Scope Ratings

Italian Bank Quarterly

Strengthening business models amid less favourable earnings outlook

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Italian banks have revised their earnings forecasts for 2024 following strong nine-month results, which were underpinned by resilient net interest income, a significant rebound in fees and solid credit quality. Lenders are now focusing on ways to stabilise their profits through the interest-rate cycle.

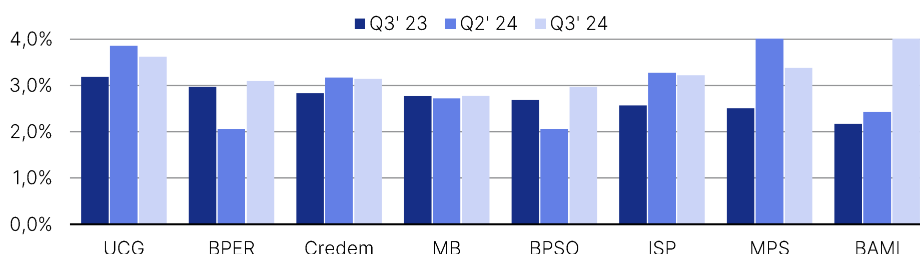
Medium-term interest-rate and economic uncertainties. We expect sector profitability to decline moderately in 2025, as growth in non-interest income will not fully offset the impact of normalising net interest margins. Earnings could be materially hit, however, if the ECB cuts rates rapidly and steeply. Weak economic growth in the euro area is compounded by global uncertainties including potential policy shifts following Donald Trump's re-election as US president.

Adapting to less conducive operating conditions. Lenders remain committed to boosting non-interest income by investing in partnerships, expanding headcount in asset gathering (wealth management and life insurance), and enhancing digital payments. At the same time, Italian banks are keen to further reduce costs and improve efficiency. Large-scale digital investments are bearing fruit, allowing banks to reduce headcount and the number of branches.

CRR3 favours bancassurance. In-house product factories have become an attractive option to increase diversification following the finalisation of CRR3, which reduces capital absorption of stakes in insurance companies. Banco BPM's bid for asset manager Anima could create Italy's second largest bancassurance and be positive for the group.

The outlook for asset quality has improved. Default rates have risen only marginally from record lows in 2024. However, we do not expect a material deterioration, as macroeconomic conditions remain supportive for both retail and corporate credit.

Figure 1: Italian banks' annualised return on risk weighted assets*



Source: Company data, SNL, Scope Ratings.
* This is a proxy for capital generation before distribution, although there are certain items that are deducted from capital.
Note: BAMI's Q3 and MPS' Q2 profits benefitted from large, positive one-offs.

Our expectations of 2025 trends by key area for Italian banks	
Profitability	Margin erosion will inevitably hit earnings ↘
Asset quality	Minimal deterioration in credit quality →
Capital position	Organic generation offset by distributions →
Funding and liquidity	Solid position despite normalisation in funding conditions →

Strong quarterly results despite seasonality in fees

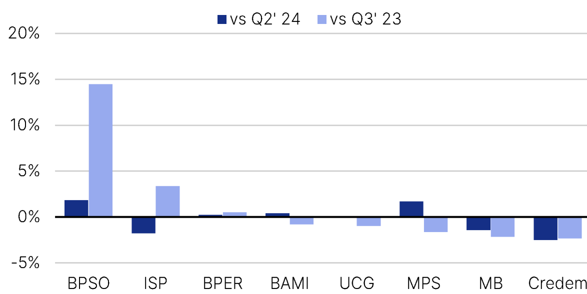
Our sample of eight Italian banks – Intesa Sanpaolo, UniCredit, Banco BPM, Banca Monte dei Paschi di Siena, BPER Banca, Mediobanca, Credito Emiliano and Banca Popolare di Sondrio – posted strong third quarter results, achieving a return on average equity of 16.6%, compared to 15.6% in Q2 2024 and 14% in Q3 2023.

The decline in Euribor (-43bp to 3.279% during Q3) is impacting net interest income across the board, although the banks have activated hedging strategies to limit their sensitivity to lower rates, including by increasing their bond exposure. BP Sondrio was the only bank to report a QoQ and YoY increase in net interest income, largely due to reductions in ECB funding.

Seasonality affected fees and commissions in Q3 but the YoY comparison looks favourable thanks to the rebound in sales of wealth management products against the backdrop of falling interest rates and bullish financial markets. Likewise, growth in digital payments continues to support commercial banking revenues.

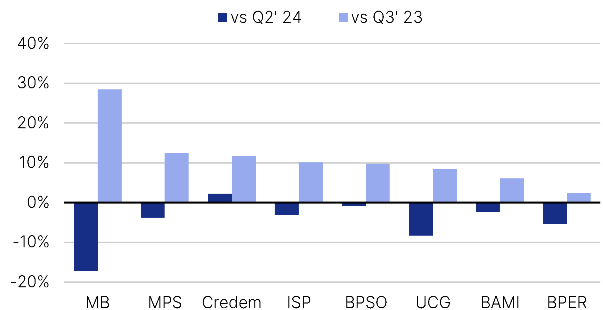
Non-interest income on an upward trend after a soft 2023

Figure 2: Net interest income



Source: Company data, Scope Ratings

Figure 3: Net fees and commissions

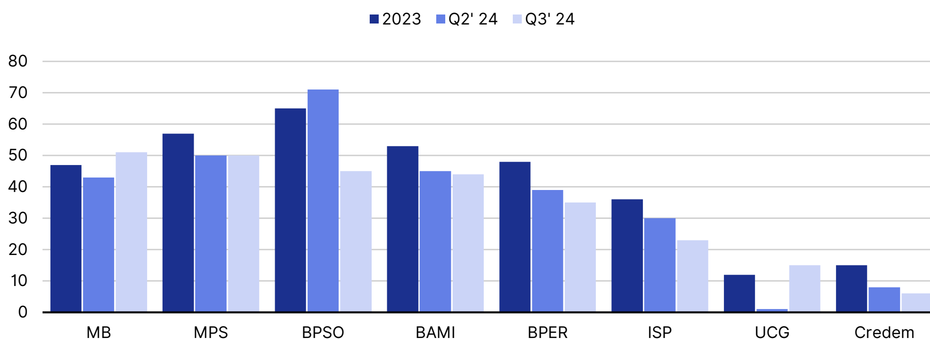


Source: Company data, Scope Ratings
Note: MB's YoY comparison is affected by the consolidation of Arma Partners from the end of 2023

Despite the impact of renewed labour contracts and investments in digital innovation, quarterly operating costs were only slightly higher YoY (+3%) in Q3. This testifies to the banks' strong commitment to cost discipline and efficiency. The quarterly average cost-income ratio decreased to 42.7% in Q3 2024, from 43.6% in Q3 2023.

Banks' Q3 bottom line benefited from a low average cost of risk of 34bp, close to the lows (33bp in Q1 2024). This reflects stronger-than-expected credit performance underpinned by an average borrower default rate of around 1%, and cleaner balance sheets.

Figure 4: Cost of risk (bp)



Source: Company data, Scope Ratings

Banks keen to strengthen their business models

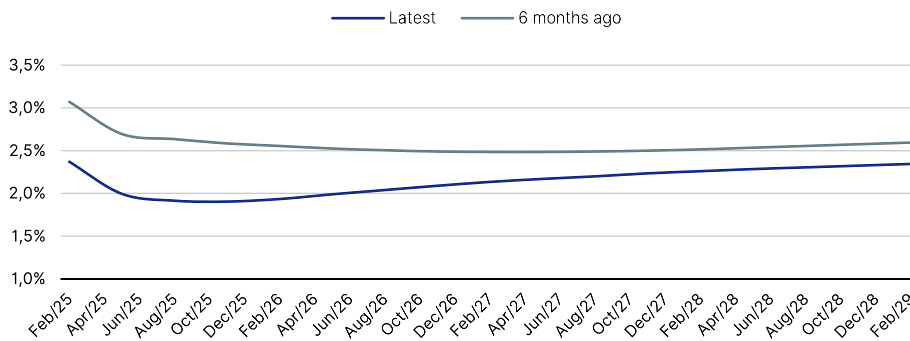
The normalisation of net interest margins will continue in 2025 and will have a negative impact on profitability. Although fees and commissions will continue to grow, reflecting banks' efforts to expand capital-light activities, this growth will be insufficient to offset the decline in net interest income. On the positive side, we believe that cost of risk is under control as the deterioration in asset quality remains within banks' expectations.

Lots of uncertainty around growth and rate outlook in the euro area

The main downside risk to profitability, especially beyond 2025, is the possibility that the ECB will cut policy rates below 2%, a level currently seen by many as the terminal rate. We cannot rule out a return to monetary stimulus, as growth prospects in the euro area are challenged by a struggling manufacturing sector and a sluggish German economy. Donald Trump's emphatic win in the US presidential election adds to the downside, given the proposed 10% tariff on all EU imports. Market expectations for three-month Euribor have fallen sharply in recent months (Figure 5).

The level of interest rates remains key for the profitability of most Italian banks, which can exploit the spread between inexpensive customer deposits and short-term bonds, loans or ECB facilities. In the first nine months of 2024, net interest income made up almost 60% of total revenues across our sample of Italian banks.

Figure 5: Expectations for three-month Euribor



Source: Macrobond, Eurex, Scope Ratings

Banks are keen to further reduce dependence on net interest income

Against this backdrop, Italian banks are strongly committed to boosting non-interest income and making their business models more resilient to the interest-rate cycle. Strategies include accelerating the sale of asset management products, either in-house or through distribution partnerships, enhancing the bancassurance offering (particularly in the life segment, which is more complementary to banking), and boosting digital payments. In its 2027 plan launched in October, BPER Banca envisages that AUM will increase at a 7% CAGR and annual net fees and commission to grow by 12% by the end of the plan. Earlier this month, Banco BPM launched a bid for the remainder of independent asset manager Anima, a move that could be transformational for the group (see below).

Italian lenders are succeeding in containing expenses

Cost savings remain a top priority. In recent years, management has stepped up efforts to enhance digital capabilities to preserve or gain market share, streamline processes, and improve cyber security. This has also allowed them to increase productivity, partly by reducing the number of staff. The last bank to announce further reduction in the headcount was Intesa, which sealed a new agreement for the exit of 4,000 employees by 2027, besides 5,000 retirements. These add to the 9,200 exits (in gross terms) between 2021 and March 2025. The group has committed to hiring 3,500 employees, 1,500 as global advisors to strengthen its position in Wealth Management & Protection. The group expects a net cost benefit of around EUR 500m from 2028 (c. 4.4% of its 2023 cost base), against around EUR 350m in a post-tax one off to be booked in 2024.

CRR3 paves the way for the creation of more financial conglomerates

Banco BPM, though subsidiary Banco BPM Vita, recently launched a voluntary tender offer to acquire the remaining shares of Anima Holding, Italy's largest independent asset manager, in which it already owns around 23%. As of June 2024, Anima had EUR 198bn in assets under management, gathered through more than 100 Italian distribution partners, including Banco BPM and Poste Vita. Life insurance represents around 45% of total AUM.

This acquisition is consistent with Banco BPM's strategic plan, which focuses on enhancing the turnover generated by its product factories. The merger would create Italy's second largest bancassurance group behind Intesa, while Banco BPM's wealth management penetration would increase sharply (Figure 7).

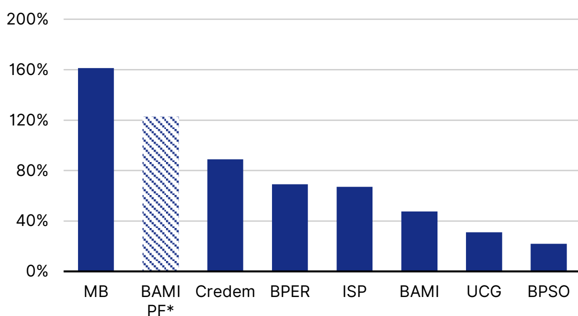
Overall, we deem this deal to be positive for Banco BPM, as it would lead to a more diversified business profile, potentially reducing earnings volatility over the cycle. There would be a rebalancing of revenue towards fee and commissions, from 37% of core income in 2023 to more than 45% in 2026, in the context of falling interest rates (Figure 7). From a commercial standpoint, the acquisition will broaden its product offering and benefit from greater economies of scale, which could lead to revenue synergies.

More deals like this one to come in Europe thanks to the Danish compromise

A key driver of this transaction is the Danish compromise, a regulatory arrangement that enables banks to avoid fully deducting their significant investments in insurance firms from their capital calculations. The Danish compromise was introduced by Basel III in 2013 and made permanent under CRR 3 from 1 January 2025. BNP Paribas was the first European banking group to take advantage of this regulatory development, having entered exclusive negotiations to acquire AXA Investment Managers in August. In Banco BPM's case, assuming the acquisition of 100% of Anima's shares, the impact on the CET1 ratio would be limited to around 30bp.

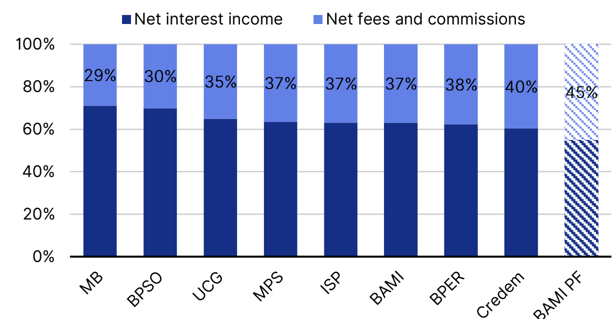
While we see such deals as generally credit positive, enhancing business diversification and improving through-the-cycle earnings resilience, they also carry execution risks in integrating different business cultures, and the possibility for capital misallocation if performance of the new conglomerate becomes less transparent.

Figure 5: Estimated* AUM penetration, Q3'24



Source: Company data, Scope Ratings
*AUM penetration calculated as assets under management/commercial customer deposits. Life insurance managed assets excluded. AUM include third-party distributed product. BAMI pro forma adding Anima's Q2 2024 data

Figure 6: Core revenue* breakdown, 2023



Source: Company data, Scope Ratings
*Net interest income + net fees and commissions.
Notes: BAMI 2026 pro forma revenues. ISP accounts for part of insurance revenues separately

Investment in MPS is coherent with bid for Anima

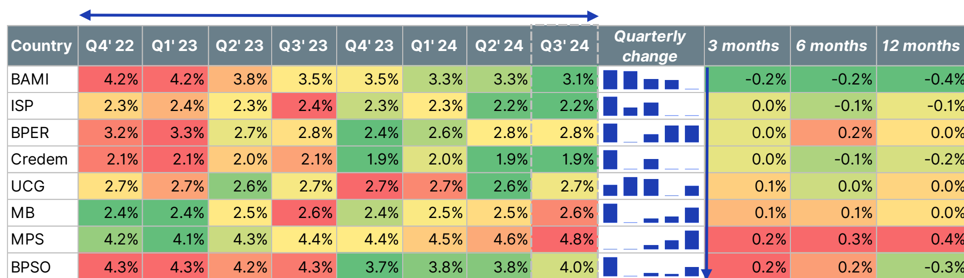
On 13 November, Banco BPM purchased a 5% stake in Banca MPS from the Italian Ministry of Economy and Finance, which sold around 15% of its shareholding through an accelerated book build. At the same time, Anima acquired a 3% stake. With this move, Banco BPM aims to secure a long-term partnership with MPS, the larger distributor of Anima's products (the current agreement with Anima expires in 2030). While Banco BPM has no intentions to raise its stake above 10%, it has now become the number one candidate for a full takeover of MPS in coming years.

Improved asset-quality outlook after another solid year

Asset quality remains solid, with an average gross NPE ratio of 3%, stable since Q1 2024. There was minimal deterioration in credit quality in Q3, reflecting banks limited exposures to the sectors most vulnerable to monetary tightening, such as commercial real estate. The contained increase in default rates reflect a mix of factors: (i) a large proportion of fixed-rate mortgages, shielding retail borrowers from the increase in interest rates, (ii) companies used liquidity buffers accumulated during the pandemic to reduce leverage and absorb the impact of higher cost of goods and energy, and (iii) banks' improved credit origination and monitoring standards.

In 2025, we do not expect a material deterioration in asset quality barring a sharp macroeconomic downturn. With easing borrowing costs and employment at record highs, we see the retail loan book performing well. At the same time, low but positive economic growth should support corporate credit quality.

Figure 8: Gross NPL ratio heatmap



Country	Q4' 22	Q1' 23	Q2' 23	Q3' 23	Q4' 23	Q1' 24	Q2' 24	Q3' 24	Quarterly change	3 months	6 months	12 months
BAMI	4.2%	4.2%	3.8%	3.5%	3.5%	3.3%	3.3%	3.1%		-0.2%	-0.2%	-0.4%
ISP	2.3%	2.4%	2.3%	2.4%	2.3%	2.3%	2.2%	2.2%		0.0%	-0.1%	-0.1%
BPER	3.2%	3.3%	2.7%	2.8%	2.4%	2.6%	2.8%	2.8%		0.0%	0.2%	0.0%
Credem	2.1%	2.1%	2.0%	2.1%	1.9%	2.0%	1.9%	1.9%		0.0%	-0.1%	-0.2%
UCG	2.7%	2.7%	2.6%	2.7%	2.7%	2.7%	2.6%	2.7%		0.1%	0.0%	0.0%
MB	2.4%	2.4%	2.5%	2.6%	2.4%	2.5%	2.5%	2.6%		0.1%	0.1%	0.0%
MPS	4.2%	4.1%	4.3%	4.4%	4.4%	4.5%	4.6%	4.8%		0.2%	0.3%	0.4%
BPSO	4.3%	4.3%	4.2%	4.3%	3.7%	3.8%	3.8%	4.0%		0.2%	0.2%	-0.3%

Source: Company data, Scope Ratings
Note: MPS' gross NPL ratio at the end of Q3 was 4.5%, pro forma a EUR 300m asset disposal.

Record-high capital ratios

At the end of Q3, Italian banks' average fully loaded CET1 ratio hit a new high of 15.9%, up almost 40bp QoQ. The quarterly improvement was driven by organic generation (net of accrued distribution) and lower risk weighted assets (-0.5% QoQ, -2% YTD).

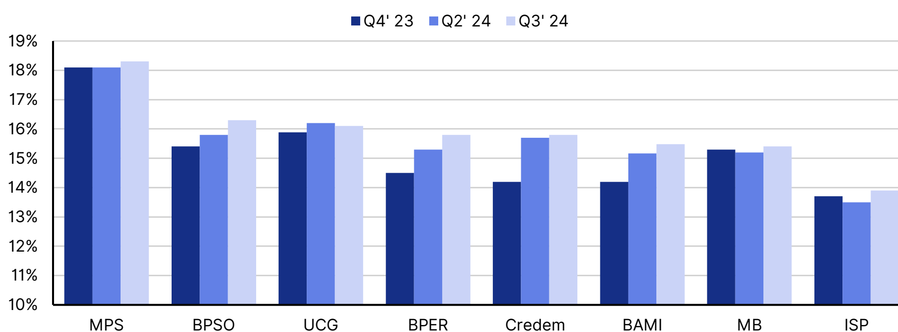
Banks have used different tools to reduce RWAs in recent quarters:

(i) Changing their lending mix towards less capital-intensive loans,

(ii) Reducing loan volumes by exiting segments that do not provide sufficient returns,

(iii) Transferring credit risk to external counterparties through either traditional or synthetic securitisations (SRT).

Figure 9: Fully loaded CET1 ratio



Source: Company data, Scope Ratings

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