

Long-Term Issuer Rating: BBB

Outlook: stable

Short-Term Rating: L3

Preferred Sen. Unsec. Debt: BBB

Tier 2 Capital: BB-

AT1 Capital: B+

02 July 2019

Rating Action:

Creditreform Rating (CRA) affirms Intesa Sanpaolo S.p.A. (Group) long-term issuer rating at 'BBB' (outlook: stable). In addition, CRA affirms the credit rating of the Group's subsidiaries Intesa Sanpaolo Bank Ireland Plc, Intesa Sanpaolo Bank Luxembourg S.A. and Banca IMI S.p.A. at 'BBB' (outlook: stable). However, our ratings of the Group's bank capital and debt instruments are affected by the change in our rating methodology.

Creditreform Rating has affirmed Intesa Sanpaolo S.p.A. (Group) long-term issuer rating at 'BBB' and the short-term rating at 'L3'. The rating outlook is stable. Moreover, CRA affirms the long-term issuer rating of the Group's subsidiaries Intesa Sanpaolo Bank Ireland Plc, Intesa Sanpaolo Bank Luxembourg S.A. and Banca IMI S.p.A. at 'BBB' as well as the short-term ratings at 'L3', which reflects the ratings of Intesa Sanpaolo S.p.A. (Group), in line with our methodology.

At the same time, we confirm the rating of Tier 2 capital at 'BB-' and the rating of AT1 capital at 'B+' of Intesa Sanpaolo S.p.A. (Group) and the aforementioned subsidiaries. However, adjustments in our rating methodology for bank capital and debt instruments occurred because of legislative alterations in the European Union. As a result, CRA reclassifies its rating of senior unsecured debt to preferred senior unsecured debt and affirms it at 'BBB'.

Please find a complete list of rating actions regarding the bank and its affected subsidiaries at the end of this rating action paper.

Key Rating Drivers

CRA has confirmed the rating of Intesa Sanpaolo S.p.A. (Group) and its bank capital and debt instruments as a result of our periodic updating process for the following reasons:

- Average capital figures, despite slight improvements
- Stable earnings figures (net of one-off effects)
- Despite ongoing improvement of its asset quality through the reduction of its non-performing exposures the bank still exhibits a relatively high NPL ratio
- Difficult economic environment in its home market Italy

Rating Rationale

The affirmation of Intesa Sanpaolo S.p.A. (Group) credit rating is a result of the bank's stable profitability (net of one-off effects), the below peer group average asset quality reflected by its relatively high stock of NPL's and its moderate capitalization. However, we acknowledge that

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the bank is on track to reduce its non-performing exposure as well as its operating expense, according to its 2018-2021 business plan.

Profitability

The bank's shows a slight increase in its profitability year-over-year (net of one-off effects) and a stable operating income, which is considerable in a low-interest environment as well as the bank's relatively high fee and commission income. In addition, the bank managed to reduce its operating expense significantly year-over-year. However, asset write-downs are still on a high level, despite a reduction in comparison to the previous year 2017.

For details regarding the bank's profitability, we refer to figure 2 and figure 3 in the appendix.

Asset Situation and Asset Quality

The Group's non-performing exposures reduced considerably year-over-year, however we are still concerned about its relatively high level. Moreover, we take into account that the bank is ahead of its schedule with regards to run down of its non-performing loans according to its business plan 2018-2021.

The Group's stable risk-weighted assets ratio is in line with the average of the peer group.

For details regarding the bank's asset situation and asset quality, we refer to figure 4 and figure 5 in the appendix.

Refinancing and Capital Quality

We note that Intesa Sanpaolo S.p.A. (Group) achieved a solid level of capitalization, which is in line with the average of the peer group. Moreover, we take note that the bank was able to increase its CET1 ratio slightly.

The ratings of Intesa Sanpaolo's bank capital and debt instruments are affected due to our rating mechanism and the recent change in our methodology.

For details regarding the bank's refinancing and capital quality, we refer to figure 6 and figure 7 in the appendix.

Liquidity

In our opinion, the overall liquidity situation of the bank is satisfactory.

For details regarding the bank's liquidity, we refer to figure 8 in the appendix.

Outlook

We consider the outlook of Intesa Sanpaolo S.p.A. (Group) long-term issuer rating and its bank capital and debt instruments as stable. This reflects our view that the bank is likely to keep being profitable in the upcoming years while still have to manage its high stock of non-performing

exposures. However, we will observe if the bank is able to meet its targets according to its 'Business Plan 2018-2021'.

In addition, we assume a stable political and economic environment in the banks markets of operations.

Scenario Analysis

In a scenario analysis, the bank's rating developed considerably better in the "best case" scenario and slightly worse in the "worst case" scenario. The ratings of bank capital and unsecured debt classes would behave similarly based on our rating mechanism. These ratings are especially sensitive to changes in total equity and to the bank capital and debt structure in general.

We might upgrade Intesa Sanpaolo's (Group) long-term issuer credit rating and its bank capital and debt instruments if we see a continuous improvement of the bank's asset quality and the reduction of its non-performing exposures, as well as a sustainable and adequate profitability.

By contrast, a downgrade of the Group's long-term issuer credit rating and its bank capital and debt instruments is likely if we see that the bank displays declining profitability ratios, has problems in relations with its targeted reduction of its non-performing exposures or reveals a reduced capitalization.

CRA's rating actions at a glance

Intesa Sanpaolo S.p.A. (Group):

- Long-Term Issuer Rating affirmed at 'BBB', stable outlook
- Short-term rating affirmed at 'L3'
- Senior unsecured debt reclassified to preferred senior unsecured debt and affirmed at 'BBB'
- Tier 2 capital affirmed at 'BB-'
- AT1 capital affirmed at 'B+'

Intesa Sanpaolo Bank Ireland Plc:

- Long-Term Issuer Rating affirmed at 'BBB', stable outlook
- Short-term rating affirmed at 'L3'
- Senior unsecured debt reclassified to preferred senior unsecured debt and affirmed at 'BBB'
- Tier 2 capital affirmed at 'BB-'
- AT1 capital affirmed at 'B+'

Intesa Sanpaolo Bank Luxembourg S.A.:

- Long-Term Issuer Rating affirmed at 'BBB', stable outlook
- Short-term rating affirmed at 'L3'
- Senior unsecured debt reclassified to preferred senior unsecured debt and affirmed at 'BBB'
- Tier 2 capital affirmed at 'BB-'
- AT1 capital affirmed at 'B+'

Banca IMI S.p.A.:

- Long-Term Issuer Rating affirmed at 'BBB', stable outlook
- Short-term rating affirmed at 'L3'
- Senior unsecured debt reclassified to preferred senior unsecured debt and affirmed at 'BBB'
- Tier 2 capital affirmed at 'BB-'
- AT1 capital affirmed at 'B+'

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

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.

Preferred senior unsecured debt (PSU): **BBB**

Tier 2 (T2): **BB-**

Additional Tier 1 (AT1): **B+**

Ratings Detail and History

Please consult our website www.creditreform-rating.de for additional information regarding the dates of publication.

Figure 1: Ratings Detail and History

Bank Issuer Rating	Rating Date	Publication Date	Result
Initialrating	16.04.2018	25.04.2018	BBB / stable / L3
Rating Update	02.07.2019	04.07.2019	BBB / stable / L3
Bank Capital and Debt Instruments	Rating Date	Publication Date	Result
Senior Unsecured / T2 / AT1 (Initial)	16.04.2018	25.04.2018	BBB / BB- / B+
PSU / T2 / AT1	02.07.2019	04.07.2019	BBB / BB- / B+
Subsidiaries of the Bank	Rating Date	Publication Date	Result
Intesa Sanpaolo Bank Ireland Plc			
Initialrating	31.08.2018	05.09.2018	BBB / stable / L3
Rating Update	02.07.2019	04.07.2019	BBB / stable / L3
Bank Capital and Debt Instruments of Intesa Sanpaolo Bank Ireland Plc			
Senior Unsecured / T2 / AT1 (Initial)	31.08.2018	05.09.2018	BBB / BB- / B+
PSU / T2 / AT1	02.07.2019	04.07.2019	BBB / BB- / B+
Intesa Sanpaolo Bank Luxembourg S.A.			
Initialrating	31.08.2018	05.09.2018	BBB / stable / L3
Rating Update	02.07.2019	04.07.2019	BBB / stable / L3
Bank Capital and Debt Instruments of Intesa Sanpaolo Bank Luxembourg S.A.			
Senior Unsecured / T2 / AT1 (Initial)	31.08.2018	05.09.2018	BBB / BB- / B+
PSU / T2 / AT1	02.07.2019	04.07.2019	BBB / BB- / B+

Banca IMI S.p.A.			
Initialrating	31.08.2018	05.09.2018	BBB / stable / L3
Rating Update	02.07.2019	04.07.2019	BBB / stable / L3
Bank Capital and Debt Instruments of Banca IMI S.p.A.			
Senior Unsecured / T2 / AT1 (Initial)	31.08.2018	05.09.2018	BBB / BB- / B+
PSU / NPS / T2 / AT1	02.07.2019	04.07.2019	BBB / BB- / B+

Appendix

Figure 2: Group income statement | Source: eValueRate / CRA

Income Statement	2015	2016	2017	%	2018
Income (€000)					
Net Interest Income	9.238.000	8.615.000	6.704.000	+9,5	7.342.000
Net Fee & Commission Income	6.895.000	6.735.000	7.428.000	+2,4	7.603.000
Net Insurance Income	-2.262.000	-2.075.000	1.282.000	+13,3	1.452.000
Net Trading Income	2.399.000	2.534.000	1.137.000	+3,6	1.178.000
Equity Accounted Results	111.000	125.000	1.150.000	-84,6	177.000
Dividends from Equity Instruments	378.000	461.000	117.000	-19,7	94.000
Other Income	921.000	872.000	977.000	-2,1	956.000
Operating Income	17.680.000	17.267.000	18.795.000	+0,0	18.802.000
Expenses (€000)					
Depreciation and Amortisation	911.000	931.000	879.000	+11,5	980.000
Personnel Expense	5.364.000	5.494.000	7.177.000	-17,3	5.932.000
Tech & Communications Expense	893.000	899.000	899.000	-1,8	883.000
Marketing and Promotion Expense	145.000	134.000	134.000	+5,2	141.000
Other Provisions	535.000	241.000	893.000	-96,1	35.000
Other Expense	3.265.000	3.191.000	3.043.000	+7,9	3.282.000
Operating Expense	11.113.000	10.890.000	13.025.000	-13,6	11.253.000
Operating Profit & Impairment (€000)					
Pre-impairment Operating Profit	6.567.000	6.377.000	5.770.000	+30,8	7.549.000
Asset Writedowns	2.824.000	3.288.000	3.154.000	-19,6	2.535.000
Net Income (€000)					
Non-Recurring Revenue	414.000	445.000	5.313.000	-90,4	509.000
Non-Recurring Expense	80.000	318.000	111.000	-41,4	65.000
Pre-tax Profit	4.077.000	3.216.000	7.818.000	-30,2	5.458.000
Income Tax Expense	1.331.000	1.003.000	464.000	> +100	1.386.000
Discontinued Operations	60.000	987.000	-	-	-
Net Profit	2.806.000	3.200.000	7.354.000	-44,6	4.072.000
Attributable to minority interest (non-controlling interest)	-67.000	-89.000	38.000	-42,1	22.000
Attributable to owners of the parent	2.739.000	3.111.000	7.316.000	-44,6	4.050.000

Figure 3: Group key earnings figures | Source: eValueRate / CRA

Income Ratios (%)	2015	2016	2017	%	2018
Cost Income Ratio (CIR)	62,86	63,07	69,30	-9,45	59,85
Cost Income Ratio ex. Trading (CIRex)	72,72	73,92	73,76	-9,91	63,85
Return on Assets (ROA)	0,41	0,44	0,92	-0,41	0,52
Return on Equity (ROE)	5,77	6,49	12,99	-5,51	7,48
Return on Assets before Taxes (ROAbT)	0,60	0,44	0,98	-0,29	0,69
Return on Equity before Taxes (ROEbT)	8,39	6,52	13,81	-3,78	10,03
Return on Risk-Weighted Assets (RORWA)	0,99	1,13	2,56	-1,09	1,47
Return on Risk-Weighted Assets before Taxes (RORWAbT)	1,43	1,13	2,73	-0,75	1,97
Net Interest Margin (NIM)	1,82	1,62	1,30	+0,14	1,44
Pre-Impairment Operating Profit / Assets	0,97	0,88	1,37	-0,41	0,96
Cost of Funds (COF)	1,03	0,83	0,67	-0,11	0,56
Change in %Points					

Figure 4: Development of assets | Source: eValueRate / CRA

Assets (€000)	2015	2016	2017	%	2018
Cash and Balances with Central Banks	17.242.000	36.037.000	49.802.000	-2,6	48.496.000
Net Loans to Banks	26.558.000	25.807.000	30.998.000	-1,2	30.620.000
Net Loans to Customers	350.051.000	364.734.000	411.950.000	-1,0	407.802.000
Total Securities	78.937.000	83.130.000	80.332.000	-4,6	76.617.000
Total Derivative Assets	38.063.000	36.775.000	28.789.000	+0,8	29.019.000
Other Financial Assets	0	0	0	-	0
Financial Assets	510.851.000	546.483.000	601.871.000	-1,5	592.554.000
Equity Accounted Investments	1.727.000	1.278.000	678.000	+39,1	943.000
Other Investments	-	-	-	-	-
Insurance Assets	128.187.000	142.045.000	153.021.000	-1,6	150.518.000
Non-current Assets & Discontinued Ops	27.000	312.000	627.000	> +100	1.297.000
Tangible and Intangible Assets	12.562.000	12.301.000	14.419.000	+14,1	16.449.000
Tax Assets	15.021.000	14.444.000	16.887.000	+2,2	17.253.000
Total Other Assets	8.121.000	8.237.000	9.358.000	-7,0	8.707.000
Total Assets	676.496.000	725.100.000	796.861.000	-1,1	787.721.000

Figure 5: Development of asset quality | Source: eValueRate / CRA

Asset Ratios (%)	2015	2016	2017	%	2018
Net Loans / Total Assets	51,74	50,30	51,70	+0,07	51,77
Non-Performing Loans (NPL) / Net Loans to Customers	18,03	15,94	12,64	-3,70	8,94
Impaired Loans / Net Loans to Customers	19,09	17,41	25,19	-5,49	19,70
Impairments/ Net loans to customers (%)	9,17	8,23	6,82	-1,42	5,40
Potential Problem Loans / NPL	9,07	9,21	99,28	+21,02	120,30
Risk-Weighted Assets (RWA) / Total Assets	42,03	39,16	35,99	-0,90	35,09
Non-Performing Loans / Risk-Weighted Assets	22,20	20,48	18,15	-4,96	13,19
Net Write-offs / Net Loans to Customers	0,78	0,83	0,63	-0,01	0,62
Net Write-offs / Risk-Weighted Assets	0,96	1,06	0,91	+0,00	0,91
<small>Change in %Points</small>					

Figure 6: Development of refinancing and capital adequacy | Source: eValueRate / CRA

Liabilities (€000)	2015	2016	2017	%	2018
Total Deposits from Banks	62.500.000	76.798.000	108.441.000	+2,0	110.616.000
Total Deposits from Customers	255.800.000	291.876.000	323.386.000	+1,0	326.514.000
Total Debt	115.205.000	99.911.000	97.457.000	-10,0	87.693.000
Derivative Liabilities	43.994.000	45.309.000	36.264.000	+6,1	38.470.000
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	-	-	-	-	-
Total Financial Liabilities	477.499.000	513.894.000	565.548.000	-0,4	563.293.000
Insurance Liabilities	131.638.000	142.803.000	152.471.000	-2,0	149.407.000
Non-current Liabilities & Discontinued Ops	-	272.000	264.000	-2,3	258.000
Tax Liabilities	2.367.000	2.038.000	2.509.000	-3,0	2.433.000
Provisions	4.833.000	4.830.000	7.218.000	-13,4	6.254.000
Total Other Liabilities	11.566.000	11.944.000	12.247.000	-4,9	11.645.000
Total Liabilities	627.903.000	675.781.000	740.257.000	-0,9	733.290.000
Total Equity	48.593.000	49.319.000	56.604.000	-3,8	54.431.000
Total Liabilities and Equity	676.496.000	725.100.000	796.861.000	-1,1	787.721.000

Figure 7: Development of capital ratios | Source: eValueRate / CRA

Capital Ratios (€000)	2015	2016	2017	%	2018
Total Equity/ Total Assets	7,18	6,80	7,10	-0,19	6,91
Leverage Ratio	6,80	6,30	6,42	-0,12	6,30
Phased-in: Common Equity Tier 1 Ratio (CET1)	13,00	12,70	13,30	+0,20	13,50
Phased-in: Tier 1 Ratio (CET1 + AT1)	13,80	13,90	15,20	+0,00	15,20
Phased-in: Total Capital Ratio (CET1 + AT1 + T2)	16,60	17,00	17,90	-0,20	17,70
Fully Loaded: Common Equity Tier 1 Ratio (CET1)	13,00	12,70	-	-	12,00
Fully Loaded: Tier 1 Ratio (CET1 + AT1)	13,80	13,90	-	-	13,80
Fully Loaded: Total Capital Ratio (CET1 + AT1 + T2)	16,60	17,00	-	-	16,50
Change in %Points					

Figure 8: Development of liquidity | Source: eValueRate / CRA

Liquidity (%)	2015	2016	2017	%	2018
Net Loans / Deposits (LTD)	136,85	124,96	127,39	-2,49	124,90
Interbank Ratio	42,32	32,96	28,59	-0,90	27,68
Liquidity Coverage Ratio (LCR)	-	-	176,00	-13,00	163,00
Customer Deposits / Total Funding (excl. Derivatives)	43,81	46,29	45,94	+1,06	46,99
Change in %Points					

Regulatory

Creditreform Rating AG was neither commissioned by the rating object nor by any other third party 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 eValueRate/CRA. Subject to a peer group analysis were 32 competing institutes.

The information and documents processed met the requirements of the rating system of Creditreform Rating AG as 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 02 July 2019, 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 the bank. There was no change in the rating score.

The rating is subject to one-year monitoring from the rating date and is valid until withdrawal of the rating. Within this period, the rating can be updated. At the latest after one year, a monitoring 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 this registration, Creditreform Rating AG (CRA) is permitted to issue credit ratings within the EU, and is obligated to comply with the provisions of the CRA-Regulation.

Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved nor any other natural persons whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

In the event of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our 'Rating Committee' policy, all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRA has used the 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 the 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".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within 'Basic Data' information card.

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An explanatory statement of the meaning of Creditreform`s default rates are available in the credit rating methodologies disclosed on the website.

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