BANCA IMI

Credit Sector Report

Italian Banks Sector

NEUTRAL Fundamental View, More BUYs on a Selective Basis

We confirm our NEUTRAL Credit View on the Italian banking system on a six-month horizon, given the stagnant economic scenario, while the reopening of quantitative easing measures by the ECB set to be announced in September could compensate for some potential pressure on BTPs related to the political situation and the upcoming 2020 Budget Law. However, in the medium term, we expect regulatory headwinds to weigh more on capitalisation, should profitability not support adequate internal capital generation. We upgrade our investment recommendations on Unicredit's senior preferred, senior non-preferred and subordinated bonds to BUY from HOLD while confirming our investment recommendations on other bonds.

- Overall, we see that the outlook for Italian banks is still closely linked to the performance of the economy, with growth expected to stall (our macroeconomists forecast +0.2% GDP growth in 2019 and +0.5% in 2020) and pressures on BTPs that could arise along with the 2020 Budget Law in the autumn.
- In this context, we see that in general revenue development for Italian banks remains the focus, as persistently low interest rates continue to put pressure on their interest margins. Moreover, cost of funds is vulnerable to the volatility of BTP spreads. Regarding asset quality, despite the faster-than-expected slowdown in the economic scenario, which could also weigh on the development of loan growth this year, we expect banks to continue to reduce NPEs in 2019, although at a slower pace than in 2017 and 2018.
- Regarding the new TLTRO III programme launched by the ECB in March 2019 that will be conducted in seven auctions (between September 2019 and March 2021), each with a maturity of two years, we expect demand from Italian banks to be high in light of the generous economic conditions, which are particularly appealing in Italy vs less favourable funding conditions in the market.
- Regulatory headwinds remain in the form of Basel IV reforms, stricter regulatory guidelines concerning non-performing loans, and scrutiny of internal risk models (with the ECB's TRIM exercise to be completed by end-2019). However, the long transition period should enable banks to adjust their RWAs and capital bases gradually.
- Despite the significant positive performance of Italian bank bonds under our coverage in 2019 to-date (5 July 2019), we take a more constructive approach than we previously did regarding our 2H19 outlook in terms of investment recommendations, but in a selective manner. This reflects our view that banks are maintaining rather positive fundamental trends and are continuing to de-risk and pursue cost efficiencies. Moreover, the extremely dovish approach of the ECB, which will start a new quantitative easing programme shortly (set to be announced in September), could partially compensate for some potential pressure on BTPs related to the political situation and the upcoming 2020 Budget Law. In particular, we upgrade our investment recommendations on Unicredit's senior preferred, senior non-preferred and subordinated bonds to BUY from HOLD while confirming our investment recommendations on other bonds as per the table below.

Investment recommendations on Italian banks

Investment Grade	CB	Chg	GGB	Chg	Sen Unsec	Chg	SNP	Chg	Sub	Chg	Hybrid	Chg
Banca MPS	HOLD	c	HOLD	c	-	-	-	-	-	-	-	-
BPER	HOLD	c	-	-	-	-	-	-	-	-	-	-
Banco BPM	HOLD	c	-	-	-	-	-	-	-	-	-	-
UBI	HOLD	c	-	-	BUY	c	-	-	-	-	-	-
Unicredit	HOLD	c	-	-	BUY	u	BUY	u	-	-	-	-
High Yield												
Banca MPS	-	-	-	-	HOLD	c	-	-	SELL	c	-	-
BPER	-	-	-	-	-	-	-	-	HOLD	c	-	-
Banco BPM	-	-	-	-	HOLD	c	-	-	HOLD	c	HOLD	c
UBI	-	-	-	-	-	-	BUY	c	BUY	c	-	-
Unicredit	-	-	-	-	-	-	-	-	BUY	u	HOLD	c

Note: u = upgrade; c = confirmed. Source: Intesa Sanpaolo Research

See page 60 for full disclosures and analyst certification

06 August 2019 19:11 CET
Date and time of production

SECTOR VIEW NEUTRAL

Banks

Intesa Sanpaolo Research Department

Maria Grazia Antola
Credit Research Analyst
+39 02 8794 1114

Date and time of first circulation:
6 August 2019: 19:16 CET

Credit Views

Investment Grade	
UBI Banca	NEUTRAL
Unicredit	NEUTRAL
High Yield	
Banca MPS	NEGATIVE
BPER	NEUTRAL
Banco BPM	NEUTRAL

Intesa SanPaolo Research

In this report, we confirm the company views and recommendations assigned in the last company reports (unless otherwise indicated).

Contents

The following research analysts contributed to this report:

Credit Research Team

Bedri Nuredini

Macroeconomics Team

Paolo Mameli

Banking Team

Elisa Coletti

Farina Felice contributed to this report

CREDIT VIEW

NEUTRAL Credit View confirmed on Italian banking system

We confirm our NEUTRAL credit View on the Italian Banking system in our six-months horizon, given the domestic stagnant economic scenario, whilst the reopening of ECB quantitative easing measures set to be announced in September could compensate somewhat for the potential pressure on BTPs related to political headlines and the upcoming 2020 Budget Law. However, in the medium term, we see regulatory headwinds weighing more on capitalisation, should profitability not support adequate internal capital generation.

Overall, we see that the outlook for Italian banks is still closely linked to the performance of the economy, with growth expected to stall (our macroeconomists forecast +0.2% GDP growth in 2019 and +0.5% in 2020) and pressures on BTPs could come with the upcoming 2020 Budget Law in the autumn.

Here below we summarise what we see as the key Strengths and Weaknesses of the Italian banking system.

Italian banking system - Strengths and weaknesses

Strengths	Weaknesses
▪ High level of bank intermediation	▪ Loans to non-financial corporation sill weak
▪ Deep retail funding base, with uptrend in core components	▪ Lending rate very low and downtrend
▪ Solid liquidity ratios	▪ Asset quality still weak, despite the last two years' significant improvement
▪ Adequate leverage and capitalisation above SREP targets	▪ Access to wholesale capital markets expensive, in particular for weaker banks
▪ Limited exposure to illiquid bonds (Lever 3).	▪ Significant domestic sovereign debt exposure, mainly at the Tier 2 names, though declining.

Source: Intesa Sanpaolo Research elaboration

In this context, we see that in general the revenue development of Italian banks remains the focus, as persistently low interest rates continue to put pressure on their interest margin. Moreover, the cost of funds is vulnerable to volatility of BTPs spread.

Regarding asset quality, despite the higher-than-expected slowdown in the economic scenario, pointing to a stagnation of the Italian economy, which could also weigh on the development of loans growth in the current year, banks are continuing in their NPLs workout process, hence we expect banks to continue to reduce their NPEs in 2019, although at a lower pace than in 2017 and 2018.

Regulatory headwinds remain in the form of Basel IV reform, stricter regulatory guidelines concerning non-performing loans and scrutiny of internal risk model (with the ECB's TRIM exercise to be completed by 2019). RWA inflation related to the implementation of Basel IV will start in 2022, and continue until Basel IV is fully implemented in 2027, when the output floor of 72.5% is due to take full effect. Hence, the long transition period should allow banks to adjust their RWAs and capital bases gradually.

Regarding the new TLTRO III programme launched by the ECB in March 2019, which will be conducted in seven auction (between September 2019 and March 2021), each with a maturity of two years, we expect demand from Italian banks to be high in light of the generous economic conditions that are particularly appealing in Italy compared to less favourable funding conditions on the market.

Regarding EU-wide stress tests, we note that a liquidity stress test will be held by the ECB in 2019 on some 100 banks it directly supervises. The ECB will test adverse and extreme idiosyncratic shocks regarding which banks face increasing liquidity outflows. The stress test will determine each bank's survival period, ie, number of days it can continue to operate using available cash and collateral. The outcome may lead to additional liquidity requirements, though not in a mechanical way. It will not affect supervisory capital.

We also note that in 2020 a new EU-wide stress test will be carried out, with the participation of four Italian banks (Banco BPM, Intesa Sanpaolo, UBI Banca, and Unicredit) as in 2018. The exercise, as in the previous one, aims at assessing EU banks' resilience to an adverse economic shock and will inform the 2020 Supervisory Review and Evaluation Process (SREP). EBA, on 25 June 2019, has published the stress-test methodology for discussions, which like in 2018 covers all the risk areas, whilst improving some aspects.

Market View

Italian bank spreads have been volatile since May 2018, which is unsurprising, given market uncertainty about the country's political developments.

However, the five Italian bank bonds under our coverage have posted an overall positive performance in 2019 to date (5 July 2019), with riskier bonds outperforming overall. In particular, with a specific focus on every category:

- **Covered bonds'** ASW spreads tightened by 42bps YTD on average, slightly underperforming related BTPs' ASW spreads (-46bps YTD), and are still trading expensive (-60bps) to BTPs' ASW spreads on average. Within this category, BPER Banca outperformed (-46bps YTD ASW spread on average) while Unicredit recorded the worst performance (-39bps YTD on average). Newly issued (ie, in 2019) covered bonds have performed positively since launch date.
- In the **senior preferred** space, IG and HY bonds have performed positively across the board, with ASW spreads tightening by 102bps YTD on average. Overall, Banco BPM recorded the best performance (-118bps YTD ASW spread on average) while Unicredit tightened the least (-91bps YTD). Newly issued (ie, in 2019) senior preferred bonds also performed positively since launch overall, with the exception of UBIIM's 1 1/2 04/24 (+6bps YTD ASW spread).
- **Senior non-preferred** bonds' ASW spreads tightened by 124bps YTD on average, with UCGIM's 1 01/23 the best performer (-135bps YTD ASW spread) and UBIIM's 1 3/4 04/23 tightening the least (-112bps YTD). Newly issued (ie, in 2019) senior non-preferred bonds also performed positively since launch.
- The performance of **subordinated bonds** was overall positive. On average, the ASW spread tightened by 190bps YTD. In particular, BPER Banca (-241bps YTD ASW) and UCGIM (-236bps YTD on average) were the best performers while Banca MPS was the worst performer (-59bps YTD). Newly issued (ie, in 2019) subordinated bonds have recorded a mixed performance since launch, with UCGIM's 4 7/8 02/29 tightening (-183bps YTD ASW spread), as did UBIIM's 5 7/8 03/29 (-69bps YTD), while MONTE's 10 1/2 07/29 widened (+56bps YTD), as did UBIIM's 4 3/8 07/29 (+5bps YTD).
- In the **hybrid** space, the ASW spreads of all of Unicredit's bonds tightened – on average, by 231bps YTD. Newly issued (ie, in 2019) AT1 bonds have recorded a mixed performance since launch, with the ASW spread for UCGIM's 7 1/2 PERP tightening by 20bps YTD, but with BAMIM's 8 3/4 PERP widening by 41bps YTD.
- Also, the ASW spread on MPS' **Government Guaranteed** bonds tightened by 62bps YTD, outperforming related BTPs by 26bps while remaining relatively cheap (+21bps on average).
- Compared to the related iBoxx indices (data at 02.08.2019), in terms of ASW spreads, the bonds of the banks we cover are rich in the **senior preferred** and **senior non-preferred** spaces (-52bps and -41bps on average, respectively), but cheap in the **subordinated** and **hybrid** spaces (+60bps and +154bps on average, respectively). However, fragmentation can be seen among banks as follows:
    - Unicredit's **senior preferred** and **subordinated** bonds are overall rich vs related indices while **SNPs** and **hybrid** bonds are mixed;
    - UBI Banca's **senior preferred** and **subordinated** bonds are overall cheap vs related indices, but rich in the **SNP** space;
    - Banco BPM's **senior preferred** bonds and **subordinated** bonds are rich vs related indices, with the exception of the BAMIIM 4 3/8 09/27 Tier 2, which is cheap, as is the AT1 8 3/4 PERP;
    - MPS' **senior preferred** bond is rich vs related index, but subordinated bonds continue to be significantly cheap.
    - Banca BPER's **subordinated bond** is rich vs the related index.

Below, we show the best- and worst-performing bonds YTD (as at 2 August 2019).

Bank Senior Unsecured IG and HY bonds

Best performer	Price	YTM %	ASW current	-1w bps
BAMIIM 2 3/4 7/27/20	102.5	0.2	59.8	-4.6
UCGIM 3 1/4 01/14/21	105.0	-0.2	23.8	0.0
UBIIM 0 3/4 10/17/22	99.7	0.9	127.7	2.3

Note: for details see page 52. Source: Intesa Sanpaolo Research elaboration on Bloomberg data

Bank Senior Unsecured IG and HY bonds

Worst performer	Price	YTM %	ASW current	-1w bps
BAMIIM 2 1/2 6/21/24	102.0	2.1	243.4	10.4
UCGIM 1 1/4 06/25/25	102.3	0.8	115.1	8.7
BAMIIM 2 03/08/22	101.4	1.4	188.8	7.1

Note: for details see page 52. Source: Intesa Sanpaolo Research elaboration on Bloomberg data

Bank Subordinated bonds (T2 and LT2)

Best performer	Price	YTM %	Z-SPRD current	-1w bps
BPEIM 5 1/8 05/31/27	104.0	3.6	404.6	4.1
UBIIM 4 3/8 07/12/29	100.7	4.2	459.7	7.5
BAMIIM 7 1/8 3/1/21	108.1	1.8	225.5	12.9

Note: for details see page 52. Source: Intesa Sanpaolo Research elaboration on Bloomberg data

Bank Subordinated bonds (T2 and LT2)

Worst performer	Price	YTM %	Z-SPRD current	-1w bps
UCGIM 4 7/8 02/20/29	111.4	2.2	261.2	39.1
UCGIM 6.95 10/31/22	118.7	1.0	149.2	38.7
UCGIM 4 3/8 01/03/27	107.0	1.4	185.9	33.4

Note: for details see page 52. Source: Intesa Sanpaolo Research elaboration on Bloomberg data

Bank Hybrid bond (T1 and AT1)

Best performer	Price	YTM %	Z-SPRD current	-1w pts*
UCGIM 9 3/8 PERP	107.4	1.5	196.8	0.1

Note: for details see page 52; *) change in price. Source: Intesa Sanpaolo Research elaboration on Bloomberg data

Bank Hybrid bonds (T1 and AT1)

Worst performer	Price	YTM %	Z-SPRD current	-1w pts*
UCGIM 7 1/2 PERP	107.8	6.1	637.9	-2.1

Note: for details see page 52; *) change in price. Source: Intesa Sanpaolo Research elaboration on Bloomberg data

Bank Covered bonds

Best performer	Price	YTM %	ASW current	-1w bps
BAMIIM 0 3/4 3/31/22	101.8	0.1	50.4	-2.2
BAMIIM 1 1/2 12/2/25	105.8	0.6	87.1	-2.2
BAMIIM 0 7/8 9/14/22	102.5	0.1	51.4	-2.1
MONTE 2 01/29/24	104.7	0.9	133.7	-1.9
BAMIIM 1 1/8 9/25/23	103.8	0.2	61.8	-1.8

Note: for details see page 52. Source: Intesa Sanpaolo Research elaboration on Bloomberg data

Bank Covered bonds

Worst performer	Price	YTM %	ASW current	-1w bps
BPEIM 0 1/2 07/22/20	100.7	-0.3	15.8	0.6
UCGIM 2 5/8 10/31/20	103.8	-0.4	-0.8	0.4
UCGIM 4 3/8 01/31/22	112.0	-0.4	4.3	0.4
UBIIM 3 1/8 10/14/20	104.2	-0.4	4.7	0.2
UBIIM 1 1/4 01/15/30	109.1	0.4	41.0	0.0

Note: for details see page 52. Source: Intesa Sanpaolo Research elaboration on Bloomberg data

(For more detailed information on Italian bank bonds' performances, please refer to Appendix 2 of this report.)

Investment recommendations

BUY Unicredit and UBI's senior preferred, SNP and subordinated bonds, SELL MPS subordinated bonds.

Despite the significant positive performances of Italian banks' bonds under our coverage in 2019 to-date (5 July 2019), we take a more constructive approach than previously regarding our 2H19 outlook in terms of investment recommendations, but in a selective way. This reflects our view that banks are continuing to see rather positive fundamental trends and are continuing to de-risk and pursue cost efficiencies. Moreover, the extremely dovish approach of the ECB, which will start a new quantitative easing programme shortly (set to be announced in September), could partially compensate for some potential pressures on BTPs related to political headlines and the upcoming 2020 Budget Law.

In particular, we upgrade our investment recommendations on Unicredit's senior preferred, senior non-preferred and subordinated bonds to BUY from HOLD while confirming our recommendation on other bonds as per table below.

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BPER	HOLD	c	-	-	-	-	-	-	-	-	-	-
Banco BPM	HOLD	c	-	-	-	-	-	-	-	-	-	-
UBI	HOLD	c	-	-	BUY	c	-	-	-	-	-	-
Unicredit	HOLD	c	-	-	BUY	u	BUY	u	-	-	-	-
High Yield												
Banca MPS	-	-	-	-	HOLD	c	-	-	SELL	c	-	-
BPER	-	-	-	-	-	-	-	-	HOLD	c	-	-
Banco BPM	-	-	-	-	HOLD	c	-	-	HOLD	c	HOLD	c
UBI	-	-	-	-	-	-	BUY	c	BUY	c	-	-
Unicredit	-	-	-	-	-	-	-	-	BUY	u	HOLD	c

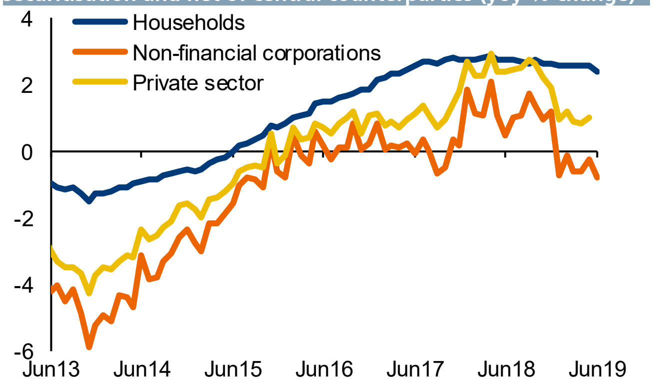
Note: u = upgrade; c = confirmed. Source: Intesa Sanpaolo Research

Bank Industry Trends and Macroeconomic Scenario

Italian banking industry trends

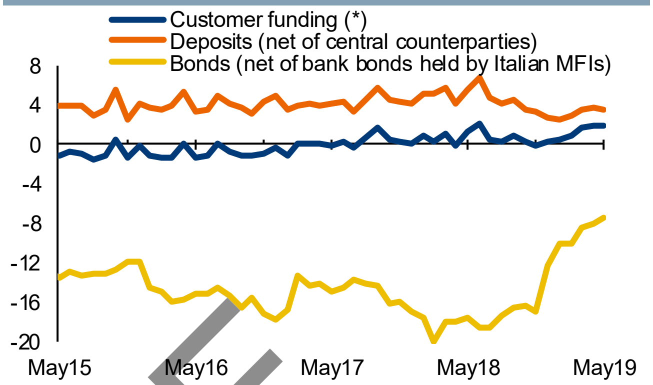
Elisa Coletti
Economist
+39 02 8796 2097

Loans to the private sector, data adjusted to take into account securitisation and net of central counterparties (yoy % change)



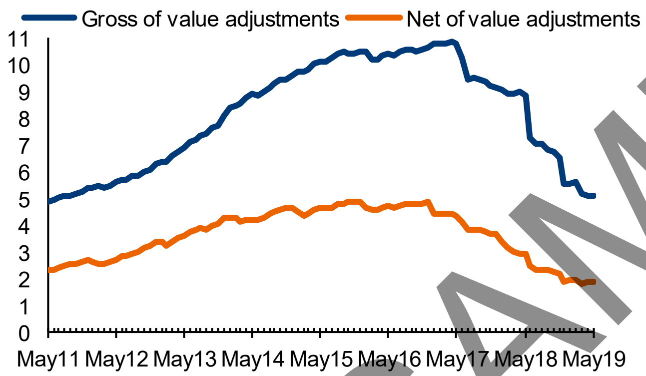
Source: Bank of Italy.

Customer funding at Italian banks (yoy % change) (*)



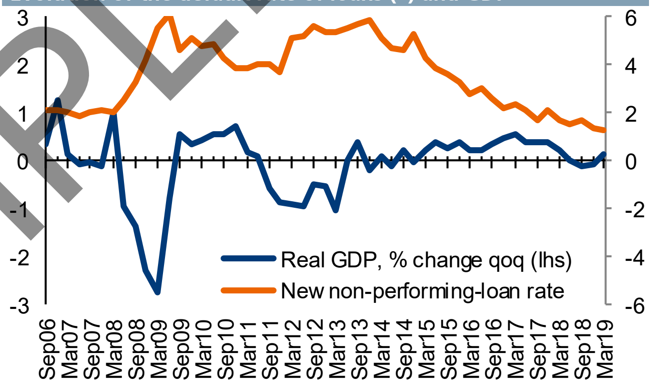
(*) Net of deposits with central counterparties and bank bonds held by Italian MFIs.
Source: Bank of Italy and Intesa Sanpaolo Research Department calculations.

Stock of bad loans in % of loans, gross and net of value adjustments



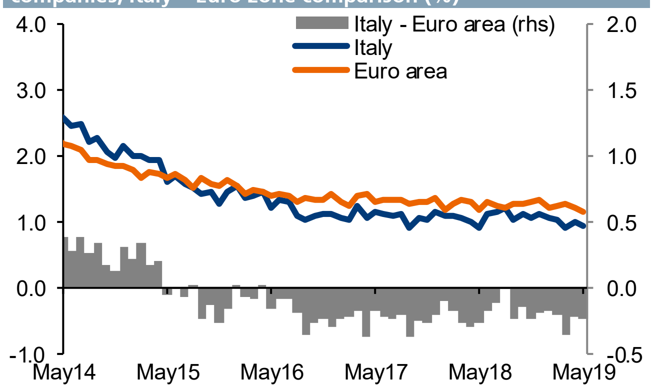
Source: Bank of Italy and Intesa Sanpaolo Research Department calculations

Evolution of the default rate of loans (*) and GDP



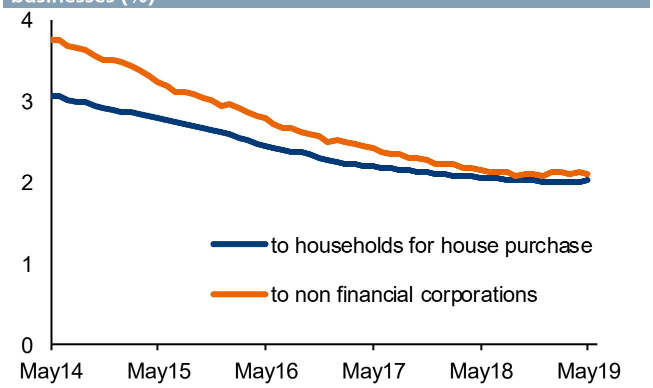
(*) Annual flow of NPLs (past due, other impaired exposures and bad loans) as a ratio to total performing loans of twelve months before.
Source: Bank of Italy and ISTAT.

Average rate on new loans of over 1M to non-financial companies, Italy – Euro zone comparison (%)



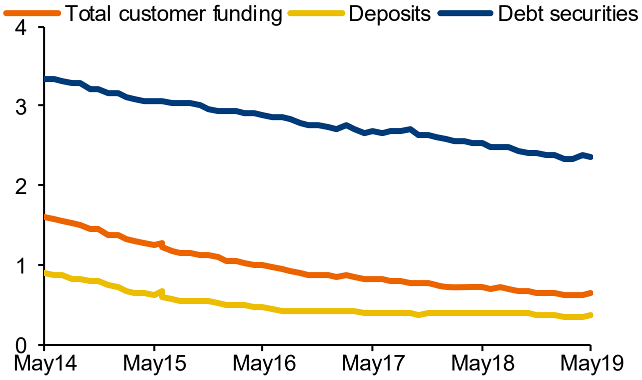
Source: Bank of Italy, ECB

Rates on outstanding loans to households and non-financial businesses (%)



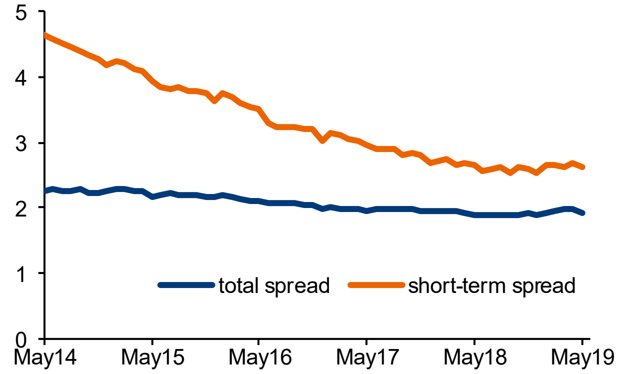
Source: Bank of Italy

Rates on outstanding bank funding (%)



Source: Bank of Italy and Intesa Sanpaolo calculations

Short-term spread and overall spread between lending and borrowing rates (%)



Note: (*) Initial rate fixation period over 10 years
Source: Bank of Italy

Bedri Nuredini
Credit Research Analyst
+39 02 8794 2838

Focus on ECB's 2Q19 Bank Lending Survey

According to 2Q19 data from the ECB's Bank Lending Survey (BLS), published on 23 July 2019, credit standards for loans to enterprises tightened in the quarter, while demand for loans grew. Regarding loans to enterprises in the Euro area:

Loans to firms in the Euro Area in 2Q19: tightening credit standards, with demand growth; outlook for 3Q19 points to unchanged credit standards and continued demand growth

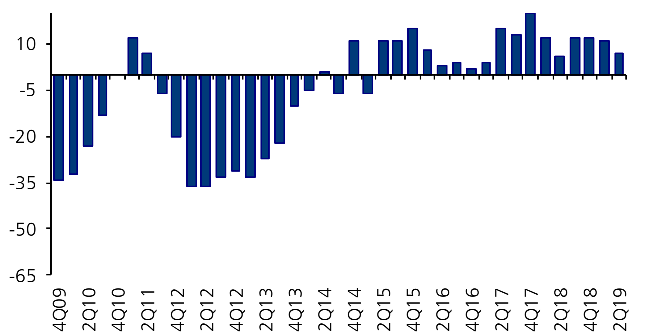
- Credit standards for loans to corporates in 2Q19 tightened (+5% vs -1% in 1Q19), while expectations had been pointing to a slight easing (-2%). Competitive pressures (-4% vs -6% in 1Q19) continued to be the only factor behind an easing impact, while the perception of risk (+5% vs +5%), the cost of funding and balance sheet constraints (+2% vs +2%), and banks' risk tolerance (+2% vs +1%) all had a tightening impact on credit standards on loans to corporates. Across the major European countries, credit standards registered mixed trends: the tightening was led by Italy (+20% vs 0%) and France (+15% vs -4%), remaining broadly unchanged in Germany (+3% vs +3%) and Spain (0% vs 0%), while continuing on an easing trend in the Netherlands (-24% vs -24%). Looking ahead to 3Q19, Euro area banks expect credit standards for loans to corporates to remain unchanged (0%).
- Net demand for loans to enterprises increased in 2Q19 (a net +6% vs 0% in 1Q19), slightly above expectations (+5%). The net increase was supported by fixed investment (+7% vs +11%), a low general level of interest rates (+6% vs +13%) and other financing needs (+3% vs +5%), while inventories and working capital (-1% vs +6%) and use of alternative financing (-1% vs -3%) had a negative impact on demand. The demand growth was supported by Italy (+20%, vs -20%) and France (+20% vs 0%), and continuing but slowing growth in Germany (+9% vs +16%), but weighed down by a sharp decline in the Netherlands (-51% vs +24%) and to a lesser extent Spain (-10% vs -20%). Looking ahead to 2Q19, Euro area banks expect further increases in loan demand from enterprises (+5%).

Latest developments in BLS results in the largest Euro area countries

	Enterprises						House purchase						Consumer credit					
	Credit standards			Demand			Credit standards			Demand			Credit standards			Demand		
Country	Q1 19	Q2 19	Avg.	Q1 19	Q2 19	Avg.	Q1 19	Q2 19	Avg.	Q1 19	Q2 19	Avg.	Q1 19	Q2 19	Avg.	Q1 19	Q2 19	Avg.
Euro area	-1	5	9	0	6	-1	3	-1	6	14	26	4	2	4	4	2	5	1
Germany	3	3	3	16	9	5	7	-3	2	14	38	8	0	0	-1	6	10	9
Spain	0	0	9	-20	-10	-4	11	11	14	11	0	-8	10	20	6	-20	-10	-6
France	-4	15	6	0	20	-10	-2	-2	2	20	28	8	0	0	-1	-7	13	0
Italy	0	20	13	-20	20	5	10	0	1	0	20	15	0	0	6	0	-10	15
Netherlands	-24	-24	8	24	-51	0	-32	-34	11	49	50	1	0	0	12	34	0	-14

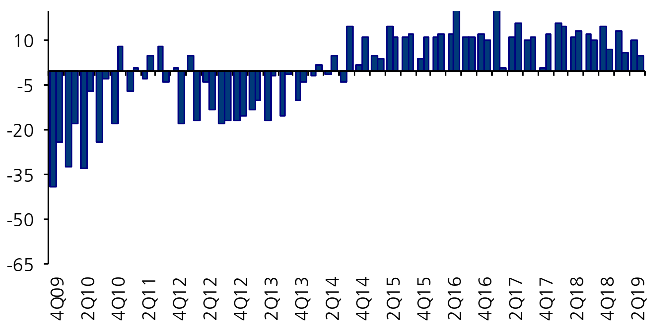
Notes: CS stands for credit standards = positive values indicate supply restriction compared with the previous quarter (difference between the share of banks reporting a tightening in credit standards and the share reporting an easing). DEM stands for demand = positive values indicate demand expansion compared with the previous quarter (the difference between the sum of the percentage of banks reporting an increase and that of banks reporting a decline in demand). AVG stands for historical averages, which are calculated over the period since the beginning of the survey, excluding the most recent round. For France, Malta, the Netherlands and Slovakia, net percentages are weighted based on the amounts outstanding of loans of the individual banks in the respective national samples. Source: ECB

Fixed investment: loan demand (%) - Euro area



Loan demand: the figures are the difference between the share of banks reporting an increase in loan demand and the share reporting a decline. Source: Intesa Sanpaolo Research elaboration on the ECB/Bank of Italy quarterly Bank Lending Survey, July 2019

M&A and corpor. restructuring: loan demand (%) – Euro area



Loan demand: the figures are the difference between the share of banks reporting an increase in loan demand and the share reporting a decline. Source: Intesa Sanpaolo Research elaboration on the ECB/Bank of Italy quarterly Bank Lending Survey, July 2019

Regarding Italy, the BLS data for 2Q19 showed a tightening of credit standards for loans to enterprises, but an improving demand for loans. Looking ahead to 3Q19, credit standards are expected to ease, while demand is expected to remain unchanged.

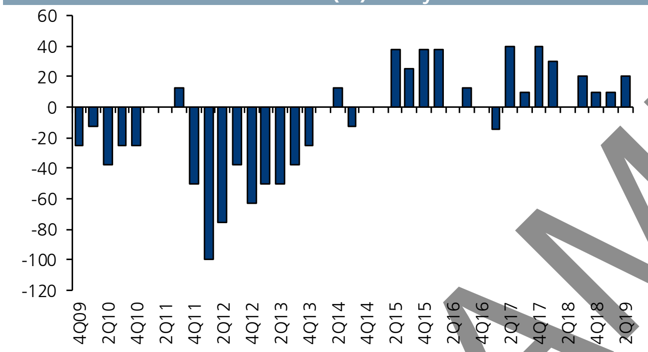
Regarding loans to enterprises in Italy:

Loans to firms in Italy in 2Q19: tightening credit standards amid demand growth; outlook for 3Q19 sees easing credit standards and flat demand

- Credit standards on loans to firms in Italy tightened in 2Q19 (net percentage of +20% after 0% in 1Q19), despite the fact that expectations were for standards to remain unchanged (0%). In 2Q19, the higher perception of risk continued to be a negative lever (+20% vs. +10% in 1Q19), while competitive pressures from other banks were still supportive (-20% vs -20%) and the cost of funds and balance sheet constraints remained neutral. Regarding loan margins, Italy reported flat margins on average loans in net terms (0% vs 0%), while the margin on riskier loans increased (+10% vs +20%). Looking ahead, banks expect credit standards for loans to enterprises to ease in 3Q19 (-10%).

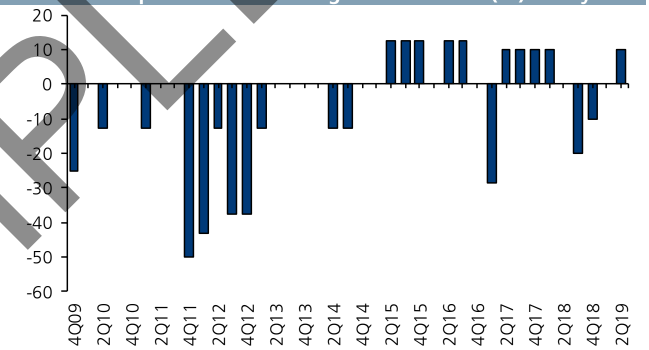
- Net demand for loans to enterprises in Italy reversed to an increasing trend in 2Q19 (net percentage of +20% vs. -20% in 1Q19), which was above expectations (-10%). While in 2Q19 the recourse to alternative sources of funding was still having a generally negative impact on net demand (-10% vs -10%), the expansionary contribution of fixed investments (+20% vs +10%), inventories and WC (+10% vs. 0%), M&A (+10% vs 0%) and low interest rates (+20% vs +20%) outweighed this and drove demand growth. Looking ahead to 3Q19, demand for loans from enterprises is expected to remain unchanged (0%).

Fixed investment: loan demand (%) – Italy



Loan demand: the figures are the difference between the share of banks reporting an increase in loan demand and the share reporting a decline. Source: Intesa Sanpaolo Research elaboration on the ECB/Bank of Italy quarterly Bank Lending Survey, July 2019

M&A and corporate restructuring: loan demand (%) – Italy



Loan demand: the figures are the difference between the share of banks reporting an increase in loan demand and the share reporting a decline. Source: Intesa Sanpaolo Research elaboration on the ECB/Bank of Italy quarterly Bank Lending Survey, July 2019

Italian banking system moving towards further consolidation

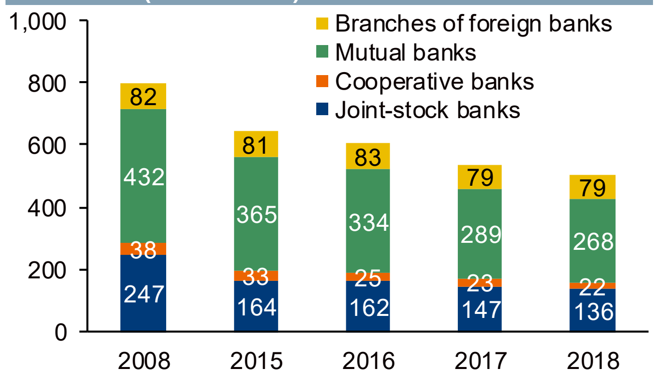
At year-end 2018, though still highly fragmented in terms of number of intermediaries (505), the Italian banking system was confirmed to be highly concentrated in terms of total assets and market shares at the major banks. Moreover, a structural reorganisation and rationalisation process is ongoing, and we would expect M&A activity to continue at a faster pace going forward, namely among Tier 2/ and Tier 3 names, upon progress in the non-performing loans' clean-up process. Merging or entering into consortia to exploit cost and revenue synergies will be important levers to support the recovery of profitability, as will new investments in IT and digitalisation, in our view. Among the banks that we cover, Banco BPM, UBI, MPS and BPER could be part of the consolidation process, in our view, although the timeframe is still unclear, with governance and management of redundancies as the main headwinds.

During 2018, the number of Italian banks decreased further, down by 33 year-on-year (or by 6.1%) to 505, reducing consistently by 36.8% since YE 2008. Some 100 Italian banks were included in 58 groups, 327 standalone, and 79 were branches of foreign banks. By corporate structure, the number of smallest mutual banks (Banche di Credito Cooperativo, BCC) continued to drop the most, by 21 to 268 at YE18 (-38% from YE18), followed by joint-stock banks, down by 11 to 136 (-45% since YE18).

Moreover, Italian banks continued to reorganise their branch networks and distribution channels with a view to improving efficiency. During 2018, the number of branches dropped by 7.2% yoy to 25,409, bringing the cumulative drop from YE08 to 25.6%.

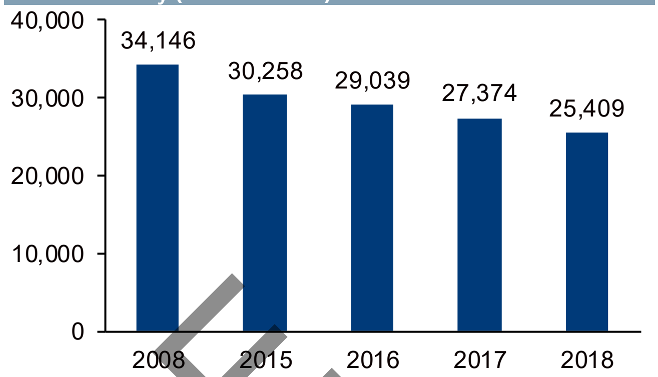
Despite being so fragmented in terms of number of banks, there are 11 Italian banking groups out of 114 (as at 1 June 2019) classified as significant by the Single Supervisory Mechanism (SSM), whose assets, however, represents 74% of total system by assets.

Italian Banks (Trend 2008-18)



Source: Intesa Sanpaolo Research Elaboration; Bank of Italy

Branches in Italy (Trend 2008-18)



Source: Intesa Sanpaolo Research Elaboration; Bank of Italy

In 2015 and 2016 the Italian Government introduced a number of structural reforms, paving the way for further consolidation.

The reform of co-operative banks (Banche Popolari), enacted in March 2015, whereby Banche Popolari with more than EUR 8Bn in assets (10 out of 37 at YE14) had to change governance structure to become regular joint-stock companies by 31 December 2016, implying the removal of the one-vote per shareholder governance rule. To date, eight banks (Banco Popolare, Banca Popolare di Milano, which merged, effective 1 January 2017, UBI Banca, Banca Popolare dell'Emilia Romagna, Creval and Wolks-Bank; BP Vicenza and Veneto Banca, the latter two thereafter put in liquidation in 2017) converted into joint stock companies. For the remaining two banks (BP Sondrio and BP Bari), the deadline was suspended pending a ruling by the Constitutional Court, which then rejected all the legitimacy issues raised against the reform itself in March 2018. Hence, the final date for the transformation in the Spa for the popular banks having more than 8Bn assets, was postponed to 31 December 2019, from the so-called "Tax Decree 2019" (Decreto Fiscale 2019) converted with the Law n. 136/2018.

The reform of mutual banks (Banche di Credito Cooperativo, BCC), which rank collectively as the country's third-biggest lender, was launched in 2016. According to the reform, over 360 small local mutual banks had to adhere into centralised institutions, with the status of joint stock company, with more than EUR 1bn in equity. While preserving its mutualistic nature, the reform has as its main objective to strengthen the overall solidity of this category, via the exploitation of cost synergies in order to increase profitability, and having the ability to turn to the capital markets. The reform is also likely to encourage consolidation in the cooperative sector, in our view.

The process reform was recently completed in 2019, with Iccrea and Cassa Centrale Banca becoming the holding company of two banking groups, composed of, respectively 144 and 84 mutual banks, underpinned by internal mutual support arrangements. The remaining 39 Raiffeisen banks of South Tyrol, that did not join any of two groups, opted for a looser alternative structure known as Institutional Protection Scheme (IPS).

In March 2019, Gruppo Bancario Cooperativo Iccrea (GBCI) was established. The reform gave substantial powers to Iccrea Banca Spa, that within the Group enables to fully exploit the mutual support mechanism, based on a "Cohesion Contract", by which all the group's entities accept to be subject to Iccrea Banca Spa management and coordination. This contract gives to Banca Iccrea Spa the power to define strategic guidelines and operational objectives, policies, and manage the group risks. The GBCI is now the fourth-biggest national banking group by assets, with approximately EUR 148Bn, the sixth by market share on loans (5.3%), and third by number of branches, with approximately 2,650 branches present in over 1,700 municipalities. Although CCB is smaller than GBCI, it is the tenth-largest Italian banking group by market share of loans (2.7%), and they are both significant banking groups under the direct supervision of the ECB.

Regarding M&A deals, during 2017, apart from the merger (effective on 1 January) between Banco Popolare and BPM, creating the third-largest Italian banking groups by total assets, there were several deals, mainly addressing distressed situations, as follows: i) the acquisition (in May) by UBI Banca of three bridge banks (Nuova Banca delle Marche, Nuova Banca Etruria, and Nuova Carichieti, with some EUR 21Bn of aggregate total assets); ii) the acquisition (in June) by BPER of bridge bank Nuova Carife, with some EUR 2.4Bn of assets, iii) the acquisition (in June) by Intesa Sanpaolo of some good assets (EUR 30Bn performing loans) and liabilities of BP Vicenza and Veneto Banca; and iv) acquisition (in December) by Credit Agricole Cariparma of CR Rimini, CR Cesena and CR San Miniato.

It is worth noting that some medium-sized banks are still experiencing difficulties, which are being dealt with the Italian and the European Supervisory authorities and by the government, with the aim of relaunching banks and to protect those involved. In particular, Banca Carige's (which is not under our coverage) rescue plan is under way, for which we see as increasingly likely further provisions on the banking sector, which could be partially mitigated by the intervention of public and private entities.

Summary of macroeconomic forecasts

Paolo Mameli
Senior Economist
+39 02 8796 2128

Macroeconomic forecasts	2018	2019f	2020f	2018		2019				2020			
				Q3	Q4	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
GDP (at constant prices, y/y)	0.7	0.2	0.5	0.5	0.0	-0.1	0.0	0.2	0.5	0.5	0.6	0.6	0.5
- % q/q change				-0.1	-0.1	0.1	0.0	0.1	0.2	0.1	0.1	0.2	0.2
Households' consumption	0.6	0.4	0.5	0.0	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2
Public consumption	0.2	0.1	0.0	-0.2	-0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Fixed investments	3.2	0.4	0.1	-1.2	0.6	0.6	-0.7	-0.2	-0.1	0.1	0.2	0.3	0.4
- Investments in machinery	2.0	-0.6	-0.2	-2.8	0.6	-0.2	0.0	-0.5	-0.5	0.0	0.2	0.4	0.4
- Investments in means of transport	14.5	-4.8	0.2	-3.0	1.4	-5.0	0.2	-0.5	0.0	0.0	0.2	0.4	0.4
- Investments in construction	2.2	2.6	0.4	0.9	0.4	2.6	-1.6	0.2	0.2	0.2	0.2	0.2	0.3
Exports	1.4	3.1	2.4	1.1	1.4	0.2	0.8	0.6	0.6	0.6	0.6	0.6	0.5
Imports	1.8	1.1	2.3	0.4	1.3	-1.5	0.9	0.6	0.6	0.5	0.5	0.6	0.6
Contribution % GDP													
Foreign trade	-0.1	0.6	0.1	0.2	0.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Final domestic demand	1.0	0.4	0.3	-0.3	0.2	0.2	-0.1	0.1	0.1	0.1	0.1	0.2	0.2
Inventories chg.	-0.1	-0.8	0.1	-0.1	-0.3	-0.7	0.1	0.1	0.2	0.0	0.0	0.0	0.0
Production activity													
Industrial output	0.5	-0.2	1.2	-0.4	-1.0	1.0	-0.7	0.4	0.4	0.4	0.5	0.3	0.0
Prices, wages and incomes													
Consumer prices (y/y)	1.1	0.8	1.3	1.5	1.4	1.0	0.8	0.5	0.8	1.1	1.2	1.4	1.6
- excluding food, energy (y/y)	0.7	0.7	1.3	0.7	0.7	0.4	0.5	0.5	1.2	1.5	1.2	1.2	1.5
PPI (y/y)	3.3	0.6	0.6	4.5	4.8	3.2	1.5	-0.5	-1.7	-0.8	0.8	1.2	1.2
Unemployment (%)	10.6	10.0	10.0	10.3	10.6	10.4	9.9	9.8	9.9	10.0	10.0	10.0	9.9
Total employed workers	0.9	0.5	0.3	-0.2	-0.1	0.1	0.5	0.1	0.0	0.0	0.1	0.1	0.1
Contract-based wages	1.5	1.1	0.9										
Real disposable income	0.8	0.4	1.0										
Savings rate (%)	8.0	8.3	8.3										
Balance of payments													
Current account (% of GDP)	2.5	2.8	2.7										
Public finance*													
PA budget balance (% of GDP)	-2.1	-2.1	-3.1										
Debt (% of GDP)	132.2	133.3	134.4										
Financial variables													
3-month Euribor (%)	-0.31	-0.40	-0.40	-0.32	-0.31	-0.31	-0.33	-0.39	-0.40	-0.40	-0.39	-0.40	-0.40
10Y BTP (%)	2.95	2.82	2.97	2.80	2.95	2.54	2.45	2.65	2.82	2.99	2.99	3.01	2.97
BTP/Bund spread (%)	2.15	2.74	3.20	2.50	2.92	2.61	2.57	2.78	3.01	3.19	3.21	3.20	3.18

Note: (*) 2020 no-policy change projections ie net of safeguard clauses and privatizations. Source: Istat, Thomson Reuters-Datastream, Intesa Sanpaolo elaborations and forecasts

Focus on NPLs

NPLs trend

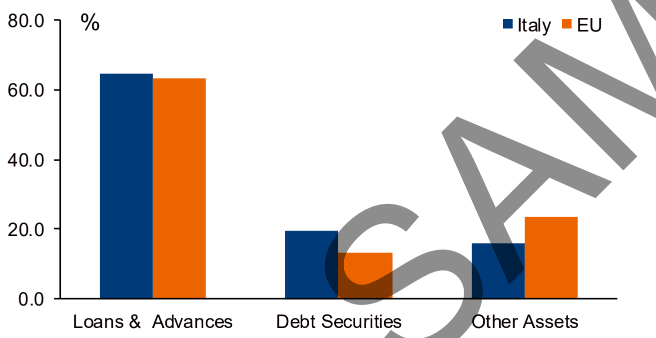
Italy vs. EU as at 1Q19

Based on European Banking Authority (EBA) data on a sample of 150 banks, covering more than 80% of the EU banking sector by total assets (EBA Risk Dashboard for 1Q19, latest available data), in 2018 the quality of EU banks' loan portfolios continued to improve and this extended into 1Q19, albeit at a slower pace. The gross NPL ratio was a low 3.1% at end 1Q19, broadly stable YTD vs. YE18, after having gradually dropped from 6.5% at YE14. The downtrend was driven by the rising trend in loans, the steady decline in NPLs and the uptrend of NPL coverage at 45.1% in 1Q19 (vs. 43.4% at YE14). On a net basis, the NPL ratio also almost halved compared to YE14, falling to a very low 1.7% at end-1Q19 (broadly stable compared with 1.8% at YE18, but 2pp down from 3.7% at YE14).

The gross NPL ratio of Italian banks recorded a much stronger decline to 8.3% on average at end-1Q19, down from 17% at YE14. This was driven by a downtrend in NPLs, mainly due to the significant securitisations and disposals that have been taking place since 2016, and the uptrend in coverage ratios, which reached an adequate 53.3% at end-1Q19, up from 45.2% in 2014. All in all, the net NPL ratio has declined by more than 5pp since 2014, falling to 4% at end-1Q19.

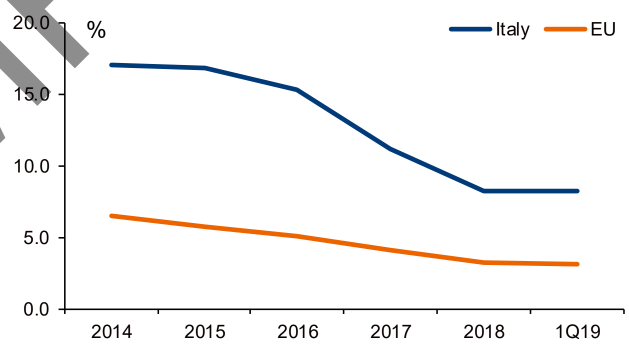
Despite the above significant improvement, we would note that Italian banks' problem loans burden still far exceeds the EU average, with NPL ratios on average above the EU average by 5.2pp and 2.3pp on a gross and net basis, respectively. On the contrary, the NPL coverage ratio of Italian banks showed a steady rising positive buffer compared to EU banks, equal to 8.2pp at end-1Q19.

Italy banks vs. EU asset composition – main items (as % of total assets) as at 1Q19



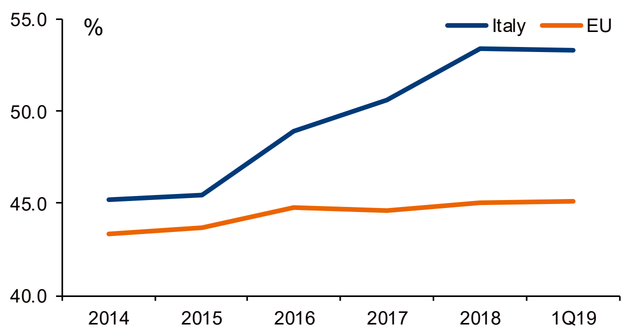
Source: Intesa Sanpaolo Research elaboration, EBA Dashboard

Italy banks vs. EU: gross NPL ratio – trend (YE14/1Q19)



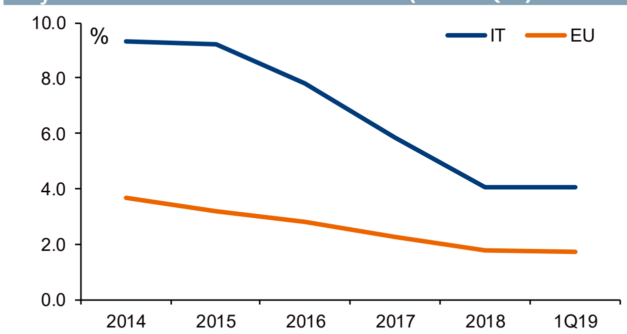
Source: Intesa Sanpaolo Research elaboration, EBA Dashboard

Italy banks vs. EU: NPL coverage ratio – trend (YE14/1Q19)



Source: Intesa Sanpaolo Research elaboration, EBA Dashboard

Italy banks vs. EU: net NPL ratio – trend (YE14/1Q19)



Source: Intesa Sanpaolo Research elaboration, EBA Dashboard

Italian banks: asset quality continuing to improve

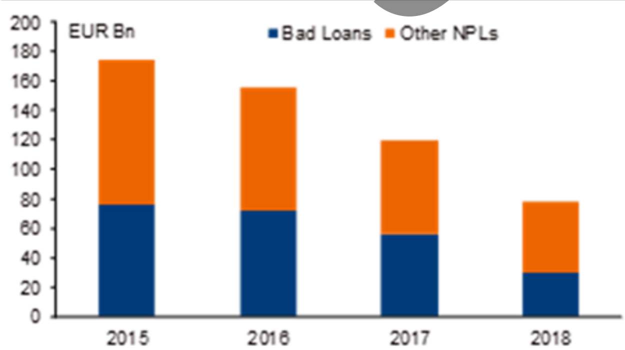
The asset risk of Italian banks improved further in 2018, due to new problem loans falling sharply and the disposal of bad loans rising to a new record high. The latter has continued in 2019, although at a slower pace than in 2017 and 2018. The positive trend in credit quality since 2016 has been due to new problem loan formations falling to a record low, even below pre-crisis levels, but this was mainly driven by securitisations and disposals in the light of national and European regulators' pressure to reduce the large amount of impaired assets. It is worth noting that NPE securitisations were helped by the Italian government's "GACS" guarantee scheme introduced in 2016, while NPE disposals benefited from increased loan loss provisioning, some of which related to the introduction of the IFRS 9 accounting standard on 1 January 2018, which narrowed the gap between the book and market value of NPLs.

There is ongoing scrutiny from regulators regarding banks' continuing efforts to de-risk their balance sheets. We expect banks to maintain a strong focus on the working out of their legacy NPLs – even more so amid a weaker economic scenario. The two-year extension of GACS beyond March 2019 will be supportive, in our view, for Italian banks in their de-risking. We also see a negative impact on banks' profitability going forward from the higher cost of risk due to the higher level of requested provisioning and the higher credit losses stemming from the lower levels of secured loans set to be brought to the market. All in all, we expect that NPL disposals will remain high in 2019.

At YE18, the stock of NPEs, including customer, interbank and central bank exposures, dropped by EUR 71Bn to EUR 189Bn gross of provisions, of which EUR 171Bn was in customer-related loans (EUR -84Bn yoy). NPE coverage ratios rose to 52.7% at YE18 (vs. 50.2% at YE17), of which 65.4% related to bad loans (vs. 61.6% at YE17). All in all, on a net basis, the stock of NPEs was EUR 39Bn lower yoy at EUR 90Bn, of which EUR 79Bn (EUR -41BN) was in customer-related loans. NPE ratios declined significantly in 2018, namely: i) down by 2.8pp yoy to 8.7% gross of provisions, of which 4.7% related to bad loans; and ii) down by 1.8pp to 4.3% net of provisions, of which 1.7% related to bad loans. Bank of Italy estimates, based on data sent by banks regarding NPE reduction plans, provide for net NPE ratios falling to 3.9% in 2019 and to 3.1% in 2021.

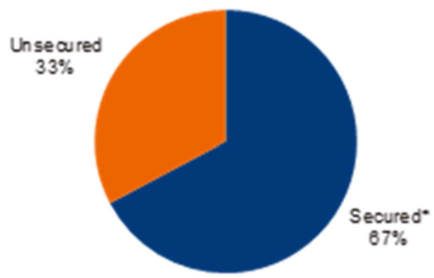
With regard to NPEs on customer-related loans only, the composition at YE18 was as follows: i) some 38% of the net amount was bad debts (down from 43% at YE15); ii) some 67% of the gross amount was collateralised or secured by personal guarantees; and iii) some 75% of the net amount was exposures towards firms.

Italian banks - net NPEs customer-related only by type of exposure (trend)



Source: Intesa Sanpaolo Research Elaboration, Bank of Italy

Italian banks - gross NPEs customer-related only: secured vs. unsecured (at YE18)



Note: (*) Secured: gross exposure that is collateralised or backed by personal guarantees. Source: Intesa Sanpaolo research elaboration, Bank of Italy

Italian banks - net NPEs customer-related only by counterparty sector (trend)

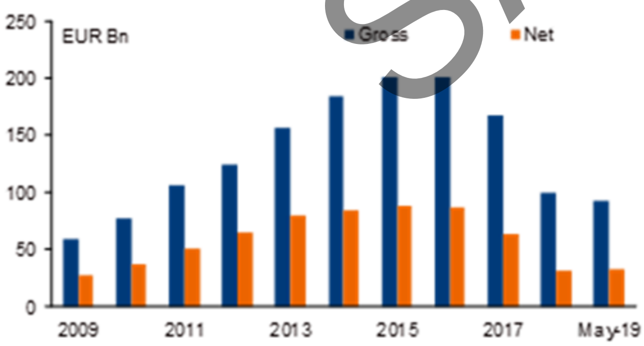
Note: (*) consumer households. Source: Intesa Sanpaolo research elaboration, Bank of Italy

In 1Q19, the formation of new non-performing loans in proportion to outstanding loans continued to decline slightly to 1.3% (vs. 1.4% at YE18 and 2% at YE17) and was below the average for the two years preceding the financial crisis. This decline was mostly on account of loans to firms as a whole, which were down to 1.9% in 1Q19 (vs. 2.2% at YE18 and 3.4% at YE17).

Moreover, bad loan disposals have driven the NPE rundown since the end of 2016. In particular, over the course of the 2017-2018 period, Italian banks reached a record high in NPE disposals/write-offs, which totalled EUR 89Bn (of which EUR 55Bn was in 2018), the bulk of which was related to bad loans of EUR 82Bn (EUR 50 in 2018), with unlikely-to-pays (UTPs) accounting for EUR 7Bn (EUR 5Bn in 2018). Most of the bad loan disposals were via securitization through the state guarantee scheme (the so-called GACS) (see paragraph below at page …). The bad loans run-down is continuing in 2019, at a slower pace for the time being, but we do not rule out that an acceleration could materialise going forward.

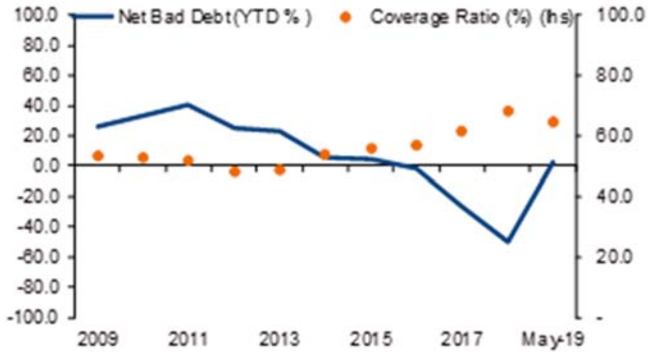
As at the end of May 2019, Italian banks' bad loans to Italian residents declined by 7.7% YTD vs. YE18, and by 43.6% yoy to EUR 92Bn gross of provisions, while they slightly rose by 2.4% YTD, but were 35.8% yoy lower at EUR 32.6Bn on a net basis.

Italian banks - gross and net bad loans with Italian residents (trend)



Source: Intesa Sanpaolo Research elaboration, Bank of Italy

Italian banks - net bad loans with Italian residents: YTD% change and coverage ratio (%) (trend)

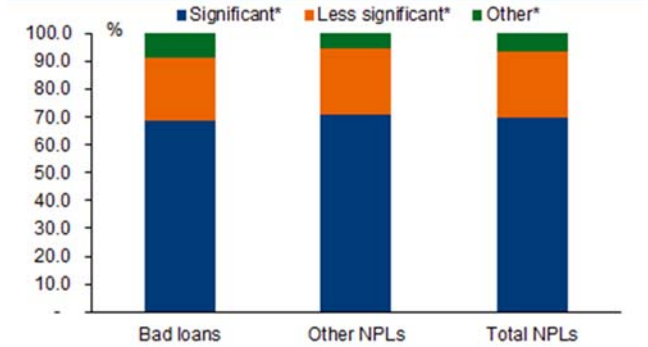


Source: Intesa Sanpaolo Research elaboration, Bank of Italy

Italian banks: credit quality still fragmented

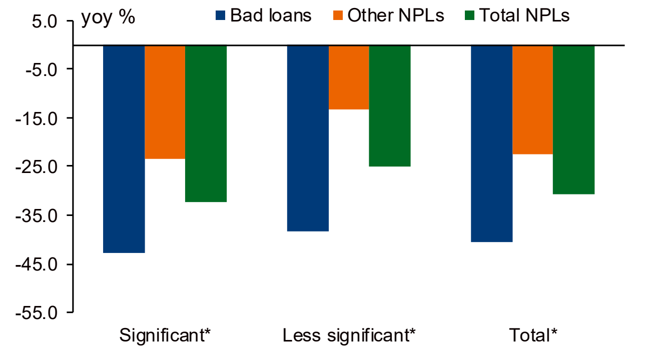
As shown in the table and graphs below, the bulks of NPEs are still associated with significant Italian banks, the larger ones under the direct supervision of the ECB (11 as at YE18, which became 12 in 2019). However, these have better asset quality indicators compared with less significant banks (those supervised by the Bank of Italy in cooperation with the ECB).

Italian banks - net NPL at YE18 – breakdown by bank size (%of total)



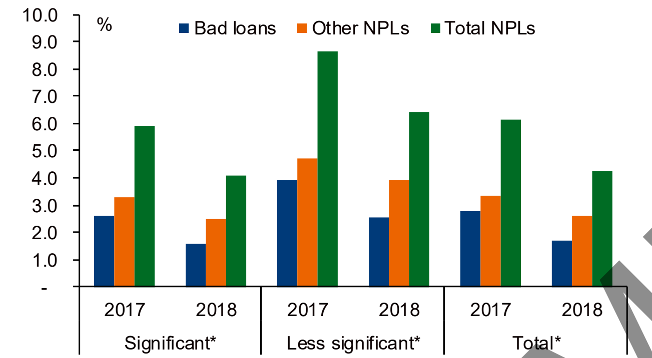
Note: (*) Significant banks are those supervised directly by the ECB. Less significant banks are those supervised by the Bank of Italy. Other includes some subsidiaries of foreign banks not classified in the previous two categories. Source: Intesa Sanpaolo Research elaboration, Bank of Italy

Italian banks - net NPL yoy% change in 2018 – breakdown by bank size



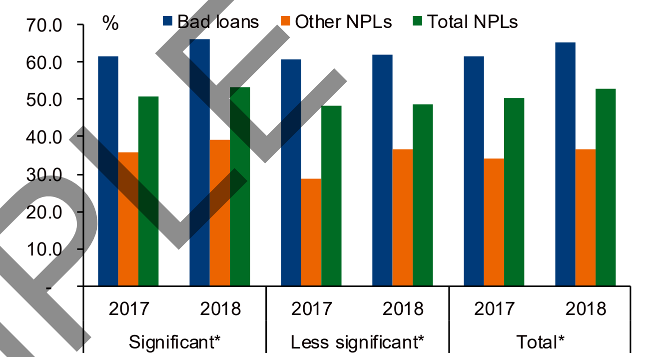
Note: (*) Significant banks are those supervised directly by the ECB. Less significant banks are those supervised by the Bank of Italy. Total includes some subsidiaries of foreign banks not classified in the previous two categories. Source: Intesa Sanpaolo Research elaboration, Bank of Italy

Italian banks - net NPLs ratios – breakdown by bank size (2018 vs. 2017)



Note: (*) Significant banks are those supervised directly by the ECB. Less significant banks are those supervised by the Bank of Italy. Other includes some subsidiaries of foreign banks not classified in the previous two categories. Source: Intesa Sanpaolo Research elaboration, Bank of Italy

Italian banks - NPL coverage ratio – breakdown by bank size (2018 vs. 2017)



Note: (*) Significant banks are those supervised directly by the ECB. Less significant banks are those supervised by Bank of Italy. Other includes some subsidiaries of foreign banks not classified in the previous two categories. Source: Intesa Sanpaolo Research elaboration, Bank of Italy

It is worth noting that in 2018, according to the Bank of Italy, the significant Italian banks with high levels of NPEs achieved results in line with the three-year run-down plan presented to the supervisory authority. Moreover, in March 2018, they submitted their revised 2018-2020 plan, targeting an overall reduction of 38% on NPEs.

Finally, based on guidelines introduced by the Bank of Italy in January 2018, less significant banks with a high level of NPEs were also required to set strategies by the end of 2018, targeting a reduction of their NPEs. The reduction that was planned for the second half of 2018 was achieved in full. The plan for 2019 to 2021 set a further reduction of EUR 4.4Bn in gross NPEs and a decline in the ratio of NPLs to total loans, gross of loss provisions, from 13.9% to 9.8%.

With regard to Italy's less significant banks (LSIs), according to the Bank of Italy, in the 2015-2018 period they reported NPEs that had declined by more than a third and coverage ratios that had increased by about 6pp. For the 2019-2021 period, LSIs' NPE work-out plans foresee further significant reductions of EUR 4.4Bn in gross NPEs (some 25% of those outstanding at YE18), down to below 5% (from 6.4%), as a ratio to total loans on a net basis. NPE sales are expected to provide a significant contribution to the rundown plan. Overall, the plan for the coming years is consistent with the need to steadily reduce NPEs, though fragmentation exists among LSIs, both in relation to the amount of NPE reductions and with respect to how prudent banks' assumptions are. However, at 31 March 2019, not all the LSIs with above-average NPL ratios have provided a reduction plan that is consistent with the need to narrow the gap in a timely manner.

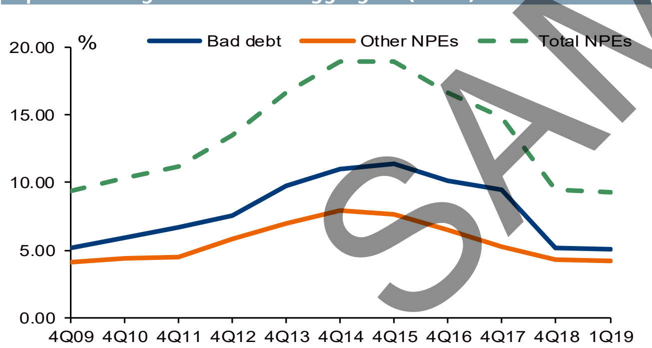
Top 6 Italian banks: asset quality trends

Following the significant improvement in 2017 and 2018, credit quality indicators for the six largest Italian (Top 6)[1] banks improved slightly further in 1Q19, still benefiting from lower net inflows of impaired loans and NPL disposals. Overall, the NPE ratios showed a declining trend, but differentiation among banks is still high.

The Top 6 banks' stock of NPEs as at end-1Q19 showed the following trend:

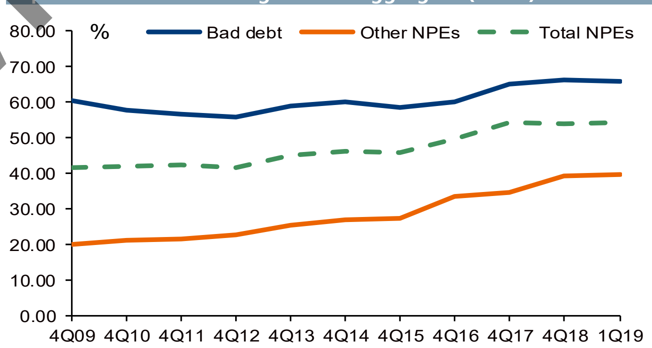
- On a gross basis: i) aggregate NPEs declined by 2.2% YTD vs. YE18 to EUR 117.4Bn, at 9.3% (broadly stable, -0.2pp YTD) on average as a ratio of total loans; and in particular ii) aggregate gross bad debts declined by 1.1% YTD to EUR 64.5Bn (i.e. some 55% of total gross NPEs, compared with 64.7% at end-1Q18), at 5.1% on average as a ratio to total loans (broadly unchanged YTD, -0.1pp). Among the five large banks we cover, Unicredit was the best performer in terms of its gross NPE ratio, which was 7.6%, of which the gross bad debt ratio was 4.3%, while MPS was the worst performer with 16.3% and 8.4%, respectively.
- The NPE coverage ratio slightly increased by 0.2pp compared with YE18, to 54.2% on average, of which 66% was bad debt-related (-0.3pp YTD). The overall stable trend of NPE coverage over the last two years reflects, in our view, Italian banks' conservative approach in provisioning as a result of the implementation of IFRS 9 on 1 January 2018. Among the banks we cover, Unicredit reported the highest NPE and bad debt coverage ratio (61.8% and 72.8%, respectively), while UBI Banca showed the lowest levels (39.1% and 49.1%, respectively).
- All in all, aggregate net NPEs dropped by 2.7% YTD and 29.1% yoy, to EUR 53.8Bn, at 4.5% (broadly stable,-0.1pp YTD) on average as a ratio of total loans. In particular, aggregate net bad debts declined slightly by 0.2% YTD to EUR 21.9Bn, an unchanged 1.8% on average as a ratio to total loans. Among the major banks we cover, Unicredit was the best performer (net NPE ratio of 3% and net bad ratio of 1.2%), while MPS was the worst performer (8.4% and 3.6%, respectively).

Top 6 banks - gross NPE ratio aggregate (trend)



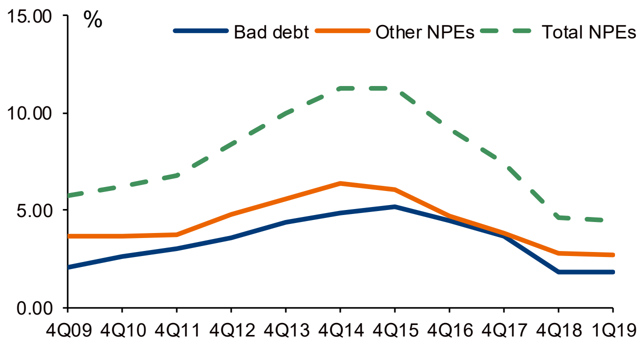
Source: Intesa Sanpaolo Research elaboration, companies' data

Top 6 banks - NPE coverage ratio – aggregate (trend)



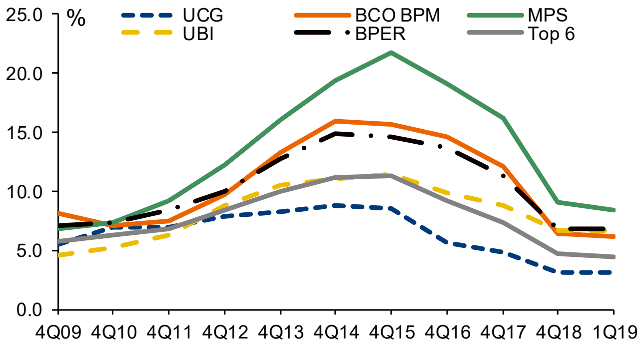
Source: Intesa Sanpaolo Research elaboration, companies' data

Top 6 banks - net NPE ratio – aggregate (trend)



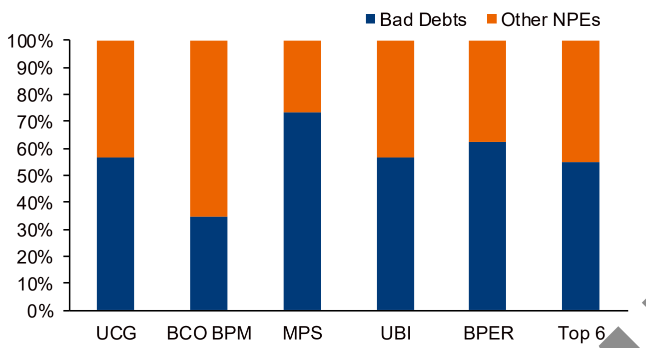
Source: Intesa Sanpaolo Research elaboration, companies' data

Top 6 banks - net NPE ratio by bank (trend)



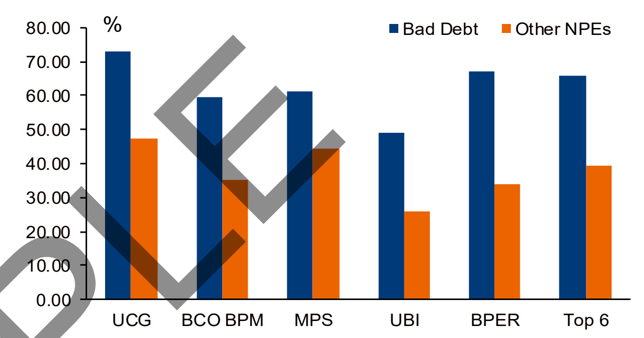
ISP included in the aggregate, but not shown in the charts. Source: Intesa Sanpaolo Research elaboration, companies' data

Top 6 banks - gross NPE composition (at 1Q19)



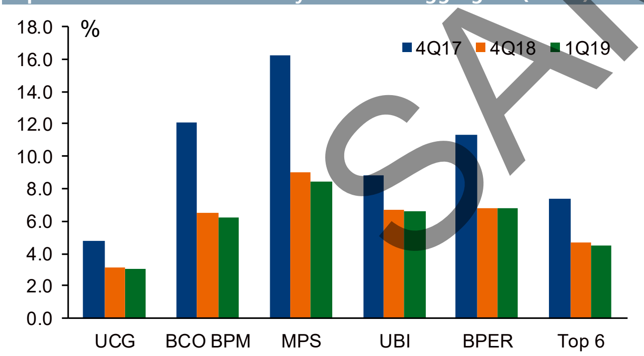
ISP included in the aggregate, but not shown in the charts. Source: Intesa Sanpaolo Research elaboration, companies' data

Top 6 banks - bad debt and other NPE coverage ratios (at 1Q19)



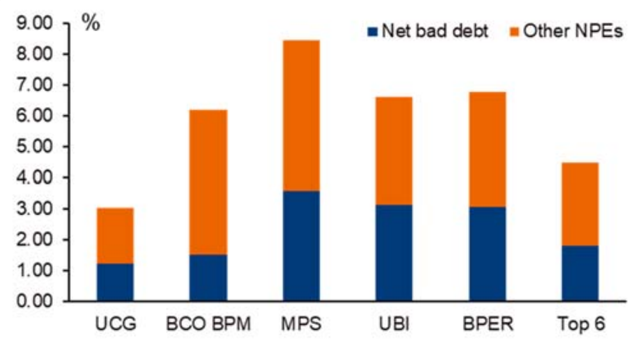
ISP included in the aggregate, but not shown in the charts. Source: Intesa Sanpaolo Research elaboration, companies' data

Top 6 banks: net NPE ratios by bank and aggregate (trend)



ISP included in the aggregate, but not shown in the charts. Source: Intesa Sanpaolo Research elaboration, companies' data

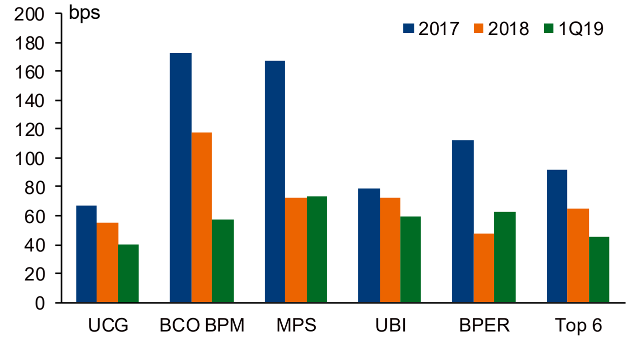
Top 6 banks - net NPE ratio (at 1Q19)



ISP included in the aggregate, but not shown in the charts. Source: Intesa Sanpaolo Research elaboration, companies' data

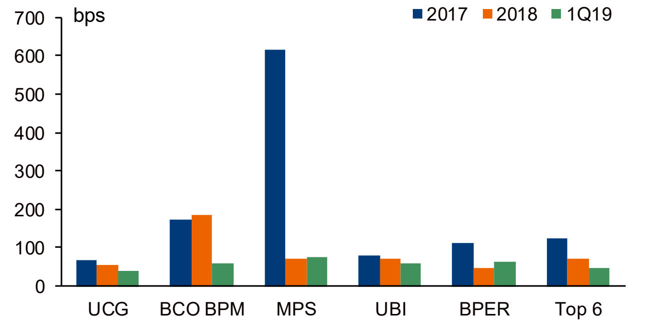
The Top 6 banks' cost of risk is also trending downwards, from 91bps ordinary (124bps stated) in 2017 to 65bps (71bps) in 2018 and to a low 45bps (annualised) in 1Q19. Among the five banks under our coverage, MPS underperformed in 1Q19 with an annualised cost of risk of 73bps, while Unicredit performed the best at 40bps.

Top 6 banks: cost of risk ordinary (trend)



Source: Intesa Sanpaolo Research elaboration, companies' data

Top 6 banks: cost of risk stated (trend)



Source: Intesa Sanpaolo Research elaboration, companies' data

NPL disposals via securitisation with GACS

As mentioned above, the problem loans reduction in Italy over the last three years was driven mainly by securitisations and disposals. In particular, with securitisations, the Italian government has offered guarantees on NPL securitisations via its "Garanzia sulla Cartolarizzazione delle Sofferenze" (GACS) scheme. First introduced in 2016, GACS has since been extended several times – most recently, a 24m extension in March 2019, albeit under more restrictive conditions.

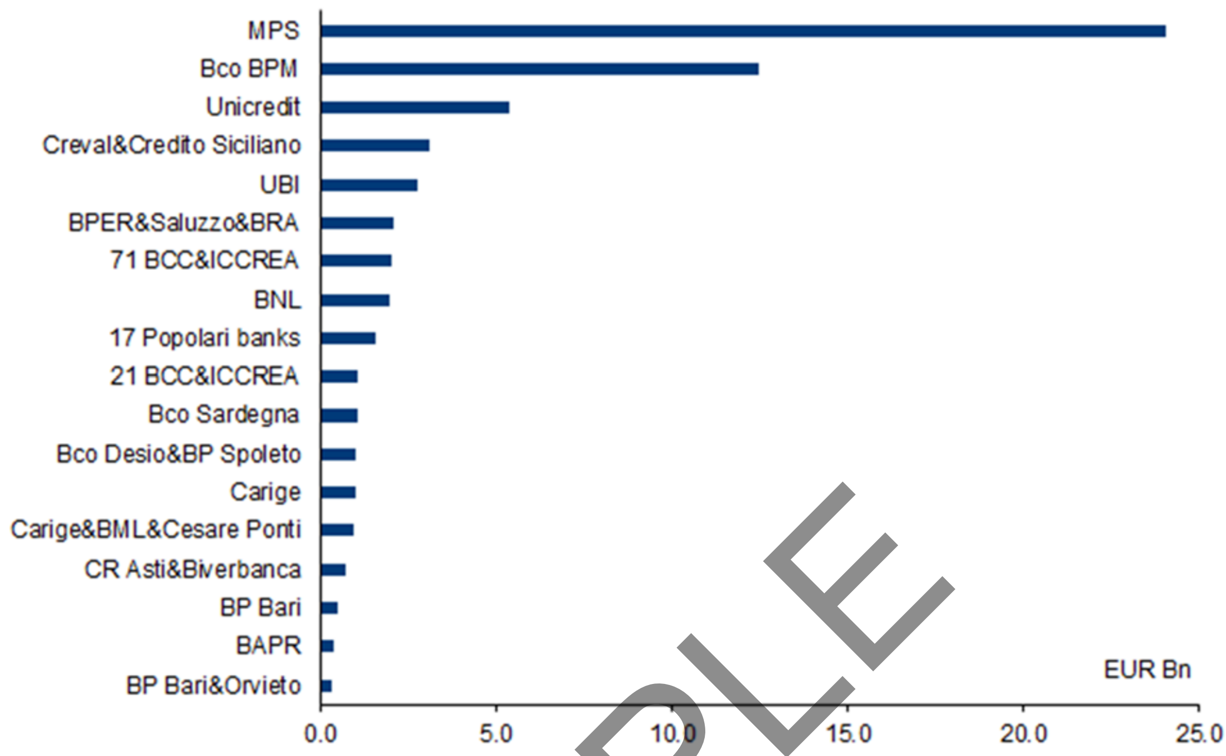
Under the GACS facility, senior notes that meet certain conditions are eligible for state guarantee on the interest and principal in exchange for a fee, based on the following factors: (i) the involvement of a third-party loan servicer; (ii) the sale of junior and mezzanine tranches to third-party investors; and (iii) an investment grade-rating (BBB, vs. BBB- previously, from at least two rating agencies). GACS only applies to bad loans and not to unlikely-to-pay.

The GACS scheme is free of state aid within EU state aid rules, while it allows for full accounting derecognition of NPLs from banks' balance sheets. Senior tranches of securitised NPLs are often retained by originator banks with the benefit of the state guarantee. Moreover, GACS improves transparency, and therefore investor confidence in the Italian NPL market, which is mainly made up of loans to SMEs (more heterogenous and more difficult to sell in bulk). It also facilitates the disposal of NPLs in a market where lengthy foreclosure processes reduce visibility over potential cash flows from NPLs and weigh on recovery rates.

Italian banks have made active use of the GACS programme, closing 21 deals for a total amount of EUR 62Bn bad loans gross book value (GBV), of which: i) 82% to companies; ii) 55% secured loans; and iii) 42.3% residential properties (44.6%).

So far, major deals have included: Unicredit Fino 1 (EUR 5.4Bn GBV, November 2017), MPS (EUR 24.1Bn GBV, May 2018) and Banco BPM (EUR 5.1Bn GBV, June 2018, and EUR 7.4Bn, February 2019).

Italian banks completed NPL securitisations via GACS (gross book value)



Source: Intesa Sanpaolo Research elaboration

Regulatory pressure on further asset quality improvement

In 2018 and 2019, the European Central Bank (ECB) and the European Commission (EC) tabled new measures, including non-performing loans calendar provisioning, to encourage banks to tackle further their legacy NPLs rundown and to limit the accumulation on banks' balance sheet of NPLs in the future. This regulatory pressure will further speed up asset quality improvements, in our view. In the Italian context, we expect a further acceleration of the disposal process going forward.

We see the following major differences between the EC's and the ECB's provisioning calendar measures:

- i) the EC's applies to all EU banks subject to CRR, while the ECB's affects only significant banks under its direct supervision;
- ii) the EC amends the CRR, via a legislative process applicable to all banks, while the ECB will follow a case-by-case approach as part of the SREP process;
- iii) the EC considers new provisioning policies on new NPLs arising from newly originated loans starting as of 27 June 2019, while the ECB's expectations refer to a minimum provisioning level for all new NPLs from 1 April 2018; and
- iv) the EC sets out a more gradual implementation of full provisioning for secured NPLs than the ECB: nine years vs. seven years.

Overall, we see that the impact on Italian banks of the provisioning calendar measures will be mitigated by a series of factors, including the phasing out of the higher provisions and the lower new NPL rate that has fallen to below pre-crisis levels. Moreover, these measures are to be considered within the new standard for financial instruments (IFRS 9), which became effective on 1 January 2018 and triggered additional significant increases in NPL provisioning. However, we also see that the 100% provisioning could raise the cost of financing the economy, hence favouring credit extensions to highly rated customers and reducing unsecured exposures towards SMEs.

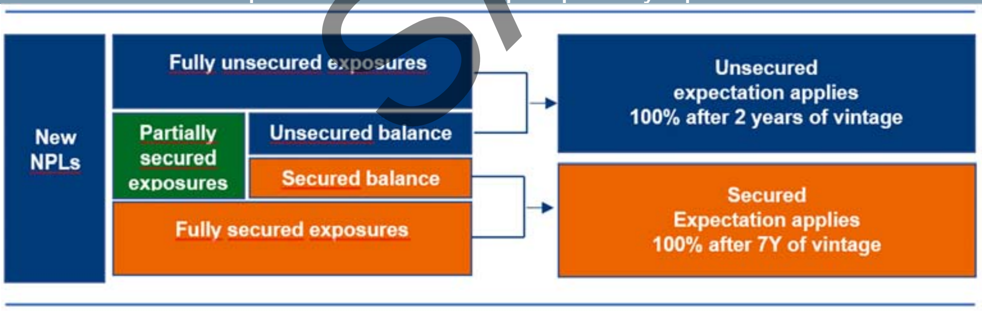
ECB expectations on NPLs coverage

The ECB's policy on NPLs is laid out in two documents: (i) a "guidance" document; and (ii) a so-called "addendum". The ECB applies its guidance to the EU's significant banks it directly supervises as part of its supervisory review and evaluation process (SREP). In case of deviation from the guidance, banks are required to justify their choice to the supervisors.

In March 2017, the ECB published non-binding guidance on non-performing loans, setting out best practices for banks, with a requirement that they have to explain any non-compliance. Thereafter, in March 2018, the ECB published its final addendum to its guidance document, providing banks with more specific guidance on timely provisioning and write-off practices, with a view to applying them to the new NPEs classified as such as of 1 April 2018. Moreover, in July 2018, the ECB said it would also set bank-specific expectations regarding provisions against the stock of NPLs, with expectations based on a benchmarking of comparable banks, with the aim of achieving the same level of coverage for all NPLs over the medium term. Finally, in early 2019, the ECB also indicated that banks should accelerate their provisioning against legacy NPLs, with the objective of reaching full coverage of NPLs within the next seven years.

With regard to the ECB addendum, it provides quantitative supervisory expectations for minimum levels of prudential provisioning, which are based on the length of time (a vintage concept) an exposure has been classified as non-performing. The addendum distinguishes between unsecured and secured exposures (see chart below), expecting banks to provide: i) full coverage of the unsecured exposures two years after their classification as non-performing; and ii) secured exposures are expected to be extra-provisioned as of the third year of their classification as non-performing, with an expectation of 40% initially, reaching 100% on [please check, was unsure of meaning] the first day of the seventh year. During the first two years, usual accounting provisions are calculated. The ECB calendar provisioning expectations are indicated in the table below. Even though the ECB's quantitative expectations are not binding, the assessment of banks' practices and potential deviations will be taken into account in the annual SREP process. The first SREP applying the addendum will be in 2021.

ECB NPL addendum – exposures and assets in scope/supervisory expectations



Source: Intesa Sanpaolo Research, ECB

ECB NPL addendum – calendar provisioning (on NPEs classified as such as of 1 April 2018)

	Quantitative expectations (in %)					
After year	2	3	4	5	6	7
Secured	100					
Unsecured		40	55	70	85	100

Source: Intesa Sanpaolo Research, ECB

In July 2018, the ECB started working on a case-by-case basis, defining bank-specific supervisory expectations based on benchmarking of comparable banks and guided by individual banks' current NPL ratios and main financial features. The guidance is non-binding, but it should be applied based on the "comply or explain" principle, such that the banks that do not want to provision their exposures must adequately explain it.

In this respect, Banca MPS (on 11 January 2019) announced that under the ECB's guidance within the SREP exercise, it had received a few recommendations aimed at ensuring continued progress in the reduction of the bank's legacy NPE stocks to maintain a high level of the NPL coverage ratio in the medium term. In particular, MPS is expected to provide full coverage (100%) for unsecured NPLs after two years and for secured NPLs between three and seven years. The guidance is not-binding and applies to recognised NPLs flows from 1 April 2018, as well as to the NPL stock from 1Q18.

Moreover, according to an *Il Sole 24 Ore* report on 15 January, the ECB has benchmarked the European banks it supervises, which show high levels of non-performing exposure, based on their NPL ratios and financial strength, guiding for differentiated calendar provisioning. In particular, the ECB is expecting banks to reach full provisioning of the their stock of NPLs outstanding as at 31 March 2018, with a vintage of seven years for secured NPLs and two years for unsecured NPLs, as follows: (i) Tier 1 banks with a limited level of NPLs and a high ability to make provisions – full coverage by 2024; (ii) Tier 2 banks with significant level of NPLs and a moderate ability to make provisions – full coverage by 2025; and (iii) Tier 3 banks with high level of NPLs and a low ability to make full provisions – full coverage by 2026.

Calendar of ECB expectations on NPL coverage for EU banks it supervises

Bucket	Financial Strength	NPL Ratio	NPL type	Quantitative expectations (in %)						
				2020	2021	2022	2023	2024	2025	2026
Tier 1	Strong	Limited	Secured	60				100		
			Unsecured	70			100			
Tier 2	Medium	Higher vs Tier1	Secured	50					100	
			Unsecured	60				100		
Tier 3	Weak	High	Secured	40						100
			Unsecured	50					100	

1)As reported by *Il Sole 24 Ore* on 19 January 2019; 2) NPL stock as at 31 March 2018, with a vintage of seven years for secured NPLs and two years for unsecured NPLs. Source: Intesa SanPaolo research elaboration, *Il Sole 24 Ore*

According to the same media source, among the Italian banks we cover, Unicredit is set to be in the Tier 1 bucket, while Banco BPM, UBI Banca and BPER will be in the Tier 2 bucket, with only MPS in the Tier 3 bucket. As a consequence of the ECB's recommendations on the coverage of NPLs, MPS should "comply or explain", while it also guided that NPL coverage should gradually increase over seven years (until 2026). Unicredit, Banco BPM, UBI and BPER have defined the impact of the new approach of the regulator on the stock of NPLs as limited.

Italian banks under coverage by ECB's bucket for expected calendar provisioning (data as at YE18)

Bucket	Bank under coverage	Gross NPL ratio	Gross bad debt ratio	Gross UTPs ratio	NPL coverage ratio	Bad debt coverage ratio	UTP coverage ratio	CET1 Ratio FL
		%	%	%	%	%	%	%
Tier 1	Unicredit	7.7	4.3	3.3	61.0	72.6	47.3	12.1
Tier 2	Banco BPM	10.8	3.6	7.1	43.1	59.6	35.0	11.5
	UBI Banca	10.4	5.8	4.5	38.5	49.0	25.5	11.3
	BPER Banca	13.8	8.5	5.2	54.5	66.6	35.7	12.0
Tier 3	MPS	17.3	8.8	8.3	53.1	62.4	44.0	11.3

Source: Intesa Sanpaolo Research elaboration, *IL Sole 24 Ore* 19 January 2019.

European Commission Pillar 1 requirement for minimum loss coverage for NPLs

In March 2018, the European Commission (EC) published a legislative proposal with measures for all banks aimed at addressing the high number of NPEs in the Union and at preventing their build-up in the future. These measures have as their principal aim helping banks to tackle NPL accumulation on their balance sheets via a set of actions, including fostering the development of secondary markets for NPLs and giving guidance for the setup of national asset management companies, facilitating out-of-court collateral enforcement, and introducing statutory backstops (Pillar 1) against insufficient loan loss coverage.

Thereafter, on 27 June 2019, following its publication in the official journal of the EU on 7 June, the compromise text of the regulation regarding minimum loss coverage for NPEs came into force. We note that the regulation above consists of a set of amendments to the Capital Requirements Regulation (so called CRR II), establishing mandatory prudential requirements including a calendarisation up to full provisioning (100%) for non-performing loans. Particularly noteworthy are the following points: (i) cut-off date – the regulation will apply to newly originated loans as of 27 June 2019; (ii) the calendar provisioning is differentiated by unsecured NPLs, NPLs secured by immovable collateral and other secured NPLs; and (iii) the regulation provides for a specific definition of a forbearance measure, adding the possibility to freeze.

In detail, statutory prudential backstops for loan loss coverage require all EU banks to adopt, for prudential purposes (Pillar 1), a progressive calendar for provisioning to cover the incurred and expected losses on newly originated loans as of 27 June 2019, once such loans become non-performing (the minimum coverage requirement). The minimum coverage requirement increases gradually over time, with unsecured NPLs requiring higher and timelier minimum loss coverage than secured loans. In general, a bank would have to fully cover an unsecured NPL as of the first day of the fourth year. Regarding a secured NPL, its coverage depends on whether that collateral is classified as other CRR eligible collateral or immovable. In the first case, full coverage (100%) will have to be built up after seven years. In the second case, for NPLs secured by immovable collateral (such as commercial or residential real estate), it can be assumed that immovable property will have a remaining value for a longer period of time after the loan has turned non-performing, hence it provides a gradual increase of the minimum loss coverage level over a period of nine years. In practice, provisions will continue to be accounted for based on a bank's assessment and relevant accounting standards, including potential increases in provisions as a result of the new accounting standard IFRS 9, which will be taken fully into account for the purposes of the prudential backstop. However, any shortfall from the above-mentioned minimum coverage requirements will be deducted from the bank's own funds.

EC NPL calendar provisioning – minimum coverage requirement (on new loans originated as of 27 June 2019)

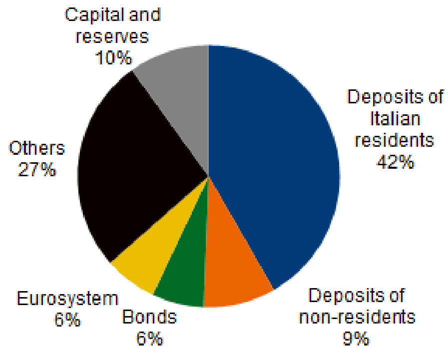
	Minimum coverage level (in %)								
After year	1	2	3	4	5	6	7	8	9
Unsecured	0	35	100						
Secured by other CRR eligible collateral	0	0	25	35	55	80	100		
Secured by immovable collateral	0	0	25	35	55	70	80	85	100

Source: Intesa Sanpaolo Research elaboration, EU staff

Focus on Liability Structure

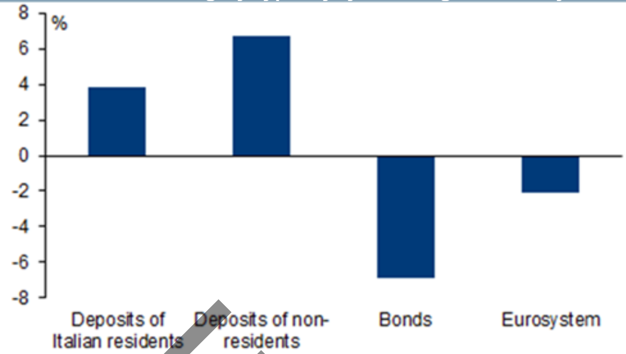
Italian banks' liabilities as at end-May 2019 totalled over EUR 3.7Tr, continuing to show deposits as the main funding contributor, at over 51%, of which 42% of deposits are from Italian residents. In terms of growth trends, deposits confirmed an uptrend (+3.8% yoy, deposits of Italian residents), whilst bonds continued to decline (-6.9% yoy).

Italian banks' liabilities by type as a % of total (as at May 2019)



Source: Intesa Sanpaolo Research elaboration, Bank of Italy data

Italian banks' funding by type – yoy % change as at May 2019



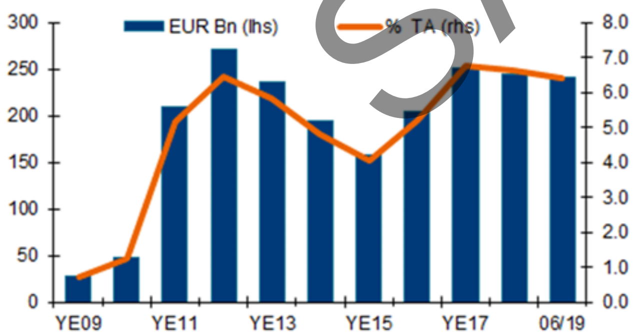
Source: Intesa Sanpaolo Research elaboration, Bank of Italy data

Italian banks' ECB refinancing

Italian banks' recourse to Eurosystem refinancing amounted to some EUR 242Bn as at end-May 2019, of which some EUR 238Bn related to longer-term refinancing operations, namely TLTROs II. As a ratio of total assets, it was 6.4% system-wise, broadly stable vs YE18 (-0.2pp) and the level reached at YE12 (6.4%), whilst very high compared to the 1% average level in the 2007-2010 period.

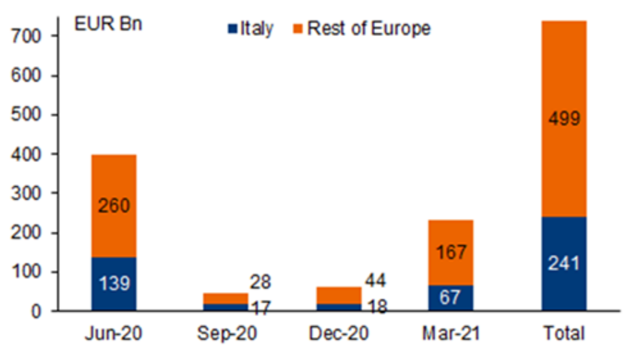
Regarding TLTROs II, Italian banks' take-up was EUR 241Bn (EUR 238Bn outstanding), representing some 33% of EUR 740Bn total at the EU-wide system level. By maturity, some EUR 174Bn is set to mature in 2020 (of which EUR 139Bn in June) and the remaining EUR 67Bn in March 2021. However, starting from 2019 the residual life of the first three TLTRO II operations will fall below one year, thus affecting NSFR liquidity ratio.

Italian banks: Eurosystem refinancing (trend)



TA = Total assets. Source: Intesa Sanpaolo Research elaboration, Bloomberg

ECB TLTRO II take-up by maturity: Italy vs Rest of Europe



Intesa Sanpaolo Research elaboration, ECB, Bank of Italy

Within this framework, the Top 6 banks raised EUR 175n of gross TLTRO II financing and EUR 94Bn net of TLTRO I repayment, or 24% and 29% of total, respectively. Regarding maturity, EUR 129Bn, or 74% of total TLTROs II, are to expire by YE20, with the bulk, EUR 110Bn (63%), in June 2020. The remaining EUR 46Bn (26%) is set to expire in March 2021.

Moreover, Italian banks hold a sizeable amount of ECB-eligible unencumbered assets (net of haircut), amounting to over EUR 287Bn at end-1Q19, which is a high 13.2% as a ratio to total assets on average.

Top 6 banks: ECB TLTRO II financing

EUR Bn	TLTRO I replaced (2016)	TLTRO II drawn (2016-17)	TLTRO II Net (2016-17)	TLTRO II % TA (1Q19)
Unicredit	18	51	33	6.0
BCO BPM	15	21	6	12.9
MPS	9	17	8	12.6
UBI	8	13	4	9.8
BPER	2	9	7	13.1
Top 6 Banks	80	175	95	7.9
Italian Banks	113	241	121	6.5

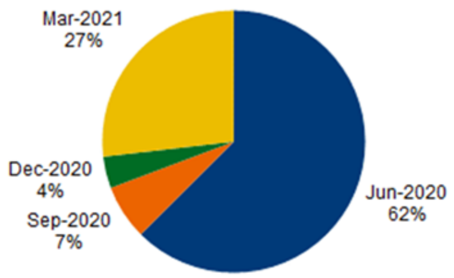
Intesa Sanpaolo included in the Top 6 aggregate, but not shown in the table. Source: Intesa Sanpaolo Research elaboration, Companies data, Bank of Italy

Top 6 banks: ECB TLTRO II financing – Drawn and Maturity amount

EUR Bn	Jun-2020	Sep-2020	Dec-2020	Mar-2021	Total
Unicredit	27	0	0	24	51
BCO BPM	17		2	3	21
MPS	10	7			17
UBI	10			3	13
BPER	4		1	4	9
Top 6	108	12	7	46	172
Italian Banks	139	17	18	67	241

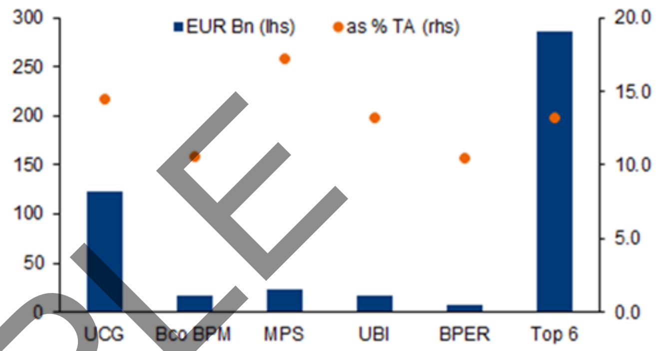
Intesa Sanpaolo included in the Top 6 aggregate, but not shown in the table. Source: Intesa Sanpaolo Research elaboration, Companies data, Bank of Italy

Top 6 banks: TLTRO II - Maturity as % of total in aggregate



Source: Intesa Sanpaolo Research elaboration, Companies data

Top 6 banks: Unencumbered eligible assets (at 1Q19)



Intesa Sanpaolo included in the Top 6 aggregate, but not shown in the picture. TA = Total Assets. Source: Intesa Sanpaolo Research elaboration, Companies data,

In march 2019, the ECB announced a new series of seven quarterly new targeted longer-term refinancing operations (TLTRO III) from September 2019, each with a two-year maturity, with details disclosed later on 6 June. The ECB's aim is to preserve favourable bank lending conditions, whilst also helping banks to gradually manage their outstanding TLTRO II operations that are set to mature starting in June 2020.

The new TLTRO III programme envisages: i) a series of TLTROs over seven quarters from September 2019 to March 2021, each with a two-year maturity; ii) banks being entitled to borrow up to 30% of their stock of eligible loans[2] as of 28 February 2019, reduced by any amount borrowed under TLTRO II, with a take-up in each operation limited to at most 10% of eligible loans; and iii) the interest rate being set at a maximum of +10bps over the prevailing Refi rate (currently 0%) over the life of the operation, and a minimum of +10bps over the prevailing deposit rate (currently -0.4%) in case of the bank respecting the lending growth benchmark.

We see that the ECB has halved the duration of the loan, with the aim of reducing dependence on ECB funds in terms of the timeline as well. Furthermore, the 10% limit aim at diluting the concentration of demand for funds, and therefore the maturities, forcing banks to plan their tapping of ECB funds also in relation to the need to refinance assets reaching maturity, and or to smooth liquidity cliffs in order to respect capital ratios.

We expect demand from Italian banks to be high in the light of the still generous rates conditions which are particularly appealing in Italy compared to less favourable funding conditions on the market. We would expect Italian banks to roll-over their EUR 241Bn TLTRO II financing into TLTRO III, subject to the availability of eligible loans.

[2] Eligible loans: Loans to non-financial businesses and households (excluding mortgages).

Italian banks' institutional primary market in 2019

Following a weak institutional primary market in 2018, due to political turbulence, in 2019 Italian banks' euro-denominated benchmark issuance resumed in 2019 to-date (31 July 2019). We see the following strengths and weaknesses as the main levers of institutional primary market in 2019:

- Strengths: i) High level of maturing senior bonds; ii) TLAC/MREL requirements with a phased-in period; and (iii) liquidity ratios safeguard.
- Weaknesses: i) weak loan demand by firms; ii) High market volatility; iii) risk premium set to stay high due to sovereign risk; and (iv) expensive and limited capital markets conditions especially for weaker banks.

Overall, we expect higher primary market activity in the wholesale market in 2019 compared to 2018, in particular in senior preferred and loss-absorbing instruments (namely senior non-preferred and Tier 2). Issuance activity in 2H19 is set to remain solid, in our view, anyway political headlines and country risk premia developments will continue to be key drivers.

In 2018 Italian banks' gross issuance of benchmark euro-denominated bonds (excluding government-guaranteed bonds) dropped significantly, by some 43% yoy to EUR 12.1Bn on aggregate, with downtrend spread out across the board. There was no issuance of AT1 bonds, whilst inaugural issuance of senior-non-preferred bonds (SNPs) by Unicredit and UBI took place. Net issuance was negative by EUR 3.3Bn on aggregate.

In 2019, activity recovered, with 88% yoy higher gross issued notes (excluding EUR 2Bn of GGBs) totalling EUR 18.7Bn as at 31 July, whilst net issuance was positive for EUR 6.4Bn on aggregate. In particular:

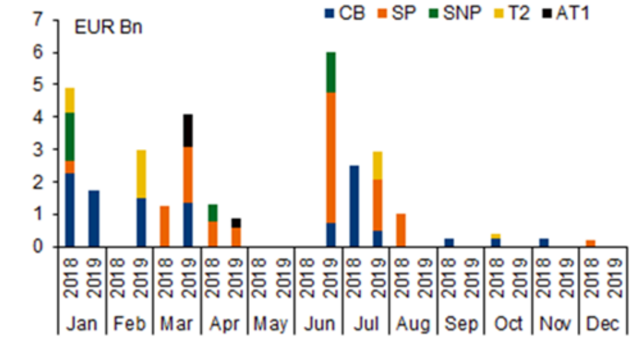
- Covered bonds: EUR 5.9Bn gross issuance (+23% yoy), EUR 3.4Bn net issuance
- Senior preferred bonds: EUR 8Bn gross (+225% yoy), EUR 1.3Bn negative net issuance, due to high maturities.
- Senior non-preferred bonds: EUR 1.3Bn gross (-38% yoy) with no maturities.
- Tier 2 bonds: EUR 2.4Bn gross (+213% yoy), EUR 1.8Bn net issuance.
- AT1 bonds: EUR 1.3Bn gross (none in 2018) with no maturities.

For a detailed list of issued bonds in 2018 and 2019, by type and issuer, please refer to Appendix at page 1 of this report.

We also note that this year's issuance activity in the wholesale market was achieved at overall higher cost than in 2018.

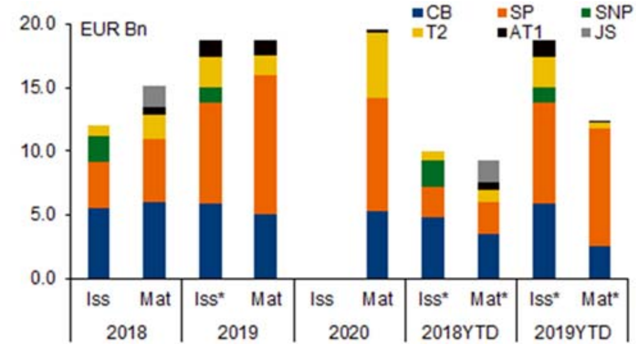
Moreover, we highlight that EUR 38.4Bn bonds are set to mature in the 2019-2020 period, with bulk of senior preferred bonds: (i) EUR 18.8Bn in 2019 (59% senior, 27% CB) and EUR 19.6Bn in 2020 (46% senior, 27% CB).

Institutional EUR-DENOMINATED benchmark Issuance[1] (2019 vs 2018 monthly trend) as at 31 July 2019



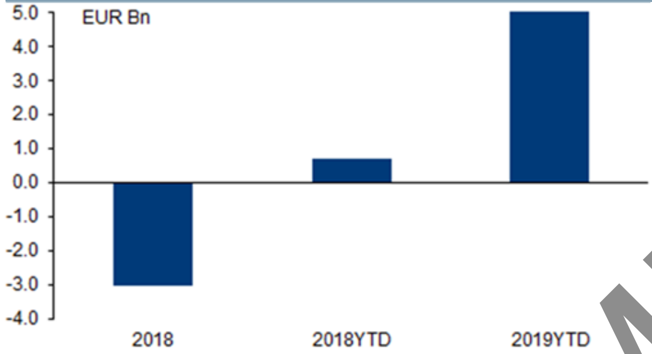
Note: 1) Excluding GGBs. Source: Intesa Sanpaolo Research elaboration, Bloomberg

Institutional EUR-denominated benchmark Issuance[1] and Maturity[1](yearly trend)



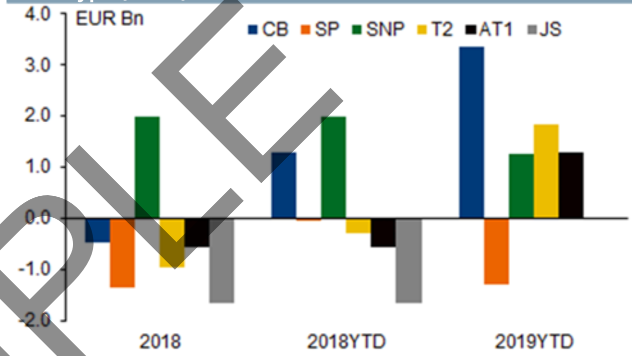
Notes: 1) Excluding GGBs. (*) Data as at 31 July. Source: Intesa Sanpaolo Research elaboration, Bloomberg

Institutional EUR-denominated benchmark net issuance[1]



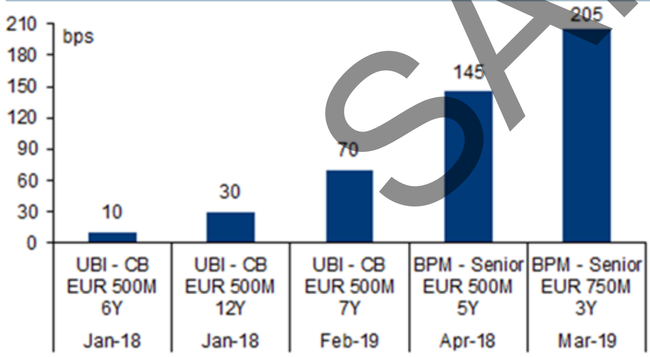
2018YTD and 2019 YTD include data from 1 January to 31 July of each year. Note: 1) Excluding GGBs. Source: Intesa Sanpaolo Research elaboration, Bloomberg

Institutional EUR-denominated benchmark net issuance[1] by bond type (trend)



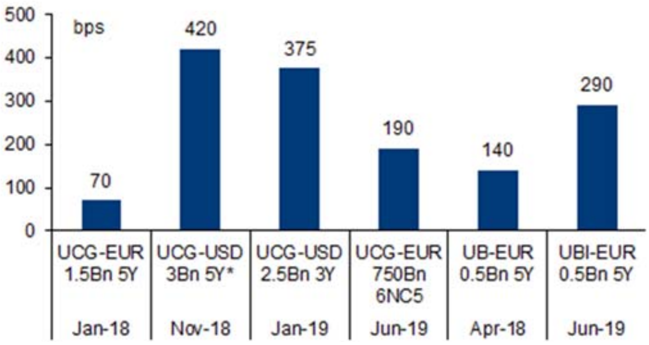
2018YTD and 2019 YTD include data from 1 January to 31 July of each year. Note: 1) Excluding GGBs. Source: Intesa Sanpaolo Research elaboration, BloombergFollowing

CBs / Senior bonds - spread at issue vs EUR swap (trend)



Source: Intesa Sanpaolo Research elaboration, Bloomberg

SNP bonds – spread at issue vs EUR swap (trend)



Note: (*) Private placement. Source: Intesa Sanpaolo Research elaboration, Bloomberg

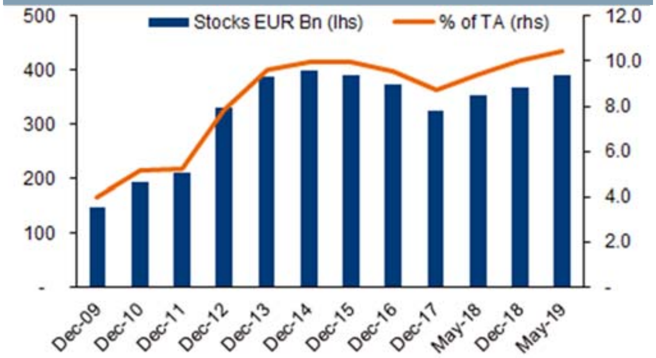
Exposure to Italian Govies

Italian banks' exposures to Italian govies: Uptrend in 2018 and 2019

At the end of March 2019, Italian Govies held by domestic banks totalled EUR 391.5Bn (notional), higher by 6.3% YTD on average, and up 10.9% yoy. They represented some 10.5% (+0.4pp YTD, +1.1pp yoy) of the banks' total assets.

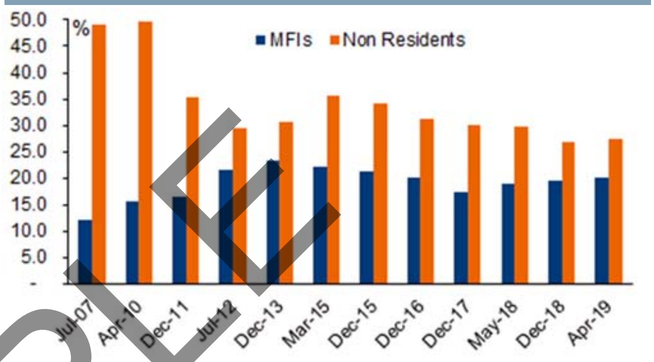
Moreover, we note that Italian banks' share of total Italian government bonds, equating to 20.2% (as at end April 2019), increased further in 2019 to-date (+0.6pp vs YE18) but at a lower pace than in 2018 (+2.2pp yoy). Non-residents also increased their share (+0.6pp YTD), in contrast to the downtrend in 2018 (-3.2% yoy).

Italian banks – Italy Government bonds (trend): Stocks and as % of Total Assets



Source: Intesa Sanpaolo Research elaboration, Bank of Italy

Share (%) of Italian Govies debt by Italian MFIs and Non-residents



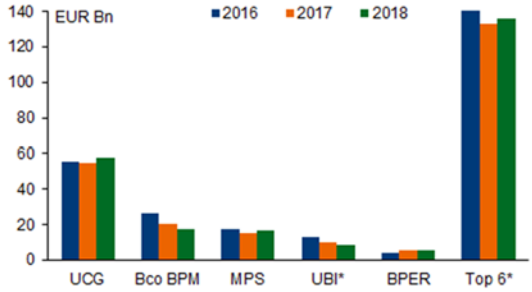
Source: Intesa Sanpaolo Research elaboration, Bank of Italy

Top 6 Italian banks Italian Govies as at end-4Q18

In terms of the Top 6 Italian banks, after declining in 2017, at end-4Q18 Italian government bonds held rose by 1.9% yoy on average to some EUR 136Bn (book value), or by 6.9% (+0.2pp yoy) as a ratio to total assets. Italian govies represented some 58.3% (+1.3pp yoy) on average of the total government bond portfolio. In terms of accounting classification, they represented 54.8% in the FVTOCI category, on average, significantly (22.6%) lower yoy, in favour of an increase by 15.1% yoy in the AC category at 35.8%, and to a minor extent by 7.5% yoy to 9.4% in the FVTPL.

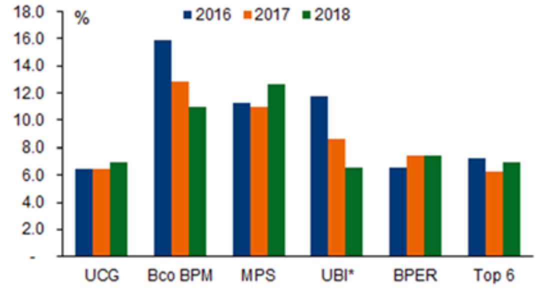
However, we note a high fragmentation among the Top 5 banks under our coverage. In particular, Unicredit showed the lowest level of Italian Govies to total assets (7%) as well as the highest diversification at 49.5% of total govies, compared to MPS at the highest level of 12.6% of TA and 94.9% of total govies. In addition, by booking category, Unicredit showed the highest level in FVTOCI at 63.3%, whilst BPER the highest level in AC at 71%.

Top 6 Banks: Italian government bonds stocks (EUR Bn) – Trend



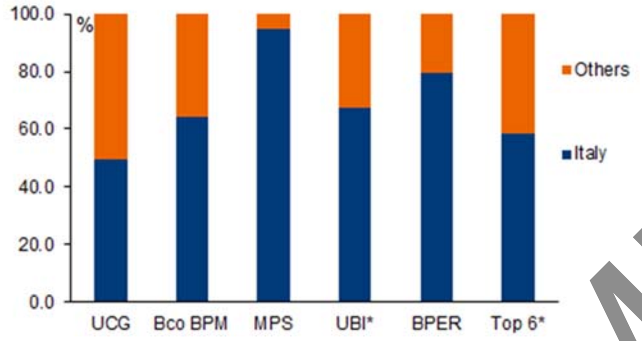
ISP included in the average, but not shown in the charts. Note: (*) ISP and UBI, excluding insurance sector's govies' exposure. Source: Intesa Sanpaolo Research elaborations on Companies' data

Top 6 Banks: Italian government bonds as % of Total assets - Trend



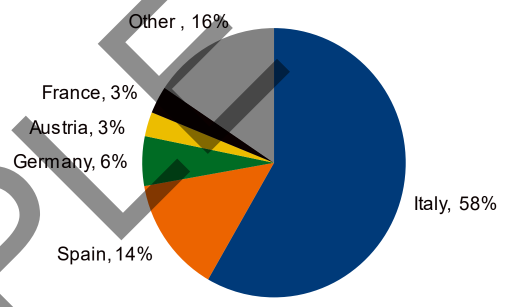
ISP included in the average, but not shown in the charts. Note: (*) ISP and UBI, excluding insurance sector's govies' exposure. Source: Intesa Sanpaolo Research elaborations on Companies' data

Top 6 banks - Italy government bonds vs Other government bonds (as % of total) (as at 4Q18)



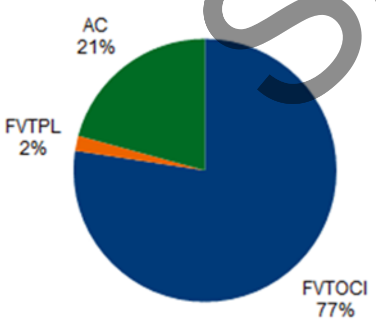
ISP included in the average, but not shown in the charts. Note: (*) ISP and UBI, excluding insurance sector's govies' exposure. Source: Intesa Sanpaolo Research elaborations on Companies' data

Top 6 banks - Government bonds by geography as a % of Total government bonds (4Q18)



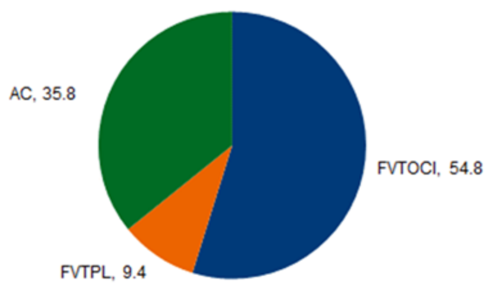
ISP and UBI, excluding insurance sector's govies' exposure. Source: Intesa Sanpaolo Research elaborations on Companies' data

Top 6 banks - Italian government bonds by booking as a % of total (4Q17)



ISP and UBI, excluding insurance sector's govies' exposure. Source: Intesa Sanpaolo Research elaborations on Companies' data

Top 6 banks - Italian government bonds by booking as a % of total (4Q18)



ISP and UBI, excluding insurance sector's govies' exposure. Source: Intesa Sanpaolo Research elaborations on Companies' data

Top 6 banks - Italian government bonds by booking (as at 4Q18)

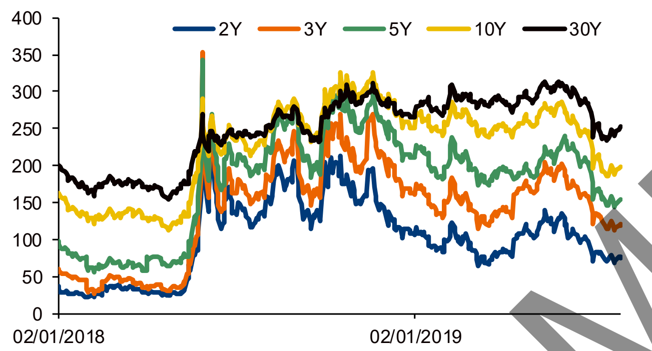
%	FVTOCI	FVTPL	AC	Total EUR Bn
Unicredit	63.3	5.0	31.7	58
Bco BPM	37.2	4.3	58.6	18
MPS	58.4	16.7	24.9	16
UBI*	0.0	62.0	38.0	8
BPER	23.9	7.3	71.0	5
Top 6*	54.9	9.4	35.8	136

ISP included in the average, but not shown in the charts. Note: (*) ISP and UBI, excluding insurance sector's govies' exposure. Source: Intesa Sanpaolo Research elaborations on Companies' data

Rising sovereign risk premium negatively impacts capital ratios of Italian banks

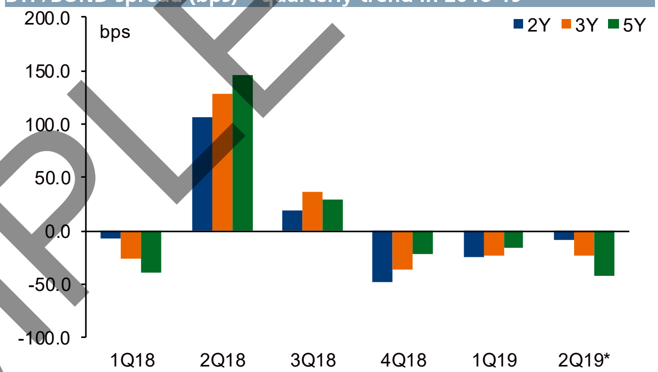
The significant increase in risk attached to Italian debt after the formation of the new populist government in May 2018 resulted in a widening of the BTP-Bund spread. Widening resurfaced (on 28 September) after the Italian government forecast a budget deficit of 2.4% for the next three years. In addition, spreads tightened at YE18, due to progress with the EU on the Budget Law for 2019.

BTP/Bund Spread – Trend 2018-19



Source: Intesa Sanpaolo Research elaboration, Bloomberg data

BTP/BUND spread (bps) – quarterly trend in 2018-19



Source: Company data

The widening of government bond yields in 2Q18 (+67bps in 10Y BTP/Bund spread) negatively impacted the capital ratios of the Top 6 Italian Banks at the end of September 2018, on the CET1 capital ratios (approximately -52bps in 2Q18 and -15bps in 3Q18), mainly through the FVOCI reserve. However, the impact was fragmented, based on the portfolio features and the accounting classification. In terms of banks under coverage, BPER showed the lowest impact (-25bps), whilst Banco BPM the highest (+84bps).

For now, we see that these impacts are manageable, on average for banks under coverage, but a further deterioration in sovereign yields could pose further challenges.

Top 6 banks: Government bonds' spread-widening impact on CET1 ratio as at 3Q18 (impact from FVOCI reserve)

Bank	FVOCI Impact 2Q18 (bps)	FVOCI Impact 3Q18 (bps)	CET1 ratio phase-in 3Q18 (%)	CET1 ratio FL 3Q18 (%)	2018 SREP target phase-in (%)
Unicredit	-35	-11	12.2	12.1	9.2
Bco BPM	-84	-23	13.2	11.2	8.9
MPS	-61	-20	12.5	10.3	9.4
UBI	-56	-12	11.8	11.4	8.6
BPER	-25	-9	14.7	12.0	8.1
Average	-52	-15	12.8	NA	NA

Source: Intesa Sanpaolo Research elaboration, Companies' data.

Peers Analysis

Italy vs. EU at 4Q18 and 1Q19

The European Banking Authority's (EBA) latest Risk Dashboards[3] (4Q18 data on 29 March 2019 and 1Q19 data on 4 July 2019), which summarise the main risks and vulnerabilities in the EU banking sector, reported the following trends for EU and Italian banks:

- EU banks continued to improve the overall quality of their loans portfolios in 4Q18, while their capital ratios remained strong and broadly stable. The risks remained heightened in terms of sustainable profitability, even though these showed signs of improvement. In 1Q19, the asset quality and capital ratios of EU banks were broadly stable YTD vs. YE18, while profitability in terms of ROE was unchanged year-on-year.
- Italian banks[4] further improved their credit quality in 2018, and at a faster pace than EU banks, but their capital ratios were down yoy, as was profitability. In 1Q19, Italian banks' credit quality improved even further and their capital ratios were also up on YE18, though profitability continued on a downward path. All in all, at the end of 1Q19 the credit risk and capitalisation of Italian banks remained weaker than EU banks on average, though they had reduced the gap somewhat.

EBA Risk Dashboard - Italian banks vs. EU banks - profitability ratios (1Q19)

%	ROE	Cost-income ratio	NII % revenues	Fees % revenues	Trading income % revenues
Italy	7.9	66.7	49.3	36.5	5.0
EU	6.8	66.3	58.2	28.2	16.5

Source: Intesa Sanpaolo Research elaboration, EBA Risk Dashboard data

EBA Risk Dashboard - Italian banks vs. EU banks - balance sheet ratios (at 31.03.2019)

%	CET1 ph-in	Leverage ratio ph-in	Gross NPL ratio	NPL coverage ratio	LCR
Italy	13.0	5.6	8.3	53.3	170.2
EU	14.7	5.4	3.1	45.1	152.7

Gross NPL ratio = non-performing loans to total gross loans and advances. Source: Intesa Sanpaolo Research elaboration, EBA Risk Dashboard data

EBA Risk Dashboard - Italian banks vs. EU banks - profitability ratios (4Q18)

%	ROE	Cost-income ratio	NII % revenues	Fees % revenues	Trading income % revenues
Italy	6.1	64.2	49.7	38.4	2.4
EU	6.5	64.6	58.7	28.7	3.1

Source: Intesa Sanpaolo Research elaboration, EBA Risk Dashboard data

EBA Risk Dashboard - Italian banks vs. EU banks - balance sheet ratios (at 31.12.2018)

%	CET1 ratio FL	Leverage ratio FL	Gross NPL ratio	NPL coverage ratio	LCR
Italy	11.8	5.2	8.3	53.4	148.3
EU	14.4	5.3	3.2	45.1	152.0

Gross NPL ratio = non-performing loans to total gross loans and advances. Source: Intesa Sanpaolo Research elaboration, EBA Risk Dashboard data

The major trends in the financials of EU banks in 4Q18/1Q19, and their comparison with Italian banks, were as follows:

- Capital ratios: EU banks' CET1 ratio fully loaded was broadly stable in 2018, and in 1Q19, at a high 14.5% on average. Country dispersion remained high, but all European member states reported CET1 ratios above 11% on average. Italian banks' capital ratio fully loaded declined by 1.2pp yoy to 11.8% on average in 4Q18, mainly because of IFRS 9 FTA, while increasing by 0.5pp qoq to 12.2% on average in 1Q19, hence slightly reducing the gap with EU banks.
- Asset quality: During 2018, the improvement in EU banks' asset quality continued, with gross non-performing loan (NPL) ratios at end-4Q18 down by 0.8pp yoy to 3.2% on average. This represented the lowest figure since 4Q14, due to the higher number of total loans granted and

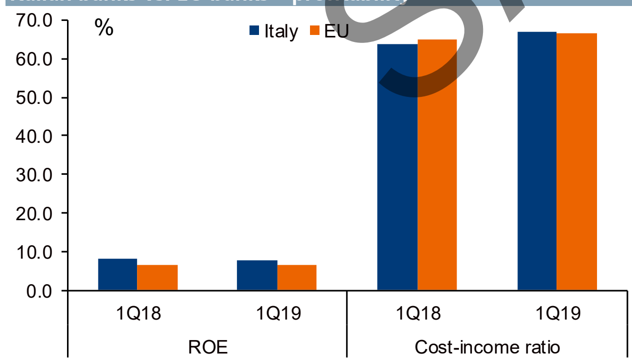
[3] Risk Dashboard data are based on a sample of 149 banks, covering approximately 90% of the EU banking sector (by total assets).
[4] Italian banks include 11 major Italian banks by total assets: Banca Carige, Banca MPS, Banca Popolare dell'Emilia Romagna, Banca Popolare di Sondrio, Banco BPM, Credito Emiliano Holding, ICCREA Banca, Intesa Sanpaolo, Mediobanca, Unicredit and UBI Banca.

to a steady decline in the stock of NPLs. The coverage ratio was slightly up, by 0.5pp yoy to 45.1% on average, at end-1Q19. The gross NPL ratio was broadly stable at 3.1% (-0.1pp qoq) and the coverage ratio remained unchanged at 45.1%. However, dispersion among the countries remained high, with gross NPL ratios ranging from 0.5% on average in Sweden to more than 41% on average in Greece. Italian banks' gross NPL ratios decreased significantly in 2018, falling by 28.8pp yoy to 8.3% on average, mainly due to a sizeable reduction in the overall amount of NPLs, while the NPL coverage ratio rose by 2.8pp yoy to 53.4% on average. At end-1Q19, the gross NPL ratio and NPL coverage ratio remained broadly stable YTD vs. YE18 at 8.3% and 53.3%, on average, respectively. Over the last two years the gap between Italian banks' gross NPL ratio and EU banks' gross NPL ratio has fallen to 5.2% (vs. 7.1% at YE17), while the positive gap in the coverage ratio has improved to 8.2% (vs. 6.0% at YE17).

- Profitability: **EU banks'** ROEs in 4Q18 remained weak, though rising slightly to 6.5% on average (+0.5pp yoy), while cost/income ratios worsened to 64.6% on average (+1.2pp yoy). At end-1Q19, ROE was stable yoy at 6.8% on average, and the cost/income ratio increased to 66.3% (+1.3pp yoy). Again, ROE dispersion among countries was high, with ROEs ranging from about 1.8% on average (Greece) to about 17.2% on average (Romania). **Italian banks reported declining ROE in 4Q18 to 6.1% (-2.9pp yoy),** while the cost/income ratio was broadly stable (+0.3pp yoy), at 64.2% on average. In 1Q19, ROE increased to 7.9% (+1.8pp YTD), with a positive gap vs. EU banks, while the cost/income ratio increased to 66.7% (+2.6pp YTD), higher than EU banks on average.

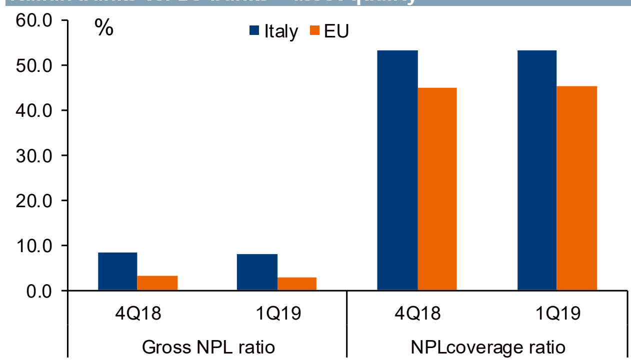
- Liquidity position: EU banks' liquidity positions improved further in 4Q18, with loan/deposit ratios (calculated on deposits from non-financial corporations and households) decreasing to 117.1% on average (-0.3pp yoy), mainly due to deposit growth, and liquidity coverage ratios (LCR) up to 152.0% on average (+3.8pp yoy), well above the regulatory threshold (100%). At end-1Q19, loan/deposit ratios decreased slightly further to 116.8% (-0.2pp YTD) and liquidity coverage ratios continued their uptrend to 152.7% (+0.7pp YTD). Liquidity position dispersion among countries was high, with the LCR ratio ranging from the minimum of 74% on average (Greece), the only one below the 100% regulatory threshold, to a maximum of more than 387% (Slovenia). Italian banks reported a decrease in the loan/deposit ratio to 117.0% on average (-3.4pp yoy), while LCRs decreased to 148.3% on average (-11.3pp yoy). At end-1Q19, their liquidity position had improved significantly, with loan/deposit ratios down to 111.2% (-5.8pp YTD) and LCRs rising to 170.2% (+22.6pp YTD). Overall, Italian banks' liquidity position showed a positive gap vs. EU banks.

Italian banks vs. EU banks – profitability



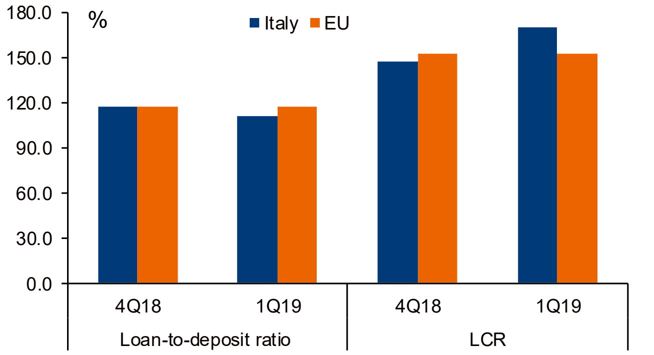
Return on equity (numerator annualised, denominator as average). Source: Intesa Sanpaolo Research elaboration, EBA

Italian banks vs. EU banks – asset quality



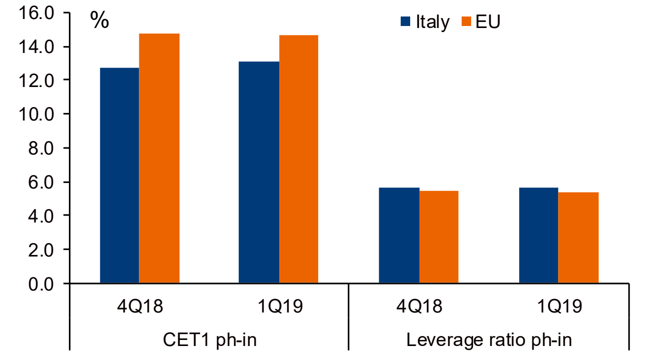
Gross NPL ratio = non-performing loans to total gross loans and advances. Source: Intesa Sanpaolo Research elaboration, EBA

Italian banks vs. EU banks – liquidity ratios



Loan-to-deposit ratio = loan/deposit ratio for households and non-financial corporations. Source: Intesa Sanpaolo Research elaboration, EBA

Italian banks vs. EU banks – capital and leverage ratios



Source: Intesa Sanpaolo Research elaboration, EBA

Performances of the Top 6 Italian banks as at 31 March 2019

Of the top six Italian banks[5], all apart from MPS and Banca BPER beat market consensus estimates in 1Q19.

Italian banks under coverage: 1Q19 net income vs. market consensus estimates*

1Q19 net income (EUR M)	Unicredit	Bco BPM	MPS	UBI	BPER
Actual	1,387	150	28	82	48
Market consensus*	1,287	145	30	48	72

(*) Market consensus estimates for Unicredit company gathered, FactSet for other banks. Source: Intesa Sanpaolo Research elaboration, Company data, FactSet

We highlight that in 2018, in aggregate, the Top 6 Italian banks reported rising profitability and significantly improved credit quality indicators. In addition, their liquidity positions remained healthy and their capital adequacy was above SREP targets, with manageable impacts from sovereign spread widening on capital.

In 1Q19 the Top 6 banks' profitability slightly worsened on average, mainly due to weakness in revenues, while operating costs continued a downtrend and the cost-of- risk normalised. Asset quality was broadly stable, liquidity remained healthy and capitalisation was solid and at adequate buffers over prudential targets.

The outlooks for 2019 (based on the managements of banks under coverage) remain rather benign overall, with a focus on fees growth. NII is set to remain resilient, mainly driven by repricing strategies. Operating costs are expected to move downwards and the cost of risk should remain under control at normalised levels.

Italian banks kicked off earnings season last week, with market consensus estimates (FactSet) guiding for profitability in 2Q19 to be up compared with 1Q19 for the Top 6 banks on aggregate, with all banks profitable (EUR 3.6Bn aggregate net income in 2Q19, according to FactSet, compared with EUR 2.75Bn in 1Q19), though still a high fragmentation among banks.

Among banks under our coverage Banca MPS announced results on 1 August 2019 and UBI Banca on 2 August.

[5] Top 6 = the six largest Italian commercial banking groups by total assets as at end-1Q19: Unicredit (UCG), Intesa Sanpaolo (ISP), Banco BPM (Bco BPM), MPS, UBI Banca (UBI) and Banca Popolare dell'Emilia Romagna (BPER)

Italian banks under our coverage - 2Q19 net income market consensus estimates*					
EUR M	UCG	Bco BPM	MPS	UBI	BPER
1Q19A	1,387	150	28	82	48
2Q19E*	2,133	413	29	102	42

(*) Market consensus estimates for Unicredit company gathered, FactSet for other banks. Source: Intesa Sanpaolo Research elaboration, company data, FactSet

In 1Q19, the Top 6 banks reported EUR 2.75Bn of aggregate net adjusted income (before badwill and goodwill), significantly below the EUR 3.1Bn recorded in 1Q18, with ROEs of 7.6% on average (-1.04pp yoy). Pre-provision income decreased by 9.6% on average, driven by all income components, while operating costs continued their downtrend, falling 3.7% yoy on average, benefiting from ongoing efficiency strategies. The cost/income ratio worsened and was up by 1.6pp yoy to 55.1% due to revenue declines. Net loan-loss provisions (LLPs) dropped significantly, by 14.6% yoy on average, while the cost of risk (annualised) was a low 45bps (-9pp yoy) on a recurring basis. Among the five major Italian banks under our coverage, Unicredit, Banco BPM, UBI and BPER beat market consensus estimates, while MPS was slightly below expectations.

Cuts in branch networks continued in 1Q19, with the Top 6 banks' branch numbers declining by 9.4% yoy, to some 15,857, while aggregate employees also reduced by 4.5% yoy, to some 253,862.

At the end of 1Q19, the Top 6 banks' asset quality improved further, with a 2.2% drop YTD vs. YE18 in gross NPEs, mainly due to lower net inflows to NPEs, while NPE coverage ratios increased by 0.2pp YTD to 54.2%. All in all, net NPEs declined by 2.7% YTD and the net NPE ratio was broadly stable (-0.1% YTD) at 4.5%, of which 1.8% related to bad loans. (For more details, see "Asset quality of Top 6 Italian banks on page 19 in this report).

Liquidity positions were confirmed as healthy, with LCR and NSFR averaging well above 100%, mainly due to the continuous support of client customer deposits. Finally, capitalisation was broadly stable, with CET1 ratios phased in at 12.7% (-7.7bps YTD) on average, or in a range of 11.2-13.5% fully loaded, more than the ECB's SREP CET1 requirements for 2019 of a range of 9.0-10.1%.

In this context, we note that there is fragmentation among banks, with Unicredit the outperformer, while MPS performed the worst.

Please refer to the following tables and graphs for peer analysis and to the company section of this report for more details on each bank.

Top 6 Italian banks: consolidated income statement – aggregate (trend)								
EUR M	1Q18	4Q18	1Q19	qoq %	yoy %	2017	2018	yoy %
Net interest income	6,172	6,189	6,032	-2.5	-2.3	24,691	24,911	0.9
Net commission/fee Income	5,262	5,106	4,913	-3.8	-6.6	20,566	20,513	-0.3
Core revenues	**11,434**	**11,295**	**10,945**	**-3.1**	**-4.3**	**45,256**	**45,424**	**0.4**
Net trading income	1,342	177	1,078	NM	-19.7	4,182	2,881	-31.1
Total income	**13,496**	**12,112**	**12,626**	**4.2**	**-6.4**	**51,922**	**51,150**	**-1.5**
Operating costs	7,222	7,614	6,954	-8.7	-3.7	30,270	29,027	-4.1
Gross operating profit	**6,274**	**4,498**	**5,672**	**26.1**	**-9.6**	**21,653**	**22,123**	**2.2**
Net loan losses provisions (LLPs)	1,586	3,199	1,354	-57.7	-14.6	14,696	8,451	-42.5
Net LLPs ordinary	1,586	2,539	1,354	-47.6	-14.6	18,041	13,423	-25.6
Pre-tax income	**4,182**	**873**	**4,309**	**NM**	**3.0**	**9,071**	**10,417**	**14.8**
Net income (loss)	**3,144**	**2,339**	**2,746**	**17.4**	**-12.7**	**12,770**	**8,991**	**-29.6**
Net income (loss) Adjusted*	**3,144**	**2,345**	**2,746**	**17.1**	**-12.7**	**6,383**	**8,996**	**41.0**

NM = Not meaningful. Source: Company data and Intesa Sanpaolo Research

Top 6 Italian banks: main financials by bank (trend)

P&L - 1Q19 yoy % change	UCG	Bco BPM	MPS	UBI	BPER	Top 6
Net interest income	0.7	-6.9	-3.0	1.8	-6.6	-2.3
Net commission/fee income	-5.3	-11.9	-11.7	-1.6	-2.8	-6.6
Core revenues	-1.7	-9.2	-7.3	0.2	-5.1	-4.3
Net trading income	-6.3	196.2	-29.6	10.2	-85.6	-19.7
Total income	-3.0	-4.7	-8.5	-0.5	-24.6	-6.4
Operating costs	-4.2	-3.6	-0.6	-4.4	2.0	-3.7
Gross operating profit	-1.6	-6.4	-23.3	6.4	-51.6	-9.6
Net loan-losses provisions (LLPs)	-5.6	-53.4	19.8	9.0	177.3	-14.6
Net LLPs ordinary	-5.6	-53.4	19.8	9.0	177.3	-14.6
Pre-tax income	47.3	-1.3	-121.1	-3.3	-76.8	3.0
Net income (loss)	24.7	-32.7	-85.1	-30.1	-80.9	-12.7
Net income (loss) adjusted*	24.7	-32.7	-85.1	-30.1	-80.9	-12.7
BS- YTD % change at end 1Q19	**UCG**	**Bco BPM**	**MPS**	**UBI**	**BPER**	**Top 6**
Loans to customers	0.0	2.4	2.9	-2.1	-1.1	0.4
of which net NPEs	-3.6	-2.0	-3.5	-3.6	-1.5	-2.7
Direct funding	-0.4	3.9	2.4	1.5	1.2	1.3
AUM	4.3	2.3	3.0	4.1	3.1	3.4
RWA	0.4	2.5	2.6	-3.0	-0.5	1.1

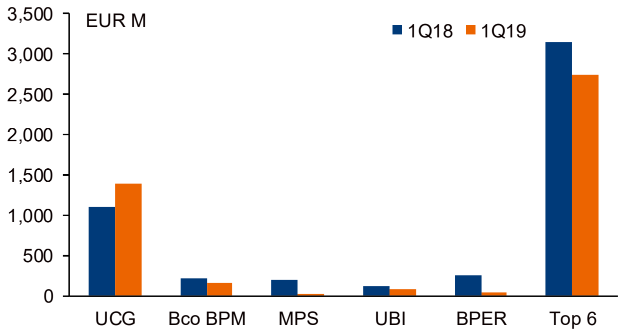
Intesa Sanpaolo included in the Top 6 aggregate data but not shown in the table. Note: (*) Adjusted is before public cash contribution, goodwill impairment and badwill. NM = Not meaningful. Source: Intesa Sanpaolo Research elaboration on companies' data

Top 6 Italian banks: main profitability and financial ratios by bank (growth rates)

Profitability ratios 1Q19 (%)	UCG	Bco BPM	MPS	UBI	BPER	Top 6
ROE adjusted*	9.8	5.8	1.2	3.6	4.4	7.6
ROA adjusted*	0.7	0.4	0.1	0.3	0.3	0.5
Cost-income ratio	52.8	62.6	70.9	61.1	68.2	55.1
NII/total income	53.5	46.8	51.0	48.4	55.3	47.8
Net fees/total income	33.4	39.4	44.7	43.6	38.9	38.9
Cost-of-risk (bps)	40	57	73	59	62	45
Cost-of-risk recurring (bps)	40	57	73	59	62	45
Financial ratios as at end-1Q19 (%)	**UCG**	**Bco BPM**	**MPS**	**UBI**	**BPER**	**Top 6**
Bad debt coverage ratio	72.8	59.6	61.4	49.1	67.1	66.0
Net bad debt ratio	1.2	1.5	3.6	3.1	3.1	1.8
NPE coverage ratio	61.8	43.6	53.1	39.1	54.6	54.2
Net NPE ratio	3.0	6.2	8.4	6.6	6.8	4.5
Loan-to-deposit ratio	84.6	97.4	96.4	93.0	91.9	90.6
LCR	>100	150	241	>100	156	>100
CET1 phase-in ratio	12.3	13.7	13.3	11.5	14.2	12.7
CET1 fully-loaded-in ratio	12.3	11.8	11.2	11.5	12.2	11.2-13.5
2019 SREP CET1	10.1	9.3	10.0	9.3	9.0	9-10.1

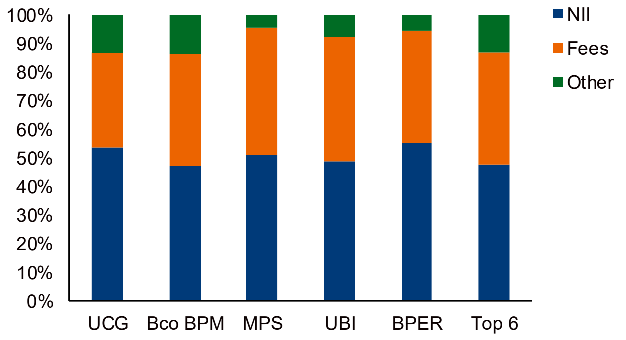
Intesa Sanpaolo included in the Top 6 aggregate data but not shown in the table. Note: (*) Adjusted is before public cash contribution, goodwill impairment and badwill Source: Company data and Intesa Sanpaolo Research

Top 6 Italian banks: net income (loss) adjusted* (trend)



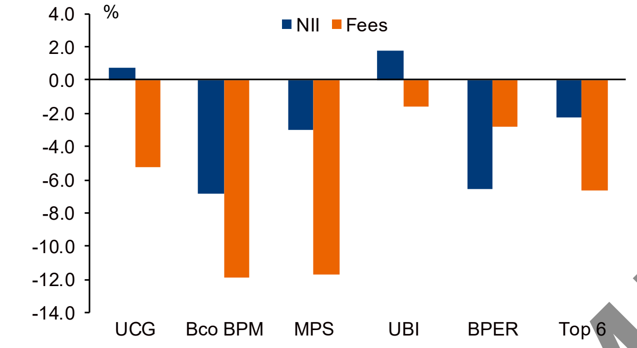
Intesa Sanpaolo included in the aggregate data but not shown in the graph. Note: (*) Before Public cash contribution, goodwill impairment and badwill. Source: Intesa Sanpaolo Research elaboration on companies' data

Top 6 Italian banks: total income composition (1Q19)



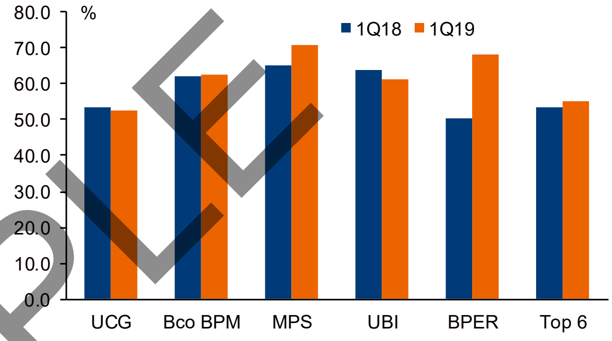
Intesa Sanpaolo included in the aggregate data but not shown in the graph. Source: Intesa Sanpaolo Research elaboration on companies' data

Top 6 Italian banks: NII and fees 1Q19 yoy % change



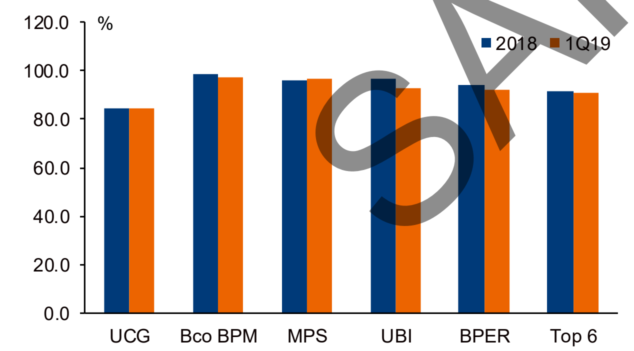
Intesa Sanpaolo included in the aggregate data but not shown in the graph. NII = net interest income. Source: Intesa Sanpaolo Research elaboration on companies' data

Top 6 Italian banks: cost/income ratio (trend)



Intesa Sanpaolo included in the aggregate data but not shown in the graph. NII = net interest income. Source: Intesa Sanpaolo Research elaboration on companies' data

Top 6 Italian banks: loan/deposit ratios (trend)



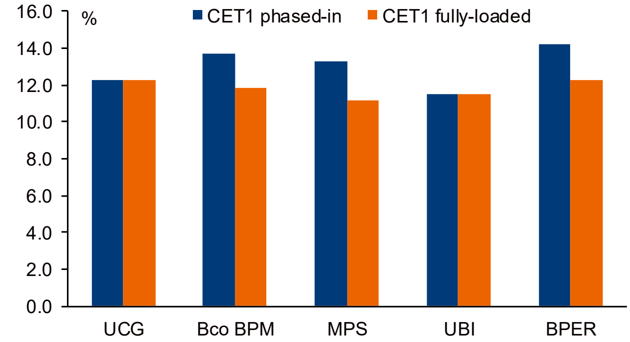
Intesa Sanpaolo included in the aggregate data but not shown in the graph. Source: Intesa Sanpaolo Research elaboration on companies' data

Banks under our coverage: liquidity ratios (at 31.03.2019)

%	LCR	NSFR
Unicredit	> 100	> 100
Banco BPM	150	> 100
MPS	241	111.0
UBI	> 100	> 100
BPER	156	> 100
Top 6	> 100	> 100

Source: Intesa Sanpaolo Research elaboration on companies' data

Top 5 Italian banks under coverage: CET1 ratios (end-1Q19)



Source: Intesa Sanpaolo Research elaboration on companies' data

Top 6 Italian banks: CET1 ratios (as at 31.03.2019) vs. ECB SREP target for 2019 (phased in and fully-loaded)

				Buffer over SREP (bps)	
%	**SREP Pillar 1**	**SREP Pillar 2**	**SREP CET1**	**CET1 Ph-in**	**CET1 FL**
Unicredit	8.1	2.0	10.1	218	218
Banco BPM	7.1	2.3	9.3	440	251
MPS	7.0	3.0	10.0	328	120
UBI	7.0	2.3	9.3	227	222
BPER	7.0	2.0	9.0	523	324
Top 6	7.0-8.1	1.5-3.0	9.0-10.1	218-523	120-450

Source: Intesa Sanpaolo Research elaboration on companies' data

Companiy Section

Banco BPM: Credit View NEUTRAL

(Moody's Ba2/Negative, Fitch -)

	CB	GGB	Sen Uns	SNP	Sub	Jun Sub	Hybrid
IG	**HOLD**	-	-	-	-	-	-
HY	-	-	**HOLD**	-	**HOLD**	-	**HOLD**
Unrated	-	-	-	-	-	-	-

Key Credit Drivers

- **We see the lack of the announced revamping of commercial business activity as a major negative takeaway from Banco BPM's 1Q19 results. However, the solidity of its balance sheet was confirmed.**
- **For 2019, Banco BPM management reiterated the recovery in core revenues in the coming quarters. Cost-of-risk is targeted to remain at normalised levels and the capital base should remain solid.**
- **Banco BPM will approve its new business plan by YE19. With respect to its growth strategy, we note that Banco BPM is keen to evaluate M&A deals, the timing of which is uncertain.**
- **On 28 May 2019, Moody's upgraded its ratings on Banco BPM's subordinated and hybrid debt by one notch while affirming the rating on the LT Senior unsecured debt, with a Negative outlook.**

Outperformer[1] YTD (based on credit spread change, price for T1/AT1)			
CB	BAMIIM 1 1/8 09/23	T2 (fx)	BAMIIM 6 3/8 05/21
Senior (fx)	BAMIIM 2 3/4 7/20	T1/AT1	BAMIIM 8 3/4 PERP

Underperformer[1] YTD (based on credit spread change, price for T1/AT1)			
CB	BAMIIM 1 01/25	T2 (fx)	BAMIIM 6 11/20
*Senior (fx)	BAMIIM 2 3/22	T1/AT1	BAMIIM Float PERP

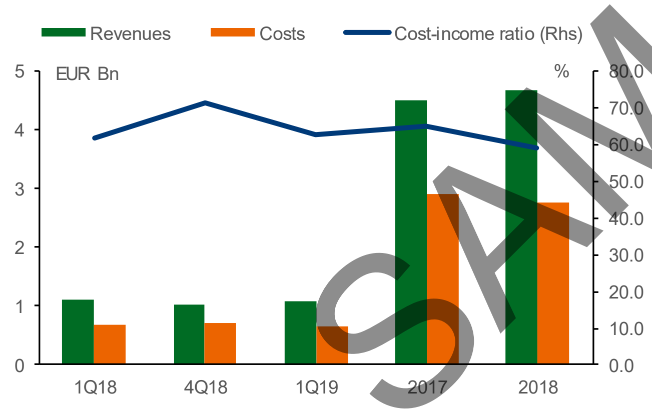
Strengths

- Third-largest Italian bank by total assets, mainly rooted in the wealthiest area of northern Italy.
- Solid liquidity position.
- Capital ratios satisfactorily above regulatory requirements.

Weaknesses

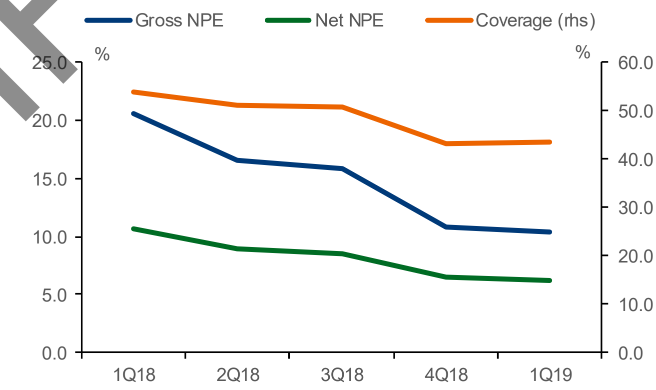
- Asset quality still weaker than that of peers, despite recent accelerated run-down.
- Sizeable exposure to Italian government bonds.
- Business mostly concentrated in Italy, with a focus on SMEs.

Cost/income ratio (trend)



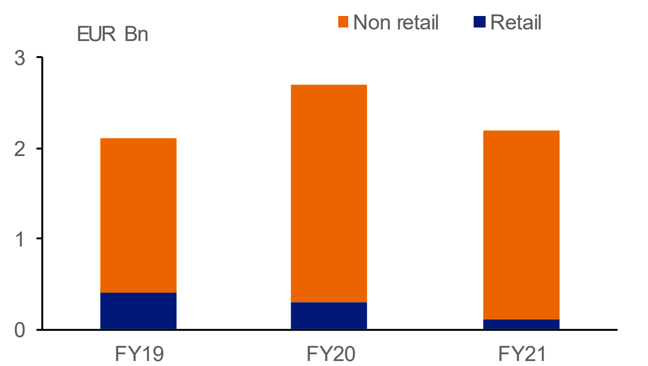
Source: Intesa Sanpaolo Research elaboration on company data

Gross and net NPE ratios and coverage ratios (trend)



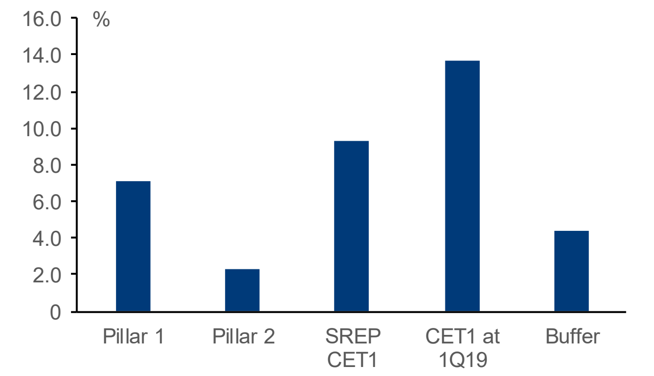
Source: Intesa Sanpaolo Research elaboration on company data

Bond maturity profile, 2019-21 (FY)



Source: Intesa Sanpaolo Research elaboration on company data

CET1 ratio 1Q19 vs SREP targets for 2019 (phased-in)



Source: Intesa Sanpaolo Research elaboration on company data

1. List of Banco BPM's bonds in Appendix 2 (page 52, 53, 54, 55)

Maria Grazia Antola
Credit Research Analyst
+39 02 8794 1114

Banco BPM in Brief

Banco BPM S.p.A. operate as a bank. It offers private and corporate banking, loans, e-banking, investment, and other related services. Banco BPM serves customers in Italy.

Consolidated income statement - Main items

EUR M	1Q18	4Q18	1Q19	qoq %	yoy %	FY17	FY18	yoy %
Net Interest Income	536	534	499	-6.6	-6.9	2,082	2,149	3.2
Net Commission/Fee Income	477	470	420	-10.6	-11.9	1,950	1,849	-5.2
Core Revenues	1,013	1,004	919	-8.5	-9.2	4,033	3,998	-0.9
Net Trading Income	29	-74	87	NM	196.2	155	82	-46.9
Total Income	1,119	1,013	1,067	5.4	-4.7	4,499	4,672	3.8
Operating Costs	693	723	668	-7.6	-3.6	2,911	2,763	-5.1
Gross Operating Profit	426	290	399	37.6	-6.4	1,588	1,909	20.2
Net loan-losses provisions (LLPs)	326	987	152	-84.6	-53.4	1,858	1,941	4.5
Pre-tax income	251	-916	248	-127.1	-1.3	-397	-220	-44.7
Net income (Loss)	223	-584	150	-125.8	-32.7	2,616	-59	-102.3
Net income (loss) adjusted[1]	223	-581	150	-125.9	-32.7	558	-57	-110.1

Note: [1] Before public cash contribution, impairment on goodwill and badwill. NA = not available, NM = not meaningful. Source: Intesa Sanpaolo Research elaborations on company data

Consolidated balance sheet - Main items

ASSETS (EUR M)	31.03.18	31.12.18	31.03.19	YTD %	yoy %
Cash and cash equivalents	830	922	804	-12.8	-3.2
Financial assets and hedging derivatives	36,280	36,853	38,957	5.7	7.4
Due from banks	5,670	4,193	5,123	22.2	-9.7
Loans to customers	106,168	104,015	106,470	2.4	0.3
Equity investments	1,369	1,434	1,358	-5.3	-0.8
Tangible and intangible assets	4,060	4,054	4,803	18.5	18.3
Tax assets	4,852	5,012	4,944	-1.4	1.9
Other assets	3,023	3,982	3,381	-15.1	11.8
Total Assets	162,253	160,465	165,839	3.3	2.2

LIABILITIES & SHAREHOLDERS' EQUITY (EUR M)	31.03.18	31.12.18	31.03.19	YTD %	yoy %
Due to banks	29,555	31,634	31,400	-0.7	6.2
Due to customers and debt securities in issue	107,056	105,220	109,319	3.9	2.1
Trading liabilities and hedging derivatives	8,414	7,229	8,616	19.2	2.4
Tax liabilities	663	505	512	1.3	-22.8
Other liabilities	5,435	5,572	5,429	-2.6	-0.1
Minorities	55	46	44	-3.5	-19.8
Shareholders' equity	11,074	10,259	10,519	2.5	-5.0
Total Liabilities and Shareholders' Equity	162,253	160,465	165,839	3.3	2.2

Note: NA = not available, NM = not meaningful. Source: Intesa Sanpaolo Research elaborations on company data

Key consolidated economic - financial indicators (historical trend)

Profitability ratios (%)	2015	2016	2017	2018	1Q19
ROE Adjusted[1]	5.5	NM	6.0	NM	5.8
ROA Adjusted[1]	0.4	NM	0.3	NM	0.4
Cost/income ratio (excl. Systemic charges)	59.7	74.6	64.7	59.1	62.6
Asset Quality ratios (%)	**2015**	**2016**	**2017**	**2018**	**1Q19**
Net bad debt ratio	7.1	7.1	6.0	1.5	1.5
Cost of risk (bps)	103	268	172	187	57
Liquidity ratios (%)	**2015**	**2016**	**2017**	**2018**	**1Q19**
Loan/deposit ratio	94.2	94.7	100.2	98.9	97.4
LCR (Liquidity Coverage Ratio)	180.9	219.9	125.6	150.0	150.0
NSFR (Net Stable Funding Ratio)	NA	NA	NA	NA	NA
Capital Structure and Solvency ratios (%)	**2015**	**2016**	**2017**	**2018**	**1Q19**
CET1 phase-in ratio	12.4	12.3	12.4	13.5	13.7
CET1 fully-loaded	NA	11.4	11.9	11.5	11.8
SREP CET1	NA	NA	8.2	8.9	9.3
Tier 1 ratio	12.7	12.5	12.7	13.7	14.4
TC ratio	15.2	14.9	15.2	16.2	16.6
Leverage phase-in ratio	NA	NA	NA	NA	NA
Leverage fully-loaded ratio	NA	NA	NA	NA	NA
Operating structure	**2015**	**2016**	**2017**	**2018**	**1Q19**
Branches	2,348	2,349	2,320	1,804	1,804
of which in Italy	2,348	2,349	2,320	1,804	1,804
Employees	25,073	24,608	23,263	22,247	22,175

Note:1. Before Public cash contribution, impairment on goodwill and badwill. NA = not available, NM = not meaningful. Source: Intesa Sanpaolo Research elaborations on company data

BPER: Credit View NEUTRAL

(Moody's Ba3/Positive, Fitch BB/Positive)

	CB	GGB	Sen Uns	SNP	Sub	Jun Sub	Hybrid
IG	**HOLD**	-	-	-	-	-	-
HY	-	-	-	-	**HOLD**	-	-
Unrated	-	-	-	-	-	-	-

Key Credit Drivers

- **BPER's 1Q19 results were mixed, pointing to top-line revenues weakness, whilst the cost-of-risk was reported at a normalised level and capital was confirmed to be solid, with a healthy liquidity position as well.**
- **NPLs rundown was reported to be progressing on schedule with the 2019-2021 strategic plan announced in February. However, we see BPER's asset quality targets as somewhat weak and behind those of peers.**
- **Announced extraordinary transactions (acquisition of the minority stake of BdS and of 100% of Unipol Banca, the disposal of EUR 1Bn in bad loans, and the increase of the stake in Arca) are reported to be progressing on schedule.**
- **For 2019, BPER's management targets improving profitability, driven by higher NII and fees and lower operating costs. Strategy wise, we expect BPER to be part in the expected consolidation process of the Italian banking system.**

Outperformer [1]YTD (based on credit spread change, price for T1/AT1)			
CB	BPEIM 0 7/8 01/22	T2 (vr)	NA*
Senior (fx)	-	T1/AT1	-

Underperformer [1]YTD (based on credit spread change, price for T1/AT1)			
CB	BPEIM 1 1/8 4/26	T2 (vr)	NA*
Senior (fx)	-	T1/AT1	-

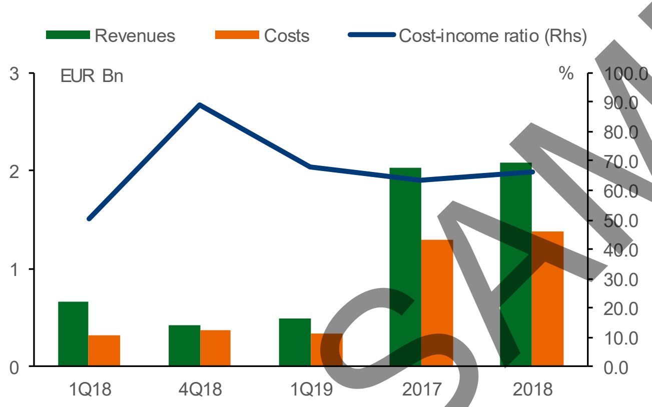
Strengths

- Sixth-largest Italian bank by total assets, nationwide spread, deeply rooted in its home region of northern Italy.
- Ample liquidity, driven by retail funding.
- Sound capitalisation, well above the ECB's SREP targets.

Weaknesses

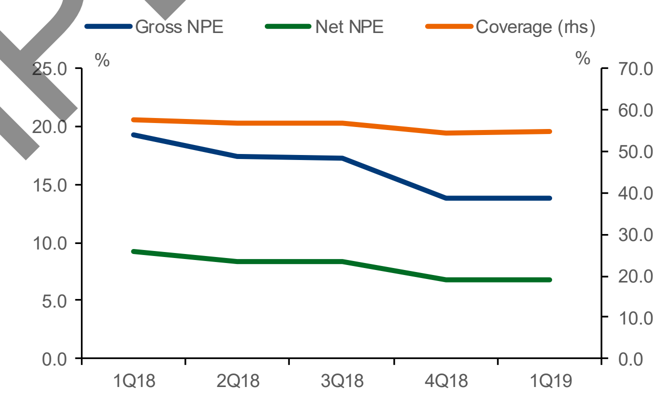
- Poor asset quality, despite accelerated NPLs run-down strategy which is ongoing.
- Costs structurally high.
- Exposure to fragile economies of Italy's southern regions.

Cost/income ratio (trend)



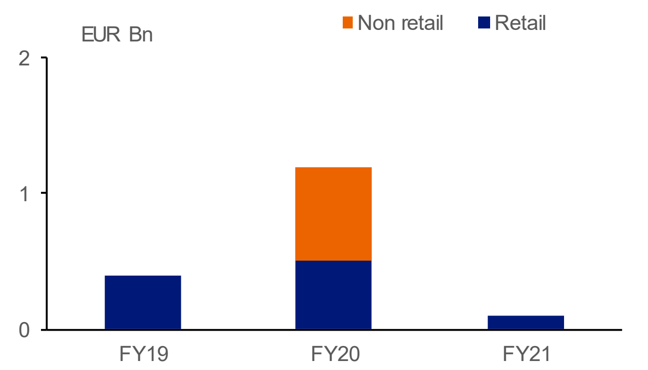
Source: Intesa Sanpaolo Research elaboration on company data

Gross and net NPE ratios and coverage ratios (trend)



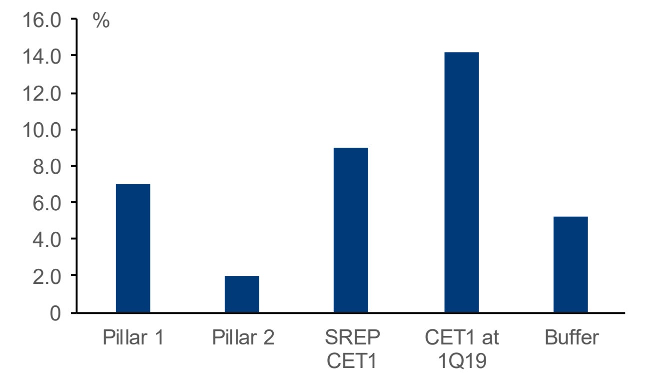
Source: Intesa Sanpaolo Research elaboration on company data

Bond maturity profile, 2019-21 (FY)



Source: Intesa Sanpaolo Research elaboration on company data

CET1 ratio 1Q19 vs SREP targets for 2019 (phased-in)



Source: Intesa Sanpaolo Research elaboration on company data

1. List of BPER's bonds in Appendix 2 (page 53, 55)
***NA = Not Applicable for only one benchmark bond**

Maria Grazia Antola
Credit Research Analyst
+39 02 8794 1114

BPER in Brief

BPER Banca S.p.A. operates as a retail and corporate bank. It offers loans, credit cards, pension plans, investment funds, insurance, asset management, and online trading services. BPER serves customers in Italy.

Consolidated income statement - Main items								
EUR M	1Q18	4Q18	1Q19	qoq %	yoy %	FY17	FY18	yoy %
Net Interest Income	293	272	274	0.6	-6.6	1,124	1,122	-0.2
Net Commission/Fee Income	198	199	193	-3.3	-2.8	741	776	4.8
Core Revenues	491	472	466	-1.1	-5.1	1,865	1,899	1.8
Net Trading Income	154	-87	22	-125.4	-85.6	103	104	0.9
Total Income	657	419	495	18.3	-24.6	2,039	2,081	2.1
Operating Costs	331	372	338	-9.2	2.0	1,297	1,383	6.7
Gross Operating Profit	326	47	158	NM	-51.6	742	698	-5.9
Net loan-losses provisions (LLPs)	26	71	72	2.7	177.3	536	226	-57.9
Pre-tax income	272	-58	63	NM	-76.8	8	346	NM
Net income (Loss)	251	44	48	9.5	-80.9	176	402	127.8
Net income (loss) adjusted[1]	251	44	48	9.5	-80.9	-14	402	NM

Note:[1] Before public cash contribution, impairment on goodwill and badwill. NA = not available, NM = not meaningful. Source: Intesa Sanpaolo Research elaborations on company data

Consolidated balance sheet - Main items					
ASSETS (EUR M)	31.03.18	31.12.18	31.03.19	YTD %	yoy %
Cash and cash equivalents	337	460	363	-21.0	7.6
Financial assets and hedging derivatives	15,200	17,191	17,405	1.2	14.5
Due from banks	3,496	1,541	2,173	41.1	-37.8
Loans to customers	45,404	47,051	46,512	-1.1	2.4
Equity investments	456	446	450	0.9	-1.3
Tangible and intangible assets	1,557	1,509	1,708	13.2	9.7
Tax assets	1,742	1,886	NA	NA	NA
Other assets	747	552	NA	NA	NA
Total Assets	68,938	70,635	71,097	0.7	3.1
LIABILITIES & SHAREHOLDERS' EQUITY (EUR M)	31.03.18	31.12.18	31.03.19	YTD %	yoy %
Due to banks	12,626	13,126	13,034	-0.7	3.2
Due to customers and debt securities in issue	48,919	49,996	50,621	1.2	3.5
Trading liabilities and hedging derivatives	334	236	375	58.6	12.1
Tax liabilities	109	63	NA	NA	NA
Other liabilities	2,115	2,317	NA	NA	NA
Minorities	494	507	510	0.5	3.3
Shareholders' equity	4,341	4,389	4,451	1.4	2.5
Total Liabilities and Shareholders' Equity	68,938	70,635	71,097	0.7	3.1

Note: NA = not available, NM = not meaningful. Source: Intesa Sanpaolo Research elaborations on company data

Key consolidated economic - financial indicators (historical trend)					
Profitability ratios (%)	2015	2016	2017	2018	1Q19
ROE Adjusted[1]	4.6	0.3	NM	10.1	4.4
ROA Adjusted[1]	0.4	0.0	NM	0.6	0.3
Cost/income ratio (excl. Systemic charges)	55.1	61.3	63.6	66.4	68.2
Asset Quality ratios (%)	2015	2016	2017	2018	1Q19
Net bad debt ratio	6.8	6.6	6.1	3.1	3.1
Cost of risk (bps)	162	136	113	48	62
Liquidity ratios (%)	2015	2016	2017	2018	1Q19
Loan/deposit ratio	94.2	95.8	94.8	94.1	91.9
LCR (Liquidity Coverage Ratio)	136.0	102.0	113.7	154.3	156.0
NSFR (Net Stable Funding Ratio)	111.0	104.3	105.2	106.8	NA
Capital Structure and Solvency ratios (%)	2015	2016	2017	2018	1Q19
CET1 phase-in ratio	11.5	13.8	13.9	14.3	14.2
CET1 fully-loaded	11.2	13.3	13.7	12.0	12.2
SREP CET1	NA	NA	7.3	8.1	9.0
Tier 1 ratio	11.6	13.9	14.0	14.4	14.3
TC ratio	12.8	15.2	16.7	17.2	17.2
Leverage phase-in ratio	7.1	6.7	6.1	6.0	6.0
Leverage fully-loaded ratio	6.9	6.5	6.0	5.0	5.2
Operating structure	2015	2016	2017	2018	1Q19
Branches	1,217	1,201	1,219	1,218	1,170
of which in Italy	1,216	1,200	1,218	1,218	1,170
Employees	11,447	11,635	11,653	11,615	11,613

Note:1. Before Public cash contribution, impairment on goodwill and badwill. NA = not available, NM = not meaningful. Source: Intesa Sanpaolo Research elaborations on company data

Banca MPS: Credit View NEGATIVE

(Moody's Caa1/Negative, Fitch B/Stable)

	CB	GGB	Sen Uns	SNP	Sub	Jun Sub	Hybrid
IG	HOLD	HOLD	-	-	-	-	-
HY	-	-	HOLD	-	SELL	-	-
Unrated	-	-	-	-	-	-	-

Key Credit Drivers

- **Banca MPS reported a rise in net income in 2Q19 qoq, beating market consensus, while profitability declined in 1H19 yoy, remaining very weak and reflecting a slow operating recovery.**
- **The de-risking effort is expected to accelerate further, however MPS' asset quality is still weak and worse than peers and its capital position is still vulnerable, in our view.**
- **For 2019, MPS' management has revised downwards its financial operating targets compared to the 2017-2021 restructuring plan due to the worsened current and expected economic scenarios.**
- **Overall, we see low visibility over MPS's strategy. The Italian government is set to announce its exit strategy from MPS by the end of this year, which should be finalised by 2021.**
- **Fitch, on 12 July 2019, confirmed all MPS' ratings and Stable outlook**

Outperformer[1] YTD (based on credit spread change, price for T1/AT1)			
CB(fx)	MONTE 1 1/4 1/22	T2 (fx)	NA*
Senior (fx)	-	T1/AT1	-

Underperformer[1] YTD (based on credit spread change, price for T1/AT1)			
CB(fx)	MONTE 2 1/8 11/25	T2 (fx)	NA*
Senior (fx)	-	T1/AT1	-

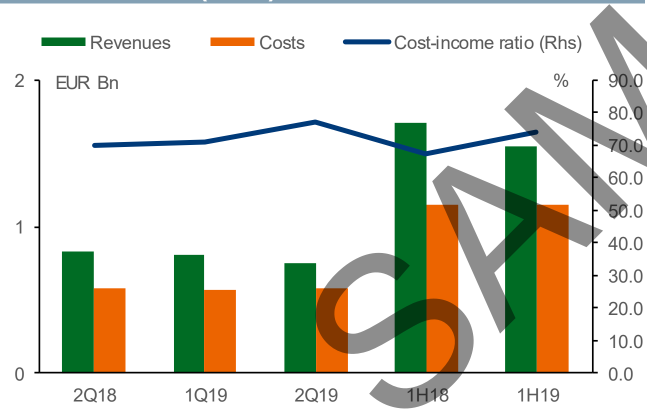
Strengths

- Fourth-largest Italian bank by total assets.
- Nationwide spread, with strong territorial roots in central Italy.

Weaknesses

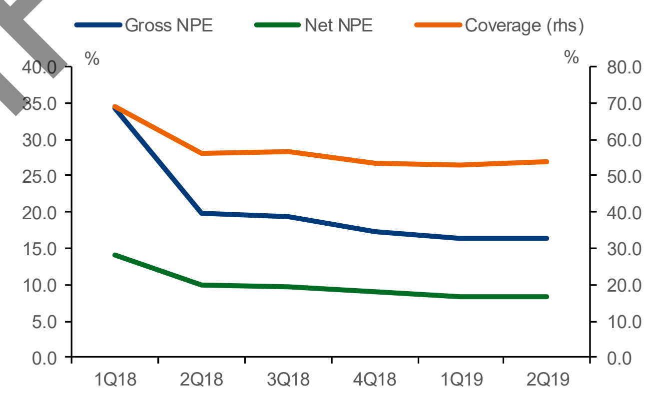
- Restructuring and recovery ongoing, but lagging behind plan targets due to a deteriorating macroeconomic scenario.
- Asset quality weak and worse than that of peers, despite the massive NPL run-down.
- Lack of access to the wholesale capital markets.

Cost/income ratio (trend)



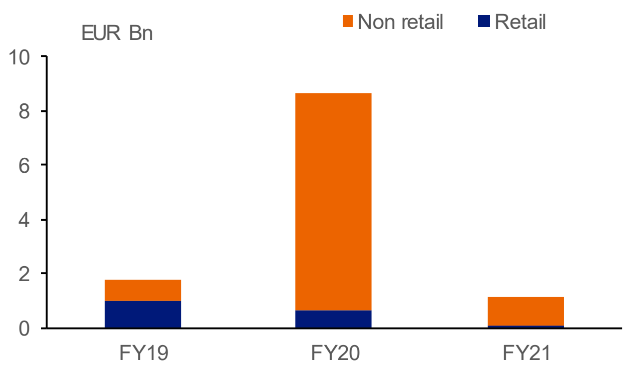
Source: Intesa Sanpaolo Research elaboration on company data

Gross and net NPE ratios and coverage ratios (trend)



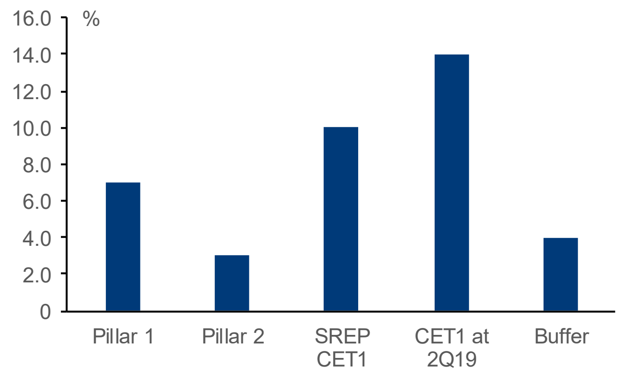
Source: Intesa Sanpaolo Research elaboration on company data

Bond maturity profile, 2019-21 (FY)



Source: Intesa Sanpaolo Research elaboration on company data

CET1 ratio 2Q19 vs SREP targets for 2019 (phased-in)



Source: Intesa Sanpaolo Research elaboration on company data

1. List of Banca MPS's bonds in Appendix 2 (page 53, 55)
***NA = Not Applicable for only one benchmark bond**

Maria Grazia Antola
Credit Research Analyst
+39 02 8794 1114

Banca MPS in Brief

Banca Monte dei Paschi di Siena S.p.A. provides credit, asset management services, insurance, mutual funds, internet banking, and investment banking services. It mainly serves customers in Italy.

Consolidated income statement - Main items								
EUR M	2Q18	1Q19	2Q19	qoq %	yoy %	1H18	1H19	yoy %
Net Interest Income	449	409	404	-1.1	-9.9	870	813	-6.5
Net Commission/Fee Income	403	359	364	1.4	-9.8	810	723	-10.7
Core Revenues	852	768	768	0.0	-9.8	1,680	1,536	-8.6
Net Trading Income	-30	27	14	-47.2	-147.0	8	41	NM
Total Income	832	802	747	-6.9	-10.3	1,709	1,549	-9.4
Operating Costs	581	569	577	1.4	-0.7	1,154	1,147	-0.7
Gross Operating Profit	251	233	170	-27.3	-32.4	555	403	-27.4
Net loan-losses provisions (LLPs)	108	164	87	-47.2	-19.8	245	251	2.3
Pre-tax income	80	-24	35	NM	-56.8	192	11	-94.2
Net income (Loss)	101	28	65	132.5	-35.5	289	93	-67.7
Net income (loss) adjusted[1]	101	28	65	132.5	-35.5	289	93	-67.7

PPA effects reclassified in a single income statement item. Note: [1] Before public cash contribution, impairment on goodwill and badwill. NA = not available, NM = not meaningful.
Source: Intesa Sanpaolo Research elaborations on company data

Consolidated balance sheet - Main items					
ASSETS (EUR M)	30.06.18	31.12.18	30.06.19	YTD %	yoy %
Cash and cash equivalents	721	951	650	-31.6	-9.9
Financial assets and hedging derivatives	29,257	20,565	19,892	-3.3	-32.0
Due from banks	8,636	12,504	12,474	-0.2	44.4
Loans to customers	87,010	86,856	87,484	0.7	0.5
Equity investments	897	923	958	3.8	6.8
Tangible and intangible assets	2,790	2,727	2,921	7.1	4.7
Tax assets	3,750	3,969	NA	NA	NA
Other assets	2,662	1,987	NA	NA	NA
Total Assets	135,723	130,481	131,539	0.8	-3.1
LIABILITIES & SHAREHOLDERS' EQUITY (EUR M)	30.06.18	31.12.18	30.06.19	YTD %	yoy %
Due to banks	20,795	21,986	21,137	-3.9	1.6
Due to customers and debt securities in issue	96,834	90,472	92,216	1.9	-4.8
Trading liabilities and hedging derivatives	3,174	3,942	2,972	-24.6	-6.3
Tax liabilities	59	22	NA	NA	NA
Other liabilities	5,865	5,065	5,875	16.0	0.2
Minorities	2	2	2	-9.1	-9.1
Shareholders' equity	8,995	8,992	9,336	3.8	3.8
Total Liabilities and Shareholders' Equity	135,723	130,481	131,539	0.8	-3.1

Note: NA = not available, NM = not meaningful. Source: Intesa Sanpaolo Research elaborations on company data

Key consolidated economic - financial indicators (historical trend)					
Profitability ratios (%)	2015	2016	2017	2018	1H19
ROE Adjusted[1]	4.2	NM	NM	3.2	2.0
ROA Adjusted[1]	0.2	NM	NM	0.2	0.1
Cost/income ratio (excl. Systemic charges)	50.4	61.2	63.2	71.5	74.0
Asset Quality ratios (%)	2015	2016	2017	2018	2Q19
Net bad debt ratio	8.7	9.7	8.3	3.7	3.6
Cost of risk (bps)	179	419	616	72	57
Liquidity ratios (%)	2015	2016	2017	2018	2Q19
Loan/deposit ratio	93.4	102.0	88.4	96.0	94.9
LCR (Liquidity Coverage Ratio)	222.0	107.7	199.5	190.2	201.0
NSFR (Net Stable Funding Ratio)	100.8	87.6	110.0	112.3	113.1
Capital Structure and Solvency ratios (%)	2015	2016	2017	2018	2Q19
CET1 phase-in ratio	12.0	8.2	14.8	13.7	14.0
CET1 fully-loaded	11.7	6.5	14.2	11.3	11.9
SREP CET1	NA	10.8	10.8	9.4	10.0
Tier 1 ratio	12.8	8.2	14.8	13.7	14.0
TC ratio	16.0	10.4	15.0	15.2	15.5
Leverage phase-in ratio	5.2	3.2	6.0	5.5	5.9
Leverage fully-loaded ratio	NA	NA	NA	NA	NA
Operating structure	2015	2016	2017	2018	2Q19
Branches	2,133	2,032	1,745	1,529	1,529
of which in Italy	2,133	2,032	1,745	1,529	1,529
Employees	25,731	25,566	23,463	23,129	22,223

Note:1. Before Public cash contribution, impairment on goodwill and badwill. NA = not available, NM = not meaningful. Source: Intesa Sanpaolo Research elaborations on company data

UBI Banca: Credit View NEUTRAL

(Moody's Baa3/Stable, Fitch BBB-/Negative)

	CB	GGB	Sen Uns	SNP	Sub	Jun Sub	Hybrid
IG	**HOLD**	-	**BUY**	-	-	-	-
HY	-	-	-	**BUY**	**BUY**	-	-
Unrated	-	-	-	-	-	-	-

Key Credit Drivers

- **UBI Banca delivered a satisfactory set of results for 2Q19, in our view, despite lower net income due to one-off charges. Pre-provision operating profitability improved , due to both resilient core revenues and lower operating costs.**
- **For 2019, amid a worse-than-expected macroeconomic scenario, UBI's management confirmed a rather benign outlook, including further de-risking. Balance sheet solidity was confirmed, with improved capital ratios.**
- **UBI is to announce its new business plan by YE19, a key point of which will be, in our view, the unveiling of its growth strategy going forward. We expect UBI to take part in the expected consolidation of the industry.**
- **Moody's on 30.07.2019 improved its outlook to Stable from Negative on senior LT unsecured debt.**

Outperformer[1] YTD (based on credit spread change, price for T1/AT1)

CB(fx)	UBIIM 1 01/23	T2 (vr)	UBIIM 4 1/4 05/26
Senior (fx)	UBIIM 0 3/4 10/22	T1/AT1	-

Underperformer[1] YTD (based on credit spread change, price for T1/AT1)

CB(fx)	UBIIM 3 1/8 10/20	T2 (vr)	UBIIM 4 3/8 07/29
Senior (fx)	UBIIM 1 1/2 04/24	T1/AT1	-

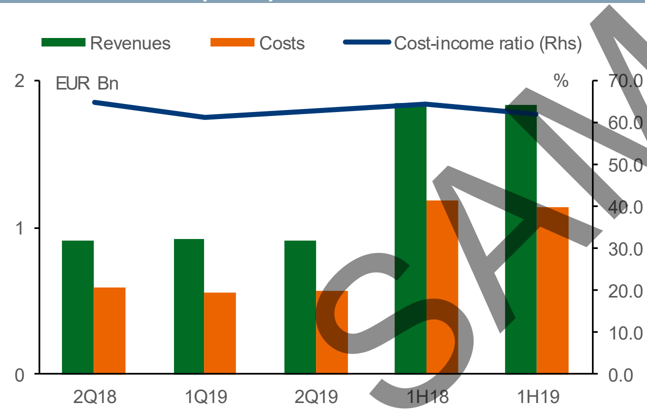
Strengths

- Fifth-largest Italian bank by total assets, with strong territorial roots in northern Italy.
- Good liquidity underpinned by a stable deposit base.
- Capital ratios satisfactorily above the SREP targets.

Weaknesses

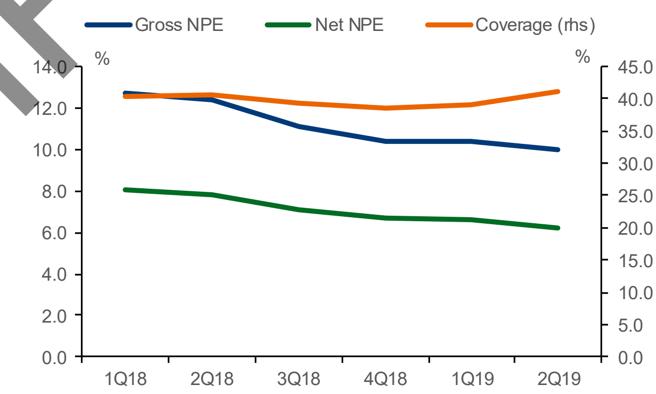
- Modest profitability, but looks to be improving.
- Operating cost structurally high, but on the downtrend.
- Business concentrated in Italy, mainly with SMEs.

Cost/income ratio (trend)



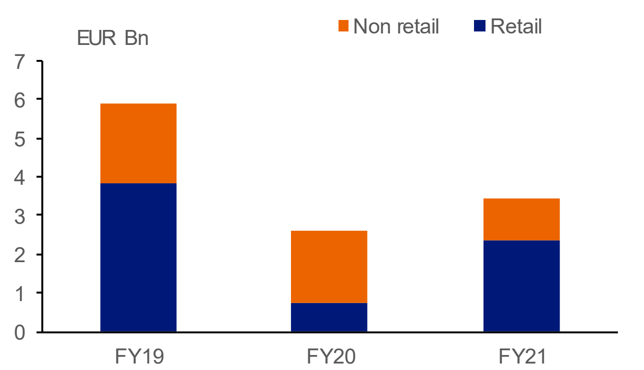
Source: Intesa Sanpaolo Research elaboration on company data

Gross and net NPE ratios and coverage ratios (trend)



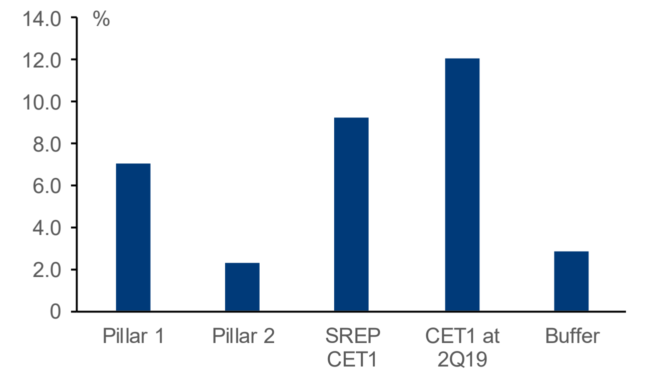
Source: Intesa Sanpaolo Research elaboration on company data

Bond maturity profile, 2019-21 (FY)



Source: Intesa Sanpaolo Research elaboration on company data

CET1 ratio 2Q19 vs SREP targets for 2019 (phased-in)



Source: Intesa Sanpaolo Research elaboration on company data

1. List of UBI Banca's bonds in Appendix 2 (page 52, 53, 55, 56)

Maria Grazia Antola
Credit Research Analyst
+39 02 8794 1114

UBI Banca in Brief

UBI Banca attracts deposits and offers business loans, pension and investment fund management, mortgages, insurance, and online securities brokerage services and banking. UBI Banca serves customers in Italy.

Consolidated income statement - Main items								
EUR M	2Q18	1Q19	2Q19	qoq %	yoy %	1H18	1H19	yoy %
Net Interest Income	459	446	441	-1.1	-3.9	896	886	-1.1
Net Commission/Fee Income	401	401	412	2.8	2.8	808	813	0.6
Core Revenues	859	847	853	0.7	-0.8	1,704	1,699	-0.3
Net Trading Income	22	37	18	-52.9	-20.2	56	55	-1.8
Total Income	915	921	908	-1.3	-0.8	1,841	1,829	-0.6
Operating Costs	593	563	569	1.2	-4.0	1,182	1,132	-4.2
Gross Operating Profit	322	358	339	-5.3	5.3	658	697	5.9
Net loan-losses provisions (LLPs)	144	129	263	104.6	83.1	262	392	49.7
Pre-tax income	156	182	65	-64.2	-58.1	344	247	-28.1
Net income (Loss)	91	82	49	-40.7	-46.6	209	131	-37.3
Net income (loss) adjusted[1]	91	82	49	-40.7	-46.6	209	131	-37.3

PPA effects reported line by line in income statement. Note: [1] Before public cash contribution, impairment on goodwill and badwill. NA = not available, NM = not meaningful. Source: Intesa Sanpaolo Research elaborations on company data

Consolidated balance sheet - Main items					
ASSETS (EUR M)	30.06.18	31.12.18	30.06.19	YTD %	yoy %
Cash and cash equivalents	616	735	617	-16.1	0.0
Financial assets and hedging derivatives	16,140	16,076	18,733	16.5	16.1
Due from banks	9,514	10,066	12,393	23.1	30.3
Loans to customers	91,343	88,988	86,074	-3.3	-5.8
Equity investments	241	254	267	5.0	11.0
Tangible and intangible assets	3,511	3,695	4,227	14.4	20.4
Tax assets	4,122	4,210	3,962	-5.9	-3.9
Other assets	1,417	1,282	1,207	-5.8	-14.8
Total Assets	126,904	125,306	127,480	1.7	0.5
LIABILITITES & SHAREHOLDERS' EQUITY (EUR M)	30.06.18	31.12.18	30.06.19	YTD %	yoy %
Due to banks	16,607	17,235	17,053	-1.1	2.7
Due to customers and debt securities in issue	95,010	92,211	94,787	2.8	-0.2
Trading liabilities and hedging derivatives	619	702	1,140	62.5	84.1
Tax liabilities	208	162	140	-13.6	-32.7
Other liabilities	5,427	5,782	5,076	-12.2	-6.5
Minorities	67	51	39	-22.5	-41.6
Shareholders' equity	8,965	9,163	9,244	0.9	3.1
Total Liabilities and Shareholders' Equity	126,904	125,306	127,480	1.7	0.5

Note: NA = not available, NM = not meaningful. Source: Intesa Sanpaolo Research elaborations on company data

Key consolidated economic - financial indicators (historical trend)					
Profitability ratios (%)	2015	2016	2017	2018	1H19
ROE Adjusted[1]	1.2	NM	0.6	4.9	2.9
ROA Adjusted[1]	0.1	NM	0.0	0.3	0.2
Cost/income ratio (excl. Systemic charges)	60.7	68.6	65.9	67.2	61.9
Asset Quality ratios (%)	2015	2016	2017	2018	2Q19
Net bad debt ratio	5.1	4.9	4.4	3.1	2.9
Cost of risk (bps)	95	176	79	72	91
Liquidity ratios (%)	2015	2016	2017	2018	2Q19
Loan/deposit ratio	92.4	96.1	97.8	96.5	90.8
LCR (Liquidity Coverage Ratio)	NA	NA	131.0	134.0	NA
NSFR (Net Stable Funding Ratio)	NA	NA	NA	NA	NA
Capital Structure and Solvency ratios (%)	2015	2016	2017	2018	2Q19
CET1 phase-in ratio	12.1	11.5	11.6	11.7	12.1
CET1 fully-loaded	11.6	11.2	11.4	11.3	12.0
SREP CET1	NA	NA	7.5	8.6	9.3
Tier 1 ratio	12.1	11.5	11.6	11.7	12.1
TC ratio	13.9	14.1	14.1	13.8	15.1
Leverage phase-in ratio	6.0	5.8	5.9	5.5	5.2
Leverage fully-loaded ratio	5.8	5.6	5.8	5.3	5.2
Operating structure	2015	2016	2017	2018	2Q19
Branches	1,554	1,524	1,838	1,648	1,638
of which in Italy	1,554	1,524	1,838	1,648	1,638
Employees	17,716	17,560	21,412	20,394	20,242

Note:1. Before Public cash contribution, impairment on goodwill and badwill. NA = not available, NM = not meaningful. Source: Intesa Sanpaolo Research elaborations on company data

Unicredit: Credit View NEUTRAL

(Baa1/Stable, BBB/Negative)

	CB	GGB	Sen Uns	SNP	Sub	Jun Sub	Hybrid
IG	HOLD	-	BUY	BUY	-	-	-
HY	-	-	-	-	BUY	-	HOLD
Unrated	-	-	-	-	-	-	-

Key Credit Drivers

- **Unicredit delivered a positive set of results for 1Q19, in our view, with profits remaining steady, mainly due to one-offs, lower operating costs and credit charges, but revenues continued to be weak.**
- **Unicredit expects to reach or even exceed financial targets set for 2019 and it is keen to implement financial measures to improve its guidance on the MDA buffer.**
- **On 3 December 2019, Unicredit is to unveil its new 2020-2023 strategic plan, a key pillar of which will be, in our view, the disclosure of its growth strategy going forward, regarding which we do not rule out M&A deals.**

Outperformer[1] YTD (based on credit spread change, price for T1/AT1)

CB(fx)	UCGIM 4 3/8 1/22	T2 (fx)	UCGIM 6 1/8 04/21
Senior (fx)	UCGIM 3 1/4 1/21	T1/AT1	UCGIM 5 3/8 PERP

Underperformer[1] YTD (based on credit spread change, price for T1/AT1)

CB(fx)	UCGIM 0 3/4 4/25	T2 (fx)	UCGIM 6.95 10/22
Senior (fx)	UCGIM 2 1/8 10/26	T1/AT1	UCGIM 9 3/8 PERP

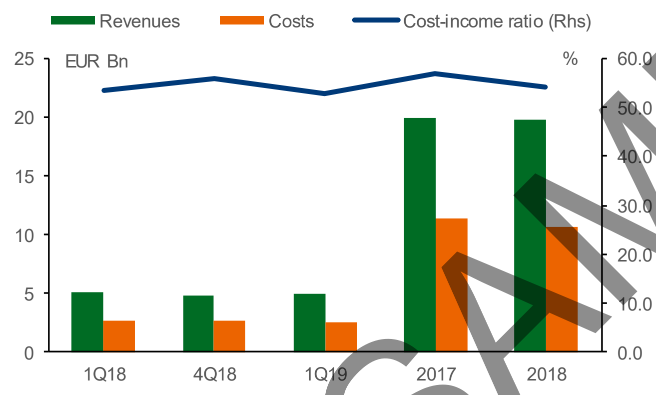
Strengths

- A leading European bank with a strong presence in 14 countries.
- High geographical and product diversification.
- Sound and diversified liquidity and flexible funding.
- Adequate capital buffers over prudential requirements.

Weaknesses

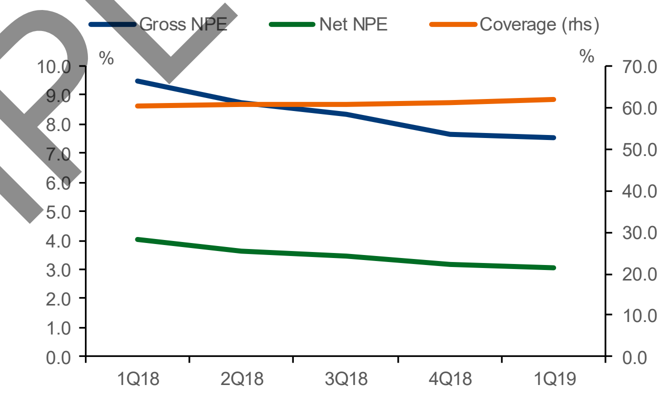
- Large, albeit markedly declining, stock of problem loans.
- High correlation with Italian domestic market, despite diversification.
- Turkey exposure hit by recession and political uncertainty.

Cost/income ratio (trend)



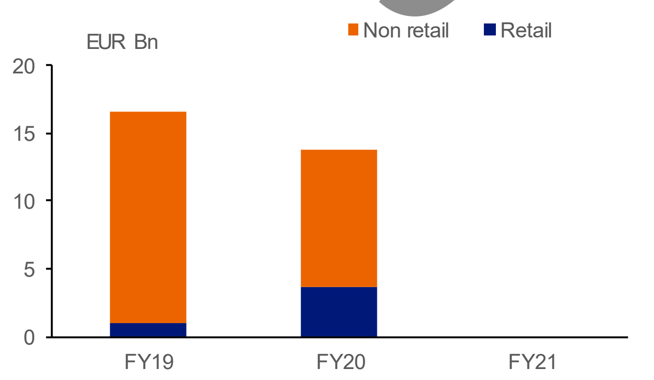
Source: Intesa Sanpaolo Research elaboration on company data

Gross and net NPE ratios and coverage ratios (trend)



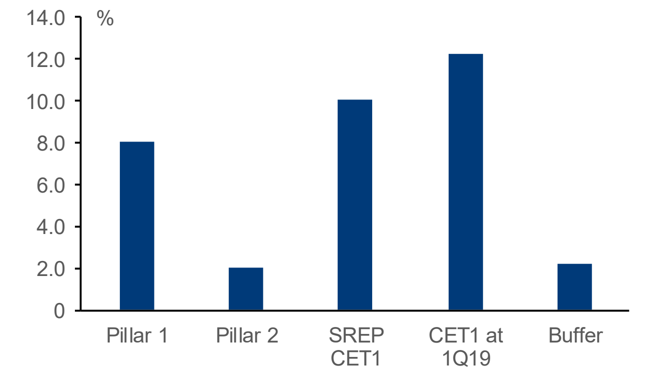
Source: Intesa Sanpaolo Research elaboration on company data

Bond maturity profile, 2019-21 (FY)



Data for FY21 are no available. Source: Intesa Sanpaolo Research elaboration on company data

CET1 ratio 1Q19 vs SREP targets for 2019 (phased-in)



2018 IFRS9 FTA impact not phased-in. Source: Intesa Sanpaolo Research elaboration on company data

1. **List of Unicredit's bonds in Appendix 2 (page 52, 53, 54, 55, 56)**

Maria Grazia Antola
Credit Research Analyst
+39 02 8794 1114

Unicredit in Brief

Unicredit S.p.A. offers consumer credit, mortgages, life insurance, business loans, investment banking, asset management, and other financial services. It operates on a worldwide basis.

Consolidated income statement - Main items								
EUR M	1Q18	4Q18	1Q19	qoq %	yoy %	FY17	FY18	yoy %
Net Interest Income	2,630	2,774	2,649	-4.5	0.7	10,633	10,835	1.9
Net Commission/Fee Income	1,747	1,657	1,655	-0.2	-5.3	6,695	6,755	0.9
Core Revenues	4,377	4,431	4,303	-2.9	-1.7	17,328	17,591	1.5
Net Trading Income	478	159	448	182.6	-6.3	1,817	1,245	-31.5
Total Income	5,105	4,850	4,952	2.1	-3.0	19,941	19,703	-1.2
Operating Costs	2,728	2,712	2,613	-3.7	-4.2	11,339	10,677	-5.8
Gross Operating Profit	2,377	2,138	2,339	9.4	-1.6	8,602	9,026	4.9
Net loan-losses provisions (LLPs)	496	923	468	-49.3	-5.6	2,939	2,620	-10.9
Pre-tax income	1,390	777	2,047	163.4	47.3	4,147	3,620	-12.7
Net income (Loss)	1,112	1,727	1,387	-19.7	24.7	5,473	3,893	-28.9
Net income (loss) adjusted[1]	1,112	1,727	1,387	-19.7	24.7	5,473	3,893	-28.9

PPA reclassified in a single income statement item. Note: [1] Before public cash contribution, impairment on goodwill and badwill. Source: Intesa Sanpaolo Research elaborations on company data

Consolidated balance sheet - Main items					
ASSETS (EUR M)	31.03.18	31.12.18	31.03.19	YTD %	yoy %
Cash and cash equivalents	49,944	30,991	31,991	3.2	-35.9
Financial assets and hedging derivatives	228,929	224,661	223,712	-0.4	-2.3
Due from banks	70,324	69,850	83,655	19.8	19.0
Loans to customers	441,783	471,839	471,653	0.0	6.8
Equity investments	NA	NA	NA	NA	NA
Tangible and intangible assets	12,471	11,916	14,217	19.3	14.0
Tax assets	12,110	13,078	13,096	0.1	8.1
Other assets	8,416	9,134	9,340	2.3	11.0
Total Assets	823,977	831,469	847,663	1.9	2.9
LIABILITIES & SHAREHOLDERS' EQUITY (EUR M)	31.03.18	31.12.18	31.03.19	YTD %	yoy %
Due to banks	125,177	125,895	136,882	8.7	9.4
Due to customers and debt securities in issue	550,328	560,141	557,797	-0.4	1.4
Trading liabilities and hedging derivatives	63,141	61,691	67,134	8.8	6.3
Tax liabilities	1,140	825	1,202	45.7	5.4
Other liabilities	26,300	26,149	25,814	-1.3	-1.8
Minorities	941	927	984	6.1	4.6
Shareholders' equity	56,950	55,841	57,851	3.6	1.6
Total Liabilities and Shareholders' Equity	823,977	831,469	847,663	1.9	2.9

Note: NA = not available, NM = not meaningful. Source: Intesa Sanpaolo Research elaborations on company data

Key consolidated economic - financial indicators (historical trend)					
Profitability ratios (%)	2015	2016	2017	2018	1Q19
ROE Adjusted[1]	3.5	NM	10.2	7.5	9.8
ROA Adjusted[1]	0.2	NM	0.7	0.5	0.7
Cost/income ratio (excl. Systemic charges)	65.0	63.6	56.9	54.2	52.8
Asset Quality ratios (%)	2015	2016	2017	2018	1Q19
Net bad debt ratio	4.4	2.5	2.2	1.2	1.2
Cost of risk (bps)	90	275	67	56	40
Liquidity ratios (%)	2015	2016	2017	2018	1Q19
Loan/deposit ratio	80.5	78.3	78.2	84.2	84.6
LCR (Liquidity Coverage Ratio)	NA	132.0	185.0	151.0	NA
NSFR (Net Stable Funding Ratio)	NA	NA	NA	NA	NA
Capital Structure and Solvency ratios (%)	2015	2016	2017	2018	1Q19
CET1 phase-in ratio	10.6	11.5	13.7	12.1	12.3
CET1 fully-loaded	10.9	11.2	13.6	12.1	12.3
SREP CET1	NA	9.8	8.8	9.2	10.1
Tier 1 ratio	11.5	12.4	15.4	13.6	13.9
TC ratio	14.2	15.0	18.1	15.8	16.4
Leverage phase-in ratio	4.7	4.9	5.7	5.1	5.0
Leverage fully-loaded ratio	4.5	4.7	5.6	4.9	5.0
Operating structure	2015	2016	2017	2018	1Q19
Branches	6,934	6,221	4,817	4,591	4,559
of which in Italy	3,873	3,524	2,663	2,466	2,446
Employees	125,510	98,304	91,952	86,786	86,232

Note:1. Before Public cash contribution, impairment on goodwill and badwill. NA = not available, NM = not meaningful. Source: Intesa Sanpaolo Research elaborations on company data

Appendix 1: Italian Banks' Benchmark Bonds issuance - Euro-Denominated

Italian bank bonds denominated in euro (institutional) - Senior

Pricing date	Name	M	Coupon	Coupon Type	Maturity	Sprd at issue[1,2]	Moody's	Fitch
2018								
Jan.25	ICCREA	400	Quartly Euribor +100	Floating	01.02.21	100	BB	BB+
Mar.12	Intesa Sanpaolo	1,250	1.75	Fixed	20.03.28	77	Baa1	BBB
Apr.16	Banco BPM	500	1.75	Fixed	24.04.23	145	Ba2e	-
Apr.17	Banca IFIS	300	2	Fixed	24.04.23	180	-	BB+e
Aug.23	Intesa Sanpaolo	1,000	2.125	Fixed	30.08.23	188	Baa1	BBB
Tot.		3,450						
2019								
Mar.1	Banco BPM	750	2.000	Fixed	08.03.22	205	Ba2	-
Mar.26	Mediobanca	500	1.625	Fixed	07.01.25	152	Baa1	BBBe
Mar.28	Banca Popolare Di Sondrio	500	2.375	Fixed	03.04.24	240	-	BBB-
Apr.03	UBI Banca	500	1.500	Fixed	10.04.24	150	Baa3	BBB-
Jun.14	Banco BPM	500	2.500	Fixed	21.06.24	280	Ba2	-
Jun.18	Unicredit	1,250	1.250	Fixed	25.06.25	155	Baa1	BBB
Jun.27	Intesa Sanpaolo	1,000	1.750	Fixed	04.07.29	165	-	BBBe
Jun.27	Intesa Sanpaolo	1,250	1.000	Fixed	04.07.24	125	-	BBBe
Jul.04	Banca MPS	500	4.000	Fixed	10.07.22	439	-	B
Jul.09	Mediobanca	500	1.125	Fixed	15.07.25	137	Baa1	BBB
Jul.15	UBI Banca	500	1.000	Fixed	22.07.22	141	Baa3	BBB-
Jul.22	Mediocredito Trentino Alto Adige	100	2.375	Fixed	29.07.22	280	-	-
Tot.		7,850						

The ratings reported in the table are those at issue date on individual issues. If ratings on individual issues are not available the following are reported: for Moody's, the senior unsecured rating or, if not available, the issuer rating; for Fitch, the senior unsecured rating or, if not available, the long-term issuer rating. Notes: 1) For fixed bond spreads over MID Swap at launch, 2) Floaters = floater spreads. Source: Bloomberg

Italian bank bonds denominated in euro (institutional) – Senior non-Preferred

Pricing date	Name	M	Coupon	Coupon Type	Maturity	Sprd at issue[1,2]	Moody's	Fitch
2018								
Jan.11	Unicredit	1,500	1	Fixed	18.01.23	70	Baa3	BBB
Apr.05	UBI Banca	500	1.75	Fixed	12.04.23	140	Ba3	BBB-
Tot.		2,000						
2019								
Jun.13	UBI Banca	500	2.625	Fixed	20.06.24	290	-	-
Jun.26	Unicredit	750	1.625	Variable	03.07.25	190	-	BBB
Tot.		1,250						

The ratings reported in the table are those at issue date on individual issues. If ratings on individual issues are not available the following are reported: for Moody's, the senior unsecured rating or, if not available, the issuer rating; for Fitch, the senior unsecured rating or, if not available, the long-term issuer rating. Notes: 1) For fixed bond spreads over MID Swap at launch, 2) Floaters = floater spreads. Source: Bloomberg

Italian bank bonds denominated in euro (institutional) - Subordinated

Pricing date	Name	M	Coupon	Coupon Type	Maturity	Sprd at issue[1,2]	Moody's	Fitch
2018								
Jan.11	Banca MPS	750	5.375	Variable	18.01.28	500	Caa2	CCC+e
Tot.		750						
2019								
Feb.13	Unicredit	1,000	4.875	Variable	20.02.29	474	-	BBB-
Feb.25	UBI Banca	500	5.875	Variable	04.03.29	575	-	BB+
Jul.04	UBI Banca	300	4.375	Variable	12.07.29	516	-	BB+
Jul.12	Banca Sella	50	5.250	Variable	23.07.29	545	-	-
Jul.16	Banca MPS	300	10.500	Fixed	23.07.29	1,032	-	CCC+
Tot.		2,150						

The ratings reported in the table are those at issue date on individual issues. Notes: 1) For fixed bond spreads over MID Swap at launch, 2) Floaters = floater spreads. Source: Bloomberg

Italian bank bonds denominated in euro – additional Tier1 Instruments								
Pricing date	Name	M	Coupon	Coupon Type	Maturity	Sprd at issue[1]	Moody's	Fitch
2018								
Tot.	-	-	-	-	-	-	-	-
2019								
Mar.12	Unicredit	1,000	7.500	Variable	Perpetual	733	B1	B+
Apr.11	Banco BPM	300	8.750	Variable	Perpetual	892	Caa1	-
Jul.11	Fineco Bank	300	5.875	Variable	Perpetual	-	-	-
Tot.		1,600						

The ratings reported in the table are those at issue date on individual issues. Notes: 1) Spread over 5Y Mid-swap rate at each coupon resettable date every 5 year after first call date, if not redeemed. Source: Bloomberg

Italian bank bonds denominated in euro (institutional) - Covered								
Pricing date	Name	M	Coupon	Coupon Type	Maturity	Sprd at issue[1,2]	Moody's	Fitch
2018								
Jan.08	UBI Banca	500	1.25	Fixed	15.01.30	30	Aa2	-
Jan.08	UBI Banca	500	0.5	Fixed	15.01.24	10	Aa2	-
Jan.04	Credit Agricole	500	1.75	Fixed	15.01.38	40	Aa2	-
Jan.16	Banco BPM	750	1	Fixed	23.01.25	40	A1	-
Jul.04	Intesa Sanpaolo	1,000	1.125	Fixed	14.07.25	63	Aa2	-
Jul.05	Mediobanca	500	1.125	Fixed	12.08.24	70	-	AA
Jul.10	BPER Banca	500	1	Fixed	22.07.23	85	Aa2	-
Jul.18	Banco BPM	500	1.125	Fixed	25.09.23	95	A1e	-
Oct.08	Unione di Banche Italiane SpA	250	0.5	Fixed	15.07.24	-	Aa2e	-
Tot.		5,000						
2019								
Jan.10	Credito Emiliano	750	1.125	Fixed	17.01.24	95	Aa3e	AAe
Jan.23	Banca MPS	1,000	2.000	Fixed	29.01.24	190	A1	A+
Feb.18	UBI Banca	500	1.000	Fixed	09.25.25	70	Aa3	-
Feb.26	Intesa Sanpaolo	1,000	0.500	Fixed	05.03.24	47	-	-
Mar.11	BPER Banca	600	1.125	Fixed	22.04.26	90	Aa3e	-
Mar.15	Credit Agricole	750	1.000	Fixed	23.03.27	63	Aa3e	-
Jun.24	Mediobanca	750	0.500	Fixed	01.10.226	53	-	AA
Jul.16	Banco Desio	500	0.375	Fixed	24,07,26	50	-	AAe
Tot.		5,850						

The ratings reported in the table are those at issue date on individual issues. Notes: 1) For fixed bond spreads over MID Swap at launch, 2) Floaters = floater spread; Source: Bloomberg

Italian bank bonds denominated in euro (institutional) – Senior Government Guarantee								
Pricing date	Name	M	Coupon	Coupon Type	Maturity	Sprd over BTP Yield issue	Moody's	Fitch
2018								
Tot.	-	-	-	-	-	-	-	-
2019								
Jan.23	Banca CARIGE	1,000	0.500	Fixed	25.01.20	-	BBB	BBB
Jan.25	Banca CARIGE	1,000	0.750	Fixed	27.07.20	-	BBB	BBB
Tot.		2,000						

The ratings reported in the table are those at issue date on individual issues. Source: Bloomberg

Appendix 2: Italian Banks Benchmark Euro-Denominated Bonds

Italian bank bonds denominated in euro (institutional) - Senior Unsecured

Bond	First call	Type	Outst. EUR M	Price	YTM %	SPRD TYPE	SPRD 5.8.19	-1W (bps)	-1M (bps)	YTD (bps) 2.1.19	52-week range max	52-week range min	Ratings Mdy	Ratings Fitch	Ratings BBG
Investment Grade															
Intesa Sanpaolo SpA															
ISPIM 4 3/8 10/15/19	-	FX	1,250	100.9	NM	ASW	NM	NM	NM	NM	NM	NM	Baa1	BBB	BBB
ISPIM 1 1/8 01/14/20	-	FX	1,500	100.5	-0.1	ASW	29	0	3	-57.4	137	14	Baa1	BBB	BBB
ISPIM 2 3/4 03/20/20	-	FX	750	101.7	-0.1	ASW	33	2	2	-64.1	138	14	-	BBB	BBB
ISPIM 4 1/8 04/14/20	-	FX	1,159	102.9	-0.1	ASW	27	5	-4	-68.7	154	14	Baa1	BBB	BBB
ISPIM 2 06/18/21	-	FX	1,200	103.7	0.0	ASW	46	5	0	-101.4	198	40	Baa1	BBB	BBB
ISPIM 3 1/2 01/17/22	-	FX	750	108.2	0.1	ASW	64	4	-4	-118.3	227	60	Baa1	BBB	BBB
ISPIM 1 1/8 03/04/22	-	FX	1,500	102.4	0.2	ASW	66	4	-6	-103.5	216	62	Baa1	BBB	BBB
ISPIM 0 7/8 06/27/22	-	FX	500	102.2	0.1	ASW	57	6	-7	-114.3	211	51	Baa1	BBB	BBB
ISPIM 2 1/8 08/30/23	-	FX	1,100	106.5	0.5	ASW	96	5	-6	-90.0	228	90	Baa1	BBB	BBB
ISPIM 4 10/30/23	-	FX	1,000	114.5	0.5	ASW	102	6	-8	-93.7	238	96	Baa1	BBB	BBB
ISPIM 1 3/8 01/18/24	-	FX	1,000	103.5	0.6	ASW	101	8	-6	-85.6	227	93	Baa1	BBB	BBB
ISPIM 1 07/04/24[1]	-	FX	1,250	101.6	0.7	ASW	106	12	-2	-16.0	122	93	Baa1	BBB	BBB
ISPIM 1 3/4 03/20/28	-	FX	1,250	105.0	1.1	ASW	135	13	2	-62.5	245	122	Baa1	BBB	BBB
ISPIM 1 3/4 07/04/29[1]	-	FX	1,000	103.6	1.4	ASW	148	13	0	-14.0	162	135	Baa1	BBB	BBB
ISPIM Float 06/15/20	-	FL	1,000	100.6	0.0	DISC	36	0	-3	-76.8	142	35	Baa1	BBB	BBB
ISPIM Float 04/19/22	-	FL	1,500	100.6	0.3	DISC	72	2	-19	-121.4	229	69	Baa1	BBB	BBB
Mediobanca Banca di Credito Finanziario SpA															
BACRED 0 3/4 02/17/20	-	FX	750	100.5	-0.1	ASW	28	1	2	-80.5	145	22	-	BBB	BBB
BACRED 1 5/8 01/19/21	-	FX	600	102.5	-0.1	ASW	39	2	-7	-115.4	183	36	-	BBB	BBB
BACRED 0 5/8 09/27/22	-	FX	750	100.8	0.4	ASW	83	4	-11	-110.1	238	79	-	BBB	BBB
BACRED 1 5/8 01/07/25[1]	-	FX	500	104.6	0.8	ASW	115	7	-18	-28.7	172	108	Baa1	BBB	BBB
BACRED 1 1/8 07/15/25[1]	-	FX	500	101.3	0.9	ASW	124	6	-	-7.2	131	117	Baa1	BBB	BBB
BACRED Float 05/18/22	-	FL	1,000	99.7	0.5	DISC	90	1	-18	-129.9	242	89	-	BBB	BBB
UniCredit SpA															
UCGIM 3 1/4 01/14/21	-	FX	1,250	105.0	-0.2	ASW	24	2	-5	-107.1	178	22	Baa1	BBB	BBB
UCGIM 2 03/04/23	-	FX	1,100	105.6	0.4	ASW	88	6	-10	-91.3	216	82	Baa1	BBB	BBB
UCGIM 2 1/8 10/24/26	-	FX	1,000	108.8	0.9	ASW	118	7	-12	-70.1	219	111	Baa1	BBB	BBB
UCGIM Float 02/19/20	-	FL	1,000	100.4	-0.1	DISC	24	-1	-3	-67.5	102	23	Baa1	BBB	BBB
UCGIM 1 1/4 06/25/25[1]	06/24	VR	1,250	102.3	0.8	ASW	117	10	-3	-25.5	144	106	Baa1	BBB	BBB
Unione di Banche Italiane SpA															
UBIIM 1 07/22/22[1]	-	FX	500	100.2	0.9	ASW	138	3	-	0.4	139	134	Baa3	BBB-	BBB-
UBIIM 0 3/4 10/17/22	-	FX	750	99.7	0.8	ASW	128	3	-7	-104.9	312	115	Baa3	BBB-	BBB-
UBIIM 1 1/2 04/10/24[1]	-	FX	500	101.7	1.1	ASW	152	4	-4	7.4	189	145	Baa3	BBB-	BBB-
High Yield and Unrated															
Banca IFIS SpA															
IFIM 1 3/4 05/26/20	-	FX	300	100.8	0.7	ASW	111	-6	-13	-222.5	379	104	-	-	-
IFIM 2 04/24/23	-	FX	300	97.2	2.8	ASW	314	3	-5	-60.2	402	280	-	BB+	-
Banca Monte dei Paschi di Siena SpA															
MONTE 4 07/10/22[1]	-	FX	500	102.5	3.1	ASW	359	9	-13	-11.9	372	346	Caa1	B	B-
Banca Popolare di Sondrio SCPA															
BPSOIM 2 3/8 04/03/24[1]	-	FX	500	99.9	2.4	ASW	276	9	6	42.5	286	232	-	BB+	-
Banca Sistema SpA															
BANCSS 1 3/4 10/13/20	-	FX	175	100.4	1.4	ASW	187	-2	7	-84.3	271	163	-	-	-
Banco BPM SpA															
BAMIIM 2 3/4 07/27/20	-	FX	1,000	102.5	0.2	ASW	60	-1	-13	-156.6	292	58	Ba2	-	BB+
BAMIIM 2 03/08/22[1]	-	FX	750	101.4	1.4	ASW	190	8	-1	-12.3	224	180	Ba2	-	BB+
BAMIIM 1 3/4 04/24/23	-	FX	500	100.6	1.6	ASW	202	6	-3	-78.9	360	181	Ba2	-	BB+
BAMIIM 2 1/2 06/21/24[1]	-	FX	500	102.0	2.1	ASW	246	10	-4	-28.9	275	233	Ba2	-	BB+
Iccrea Banca SpA															
ICCREA 1 7/8 11/25/19	-	FX	500	100.6	0.0	ASW	24	0	-15	-170.7	244	23	-	BB	BB
ICCREA 1 1/2 02/21/20	-	FX	600	100.7	0.1	ASW	50	-3	-22	-148.9	297	49	-	BB	BB
ICCREA 1 1/2 10/11/22	-	FX	600	101.8	0.9	ASW	137	3	-3	-153.7	313	132	-	BB	BB
ICCREA Float 02/01/21	-	FL	400	99.8	0.7	DISC	112	-1	-8	-271.0	393	108	-	BB	BB
Mediocredito Trentino Alto Adige SpA															
MEDTRE 2 3/8 07/29/22[1]	-	FX	100	99.9	2.4	ASW	284	80	-	143.1	287	141	Ba1	-	-

TYPE: FX=Fixed; FL=Floating. YTM: yield to maturity or yield to call for callable bonds excluding "not called bonds". YTD= year to date from 02.01.2019 or from lunch date for bond issued in 2017. SPRD TYPE: ASW=Asset Swap, DISC=Discount Margin, Z-SPR=Z-Spread. SPRD: spread to maturity. Ratings: reported in the table refer to individual issues. BBG: Bloomberg Composite. NM: Not Meaningful related to YTM and Spread if Spread < 0 and > 1,000 bps whilst related to change (-1W, -1M, -YTD) when the reference data is NA. Notes: 1) YTD from launch date for bonds issued in 2019. Source: Intesa Sanpaolo Research elaboration on Bloomberg data at 10:00.

Italian bank bonds denominated in euro (institutional) - Senior non-Preferred

Bond	First call	Type	Outst. EUR M	Price	YTM %	SPRD TYPE	SPRD 5.8.19	-1W (bps)	-1M (bps)	YTD (bps) 2.1.19	52-week range max	52-week range min	Ratings Mdy	Ratings Fitch	Ratings BBG
Investment Grade															
UniCredit SpA															
UCGIM 1 01/18/23	-	FX	1,500	101.0	0.7	ASW	115	12	-9	-133.1	335	104	Baa2	BBB	BBB-
UCGIM 1 5/8 07/03/25[1]	07/24	VR	750	102.2	1.2	ASW	156	14	-9	-30.2	187	141	Baa2	BBB	BBB-
High Yield and Unrated															
Unione di Banche Italiane SpA															
UBIIM 1 3/4 04/12/23	-	FX	500	100.7	1.5	ASW	198	5	-3	-111.4	394	186	Ba3	BBB-	BB+
UBIIM 2 5/8 06/20/24[1]	-	FX	500	102.7	2.0	ASW	245	7	-6	-39.3	284	238	Ba3	BBB-	BB+

TYPE: FX=Fixed; FL=Floating. YTM: yield to maturity or yield to call for callable bonds excluding "not called bonds". YTD= year to date from 02.01.2019 or from lunch date for bond issued in 2017. SPRD TYPE: ASW=Asset Swap, DISC=Discount Margin, Z-SPR=Z-Spread. SPRD: spread to maturity. Ratings: reported in the table refer to individual issues. BBG: Bloomberg Composite. Notes: 1) YTD from launch date for bonds issued in 2019. Source: Intesa Sanpaolo Research elaboration on Bloomberg data at 10:00.

Italian bank bonds denominated in euro (institutional) - Subordinated (T2 and LT2)															
Bond	First call	Type	Outst. EUR M	Price	YTM %	SPRD TYPE	SPRD 5.8.19	-1W (bps)	-1M (bps)	YTD (bps) 2.1.19	52-week range max	52-week range min	Ratings Mdy	Ratings Fitch	Ratings BBG
Investment Grade															
Credito Emiliano SpA															
CRDEM 3 1/8 03/13/25	03/20	VR	200	99.8	3.4	Z-SPR	380	64	29	-307.9	711	298	-	BBB-	-
CRDEM 3 5/8 07/10/27	07/22	VR	100	99.6	3.8	Z-SPR	426	26	25	-26.0	461	257	-	BBB-	-
High Yield and Unrated															
Banca IFIS SpA															
IFIM 4 1/2 10/17/27	10/22	VR	400	88.4	8.8	Z-SPR	926	26	-1	-113.1	1,099	533	-	BB	-
Banca Monte dei Paschi di Siena SpA															
MONTE 10 1/2 07/23/29[1]	-	FX	300	94.8	NM	Z-SPR	NM	NM	NM	NM	NM	NM	Caa2	CCC+	CCC+
MONTE 5 3/8 01/18/28	01/23	VR	750	67.8	NM	Z-SPR	NM	NM	NM	NM	NM	NM	Caa2	CCC+	CCC+
Banca Popolare dell'Alto Adige SpA															
BPOPAA 5 5/8 10/06/27	10/22	VR	100	94.9	7.5	Z-SPR	796	-	-53	-285.1	1,174	624	-	BB	BB
Banca Popolare di Sondrio SCPA															
BPSOIM 6 1/4 07/30/29[1]	07/24	VR	200	102.5	5.7	Z-SPR	607	-9	-	-49.6	657	603	-	BB	-
Banca Sella SpA															
BNSELL 5 1/2 09/22/27	09/22	VR	100	102.5	4.6	Z-SPR	508	8	2	-108.1	695	448	-	-	-
BNSELL 5 1/4 07/23/29[1]	07/24	VR	50	100.7	5.1	Z-SPR	549	8	-	-0.1	549	537	-	-	-
Banco BPM SpA															
BAMIIM 6 11/05/20	-	FX	710	105.0	1.9	Z-SPR	231	35	23	-161.9	598	192	B1	-	-
BAMIIM 7 1/8 03/01/21	-	FX	448	107.9	1.9	Z-SPR	238	25	28	-175.9	646	205	B1	-	BB-
BAMIIM 6 3/8 05/31/21	-	FX	318	107.9	1.9	Z-SPR	237	21	3	-184.6	603	214	B1	-	-
BAMIIM 4 3/8 09/21/27	09/22	VR	500	100.3	4.3	Z-SPR	473	22	-10	-201.5	883	446	B1	-	BB-
BPER Banca															
BPEIM 5 1/8 05/31/27	05/22	VR	500	103.8	3.7	Z-SPR	415	18	10	-271.6	798	397	B1	BB-	B+
Credito Emiliano SpA															
CRDEM 4.191 10/21/26	10/21	VR	50	101.2	3.6	Z-SPR	408	-	-	-			Ba1	BBB-	BB+
Credito Valtellinese SpA															
CVALIM 8 1/4 04/12/27	04/22	VR	150	104.7	6.3	Z-SPR	673	11	0	-362.8	1,045	653	-	-	-
Intesa Sanpaolo SpA															
ISPIM 5 09/23/19	-	FX	1,051	100.6	0.4	Z-SPR	60	36	23	-58.8	263	9	Ba1	BBB-	BB+
ISPIM 5.15 07/16/20	-	FX	922	104.7	0.1	Z-SPR	56	4	-3	-69.9	247	45	Ba1	BBB-	BB+
ISPIM 5 10/17/20	-	FX	335	103.3	NM	Z-SPR	NM	NM	NM	NM	NM	NM	-	-	-
ISPIM 2.855 04/23/25	-	FX	500	104.8	2.0	Z-SPR	232	25	3	-72.4	430	207	Ba1	BBB-	BB+
ISPIM 3.928 09/15/26	-	FX	1,000	109.5	2.5	Z-SPR	276	30	12	-65.2	441	245	Ba1	BBB-	BB+
ISPIM Float 09/26/24	-	FL	724	98.5	1.8	DISC	221	17	-20	-139.4	393	205	-	-	-
Mediobanca Banca di Credito Finanziario SpA															
BACRED 5 11/15/20	-	FX	616	105.9	0.4	Z-SPR	81	3	-10	-172.9	358	77	-	-	-
BACRED 5 3/4 04/18/23	-	FX	497	115.3	1.5	Z-SPR	191	-9	-28	-122.5	392	191	-	-	-
UniCredit SpA															
UCGIM 6 1/8 04/19/21	-	FX	579	109.7	0.4	Z-SPR	85	23	4	-244.7	407	58	Baa3	BBB-	BB+
UCGIM 6.95 10/31/22	-	FX	1,500	118.1	1.2	Z-SPR	167	54	10	-178.9	476	107	Baa3	BBB-	BB+
UCGIM 5 3/4 10/28/25	10/20	VR	1,000	105.7	1.0	Z-SPR	146	51	3	-261.4	522	89	Baa3	BBB-	BB+
UCGIM 4 3/8 01/03/27	01/22	VR	750	106.7	1.5	Z-SPR	198	44	-52	-243.5	574	150	Baa3	BBB-	BB+
UCGIM 4 7/8 02/20/29[1]	02/24	VR	1,000	110.8	2.3	Z-SPR	275	50	-57	-198.4	474	222	Baa3	BBB-	BB+
Unione di Banche Italiane SpA															
UBIIM 4 1/4 05/05/26	05/21	VR	750	102.5	2.7	Z-SPR	321	34	42	-212.3	806	255	Ba3	BB+	BB
UBIIM 4.45 09/15/27	09/22	VR	500	102.8	3.5	Z-SPR	395	25	24	-139.9	727	359	Ba3	BB+	BB
UBIIM 5 7/8 03/04/29[1]	03/24	VR	500	105.8	4.4	Z-SPR	485	25	18	-83.6	603	457	Ba3	BB+	BB
UBIIM 4 3/8 07/12/29[1]	07/24	VR	300	100.4	4.3	Z-SPR	468	16	6	10.8	468	452	Ba3	BB+	BB

TYPE: FX = Fixed; FL = Floating; VR = Variable; FT = Flat Trading. YTM: yield to maturity or yield to call for callable bonds excluding "not called bonds". YTD= year to date from 02.01.2019 or from lunch date for bond issued in 2017. SPRD TYPE: ASW=Asset Swap, DISC=Discount Margin, Z-SPR=Z-Spread. SPRD: spread to maturity or spread to first call date for callable bonds. Ratings reported in the table on individual issues. BBG: Bloomberg Composite. NM: Not Meaningful related to YTM and Spread if Spread < 0 and > 1,000 bps whilst related to change (-1W, -1M, -YTD) when the reference data is NA. Notes: 1) YTD from launch date for bonds issued in 2019. Source: Intesa Sanpaolo Research elaboration on Bloomberg data at 10:00.

Italian bank bonds denominated in euro (institutional) - Junior subordinated (UT2)															
Bond	First call	Type	Outst. EUR M	Price	YTM %	SPRD TYPE	SPRD 5.8.19	-1W (bps)	-1M (bps)	YTD (bps) 2.1.19	52-week range max	52-week range min	Ratings Mdy	Ratings Fitch	Ratings BBG
High Yield and Unrated															
Intesa Sanpaolo SpA															
ISPIM 6 5/8 09/13/23	-	FX	1,446	120.4	1.5	Z-SPR	191	27	5	-138	458	164	Ba1	BBB-	BB+

TYPE: FX = Fixed; FL = Floating; VR = Variable; FT = Flat Trading. YTM: yield to maturity or yield to call for callable bonds excluding "not called bonds". YTD= year to date from 02.01.2019 or from lunch date for bond issued in 2017. SPRD TYPE: ASW=Asset Swap, DISC=Discount Margin, Z-SPR=Z-Spread. SPRD: spread to maturity or spread to first call date for callable bonds. Ratings reported in the table on individual issues. BBG: Bloomberg Composite. Source: Intesa Sanpaolo Research elaboration on Bloomberg data at 10:00.

Italian bank bonds denominated in euro (institutional) - Hybrids (T1 and AT1)

Bond	First call	Type	Outst. EUR M	Price	YTM %	SPRD TYPE	SPRD 5.8.19	-1W (pts)1	-1M (pts)1	YTD (pts)1 2.1.19	52-week range1 max	52-week range1 min	Ratings Mdy	Ratings Fitch	Ratings BBG
High Yield and Unrated															
Banco BPM SpA															
BAMIIM Float PERP[3]	06/17	VR	105	72.7	2.1	Z-SPR	315	0	0	-2.2	84	72	B3	-	-
BAMIIM 8 3/4 PERP[2]	06/24	VR	300	99.8	8.8	Z-SPR	921	-2	-1	-0.8	102	94	B3	-	-
Intesa Sanpaolo SpA															
ISPIM 8 3/8 PERP	10/19	VR	742	101.7	NM	Z-SPR	NM	0	-1	-2.8	107	102	Ba3	BB-	BB-
ISPIM 7 PERP	01/21	VR	1,250	103.9	4.2	Z-SPR	464	-2	-2	3.0	107	99	Ba3	B+	B+
ISPIM 7 3/4 PERP	01/27	VR	1,250	113.4	5.5	Z-SPR	582	-2	-1	8.9	116	99	Ba3	B+	B+
ISPIM 6 1/4 PERP	05/24	VR	750	103.0	5.5	Z-SPR	593	-2	-1	8.0	105	91	Ba3	B+	B+
UniCredit International Bank Luxembourg SA															
UCGIM 8 1/8 PERP	12/19	VR	469	103.0	NM	Z-SPR	NM	0	0	-1.2	107	103	Ba3	-	BB-
UniCredit SpA															
UCGIM 9 3/8 PERP	07/20	VR	246	107.3	1.5	Z-SPR	198	0	0	0.2	111	107	Ba3	BB-	BB-
UCGIM 6 3/4 PERP	09/21	VR	1,000	102.4	5.5	Z-SPR	600	-2	0	7.6	105	91	-	B+	-
UCGIM 9 1/4 PERP	06/22	VR	500	112.8	4.4	Z-SPR	483	-2	0	5.4	115	103	-	B+	-
UCGIM 6 5/8 PERP	06/23	VR	1,250	101.0	6.3	Z-SPR	676	-2	1	7.6	104	88	Ba3u	B+	-
UCGIM 5 3/8 PERP	06/25	VR	1,000	93.2	6.8	Z-SPR	717	-2	0	10.1	96	80	Ba3u	B+	-
UCGIM 7 1/2 PERP[2]	06/26	VR	1,000	107.0	6.2	Z-SPR	655	-3	0	4.9	110	100	Ba3	B+	B+

TYPE: FX = Fixed; FL = Floating; VR = Variable; FT = Flat Trading. YTM: yield to maturity or yield to call for callable bonds excluding "not called bonds". YTD= year to date from 02.01.2019 or from lunch date for bond issued in 2017. SPRD TYPE: ASW=Asset Swap, DISC=Discount Margin, Z-SPR=Z-Spread. SPRD: spread to maturity or spread to first call date for callable bonds. Ratings reported in the table on individual issues. BBG: Bloomberg Composite. NM: Not Meaningful related to YTM and Spread if Spread < 0 and > 1,000 bps whilst related to change (-1W, -1M, -YTD) when the reference data is NA. Notes: 1) change in prices ; 2) YTD from launch date for bonds issued in 2019; 3) Bond not called .
Source: Intesa Sanpaolo Research elaboration on Bloomberg data at 10:00.

Italian bank bonds denominated in euro (institutional) - Covered

Bond	Type	Outst. EUR M	Price	YTM %	Spread over ASW (bps) BTP	SPRD TYPE	SPRD 5.8.19	-1W (bps)	-1M (bps)	YTD (bps) 2.1.19	52-week range max	52-week range min	Ratings Mdy	Ratings Fitch	Ratings BBG
Investment Grade															
Banca Carige SpA															
BANCAR 1 1/4 01/28/21	FX	500	101.0	0.6	63	ASW	103	-4	-7	-48.9	157	98	Baa3 *	BBB *	BBB-
Banca Monte dei Paschi di Siena SpA															
MONTE 2 7/8 04/16/21	FX	1,000	104.6	0.1	19	ASW	61	-1	-2	-62.7	127	59	A1	A+	A+
MONTE 1 1/4 01/20/22	FX	750	102.7	0.1	-43	ASW	62	0	-10	-63.1	136	61	A1	A+	A+
MONTE 2 01/29/24[1]	FX	1,000	104.8	0.9	-67	ASW	134	-2	-12	-36.8	172	134	A1	A+	A+
MONTE 2 7/8 07/16/24	FX	1,500	109.4	0.9	6	ASW	136	-1	-9	-24.5	177	91	A1	A+	A+
MONTE 2 1/8 11/26/25	FX	1,000	106.5	1.1	1	ASW	141	-1	-10	-18.7	179	95	A1	A+	A+
Banca Popolare di Milano Scarl															
BAMIIM 0 7/8 09/14/22	FX	1,000	102.6	0.1	-37	ASW	51	-2	-9	-47.3	103	51	Aa3	-	-
BAMIIM 0 5/8 06/08/23	FX	750	101.8	0.2	-37	ASW	58	-1	-7	-48.4	110	58	Aa3	-	-
BAMIIM 1 1/2 12/02/25	FX	750	106.0	0.5	-51	ASW	87	-2	-9	-30.7	123	86	Aa3	-	-
Banca Popolare di Sondrio SCPA															
BPSOIM 0 3/4 04/04/23	FX	500	102.0	0.2	-39	ASW	63	-1	-4	-16.6	86	52	-	AA	-
Banco BPM SpA															
BAMIIM 0 3/4 03/31/22	FX	1,000	101.9	0.0	-22	ASW	50	-3	-9	-43.4	98	50	Aa3	-	A+
BAMIIM 1 1/8 09/25/23	FX	500	103.9	0.2	-41	ASW	61	-1	-9	-44.7	110	61	Aa3	-	-
BAMIIM 1 01/23/25	FX	750	102.7	0.5	-45	ASW	88	-1	-7	-30.3	125	84	Aa3	-	-
Banco di Desio e della Brianza SpA															
BANDES 0 7/8 09/12/24	FX	575	104.8	-0.1	-91	ASW	33	0	-14	-30.1	73	33	-	AA	-
BANDES 0 3/8 07/24/26[1]	FX	500	102.0	0.1	-107	ASW	37	-2	-	-8.3	46	37	-	AA	-
BPER Banca															
BPEIM 0 1/2 07/22/20	FX	750	100.7	-0.3	-8	ASW	16	0	-1	-33.8	51	14	Aa3	-	-
BPEIM 0 7/8 01/22/22	FX	750	102.7	-0.2	-46	ASW	26	-1	-4	-56.1	87	26	Aa3	-	-
BPEIM 1 07/22/23	FX	500	104.1	0.0	-65	ASW	41	-1	-7	-51.5	98	41	Aa3	-	-
BPEIM 1 1/8 04/22/26[1]	FX	600	106.2	0.2	-90	ASW	50	-1	-13	-23.2	73	50	Aa3	-	-
Credit Agricole Italia SpA															
CARPP 0 7/8 01/31/22	FX	1,000	102.9	-0.3	-56	ASW	16	-1	-2	-43.1	61	16	Aa3	-	-
CARPP 0 7/8 06/16/23	FX	1,000	104.3	-0.2	-81	ASW	20	-1	-7	-41.1	65	20	Aa3	-	-
CARPP 0 1/4 09/30/24	FX	750	102.0	-0.1	-99	ASW	25	-1	-5	-37.3	67	25	Aa3	-	-
CARPP 1 1/8 03/21/25	FX	750	106.7	-0.1	-102	ASW	31	-1	-8	-44.9	78	31	Aa3	-	-
CARPP 0 5/8 01/13/26	FX	750	103.7	0.1	-103	ASW	37	-1	-12	-46.6	89	37	Aa3	-	-
CARPP 1 03/25/27[1]	FX	750	106.6	0.1	-111	ASW	39	-1	-15	-16.5	63	39	Aa3	-	-
CARPP 1 5/8 03/21/29	FX	750	112.7	0.3	-104	ASW	44	-2	-9	-44.5	91	44	Aa3	-	-
CARPP 1 09/30/31	FX	750	106.7	0.4	-131	ASW	43	-1	-9	-42.1	87	43	Aa3	-	-
CARPP 1 3/4 01/15/38	FX	500	119.6	0.6	-170	ASW	43	-1	-11	-46.6	91	43	Aa3	-	-
Credito Emiliano SpA															
CRDEM 3 1/4 07/09/20	FX	500	103.3	-0.4	-20	ASW	6	-1	-2	-31.4	40	5	Aa3	AA	AA-
CRDEM 0 7/8 11/05/21	FX	750	102.8	-0.3	-50	ASW	11	0	-1	-56.4	73	11	Aa3	AA	AA-
CRDEM 1 1/8 01/17/24[1]	FX	750	105.3	-0.1	-95	ASW	35	-1	-5	-59.4	94	35	Aa3	AA	AA-
Intesa Sanpaolo SpA															
ISPIM 3 3/4 09/25/19	FX	1,000	100.6	-0.4	-10	ASW	-14	-2	-4	-40.6	33	-14	Aa3	-	-
ISPIM 5 01/27/21	FX	158	107.5	-0.1	-2	ASW	40	-1	-3	-49.5	93	40	A2	-	-
ISPIM 5 01/27/21	FX	1,353	108.0	-0.4	-35	ASW	5	-1	-1	-33.7	41	5	Aa3	-	-
ISPIM 0 5/8 01/20/22	FX	1,000	102.6	-0.4	-68	ASW	4	-1	-2	-39.5	45	4	Aa3	-	-
ISPIM 3 5/8 12/05/22	FX	1,250	113.5	-0.4	-82	ASW	5	-1	-4	-42.3	50	5	Aa3	-	-
ISPIM 0 5/8 03/23/23	FX	1,250	103.7	-0.4	-95	ASW	7	-1	-3	-43.5	53	7	Aa3	-	-
ISPIM 0 1/2 03/05/24[1]	FX	1,000	103.7	-0.3	-92	ASW	10	-1	-6	-29.6	40	10	Aa3	-	-
ISPIM 3 3/8 01/24/25	FX	1,000	120.1	-0.3	-122	ASW	12	-1	-6	-51.5	66	12	Aa3	-	-
ISPIM 1 3/8 12/18/25	FX	1,250	110.2	-0.2	-125	ASW	11	-1	-8	-56.7	70	11	Aa3	-	-
ISPIM 3 1/4 02/10/26	FX	1,250	122.5	-0.2	-126	ASW	16	-1	-5	-60.4	78	16	Aa3	-	-
ISPIM 1 1/8 06/16/27	FX	1,000	109.3	-0.1	-130	ASW	18	0	-6	-46.1	67	18	Aa3	-	-
Mediobanca Banca di Credito Finanziario SpA															
BACRED 3 5/8 10/17/23	FX	750	116.3	-0.2	-87	ASW	20	-1	-6	-40.8	63	20	-	AA	-
BACRED 1 1/8 08/12/24	FX	750	106.0	-0.1	-93	ASW	32	-1	-9	-43.6	79	32	-	AA	-
BACRED 1 3/8 11/10/25	FX	750	108.7	0.0	-105	ASW	33	-1	-10	-53.4	88	33	-	AA	-
BACRED 0 1/2 10/01/26[1]	FX	750	103.2	0.1	-114	ASW	33	-1	-10	-14.8	48	33	-	AA	-
BACRED 1 1/4 11/24/29	FX	750	109.5	0.3	-126	ASW	41	-3	-8	-44.9	90	41	-	AA	-
UniCredit SpA															
UCGIM 2 3/4 01/31/20	FX	1,000	101.5	-0.4	-21	ASW	-6	-2	-3	-44.3	40	-6	Aa3	AA	AA-
UCGIM 2 5/8 10/31/20	FX	1,000	103.8	-0.4	-28	ASW	-1	0	1	-37.0	39	-2	Aa3	AA	AA-
UCGIM 5 10/31/21	FX	1,000	112.2	-0.4	-57	ASW	5	-1	-2	-39.9	49	5	Aa3	AA	AA-
UCGIM 4 3/8 01/31/22	FX	1,000	112.0	-0.4	-53	ASW	5	1	-3	-49.4	57	4	Aa3	AA	AA-
UCGIM 5 1/4 04/30/23	FX	1,250	120.7	-0.3	-88	ASW	20	-1	-6	-36.6	60	20	Aa3	AA	AA-

TYPE: FX = Fixed; FL = Floating; VR = Variable; FT = Flat Trading. YTM: yield to maturity or yield to call for callable bonds excluding "not called bonds". YTD= year to date from 02.01.2019 or from lunch date for bond issued in 2017. SPRD TYPE: ASW=Asset Swap, DISC=Discount Margin, Z-SPR=Z-Spread. SPRD: spread to maturity or spread to first call date for callable bonds. Ratings reported in the table on individual issues; Rating on credit watch if *, Rating on credit watch positive if *+, Rating on credit watch negative if *-. BBG: Bloomberg Composite. Notes: 1) YTD from launch date for bonds issued in 2019. Source: Bloomberg BGN data on 05/08/19 at 10:00.

Italian bank bonds denominated in euro (institutional) - Covered															
Bond	Type	Outst. EUR M	Price	YTM %	Spread over ASW (bps) BTP	SPRD TYPE	SPRD 5.8.19	-1W (bps)	-1M (bps)	YTD (bps) 2.1.19	52-week range max	52-week range min	Ratings Mdy	Ratings Fitch	Ratings BBG
UCGIM 3 01/31/24	FX	1,000	114.5	-0.2	-99	ASW	21	-2	-8	-39.3	63	21	Aa3	AA	AA-
UCGIM 0 3/4 04/30/25	FX	1,000	104.2	0.0	-94	ASW	37	-1	-6	-33.8	74	37	Aa3	-	-
UCGIM 0 3/8 10/31/26	FX	1,000	101.9	0.1	-98	ASW	37	-1	-5	-35.7	76	37	Aa3	-	-
UCGIM Float 10/31/20	FL	500	100.0	0.0	-	DISC	38	-3	-2	-10.5	52	37	Aa3	-	-
Unione di Banche Italiane SpA															
UBIIM 4 12/16/19	FX	1,000	101.6	-0.4	-11	ASW	-14	-2	-5	-41.3	37	-17	Aa3	-	AA-
UBIIM 3 1/8 10/14/20	FX	1,500	104.2	-0.4	-22	ASW	5	0	1	-25.1	33	3	Aa3	-	AA-
UBIIM 5 1/4 01/28/21	FX	1,000	108.3	-0.3	-27	ASW	14	-1	-2	-31.7	48	9	Aa3	-	AA-
UBIIM 1 01/27/23	FX	1,250	104.5	-0.3	-92	ASW	16	-1	-6	-55.2	74	16	Aa3	-	AA-
UBIIM 3 1/8 02/05/24	FX	1,000	115.4	-0.3	-104	ASW	15	-1	-6	-52.9	72	15	Aa3	-	AA-
UBIIM 0 1/2 07/15/24	FX	750	103.4	-0.2	-104	ASW	21	-1	-9	-49.0	73	21	Aa3	-	AA-
UBIIM 1 1/4 02/07/25	FX	1,000	107.8	-0.2	-102	ASW	21	-1	-10	-49.9	75	21	Aa3	-	AA-
UBIIM 1 09/25/25[1]	FX	500	106.9	-0.1	-119	ASW	21	-1	-13	-37.3	59	21	Aa3	-	AA-
UBIIM 0 3/8 09/14/26	FX	1,000	102.5	0.0	-107	ASW	29	0	-10	-46.4	81	29	Aa3	-	AA-
UBIIM 1 1/8 10/04/27	FX	1,250	108.5	0.1	-122	ASW	31	0	-13	-47.1	81	31	Aa3	-	AA-
UBIIM 1 1/4 01/15/30	FX	500	109.6	0.3	-131	ASW	41	0	-7	-38.7	83	41	Aa3	-	AA-

TYPE: FX = Fixed; FL = Floating; VR = Variable; FT = Flat Trading. YTM: yield to maturity or yield to call for callable bonds excluding "not called bonds". YTD= year to date from 02.01.2019 or from lunch date for bond issued in 2017. SPRD TYPE: ASW=Asset Swap, DISC=Discount Margin, Z-SPR=Z-Spread. SPRD: spread to maturity or spread to first call date for callable bonds. Ratings reported in the table on individual issues; Rating on credit watch if *, Rating on credit watch positive if *+, Rating on credit watch negative if *-. BBG: Bloomberg Composite. Notes: 1) YTD from launch date for bonds issued in 2019. Source: Bloomberg BGN data on 05/08/19 at 10:00.

Italian bank bonds denominated in euro (institutional) - Senior Government Guaranteed															
Bond	Type	Outst. EUR M	Price	YTM %	Spread over ASW (bps) BTP	SPRD TYPE	SPRD 5.8.19	-1W (bps)	-1M (bps)	YTD (bps) 2.1.19	52-week range max	52-week range min	Ratings Mdy	Ratings Fitch	Ratings BBG
Investment Grade															
Banca Carige SpA															
BANCAR 0 1/2 01/25/20[1]	FX	1,000	100.2	0.1	33	ASW	48	0	-4	-35.8	105	44	Baa3	-	-
BANCAR 0 3/4 07/26/20[1]	FX	1,000	100.4	0.3	49	ASW	77	4	-3	-9.5	117	72	-	-	-
Banca Monte dei Paschi di Siena SpA															
MONTE 0 3/4 01/25/20	FX	4,000	100.3	0.0	23	ASW	37	-1	-5	-62.0	192	34	-	BBB	BBB
MONTE 0 3/4 03/15/20	FX	4,000	100.5	0.0	20	ASW	38	3	-6	-61.9	198	34	-	BBB	BBB
Intesa Sanpaolo SpA															
ISPIM 0 1/2 02/02/20	FX	361	100.3	0.0	20	ASW	34	-2	-10	-46.2	184	30	-	BBB	BBB
ISPIM 0 1/2 02/03/20	FX	393	100.2	0.0	27	ASW	41	-1	-6	-46.8	184	40	-	BBB	BBB
ISPIM 0 1/2 05/31/20	FX	700	100.5	-0.1	11	ASW	30	0	-6	-33.3	72	27	-	-	-
ISPIM 0 1/2 06/01/20	FX	2,200	100.4	0.0	14	ASW	35	0	-6	-33.2	72	33	-	-	-

TYPE: FX=Fixed; FL=Floating. YTM: yield to maturity or yield to call for callable bonds excluding "not called bonds". YTD= year to date from 02.01.2019 or from lunch date for bond issued in 2017. SPRD TYPE: ASW=Asset Swap, DISC=Discount Margin, Z-SPR=Z-Spread. SPRD: spread to maturity. Ratings: reported in the table refer to individual issues. BBG: Bloomberg Composite. Notes: 1) YTD from launch date for bonds issued in 2019. Source: Intesa Sanpaolo Research elaboration on Bloomberg data at 10:00.

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Corporate credit view key

Credit rating key	
Credit view	Definition
POSITIVE	We expect an improvement in fundamentals over the next six months
NEUTRAL	We expect substantially stable fundamentals over the next six months
NEGATIVE	We expect a deterioration in fundamentals or visibility on fundamentals over the next six months
SUSPENDED	The credit view and investment recommendation for this company have been suspended as there is not a sufficient fundamental basis for determining an investment view. The previous credit view, if any, is no longer in effect for this company
NOT ASSIGNED	The company is or may be covered by the Research Department but no credit view and investment recommendation are assigned either voluntarily or to comply with applicable regulations and/or firm policies in certain circumstances.

Historical Credit Views changes

Banco BPM - Historical Credit Views (-1Y)	
Date	Credit View

BPER - Historical Credit Views (-1Y)	
Date	Credit View

MPS - Historical Credit Views (-1Y)	
Date	Credit View
24/07/2019	Negative
14/01/2019	Under Review

UBI - Historical Credit Views (-1Y)	
Date	Credit View

Unicredit - Historical Credit Views (-1Y)	
Date	Credit View
15/04/2019	Neutral
09/11/20108	Under Review

Historical Credit Investment Recommendation Changes

Banco BPM - Historical Investment Recommendation (-1Y)	
Date	Covered Bonds

Banco BPM - Historical Investment Recommendation (-1Y)	
Date	Senior Unsecured
13/11/2018	Hold
26/10/2018	Sell

Banco BPM - Historical Investment Recommendation (-1Y)	
Date	Subordinated
13/11/2018	Hold
26/10/2018	Sell

Banco BPM - Historical Investment Recommendation (-1Y)	
Date	**Hybrids**
13/11/2018	Hold
26/10/2018	Sell

BPER - Historical Investment Recommendation (-1Y)	
Date	Covered Bonds

BPER - Historical Investment Recommendation (-1Y)	
Date	Subordinated

MPS - Historical Investment Recommendation (-1Y)	
Date	Covered Bonds
20/07/2019	Hold

MPS - Historical Investment Recommendation (-1Y)	
Date	Senior Unsecured
24/07/2019	Hold

MPS - Historical Investment Recommendation (-1Y)	
Date	Sen Govt Gtd

MPS - Historical Investment Recommendation (-1Y)	
Date	Subordinated
09/10/2018	Sell

UBI - Historical Investment Recommendation (-1Y)	
Date	Covered Bonds

UBI - Historical Investment Recommendation (-1Y)	
Date	Senior Unsecured
05/08/2019	Buy

UBI - Historical Investment Recommendation (-1Y)	
Date	SNP
05/08/2019	Buy

UBI - Historical Investment Recommendation (-1Y)	
Date	Subordinated
09/05/2019	Buy

UNICREDIT - Historical Investment Recommendation (-1Y)	
Date	Covered Bonds

UNICREDIT - Historical Investment Recommendation (-1Y)	
Date	Senior Unsecured

UNICREDIT - Historical Investment Recommendation (-1Y)	
Date	Subordinated

UNICREDIT - Historical Investment Recommendation (-1Y)	
Date	Hybrids
13/05/2019	Hold
15/04/2019	Buy

UNICREDIT - Historical Investment Recommendation (-1Y)	
Date	SNP

Credit Views Allocations

Intesa Sanpaolo Research Credit View distribution at August 2019			
Number of Companies subject to credit views: 28**	Positive	Neutral	Negative
Total Credit Research coverage - last credit view (%)	21	64	14
of which Intesa Sanpaolo's clients* (%)	83	56	50

(*) Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and investment banking services in the last 12 months; percentage of clients in each rating category; ** Total number of companies covered is 32.

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Investment recommendations	
Recommendation	Definition
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Intesa Sanpaolo Research Department – Head of Research Gregorio De Felice			
Head of Equity & Credit Research			
Giampaolo Trasi		+39 02 8794 9803	giampaolo.trasi@intesasanpaolo.com
Credit Research			
Maria Grazia Antola (Head)	Banking	+39 02 8794 1114	maria.antola@intesasanpaolo.com
Alessandro Chiodini	Utilities	+39 02 8794 1115	alessandro.chiodini@intesasanpaolo.com
Melanie Gavin	Telecoms & High Yield	+39 02 8794 1118	melanie.gavin@intesasanpaolo.com
Bedri Nuredini	Industrials & High Yield	+39 02 8794 2838	bedri.nuredini@intesasanpaolo.com
Maria Gabriella Tronconi	Industrials & High Yield	+39 02 8794 1117	maria.tronconi@intesasanpaolo.com
Barbara Pizzarelli	Research Assistant	+39 02 8794 1116	barbara.pizzarelli@intesasanpaolo.com

Banca IMI SpA

Largo Mattioli, 3
20121 Milan, Italy
Tel: +39 02 7261 1

Banca IMI Securities Corp.

1 William Street
10004 New York, NY, USA
Tel: (1) 212 326 1100

Banca IMI London Branch

90 Queen Street
London EC4N 1SA, UK
Tel +44 207 894 2600