Italian Bank Outlook 2026

Stable, supported by solid fundamentals despite macroeconomic challenges

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Italian bank profitability is set to remain strong in 2026. Under our baseline scenario, the average return on risk-weighted assets (RoRWA) for the six Italian banks in our sample will be around 2.7%–2.8%, albeit off the 2024 peak of 3.2%. Moderate loan growth, steady fee expansion and stable costs will support pre-impairment profits and margin contraction will come to an end. We project an increase in provisions as default rates normalise, though, with the cost of risk approaching 40bp by the end of 2027 from current lows of 30bp.

But downside risks remain high. Italy's fragile economic growth is subject to external risks, particularly on international trade and geopolitical developments. Heightened financial market volatility and the potential for more severe bank levies are other downside risks for Italian banks. In a stressed scenario of weaker revenues and higher loan-loss provisions, average RoRWA could fall to around 1.3% in 2027.

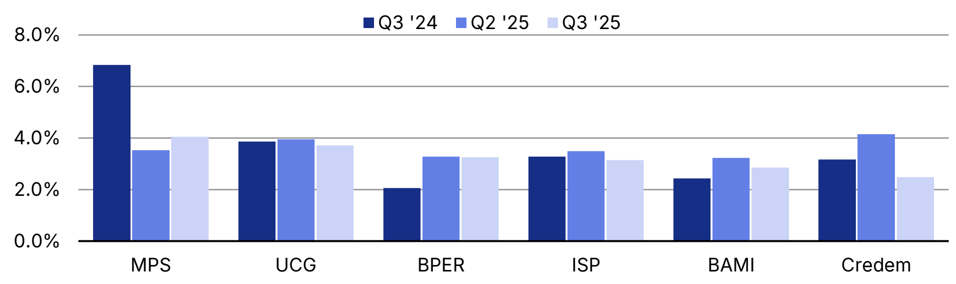
Gradual normalisation in default rates will not impact asset quality in 2026. Although we expect a modest pick-up in default rates driven by a weakening corporate sector, asset quality should remain solid thanks to banks' proactive risk management and early intervention measures.

Capital ratios may have peaked. Capital buffers continue to be solid, offering protection against potential market or credit shocks. We note that some banks are starting to use their excess buffers for M&A purposes, indicating that capitalisation may have passed its high point.

Manageable bank levies amid rising legal unpredictability. New measures included in Italy's draft budget law may reduce banks' capital by around 15bp–30bp. In this context we flag that the broader lack of legal predictability may become a structural issue for the sector and could weigh on investors' sentiment over time.

Public rating Outlooks. Our stable Outlooks on UniCredit (A/Stable) and Intesa (A/Stable) indicate that overall risks are broadly balanced.

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



* This is a proxy for capital generation before distribution, although certain items are deducted from capital. Note: results were not corrected for non-recurring items.
Source: Company data, SNL, Scope Ratings.

Our expectations of 2026 trends by key area for Italian banks		
Profitability	→	Stabilising on the back of resilient net interest income, growing fees, stable costs and only marginally higher provisions.
Asset quality	→	Minimal deterioration expected
Capital position	↘	Lower buffers due to distributions and M&A
Funding and liquidity	→	Comfortable position as funding pressure remains muted

Operating performance will remain solid in 2026-2027

We expect the average RoRWA of banks in our sample (Intesa Sanpaolo, UniCredit, Banco BPM, BMPS, BPER Banca, Credito Emiliano) to remain high in the next two years relative to historical levels, although returns will marginally decline to 2.7%–2.8% of RWAs from their 2024 peak of 3.2%. Most of this contraction reflects the increase in RWAs following the introduction of CRR III.

Performance in 2025 has remained strong. Banks have contained the squeeze in net interest income, partly through hedges and lower bond issuance while fee income has continued to grow, supported by buoyant capital-light activities such as wealth management. At the same time, lenders maintain their focus on containing costs despite rising investments in digitalisation. Cost of risk stood at a historical low (27bp) in the first nine months of the year.

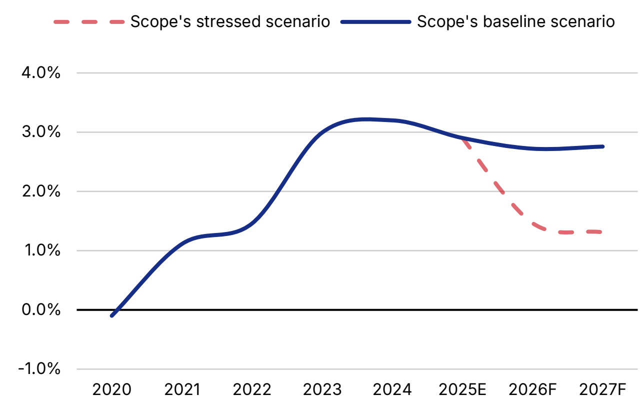
Although downside risks linger, we expect the current trend to extend into 2026 and 2027. Our baseline scenario assumes subdued growth for the Italian economy (below 1%) and a stable 2% ECB deposit rate. Interest margins will stabilise after 2025. We predict moderate average loan growth of 1.7% in 2026 and 1.9% in 2027. More importantly, a rapid expansion in fees and commissions will support revenues. We project stable operating expenses, reflecting banks' efforts to improve cost efficiency.

Italian banks will remain highly profitable by EU standards

Our forecasts incorporate a conservative view of the cost of risk, which is expected to gradually increase to around 40bp from its current record low of approximately 30bp. Overall, profits will remain stable from 2025 to 2027 (**Figure 3**). Average return on equity (RoE) will continue to be at the top of the EU banking sector, at just below 14%.

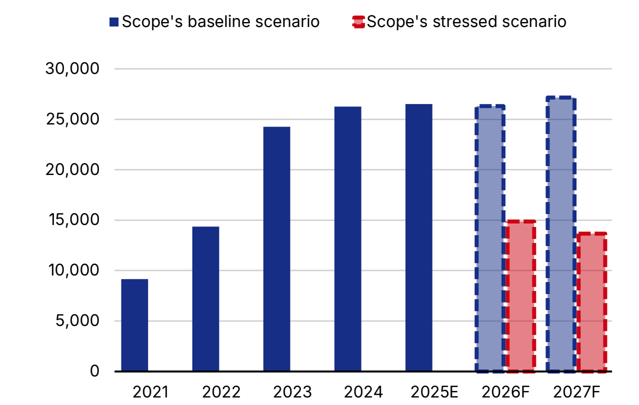
Our stressed scenario assumes a recession, financial market turmoil and interest-rate cuts. Compared to our base case, net interest margins would decline by 20bp in 2026 and 40bp in 2027. There would be no growth in fees and no trading income. Cost of risk would increase by 50bp in 2026 and by a further 25bp in 2027 compared to the base case. Despite these challenging operating conditions, all the banks in our sample would remain profitable, with an average RoRWA of 1.3% in 2027, similar to that in 2022. See Appendix I for a summary of our forecasts.

Figure 2: Return on average risk-weighted assets (RoRWA), Italian bank average*



*Non-weighted average of banks' RoRWA.
Historical data include Mediobanca and BPSO
Source: SNL, Scope ratings

Figure 3: Aggregated net profits, Italian banks
EUR million



Note: in 2020, aggregated profits were close to zero.
Source: SNL Financial, Scope Ratings

Proposed bank levies appear manageable, but legal uncertainty adds risks

Our forecasts do not consider the impact of new potential measures aimed at collecting more than EUR 10bn from banks and insurance companies over the next three years. The Italian government's draft budget law for 2026 includes several interventions, the most notable of which are:

I. An increase in the IRAP (*Imposta Regionale sulle Attività Produttive*), a regional tax on economic production, to 6.65% from 4.65%. This will apply in the fiscal years 2026-28.

II. A temporary reduction in the deductibility of interest expenses: set at 96% in 2025, 97% in 2026, and 98% in 2027.

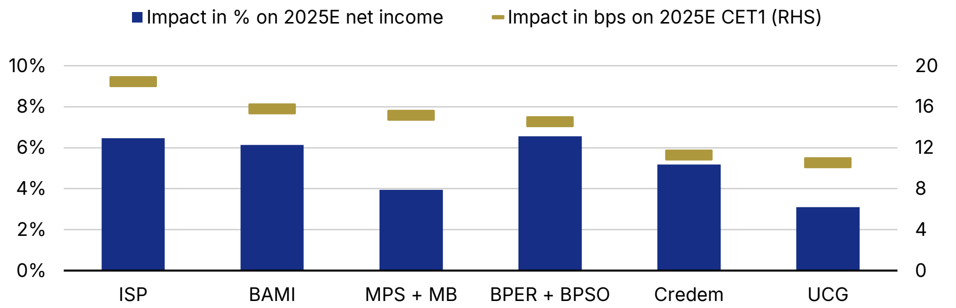
III. An amendment of the framework governing the extraordinary reserves[1] set aside as an alternative to contributions under Article 26 of Decree Law No. 105/2023 (the so-called windfall tax). The draft law would give banks the option to distribute those reserves upon payment of a "substitute" tax: 27.5% of the reserve at YE 2025 or 33% at YE 2026. From 2028, any distributions of profits or reserves will have to be drawn from the non-distributable reserves created as a result of the 2023 windfall tax, at a rate of 40%

Non-distributable reserves related to "extra-profits" can now be released but will be taxed

IV. For the 2027 fiscal year, partial suspension of the deductibility of certain negative components related to Deferred Tax Assets (DTAs), on top of the current ones for 2025 and 2026. The deferred amounts will be deductible in two equal instalments over 2028 and 2029. This will have no impact on banks' profits.

For the first two, only BPER provided an estimate impact: 7bp and 4bp of capital, respectively. The third measure would be the most onerous for lenders. If all banks distribute the reserve on 2025 profits – therefore paying a 27.5% tax on it – the capital impact would be manageable, ranging from 11bp to 18bp (**Figure 4**). Uncertainty surrounds the accounting treatment, including whether the impact will pass through the P&L, and if so, whether it applies to 2025 or 2026 results.

Figure 4: Estimated impact of 27.5% tax on reserve redemption*
(Of previously non-distributable reserves set aside in 2023)



*Distribution of previously non-distributable reserves set aside in 2023
Source: Company data, Scope Ratings

Our estimates suggest that the total capital impact of the proposed measures will be limited, at around 15bp-30bp[2]. As the draft measures have been discussed and agreed with industry groups, including the Italian Banking Association (ABI), we do not expect any significant changes to be made to the final version of the budget law before it is approved by the end of the year.

However, future legal changes could have negative impacts. The government is increasingly focused on collecting a greater share of the sector's profits to support the fiscal budget, as seen in Hungary and Spain. In the long term, this could undermine investor sentiment and constrain the sector's financial flexibility, particularly in times of need.

[1] This was equivalent to 250% of the "windfall tax" that would otherwise have been payable.
[2] From BPER's disclosure, we can infer an average capital impact of around 10bp from the increase in IRAP and lower deductibility of interest expenses. This is added to the average cost of the tax on reserves related to extra profits.

Net interest income still falling across the board, but trough is near

Third-quarter net interest income fell by 1.2% on a quarterly basis. Banco BPM posted the largest drop (3.5%) due to further compression of commercial spreads. Credem was the only bank to buck the sector trend, reporting higher NII supported by higher average loan volumes and hedges.

The year-on-year comparison is less favourable, however, with an 8.7% fall across the board, primarily due to lower ECB rates impacting net interest margins (**Figure 5**).

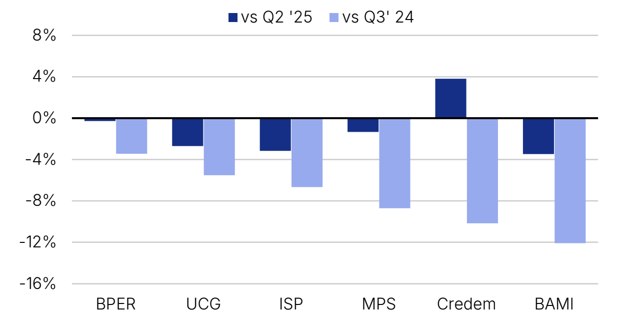
The outlook for the next two years looks more favourable. With three-month Euribor stabilising at around 2% and no further rate cuts by the ECB expected over the next year, the repricing of banks' balance sheets will soon stabilise. Accordingly, under our central scenario, we do not expect net interest margins to change materially.

Moderate loan growth will support net interest income

Over the past couple of quarters, loan growth has improved and is now a tailwind for net interest income. (**Figure 6**). Rising real estate prices and monetary easing have led to increased demand for mortgages, while consumer credit continues to grow rapidly. After falling for several quarters, companies' financing needs are rebounding as internal financing can no longer sustain fixed investments, even if these remain subdued. Growth in business loans turned positive in June.

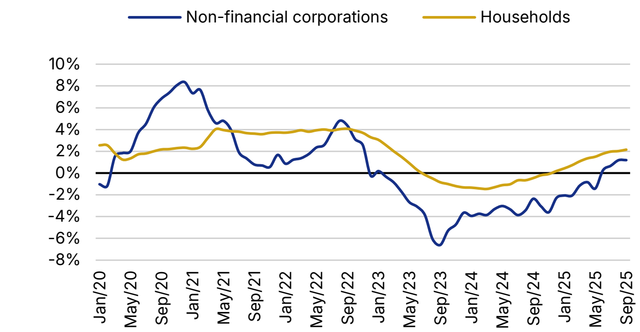
With stable net interest margins and moderate loan growth, we expect banks' net interest income to bounce back in the next two years: +0.6% in 2026 and +1.7% in 2027, on average.

Figure 5: Net interest income - quarterly comparison
Q3 2025 vs Q2 2025-Q3 2024



Source: Company data, Scope Ratings

Figure 6: Italian banking sector – Annual loan growth rate,
Historical



Source: Bank of Italy, Macrobond, Scope ratings

Investment in capital-light activities will support further growth of non-interest income.

Italian banks are strongly committed to boosting non-interest income and making their business models more resilient to the interest-rate cycle. Q3 fee and commission income, usually negatively impacted by seasonality, was stable quarter-on-quarter. On a 9M basis, it rose 5%, reflecting stronger revenues particularly in commercial banking, wealth management, and insurance.

Intesa Sanpaolo (A/Stable), Italy's largest and most diversified bank, recently created a unified wealth management hub, integrating advisory networks and product factories to increase cross-selling and improve client penetration.

One of UniCredit's (A/Stable) main priorities is to increase business diversification following a period of asset disposals. Within the wealth management business, the group could decide not to continue its strategic partnership with Amundi – up for renewal in 2027 – for the distribution of AUM products[3] to progressively increase the sales of own funds under the onemarkets brand.

[3] As of September 2025, Amundi manages around EUR 88 bn of assets on behalf of UniCredit throughout Europe – the majority in Italy (EUR 69bn)

UniCredit is internalising the wealth management and insurance businesses

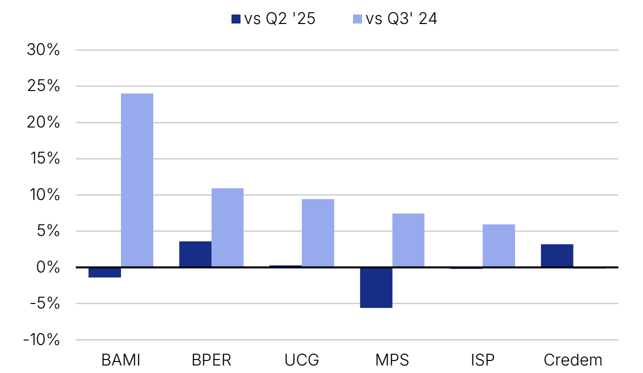
Similarly, it recently internalised the life insurance business that was previously conducted in the form of joint ventures with CNP Assurances and Allianz.

Banco BPM acquired Anima earlier this year, Italy's largest independent asset management company. This is consistent with the group's strategic plan, which focuses on enhancing the income generated by its product factories. The merger created Italy's second largest bancassurance group behind Intesa. Total customer financial assets, including deposits, assets under management and assets under custody, amounted to EUR 388bn as of September 2025.

The sharp increase in revenues over the past three years has not diverted banks' attention on cost efficiency. On the back of digital investments, banks have closed branches, cut their workforce and centralised processes, with noticeable cost savings. Consolidation should also pave the way for cost synergies. Based on banks' initial estimates, we estimate that Mediobanca's merger with MPS could deliver cost synergies equal to about 19% of Mediobanca's 2024 cost base, while BPSO's merger with BPER could lead to savings of up to 29% of BPSO's 2024 expenses.

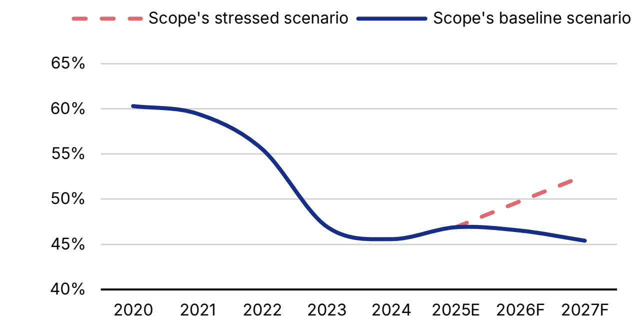
The sector Cost/income will moderately decrease to 45% by 2027, from an estimated 47% in 2025 (**Figure 8**).

Figure 7: Net fees and commissions - quarterly comparison
Q3 2025 vs Q2 2025-Q3 2024



Note: BAMI's YoY comparison is affected by Anima acquisition
Source: Company data, Scope Ratings

Figure 8: Cost/income ratio forecast -Italian bank average



Source: SNL, Scope ratings

Strengthened balance sheets support resilience amid economic uncertainty

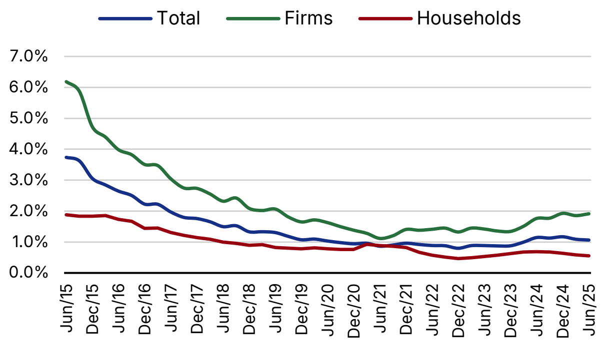
Italian banks continue to report strong asset-quality metrics. As of September 2025, the average gross NPL ratio of our sample was 2.5% in Q2. The share of Stage 2 loans has rapidly declined, partly reflecting better-than-expected performance since the pandemic. As of Q3, the average stage 2 loan ratio was 9% (**Figure 10**).

Default rate stable at 1.1% in 2025

The financial health of borrowers remains resilient. Default rates have plateaued at c. 1.1% over the past 12 months. This reflects specular trends: loans to retail customers perform better than those to corporates, where geopolitical and trade tensions are beginning to have repercussions.

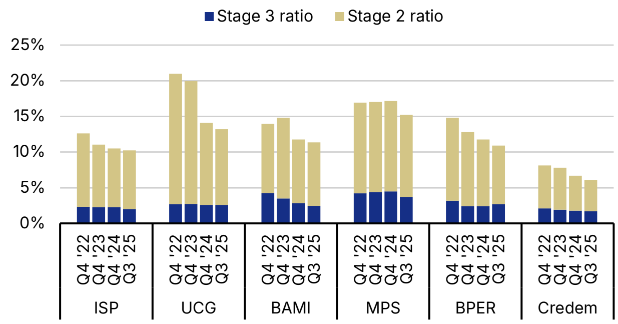
Over the next two years, though, we expect loan loss provisions to normalise due to higher default rates. The average cost of risk will rise towards 40bp by YE 2027. Barring a recession, we do not see material shifts in headline asset-quality metrics, partly given banks' strong commitment to maintain low gross NPL ratios through updated early-warning systems and proactive management of defaults through curing and disposals.

Figure 9: Gross annualised quarterly flows of NPLs in relation to the stock of performing loans
Italy



Note: Firms exclude producer households.
Source: Bank of Italy, Central Credit Register, Macrobond, Scope Ratings

Figure 10: Gross Stage 2 and Stage 3 loan ratios
Historical



Source: Company data, Scope ratings

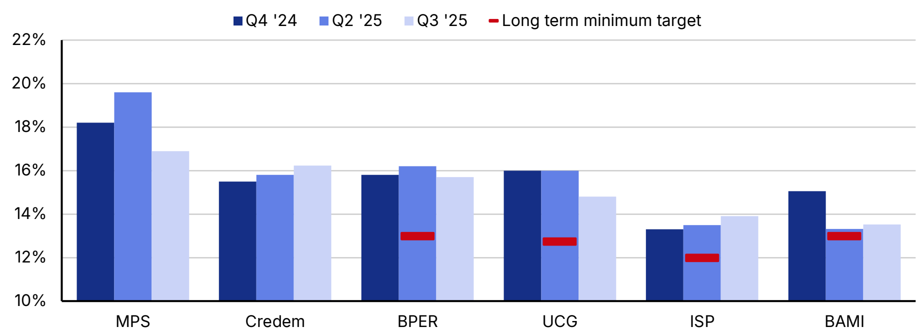
Healthy capital buffers may have peaked

As of September 2025, the six banks in our sample reported an average CET1 ratio of 15.2%, supported by strong results on the back of high interest margins, soft loan growth, and continued RWA optimisation. Banks maintain sizable buffers against unexpected credit deterioration, market volatility, or policy shocks.

But Q3 earnings pointed to a trend reversal, with a few banks reporting lower capital ratios, albeit due to extraordinary operations. UniCredit posted a CET1 ratio of 14.8%, a negative impact of 117bp from the equity consolidation of a 26% stake in Commerzbank. UniCredit management has expressed an appetite to reduce the CET1 capital to between 12.5% and 13%. MPS also reported a lower CET1 ratio of 16.9%, largely due to the impact of the acquisition of Mediobanca (200bp). BPER was subject to a similar dynamic.

We continue to expect strong capital ratios over the next two years, despite high pay-out ratios. Some banks still maintain a capital surplus over their minimum long-term targets that gives them strategic flexibility (**Figure 11**).

Figure 11: CET1 capital: Historical vs long term target



Note: Credem's capital ratios refer to the Holdco perimeter. Credem and MPS have no public long-term guidance on CET1 ratio
Source: Company data, Scope Ratings

Appendix I

	Actual - average	Baseline scenario			Stress scenario		
Assumptions	**2020-2024**	**2025E**	**2026F**	**2027F**	**2025E**	**2026F**	**2027F**
Customer loan growth	3.9%	0.7%	1.7%	1.9%	0.7%	1.7%	1.9%
RWA growth	1.3%	4.6%	1.9%	2.3%	4.6%	1.9%	2.3%
NIM (% on customer loans)	1.5%	2.0%	2.0%	1.9%	2.0%	1.8%	1.6%
Fee growth (%)	6.2%	6.3%	4.6%	3.6%	6.3%	0.0%	0.0%
Cost growth (%)	3.3%	0.8%	1.4%	-0.3%	0.8%	1.4%	-0.3%
CoR (bps of loans)	46	31	36	37	31	81	56
Key Ratios	**2020-2024**	**2025E**	**2026F**	**2027F**	**2025E**	**2026F**	**2027F**
Cost/ income ratio (%)	53.6%	46.9%	46.5%	45.4%	46.9%	49.8%	52.6%
Pre-impairment operating profit/ average RWAs (%)	3.0%	4.6%	4.6%	4.7%	4.6%	4.0%	3.5%
Impairment on financial assets / pre-impairment income (%)	24%	10.6%	12.1%	12.4%	10.6%	31.4%	25.1%
Return on average RWAs (%)	1.7%	2.9%	2.7%	2.8%	2.9%	1.5%	1.3%
Common equity tier 1 ratio (%, transitional)	15.2%	15.1%	15.2%	15.2%	15.1%	15.0%	14.8%

Note: historical growth ratios were not corrected for M&A activity.
Average of assumptions across sampled banks.

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