FitchRatings

Banks
Wholesale Commercial Banks
Italy

Mediobanca Banca di Credito Finanziario S.p.A

Update

Key Rating Drivers

Moderate Risk Profile, Specialised Businesses: Mediobanca Banca di Credito Finanziario S.p.A's ratings reflect its moderate risk profile, underpinning its operating profitability and asset quality, which are better than those of domestic peers through the cycle. They also reflect a specialised and diversified business model with strong competitive positions in selected businesses. Mediobanca's Viability Rating (VR) is one notch above the 'bbb-' implied rating, driven by its risk profile, which Fitch Ratings assesses at 'bbb'.

Domestic Footprint, Strong Franchises: Mediobanca is a leading corporate and investment bank (IB) and consumer lender in Italy. The bank has successfully developed a wealth-management (WM) franchise, mainly in the affluent and private banking segment, over the past ten years and aims to leverage more on its strong IB brand to further expand in this area.

Stable Asset Quality: The impaired loan ratio (excluding purchased impaired loans) was a low 2.5% at end-June 2023 and specific reserve coverage of over 70% (over 120% when including reserves on performing loans) high by domestic and international standards. Mediobanca's conservative underwriting has consistently resulted in asset-quality metrics that are better than the sector average.

Resilient Profitability: Operating profitability benefits from the diverse business model with increased WM fee generation, and in financial year to end-June 2023 (FY23) it benefitted from interest rate increases. Greater business and revenue diversification have resulted in a gradual improvement of average operating profit/risk-weighted assets (RWAs) 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 transitional and fully-loaded common equity Tier 1 (CET1) ratios of 15.9% at end-June 2023. The bank intends to maintain a fully loaded CET1 ratio of over 14.5% and has appetite to miss this target by a maximum of 100bp in the event of mergers and acquisitions. Holdings of domestic government bonds are modest.

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 consistently growing, reflecting its WM franchise expansion, but is less established than that of the largest domestic peers.

Ratings

Foreign Currency	
Long-Term IDR	BBB
Short-Term IDR	F3
Derivative Counterparty Rating	BBB(dcr)
Viability Rating	bbb
Government Support Rating	ns
Sovereign Risk (Italy)	
Long-Term Foreign-Currency IDR	BBB
Long-Term Local-Currency IDR	BBB
Country Ceiling	AA
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (September 2023)

Related Research

Mediobanca Banca di Credito Finanziario S.p.A. (April 2023)

Global Economic Outlook – June 2023

What Investors Want to Know: Southern European Banks (June 2023)

Fitch Affirms Italy at 'BBB'; Outlook Stable (May 2023)

Fitch Affirms Mediobanca at 'BBB'; Outlook Stable (March 2023)

DN100 Banks Tracker - End-2022 (May 2023)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

Mediobanca's largely domestic focus means its 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 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 (with an impaired loan ratio kept consistently below 2% and operating profit/RWAs at least above 3%), alongside strengthening capitalisation, with a CET1 ratio consistently above 17%.

Other Debt and Issuer Ratings

Rating level	Rating
Deposits	BBB+/F2
Senior preferred	BBB/F3
Senior non-preferred	BBB-
Subordinated	BB+

Source: Fitch Ratings

The long-term deposit rating is one notch above Mediobanca's Long-Term Issuer Default Rating (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.

Mediobanca's senior non-preferred (SNP) debt is rated one notch below the Long-Term IDR to reflect the risk of below-average recoveries arising from the use of senior preferred (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 debt short-term rating of 'F3' is in line with the Short-Term IDR.

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.

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

Slowing Economic Growth

The European energy crisis, high inflation and monetary policy tightening means Italy's GDP growth has slowed significantly from 3.7% in 2022. We expect the economy to grow by 1.1% in 2023, followed by a 1% rise in 2024 and 1.2% in 2025. However, after outperforming expectations in 1Q23, Italy's GDP shrank 0.4% quarter on quarter in 2Q23, with the boom in tourism insufficient to compensate for the weakness in industry and moderation in other services. The effective deployment of NextGenerationEU funds remains important to Italy's potential growth rate and debt sustainability.

The banking sector in Italy is stronger than it was at the onset of previous downturns, as is clear from a gross impaired loan ratio estimated at just above 3% at end-March 2023, according to Fitch's definition – the lowest of the past decade – as well as stronger capital metrics and more diversified revenues. The level of defaults on the banks' lending exposures has remained benign in 2Q23.

Much slower economic growth, persisting inflation, rising rates and continued geopolitical uncertainty manifested in reduced loan demand and tightened credit conditions in 1H23, and we expect higher borrower default rates, but uplift from higher interest rates is supporting the banks' performance.

Banks are typically funded through granular, stable and mostly insured customer deposits and the targeted longer-term refinancing obligation (TLTRO) repayment has been manageable through use of excess cash, replacement with alternative funding and a slight reduction in securities investments.

FY23 Results Supported by Business Momentum and Rising Rates

Mediobanca reported robust operating profitability in FY23, with net interest income (NII, calculated excluding dividend income) increasing by over 20% yoy driven by rising interest rates, resilient net fees and commissions, higher trading gains, and a good contribution of the equity investment in Assicurazioni Generali S.p.A. (EUR454 million, +26% yoy).

NII expanded on the back of the widening interest margin (2.14% for the year vs the previous 1.99%), as well as growing lending volumes – both in consumer finance and residential mortgage lending, as well as a larger banking book with higher-yielding securities. IB fees declined in the second half of the fiscal year after stronger-than-expected growth in the first half, although such cyclicality is intrinsic in the type of business. WM fees were, on the other hand, supported by growing assets under management and administration, and upfront fees on the sale of structured debt products to clients.

Non-interest expenses continued to reflect business expansion and technology investments. Loan impairment charges, which included small EUR30 million provision releases from IB and consumer lending exposures, only increased slightly (50bp vs the previous 40bp).

The gross impaired loan ratio (excluding purchased non-performing loans) was 2.5% at end-June 2023, following a small uptick in the stock since end-2022. Stage 2 loans decreased since end-2022 and reached EUR2.87 billion or 5.5% of total gross loans, which is below the domestic average. The bank retains EUR270 million in reserve overlays, to cushion against future deterioration.

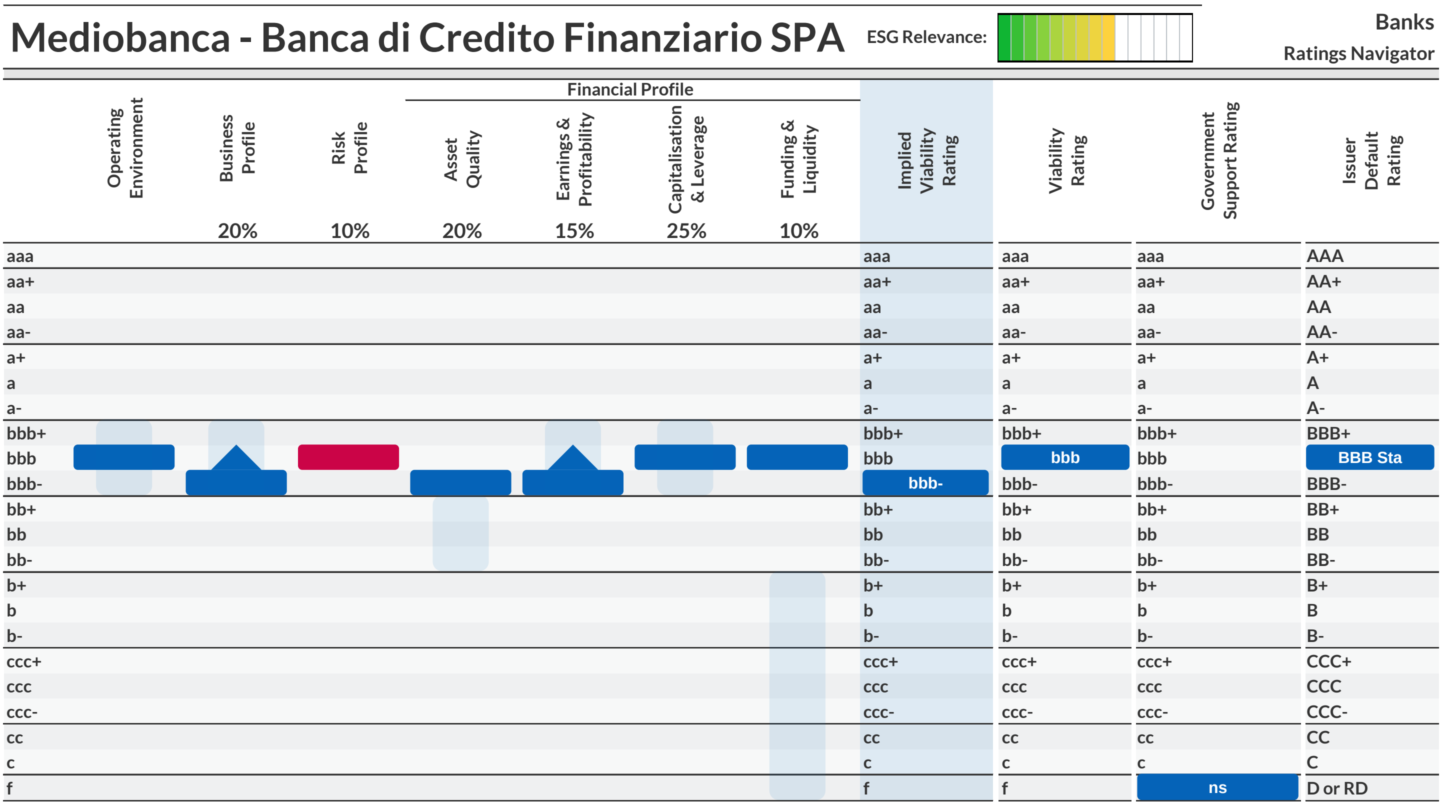
Customer deposits were broadly stable yoy while outstanding bond issuances increased by 20%, also due to the resumption of the placement of Mediobanca's bonds to wealthy individuals through subsidiary CheBanca's and third-party networks. The cost of deposits grew modestly to 0.6% in FY23 (FY22: 0.2%), due to competitive campaigns for new money in premiere WM and increase of time deposits in private. The cost of new bond issuances also grew, but in a controlled manner. The bank repaid EUR3 billion TLTRO and is left with a residual EUR5.6 billion, which will mature over 2024 and 2025. Regulatory liquidity ratios were well above requirements at end-June 2023.

Updated 2023-2026 Strategy

Mediobanca updated its medium-term strategy last May. The overall strategic direction is in continuity with previous plans. After developing its WM franchise over the past two strategic cycles, Mediobanca raised its ambition to become a reputed wealth manager by leveraging on its strong IB brand and synergies among its diverse businesses. Its historical IB and consumer businesses remain pillars in its strategy. The aim is to achieve further growth, focusing on capital-light and fee-generating activities in the IB business, and digitally targeting new customers and market segments in the consumer segment. The bank considers the stake held in Assicurazioni Generali S.p.A. as a source of recurrent earnings, but could sell it to fund a transformational M&A.

Updated financial targets to 2026 include maintaining a fully loaded CET1 ratio of above 14.5%, keeping flat RWAs through active optimisation, and distributing EUR3.7 billion to shareholders (including EUR1 billion share buybacks) over the plan horizon. Revenues are expected to grow to EUR3.8 billion (FY23: EUR3.2 billion) whilst keeping a stable cost/income ratio of 44% (as calculated by the bank), despite cost inflation, investments and general business expansion. The bank also expects to maintain its net impaired loan ratio below 1%, supported by a recently signed long-term agreement with Banca IFIS S.p.A. (BB+/Stable) for the purchase of future impaired consumer loans.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The asset quality score of 'bbb-' has been assigned above the 'bb' category implied score due to the following adjustment reason: 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).

Financials

Summary Financials

	30 Jun 23		30 Jun 22	30 Jun 21	30 Jun 20
	Year end (USDm) Unaudited	Year end (EURm) Unaudited	Year end (EURm) Audited - unqualified	Year end (EURm) Audited - unqualified	Year end (EURm) Audited - unqualified
Summary income statement					
Net interest and dividend income	1,957	1,801.0	1,612.1	1,522.3	1,529.1
Net fees and commissions	917	843.9	668.0	585.3	486.7
Other operating income	515	473.8	492.9	619.9	414.7
Total operating income	3,389	3,118.7	2,773.0	2,727.5	2,430.5
Operating costs	1,535	1,413.1	1,411.5	1,341.2	1,230.7
Pre-impairment operating profit	1,853	1,705.6	1,361.5	1,386.3	1,199.8
Loan and other impairment charges	301	277.4	203.3	283.8	402.7
Operating profit	1,552	1,428.2	1,158.2	1,102.5	797.1
Other non-operating items (net)	n.a.	n.a.	3.4	-21.5	17.8
Tax	429	394.7	251.9	271.8	213.5
Net income	1,123	1,033.5	909.7	809.2	601.4
Other comprehensive income	-335	-308.3	-498.3	556.2	-221.6
Fitch comprehensive income	788	725.2	411.4	1,365.4	379.8
Summary balance sheet					
Assets					
Gross loans	57,100	52,549.2	52,810.6	49,127.7	47,820.6
- Of which impaired	1,456	1,339.7	1,676.3	1,974.6	2,240.2
Loan loss allowances	1,813.4	1,668.9	1,633.7	1,687.7	1,590.0
Net loans	57,100	52,549.2	51,176.9	47,440.0	46,230.6
Interbank	n.a.	n.a.	1,281.8	2,741.4	2,393.4
Derivatives	n.a.	n.a.	4,193.0	4,312.7	3,744.6
Other securities and earning assets	37,774	34,763.7	22,043.3	23,119.0	19,946.5
Total earning assets	94,874	87,312.9	78,695.0	77,613.1	72,315.1
Cash and due from banks	n.a.	n.a.	8,893.6	2,247.3	3,808.8
Other assets	4,701	4,326.1	2,979.8	2,738.3	2,825.8
Total assets	99,575	91,639.0	90,568.4	82,598.7	78,949.7
Liabilities					
Customer deposits	30,618	28,178.2	30,941.0	26,893.9	25,192.1
Interbank and other short-term funding	n.a.	n.a.	17,534.3	13,001.9	13,991.4
Other long-term funding	41,071	37,798.0	18,881.9	19,412.3	19,973.9
Trading liabilities and derivatives	10,254	9,436.7	10,568.5	10,439.1	8,422.2
Total funding and derivatives	81,944	75,412.9	77,925.7	69,747.2	67,579.6
Other liabilities	5,212	4,796.9	1,893.9	1,750.4	1,630.0
Total equity	12,419	11,429.2	10,748.8	11,101.1	9,740.1
Total liabilities and equity	99,575	91,639.0	90,568.4	82,598.7	78,949.7
Exchange rate		USD1 = EUR0.920302	USD1 = EUR0.96274	USD1 = EUR0.841468	USD1 = EUR0.893017

Source: Fitch Ratings, Fitch Solutions, Mediobanca

Key Ratios

	30 Jun 23	30 Jun 22	30 Jun 21	30 Jun 20
Ratios (%, annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.8	2.3	2.3	1.7
Net interest income/average earning assets	2.1	2.0	2.0	2.0
Non-interest expense/gross revenue	53.0	58.5	54.7	57.9
Net income/average equity	10.0	8.3	7.7	6.0
Asset quality				
Impaired loans ratio	2.5	3.2	4.0	4.7
Growth in gross loans	2.7	7.5	2.7	6.2
Loan loss allowances/impaired loans	124.6	97.5	85.5	71.0
Loan impairment charges/average gross loans	0.5	0.4	0.5	0.8
Capitalisation				
Common equity Tier 1 ratio	15.9	15.7	16.3	16.1
Fully loaded common equity Tier 1 ratio	15.9	15.6	16.2	14.5
Tangible common equity/tangible assets	12.5	10.9	12.4	11.4
Basel leverage ratio	8.4	8.4	9.1	9.7
Net impaired loans/common equity Tier 1	-4.0	0.5	3.7	8.4
Funding and liquidity				
Gross loans/customer deposits	186.5	170.7	182.7	189.8
Liquidity coverage ratio	179.5	151.8	158.7	165.0
Customer deposits/total non-equity funding	37.4	43.5	42.4	40.4
Net stable funding ratio	119.0	115.5	116.3	109.0

Source Fitch Ratings, Fitch Solutions, Mediobanca

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	bbb to bb+
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	BBB/ Stable
Size of banking system	Neutral
Structure of banking system	Neutral
Sovereign financial flexibility (for rating level)	Neutral
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Negative
Liability structure	Negative
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

No Sovereign Support Factored into the Ratings

We believe that Mediobanca's senior creditors cannot expect to receive full extraordinary support from the Italian authorities if the bank is declared non-viable. This is in line with other Italian and eurozone banks. This is because the EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism provide a framework for the resolution of eurozone banks that requires senior creditors to participate in losses, if necessary, instead of, or ahead of, a bank receiving government support.

Subsidiaries and Affiliates

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

Environmental, Social and Governance Considerations

FitchRatings **Mediobanca - Banca di Credito Finanziario SPA**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

				ESG Relevance to Credit Rating
Mediobanca - Banca di Credito Finanziario SPA has 5 ESG potential rating drivers Mediobanca - Banca di Credito Finanziario SPA has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating. Governance is minimally relevant to the rating and is not currently a driver.	key driver	0	issues	5
	driver	0	issues	4
	potential driver	5	issues	3
	not a rating driver	4	issues	2
		5	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.h scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.