



THE ITALIAN BANKING INDUSTRY: KEY FIGURES, TRENDS, STATE OF HEALTH.

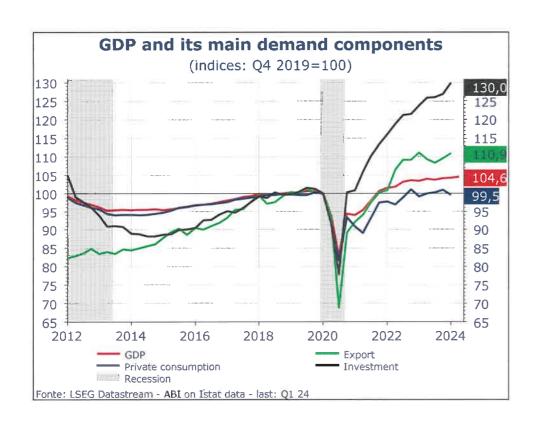
The Macroeconomic Scenario

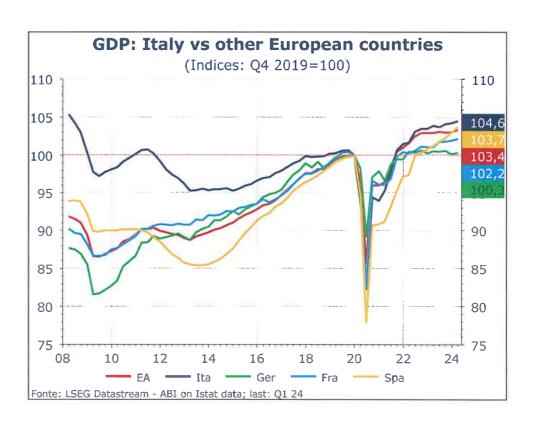
The Italian Banking Industry



#### The Italian economy has recovered strongly after the pandemic shock

> In the first quarter of 2024, Italy's GDP was 4.6% higher than before the Covid-19 crisis (Q4 2019).





### In Q1 of 2024 in Italy economic activity grew modestly

> In the first quarter of 2024 GDP increased by 0.3% with respect to the previous quarter and by 0.6% over the same quarter of previous year.

GDP, national demand, foreign trade<sup>1</sup>

	Gross domestic product	Gross fixed investment	Resident household and NPISH consumption <sup>(2)</sup>	Government consumption	Total national demand <sup>(3)</sup>	Exports of goods and services	Imports of goods and services
2019	0,5	1,2	0,2	-0,6	0,2	1,6	-0,7
2020	-9,0	-7,9	-10,4	0,1	-9,7	-13,5	-12,1
2021	8,3	20,3	5,5	1,4	9,8	14,1	15,6
2022	4,0	8,6	4,9	1,0	6,0	10,2	12,9
2023	0,9	4,7	1,2	1,2	1,2	0,2	-0,5
Q1 2023	0,4	1,8	0,8	0,8	1,1	-1,6	0,6
Q2 2023	-0,2	0,0	0,2	-0,6	0,4	-0,9	0,9
Q3 2023	0,4	0,7	0,7	0,1	-0,7	1,2	-1,9
Q4 2023	0,1	2,4	-1,4	0,7	-0,2	1,2	0,2
Q1 2024	0,3	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.

(1) Chain-linked volumes; quarterly data are adjusted for seasonal and calendar effects.

(2) Non-profit institutions serving households.

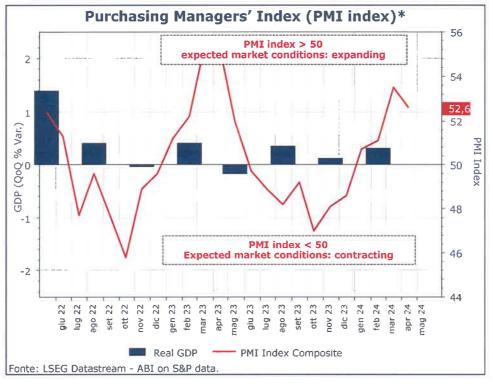
(3) Including changes in inventories and valuables.

Source: Istat



#### PMI index remained above the expansion threshold in April

> In April 2024, the composite PMI index fell slightly to 52.6 points, but was still 2.6 points above the threshold of 50.



<sup>\*:</sup> The Purchasing Managers' Index (PMI) is an index of the prevailing direction of economic trends in the manufacturing and service sectors. It consists of a diffusion index that summarizes whether market conditions, as viewed by purchasing managers, are expanding (index > 50), staying the same (index = 50), or contracting (index < 50). The purpose of the PMI is to provide information about current and future business conditions to company decision makers, analysts, and investors.



## **Economic forecast: weak growth of the global economy**

**Table 1.1. Overview of the World Economic Outlook Projections** (Percent change, unless noted otherwise)

		Projec	ctions		rom January O <i>Update</i> <sup>1</sup>
	2023	2024	2025	2024	2025
World Output	3.2	3.2	3.2	0.1	0.0
Advanced Economies	1.6	1.7	1.8	0.2	0.0
United States	2.5	2.7	1.9	0.6	0.2
Euro Area	0.4	0.8	1.5	-0.1	-0.2
Germany	-0.3	0.2	1.3	-0.3	-0.3
France	0.9	0.7	1.4	-0.3	-0.3
Italy	0.9	0.7	0.7	0.0	-0.4
Spain	2.5	1.9	2.1	0.4	0.0
Japan	1.9	0.9	1.0	0.0	0.2
United Kingdom	0.1	0.5	1.5	-0.1	-0.1
Canada	1.1	1.2	2.3	-0.2	0.0
Other Advanced Economies <sup>2</sup>	1.8	2.0	2.4	-0.1	-0.1
<b>Emerging Market and Developing Economies</b>	4.3	4.2	4.2	0.1	0.0
Emerging and Developing Asia	5.6	5.2	4.9	0.0	0.1
China	5.2	4.6	4.1	0.0	0.0
India <sup>3</sup>	7.8	6.8	6.5	0.3	0.0

Source: IMF, WEO April 2024.



# GDP growth projections over the next two years (Consensus): in Italy +0.8% in 2024 and +1.0% in 2025

#### **Forecasts**

Forecasters	Date	Italy GDP (%)			
		2024	2025		
Consensus Forecasts	May-24	0,8	1,0		
European Commission	May-24	0,9	1,1		
OECD	May-24	0,7	1,2		
Confindustria	Apr-24	0,9	1,1		
IMF	Apr-24	0,7	0,7		
Government	Apr-24	1,0	1,2		
Bank of Italy	Apr-24	0,6	1,0		
Istat	Dec-23	0,7	n.d.		

#### **International Scenario**

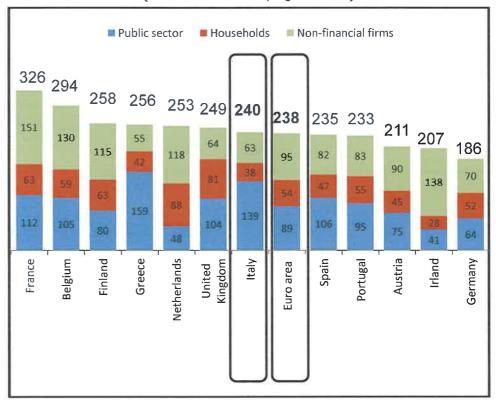
Area	Date	GDP (%)			
		2024	2025		
World output	Apr-24	3,2	3,2		
Advanced economies	Apr-24	1,7	1,8		
Emerging Market	Apr-24	4,2	4,2		
Usa	Apr-24	2,7	1,9		
Euro area	Apr-24	0,8	1,5		

Source: International Monetary Fund

# The capacity of the Italian economy to handle adverse shocks is supported by several strengths, including the low level of indebtedness of the private sector

- ☐ Italian private debt on GDP ratio is among the lowest in Europe: non financial firms' debt is 63% vs. 95% EA average
- By international standards, Italian households continue to display low levels of indebtedness (38% vs. 54% EA average)

# Aggregate debt\* in the main European countries (as a % of GDP; Q4-2023)

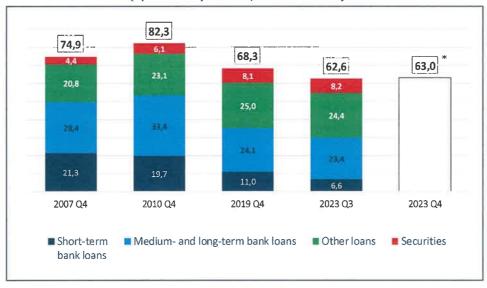


 <sup>\*</sup> Loans and securities. Data for the euro area countries are from ECB, Statistical Data Warehouse and refer to the end of Q4 2023; data for the United Kingdom and non-European countries are from BIS statistics and refer to the end of Q3 2023.
 Public debt refer to 2024

#### Corporate sector's financial conditions stronger than prior to the global financial crisis

#### Debt of non-financial corporations<sup>1</sup>

(quarterly data; % of GDP)

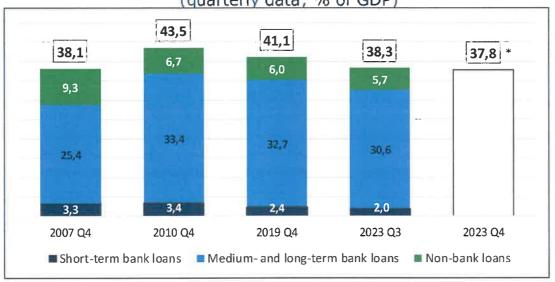


1) End-of-quarter stocks and 4-quarter cumulative flows. Debt includes securitized loans (\*) detailed data will be available on June 5, 2024 Sources: Based on Bank of Italy and Istat data.

Firms are facing the macroeconomic scenario from a stronger and more balanced financial position than they had at the start of the global financial crisis. In the fourth quarter of 2023 the total debt of non-financial corporations as a percentage of GDP remained stable at 63% (almost 75% in Q4 2007). The latest data relating to the previous quarter indicate that short-term bank loans were 6.6% (vs 21.3% in Q4 2007) while long-term bank loans were 23.4% (vs 28.4% in Q4 2007).

# The household sector's financial conditions were also more solid than prior to the pandemic crisis





<sup>(1)</sup> End-of-quarter stocks for debt; 4-quarter cumulative flows for income. Debt includes securitized loans.

In the fourth quarter of 2023, households' debt as a share of GDP fell to 37.8% (53.6% in the euro area). As percentage of their disposable income, it also decreased to 58.6% (vs 87.9% in the euro area). Household debt is lower also compared to pre-pandemic level: in Q4 2019 it was 41.1% as share of GDP and 65.2% as a share of their disposable income.

<sup>(\*)</sup> detailed data will be available on June 5, 2024 Sources: Based on Bank of Italy and Istat data.

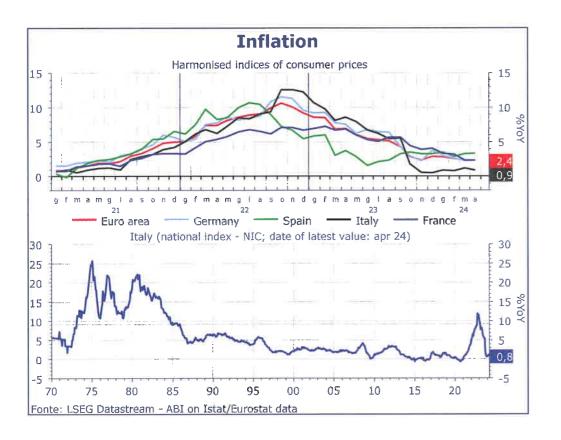
## Government deficit below 3% in 2027, with debt-to-GDP ratio stable

Existing legislation scenario		Forecasts				
(% of GDP, unless otherwise indicated)	2023	2024	2025	2026	2027	
Real GDP growth (% var.)	0,9	1,0	1,2	1,1	0,9	
Nominal GDP growth (% var.)	6,2	3,7	3,5	3,0	2,7	
Net borrowing/GDP	-7,2	-4,3	-3,7	-3,0	-2,2	
Structural balance*/GDP	-8,0	-4,8	-4,3	-3,7	-2,8	
Primary balance/GDP	-3,4	-0,4	0,3	1,1	2,2	
Public debt/GDP (gross of support)	137,3	137,8	138,9	139,8	139,6	

<sup>\*:</sup> Net of one-offs and the cyclical component

Source: MEF – DEF 2024

# In the euro area inflation is declining and long-term expectations are anchored to the price stability objective

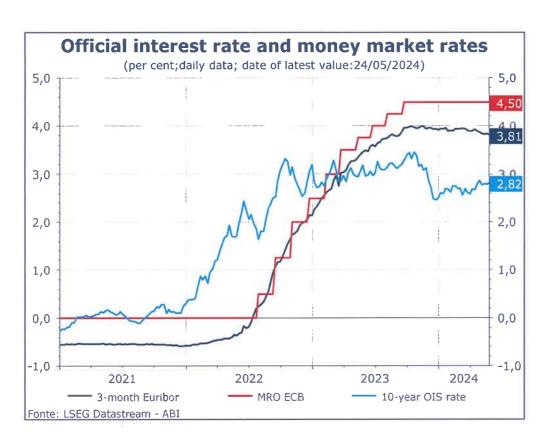


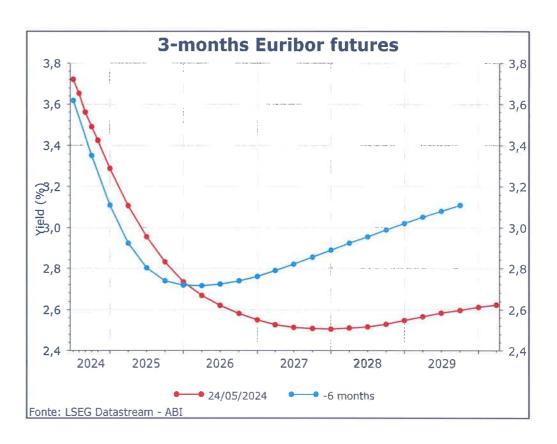


(1) Expected inflation rates implied by 2-year, 5-year, and 5-year, 5 years forward ILS contracts



# ECB policy rate at 4.5%, but short-term interest rates are expected to decline over the coming months





The Macroeconomic Scenario
The Italian Banking Industry

#### Italian banks in a nutshell

#### **RESTRUCTURING & CONSOLIDATION UNDERWAY:**

• CONSOLIDATION: the sector is less fragmented than often claimed: around 96 groups and independent banks in total.

#### BANK LENDING IS DECLINING, MAINLY DUE TO FALLING DEMAND FOR CREDIT:

• LENDING: in March 2024 loans to the private sector -2.4% YoY (-2.5% previous month). Loans to households -1.4% YoY (1.4% previous month), loans to non-financial firms -3.9% YoY (-3.8% previous month).

#### **CREDIT RISK IS LOW, BUT AN INCREASE IS EXPECTED:**

- CREDIT RISK BELOW THE PRE-CRISIS LEVEL: in Q4 2023 the flow of new non-performing loans (NPLs) at 1.1% of total loans (1.7% for firms and 0.9% for households). Given the macroeconomic scenario, an increase is expected in 2024.
- NPL STOCK: total NPLs held stable in Q4 2023 (net NPL ratio 1.4%; 1.1% for significant banks in Q4 2023).
- COVERAGE RATIO: around 49.7% for total NPLs in Q4 2023 (54.1% for significant banks in Q4 2023).

#### LIQUIDITY POSITION IS STRONG AND ABOVE REGULATORY REQUIREMENTS:

NSFR AND LCR: in Q4 2023 NSFR at 133% and LCR at 189%.

#### CAPITALIZATION IS HIGH AND IN LINE WITH THE EUROPEAN AVERAGE:

• COMMON EQUITY TIER 1 RATIO (CET1): 15.6% in Q4 2023 (15.9% for significant banks).

#### PROFITABILITY IS IMPROVING, BUT IS STILL UNDER PRESSURE:

• **RETURN ON EQUITY:** in 2023 ROE rose from 8.7 to 12.3% (net of non-recurring items).



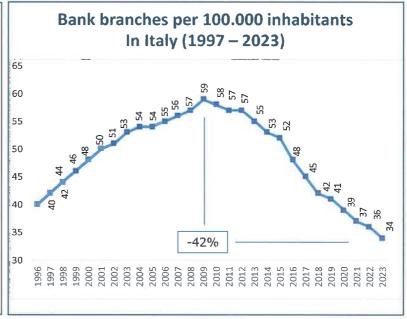


#### Banks consolidation and branches reorganization going on

#### Consolidation

#### **Evolution of the structure of the Italian banking** sector (number of banks1; 2017-2024) Stand-alone Banks<sup>2</sup> From 431 314 Cooperative Banks<sup>3</sup> banks1.... ... to 96 51 Banking group parent companies 58 banks1 March 2017 February 2024

#### **Reduction of branches**



1 Number of "active" banks, which is the sum of banking groups and stand-alone banks (BCC considered). Figures as at March 2017 and February 2024. 2 Banks not included in banking groups.

Source: ABI on Bank of Italy data and official communications to ABI for ongoing M&A transactions.



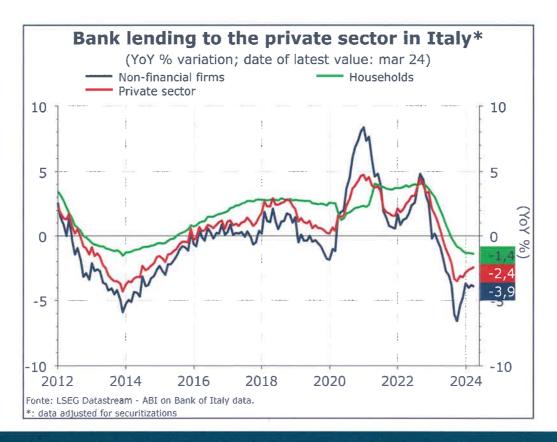
<sup>3</sup> Starting from 2019, individual BCC have been consolidated into 2 banking groups - Iccrea & Cassa Centrale Banca - while Raiffeisenkasse have joined 1 IPS (Institutional Protection Scheme). Therefore, in the chart we have considered 40 Raiffeisenkasse + 184 individual BCC + 2 parent banks (Iccrea Banca and Cassa Centrale Banca) as only 3 banking players as at February 2024.

4 Including two banks belonging to banking groups with a financial company as parent company.

Banks consolidation	
Lending	
Funding/Liquidity	
NPLs	
Capitalization	
Profitability	

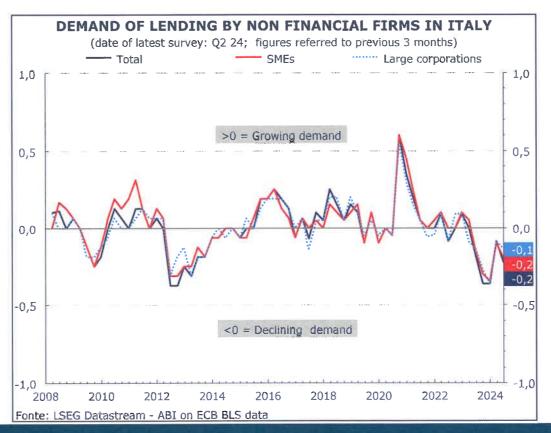
#### Lending to the private sector continued to fall in March, albeit at a slower pace

➤ In March lending to the private sector decreased by 2.4% on an annual basis. Lending to households decreased by 1.4%, while that to non-financial corporations decreased by 3.9%.



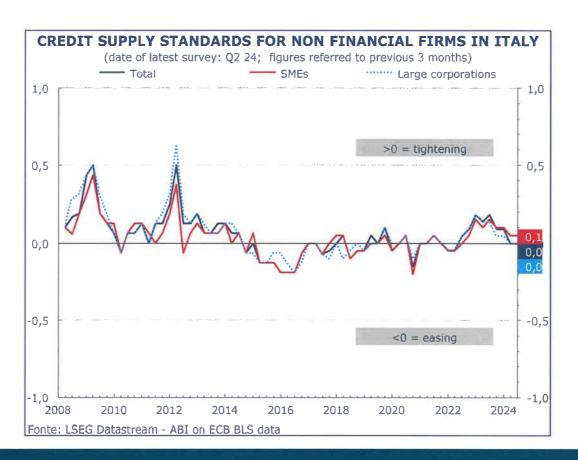
#### Weak credit demand

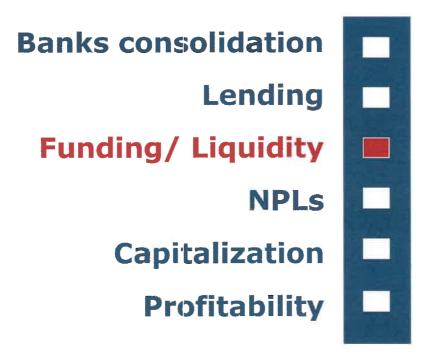
> In Q1 2024 firms' demand for loans declined for the fifth consecutive quarter, reflecting firms' high liquidity levels, fall in fixed investment and higher interest rates.



## **Stable credit supply**

> In Q1 2024 credit standards for loans to firms remained stable.

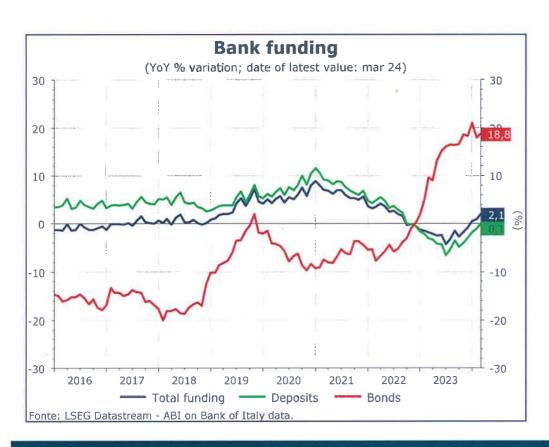


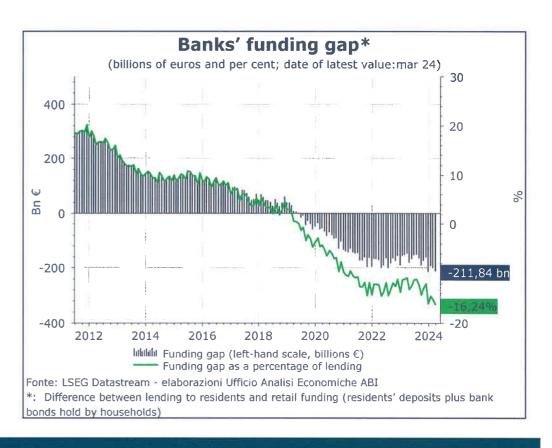




### Funding increased in March and the funding gap was negative

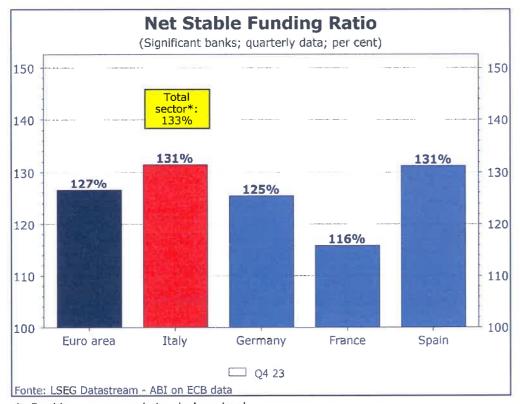
➤ In March 2024 bank funding increased by 2.1% and the funding gap was negative by €212 billion (i.e., lending to residents was lower than retail funding).

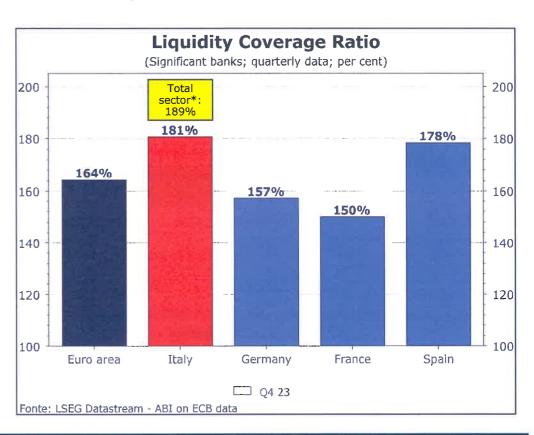




#### Banks' liquidity position in Italy is strong and well above the regulatory requirements

> In the fourth quarter of 2023, the net stable funding ratio (NSFR) for Italian banks was 133% and the liquidity coverage ratio (LCR) was 189% (132% and 181% for significant banks).

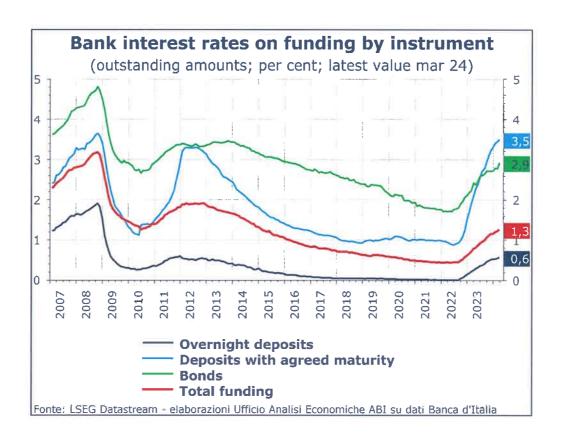






<sup>\*:</sup> Banking groups and stand-alone banks

## Since mid 2022 the cost of funding has increased, particularly for time deposits



Banks consolidation	
Lending	
Funding/Liquidity	
NPLs	
Capitalization	
Profitability	1000

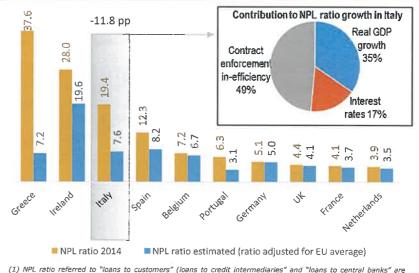
# Improving the efficiency of civil justice is a top priority, as the slowness of justice was the main cause of the increase in NPL in Italy

# What if simulation

## Country-specific determinants of NPLs in Italy (Average value)

Factors modified in the simulation	from	to	Explanation
Real GDP growth	-1.3%	0.40%	GDP growth in line with the Euro Area f/2008 t/2014
Interest rate on BTP	4.3%	2.2%	Spread vs. Bund limited to 30 p.b. from 2010 to 2014
Contract enforcement efficiency	1224 days	584 days	Contract enforcement efficiency equal to the European mean f/2008 t/2014

# NPL ratio<sup>1</sup> 2014 (our estimates<sup>2</sup> vs. actual figure)



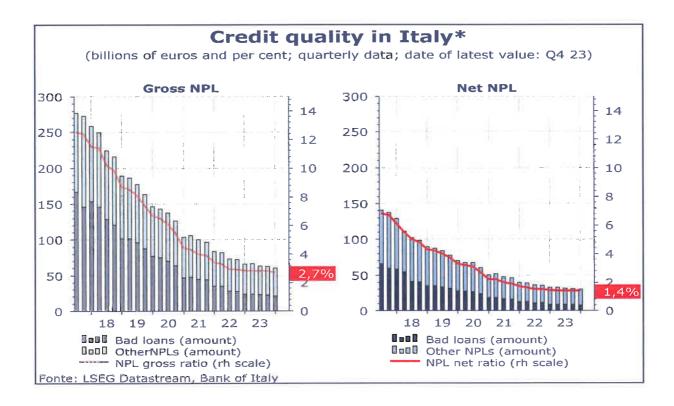
(1) NPL ratio referred to "loans to customers" (loans to credit intermediaries" and "loans to central banks" are therefore excluded both in the numerator and in the denominator of the ratio)

NPLs evolution since 2008 mainly determined by lower GDP growth, higher Sovereign benchmark rate and lower contract enforcement efficiency. Using Abi econometric model, we find that for the Italian banks the cumulative impact of these three factors explains the 80% increase in NPLs (around 12 pp) - of which almost the half is due to the Contract enforcement in-efficiency - as compared to 50% in the other European countries.

2) The estimated NPL ratio is equal or lower than the actual NPL in all the countries as we apply the European Average (for one or more of the 3 key variables) instead of the country actual figure only in case the change produces a positive effect. Indeed, in each year observed, we divide the countries into two groups: (i) those with GDP growth higher than the EA; (ii) those with GDP growth lower than the EA. Then, we assign the EA GDP growth solely to the second group. Moreover, we assign, solely to the stressed countries (i.e., GIPSI), the Germany benchmark rate plus 30 bp. Finally, we assign the mean value of EA contract enforcement efficiency to all countries that have a value of this index higher than the average (i.e., Greece, Ireland, Italy and Slovenia).

#### **Credit risk is low and stable**

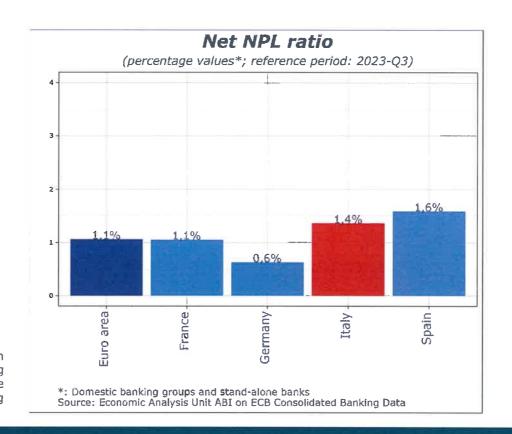
> In the fourth quarter of 2023, net NPL ratio of banks in Italy held stable at 1.4% (2.7% in gross terms).



Sources: Bank of Italy, Supervisory reports, on a consolidated basis for banking groups and on an individual basis for the rest of the Italian banking system (include banking groups and banks subsidiaries of foreign intermediaries; excludes branches of foreign banks); NPLs include loans to customers, credit intermediaries and central banks; end of period data.

## Net NPL ratio is close to the European average

➤ In the third quarter of 2023¹, the net NPL ratio of Italian banks was 1.4% compared with 1.1% on average for the eurozone (1.1% for significant banks in Q4 2023² compared with 1.1% on average for the eurozone).



1: Latest available date for European comparison considering domestic banking groups and stand-alone banks; latest available date for European comparison considering significant banks.

### Significant improvement in credit quality in recent years: Net NPL ratio declined from 9.8% in 2015 to 1.4% in 2023

#### **Italian NPLs figures: in brief**

(Consolidated figure for banking groups and individual data for the rest of the sector)

	Dec	Dec	Dec	Dec	Dec	Dec	Dec
	2015	2018	2019	2020	2021	2022	2023
			Of	ficial figu	res		
Total NPLs* (gross); bin €	360	189	147	104	84	66	60
	<b>†</b>		30	0bln (-83	%)		<u> </u>
NPL ratio (gross); %	16.5%	8.7%	6.7%	4.4%	3.4%	2.8%	2.7
NPLs (net); bln €	196	90	70	51	40	33	30
			16	3bln (-85	5%)		
NPL ratio (net); %	9.8%	4.3%	3.3%	2.2%	1.7%	1.5%	1.4%
NPL coverage; %	45.5%	52.6%	52.4%	51.2%	52.0%	49.7%	49.7%

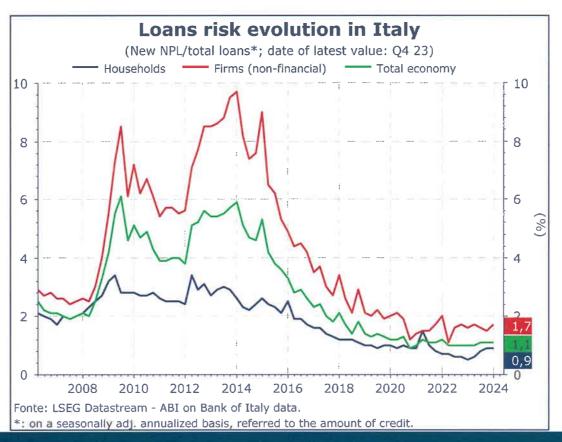
<sup>(\*)</sup> Total loans (and NPLs) include «loans to credit intermediaries". "loans to central banks" and "loans to customers". in line with the approach followed by the ECB and the EBA in the calculation of the NPL ratio.

Source: ABI on Bank of Italy data



### New non-performing loan ratio stable at low levels

➤ In fourth quarter of 2023 the new non-performing loan ratio remained stable at 1.1% (1.7% for firms and 0.9% for households).

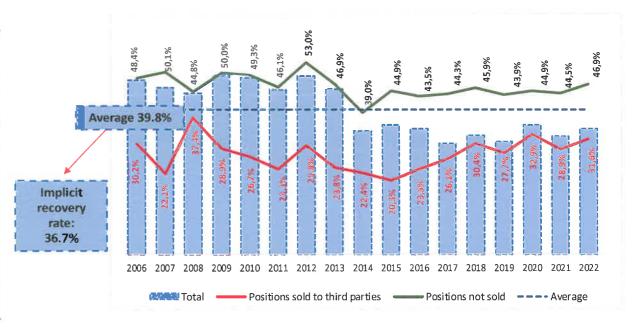


## Current coverage ratios aligned with effective recovery rate of bad loans. Recovery rate on ordinary closed positions significantly higher than those on positions sold

Amounts of NPLs and coverage ratios in Italy (by class of NPLs\*; %; December 2022)

Actual recovery rates of Bad loans in Italy (total and by type of recovery procedure)

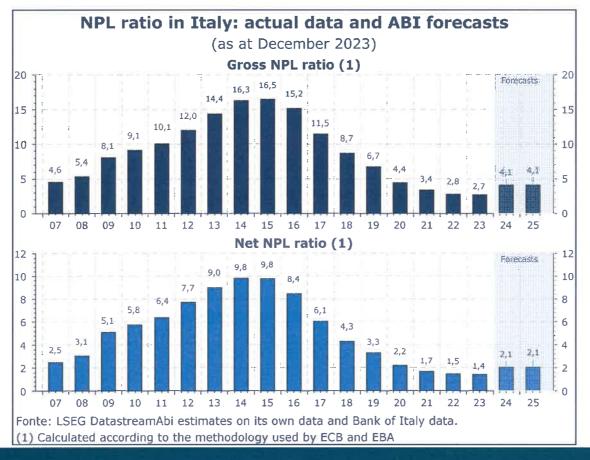
	December 2022
	Coverage
Loans	2.1%
NPLs total:	49.7%
- Bad loans	63.3%
- Unlikely to pay	43.9%
- Past due loans	27.0%



The average rate of recovery on bad loans between 2006 and 2022 was 39.8% (which corresponds to 60.2% of losses, a percentage in line with the current average coverage rate - about 63% at December 2022).

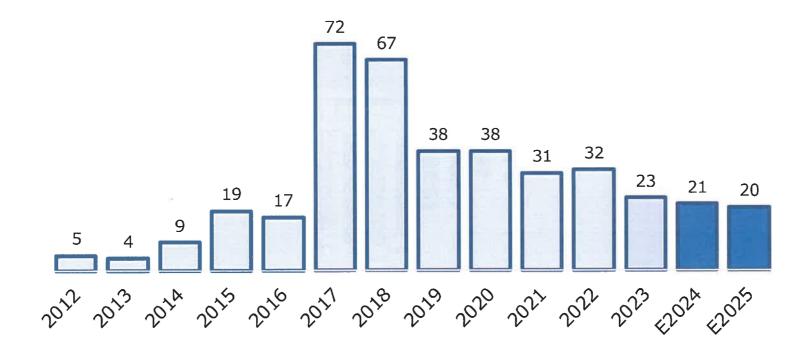
### NPL ratio ABI forecasts: given the macroeconomic scenario, a modest increase is expected

> Gross and net NPL ratio expected to rise to 4.1% and 2.1% in 2024.



### 21 bln euro transactions on NPL portfolios estimated in 2024

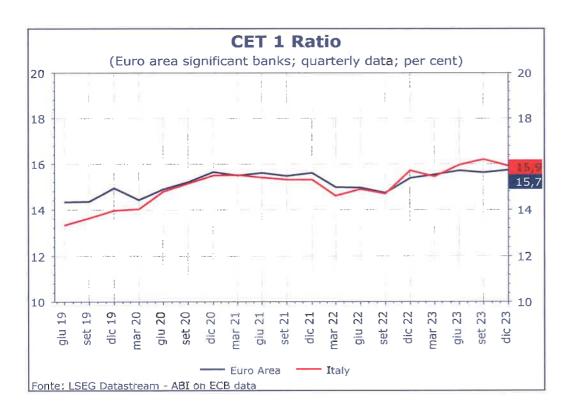
Amount of disposals of NPLs in Italy (billions of euros; gross book value)

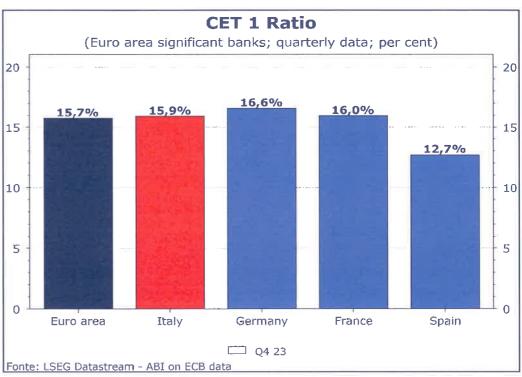




#### Italian banks capitalization is high and in line with the European average

> In Q4 of 2023 CET1 ratio for Italian banks was 15.6% (15.9% for significant banks).

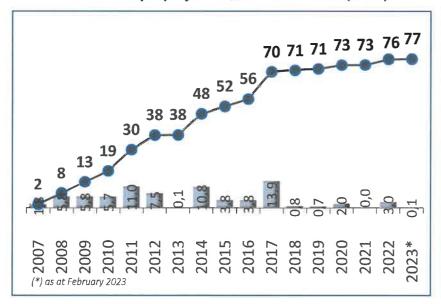




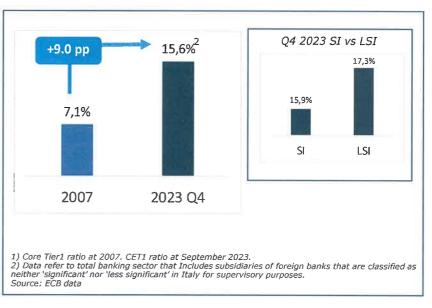


# Italian banks do not present any capitalization problem, also due to relevant amount of private capital injections

#### Common equity injections at Italian banks (€ bln)



CET 1 ratio Italian banks1



Raised about €77 billions of additional private capital from 2007 CET1 ratio increased from 7.1% to 15.6%

Source: ABI on Borsa Italiana and Italian Banks website

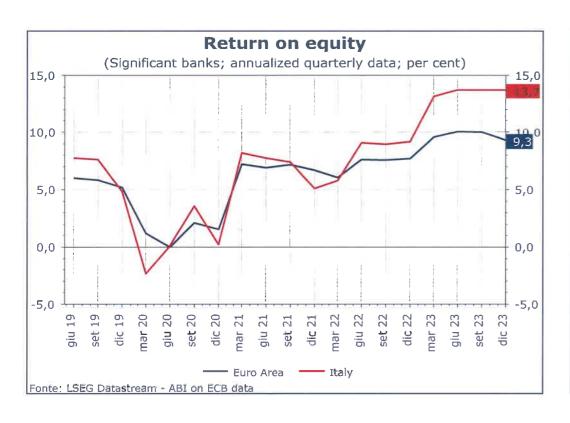
Source: ABI on Bank of Italy

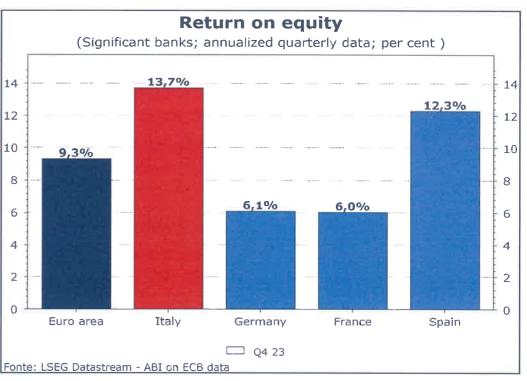




#### The profitability of Italian banks improved further in 2023

➤ In 2023 ROE rose from 8.7% to 12.3% (net of non-recurring items; 13.7% for significant banks in Q4 2023).





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