

Mediobanca S.p.A.

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	Long-term	Short-term	Outlook
Moody's	Baa1	P-2	Stable
Fitch	BBB	F3	Stable
S&P	BBB	A-2	Stable

Source: Moody's, Fitch, S&P

Background and ownership

Mediobanca S.p.A. (Mediobanca) is a medium-sized, specialised financial group based in Milan, Italy. It offers wealth management (WM), consumer banking (CB), insurance, and corporate & investment banking (CIB) services. Based on end-December 2023 reporting, Mediobanca is Italy's sixth largest banking group with EUR94.9bn in total assets. It seeks to be the 'destination' bank for entrepreneurs and corporates. Over the past 15 years the group has gradually expanded its international footprint and maintains meaningful presences in London, Paris and Madrid while operating subsidiaries in New York, Luxembourg, London, Paris, Monte Carlo and Geneva. The group aspires to achieve leadership in the Southern European investment banking sector while wealth management expansion in London and Geneva aims to complement its focus on affluent private banking customers in Italy. As of mid-February, it is reported that shareholders with interests of more than 3% comprise of Delfin S.à r.l. (19.74%), Gruppo F.G. Caltagirone (9.98%), Gruppo Blackrock (4.16%) and Gruppo Mediolanum (3.45%). Mediobanca's fiscal year ends on June 30th, therefore its 2Q24 results refer to the most recently reported figures as at end-December.

Main activities

Mediobanca operates through four main divisions:

- **Consumer finance** – The group offers retail clients various products and services through its subsidiary 'Compass'. These include (special purpose) loans, salary-backed finance, credit cards and auto finance. As of 2Q24 this contributed 34% of total revenues.
- **Wealth management** – This business segment targets so-called 'premier' clients with its wealth management offering. Over time, Mediobanca has redirected the offer and services provided by Mediobanca Premier (previously its digital bank 'Chebanca!') by shifting from being a deposit to an asset gatherer. It has also built out its services to high net worth individuals within the private banking arm, synergising this with services at its CIB. As of 2Q24 this contributed 28% of total revenues.
- **Corporate & investment banking** – This division operates through a variety of subsidiaries, offering a wide range of services, including corporate finance, advisory to large corporates, capital market activities and specialty finance. Mediobanca seeks to position itself so that it services both entrepreneurs (WM) and their businesses (CIB) at the same time, especially for medium-sized enterprises that are often family-run or owned. As of 2Q24 the CIB contributed 23% of total revenues.
- **Insurance** – Mediobanca's legacy insurance portfolio was progressively divested and currently almost exclusively consists of the 12.78% investment in Assicurazioni Generali, Italy's largest insurance company. This business segment provides diversification and stability to group earnings. As of 2Q24 the CIB contributed 9% of total revenues.

Updated 2023-2026 Strategy

In May 2023, Mediobanca presented its updated medium-term business strategy, which on the whole is a continuation of recent previous strategies that have aimed to diversify the group's business model. This continuity will likely persist as the term for the company board and management team was extended for a further three years in October 2023.

Mediobanca – Key Data*			
Key Ratios (%)	1H24	1H23	1H22
CET 1 ratio	15.3	15.1	15.4
NPL ratio	2.4	2.4	2.8
Coverage ratio	69.1	73.2	66.9
Loan/ funding spread	3.3	2.8	n.a.
Cost-income ratio	42.5	41.7	43.4
RoTE	13.3	13.8	10.5
Balance Sheet (EURbn)			
Total assets	94.9	93.7	89.1
Total loans	51.8	53.6	50.8
Total deposits	27.7	28.7	27.2
Total liabilities	83.8	84.0	78.0
Debt securities	23.9	20.6	18.9
Total equity	11.1	9.7	11.1
Income Statement (EURm)			
Total revenues	1,731	1,659	1,459
o/w NII	997	843	734
Operating expenses	-735	-691	-591
Loan loss provisions	-133	-156	-118
Net income	611	556	526

Source: Company reports; *Mediobanca's fiscal year ends on June 30th, therefore its 1H24 results refer to the most recently reported figures as at end-December.

Steady expansion into wealth management and consumer finance are seen as vehicles for greater earnings stability and improved overall creditworthiness as they can offset the inherently more volatile activities conducted by the CIB. Within investment banking activities, Mediobanca still aims to grow with a focus on capital-light and more fee-generating activities. In May of last year, Mediobanca announced the acquisition of London-based Arma Partners to grow its footprint in advisory services on tech deals and expand its international reach. Bank senior management expects this deal to boost fee income by 10%. Mediobanca also presented a series of updated financial targets as part of the updated business plan that we deem ambitious but not unrealistic. Total revenues are forecast to rise on average by 6% a year to EUR3.8bn in 2026, with consumer finance accounting for over a third of the total, followed by wealth management and corporate and investment banking.

Updated 2026 Guidance		
Metrics	1H24	Guidance
Revenues	+4.3%	+6% CAGR
RoTE	13.3%	~15%
Cost-income ratio	42.5%	44%
AuM	€66bn	€85bn
FL CET1	15.3%	>14.5%

Source: Company reports; *Growth against 1H23

Financial strength indicators

Profitability – Total revenues as of 1H24 amounted to EUR1.7bn (+4% yoy), of which 58% comprised of net interest income (NII). Mediobanca's loan-funding spread grew to 3.3% from 2.8% one year prior despite the pause in interest rate hikes by central banks. Net fee and commission income in 1H24 totalled EUR422m, representing 24% of total revenues. But it was down 11% compared to last year, when the group achieved a record result. More than half of fee income is generated in the WM division, therefore future income will in part be driven by Mediobanca's ability to grow assets under management. Overall, Mediobanca manages its cost base well, as reflected in the moderate cost-to-income ratio of 42.5%, despite ongoing inflationary pressure and business expansion. 1H24 net income was EUR611m (+10% yoy), translating to a return on tangible equity (RoTE) of 13.3% (1H23: 13.8%).

Major Italian banks key metrics compared*

Issuers	Total Assets (EURbn)	Net Income (EURm)	RoTE (%)	NIM (%)	Cost-Income Ratio (%)	NPL (%)	NPL Coverage Ratio (%)	CET1 (%)
Intesa Sanpaolo	964	3,502	16.9	1.72	43.7	2.3	49.8	13.7
UniCredit	785	5,132	17	2.02	41.7	2.7	47.2	15.9
Banco BPM	202	640	11.1	1.95	53.6	3.5	50.4	14.2
BPER Banca	142	815	19.2	2.58	57.7	2.4	52.5	14.5
Banca Monte dei Paschi	123	1,433	23.3	2.37	48.0	3.6	49.1	18.1
Mediobanca	95	611	13.3	2.62	42.5	2.4	69.1	15.3

Source: Bloomberg; Company reports; *All figures represent six months running from Jun-Dec 2023

Asset quality – Total assets at 1H24 grew modestly to EUR94.9bn (+1.3% yoy), and comprised of customer loans (56% of total), treasury financial assets and cash (16%), financial assets held for trading (9%) and securities (9%). The outstanding lending portfolio is generally well diversified with exposures 60% retail (residential mortgages, lombard loans) and 40% corporate (lending and structured finance to large corporates, factoring and leasing). Loan volumes have steadily increased over the past decade at a CAGR of 4%. Prudent underwriting standards have ensured strong asset quality metrics, with NPLs remaining modest at 2.4%, while reserve coverage was adequate at 69%. Loan loss provisions (LLPs) decreased to EUR133m (-15% yoy), resulting in a cost of risk (CoR) measure of 51bps. The reduction was driven by lower provisioning requirements in the CIB which offset increases in consumer banking. In 1H24, net new money inflows amounted to EUR3.7bn, bringing the total AuM figure to EUR66bn, also benefitting from ongoing deposit conversions.

Funding & Liquidity – Total liabilities, excluding equity, amounted to EUR83bn at 1H24, comprising deposits (33% of total), debt securities (29%), treasury financial liabilities (12%), financial liabilities held for trading (11%), central bank funding (4%) and others (7%). Mediobanca arguably has a more diversified funding profile than most of its domestic peers as it is able to leverage its wealth management offering to access client deposits, while also demonstrating good access to capital markets with frequent bond issuances at lower than budgeted cost of funding over the past six months. Nevertheless, the sizeable share of wholesale funding exposes the group to potential market volatility. This partial reliance on market funding is reflected in the high loan-to-deposit ratio of 187%. In addition to regular upcoming bond maturities, Mediobanca still has residual funding exposures of EUR3.4bn to the ECB's discontinued TLTRO programme that are due to roll off in 2025. However, we deem these and other medium-term refinancing needs as manageable. The liquidity position is well managed, as reflected by the LCR of 156% and NSFR at 120%, above the minimum requirement of 100%. The bank's counterbalancing capacity, its ability to generate or fund additional liquidity during a period of stress and outflows, has steadily risen over recent years and reached a solid EUR18bn at end-December 2023. This position is 26% comprised of cash assets.

ESG activities and funding

Mediobanca has incorporated ESG topics into its corporate strategy, leading to qualitative and quantitative objectives being set in the guidelines of the group's 2023-2026 business plan. These are also reflected in staff performance evaluation and remuneration policies, in particular for senior management. The bank's ESG approach is aligned with key [UN SDGs](#). On the environmental front, Mediobanca is looking to align with SDGs 7 and 13 to help reduce its carbon footprint, including achieving carbon neutrality by 2050. As an interim target, a 35% reduction in financed emissions for the CIB loan book is envisioned by 2030. Social targets revolve around SDGs 4, 5, 11 and 12 as the group wants to promote a corporate culture based on diversity and inclusion. The target is for >30% of women being group senior managers, >20% executives, >50% of total hires being female, and having gender parity in career advancement. Governance is linked to SDGs 8 and 16, making remuneration a key focus. The idea is to align group senior management remuneration to long-term performance targets formulated in the business plan. Variable compensation will be weighted at 50%, up from 20% previously and payment will be entirely in equity over a long-term time horizon, with 20% assigned to ESG objectives focused on climate change and diversity and inclusion indicators.

In terms of ESG funding activity, Mediobanca has so far issued three equally sized themed bonds (one green and two sustainability) for a combined EUR1.5bn since 2020. The stated objective is to place at least two more sustainability bonds into the market. Furthermore, the group is looking to significantly expand its ESG offering in wealth management, consumer finance and corporate and investment banking by 2026. For instance, wealth management seeks to allocate more than 50% ESG eligible fund products (e.g. SFDR 8 and 9 funds) in client portfolios, and increase ESG funds produced by group asset managers by 50%. The share of green mortgages is expected to grow to 19% of overall new mortgage production from 13% in 2023, while ESG consumer loans are set to experience a CAGR of 15% over the same period. Lastly the CIB's corporate finance division plans to establish a dedicated energy transition advisory team. DCM expect 50% of originated bonds to bear ESG or ESG-linked features while 40% of new corporate loan production shall also be ESG themed.

Capitalisation – Mediobanca's capital position is robust overall, with a CET1 ratio of 15.3% (+20bps yoy). However, there was a net reduction in the ratio by some 60bps when looking at the past six-month period, which mainly reflects M&A activity relating to the Arma Partners acquisition, share buybacks, as well as RWA inflation resulting from the introduction of AIRB models in the consumer finance loan book. Nevertheless, the current CET1 ratio sits comfortably above the 2024 minimum SREP requirements of 8.15% (+715bps buffer) and 110bps above its own management target. Mediobanca's total MREL requirement sits at 23.57%, which it meets with a large stock of MREL eligible funds, bringing its total ratio to 40.7% of RWA. Due to the large MREL surplus and high capitalisation rate, the bank has low funding requirements over the short term from a regulatory perspective.

Rating agencies' views

Moody's (Nov-23): Moody's affirmed Mediobanca's ratings, underscoring the bank's good capitalisation, sound and diversified profitability, and high reliance on wholesale funding. The ratings factor in the bank's large stake in Assicurazioni Generali S.p.A. (Generali, insurance financial strength rating A3, stable), which exposes Mediobanca to equity risk. The long-term issuer and senior unsecured debt ratings show a very low loss given failure resulting in two notches of uplift for the senior unsecured debt rating. The affirmation of Mediobanca's ratings also incorporates Moody's unchanged assessment of a low probability of support from the Government of Italy resulting in no further uplift.

Fitch (Sep-23): 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'.

S&P (Dec-23): S&P's long-term issuer credit rating of Mediobanca is 'BBB' and the short-term issuer credit rating is 'A-2' with a stable outlook. The rating agency listed the following key considerations contributing to its assessment. Key strengths: i) Stronger-than-peers' credit risk profile, leading to healthier asset-quality metrics; ii) Well-diversified business model, resulting in resilient earnings throughout the cycle; iii) Sound capitalization. Key risks: i) Exposure to high, albeit diminished, economic risks we see in Italy.

Recent Benchmark Transactions

Issue Date	Security	Maturity/Call	Currency	Size (m)	Coupon	Yield	Final Spread (bps)
12/03/2024	Senior Non-Preferred	6NC5	EUR	500	3.875%	3.954%	MS + 130
15/01/2024	Tier 2	10.25NC5.25	EUR	300	5.25%	5.335%	MS + 275
28/11/2023	Senior Preferred	6NC5	EUR	500	4.375%	4.436%	MS + 140
06/09/2023	Senior Non-Preferred (Green)	4NC3	EUR	500	4.875%	4.888%	MS + 145

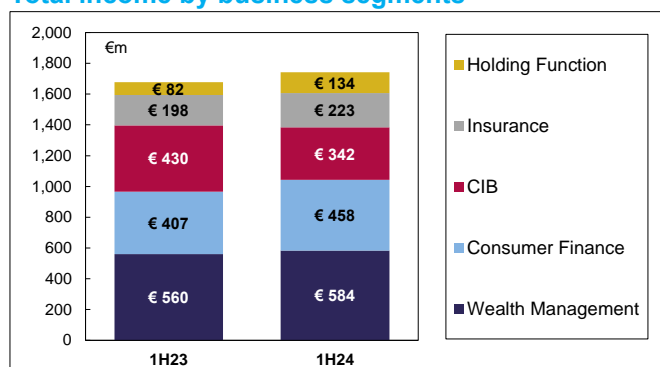
Source: BondRadar

This is an issuer profile and contains factual statements only. All statements are sourced from Mediobanca's financial reports, which can be found at

<https://www.mediobanca.com/en/investor-relations/results-presentations/results.html>

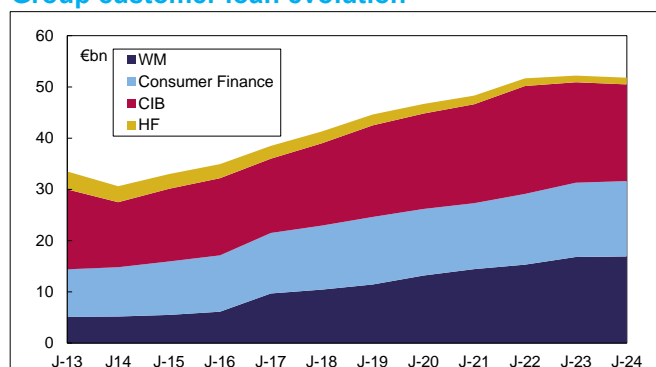
Appendix:

Total income by business segments



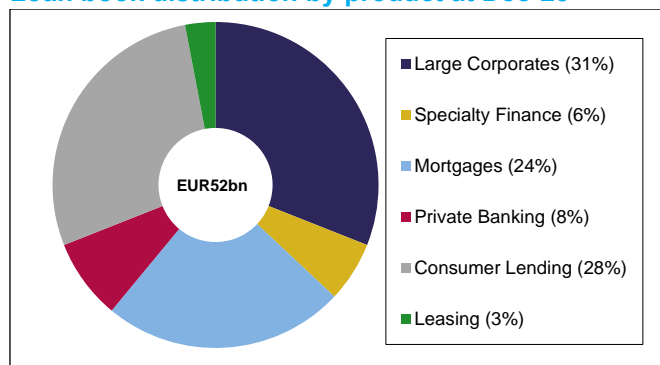
Source: Company reports

Group customer loan evolution



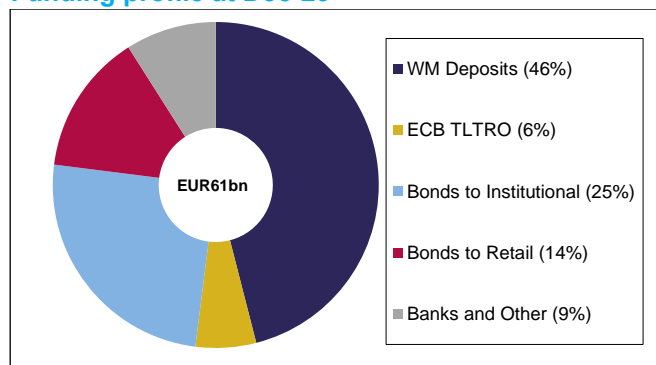
Source: Company reports

Loan book distribution by product at Dec-23



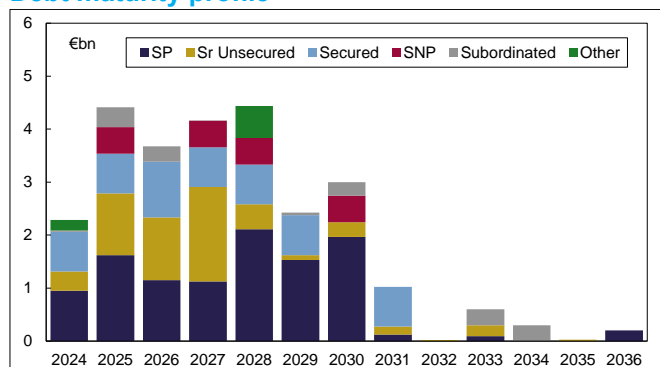
Source: Company reports

Funding profile at Dec-23



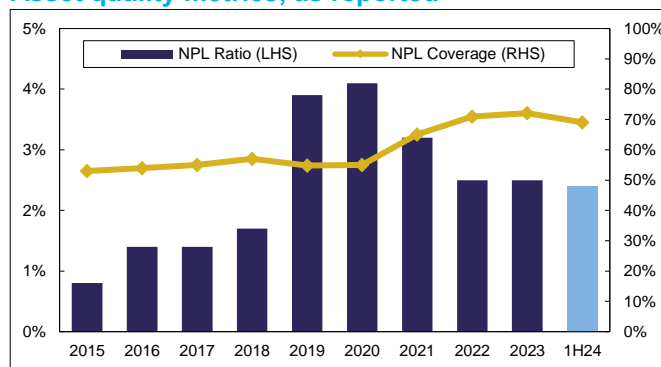
Source: Company reports

Debt maturity profile



Source: Bloomberg

Asset quality metrics, as reported



Source: Company reports; Bloomberg

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- In addition to the purchase price of a financial instrument, our company will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥2 million per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
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- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
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* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

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