

RATING ACTION COMMENTARY

Fitch Affirms Mediobanca at 'BBB'; Outlook Stable

Thu 16 Mar, 2023 - 5:12 AM ET

Fitch Ratings - Milan - 16 Mar 2023: Fitch Ratings has affirmed Mediobanca Banca di Credito Finanziario S.p.A's Long-Term Issuer Default Rating (IDR) at 'BBB' with a Stable Outlook and Viability Rating (VR) at 'bbb'. A full list of rating actions is below.

KEY RATING DRIVERS

Moderate Risk Profile, Specialised Businesses: Mediobanca's ratings reflect its moderate risk profile, underpinning operating profitability and asset quality, which are better than those of domestic peers through the cycle, and a specialised and diversified business model with strong competitive positions in selected businesses. Mediobanca's VR is one notch above the 'bbb-' implied rating, driven by its risk profile, which we assess at 'bbb'.

Domestic Footprint, Strong Franchises: Mediobanca is a leading corporate and investment bank and consumer lender in Italy. The bank is successfully expanding its wealth-management franchise, mainly in the affluent and private banking segment, and its customer deposit base domestically.

Stable Asset Quality: The impaired loan ratio (excluding purchased impaired loans) was 2.4% at end-2022 and reserve coverage high by domestic and international standards at 70% (above 100% when also collective reserves are considered). Mediobanca's conservative underwriting has consistently resulted in better than sector average asset quality metrics. During 2022, Mediobanca experienced a general slight improvement in credit risk parameters for the various loan classes as impaired loan inflows remained low.

We expect potential asset quality deterioration in 2023, given Italy's weakening economic backdrop, but for it to be limited.

Resilient Profitability: Operating profitability has proved more resilient than domestic peers, even during low interest rate periods, given its diverse business model with increased wealth-management fee generation. In 2022, profitability began to benefit from interest rate increases. Greater business and revenue diversification have resulted in a gradual improvement of average operating profit/risk-weighted assets (RWA) over the past 10 years, which we expect to be between 2.0% and 2.5% over the medium term.

Satisfactory Capital Buffers: Capitalisation is adequate, with a transitional common equity Tier 1 (CET1) ratio of 15.1% at end-2022. We expect capital ratios to remain resilient, despite possible inorganic growth and potential regulatory headwinds. Holdings of Italian government bonds are modest and unreserved impaired loans were minimal at end-2022.

Stable Funding and Liquidity: The bank benefits from above-domestic average funding diversification due to its established capital market access. Medium-term funding needs are manageable, and liquidity is underpinned by adequate buffers of unencumbered eligible assets. Its customer deposit base has been growing but is less established than that of the largest domestic banks.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

Mediobanca's largely domestic focus means ratings are sensitive to a downgrade of Italy's rating or to a downgrade of our assessment of Italy's operating environment.

The ratings could be downgraded if Mediobanca's risk profile worsened materially, for example, if the bank became more aggressive in its underwriting standards, including in riskier asset classes, which Fitch does not currently expect.

The ratings could also be downgraded if Mediobanca's CET1 ratio falls below 13% without the prospect of recovery in the short term and with unreserved impaired loans rising substantially on a sustained basis. This weakening of capitalisation could be caused by a prolonged damage to the bank's asset quality and earnings.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

An upgrade is currently unlikely and would be contingent upon an Italian sovereign upgrade. This would have to be accompanied by a much stronger business and risk profile (i.e. as represented by an impaired loan ratio kept consistently below 2% and operating profit/RWAs at least above 3%) while strengthening capitalisation with a CET1 ratio consistently above 17%.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

DEPOSIT RATINGS

The Long-Term Deposit Rating is one notch above Mediobanca's Long-Term IDR to reflect full depositor preference in Italy and protection from senior and subordinated debt and equity buffers. The uplift also reflects our expectation that the bank will maintain these buffers, given the need to comply with minimum requirement for own funds and eligible liabilities (MREL).

The Short-Term Deposit Rating of 'F2' is the baseline option for a long-term deposit rating of 'BBB+' because the funding and liquidity score is not high enough to achieve the higher equivalent short-term rating.

SENIOR PREFERRED (SP) AND SENIOR NON-PREFERRED (SNP) DEBT

Mediobanca's SNP debt is rated one notch below the Long-Term IDR to reflect the risk of below-average recoveries arising from the use of SP debt to meet resolution buffer requirements and the combined buffer of additional Tier 1, Tier 2 and SNP debt being unlikely to exceed 10% of RWAs. For the same reason, the SP debt rating is in line with the Long-Term IDR.

The SP short-term debt rating of 'F3' is in line with the Short-Term IDR.

SUBORDINATED DEBT

Tier 2 subordinated debt is rated two notches below the VR for loss severity to reflect poor recovery prospects. No notching is applied for incremental non-performance risk because a write-down of the notes will only occur once the point of non-viability is reached and there is no coupon flexibility before non-viability.

DERIVATIVE COUNTERPARTY RATING (DCR)

Mediobanca's DCR is in line with the Long-Term IDR as derivative counterparties in Italy have no preferential legal status over senior debt in liquidation.

GOVERNMENT SUPPORT RATING (GSR)

Mediobanca's GSR of 'no support' (ns), reflects our view that although external extraordinary sovereign support is possible it cannot be relied upon. Senior creditors can no longer expect to receive full extraordinary support from the sovereign in the event that the bank becomes non-viable. The EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism for eurozone banks provide a framework for resolving banks that requires senior creditors participating in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

The DCR, SP, SNP debt and deposit ratings are primarily sensitive to changes in the bank's Long-Term IDR.

The SP and SNP debt ratings could also be upgraded by one notch if at some point Mediobanca is expected to meet its resolution buffer requirements with SNP and more junior instruments.

The long-term deposit rating is also sensitive to a reduction in the size of the senior and junior debt buffers, although we view this unlikely in light of Mediobanca's current and future MREL requirements and the sizeable actual buffers versus regulatory requirements.

The Tier 2 debt rating is primarily sensitive to changes in the bank's VR, from which it is notched. The rating is also sensitive to a change in the notes' notching, which could arise if Fitch changes its assessment of their non-performance risk relative to that captured in the VR.

An upgrade of the GSR would be contingent on a positive change in the sovereign's propensity to support the bank. In Fitch's view, this is highly unlikely.

SUBSIDIARIES & AFFILIATES: KEY RATING DRIVERS

The ratings of the SP debt issued by Mediobanca International (Luxembourg) S.A. are equalised with the parent's IDRs since the debt is unconditionally and irrevocably guaranteed by Mediobanca. Fitch expects the parent to honour this guarantee.

SUBSIDIARIES AND AFFILIATES: RATING SENSITIVITIES

The ratings of the SP debt issued by Mediobanca International (Luxembourg) S.A. are sensitive to the same factors that affect the SP debt issued by the parent.

VR ADJUSTMENTS

The 'asset quality' score of 'bbb-' has been assigned above the 'bb' category implied score due to the following adjustment reasons: historical and future metrics (positive).

The 'funding & liquidity' score of 'bbb' has been assigned above the 'b and below' category implied score due to the following adjustment reason: non-deposit funding (positive).

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Mediobanca's highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY / DEBT ◆

RATING ◆

PRIOR ◆

Mediobanca Banca di Credito Finanziario S.p.A	LT IDR	BBB Rating Outlook Stable		BBB Rating Outlook Stable
	Affirmed			
	ST IDR	F3	Affirmed	F3
	Viability	bbb	Affirmed	bbb
	DCR	BBB(dcr)	Affirmed	BBB(dcr)
	Government Support	ns	Affirmed	ns
Senior preferred	LT	BBB	Affirmed	BBB
long-term deposits	LT	BBB+	Affirmed	BBB+
subordinated	LT	BB+	Affirmed	BB+
Senior non-preferred	LT	BBB-	Affirmed	BBB-
Senior preferred	LT	BBB(EXP)	Affirmed	BBB(EXP)

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APPLICABLE CRITERIA

[Bank Rating Criteria \(pub. 07 Sep 2022\) \(including rating assumption sensitivity\)](#)

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ENDORSEMENT STATUS

Mediobanca International (Luxembourg) S.A.

EU Issued, UK Endorsed

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Structured Finance: Covered Bonds Banks Structured Finance Europe Italy

Luxembourg
