28 Feb 2019 | Affirmation

Fitch Affirms Mediobanca at 'BBB'; Outlook Negative

Fitch Ratings-Milan/London/Paris-28 February 2019: Fitch Ratings has affirmed Mediobanca Spa's Long-Term Issuer Default Rating (IDR) at 'BBB' and Viability Rating (VR) at 'bbb'. The Outlook on the Long-Term IDR is Negative. A full list of rating actions is at the end of this rating action commentary.

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, essentially in Italy. These underpin sound capitalisation, adequate profitability and good asset quality, by Italian standards, maintained through the cycle.

Mediobanca has leading franchises in investment banking and consumer finance in Italy. It also aims to expand its wealth management activities. Growth is both organic and through acquisitions, and Fitch expects the bank to maintain its controlled risk appetite.

Mediobanca's capitalisation is commensurate with its risk profile, and is underpinned by an established track record of internal capital generation. The roll-over of Advanced Internal Rating-Based (AIRB) validations benefits the risk-weighted ratios as it leads to reduced risk-weighted assets (RWAs). The Fitch Core Capital (FCC) ratio of 18% and Common Equity Tier 1 (CET1) ratio of 13.9% at end-2018 are satisfactory, compare well domestically and have ample buffers over the 2019 Supervisory Review and Evaluation Process (SREP) requirement of 8.25%. Mediobanca's investment in Assicurazioni Generali is partly deducted from regulatory CET1 capital (but not from FCC). The CET1 ratio will benefit from the extension of the ability to apply the Danish compromise, and we expect its capital ratios to remain sound over the medium term. At end-2018, net impaired loans accounted for less than 8% of the bank's FCC, significantly lower than the average level among domestic banks.

Mediobanca's impaired loans ratio of 4.9% at end-2018 is one of the lowest among Fitch-rated Italian banks and compares well with the domestic industry average of around 10%. Excluding purchased NPLs, the ratio would be closer to the 4% mark at the same date. Asset quality has a record of stability through the cycle, supported by robust lending standards and loans being regularly written off and disposed of in the consumer portfolio. The corporate book includes some large single-name exposures but it is reasonably diversified by sector and has ample international exposure. Our assessment of Mediobanca's asset quality also takes into account its limited holdings of Italian sovereign bonds, at around 30% of FCC, a level much lower than most rated Italian banks'.

The development of wealth management activities has helped earnings generation and revenue diversification but profitability is average relative to the global industry. In the first six months of its current fiscal year, Mediobanca generated around EUR530 million operating profit, equivalent to an operating profit/RWAs ratio of about 2.2%, which compares well with the strongest domestic banks. The bank has good control over its cost base despite investments in business growth. Loan impairment charges (LICs) accounted for less than 20% of pre-impairment profit in the 18 months to end-2018, and we expect Mediobanca to keep LICs under control.

The group's funding structure is adequately diversified and less reliant on wholesale channels than in the past. Its growing retail and wealth management franchise has resulted in an increasing customer deposit base, which at end-2018 represented around 37% of total funding (excluding derivatives), up from less than 25% at end-June 2016. Wholesale unsecured issuances have been less frequent over the past few quarters, reflecting positive deposit dynamics but also Mediobanca's new issuance strategy being concentrated on cheaper secured funding. The bank's medium-term funding needs, including maintaining compliance with Minimum Requirement for own funds and Eligible Liabilities (MREL) targets, are manageable. Its market access is good.

Mediobanca's liquidity profile is sound, backed by ample buffers of unencumbered eligible assets. Its regulatory liquidity coverage and net stable funding ratios are satisfactorily above minimum requirements. Mediobanca's Short-Term IDR of 'F2', the higher of the two possible ratings for a 'BBB' Long-Term IDR under our criteria, reflects that the bank's short-term liquidity profile is supported by large liquidity reserves and good liquidity coverage of short-term maturities.

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.

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.

We rate Mediobanca's preferred and non-preferred senior debt in line with its 'BBB' Long-Term IDR to reflect that a default of these obligations would be treated by Fitch as a default of the bank.

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.

SUBSIDIARY AND AFFILIATED COMPANIES

The ratings of the senior 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

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 debt ratings would likely be downgraded.

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

Fitch would downgrade the bank's Short-Term IDR if the Long-Term IDR is downgraded or if we perceive a weakening in its funding and liquidity profile.

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.

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 unsecured 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. The rating is also sensitive to a change in notching if Fitch changes its assessment of loss severity or non-performance risk.

The rating actions are as follows:

Mediobanca Spa
Long-Term IDR: affirmed at 'BBB'; Outlook Negative
Short-Term IDR: affirmed at 'F2'
Viability Rating: affirmed at 'bbb'
Support Rating: affirmed at '5'
Support Rating Floor: affirmed at 'No Floor'
Derivative Counterparty Rating: affirmed at 'BBB(dcr)'
Senior debt: affirmed at 'BBB'/'F2'
Senior non-preferred long-term debt (EMTN Programme): affirmed at 'BBB'
Subordinated debt: affirmed at 'BBB-'

Mediobanca International (Luxembourg) SA
Senior debt: affirmed at 'BBB'/'F2'
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Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

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