Italian Banking Outlook 2025

Big changes ahead

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S&P Global Ratings

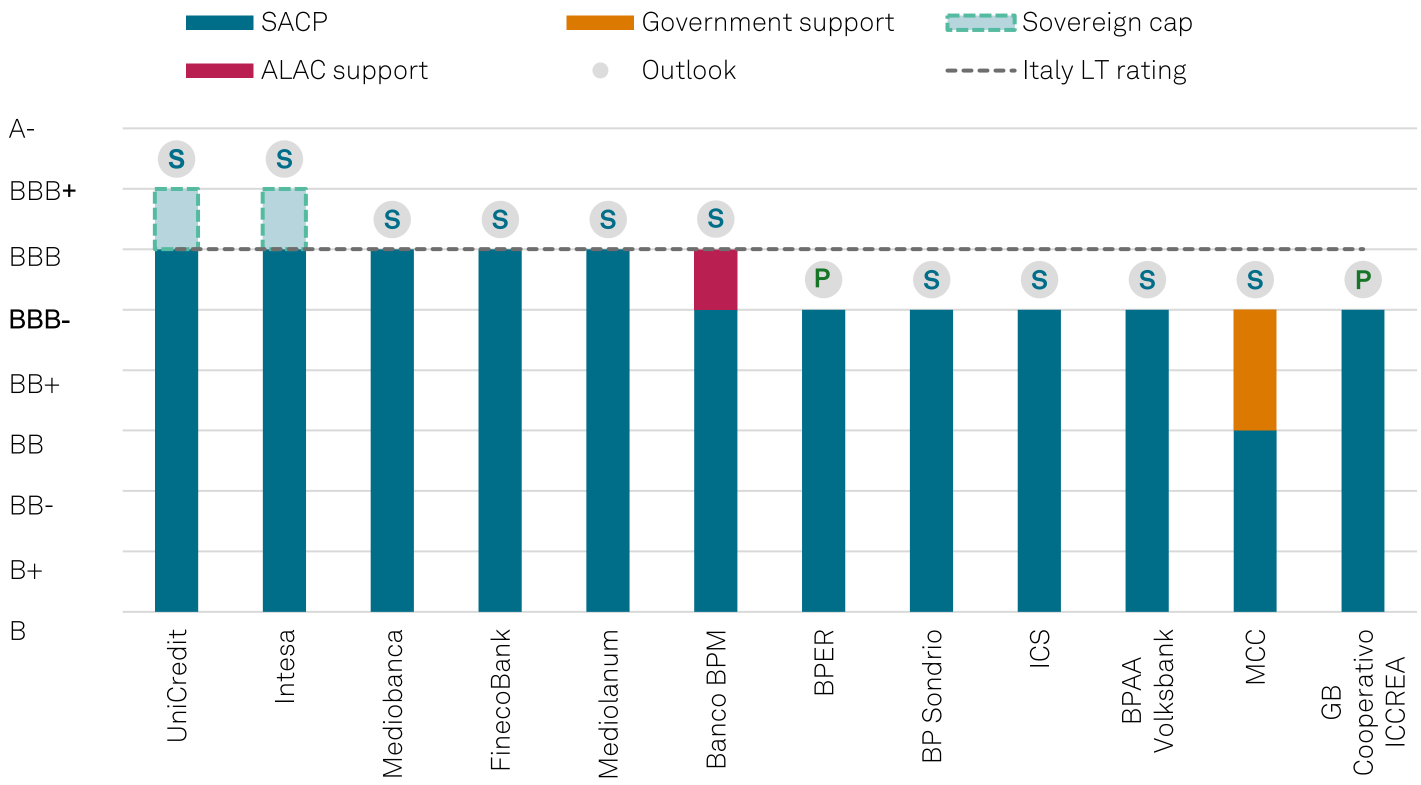
This report does not constitute a rating action

Key Takeaways

- **Consolidation will be the main theme in 2025,** following Unicredit's moves to acquire Banco BPM and Commerzbank, Banco BPM's offer for Anima, and shareholders repositioning on Monte dei Paschi. The banking sector's structure will likely change materially, paving the way for stronger players. The obstructive shareholder structure of several banks could influence the deals' outcome, but consolidation looks to be inevitable, in our opinion.
- **Economic conditions are likely to improve slightly,** as the impact of lower rates and Next Gen EU funds could propel consumption and investment. We expect GDP to increase 0.9% in 2025, compared with 0.5% in 2024. We might see a small pickup in lending, primarily from residential mortgages and corporate loans. We anticipate loan growth of 1%-2% in 2025.
- **Some asset quality problems might emerge for small and midsize enterprises (SMEs)** after years of historically low defaults. Given the over €200 billion of government guarantees on loans, the impact on credit losses will be contained.
- **The banking sector is likely to maintain sound profitability in 2025,** slightly below 2024's peak. The different among banks will become increasingly apparent, particularly in terms of revenue and efficiency. Dividend payouts will remain generous, although most banks will continue building capital buffers. However, in the consolidation process, bidders might eventually have to use more capital to get deals done.

Outlooks Are Largely Stable, Given The Sovereign Rating Constraint

Ratings largely cluster around those on Italy (unsolicited; BBB/Stable/A-2)



Data as of Dec. 12, 2024. SACP--Stand-alone credit profile. ALAC--Additional loss absorption capacity. LT--Long-term. P--Positive. S--Stable. Source: S&P Global Ratings.

Main rating actions In 2024:

- We upgraded Banco BPM to 'BBB/A-2' from 'BBB-/A-3' to reflect increased additional loss absorption capacity (ALAC) buffers.
- We upgraded ICCREA Banca (a cooperative banking group) to 'BBB-/A-3' from 'BB+/B'; the outlook is positive.
- We assigned our 'BBB-/A-3' ratings to BPER Banca, with a positive outlook
- We revised upward our stand-alone credit profiles (SACP) on both Intesa Sanpaolo and Unicredit to 'bbb+' from 'bbb'.
- We revised the trend on Italy's Banking Industry Country Assessment to positive from stable.

2025 Forecast | Profitability Will Remain Healthy, If Declining Moderately

Worsening		Neutral		Improving

Revenue	NII will likely decline 6%-7% on average from the 2024 peak as deposit margin declines. This will likely be partly offset by fee expansion, primarily from asset management and profit from insurance. NII will remain 50%-55% higher than in 2021.
Expense	Expense will be a mixed bag, with larger banks benefiting from synergies and staff reductions. Smaller institutions' operating expense will continue to rise faster than inflation due to staff costs and investment in IT.
Profitability	Profitability will remain healthy, with the return on equity for rated banks likely to exceed 14% on average. Differences among institutions will become increasingly more evident.
Credit quality	We expect some credit deterioration, particularly in SME loans. We assume about 60 basis points in credit losses on average in 2025.
Capital	Risk-adjusted capital ratios will likely improve for most, despite generous dividend distributions and buybacks. Volumes will likely increase marginally after years of contraction.
Funding and liquidity	Banks will still operate with deposit well above loans, and we do not expect any change in 2025. Liquidity has normalized after the TLTRO's reimbursement. We could see some tactical use of ECB MRO, to diversify liquidity sources.

Note: Forecast for the next 12 months. NII--Net interest income. TLTRO--Targeted longer-term refinancing operations. ECB MRO--European Central Bank main refinancing operations. Source: S&P Global Ratings.

Key Risks

Weaker-than-expected economic conditions

New leadership in the U.S. and Europe could reshape our projections. The timing and type of any proposed tariffs could affect Italy's economic performance, and uncertainty could derail the recovery of consumption and corporate investment.

Asset quality

Tougher economic conditions might affect private sector creditworthiness, particularly SMEs. Given banks' progress in managing credit risks, we expect the sector to remain significantly more resilient to downturns than before, however.

Sovereign creditworthiness

High debt and fiscal deficits affect Italy's ability to support the economy in case of need. Italian banks' creditworthiness might improve further, but the sovereign could continue to constrain bank ratings.

Digitalization and cyber risks

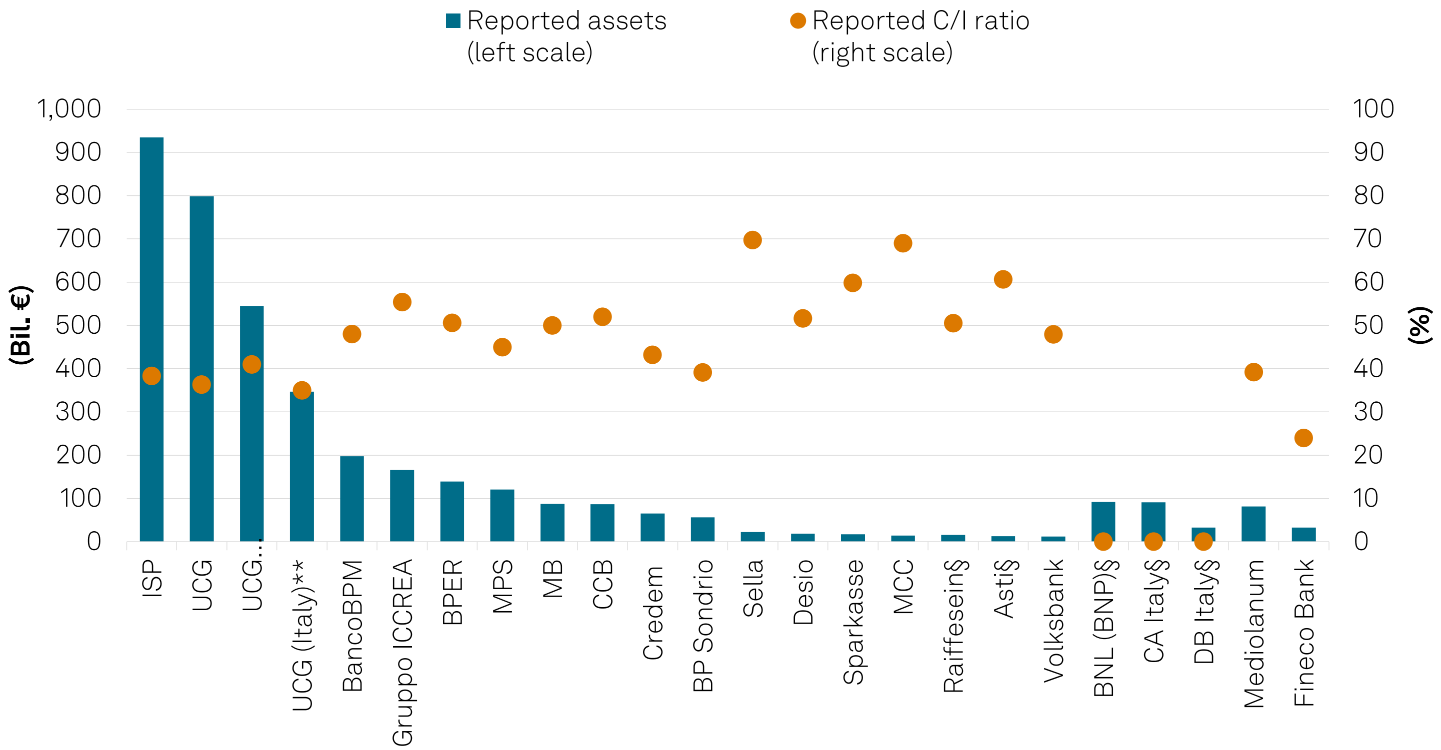
Banks have invested for capacity and resources, which is widening the gap between banks in terms of efficiency, business models, and the ability to keep abreast of innovation and risk protection. We expect increasing credit divergence.

Strategic Moves: Ongoing Consolidation In The Italian Banking System

The banking sector as of June 2024

Scale or agile models charatherize best performing banks

Structure of The Italian Banking Sector As Of June 2024



*Unicredit Italy refers to Unicredit SpA individual report. Estimated total assets exclude value of participations for comparative purpose. Unicredit Banco BPM in Italy excluding any disposal §Data as of 2023. C/I--Cost-to-income. Source: S&P Global Ratings

- UCG (Unicredit) intends to acquire Banco BPM in the latest chapter in Italy's stop-start banking consolidation, triggered by the cleanup of Italian banks' balance sheets, improved profitability prospects, and equity valuations
- Banco BPM's recent announcement to acquire Anima, a leading domestic asset manager, via its insurance subsidiary was a play to diversify revenue streams
- It is still unclear how other midsize players such as MPS, BPER, and BP Sondrio would react or whether they could become targets.

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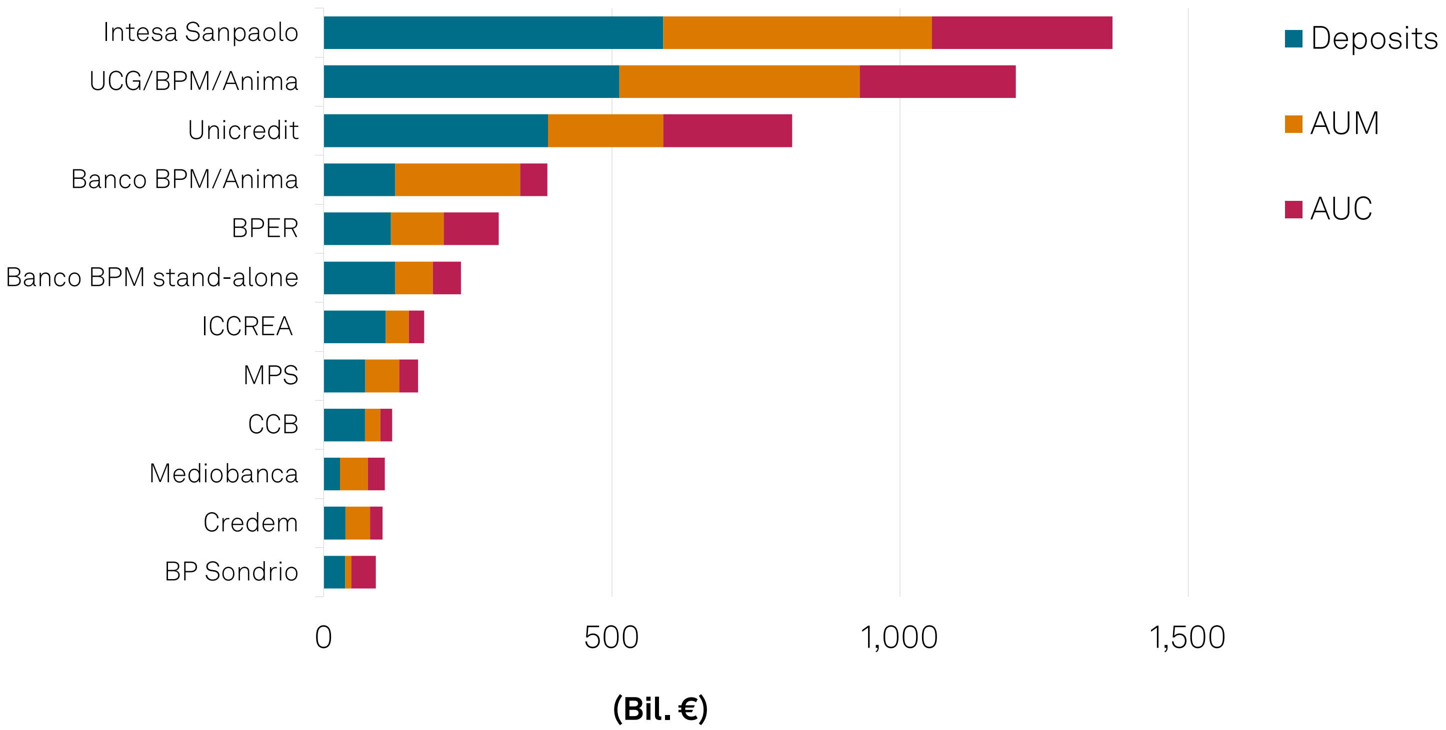
Strengthening Wealth Management Capabilities Is A Key Priority

Intesa maintains a strong advantage, but a Unicredit-Banco BPM-Anima merger would narrow the gap

Customers' financial assets as of September 2024



AUM--Assets under management. AUC--Assets under custody. Source: S&P Global Ratings.

- Italian banks have increased wealth management capabilities, including reinstating control of production (for instance, Banco BPM's offer for Anima and Unicredit via its insurance arm).
- Enhancing noninterest income diversification and generation is a main factor in ongoing M&A activity.
- Banks retain control of most of the large savings of Italian households.
- As interest rates decline, wealth management fees will increase as customers switch to asset management.
- While all banks will benefit from this, the difference among banks will become more apparent, depending on their capabilities.

Shareholder Structure Could Influence Bank Consolidation

Italian banks and their bancassurance agreements

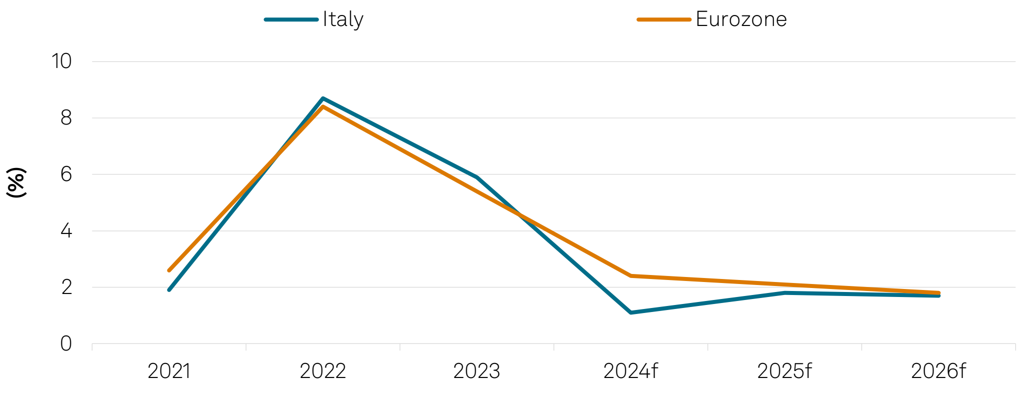
Bank		Main shareholders	Main bancassurance agreements
Banco BPM	15.1%	Credit Agricole (CASA)	Vera Vita (Life) now owned by Banco BPM after acquiring 65% stake from Generali.
	5.3%	Davide Leone Investments	Banco BPM Assicurazioni (non-life). CASA 65%; Banco BPM 35%.
	5.0%	Blackrock	Vera Assicurazioni. CASA 65%; Banco BPM 35%.
Monte dei Paschi	11.7%	Italian government	AXA - MPS Joint Venture in life and P/C business - run to 2027.
	9.8%	Delfin	
	5.0%	BancoBPM	
	5.0%	Caltagirone	
	4.0%	Anima	
Mediobanca	19.8%	Delfin	Mediobanca owns 13% of Generali Insurance.
	7.8%	Caltagirone Group	
	4.2%	Blackrock	
	3.5%	Mediolanum	
BPER Banca	24.6%	Unipol*	Bancassurance agreement with Unipol Banca in both life and P/C.
	10.2%	Fondazione BP Sardegna	Within the deal, Unipol holds a 63% stake in Arca Vita; BPER 19.7%; BP Sondrio 14.8%.
	4.2%	JP Morgan Chase	
	3.5%	Norges Bank	
BP Sondrio	19.7%	Unipol	Bancassurance agreement with Unipol Banca in both life and P/C.
Unicredit	7.4%	Blackrock	50%-50% joint venture with Allianz in P/C business. Recently internalized the life insurance business by buying back 50% stake in its joint venture with Allianz and CNP.
Cooperative Banking Group - ICCREA			Partnership in both life and non-life with BNP Paribas. BNP owns 51% of the joint ventures.

*19.8% directly and 4.8% through derivatives. Delfin--Del Vecchio Family. P/C--Property/casualty. Source: S&P Global Ratings.

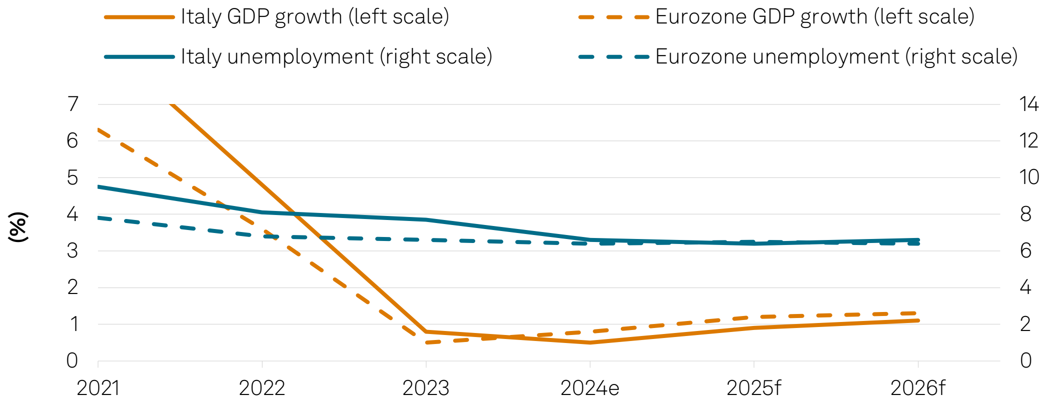
- Italy's banking sector is evolving, and further consolidation seems inevitable. We continue to expect the sector will eventually split between large players with the scale, revenue diversification, and earning capacity to fund the innovation needed to navigate the digital transformation; and smaller, agile banks able to rapidly adapt to changing customer behaviour.
- Obstructive shareholder structures continue to complicate wider consolidation.

Falling Interest Rates Will Support Modest Growth And Volume Expansion

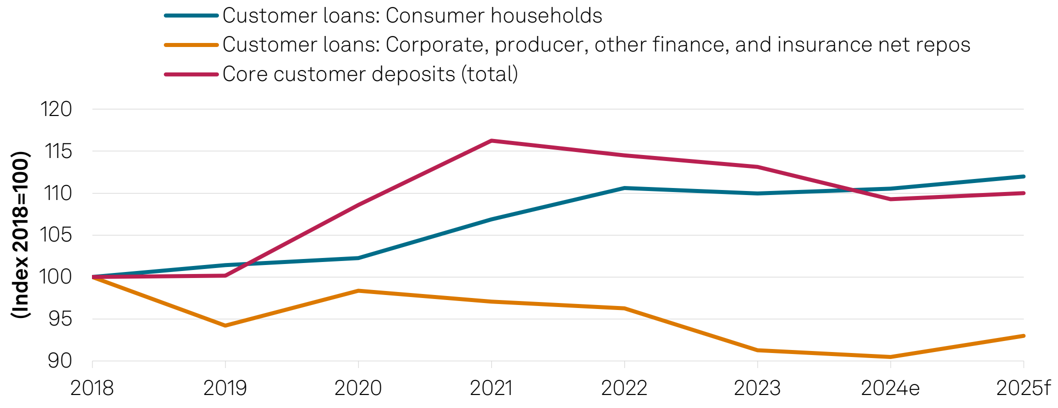
Italy's CPI inflation will align with that of the eurozone



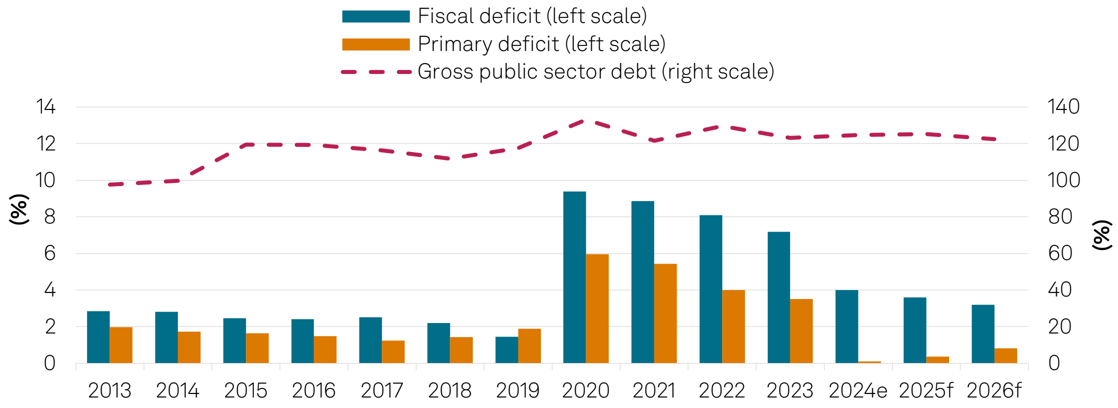
Economic conditions will improve slightly



We expect corporate loans to rise 1%-2% in 2025



High debt constrains economic flexibility



e--Estimate. f--Forecast. Source: S&P Global Ratings.

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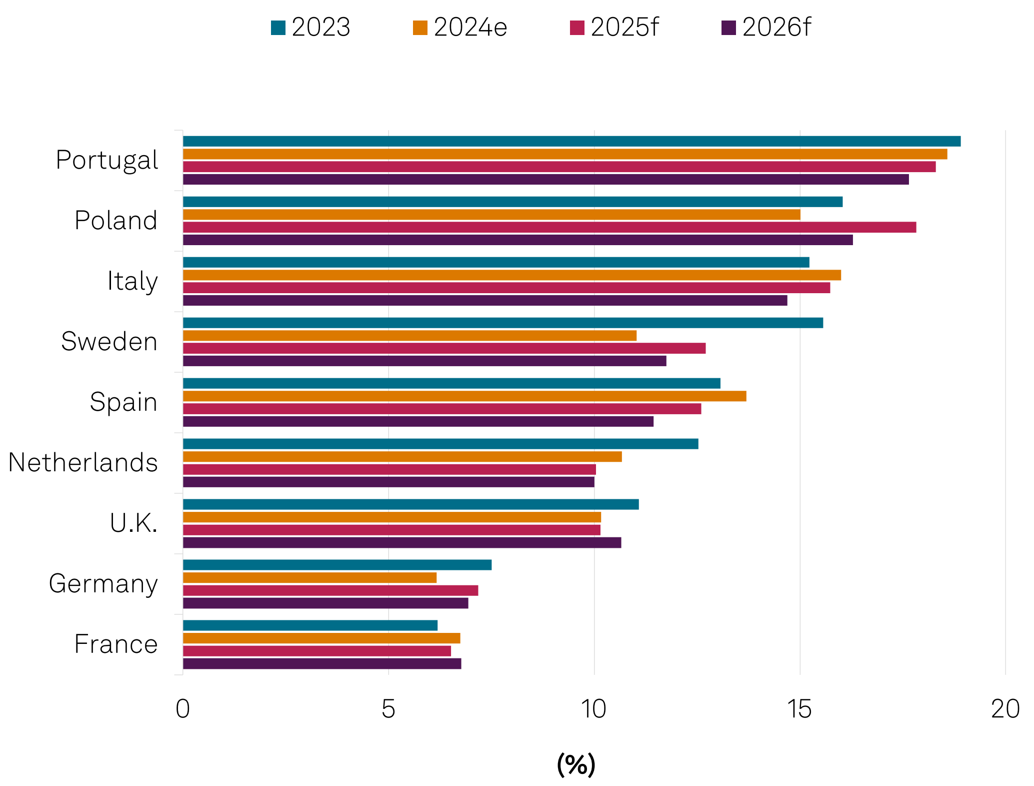
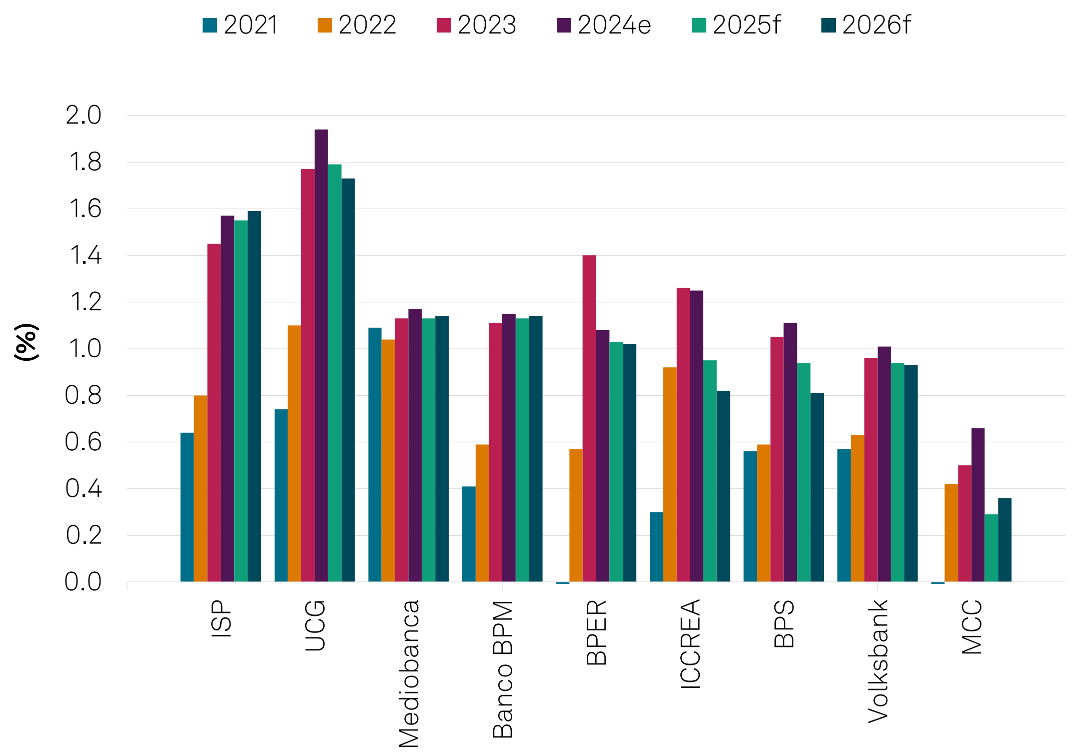
Returns In 2025 Will Fall Below 2024 Peaks But Stay At Still-Good 2023 Levels

Sound operating performance will be a first line of defense against losses

Rated Italian banks' RoE will remain high



Return on S&P Global Ratings' RWA

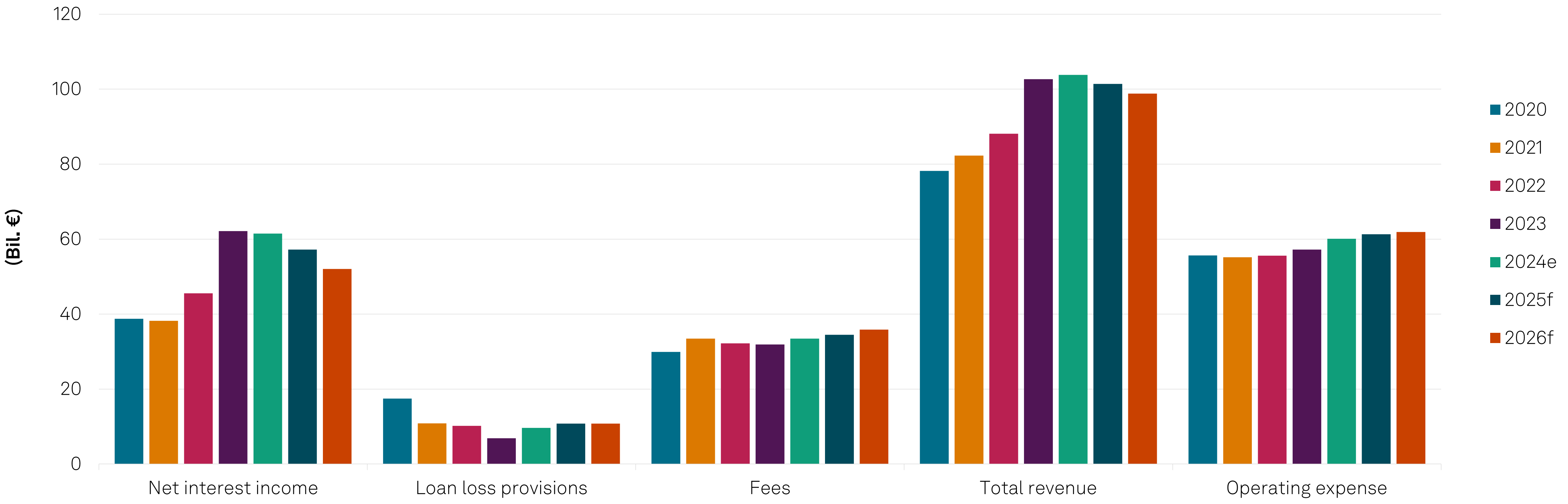


Sample includes rated European banks, for which we have data for all periods (that is, a constant sample). Values are weighted by total assets. RoE--Return on equity. e--Estimate. f--Forecast. Source: S&P Global Ratings.

We Forecast Structural Progress In Italian Banks' Earning Capacity

Increasing fee income, improved efficiency, and low cost of risk will sustain returns

Although declining, NII will continue contributing significantly to earnings

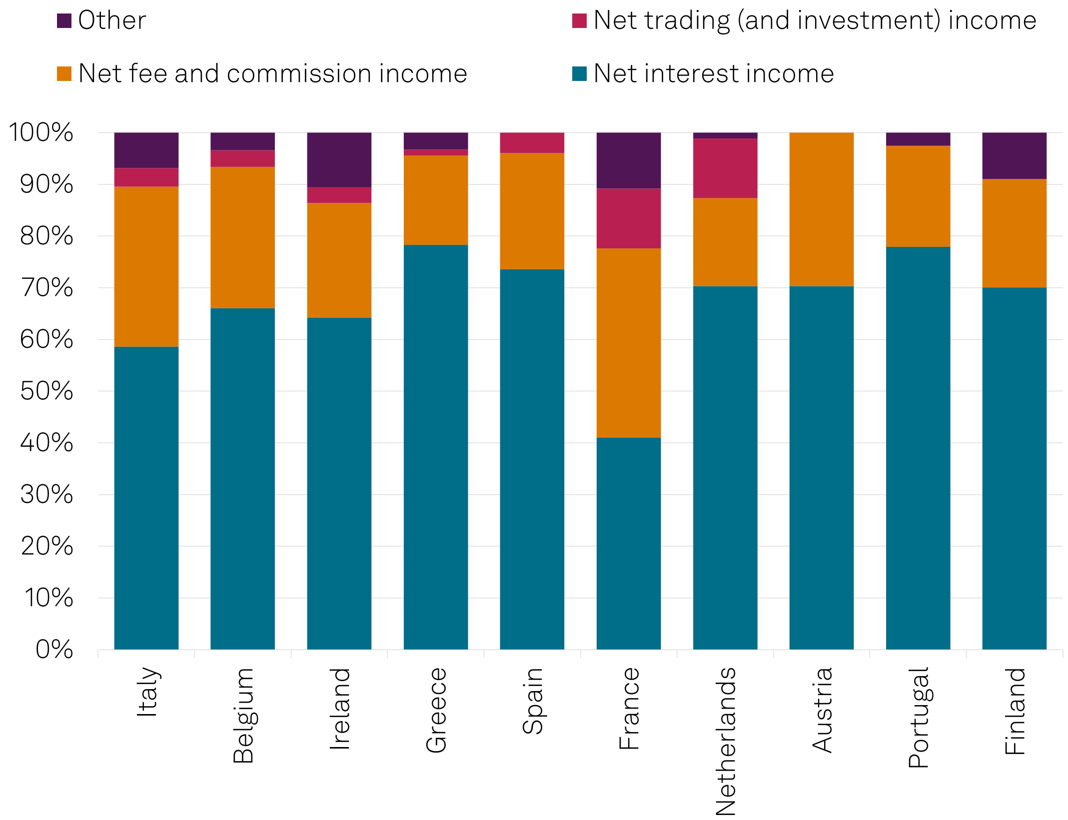


NII--Net interest income. e--Estimate. f--Forecast. Source: S&P Global Ratings.

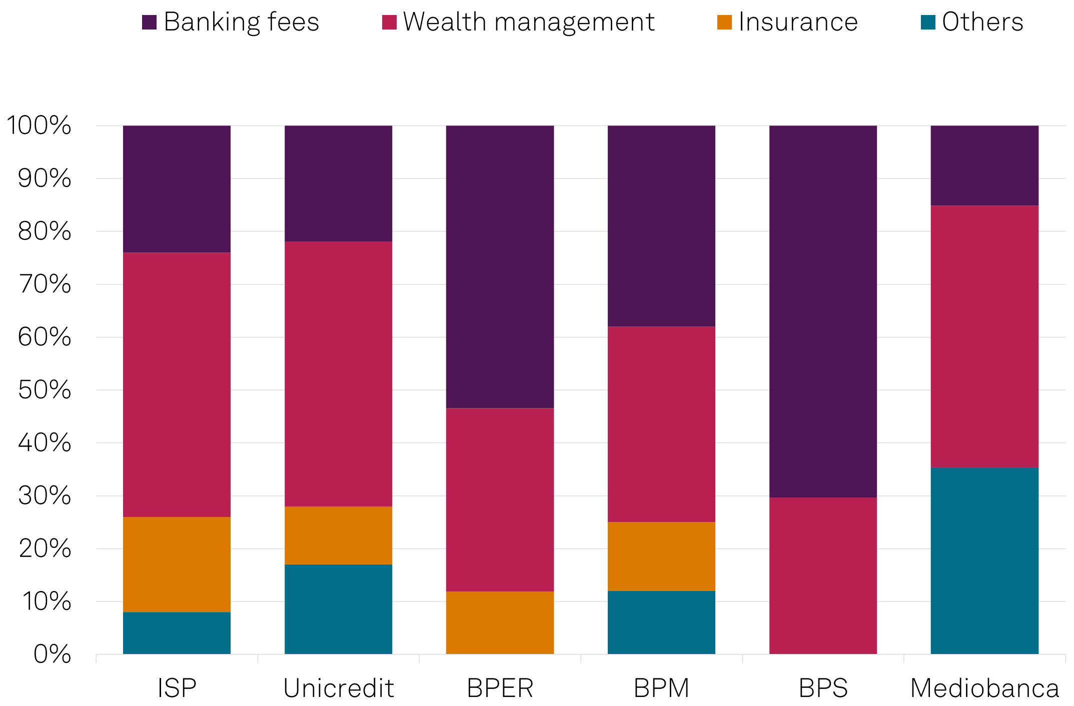
Better Revenue Diversification Support Profitability As Interest Rates Fall

This reflects management of Italy's significant financial wealth and still-higher banking service charges

Fee income's contribution in Italy is higher than peers'



Fee composition varies significantly among banks



Source: S&P Global Ratings.

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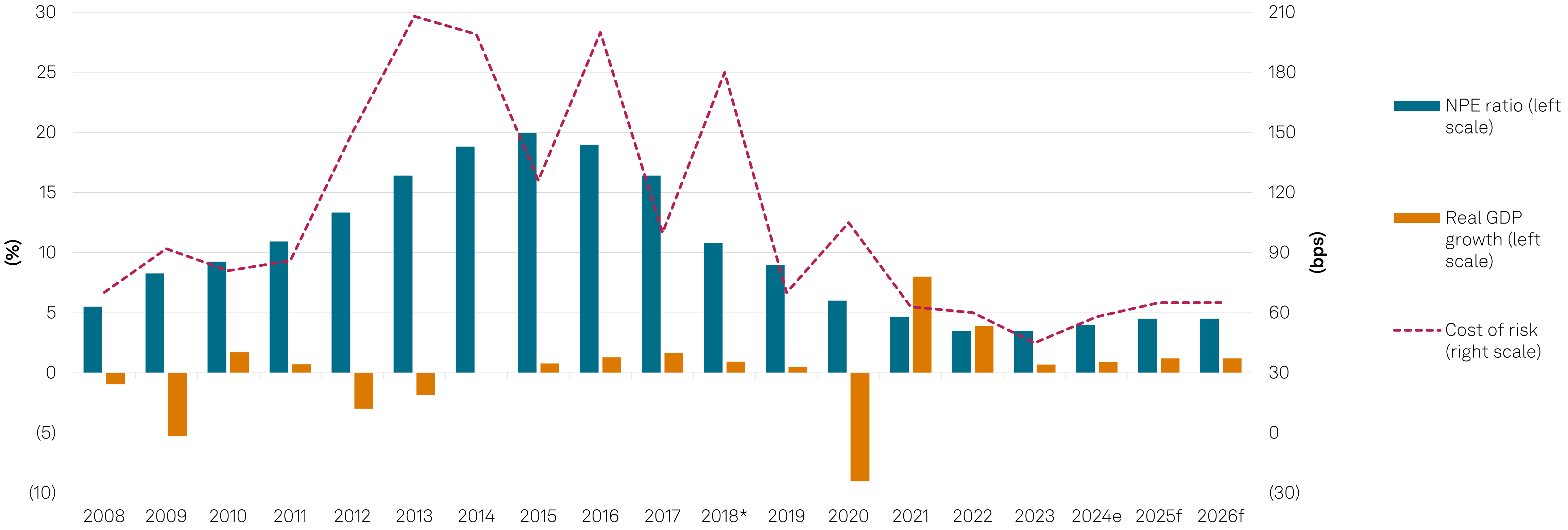
Contained Credit Losses Contribute To Structurally Better Profitability

A lack of legacy NPEs and stronger risk management are behind this

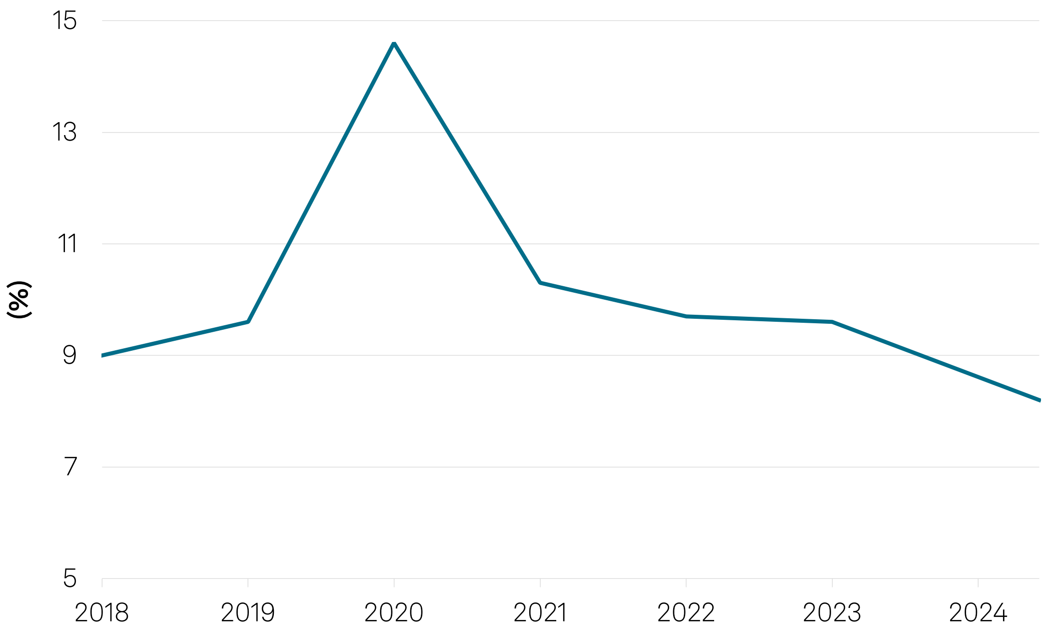


*2018 includes IFRS 9 FTA. NPE--Nonperforming exposure. bps--Basis points. e--Estimate. f--Forecast. Source: S&P Global Ratings.

Asset Quality: Default Rates Will Normalize From Historical Lows

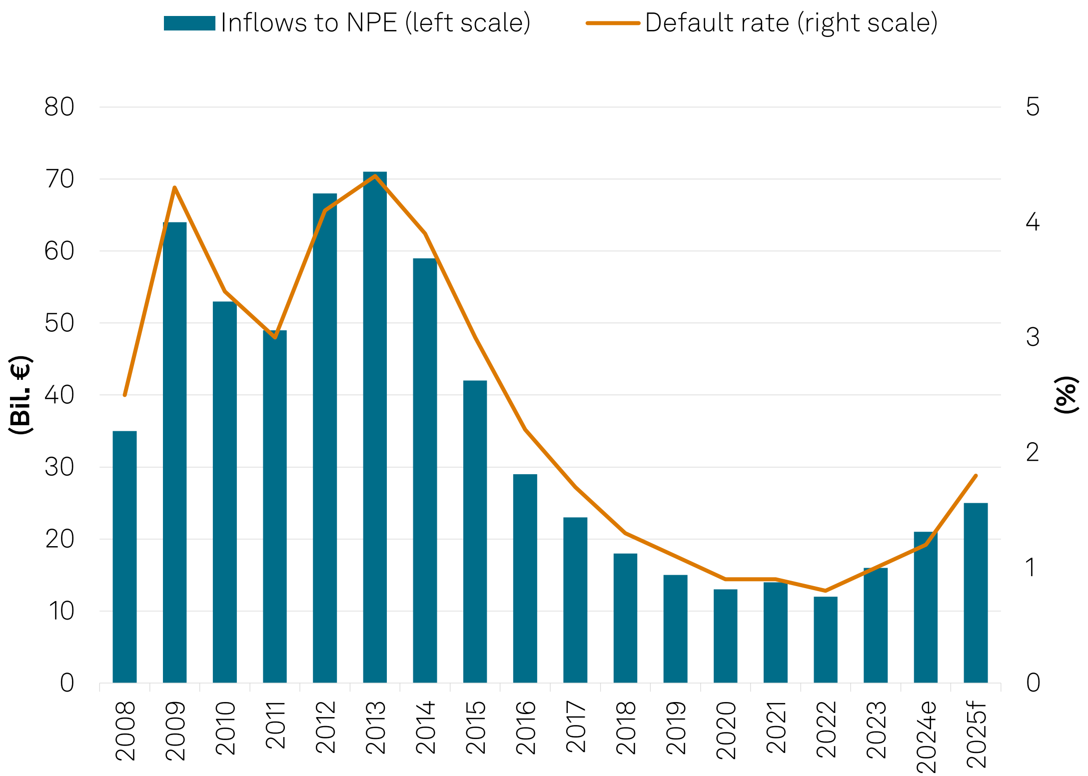
But government guarantees will significantly reduce the impact on banks

Stage 2 loans back at 2018 levels after pandemic peaks



Sources: Bank of Italy Financial Stability Report.

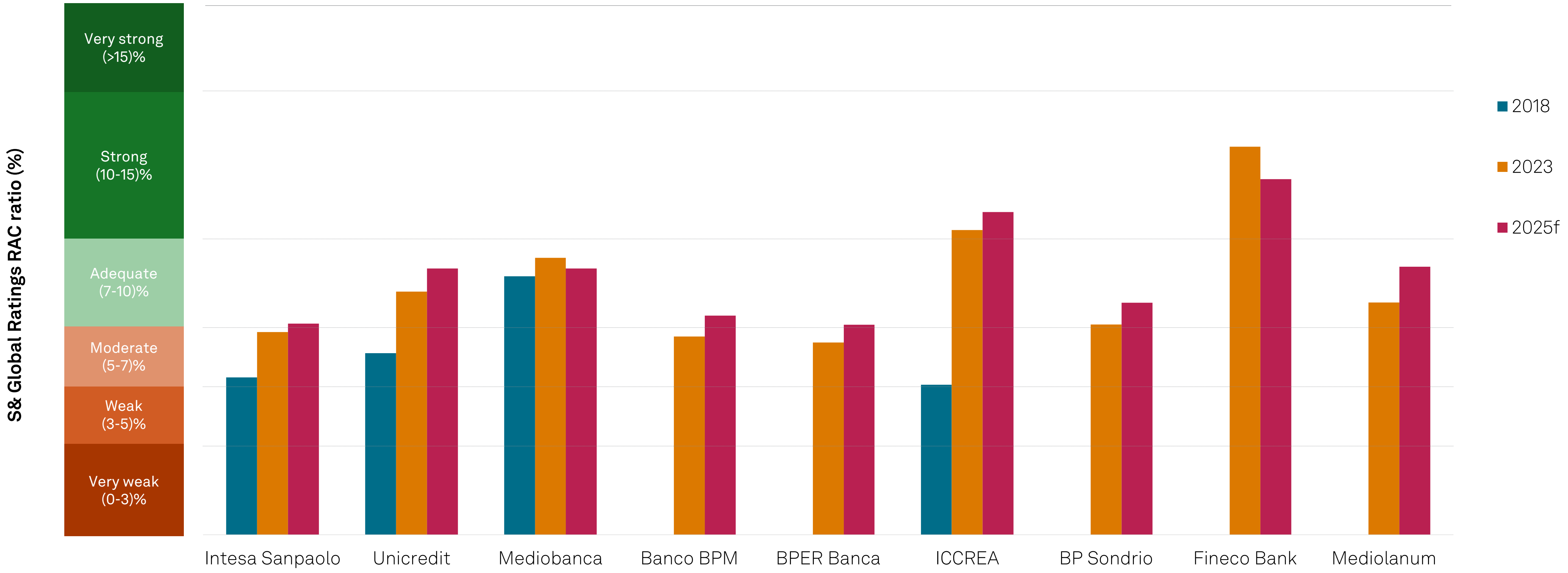
A manageable increase of default rates is ahead



Default rate: New inflows on NPE on loans. NPE--Nonperforming exposure. e--Estimate. f--Forecast. Sources: Bank Of Italy, banks' financial statements, PWC, Ifis, S&P Global Ratings.

Risk-Adjusted Capitalization With Improve Further Despite High Dividends

However, the effect of consolidation might lead to some short-term reduction



RAC--Risk-adjusted capital . f--Forecast. Source: S&P Global Ratings.

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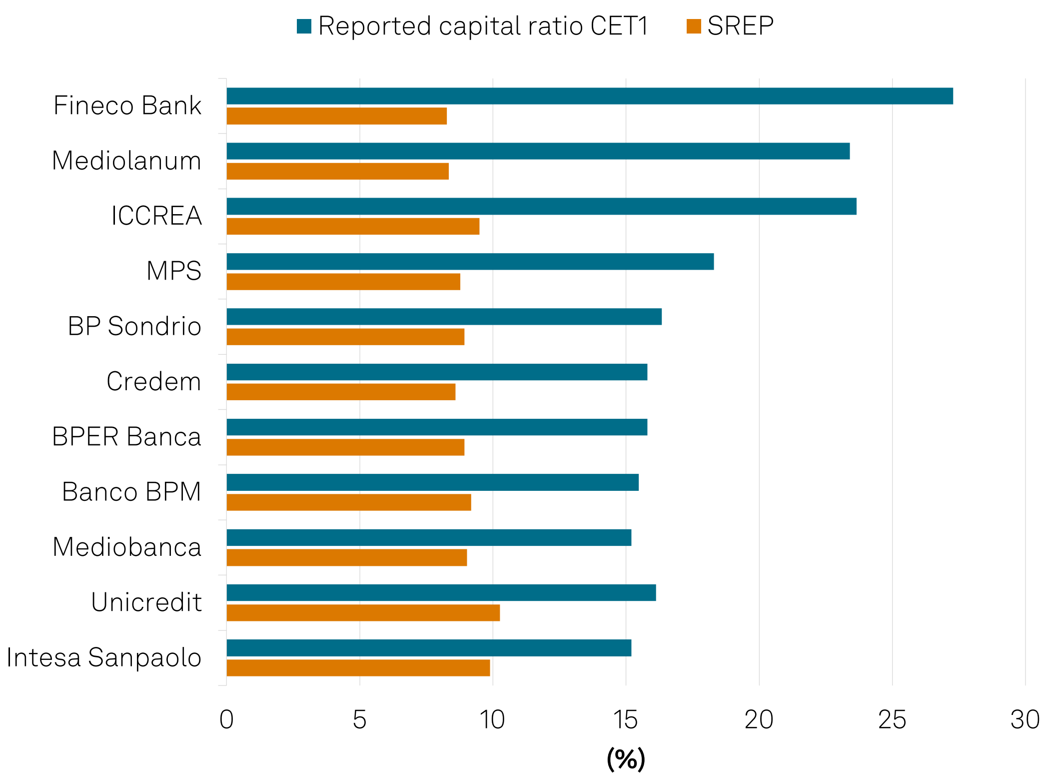
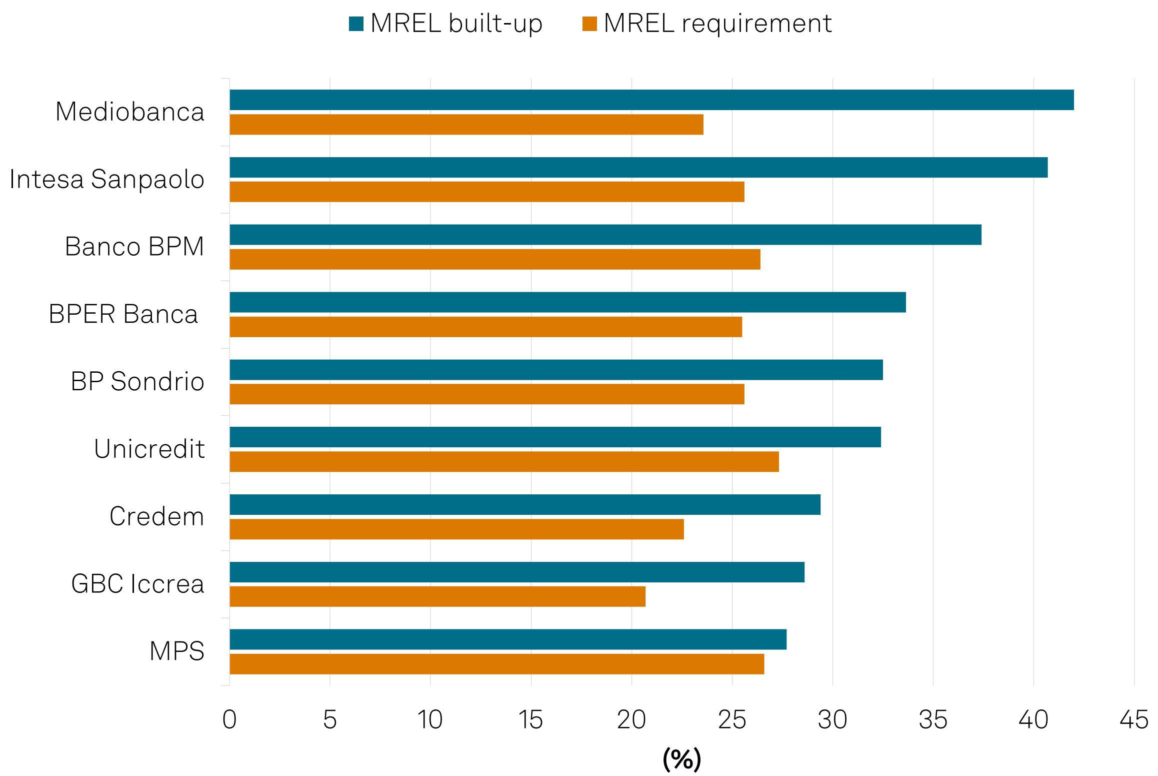
Banks Operating With Large Buffers Versus Regulatory Requirements

CET1 SREP requirement 2025 versus reported capital ratios



MREL: Built up versus required



CET1--Common equity Tier 1. SREP--Supervisory Review and Evaluation Process. MREL--Minimum requirement for own funds and eligible liabilities. Source: S&P Global Ratings.

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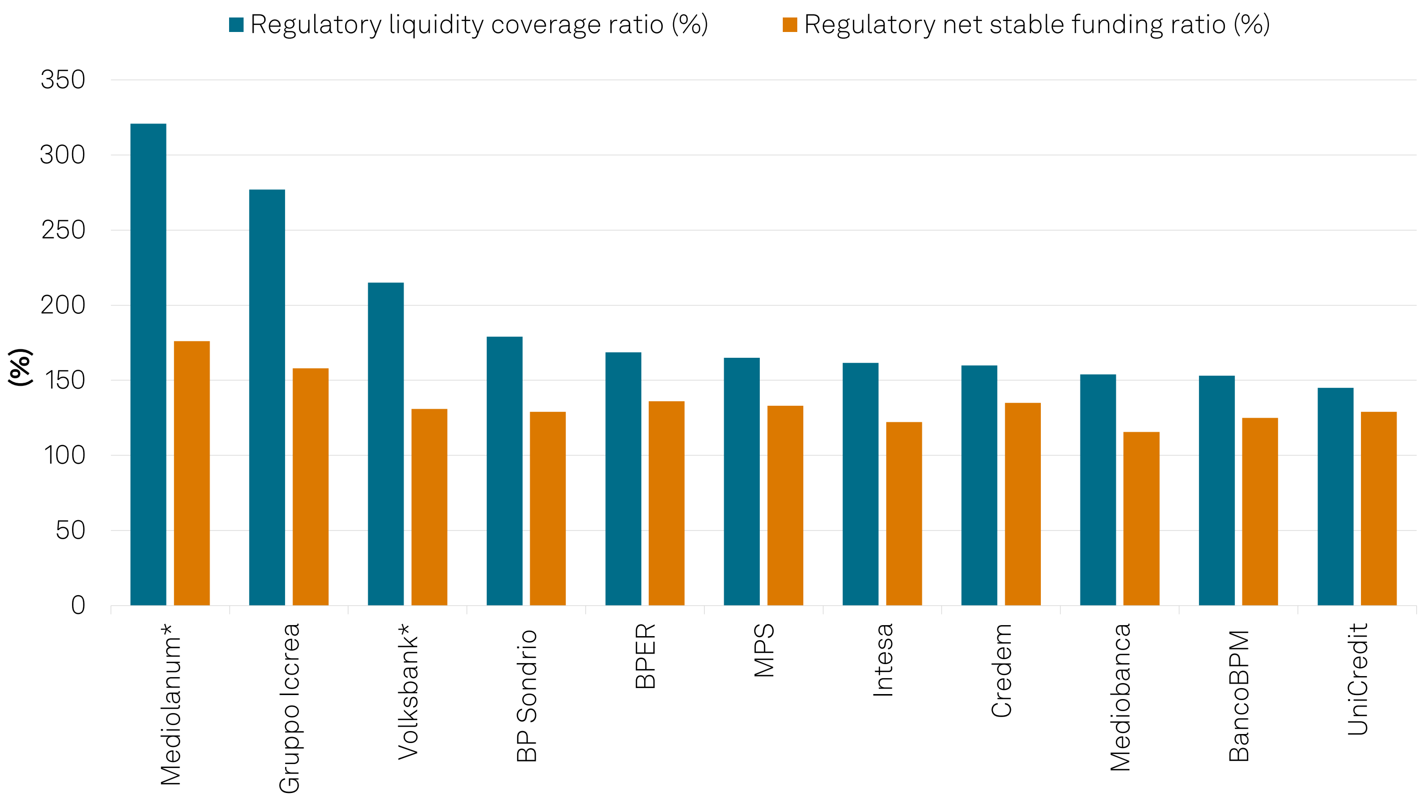
Funding And Liquidity Positions Look Solid

Banks exited TLTRO III processes smoothly

Funding and liquidity regulatory ratios as of September 2024



*Data from December 2023. Source: Banks' disclosures, S&P Global Ratings.

- Banks will enter 2025 with ample liquidity buffers, despite fully reimbursing the TLTLRO III.
- Favorable market conditions and improved creditworthiness helped banks in diversifying funding sources, including issuances.
- The sovereign remains the main risk for banks, because it adds potential volatility.
- We expect banks to make use of MRO for diversification purpose.
- Still, differences in cost of funding will become more evident, particularly benefiting the largest institutions, in our view.

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