

PRESS RELEASE

Forecasts: ABI, stronger recovery signs, Italian banks hold on

Recovery strengthens. Italian banks near households and companies to overcome the difficulties of the crisis and with an exposure approximately three times lower than the European 'cousins' on foreign markets. Increasing trends for doubtful loans (+40% in 2010, +12% next year). These are the results of the AFO financial outlook for the next three years presented today by Abi.

A gradual economic recovery that could be affected by the uncertainties on the international markets following the threats of contagion coming from Countries with sustainability problems of national debt and with default risk. This is the picture of the economic framework of the Euro area contained in the 2010-2012 AFO-Financial Outlook presented today by Abi. A new uncertainty phase that, for the countries of the Euro area and for Italy, is not translated in a return to recession, but in a recovery prospect less strong than expectations. According to the estimates of Abi's Research Centre and of the main Italian banks, in Italy, GDP - after an overall drop of 6.3% during the 2008-09 two-year period - shall increase by 0.9% this year and just a bit more in 2011-12 (+1.2%).

The Italian banking sector continues to show a substantial solidity even if allowing for the effects of the crisis and reporting a modest improvement of the income statement (net profit +1.5%) that will not allow to recover the losses suffered in 2009 (-29%). Only as from 2011, profitability will improve and increase Roe to 3.6% and to 4.5% in 2012, values that are however lower (nearly half) compared to the values reported before the financial turmoil. The growth trend of doubtful loans is confirmed: at the realisable value they should record +40% in 2010, +12% next year, and remain steady in 2012.

The macroeconomic scenario in the Euro area and in Italy

The Euro area is expected to have a 1.2% growth in GDP for the current year, after the drop in 2009 (-4.1%), and slightly higher in the following two-year period (+1.3%). The recovery of the industrial production continues as well as business confidence. The negative effects of recession affect the employment market: the unemployment rate is steady at 10% for the Euro area and 8.7% for our Country. In Italy, the inflation rate of almost 1% at the end of 2009 does not increase significantly, standing at 1.5% in 2010, increasing by 1.8 and 2% in the following two-year period.

Public finance

The set of measures submitted to the Parliament with the correction measure, being approved, shall affect the prospective trend of the indebtedness of public administrations of € 12 billion in 2011 and of € 25 billion in 2012. Thanks to these correction measures,

according to the AFO financial outlook, the deficit/GDP ratio should reach almost 3% at the end of 2012, well below the Maastricht threshold.

The Italian Banking Industry

The credit situation in Italy offered in the first months of 2010 clear signs of improvement. In May, the bank lending in the private sector reported a 1.3% annual increase with clear signs of speeding-up. The banking system is also engaged in capital increase; at the end of 2009, the Tier1 ratio was equal to 9%, 1.4 points more than 2008. In the last quarter, the improvement of the core tier 1 ratio was greater than the one recorded by the major European banking groups.

Loans

The growth rate of household and business loans in 2010 is equal to 3.9% (0.5% in 2009); growth that shall become consolidated in 2011-2012 with a +5.5% per year.

In Italy, business lending significantly increased more than the average of the Euro area, and for 2010 it is expected to grow by 2.5% after decline of last year (-2.3%), mainly related to the drop in investments. In the following two-year period, business lending should speed-up to +6% at the end of 2012.

Increases are continuously reported in household loans by +6.2% in the current year (+6.9% only for the mortgage segment). The increase in the propensity to consume of households shall encourage the growth of consumer credit, which shall increase on average by 5.5% during the three-year period.

Deposits (+3.6% in 2009) will report an increase by 5% in 2010 and by 4% in 2011-2012. The growth of **deposits** with annual increases by 6.1% in May is the main driver.

Doubtful loans

The austerity of the recession will increase doubtful loans for banks: net doubtful loans will increase by 40% in 2010, by 12% in 2011 and by 1% in 2012. In connection with loans, net doubtful loans show a gradual deterioration up to a maximum of 2.9% in 2011.

Net profit

After a 56% decrease in 2008 and 29% decrease in 2009, net profit of banks will report a substantial stability (+1.5%) during the current year compared to 2009. During the 2011-2012 two-year period, profit may return to the 2008 levels, even if its values will remain considerably lower than the pre-crisis values.

RoE, margins and costs

In this context, *Return on Equity* will increase from 2.8% of 2009 to 4.5% of 2012. The interest margin for 2010 will decrease by 1.6% with a recovery in 2011-12 by 2.7 and 6%. As for the net interest margin, a slight growth of 0.3% is prospected for 2010 (-

2.8% in 2009) and an acceleration for the following two-year period (+3.7 and +5.8% in 2011-2012, respectively).

Italia - Scenario di base: principali variabili				
	2009	2010	2011	2012
(var %)				
Crescita reale Pil	-5.0	0.9	1.2	1.2
Crescita reale investimenti	-12.1	0.2	1.5	2.3
Deficit/Pil (in %)	-5.3	-5.0	-3.9	-3.2
Prezzi al consumo (NIC)	0.8	1.5	1.8	2.0
Prezzo del petrolio (in \$)	62.4	75.7	77.0	74.6
Tasso riferim. BCE (*)	1.3	1.0	1.2	1.6
Tasso sugli impieghi (**)	4.4	3.8	4.1	4.4
Tasso sulla raccolta	1.9	1.7	1.9	2.1
Impieghi a residenti (***)	2.2	3.7	5.0	5.1
Sofferenze nette (***)	65.2	40.3	12.1	1.2
Depositi da residenti (***)	6.7	5.5	3.7	3.1
Obbligazioni in euro (***)	11.2	3.9	6.8	7.6
(in % del totale attivo)				
Margine d'interesse	1.13	1.06	1.04	1.06
Margine d'intermediazione	2.07	1.99	1.97	1.99
Costi operativi	1.31	1.25	1.21	1.17
Risultato lordo di gestione	0.76	0.75	0.77	0.82
Utile netto	0.20	0.20	0.27	0.35
(*) media annua. (**) relativo alle famiglie e alle società non finanziarie. (***) var % sulle consistenze di fine periodo. Per impieghi e depositi sono escluse le IFM.				
Fonte: Istat - Banca d'Italia - BCE e sc. previsioni				

Italy – Basic scenario: main variables				
% change	2009	2010	2011	2012
Real GDP growth	-5.0	0.9	1.2	1.2
Real growth in investments	-12.1	0.2	1.5	2.3
Deficit/GDP ratio (in %)	-5.3	-5.0	-3.9	-3.2
Consumer prices (NIC)	0.8	1.5	1.8	2.0
Oil price (in \$)	62.4	75.7	77.0	74.6
ECB reference rate (*)	1.3	1.0	1.2	1.6
Rate on loans (**)	4.4	3.8	4.1	4.4
Rate on deposits	1.9	1.7	1.9	2.1
Loans to residents (***)	2.2	3.7	5.0	5.1
Net doubtful loans (***)	65.2	40.3	12.1	1.2
Deposits from residents (***)	6.7	5.5	3.7	3.1
Bonds in euro (***)	11.2	3.9	6.8	7.6
(% of total assets)				
Interest margin	1.13	1.06	1.04	1.06
Net interest margin	2.07	1.99	1.97	1.99
Operating costs	1.31	1.25	1.21	1.17
EBITDA	0.76	0.75	0.77	0.82
Net profit	0.20	0.20	0.27	0.35

(*) annual average. (**) related to households and non-financial companies

(***) % change in end of period amounts. For loans and deposits monetary financial institutions are excluded.

Source: Istat – Bank of Italy – ECB and our forecasts

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