Creditreform Covered Bond Rating

Intesa Sanpaolo S.p.A.
Mortgage Covered Bond Program

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Rating Object	Rating Information
Intesa Sanpaolo S.p.A., Mortgage Covered Bond Program guaranteed by ISP OBG S.r.l.	Rating / Outlook : **AA- / Stable** — Type: Initial Rating (unsolicited)
Type of Issuance : Mortgage Covered Bond under Italian law Issuer: Intesa Sanpaolo S.p.A.	Rating Date : 30.01.2019 Rating Renewal : Withdrawal of the rating
LT Issuer Rating: BBB (Intesa Sanpaolo) ST Issuer Rating: L3 Outlook Issuer: Stable	Rating Methodology : CRA „Covered Bond Ratings"

Program Overview

Nominal value	EUR 25.506 m.	WAL maturity covered bonds	5,59 (Years)
Cover pool value	EUR 34.468 m.	WAL maturity cover pool	6,11 (Years)
Cover pool asset class	Mortgages	Overcollateralization (nominal/committed)	35,14%/ 5,82%
Repayment method	Soft Bullet	Min. overcollateralization	0%
Legal framework	Italian legal framework for OBG	Covered bonds coupon type	Fix (0,00%), Floating (100,00%)

Cut-off date Cover Pool information: 30.09.2018.

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Summary

This rating report covers our analysis of the mortgage covered bond (*Obbligazioni Bancarie Garantite* or OBG) program issued under Italian law by Intesa Sanpaolo S.p.A. („Intesa Sanpaolo "). The total covered bond issuance at the cut-off date (30.09.2018) had a nominal value of EUR 25.506,00 m, backed by a cover pool with a current value of EUR 34.468,37 m. This corresponds to a nominal overcollateralization of 35,14% including substitute assets. The cover assets mainly include Italian mortgages obligations in Italy.

Taking into consideration the issuer rating, our analysis of the regulatory framework, liquidity- and refinancing risks, as well as our cover pool assessment and results of the cash flow analysis, Creditreform Rating AG ("Creditreform Rating" or "CRA") has assigned the covered bond program an AA- rating. The AA- rating represents a very high level of credit quality and very low investment risk.

Key Rating Findings

+ Covered Bonds are subject to strict legal requirements (OBG Law)
+ Covered bonds are backed by the appropriate cover asset class
+ Covered bond holders have recourse to the issuer
- High dependency on the Italian market
- Low asset quality, and relatively high NPL ratio of the issuer

Table1: Overview results

Risk Factor	Result
Issuer rating	BBB (rating as of 16.04.2018)
+ Legal and regulatory framework	+4 Notches
+ Liquidity and refinancing risk	+1 Notch
= Rating after 1st uplift	AA-
Cover pool & cash flow analysis	B+
+ 2nd rating uplift	+/-0
= Rating covered bond program	**AA-**

Issuer Risk

Issuer

Intesa Sanpaolo S.p.A. (hereinafter: ISP) is a banking group formed through the merger of Banca Intesa and Sanpaolo IMI in 2007. The group's headquarters are in Torino. With 87.352 employees (average number in 2017), the group serves approximately 19.9 million customers (12.3 million in Italy and 7.6 million abroad) and had total assets of EUR 796 billion in 2017. ISP has commercial banking presence in 12 countries, primarily in Italy, Eastern Europe and North Africa. Moreover, the group has an international network with a presence in 25 countries to support cross-border activities of corporate clients.

On 26 June 2017, ISP 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 EUR 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, ISP acquired both banks. The group received a public contribution of EUR 3.5 billion to offset the impacts on its capital ratios deriving from the acquisition, and of EUR 1.285 billion to support the corporate restructuring measures that ISP must activate to fulfill the commitments made to the European Commission.

In 2017 Intesa Sanpaolo S.p.A. had a solid year of performance. However, the group's profitability was additionally boosted by the public cash contribution of the Italian Government in relation to the acquisition of the Venetian banks. Therefore, significant key performance figures improved largely. Moreover, ISP was 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. The asset quality of ISP remains unsatisfactory even though ISP was 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. Even though the group generated net profit in the past years, ISP was not able to improve its equity ratios significantly since 2014. However, the group records at least a positive trend.

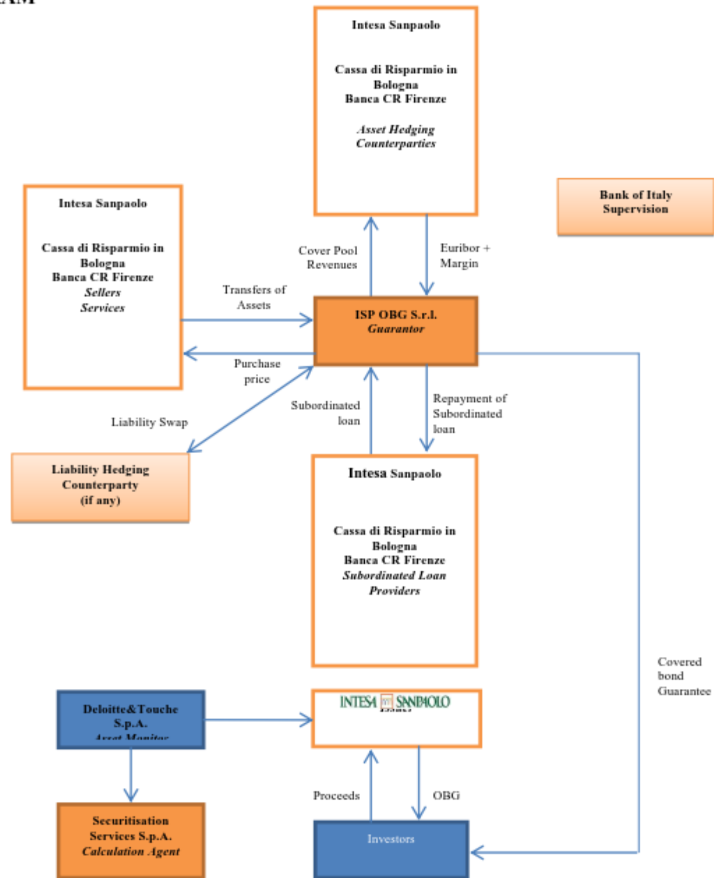
Structural Risk

Transaction structure

Table 2: Overview of all transaction's parties | Source: CRA

Role	Name
Issuer	Intesa Sanpaolo S.p.A., Italy
Guarantor	ISP OBG S.r.l.
Cover pool monitor / Trustee	Deloitte & Touche S.p.A
Cover pool administrator	A portfolio manager should be appointed by the SPV to facilitate the cover assets liquidation in case of issuer default

Figure1: Overview of Covered Bond emission | Source: Intesa Sanpaolo



Legal and Regulatory Framework

In Italy, no distinct and independent legal framework exists which specifies the regulation of covered bonds by law. Italy has firstly incorporated covered bonds in the legal set-up in 2005 by amending the existing Italian securitization law (Law no. 130/1999) on the basis of two additional articles (Law no. 80/2005) dealing with the administration and issuance of Italian covered bonds ('Obbligazioni Bancarie Garantite' (OBG)).

While Italian banks do not need a special license to issue covered bonds, they have to fulfil certain requirements and comply with a number of limits in order to be allowed to issue covered bonds and to transfer eligible assets to a special purpose vehicle (SPV). Pursuant to the Italian central bank – the Bank of Italy – only banks with equity of leastwise EUR 250 million and a consolidated total capital ratio of leastwise 9% are allowed to issue covered bonds. This also accounts for the delegating banks, i.e. the cover asset suppliers. Furthermore, for an unlimited transfer of eligible assets to the SPV, the Tier 1 ratio has to be at least 9% and the Core Equity Tier 1 ratio has to be at least 8%. These requirements are more demanding than those currently requested by other European legal frameworks where a license system prevails. For instance, universal banks need to have a minimum Core Equity Tier 1 ratio of 4.5% according to Basel III standards.

According to Law no. 80/2005, the setting of a covered bond transaction is regulated. First of all, a credit institution delegates eligible cover assets to the SPV, which grants a guarantee for the issued covered bonds in favour of the covered bond holders. By means of a true sale, the SPV buys the assets via a subordinated loan received or safeguarded by a bank (this can be a bank different than

the one selling the assets). The selling bank or another bank then issues covered bonds, while the assets bought by the SPV are used to guarantee the claims of the covered bond holders and relevant counterparties, as well as to pay transaction costs. Thus, the purpose of the SPV is to a) acquire eligible cover assets and become their owner and b) grant a guarantee for the issued covered bonds, safeguarded by the cover assets. The loan is reimbursed only after all covered bonds have been redeemed.

On 12/14/2006 and on 12/27/2006 Law no. 80/2005 was enriched by the decree of the Ministry of Economy and Finance (No 310) and regulations of the Bank of Italy (Circular No 263) including eligibility criteria of cover assets, the maximum permissible proportion between transferred assets and issuable securities and the kind of collateral to be supplied to covered bond holders by the SPV. Finally in 2007, the implementing principles were enacted and with it the legal framework necessary to issue covered bonds was finalized.

The Bank of Italy is responsible for the regulatory monitoring of covered bond programs, both off-site as well as on-site. On a regular basis, the Bank of Italy examines the compliance with relevant eligibility criteria and their documentation, like the requirement of own funds of leastwise EUR 250 million and a consolidated total capital ratio of leastwise 9%. The Bank of Italy stipulates that each issuing bank on its own is predominantly responsible for the assessment of operational risk, for suitable monitoring techniques and for its effective functioning at all times. Overall, the supervision of the covered bond issuer is only partially in line with EBA's best practice, as the covered bond program need not be approved and authorized by the competent authority. Besides, in case of an issuer default, the duties and powers of the supervisory authority comprise, amongst others the consultation on the administrator's actions, the power to order special audits, or the granting of extra powers to the administrator, which again fulfils EBA Best Practices.

The Italian legal framework accords with Article 129 CRR, which governs the risk-weighting of covered bonds, and is also in line with UCITS Directive 52(4). Italian covered bonds are eligible in repo transactions with the Bank of Italy.

Regarding the implementation of the BRRD, which features resolution authorities with several particular resolution tools and deals with the failure of financial institutions, Italy has translated the directive - including the bail-in tool - into national law on 1/1/2016. The BRRD allows authorities to interfere as fast as possible in an affected or bankrupt institution in order to guarantee the continuance of the institution's financial and economic tasks and to mitigate the aftermath of an institution's bankruptcy on the economy and the financial system. This law should ensure that the corresponding resolution authority exempts covered bonds from bailing-in and write downs. In November 2015, the Bank of Italy saved four Italian banks (Banca delle Marche, Banca Popolare dell'Etruria, Cassa di Risparmio di Ferrara and Cassa di Risparmio di Chieti). The non-performing loans of the four troubled banks were delegated to a bad bank. While subordinated creditors were bailed-in, senior unsecured and covered bond creditors were fully repaid. Thus, covered bonds (and senior unsecured) were exempted from a bail-in. Nevertheless, this was in 2015 before the new resolution regime was introduced. Under the new BRRD provisions senior unsecured investors would not have been spared. Two years later on 6/23/2017, the ECB adjudged Banca Popolare di Vicenza and Veneto Banca to be 'failing or likely to fail'. The Italian regime decreed to separate the two banks into a good and a bad bank and to bail-in shareholders and junior bondholders.

Insolvency Remoteness and Asset Segregation

In Italy, the segregation of cover assets is accomplished via the sale/transfer of cover assets by a universal credit institution to a SPV equipped with a guarantee covenant. Consequently, the cover assets are isolated from the issuer's remaining assets and reserved for the preferential claim of the covered bond holders. EBA's best practice of assets segregation is fully satisfied. The Italian legal framework stipulates that the warranty issued by the SPV in favour of the covered bond holders has to be binding, first-demand, implicitly and autonomous of the issuing credit institution's liabilities. Moreover, in case of failure to pay or insolvency of the issuing bank the guarantee will be restricted to cover pool asset value to assure insolvency remoteness of the SPV, while the SPV is reliable for the ongoing interest and principal payments. The All funds arising from the resolution procedure will be included in the cover pool and thus, utilized to meet the claims of the covered bond holders. The

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repayment of any outstanding obligation to covered bond holders, derivative counterparties and of transaction costs ranks senior to the repayment of the subordinated loan of the SPV.

In case of an issuer default, no automatic acceleration of the covered bond takes place. Covered bonds will continue to exist and they will be reimbursed at the time of their original contractual maturity. Besides, failure to pay does not cause a covered bond default. Italy mainly issues soft-bullet covered bonds, i.e. an extension period will grant additional time to pay back principal and interest payments of covered bonds, while only a small volume of covered bonds outstanding goes into pass-through mode in case of non-payment. Covered bond holders have a preferential claim on the cover assets by law, i.e. they are endowed with the right to assert a claim with the issuing bank and to demand complete reimbursement of the covered bond.

In case of an issuer default, the SPV will be in charge of repaying covered bondholders and relevant counterparties and will conduct lawsuits for covered bond holders against the issuing credit institution. The covered bonds are direct, unconditional liabilities of the issuer. Regarding bankruptcy remoteness, Italy fully complies with EBA's best practice and provides structural features to guarantee the remoteness of the covered bond from the insolvency of the issuer and a preferential treatment of the covered bond holders regarding the cover assets. If the funds arising from the liquidation are scarce to repay covered bond holders, covered bond holders in addition can file an unsecured claim against the general insolvency estate of the issuer and can make use of the dual recourse, which ranks senior to the unsecured creditors and fulfils EBA’s best practice. These provisions are regulated by the legal framework replacing the general insolvency law.

Trustee

The Italian legal framework stipulates that an external asset monitor has to be nominated by the issuer and he or she has to supervise the accuracy of the transactions, the soundness of the cover assets as well as the reliability of the covered bond guarantee in favour of the covered bond holders. Furthermore, the asset monitor conducts audits of the cover pool and controls the retention of the coverage tests and verifies them. The asset monitor has to be an independent auditing firm endowed with the necessary expertise and know-how. Each year the asset monitor has to give a full account to the Board of Directors and to the internal audit department of the bank. Though the legal framework does not require any particular reporting to the Bank of Italy, the asset monitor usually submits any substantial discrepancy to the competent authority, while the report of the asset monitor is also investigated by the auditor of the bank. The bank’s auditor, who files a report to the Bank of Italy on a regular basis, too, should call the Bank of Italy’s attention to detrimental assessments. Furthermore, every half-year and for every single operation the issuers have to investigate the quality of the cover pool, the adherence to the stipulated ratio of outstanding covered bonds to cover assets, the adherence to transfer restrictions and asset integration requisites, and the efficiency of any derivative hedge instrument. Overall, Italy fully conforms to the EBA requirement of appointing the cover pool monitor and formulating corresponding duties and powers.

Special Administrator

In case of issuer default or any other crisis with respect to covered bonds, the legal framework has set out duties and powers regarding the special administrative function - i.e. the ongoing management of the covered bonds - which is governed in an independent way and on behalf of the covered bond holders’ preferential interests. The SPV has to organize the remaining liabilities of the issuer and has to fulfil payments at the time of their original contractual maturity, while the SPV will also be appointed to enforce the rights of the covered bond holders against the issuer in the bankruptcy proceedings. Italy fully complies with EBA’s best practice regarding the administration of the covered bond program post the issuer’s insolvency or resolution.

Eligibility Criteria

All assets transferred to the SPV are part of the cover pool. Eligible cover assets are residential mortgage loans with a maximum LTV of 80% of the nominal value or commercial mortgage loans with a maximum LTV of 60%. Moreover, claims owed or guaranteed by third parties are allowed with a maximum of 10% of total cover assets, while the third party either has to be a public entity of EEA

member countries and Switzerland with a maximum risk-weight of 20%, or a public entity of non-EEA member countries with a risk weight of 0% or another entity of non-EEA member countries with a risk weight of 20%. Further eligible cover assets are senior mortgage-backed securities assessed with credit quality step 1, while at least 95% of the underlying assets include above mentioned eligible assets. If the amount of mortgage-backed securities exceeds the limit of 10% of the issuance nominal level of outstanding covered bonds, further requirements have to be obeyed. First the residential or commercial mortgage loans must be provided by an affiliated credit institution. Second, the issuer has to bear the risk underlying the whole junior tranche. And finally, the issuer and SPV must be capable of guaranteeing the eligibility and the amount of securitized assets at any time and they have to endow the special asset monitor with all important information in order to execute essential surveillance and monitoring duties. The assignment of eligible assets to the SPV is subject to various thresholds with respect to the regulatory capital levels of the issuer. If the Tier 1 ratio is at least 9% or higher and the Core Equity Tier 1 ratio is at least 8% or higher no transfer limitations exists. However, if the Tier 1 ratio is at least 8% or higher and the Core Equity Tier 1 ratio is at least 7% or higher, the amount of eligible assets that can be sold is limited to 60%. Finally, if the Tier 1 ratio is at least 7% or higher and the Core Equity Tier 1 ratio is at least 6% or higher, the transfer limit is set to 25%. Overall, substitution assets are allowed up to a limit of 15% of the cover pool's nominal value.

Eligible cover assets are residential mortgage loans with a maximum LTV of 80% of the market value or commercial mortgage loans with a maximum LTV of 60% of the market value, while exceeding the LTV cap makes the whole loan ineligible to be included in the cover pool. In Italy, both soft and hard LTV limits are in place. Hard limits are used, when the loan is comprised in the cover pool, while soft limits are used, when the loan deviates from the limit after inclusion. There exists no cap that induces the elimination of an existing loan from the cover pool. Thus, if the LTV limit is violated after a loan has been included in the cover pool, the issuer should either substitute the loan with a complying loan, or reduce the amount of the loan computable in the cover pool. Considering property revaluation, residential properties have to be evaluated every 3 years and commercial properties every year in accordance with Article 208(3) of the CRR. Overall, these legal requirements result in complete consistency with EBA's best practice considering LTV limits and the measurement and frequency of revaluation.

The geographical scope of legitimate mortgage assets and public sector assets is confined to EEA countries and to Switzerland, while regulatory arrangements are present to ensure that the cover assets are enforceable in the corresponding jurisdiction. This conforms fully to EBA's best practice.

Primary assets classes in the cover pool are residential mortgages, commercial mortgages, public sector loans and senior mortgage-backed securities, while issuers decide on the structure of cover pools on their own. Thus, mixed asset cover pools are possible and no regulatory limits with respect to the composition need to be adhered. Accordingly, Italy is merely partially aligned to EBA's best practice in terms of the composition of the cover pool.

Issuing banks primarily use derivative instruments in the cover pool to hedge market risks, like interest rate and currency risks. In case of issuer default, derivative contracts in the cover pool cannot be cancelled upon the issuer's bankruptcy and no automatic acceleration takes place. Derivative instruments, which are allowed in the cover pool, rank pari passu to covered bond holders. The treatment of derivatives fully conforms to EBA's best practice, as the legal framework requires that derivative instruments are permitted in the covered bond program solely for risk hedging purposes, while contracts in the cover pool cannot be cancelled upon the issuer's bankruptcy and no automatic acceleration takes place.

Systemic Relevance and External Support

After the 2007/2008 financial crisis, Italian covered bonds outstanding increased from around EUR 15bn in 2008[1] to around EUR 127bn in 2012. The outstanding amount has been increasing since and hit a new high-point at around EUR 147bn in 2017. The changing volume is mainly attributed to mortgage covered bonds outstanding, which reached from EUR 116bn in 2012 to EUR 140bn in

[1] Source: EMF-ECBC (2018), ECBC: European Covered Bond Fact Book 2018, EMF-ECBC

2017, while public sector covered bonds decreased from EUR 10bn to EUR 7bn at the same period. On average, 31bn mortgage covered bonds were issued each year over the last five years, whereas only 2,4bn public sector were issued each year over the same period.

With a market share of approximately 25% outstanding covered bonds in relation to the entire covered bonds segment as of 2017, Intesa Sanpaolo is one of the largest covered bonds issuer in Italy, with a portfolio consisting primarily of mortgage covered bonds. Likewise, being the second largest bank in Italy, the positioning of Intesa Sanpaolo in the Italian banking sector has been classified as systematically important.

Summary Structural Risk

In general, the Italian legal framework for OBG defines the legal basis for covered bond programs in Italy, it defines clear rules to mitigate risks in particular regarding: insolvency remoteness, asset segregation, investor's special claim vis-à-vis other creditors, the roll and appointment of a special administrator, among other provisions.

Therefore, we considered the structural framework in Italy as positive, accomplishing an adequate set of rules for Italian covered bonds. Furthermore, we contemplate the importance of Intesa Sanpaolo in the Italian covered bonds market in our analysis. Due to those reasons we have set a rating uplift of four (+4) notches.

Liquidity- and Refinancing Risk

Minimum Overcollateralization

According to the legal framework and the Italian Ministry of Economy, assets have least to be of the same amount as the covered bonds outstanding on a nominal and a NPV basis. In addition, interests deriving from underlying cover assets must be at least as high as interest payments on covered bonds. Thus, Italy requires issuing banks to stick to an overcollateralization level of at least 0% on a nominal and a NPV basis.

If a positive mandatory overcollateralization is required by the individual covered bond program, the overcollateralization level is binding, while respective assets above the minimum overcollateralization ratio are fully covered. Italy is considered aligned with EBA's best practice of coverage principles and overcollateralization, as requisites exist that guarantee an overcollateralization level beyond 0% and thus ensure the repayment of obligations of the covered bond programs, together with the repayment of liabilities towards derivative counterparties and transaction costs.

Cash flows originating from cover assets have to be sufficiently large to disburse both principal and interest payments to covered bond holders and to settle up the costs of derivative counterparties. In order to comply with the regulations that assets have to be leastwise as high as covered bonds outstanding, an integration of cover assets can be conducted. For instance, further eligible assets, or substitution assets like deposit accounts at banks within EEA member countries or other countries with a 0% risk-weight can be opened, or own debt securities with a remaining contract period of less than 1 year can be included in the cover pool. Thus, integration is merely permitted in order to keep the amount of cover assets at least as high as the amount of covered bonds issued, if overcollateralization is stipulated to keep the ratio up to the prearranged limit and to meet the 15% threshold of eligible substitution assets.

Short-term Liquidity Coverage

No requirements with respect to liquidity risks, i.e. a mandatory liquidity buffer, are specified within the legal framework, while the principal procedure to alleviate liquidity risk is natural matching and stress testing. Furthermore, interest matching prerequisite is present and considers operational costs of the SPV and payments to derivative counterparties. As there exists no requirement for the implementation of a particular liquidity buffer Italy is considered to be merely partially aligned with EBA's best practice.

Stress Tests and Matching

While coverage tests have to be conducted, the legal framework does not stipulate any prescription to do stress tests. It is neither obligatory to do stress tests to anticipate interest rate and currency discrepancies, nor to do stress tests regarding the calculation of the coverage requirement per se. Nevertheless, stress testing can be conducted on a voluntary basis. Overall, EBA's guidelines are not satisfied.

Asset-Liability Mismatches

In order to guarantee that the revenues from the cover pool assets are always adequate to wipe off the claims of the covered bond holders and the transaction costs, the issuing banks need to implement suitable asset-liability management procedures and to conduct particular checks and supervisions leastwise half a year. Both nominal and present value coverage tests have to be undertaken every six months.

Repayment Method

Covered bonds are issued in the forms of hard bullet, soft bullet and/or conditional pass through maturity structure, i.e. a final repayment with/without extension optionality at the end of the term. Maturity mismatches between cover assets and liabilities thus may (soft bullet and conditional pass through) or may not (hard bullet) be mitigated by extension of the legal final maturity of respective covered bonds. This feature of covered bond programs is considered within our cash flow analysis.

Refinancing Costs

In the event of the issuer's insolvency, the framework stipulates that the special administrator can sell assets of the cover pool or use them as a guarantee for liquidity operations if liquidity shortfalls are foreseeable.

CRA's analysis assumes that refinancing gaps due to ALM will be closed by a sale of assets from the cover pool. In doing so, we take into account related costs in the form of a discount to the nominal value. The quantification of this discount is adjusted following an analysis of relevant market data and will be used in our cash flow analysis.

Other Liquidity Risks

Derivative instruments can be an additional measure to hedge market risks, like interest rate and currency risks. In case of issuer default, derivative contracts in the cover pool cannot be cancelled upon the issuer's bankruptcy and no automatic acceleration takes place. Derivative instruments, which are allowed in the cover pool, rank pari passu to covered bondholders. Information on the maturity of outstanding bonds, notional and NPV coverage, the structure of the cover assets, positions in derivatives and the fixed interest periods, the voluntary stress tests and the respective coverage shall be published on a semi-annual basis.

Summary Liquidity and Refinancing Risk

In comparison to other jurisdictions, the regulatory requirements for liquidity and risk management for OBG are relatively weak and barely in line with the requirements of EBA Best Practices. Overall, sufficient structural safeguards are not established due to the absence of compulsory liquidity buffers and no obligation to conduct stress tests for interest rate and currency risks. In addition, Refinancing risks may not be structurally reduced under the hard bullet repayment structure, which can only be cushioned by sufficiently high overcollateralization, short-term cash availability, or other liquid funds to bridge the asset-liability mismatches in the portfolio.

Nevertheless, we assess the overall legal provisions on liquidity management for covered bonds (OBG) programs issued in Italy and set a rating uplift of only one (+1) notch.

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Credit and Portfolio Risk

Cover pool analysis

The analysis of the cover pool is based on public information which has been made available by the Issuer, in particular the Harmonised Transparency Template („HTT “) as per regulatory requirements. This information was sufficient according to CRA´s rating methodology “Covered Bond Ratings”.

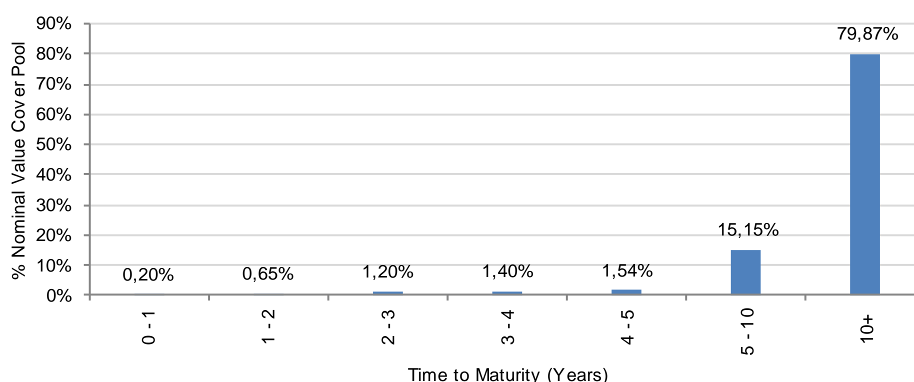
At the cut-off-date 30.09.2018, the pool of cover assets consisted of 400.549 debt receivables, of which 100,00% are domiciled in Italy. The total cover pool volume amounted to EUR 34.468,37 m in residential (93,66%), commercial (6,34%) and others (0,00%). The ten largest debtors of the portfolio total to 0,41%. Table 3 displays additional characteristics of the cover pool:

Table 3: Cover pool characteristics | Source: Intesa Sanpaolo

Characteristics	Value
Cover assets	EUR 34.468 m.
Covered bonds outstanding	EUR 25.506 m.
Substitute assets	EUR 3664,41 m.
Cover pool composition	
Mortgages	89,37%
Substitute assets	10,63%
Other / Derivative	0,00%
Number of debtors	NA
Mortgages Composition	
Residential	93,66%
Commercial	6,34%
Other	0,00%
Average asset value (Residential)	EUR 75,41 k.
Average asset value (Commercial)	EUR 108,64 k.
Non-performing loans	0,68%
10 biggest debtors	0,41%
WA seasoning	72,07 Months
WA maturity cover pool (WAL)	6,11 Years
WA maturity covered bonds (WAL)	5,59 Years

We have listed an extended view of the composition of the cover pool in the appendix section “Cover pool details”, with, for example, a detailed regional distribution. The following chart displays the maturity profile of the cover assets at the cut-off date 30.09.2018 (see figure 2):

Figure 2: Distribution by remaining time to maturity I Source: Intesa Sanpaolo



Maturity profile

The following charts present the cash flow profile of the Issuer (see figure 3 and figure 4):

Figure 3: Cover asset congruence | Source: Intesa Sanpaolo

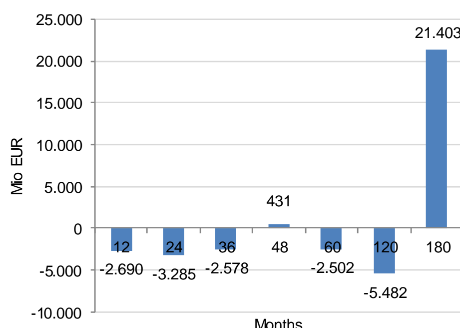
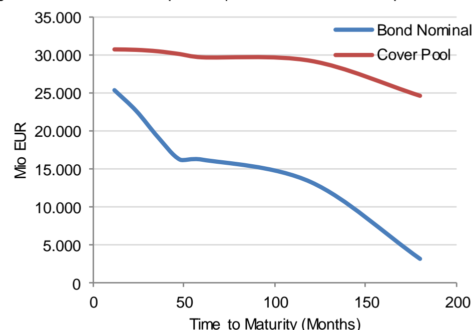


Figure 4: Amortization profile | Source: Intesa Sanpaolo



This covered bond program issues covered bonds with soft bullet maturity structure. During its cash flow modelling, CRA has taken into consideration the maturity structure of cover assets and liabilities. This structure was an integral part of the cash flow analysis.

Interest rate and currency risk

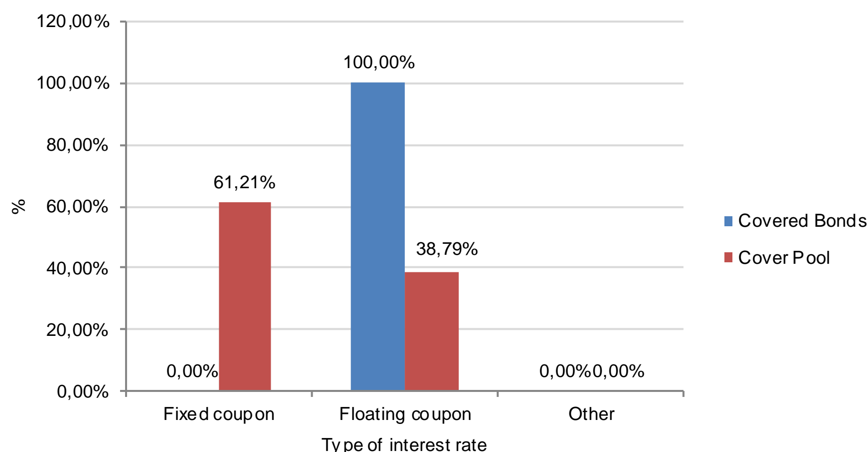
The legal framework does not stipulate any obligatory stress tests to anticipate interest rate and currency discrepancies. However, all the cover pool assets and covered bonds are denominated in euros. This program also uses derivatives to hedge interest rate risks. In our cash flow analysis we assume that the interest rate mismatches are fully hedged in the form of swap agreements. Therefore, CRA did not apply interest rate and foreign exchange stresses for the cash flows.

Table 4: Program distribution by currency | Source: Intesa Sanpaolo

Currency	Volume	Share (%)
Cover Pool		
EUR	30.804 m	100,00%
Covered Bond		
EUR	25.506 m	100,00%

Figure 5 shows the types of interest rate used in this program

Figure 5: Type of interest rate | Source: Intesa Sanpaolo



Credit Risk

The credit risk assessment for Mortgage Covered Bond have been determined in accordance with CRA rating methodology for Covered Bonds by means of historical data and particular parameters from the Covered Bonds.

Due to the high granularity of mortgage pools we have characterized these portfolios as big enough and with a homogeneous composition i.e. ("Large Homogeneous Portfolio", LHP). Furthermore under that premise we have assumed that it is possible to derive a loss distribution. CRA has used the historical issuer's NPL ratio to derivate a conservative default rate proxy for the approximation through the LHP distribution. For the Intesa Sanpaolo it has been assumed an expected default rate of 3,98% for the LHP. Furthermore CRA has considered a 15,00% correlation to define the LHP distribution. Table 5 disclosed the expected default rate for each relevant rating level.

In order to derive recovery and loss-severity base case assumption CRA has used historical data from mortgage price indexes. To determine loan-level recovery assumptions the resulting stressed recoveries assumptions were compared with the portfolio's existing loan-to-value ratios (LTVs).

Based on the default rates and taking into account the recovery assumptions, the following loss assumptions were determined for the current cover pool (see Table 5)

Table 5: Cover Pool Base case assumptions | Source: CRA

Rating	Default Rate (%)	Recoveries (%)	Expected Loss (%)
BBB-	44,46%	63,75%	16,11%
BB+	41,63%	66,84%	13,81%
BB	38,66%	70,11%	11,56%
BB-	35,26%	73,77%	9,25%
B+	**32,41%**	**77,64%**	**7,25%**
B	29,72%	80,53%	5,79%
B-	26,25%	84,68%	4,02%

Cash-Flow Analysis

Model Assumptions

Based on public information and using the base case loss assumptions, we implement a scenario-based cash flow model. This model aims to test the ability of the structure to service all covered bonds according to their payment profile in diverse stress scenarios. The CRA cash flow analysis assumes that the Issuer has defaulted, i.e. all obligations will be met using cash flows from the cover pool assets only. We also assume that no additional assets will be added to the cover pool during the wind-down phase.

Asset-Sale Discount

In our model, short-term liquidity needs and liquidity needs due to asset-liability mismatches will be met with a sale of cover assets available for monetization. Based on secondary market data, CRA assumes a rating-level haircut on the asset value („Asset-Sale Discount") which represents additional costs of disposal and market risks during the sale of cover assets. (see Table 6).

Yield Spread

Since cover assets often have a positive yield spread against the covered bonds issued, CRA uses available public information (i.e. issuers´ annual accounts) to size this assumed spread („Yield Spread") (see table 6):

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Table 6: Cash-Flow Model assumptions | Source: CRA

Rating level	Asset-Sale Discount	Yield Spread
BBB-	40,03%	0,86%
BB+	36,74%	0,89%
BB	33,12%	0,93%
BB-	29,38%	0,97%
B+	**25,77%**	**1,01%**
B	22,02%	1,05%
B-	14,65%	1,12%

Rating Scenarios

Scenarios that have been tested in our cash flow model rely on the variation of several central input parameters, such as:

- Portfolio composition (diversification, concentration, granularity)
- Probability of default of cover assets
- Correlations of cover assets and systematic risk factors
- Recoveries
- Maturity profile of covered bonds and cover assets (ALM)

Within a **B+** rating scenario, the cash flow model showed that obligations can be paid fully and in a timely manner. In total, the cash flow analysis revealed that the portfolio, given all information available as of 30.09.2018, could be sufficient to repay bond nominal capital notwithstanding the occurrence of any extraordinary events. On this basis, the rating of the cover pool within our covered bond program rating has been set at B+.

Overcollateralization Break-Even Analysis

CRA also performed a break-even OC analysis. Such OC levels should bear the corresponding losses for a given rating scenario. Main drivers of the analysis are:

- ALM
- Loss level
- Interest rate spreads
- Foreign currency mismatches
- Recoveries.

Performing the break-even OC analysis, we took rating-level specific stressed outcomes into account. Based on these analyses, the maximum OC required for each relevant rating level during the whole period has been presented in Table 7.

Table 7: Breakeven Analysis | Source: CRA

Rating Level	Breakeven OC
BBB-	37,81%
BB+	32,10%
BB	26,50%
BB-	21,02%
B+	**16,24%**
B	12,14%
B-	5,54%

Sensitivity Analysis

CRA also evaluates the sensitivity of the structure and program with respect to important input parameters. In particular, the following factors have been varied:

- Credit quality of cover assets

- Recoveries

The following table presents the rating impact of a decline in recoveries and an increase in the credit risk of single debtors. Starting from the best-case, which is represented by our base case assumptions, the analysis reveals the sensitivity of the rating with respect to recovery rates and credit risk. The worst-case scenario, in which we reduce recoveries by 50% and increase credit risk by 50%, the impact can be seen by a change in the implied rating. Based on the base case, there is a sensitivity of rating in terms of decreased recovery rates and increased defaults (rating reduced by upto 2 notches). In the worst-case scenario, i.e. a 50% decrease in the base case assumptions leads to a reduction in the base-case rating by 3 notches (see Table 8):

Table 8: Covered Bond Program Sensitivity: Credit Quality und Recovery Rates | Source: CRA

Recovery / Defaults	Base Case	-25%	-50%
Base Case	**B+**	B	B-
+25%	B+	B-	CCC
+50%	B+	B-	CCC

Summary Cash-Flow Analysis

Based on public information and using the base case loss assumptions, the analysis showed that obligations can be paid in full and in a timely manner. Overall, the cash flow analysis revealed that the portfolio, given the used information, may ensure the repayment of bonds' nominal capital notwithstanding the occurrence of the presented stressed scenarios. Therefore, the rating of the cover pool within our covered bond program rating has been set at B+. This, however, did not ensure any secondary rating uplift which has been set at zero (+/- 0) notch.

Counterparty Risk

Transaction parties

Table 9: Participant counterparties | Source: Intesa Sanpaolo

Role	Name	Legal Entity Identifier
Issuer	Intesa Sanpaolo	2W8N8UU78PMDQKZENC08
Servicer	Intesa Sanpaolo S.p.A. Banco di Napoli S.p.A. Banca CR Firenze S.p.A. Cassa di Risparmio in Bologna S.p.A.	2W8N8UU78PMDQKZENC08; 549300JM7TFBRJJO6F57; 635400WV4DZLZPR3HC96; 5493001N8X1JKRF46R22
Account Bank	Intesa Sanpaolo S.p.A. Banco di Napoli S.p.A. Banca CR Firenze S.p.A. Cassa di Risparmio in Bologna S.p.A.	2W8N8UU78PMDQKZENC08; 549300JM7TFBRJJO6F57; 635400WV4DZLZPR3HC96; 5493001N8X1JKRF46R22
Sponsor	Not relevant for the issuer and/or CB program at the present time	Not relevant for the issuer and/or CB program at the present time

Table 10: Interest rate and Swap counterparties | Source: Intesa Sanpaolo

Name	Legal Entity Identifier	Type of Swap
Intesa Sanpaolo S.p.A	2W8N8UU78PMDQKZENC08	Interest Rate Swap
Banco di Napoli S.p.A.	549300JM7TFBRJJO6F57	Interest Rate Swap
Banca CR Firenze S.p.A	635400WV4DZLZPR3HC96	Interest Rate Swap
Cassa di Risparmio in Bologna S.p.A.	5493001N8X1JKRF46R22	Interest Rate Swap

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Derivatives

This program uses intra-group Interest rate swaps to hedge interest rate mismatches.

Commingling

Incoming cash flows generated from the cover pool will normally be transferred to the Issuer / Guarantor and will be forwarded to the covered bond holders according to the payment terms and conditions. Should the Servicers become insolvent, the covered bond Guarantor is subject to the risk ("commingling risk") that funds may not be returned and commingled with the insolvency estate of the servicers. In order to avoid such risk, the Servicing Agreement includes provisions that, the Servicers must pay all Collections into the account of Covered Bond Guarantor within the second business day following the relevant collection.

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Appendix

Rating History

Event	Initial Rating
Result	AA-
Rating Date	30.01.2019
Publication Date	04.02.2019

Details Cover Pool

Table 11: Characteristics of Cover Pool | Source: Intesa Sanpaolo

Characteristics	Value
Cover Pool Volume	34.468 Mio. EUR
Covered Bond Outstanding	25.506 Mio. EUR
Substitute Assets	3.664 Mio. EUR
Share Derivatives	0,00%
Share Other	100,00%
Substitute Assets breakdown by asset type	
Cash	100,00%
Guaranteed by Supranational/Sovereign agency	0,00%
Central bank	0,00%
Credit institutions	0,00%
Other	0,00%
Substitute Assets breakdown by country	
Issuer country	100,00%
Eurozone	0,00%
Rest European Union	0,00%
European Economic Area	0,00%
Switzerland	0,00%
Australia	0,00%
Brazil	0,00%
Canada	0,00%
Japan	0,00%
Korea	0,00%
New Zealand	0,00%
Singapore	0,00%
US	0,00%
Other	0,00%
Cover Pools' Composition	
Mortgages	89,37%
Total Substitution Assets	10,63%
Other / Derivatives	0,00%
Number of Debtors	NA

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Distribution by property use	
Residential	93,66%
Commercial	6,34%
Other	0,00%
Distribution by Residential type	
Occupied (main home)	94,64%
Second home	4,24%
Non-owner occupied	0,29%
Agricultural	0,00%
Multi family	0,00%
Other	0,83%
Distribution by Commercial type	
Retail	ND3
Office	ND3
Hotel	ND3
Shopping center	ND3
Industry	ND3
Land	ND3
Other	100,00%
Average asset value (Residential)	75 tEUR
Average asset value (Commercial)	109 tEUR
Share Non-Performing Loans	0,68%
Share 10 biggest debtor	0,41%
WA Maturity (months)	205,8485126
WAL (months)	73,26
Distribution by Country (%)	
Italy	100,00
Distribution by Region (%)	
LOMBARDIA	17,30
PIEMONTE	6,00
VENETO	13,45
LIGURIA	2,39
EMILIA ROMAGNA	5,47
FRIULI VENEZIA GIULIA	0,86
TRENTINO ALTO ADIGE	0,38
VALLE D'AOSTA	0,24
LAZIO	8,31
TOSCANA	10,30
UMBRIA	1,53
ABRUZZO	2,19
MARCHE	2,44
PUGLIA	11,50
SARDEGNA	1,38

SICILIA	2,65
CALABRIA	1,84
CAMPANIA	10,82
BASILICATA	0,59
MOLISE	0,37

Figure 6: Arrears Distribution | Source:: Intesa Sanpaolo

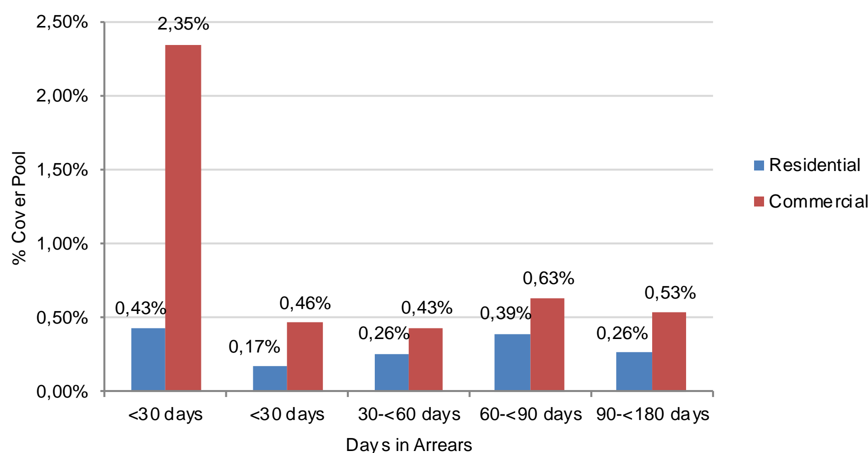


Figure 7: Unindexed LTV breakdown - residential pool | Source: Intesa Sanpaolo

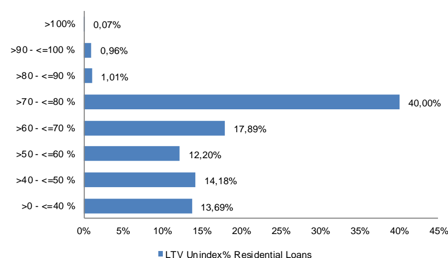
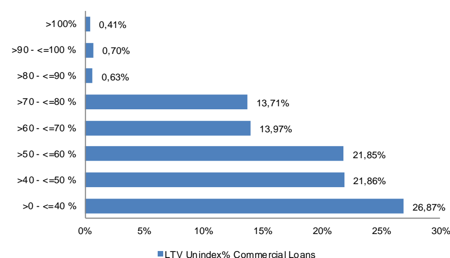


Figure 8: Unindexed LTV breakdown - commercial pool | Source: Intesa Sanpaolo



Key Source of Information

Documents (Date: 30.09.2018)
Issuer ▪ Audited consolidated annual reports of Intesa Sanpaolo SpA (Group) 2013-2017 ▪ Final Rating report as of 16.04.2018 ▪ Rating file 2018-2 ▪ Quarterly Reports from 2017 ▪ Miscellaneous Investor Relations Information and Press releases ▪ Peergroup-Data and other data from the S&P Global Market Intelligence Database
Covered Bond and Cover Pool ▪ HTT Reporting from Intesa Sanpaolo (30.09.2018) ▪ Market data Mortgage Cover Bond Program.

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The rating is based on publicly available information and internal evaluation methods for the rated bank and program. The issuer's quantitative analysis is based mainly on the latest annual accounts, interim reports, other information of the bank pertaining to investor relations, and key figures calculated by S&P Global Market Intelligence subject to a peer group analysis of 33 competing institutes. The cover pool's quantitative analysis for the rated Covered Bond Program was based on the "Harmonised Transparency Template" (HTT) published by the Intesa Sanpaolo.

A complete description of Creditreform Rating´s rating methodologies and Creditreform`s basic document "Rating Criteria and Definitions" is published on the following internet page:

www.creditreform-rating.de/en/regulatory-requirements/

This rating was carried out by analysts Edsson Rodriguez und AFM Kamruzzaman both based in Neuss/Germany. On 30.01.2019, the rating was presented to the rating committee by the analysts and adopted in a resolution.

The rating result was communicated to Intesa Sanpaolo , and the preliminary rating report was made available. The Issuer and all relevant parties examined the rating report prior to publication and were given at least one full working day to appeal the rating committee decision and provide additional information. The rating decision was not amended following this examination.

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

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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 as well as best-case scenario credit ratings, are explained.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks, is indicated clearly and prominently in the "Basic data" card as a "Rating action"; first 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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