Intesa Sanpaolo Card Ljubljana).

A detailed group income statement for the years 2014 - 2017 can be found in figure 1 below:

Income Statement	2014	%	2015	%	2016	%	2017	%
Income (€000)								
Net Interest Income	9,815,000	55.5%	9,238,000	52.9%	8,615,000	50.0%	8,527,000	45.7%
Net Fee & Commission Income	6,477,000	36.6%	6,895,000	39.5%	6,735,000	39.1%	7,428,000	39.8%
Net Insurance Income	-2,205,000	-12.5%	-2,262,000	-13.0%	-2,075,000	-12.0%	-2,195,000	-11.8%
Net Trading Income	2,107,000	11.9%	2,399,000	13.7%	2,534,000	14.7%	2,572,000	13.8%
Equity Accounted Results	340,000	1.9%	111,000	0.6%	125,000	0.7%	1,150,000	6.2%
Dividends from Equity Instruments	315,000	1.8%	378,000	2.2%	461,000	2.7%	344,000	1.8%
Rental Revenue	24,000	0.1%	25,000	0.1%	27,000	0.2%	33,000	0.2%
Lease and Rental Revenue	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Other Noninterest Income	827,000	4.7%	682,000	3.9%	818,000	4.7%	819,000	4.4%
Operating Income	**17,700,000**	**100%**	**17,466,000**	**100%**	**17,240,000**	**100%**	**18,678,000**	**100%**
Expenses (€000)								
Depreciation and Amortisation	978,000	9.4%	911,000	8.4%	909,000	8.5%	874,000	6.8%
Personnel Expense	5,284,000	50.8%	5,364,000	49.3%	5,494,000	51.6%	7,177,000	56.0%
Occupancy & Equipment	634,000	6.1%	588,000	5.4%	534,000	5.0%	580,000	4.5%
Tech & Communications Expense	901,000	8.7%	893,000	8.2%	899,000	8.4%	899,000	7.0%
Marketing and Promotion Expense	162,000	1.6%	145,000	1.3%	134,000	1.3%	134,000	1.0%
Other Provisions	546,000	5.3%	535,000	4.9%	241,000	2.3%	893,000	7.0%
Other Expense	1,888,000	18.2%	2,440,000	22.4%	2,444,000	22.9%	2,262,000	17.6%
Operating Expense	**10,393,000**	**100%**	**10,876,000**	**100%**	**10,655,000**	**100%**	**12,819,000**	**100%**
Operating Profit & Impairment (€000)								
Pre-impairment Operating Profit	**7,307,000**		**6,590,000**		**6,585,000**		**5,859,000**	
Asset Writedowns	4,329,000		2,824,000		3,310,000		3,167,000	
Net Income (€000)								
Nonrecurring Revenue	99,000		311,000		259,000		5,237,000	
Nonrecurring Expense	116,000		NA		318,000		111,000	
Pre-tax Profit	**2,961,000**		**4,077,000**		**3,216,000**		**7,818,000**	
Income Tax Expense	1,651,000	55.8%	1,331,000	32.6%	1,003,000	31.2%	464,000	5.9%
Discontinued Operations	0		60,000		987,000		0	
Net Profit	**1,310,000**		**2,806,000**		**3,200,000**		**7,354,000**	

Figure 1: Group income statement
(Source: S&P Global Market Intelligence)

Due to ISA's increased net profit in 2017, ISA's earnings ratios considerably improved in comparison to the previous year; however, the improvement is mainly driven by the public cash contribution.

The values for ROAA, ROAE and RoRWA improved in a year-over-year comparison markedly and are way above average of the peer group. However, taking the public cash contribution into account, ISA cannot confirm this positon. Moreover, ISA records a further decrease in its net interest margin, like in the previous years, and is therefore below the average of the peer group with its ratio. By contrast, the peer group was able to improve its net interest margin slightly YOY. ISA's cost-income ratios deteriorated YOY, but are still on average of the peer group. However, this development is mainly due to the aforementioned acquisitions of the Venetians Banks. Against this, the peer group was able to improve its cost-income ratios YOY on average.

The development of the key earnings figures for the years 2014 - 2017 is detailed as follows:

Income Ratios (%)	2014	%	2015	%	2016	%	2017	%
Return on Average Assets (ROAA)	0.21	0.91	0.42	0.21	0.45	0.03	0.96	0.51
Return on Equity (ROAE)	2.90	12.15	5.97	3.07	6.52	0.55	13.90	7.38
RoRWA	0.48	2.06	1.00	0.53	1.12	0.12	2.54	1.41
Net Interest Margin	1.64	0.07	1.48	-0.16	1.29	-0.20	1.17	-0.11
Cost income Ratio ex. Trading	66.65	-17.21	72.18	5.53	72.45	0.27	79.59	7.14
Cost income Ratio	58.72	-14.77	62.27	3.55	61.80	-0.47	68.63	6.83
Change in %-Points								

Figure 2: Group key earnings figures
(Source: S&P Global Market Intelligence)

Asset Situation and Asset Quality

ISA's financial assets accounted for 95% of total assets in 2017, increasing by 9.6% in a year-over-year comparison (€66.5 billion). Net loans to customers represent the largest share of assets, accounting for 51.5%, and increasing by 12.6% YOY (€46 billion). The positive trend of loans to customers is due to a rise in commercial banking loans such as mortgage loans and advances in the past years. However, in 2017 the growth is mainly attributable to the aforementioned acquisitions, which increased the group's net loans to customers by €34.6 billion. Total securities as the second largest asset; represent 32.8% of ISA's total assets, remained almost unchanged YOY at €261.6 billion. By contrast, net loans to banks increased by 37% YOY (€19.8 billion) as a result of an increase in loans to banks as well as an increase in the compulsory reserve with the central bank. However, ISA's cash and balances with central banks increased by 7.6% in a year-over-year comparison (€667 million).
Tangible and intangible assets increased by 17.2% YOY (€2.1 billion). However, tax assets, accounting for only 2.1% of total assets, increasing by 17% YOY (€2.4 billion), mainly due to an increase in deferred tax assets.

The group's total assets amounted to €796 billion in 2017, increasing by 9.8% YOY.

The development of ISA's assets for the years 2014 – 2017 is shown in detail in the following:

Assets (€000)	2014	%	2015	%	2016	%	2017	%
Cash and Balances with Central Banks	6,631,000	1.0%	9,344,000	1.4%	8,686,000	1.2%	9,353,000	1.2%
Net Loans to Banks	30,350,000	4.7%	33,680,000	5.0%	52,296,000	7.2%	72,072,000	9.0%
Net Loans to Customers	339,104,000	52.5%	350,031,000	51.7%	364,712,000	50.3%	410,776,000	51.5%
Total Securities	232,321,000	35.9%	244,502,000	36.1%	261,642,000	36.1%	261,633,000	32.8%
Financial Assets	**608,406,000**	**94%**	**637,557,000**	**94%**	**687,336,000**	**95%**	**753,834,000**	**95%**
Equity Accounted Investments	1,944,000	0.3%	1,727,000	0.3%	1,278,000	0.2%	678,000	0.1%
Other Investments	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Insurance Assets	1,223,000	0.2%	1,481,000	0.2%	1,192,000	0.2%	1,057,000	0.1%
Noncurrent Assets HFS & Discontinued Ops	229,000	0.0%	27,000	0.0%	312,000	0.0%	627,000	0.1%
Tangible and Intangible Assets	12,127,000	1.9%	12,562,000	1.9%	12,301,000	1.7%	14,419,000	1.8%
Tax Assets	14,431,000	2.2%	15,021,000	2.2%	14,444,000	2.0%	16,887,000	2.1%
Total Other Assets	8,067,000	1.2%	8,121,000	1.2%	8,237,000	1.1%	9,358,000	1.2%
Total Assets	**646,427,000**	**100%**	**676,496,000**	**100%**	**725,100,000**	**100%**	**796,861,000**	**100%**

Figure 3: Development of assets
(Source: S&P Global Market Intelligence)

Although ISA's NPL ratio improved markedly in the past years as well as in a year-over-year comparison (3.26 percentage points), it is still at a relatively high level. In addition, the groups NPL ratio is significantly worse than that of the peer group. However, the continuous decrease in ISA's NPL stock reflects its 2018-2021 business plan and initiatives to constantly improve its assets.

ISA's NPL/RWA ratio has improved equivalent to its NPL ratio since 2014, but is still considerably worse than the average of the peer group. The potential problem loans/NPL ratio decreased by 0.59 percentage points YOY; however, it is also relatively high in comparison to the peer group. By contrast, ISA's reserve/NPL ratio is above the average of the peer group and shows ISA`s prudent approach. The groups RWA/assets ratio, however, is in line with the average of the peer group. Over the past years, ISA was able to catch up to the peer group gradually.

The development of asset quality in the years 2014 – 2017 is detailed as follows:

Asset-Quality (%)	2013	%	2014	%	2015	%	2016	%	2017	%
Non Performing Loans (NPL) / Loans	16.67	NA	18.53	1.86	18.03	-0.50	15.94	-2.09	12.68	-3.26
NPL / RWA	20.75	NA	23.29	2.54	22.20	-1.09	20.48	-1.72	18.15	-2.32
Potential Problem Loans / NPL	35.25	NA	NA	NA	37.67	NA	34.78	-2.88	34.19	-0.59
Reserves / Impaired Loans	NA	NA	83.30	NA	81.97	-1.33	79.31	-2.66	81.72	2.41
Net Write-offs / Risk-adjusted Assets	NA	NA	NA	NA	NA	NA	1.07	NA	0.95	-0.12
Risk-weighted Assets/ Assets	44.26	NA	41.74	-2.53	42.03	0.29	39.16	-2.87	35.99	-3.16
Change in %-Points										

Figure 4: Development of asset quality
(Source: S&P Global Market Intelligence)

Refinancing and Capital Quality

ISA's financial liabilities accounted for 77% of total liabilities in 2017, and increasing by 10.3% YOY (€53 billion). Total deposits from customers correspond to 43.7% of total liabilities, increasing by 10.8% in comparison to the previous year (€31.5 billion), mainly as a result of the aforementioned acquisitions of the Venetian Banks. The increase in this item in 2016 is primarily due to higher demand attributable to new customers.

By contrast, total debt as the second largest item of financial liabilities; accounting for 13.3%, remained at a stable level YOY and consists primarily of issued securities in particular bonds. Total deposits from banks increased by 41.2% YOY (€31.7 billion) as a result of increased financial liabilities due to central banks. However, derivative liabilities decreased by 19.8% YOY (€9 billion), accounting for 4.9% of total liabilities.

Insurance liabilities decreased by 3.8% YOY (€3 billion) and consist primarily of technical insurance reserves in ISA's life business segment. The balance sheet item unit-linked insurance and investment contracts increased by 18.1% YOY (€11.3 billion) as a result of increased financial liabilities of the insurance business designated at fair value in particular due to the contribution from unit-linked products.

The development of refinancing and capitalization in the years 2014 – 2017 is detailed as follows:

Liabilities (€000)	2014	%	2015	%	2016	%	2017	%
Total Deposits from Banks	53,443,000	8.9%	62,497,000	10.0%	76,782,000	11.4%	108,441,000	14.6%
Total Deposits from Customers	230,927,000	38.4%	255,739,000	40.7%	291,834,000	43.2%	323,386,000	43.7%
Total Debt	128,382,000	21.3%	115,205,000	18.3%	99,911,000	14.8%	98,711,000	13.3%
Derivative Liabilities	51,321,000	8.5%	43,994,000	7.0%	45,309,000	6.7%	36,331,000	4.9%
Securities Sold, not yet Purchased	NA	0.0%	NA	0.0%	NA	0.0%	NA	0.0%
Other Financial Liabilities	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total Financial Liabilities	**464,073,000**	**77%**	**477,435,000**	**76%**	**513,836,000**	**76%**	**566,869,000**	**77%**
Insurance Liabilities	74,440,000	12.4%	79,380,000	12.6%	80,221,000	11.9%	77,141,000	10.4%
Non-Current Liab. HFS & Discontinued Ops	201,000	0.0%	0	0.0%	272,000	0.0%	264,000	0.0%
Unit-Linked Insurance and Investment Contr.	42,936,000	7.1%	52,322,000	8.3%	62,640,000	9.3%	74,009,000	10.0%
Tax Liabilities	2,323,000	0.4%	2,367,000	0.4%	2,038,000	0.3%	2,509,000	0.3%
Noncurrent Asset Retirement Obligations	2,647,000	0.4%	2,212,000	0.4%	2,428,000	0.4%	2,514,000	0.3%
Other Provisions	2,626,000	0.4%	2,621,000	0.4%	2,402,000	0.4%	4,377,000	0.6%
Total Other Liabilities	12,119,000	2.0%	11,566,000	1.8%	11,944,000	1.8%	12,574,000	1.7%
Total Liabilities	**601,365,000**	**93.0%**	**627,903,000**	**92.8%**	**675,781,000**	**93.2%**	**740,257,000**	**92.9%**
Total Equity	**45,062,000**	**7.0%**	**48,593,000**	**7.2%**	**49,319,000**	**6.8%**	**56,604,000**	**7.1%**
Total Passiva	**646,427,000**	**100%**	**676,496,000**	**100%**	**725,100,000**	**100%**	**796,861,000**	**100%**
Deposits from Customers Growth*	0.78	NA	10.74	9.96	14.11	3.37	10.81	-3.30
*Change in %-Points								

Figure 5: Development of refinancing and capital adequacy (Source: S&P Global Market Intelligence)

ISA's CET1 ratio increased by 0.61 percentage points in comparison to the previous year, but is still below the average of the peer group. However, ISA managed to increase its Tier 1 ratio more distinct by 1.26 percentage points and the total capital ratio by 0.91 percentage points. Against this, the peer group was not able to boost its ratios as ISA did, and therefore ISA is able to catch up to the peer group. In addition, the group launched in in 2017 two Additional Tier 1 issue in the total amount of €2 billion, which lead to an improvement of ISA's capital ratios supplementary. ISA's leverage ratio improved by 0.1 percentage points YOY, and the group is now above the average of the peer group with its ratio.

It should be noted, however, that ISA clearly meets all regulatory requirements.

The development of capital ratios for 2014 - 2017 is shown in detail in the following:

Capital (€000)	2014	%	2015	%	2016	%	2017	%
Total Capital	46,290,000	13.07	47,299,000	2.18	48,274,000	2.06	51,373,000	6.42
Total Risk-weighted Assets	269,790,000	-2.35	284,319,000	5.39	283,918,000	-0.14	286,825,000	1.02
Capital Ratios (%)								
Core Tier 1 Ratio	13.55	2.22	12.98	-0.57	12.65	-0.33	13.27	0.61
Tier 1 Ratio	14.18	1.93	13.79	-0.39	13.90	0.11	15.15	1.26
Total Capital Ratio	17.16	2.34	16.64	-0.52	17.00	0.37	17.91	0.91
Leverage Ratio	7.10	NA	6.37	-0.73	6.00	-0.37	6.10	0.10
Fully Loaded: Common Equity Tier 1 Ratio	13.30	1.97	12.47	-0.83	12.90	0.43	14.00	1.10
Fully Loaded: Tier 1 Ratio	NA	NA	12.95	NA	NA	NA	NA	NA
Fully Loaded: Risk-weighted Capital Ratio	16.00	1.18	15.57	-0.43	NA	NA	NA	NA
Total Equity/ Total Assets	6.97	-0.25	7.18	0.21	6.80	-0.38	7.10	0.30
Change in %-Points								

Figure 6: Development of capital ratios (Source: S&P Global Market Intelligence)

Due to ISA's bank capital and debt structure, as well as its status as an O-SII, the group's senior unsecured debt instruments have not been notched down in comparison to the long-term issuer rating. However, ISA's Tier 2 capital rating is four notches below the long-term issuer rating based on the bank's capital structure and seniority in accordance with our rating methodology. Additional Tier 1 capital is rated five notches below the long term issuer rating, reflecting a high bail-in risk in the event of resolution.

Liquidity

ISA has not published any exact figures for its liquidity coverage ratio before 2017. However, the group mentioned that its LCR ratio was above 100% and thus fulfills the regulatory requirement of 70% in the year 2016. In 2017, ISA published a LCR of 175%, and is clearly above the peer group's average with this ratio.

However, the group's interbank ratio decreased by 1.6 percentage points YOY. By contrast, the peer group's interbank ratio decreased more significantly. The LTD ratio of 127% is above average of the peer group, and improved by 2 percentage points in comparison to the previous year. By contrast, the peer group's average of this ratio declined slightly YOY.

Overall, ISA's liquidity ratios are the best performers in any of the areas analyzed.

The development of the liquidity ratios for the years 2014 - 2017 is detailed as follows:

Liquidity (%)	2014	%	2015	%	2016	%	2017	%
Liquidity Coverage Ratio	NA	NA	NA	NA	NA	NA	175.71	NA
Interbank Ratio	56.79	9.54	53.89	-2.90	68.11	14.22	66.46	-1.65
Loan to Deposit (LTD)	146.84	-3.31	136.87	-9.97	124.97	-11.90	127.02	2.05
Change in %-Points								

Figure 7: Development of liquidity
(Source: S&P Global Market Intelligence)

Conclusion

Overall, Intesa Sanpaolo S.p.A. had a solid year of performance in 2017. However, the group's profitability was additionally boosted by the public cash contribution of the Italian Government in relation with the acquisition of the Venetian banks. Therefore, significant key performance figures improved largely; however, the group's asset quality still stands out negative, but has been improving in the past years. Moreover, ISA is able to counteract the decline in its net interest income by increasing its income from fees and commissions as well as its income through trading activities.

ISA achieved a solid growth of its net profit YOY (net of the effects of the public cash contribution). Noteworthy is the positive development of the earnings figures of the group excluding its cost income ratios, which are negatively affected by its acquisitions in 2017. However, these figures are merely still on average of the peer group. In the upcoming years, it will be crucial to what extent the group is able to cut back its personnel expenses to keep up with its competitors.

The asset quality of ISA remains unsatisfactory even though ISA is able to improve its quality in the past years. Remarkable is the group's relatively high stock of NPL in combination with its relatively high write-offs on loans despite its low interest margin. Moreover, ISA has to be aware of a maturity mismatch in the upcoming future. However, ISA continues to improve on this by means of its business plan 2018-2021. Nonetheless, it is clear that ISA operates mainly in a difficult economic environment not only in Italy, but also in some Eastern European countries as well as in Egypt. Moreover, the group increased its dependency on its core market through its acquisitions in 2017.

On the liabilities side, ISA records considerable growth in particular in its customer deposits. Even though the group generated net profit in the past years, ISA is not able to improve its equity ratios significantly since 2014. However, the group records at least a positive trend. In addition, ISA launched two Additional Tier 1 issues 2017 to improve its equity ratios. Nonetheless, a lower payout ratio would enable ISA to catch up with its peers and thereby to improve its creditworthiness significantly.

It remains to be seen whether the group will be able to restructure and include its acquisitions of Banca Popolare di Vicenza and Veneto Banca. On the one hand, these acquisitions enabled the group a further growth in its core market Italy, but on the other hand the group thereby increased its dependency on the Italian market and has to manage the challenge of restoring a sustainable profitability of these two acquisitions.

In the near future, growing regulation, ongoing digitization, and the ECB's low interest rate policy pose a general challenge for the banking landscape. However, the ECB has already announced that it will cut back its bond-buying program in 2018. It remains to be seen whether an interest rate reversal will follow thereafter. In particular, a rapid increase in the interest rates goes hand-in-hand with an interest rate adjustment risk for banks, which have adjusted to long-term low interest rates.

In a scenario analysis, the rating developed considerably better in the "best case" scenario and significantly worse in the "worst case" scenario. The ratings of bank capital and (preferred) senior unsecured debt would behave similarly due to our rating mechanism. These ratings are especially sensitive to changes in total equity and to the bank capital and debt structure in general.

Ratings Detail

Bank ratings

The bank ratings are dependent on a host of quantitative and qualitative factors. An improvement in either sub-category may result in a higher rating score.

LT Issuer / Short-Term / Outlook **BBB / L3 / stable**

Bank Capital and Debt Instruments Ratings

The ratings for bank capital and debt instruments are inter alia dependent on subordination and relative size of the instrument class, based on the long-term issuer rating of the bank.

Tier 1 (AT1):	**B+**
Tier 2 (T2):	**BB-**
Senior unsecured debt:	**BBB**

Ratings Detail and History

Ratings			
Bank Capital und Debt Instruments			
Instruments	Rating Date	Publication Date	Ratings
Senior Unsecured / T2 / AT1	31.08.2018	04.09.2018	BBB / BB- / B+

Bank Issuer Ratings			
Type	Rating Date	Publication Date	Ratings
LT Issuer / Outlook / Short-Term	31.08.2018	04.09.2018	BBB / stable / L3

Figure 8: Ratings Detail and History

Regulatory

Creditreform Rating AG was neither commissioned by the rating object nor by any other third parties for the rating. The analysis took place on a voluntary basis by Creditreform Rating AG and is to be described in the regulatory sense as an unsolicited rating.

The rating is based on publicly available information and internal evaluation methods for the rated bank. The quantitative analysis is based mainly on the latest annual accounts, interim reports, other investor relations information of the bank, and calculated key figures by S&P Global Market Intelligence subject to a peer group analysis were 33 competing institutes.

The information and documents processed satisfied the requirements according to the rating system of Creditreform Rating AG published on the website www.creditreform-rating.de. The rating was carried out on the basis of the rating methodology for unsolicited bank ratings as well as the methodology for the rating of bank capital and unsecured debt instruments in conjunction with Creditreform`s basic document “Rating Criteria and Definitions”.

On 31 August 2018, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to Intesa Sanpaolo S.p.A. (Group) and its subsidiaries and the preliminary rating report was made available to it. There was no change in the rating score.

The rating is subject to one-year monitoring from the creation date (see cover sheet). Within this period, the rating can be updated. At the latest after one year, a follow-up is required to maintain the validity of the rating.

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration, Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

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To prepare this credit rating, CRA has used following substantially material sources:

1. Transaction structure and participants

2. Transaction documents

3. Issuance documents

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the CRA website. Furthermore CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The ‘Basic Data’ information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated including any rating outlooks is indicated clearly and prominently in the ‘Basic Data’ card as a “rating action”; initial release is indicated as “initial rating”, other updates are indicated as an “update”, “upgrade” or “downgrade”, “not rated”, “confirmed”, “selective default” or “default”.

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Creditreform Rating AG

Contact information

Creditreform Rating AG
Hellersbergstraße 11
D-41460 Neuss

Phone +49 (0) 2131 / 109-626
Fax +49 (0) 2131 / 109-627

E-Mail info@creditreform-rating.de
www.creditreform-rating.de

CEO: Dr. Michael Munsch

Chairman of the Board: Prof. Dr. Helmut Rödl
HR Neuss B 10522