FitchRatings

Fitch Affirms Mediobanca at 'BBB'; Outlook Negative

Fitch Ratings - Milan - 18 February 2020:

Fitch Ratings has affirmed Mediobanca Spa's Long-Term Issuer Default Rating (IDR) at 'BBB' with a Negative Outlook, Viability Rating (VR) at 'bbb' and long-term deposit rating at 'BBB+'. A full list of rating actions below.

RATING ACTIONS

ENTITY/DEBT	RATING		PRIOR
Mediobanca - Banca di Credito Finanziario SPA	LT IDR BBB Affirmed		BBB
	ST IDR F3 Affirmed		F3
	Viability bbb Affirmed		bbb
	Support 5 Affirmed		5
	Support Floor NF Affirmed		NF
	DCR BBB(dcr) Affirmed		BBB(dcr)
subordinated	LT BBB- Affirmed		BBB-
Senior non-preferred	LT BBB Affirmed		BBB
Senior preferred	LT BBB Affirmed		BBB
long-term deposits	LT BBB+ Affirmed		BBB+
Senior preferred	ST F3 Affirmed		F3
short-term deposits	ST F2 New Rating		
Mediobanca International			

(Luxembourg) SA			
senior unsecured	LT BBB Affirmed		BBB
senior unsecured	ST F3 Affirmed		F3

Key Rating Drivers

VR, IDRs, DERIVATIVE COUTERPARTY RATING (DCR) AND SENIOR DEBT RATINGS

The ratings reflect Mediobanca's specialised business model with strong competitive positions in selected businesses, sound capitalisation, adequate profitability and good asset quality. The latter two were maintained through the economic cycle and outperform domestic peers.

Mediobanca has leading investment banking and consumer finance franchises in Italy and has expanded its wealth management activities and distribution capabilities in recent years. In its 2020-2023 strategy, the bank targets growth in business volumes and revenues through continued investments in distribution and innovation. Growth will continue to be based on organic expansion and could include bolt-on acquisitions, and Fitch expects the bank to maintain its well-controlled risk appetite.

Mediobanca's capitalisation is commensurate with its risk profile, underpinned by resilient internal capital generation. The bank is managed with satisfactory buffers over regulatory requirements and with sound leverage by international standards, which we expect to continue. Under its recently published strategic plan, the bank intends to operate with a fully-loaded common equity Tier 1 ratio of 12.5% (calculated fully deducting the stake in Assicurazioni Generali S.p.A. (A-/Stable) throughout 2019-2023. Excess capital will be distributed to shareholders, including share buy backs. Mediobanca's capital encumbrance by unreserved impaired loans and sovereign risk is consistently among the lowest among Italian banks.

Mediobanca's controlled risk appetite is underpinned by sound underwriting standards and a good risk control framework. Its impaired loans ratio (excluding purchased impaired loans) of around 4% at end-2019 is one of the lowest among Fitch-rated Italian banks and compares well with the domestic sector average of above 8%. Asset quality has a record of stability through the cycle, also supported by impaired consumer loans being regularly written off and disposed of. The corporate loan book includes some large single-name exposures but it is reasonably diversified by sector and benefits from international diversification. Our assessment of Mediobanca's asset quality also takes into account its limited holdings of Italian sovereign bonds, at around 30% of Fitch Core Capital (FCC), much lower than most rated Italian banks.

Over the past four years Mediobanca's earnings and profitability have benefited from the expansion of its wealth management activities despite the investment costs that were required to grow its franchise in this segment. Growing consumer lending volumes have also underpinned its operating performance. In the first six months of its current fiscal year, which ends at end-June 2020, Mediobanca reported an operating profit/risk-weighted assets ratio of about 2.5%, which compares well with the strongest domestic banks. The bank has good control over its cost base despite investments in business growth as well as over its funding costs. Loan impairment charges remain under control at less than 20% of pre-impairment profit or 57bp of average gross loans as calculated by Fitch. Earnings benefit from a material contribution from the investment in Generali, which accounted for around 14% of total revenues at end-2019.

Mediobanca's funding structure is adequately diversified and benefits from an increasing deposit base thanks to its growing retail and wealth management franchises, which has been gradually replacing a portion of its wholesale funding over the years. Customer deposits represented around 32% of total funding (excluding derivatives) at end-2019, up from less than 25% at end-June 2016. The bank's access to the institutional funding market is good, as is control over its funding costs. At end-2019, central bank facilities represented around 5% of total funding, which is slightly lower than larger domestic peers, and the majority will be renewed. Medium-term funding needs, including maintaining compliance with minimum requirement for own funds and eligible liabilities (MREL) targets, are manageable. Mediobanca's liquidity is backed by adequate buffers of unencumbered eligible assets and with regulatory liquidity coverage and net stable funding ratios satisfactorily above minimum requirements.

The Negative Outlook is in line with that on Italy's 'BBB' sovereign rating and reflects Fitch's view that Mediobanca would likely be downgraded if Italy's rating is downgraded, given that the bank's activities are predominantly domestic. Its IDRs and VR are therefore highly affected by the risk profile of the Italian sovereign and the domestic economy.

The affirmation of Mediobanca's Short-Term IDR and short-term senior debt ratings is based on our assessment of the group's funding and liquidity, leading to a baseline 'F3' rating under Fitch's Short-Term Ratings Criteria.

Mediobanca's DCR is at the same level as the Long-Term IDR because in Italy derivative counterparties have no preferential legal status over other senior obligations in a resolution.

The rating of senior preferred and senior non-preferred debt is also 'BBB', as the buffers of senior non-preferred and qualifying junior debt are not large enough to support an uplift of the senior preferred debt rating.

SUPPORT RATING (SR) AND SUPPORT RATING FLOOR (SRF)

The SR and SRF reflect Fitch's view that although external 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 the resolution of banks that requires senior creditors to participate in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

DEPOSIT RATING

Mediobanca's Long-Term Deposit Rating is one notch above the Long-Term IDR because we believe the bank has sufficient combined buffers of junior and senior debt that result in a lower probability of default on deposits relative to its Long-Term IDR. The one-notch uplift also reflects our expectation that the bank will maintain sufficient buffers, given its status as domestically important institution and the need to comply with MREL requirements.

Fitch has assigned a 'F2' Short-Term Deposit Rating, the baseline option for a 'BBB+' Long-Term Deposit Rating under Fitch's Short-Term Ratings Criteria.

SUBSIDIARY AND AFFILIATED COMPANIES

The ratings of the senior preferred debt issued by Mediobanca International (Luxembourg) SA are equalised with the parent's Long-Term IDR since the debt is unconditionally and irrevocably guaranteed by Mediobanca, and Fitch expects the parent to honour this guarantee.

SUBORDINATED DEBT

Mediobanca's subordinated debt is rated one notch below its VR to reflect below-average recovery prospects for the notes.

RATING SENSITIVITIES

RATING SENSITIVITIES

VR, IDRs, DCR and SENIOR DEBT RATINGS

Mediobanca's ratings are primarily sensitive to deterioration in the operating environment in Italy and to Italy's sovereign rating. If Italy's sovereign rating is downgraded, Mediobanca's VR, IDRs, DCR and senior debt ratings will likely be downgraded.

Increased risk appetite, such as expanding higher-risk activities, which could result from a strategic shift, increasing concentration risk, or asset-quality deterioration could lead to a downgrade. Deterioration of group liquidity and funding could also result in a downgrade.

An upgrade is unlikely and would require an upgrade of Italy's sovereign rating.

The Short-Term IDR could be upgraded if the bank's funding and liquidity improves materially, which we would reflect in a funding and liquidity score of at least 'bbb+'.

On 15 November 2019 Fitch published an Exposure Draft of its Bank Rating Criteria, which included proposals to alter the notching of certain debt securities. If the final Bank Rating Criteria are in line with the Exposure Draft we would downgrade Mediobanca's senior non-preferred debt if the bank plans to use senior preferred debt instruments to meet its MREL. If the bank intends to meet MREL using only senior non-preferred and more junior instruments, the rating of its senior preferred debt could be upgraded and the senior non-preferred debt rating would be affirmed.

SR AND SRF

An upgrade of the SR and upward revision of the SRF would be contingent on a positive change in the sovereign's propensity to support the bank. In Fitch's view, this is highly unlikely, although not impossible.

DEPOSIT RATING

Long- and Short-Term Deposit Ratings are primarily sensitive to changes in Mediobanca's Long-Term IDR. Deposit Ratings are also sensitive to a reduction in the size of the senior and junior debt buffers, although we view this unlikely in light of current and future MREL requirements.

SUBSIDIARY AND AFFILIATED COMPANIES

The ratings of the senior debt issued by Mediobanca International (Luxembourg) SA are sensitive to the same considerations as the senior preferred debt issued by the parent.

SUBORDINATED DEBT

The subordinated debt rating is primarily sensitive to the same factors that would affect the bank's VR.

Fitch's Exposure Draft of its Bank Rating Criteria included proposals to alter the notching of certain debt securities. If the final Bank Rating Criteria are in line with the Exposure Draft, Mediobanca's Tier 2 subordinated debt ratings could be downgraded by one notch to 'BB+'.

ESG Considerations

The highest level of ESG credit relevance for this issuer is a score of 3. 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 our ESG Relevance Scores, visit www.fitchratings.com/esg.

Additional information is available on www.fitchratings.com

FITCH RATINGS ANALYSTS

Primary Rating Analyst
Francesca Vasciminno
Senior Director
+39 02 879087 225
Fitch Italia Società Italiana per il rating, S.p.A.
Via Morigi, 6 Ingresso Via Privata Maria Teresa, 8
Milan 20123

Secondary Rating Analyst
Christian Scarafia
Senior Director
+44 20 3530 1012

Committee Chairperson
Cristina Torrella Fajas
Senior Director
+34 93 323 8405

MEDIA CONTACTS

Louisa Williams
London
+44 20 3530 2452
louisa.williams@thefitchgroup.com

Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018)
Short-Term Ratings Criteria (pub. 02 May 2019)
Exposure Draft: Bank Rating Criteria (pub. 15 Nov 2019)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

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