FitchRatings

RATING ACTION COMMENTARY

Fitch affirms Mediobanca at 'BBB', Outlook Stable

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Fitch Ratings - Milan - 24 Feb 2025: Fitch Ratings has affirmed Mediobanca Banca di Credito Finanziario S.p.A's (Mediobanca) Long-Term Issuer Default Rating (IDR) at 'BBB' with a Stable Outlook and Viability Rating (VR) at 'bbb'.

Fitch has assigned Mediobanca's planned issue of secured senior preferred notes an expected long-term rating of 'BBB(EXP)'. The assignment of a final rating is contingent on the receipt of final documents conforming to the information that Fitch has already received. A full list of rating actions is below.

The outcome of Banca Monte dei Paschi di Siena S.p.A.'s (MPS; BB+/Positive) takeover bid remains uncertain, in Fitch's opinion. A successful offer could put pressure on Mediobanca's ratings given the banks' different ratings and potential integration risks.

KEY RATING DRIVERS

Specialised Bank, Moderate Risk Profile: Mediobanca's ratings reflect its specialised and diversified business model with well-established or growing competitive positions in corporate and investment bank (CIB), wealth management and consumer credit in Italy and a sound risk profile that has consistently resulted in satisfactory asset quality compared with domestic peers. The ratings also consider sound capitalisation, good profitability record and stable funding and liquidity.

Improving Operating Environment: The improved outlook for Italy's operating environment, in particular better than anticipated medium-term economic growth potential, should lead to better prospects for banks' asset quality and profitability and help Mediobanca to continue executing its strategy and generating good profitability within its sound risk profile.

Niche Franchise, Growing Diversification: Mediobanca is expanding its private banking and wealth management businesses although their scale remains small compared with international industry leaders. This enhances revenue stability through the cycle as it complements the bank's well-established consumer lending and CIB franchises. Mediobanca's growing focus on capital-light and international CIB activities also support its business profile.

Conservative Underwriting, Sound Controls: Mediobanca's operations in higher-risk segments than traditional commercial banks are mitigated by its conservative underwriting standards compared with many peers and adequate risk infrastructure. These allow effective control of risks, supporting the bank's performance throughout the cycles and we expect this to continue. Market risk is adequately managed.

Resilient Asset Quality: Asset quality has remained largely unscathed despite the increase in interest rates. The favourable unemployment trend in Italy has also supported better-than-expected performance in consumer finance, historically the main source of loan impairment charges (LICs) for Mediobanca. Falling interest rates and modest economic growth should support a broadly stable impaired loans ratio (2.7% at end-2024) in 2025-2026, despite a likely pick-up in default rates in consumer finance.

Sustainable Profitability Improvement: We expect Mediobanca's operating profit/RWAs ratio to remain sound at above 3.5% throughout 2025-2026. This will reflect growing business volumes, especially in fee-generating activities, mitigating the expected pressure on net interest margin and the limited increase in operating costs and LICs.

Sound Internal Capital Generation: Mediobanca's sound capitalisation is underpinned by adequate structural internal capital generation and an ample buffer over regulatory minimum requirements. We expect this to continue, with a common equity Tier 1 (CET1) ratio that should revert from current levels (end-2024: 15.2%) towards 14%-14.5% in 2025-2026 as the bank completes its share buyback programme and increases dividends. Encumbrance by Italian government bonds increased in 2024 but remains manageable and below the domestic average.

Adequate Funding Diversification, Sound Liquidity: Mediobanca' s funding is adequately diversified and its reliance on wholesale channels has reduced in line with deposits growth from wealth management clients. The impact of higher interest rates on funding costs has been manageable, despite Mediobanca's deposit franchise being more price sensitive and more recently established than at most other domestic commercial banks.

We expect Mediobanca to maintain a balanced funding and liquidity profile in the medium term, but its increasing focus on higher-end customers make deposits more price-sensitive. However, the bank has a position of strength to retain customer savings by converting deposits into fee-generating assets under administration and under management.

RATING SENSITIVITIES

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

Mediobanca's ratings would be downgraded following a downgrade of Italy's sovereign rating or if we lowered our assessment of Italy's operating environment.

Absent negative rating action on the Italian sovereign, Mediobanca's ratings could be downgraded if the bank's operating profit falls below 2% of RWAs for an extended period, especially if this results in the CET1 ratio falling below 13% without prospects of recovery in the short term, and if the impaired loan ratio increases well above 4% on a sustained basis, neither of which appears likely.

The acquisition of Mediobanca by MPS could result in negative rating action given the two banks' different ratings and our view that execution risks from an integration following an acquisition are likely to be high, also because of Mediobanca's confidence-sensitive CIB and wealth-management franchises.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of Mediobanca's ratings would require an upgrade of Italy's sovereign rating and a higher assessment of the operating environment for Italian banks.

This would have to be accompanied by continued successful execution of the bank's strategy that results in further growth of its wealth and asset management franchise, as demonstrated by sustained net asset inflows and steady margins, contributing to improve the bank's business model diversification and earnings consistency compared with traditional domestic peers.

An upgrade would also be contingent on Mediobanca maintaining its conservative risk appetite and adequate capitalisation broadly in line with current levels. Positive rating action would also require an impaired loans ratio kept consistently below 3% and operating profit/RWAs above 3%, alongside a CET1 ratio consistently above 14%.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

DEPOSITS

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 lower of the two options 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 AND SENIOR NON-PREFERRED DEBT

Mediobanca's senior non-preferred 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 debt to meet resolution buffer requirements and the combined buffer of additional Tier 1, Tier 2 and senior non-preferred debt being unlikely to exceed 10% of RWAs. For the same reason, the senior preferred debt ratings are in line with the IDRs.

SECURED SENIOR PREFERRED DEBT

The senior secured debt is rated in line with unsecured senior preferred debt to reflect that under the terms of the notes, Fitch believes that the collateral does not clearly indicate above-average recovery prospects. This is because under their terms, the notes would cease to be secured by Italian sovereign debt if a credit event with respect to the sovereign occurs.

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

Mediobanca's Derivative Counterparty Rating 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', 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, secured senior preferred, SNP debt and deposit ratings are primarily sensitive to changes in the bank's Long-Term IDR.

The SP secured senior preferred and SNP debt ratings could also be upgraded by one notch if 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 as 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

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The ratings of the senior preferred 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.

SUBSIDIARIES AND AFFILIATES: RATING SENSITIVITIES

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

VR ADJUSTMENTS

The operating environment score of 'bbb' is below the 'a' implied category score due to the following adjustment reason: sovereign rating (negative)

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

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

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.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Mediobanca Banca di Credito Finanziario S.p.A	LT IDR	BBB	Affirmed	BBB
	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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VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

Bank Rating Criteria (pub. 15 Mar 2024) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Mediobanca International (Luxembourg) S.A.	EU Issued, UK Endorsed

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