Italian Bank Quarterly

Strong stress-test results and H1 performance provide reassurance against downside risks

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The 2025 stress-test results demonstrate the improvements Italian banks have made in recent years. First-half results point to another strong year despite the uncertain economic scenario. Profitability is resilient, capital positions are comfortable, asset quality is robust.

EBA stress-test results confirm Italian banks' strengths. Backed by strong profitability and clean balance sheets, Italian banks obtained sound stress test results. Under the severe scenario, the capital drawdown between YE 2024 and YE 2027 would average 180bp. This can be absorbed through banks' capital buffers without MDA breaches.

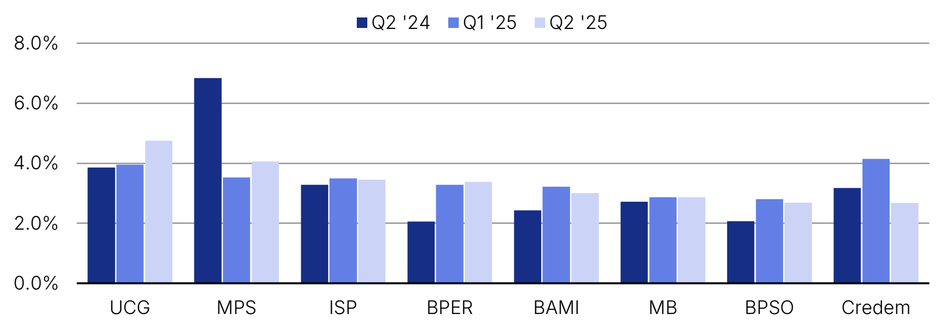
Profit momentum is sustained. Quarterly net interest income remains resilient, supported by loan growth (albeit mild), interest-rate hedges, lower senior unsecured bond issuance, a steeper yield curve and low credit impairments. Nonetheless, we expect narrower interest margins to lead to a softer performance in the second half. An increase in cost of risk is also likely, as banks improve loan-loss coverage in anticipation of a worsening economic outlook.

We expect minor deterioration in asset quality despite US tariffs. Loan default rates remain at record lows, at around 1%, supported by still-favourable economic conditions for retail and corporate clients. The exposures of large Italian banks to the sectors most vulnerable to US levies is limited, so impacts on asset quality will be manageable.

New scenarios for consolidation in the Italian banking sector. UniCredit withdrew its offer for Banco BPM, but BPM can still play an important role in domestic M&A. Political interference can drive outcomes, but this could change soon.

Public rating Outlooks. Our stable Outlooks on UniCredit (A/Stable), Intesa (A/Stable), and Banca Popolare di Sondrio (BBB+/Stable) indicate that risks are broadly balanced in 2025.

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: results were not corrected for non-recurring items.

Our expectations of 2025 trends by key area for Italian banks		
Profitability	↘	Marginally lower, as banks manage margin erosion
Asset quality	→	Minimal deterioration expected
Capital position	↘	Lower buffers due to distributions and higher requirements
Funding and liquidity	→	Comfortable position as funding pressure remains muted

2025 stress test confirms Italian banks' solid financial fundamentals

Italian banks achieved sound results in the 2025 stress test, testament to their improved credit profiles. Under the severe scenario, the average CET1 ratio would decline by just 180bp[1] by YE 2027, significantly lower than the 2023 stress test (c. 400bp). The results also compare favourably with the average for EU banks (c. 400bp for the banks in both the ECB and EBA samples). Capital ratios would remain above the minimum requirements for all the lenders in our sample (Intesa Sanpaolo, UniCredit, Banco BPM, Banca Monte dei Paschi di Siena, BPER Banca, Mediobanca, Credito Emiliano, Banca Popolare di Sondrio).

Challenging adverse scenario. but impacts on core revenues manageable

The severe scenario factors in a 7.4% decline in Italian GDP, a 4.6% increase in unemployment, a 12% decline in residential real estate prices, and a 22.5% decrease in commercial real estate prices. Stress-test data for UniCredit, Intesa, Banco BPM, MPS and BPER show that over the three-year period, banks would face a more than three-fold increase in impairments compared to the baseline scenario, while headwinds against core revenues i.e. on net interest income and net fees and commissions would be somewhat contained, -13% and -9% respectively.

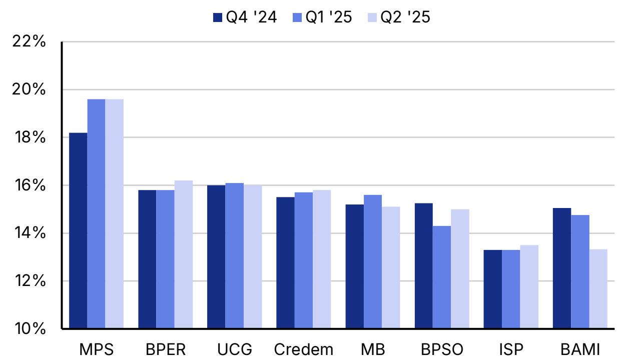
In our view, these strong results primarily reflect the banks' enhanced capacity to generate earnings, supported by high net interest margins – which would be preserved even under stress - and well diversified business franchises. Under the baseline scenario, UniCredit, Intesa, Banco BPM, MPS, and BPER would generate approximately 800bp of CET1 capital before AT1 coupons and shareholder distributions (UniCredit the strongest at almost 1,000bp, MPS the weakest at around 650bp). Stronger balance sheets and better credit-risk management, underpinned by record-low gross NPL ratios, also contribute to bank resilience.

Figure 2: 2025 stress test results

Bank	Phased in CET1 ratio YE 2024 under CRR3 rules	Phased-in CET1 ratio YE 2027 - Adverse scenario	Drawdown
ISP	12.6%	12.0%	-0.6%
UCG	15.3%	12.5%	-2.8%
BAMI	14.2%	11.4%	-2.8%
MPS	19.9%	17.1%	-2.8%
BPER	15.0%	14.1%	-0.9%
MB	15.3%	11% ≤ CET1R < 14%	< 3%
Credem	15.1%	11% ≤ CET1R < 14%	< 3%
BPSO	14.8%	11% ≤ CET1R < 14%	< 3%

Little details were provided by the ECB on Mediobanca, Credem, and BPSO
Source: EBA, ECB, Scope Ratings

Figure 3: Phased-in* CET1 ratios



*CRR3 transitional arrangements
Source: Company data, Scope Ratings

Phase-in of the output floor mechanism not a threat for Italian banks

Data from Q1 2025 Pillar III reports and EBA stress tests shed light on the potential impacts from the phase-in of the final Basel III rules under CRR3, in particular on the output floor[2]. The output floor is phased in across a six-year period (2025-2030), starting at 50% and rising to 72.5%. However, some transitional rules on how to calculate RWAs using the standardised approach will apply until the end of 2032.

Based on provisional data as of Q1 2025, the new rules, if they were fully applied today, would have only have a meaningful capital impact on UniCredit (c. 80bp). In any case, banks have plenty of time to adapt to CRR3, as well as large capital cushions to absorb potential impacts.

Italian banks continued to report solid capital ratios in Q2. The average CET1 ratio for the eight banks in our sample stood at 15.6%, flat QoQ. Banco BPM reported a significant fall in its CET1 ratio due to a 189bp impact from its consolidation of asset manager Anima (Figure 3).

[1] This refers to all the Italian banks included in both the ECB and EBA sample.
[2] The floor for banks' risk-weighted assets will be set at 72.5% of the amount calculated using the full standardised method.

Strong revenue generation, low cost of risk continue to support results

On the back of remarkable first-half results, banks have either confirmed or upgraded their upbeat guidance for FY 2025 results, supported by resilient net interest income, growing fees, costs under control, and no real signs of asset-quality deterioration. But even though Italian banks have exceeded our expectations to-date, we are still projecting weaker results as lower rates eat into interest margins. We also anticipate higher cost of risk in the second half, particularly if banks increase loan-loss provisions in anticipation of a deteriorating economic outlook.

Our sample of eight Italian banks posted record second quarter results, achieving a return on average equity of 16.1%, compared to 15.7% in Q1 2025 and 15.6% in Q2 2024.

Despite falling rates, net interest income has held up well.

Average net interest income was fairly resilient. NII rose quarter on quarter but fell by approximately 4.5% year over year, mainly due to lower ECB rates, which impacted margins. Individual bank trends were mixed, a sign of different balance-sheet structures and hedging strategies. The best performing bank once again was BPSO, which reported a 4.3% quarterly increase in NII, partly driven by higher contribution from factoring and tax credits, as well as robust loan spreads.

Quarterly performance in net interest income was the result of several elements:

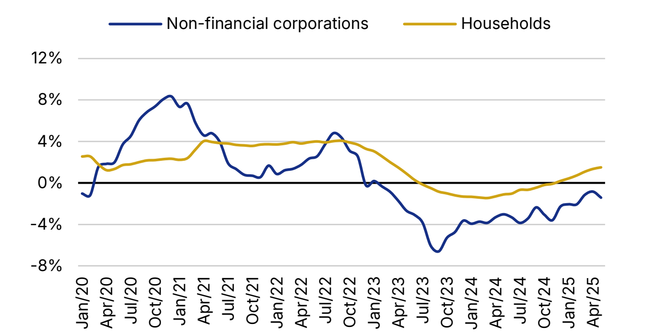
i) Positive performing loan growth (0.9% QoQ, +2.3% YoY), particularly among mid-sized banks (BPER, MPS, Credem, BPSO). In contrast to the sector trend (Figure 4), average growth was positive in both the retail and corporate segments. Growth in the corporate segment was partly driven by competitive dynamics in the context of M&A, something we do not expect to continue in coming quarters amid weak economic growth and business investment.

ii) Although three-month Euribor fell by 39bp to 1.94% in the second quarter, loan spreads remained constant, reflecting the rapid fall in the average cost of deposits and the steepening of the yield curve, which favours long-term lending returns (i.e. for mortgages). Spreads on retail lending have been remarkably stable over recent months indeed (Figure 5).

iii) Most banks tactically increased purchases of debt securities as part of their hedging strategies. We estimate that outstanding investments grew by 8% on average for our sample of banks since the beginning of the year.

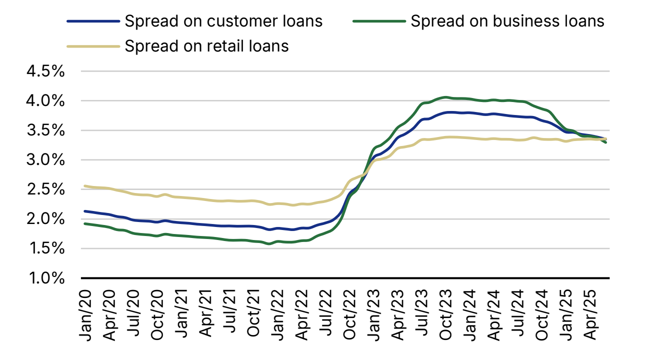
iv) Comfortable deposit-backed funding positions and MREL buffers allowed some banks to reduce issuance of senior unsecured debt, which has a positive effect on net interest income.

Figure 4: Italian banking sector – Annual loan growth rate, historical



Loan growth rate corrected for the impact of securitisations and sales
Source: Bank of Italy, Scope Ratings

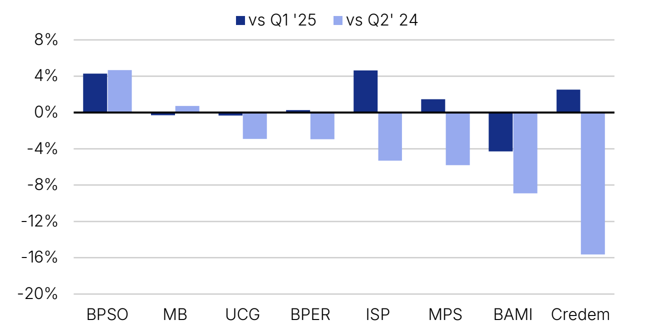
Figure 5: Italian banking sector – Back book spreads on customer loans, historical



Spread calculated as the difference between average yield on the outstanding loan amount and the average rate paid on deposits – Retail and business customers.
Source: ECB, Scope Ratings

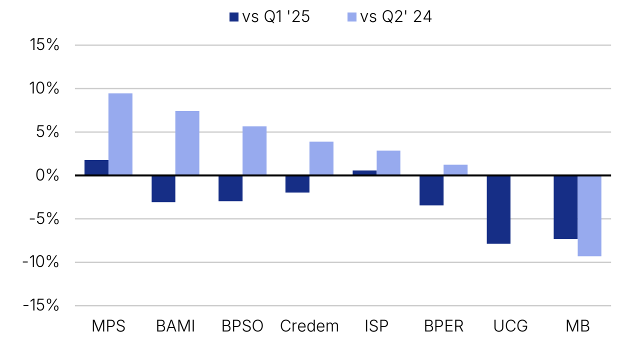
Fees and commissions fell in Q2 by 3% QoQ (+2.7% YoY), partly due to seasonal effects (Figure 7). Results from wealth management and brokerage were weaker, a sign that market volatility may have offset the contribution from the growth in total managed assets. Likewise, economic uncertainty dragged down turnover in advisory. As banks maintain their focus on revenues from complementary financial services, we expect the growth trend to resume in coming quarters.

Figure 6: Net interest income - quarterly comparison



Source: Company data, Scope Ratings

Figure 7: Net fees and commissions - quarterly comparison

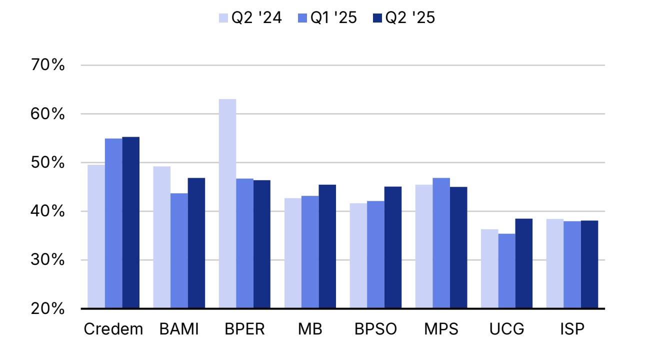


Source: Company data, Scope Ratings

Operating costs edged c.1% higher in the second quarter QoQ, mainly due to growing business-related expenses and investments. The average cost-income ratio increased to 45.1% in Q2 from 43.9% in Q1 2025.

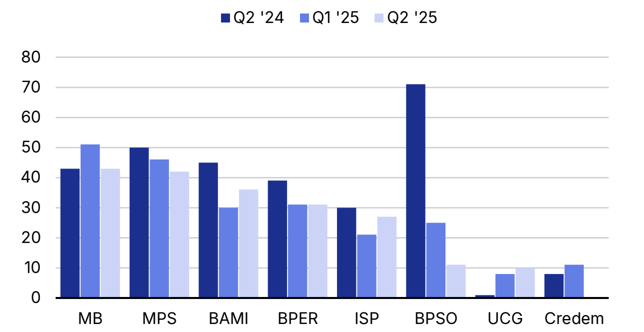
Average cost of risk of 27bp (26bp in Q1) was close to the record quarterly low. Despite growing market uncertainties, banks have not yet increased their provisioning. In our view, the high coverage of both performing and non-performing loans, together with stronger balance sheets, provides banks (and their internal credit risk models) with a degree of protection against emerging economic risks.

Figure 8: Cost/income ratio - quarterly comparison



Source: Company data, Scope Ratings

Figure 9: Cost of risk (bp) – quarterly comparison



Source: Company data, Scope Ratings

Solid asset-quality reflects benign economic conditions in Italy

Asset quality in Italy remains solid. As of June 2025, the average gross NPL ratio of our sample was stable at around 2.6%.

No signs of credit deterioration

Default rates remain close to record lows across the board. UniCredit's quarterly default rate was 1.2% (1% excluding two single names), BPM's was 0.9% (in H1), and Credem's was even lower at 0.45%. These figures mirror system-level data showing that the loan delinquency rate in Italy has stabilised at around 1.1% over the past 12 months.

This is not surprising as Italian borrowers remain relatively healthy. Credit quality in retail has benefited from declining interest rates and low unemployment, while the business segment has not felt yet the effect of US tariffs, and still enjoys reasonable liquidity buffers, partly accumulated during the pandemic.

Figure 10: Gross NPL ratio heatmap

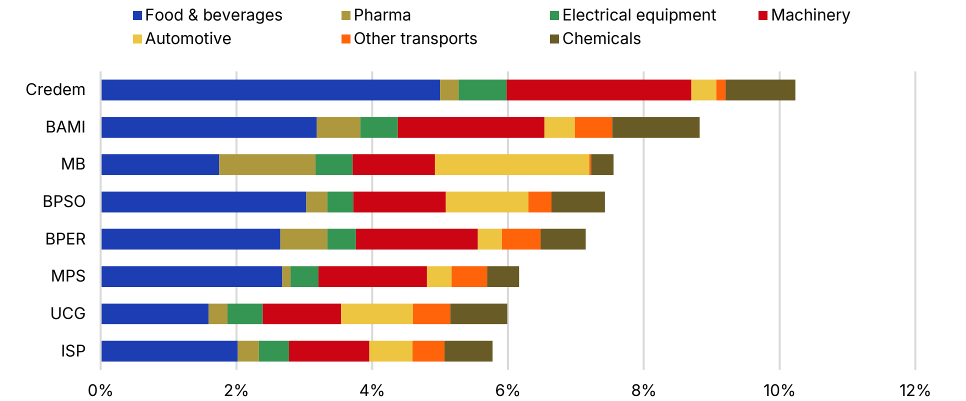
Country	Q2 '23	Q3 '23	Q4 '23	Q1 '24	Q2 '24	Q3 '24	Q4 '24	Q1 '25	Q2 '25	Quarterly change	3 months	6 months	12 months
MPS	4.3%	4.4%	4.4%	4.5%	4.6%	4.8%	4.5%	4.4%	4.1%		-0.3%	-0.4%	-0.5%
Credem	2.0%	2.1%	1.9%	2.0%	1.9%	1.9%	1.8%	1.8%	1.6%		-0.2%	-0.1%	-0.3%
BAMI	3.8%	3.5%	3.5%	3.3%	3.3%	3.1%	2.8%	2.7%	2.6%		-0.1%	-0.2%	-0.7%
BPER	2.7%	2.8%	2.4%	2.6%	2.8%	2.8%	2.4%	2.6%	2.5%		-0.1%	-0.2%	-0.3%
BPSO	4.2%	4.3%	3.7%	3.8%	3.8%	4.0%	2.9%	2.9%	2.9%		0.0%	-1.1%	-0.9%
UCG	2.6%	2.7%	2.7%	2.7%	2.6%	2.7%	2.6%	2.6%	2.6%		0.0%	-0.1%	0.0%
ISP	2.3%	2.4%	2.3%	2.3%	2.2%	2.2%	2.3%	2.3%	2.3%		0.0%	0.0%	0.1%
MB	2.5%	2.6%	2.4%	2.5%	2.5%	2.6%	2.5%	2.0%	2.1%		0.1%	-0.6%	-0.4%

Source: Company data, Scope Ratings

As we argued in our recent commentary on the impacts of the EU-US trade (see Related Research on p7 for the link), Italian banks face relatively low asset-quality risks from new US tariffs. The exposure of large Italian banks to the sectors most vulnerable to US levies is limited. This reflects the degree of sector diversification in corporate loan books. In fact, loans to vulnerable sectors account for no more than 6%-10% of gross customer total loans for the banks in our sample. It is unrealistic to assume that these loans are entirely to exporters directly affected by the new US tariffs. so risks are contained.

We do not expect asset quality to deteriorate significantly in 2025, but a weaker economic outlook induced by US tariffs could push banks to accumulate loan-loss provisions. Scope estimates that Italy could face a short-term output loss of 0.4pp, adding pressure to already modest growth.

Figure 11: Exposure to the main sectors that export to the US in Italy. % of gross customer loans



We assume that all credit exposures to these sectors consist of loans only.
Data as of YE 2024. except for Mediobanca (H1 2024).
UniCredit and Intesa's loan books also include non-Italian exposures
Source: Scope Ratings, Company data

UniCredit’s withdrawal from Banco BPM opens consolidation scenarios

UniCredit decided that the heightened uncertainty surrounding the government’s conditions and the implementation of its golden power rendered its Banco BPM bid untenable, due to the requirement to set aside EUR 800m in loan-loss provisions to align Banco BPM’s asset quality with UniCredit’s. There were also unfavourable rulings from the EBA and ECB regarding the application of the Danish compromise to the acquisition of Anima by BPM’s insurance subsidiary.

Political interference can shape the M&A outcome…

Political intervention can be a key factor in European bank M&A, particularly for deals involving large institutions. This has also been the case in Spain, where BBVA is encountering obstacles in its attempt to acquire Banco de Sabadell. In Italy, activation of the government’s golden power has been controversial, as this tool is designed to protect strategic domestic assets from hostile foreign acquisitions. In preliminary findings, the European Commission assessed that the Italian government could be in violation of Article 21 of the EU Merger Regulation, and that the use of the golden power could be incompatible with other EU legal provisions, including those relating to the free movement of capital and the ECB’s prudential oversight.

… but we expect this to change.

We expect the Commission to engage in dialogue with governments and provide clearer guidance on when and how they can intervene in financial sector M&A. This is an important milestone for the banking union that could facilitate the creation of large banking players, possibly with cross-border operations, such the tie-up between UniCredit and Commerzbank.

After walking away from a potential deal with MPS during the pandemic, UniCredit has missed out on another opportunity to consolidate its position as Italy's second largest banking group and challenge Intesa's leadership. However, we view UniCredit’s actions as evidence of a disciplined M&A strategy focused on risk-adjusted returns and long-term value creation for shareholders.

Despite large M&A setbacks, the group has accelerated various strategic priorities, including increasing business diversification with the internalisation of its Italian life insurance from 2026, expanding its geographic reach with the investments in Poland and Greece, and the consolidation of its market position in Romania.

Banco BPM is back in contention

The failed UniCredit/BPM merger has far-reaching implications for the Italian banking sector. Banco BPM is once again at the heart of the debate about consolidation among Italy’s mid-tier banks, with the CEO himself emphasising the group's role in “consensual” transactions. Shortly before UniCredit announced its takeover bid in November 2024, Banco BPM purchased a 5% stake in Banca MPS (then increased it to 9%), securing a long-term partnership for the distribution of wealth management products and positioning itself as a potential MPS acquirer.

Crédit Agricole sits on the fence after increasing its stake in Banco BPM

UniCredit’s withdrawal from the BPM deal could render Crédit Agricole a natural takeover candidate. The French group considers Italy its second domestic market and an area for growth, as evidenced by its track record of acquiring small and medium-sized banking franchises over the past two decades. Crédit Agricole has a long-term insurance partnership with Banco BPM and recently increased its equity stake from 9.2% to 19.8%[3]. In July, it filed a request for authorisation with the ECB to increase its holding in the Milan-based group's share capital to over 20%.

The French group has stated that it has no intention of acquiring or exercising control over Banco BPM, however, and that it intends to keep its stake below the mandatory takeover offer threshold of 30% in Italy. In our view, execution risks, including a potential political backlash, must be considered alongside financial and industrial factors in the event of a potential takeover offer.

Meanwhile, BPER has secured more than 80% of BPSO’s share capital, enabling it to merge the two entities. This transaction will strengthen BPER's market position, especially in Lombardy. It will become Italy’s third largest bank, with total assets of around EUR 200bn and revenues above EUR 7bn. On 15 July, we upgraded BPSO’s issuer rating to BBB+/Stable from BBB/Positive, reflecting our view that the bank will be part of the stronger BPER group.

[3] According to markets sources, the stake is now at 20.1%, including 0.3% of total return swaps.

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