MOODY'S
INVESTORS SERVICE

CREDIT OPINION
14 October 2020

Update

Rate this Research

RATINGS

Mediobanca S.p.A.

Domicile	Milan, Italy
Long Term CRR	Baa1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Baa1
Type	Senior Unsecured - Dom Curr
Outlook	Negative
Long Term Deposit	Baa1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Fabio Iannò +33.1.5330.3356
VP-Sr Credit Officer
fabio.ianno@moodys.com

Raffaele Del Cimmuto +33.1.5330.3360
Associate Analyst
raffaele.delcimmuto@moodys.com

Alain Laurin +33.1.5330.1059
Associate Managing Director
alain.laurin@moodys.com

Nick Hill +33.1.5330.1029
MD-Banking
nick.hill@moodys.com

Mediobanca S.p.A.

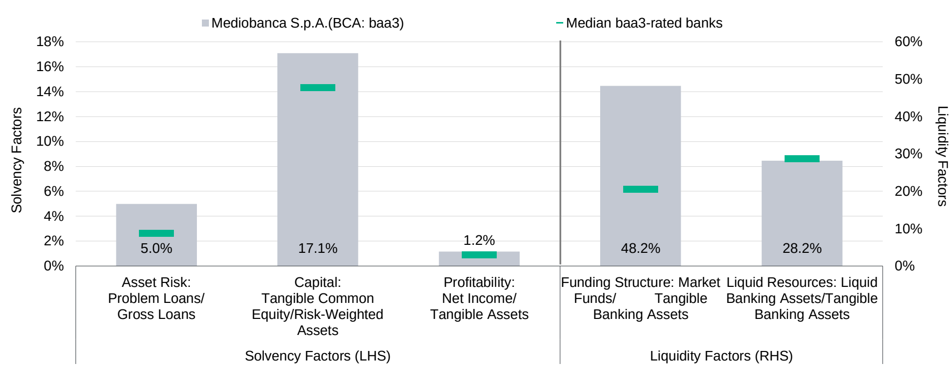
Update to credit analysis

Summary

Mediobanca S.p.A.'s Baa1 long-term senior unsecured debt and deposit ratings reflect the bank's standalone Baseline Credit Assessment (BCA) of baa3; very low loss given failure for both debt classes, which results in a two-notch uplift; and our assessment of a low probability of support from the Government of Italy (Baa3 stable), which results in no further uplift.

The baa3 BCA reflects the bank's good capitalisation, sound and diversified profitability, and high reliance on wholesale funding. The BCA also factors in the bank's large stake in Assicurazioni Generali S.p.A. (Generali, insurance financial strength rating Baa1, stable). This investment exposes Mediobanca to idiosyncratic risk, which is mitigated by the securities' liquidity and contribution to earnings.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics™

Credit strengths

» Good capitalisation

» Sound and diversified profitability

Credit challenges

» Deteriorating operating environment

» High reliance on wholesale funding

» High borrower concentration and large stake in Generali

Outlook

The outlook on the issuer and senior unsecured ratings are negative, reflecting the deteriorating operating environment in Italy because of the coronavirus pandemic and the associated downside risks to the bank's standalone credit profile, particularly the potential rise in problem loans, declining capital and falling profitability.

The outlook on the long-term deposit ratings is stable because even though our Loss Given Failure (LGF) analysis suggests a three-notch uplift from the BCA, these ratings are constrained at two notches above Italy's sovereign rating of Baa3 and, therefore, are unlikely to be downgraded in the event of a potential one-notch downgrade of the BCA.

Factors that could lead to an upgrade

An upgrade of Mediobanca's senior unsecured and issuer ratings is unlikely given the negative outlook.

Moreover, Mediobanca's senior unsecured and deposit ratings already exceed Italy's sovereign rating by two notches and are constrained at that level under our Banks methodology. This reflects our view that the expected loss of the bank's debt and deposits is unlikely to be significantly lower than that of the sovereign's own debt.

Factors that could lead to a downgrade

Mediobanca's BCA could be downgraded in case of a material deterioration in the operating environment leading to a worsening of its asset quality and profitability, and reduced loss-absorption capacity. A downgrade of the BCA could also be triggered by a significant reduction in capitalisation or a material deterioration in liquidity.

A downgrade of Mediobanca's BCA could lead to a downgrade of the bank's senior unsecured and issuer ratings. The senior unsecured ratings could also be downgraded following a material reduction in the bank's stock of bail-in-able debt.

Mediobanca’s ratings and assessments could also be downgraded following a downgrade of Italy’s sovereign debt rating.

Key indicators

Exhibit 2
Mediobanca S.p.A. (Consolidated Financials) [1]

	12-19[2]	06-19[2]	06-18[2]	06-17[2]	06-16[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	80,641.0	76,606.4	69,939.7	67,957.6	66,154.7	5.8[4]
Total Assets (USD Million)	90,519.3	87,239.1	81,658.5	77,509.0	73,494.6	6.1[4]
Tangible Common Equity (EUR Million)	8,299.3	8,310.0	8,140.2	7,685.3	7,234.7	4.0[4]
Tangible Common Equity (USD Million)	9,315.9	9,463.4	9,504.1	8,765.5	8,037.4	4.3[4]
Problem Loans / Gross Loans (%)	4.4	4.8	5.2	5.5	5.5	5.1[5]
Tangible Common Equity / Risk Weighted Assets (%)	17.1	17.4	16.0	13.8	12.4	15.3[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	21.5	23.5	23.1	23.9	24.7	23.4[5]
Net Interest Margin (%)	2.0	2.0	2.1	2.0	1.9	2.0[5]
PPI / Average RWA (%)	2.4	2.0	2.0	1.7	1.5	1.9[6]
Net Income / Tangible Assets (%)	1.2	1.1	1.3	1.1	0.9	1.1[5]
Cost / Income Ratio (%)	52.5	56.8	53.6	56.8	54.1	54.8[5]
Market Funds / Tangible Banking Assets (%)	53.2	48.2	49.2	49.8	59.1	51.9[5]
Liquid Banking Assets / Tangible Banking Assets (%)	28.7	28.2	30.3	32.7	29.9	30.0[5]
Gross Loans / Due to Customers (%)	207.5	198.4	207.2	203.7	249.0	213.2[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully-loaded or transitional phase-in; IFRS. [3] May include rounding differences due to scale of reported amounts. [4] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime. [5] Simple average of periods presented for the latest accounting regime. [6] Simple average of Basel III periods presented.
Sources: Moody's Investors Service and company filings

Profile

Mediobanca is a medium-sized financial group with total assets of €78.9 billion as of June 2020. The group is internationally diversified. In April 2019, Mediobanca announced the acquisition of 66% of the French corporate finance company, Messier Maris & Associés, through which France will become the group's third-biggest regional investment banking market after Italy and Spain. In 2018, Mediobanca also acquired a majority stake in Ram Active Investments in Switzerland, having previously bought Cairn Capital in the UK.

Mediobanca's main divisions are:

» Corporate and Investment Banking (CIB), which focuses on lending, capital market activities, and advisory services to large corporate clients — Mediobanca is one of the main CIB providers in Italy; its clients are usually large Italian corporates with an international footprint. Mediobanca recently started purchasing Italian nonperforming loans (NPLs) at deep discounts through its subsidiary MB Credit Solutions, an entity specialised in the management of NPLs.

» Consumer Banking, mostly through its subsidiary Compass, one of the largest consumer credit companies in Italy — This division operates only in Italy in the following main product areas: unsecured consumer loans, secured personal loans with a direct pledge on the borrower's salary, auto financing, credit cards and other consumer loans for the purchase of specific goods. Mediobanca distributes its consumer finance products through other banks and the postal network, its own branch network under the CheBanca brand, and agents.

» Wealth Management, which includes retail banking through its subsidiary CheBanca! (deposits and residential mortgages); the Mediobanca Private brand, which focuses on high-net-worth individuals; and Monaco-based private bank Compagnie Monegasque de Banque — CheBanca! particularly focuses on growing its wealth management business, targeting particularly affluent clients.

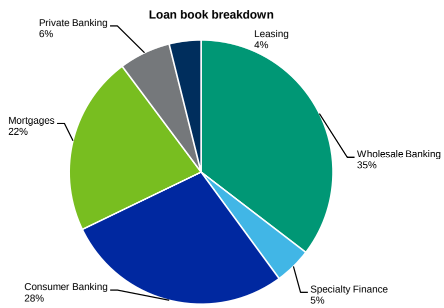
» Principal Investing, which now mostly consists of the bank's 12.9% share in Generali booked at around €3.2 billion — All other investments in this division are valued at less than €0.7 billion in the bank's books and are currently being reduced.

» Holding Function, which includes all general costs, asset and liability management (ALM), treasury and leasing business.

Exhibit 3

Mediobanca has a diversified business model

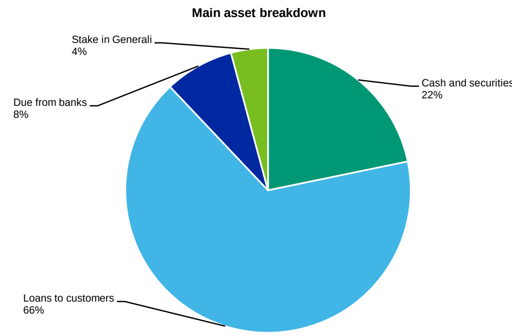
Around half of the group's activities are retail



Source: Bank's reports

Exhibit 4

Assets Breakdown 4



Source: Bank's reports

Detailed credit considerations

Macro Profile is Strong-

The weighted Macro Profile for Mediobanca is Strong-, reflecting its strong presence in Italy (Moderate+), as well as its exposures to large cross-border companies that operate in the European Union (Strong). Furthermore, it takes account of Generali's international footprint, with only around one-third of Generali's premiums generated in Italy.

Moderate asset risk

We assign a ba1 Asset Risk score to Mediobanca, one notch below the Macro-Adjusted score. The score reflects a reported problem loan ratio of 4.1% as of the end of June 2020, lower than the Italian sector average of around 6.1% but higher than the European Union average of 2.9%, according to European Banking Authority data (Risk Dashboard - Q2 2020).

Mediobanca holds a 12.9% stake in Generali booked at €3.2 billion; however, Generali's stock price has fallen significantly since the coronavirus pandemic and the 13% stake had a market value of around €2.5 billion as of September 2020. Mediobanca deducts from its Common Equity Tier 1 (CET1) capital €2.2 billion, around 68% of its stake in Generali.

Our ba1 score also reflects:

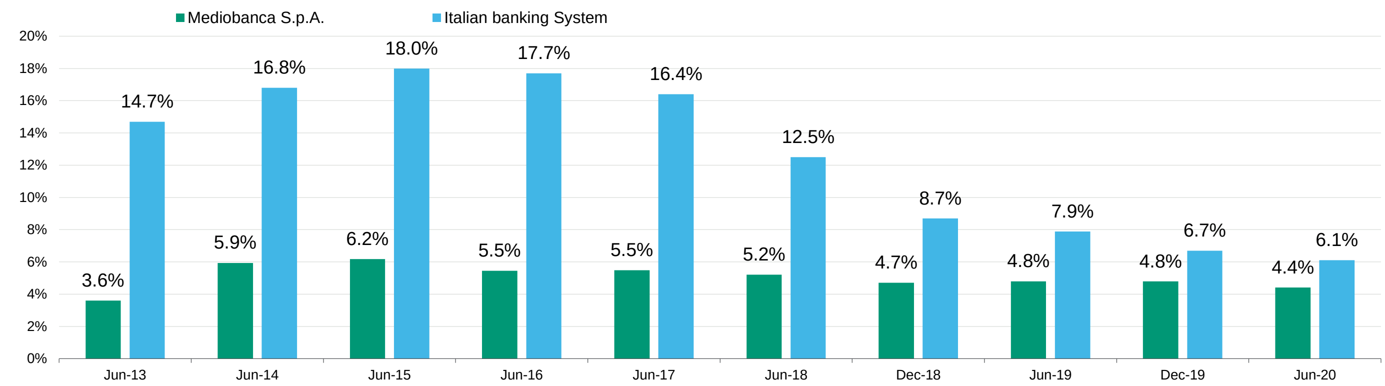
» the relatively high level of concentration in Mediobanca's corporate loan book

» strict underwriting procedures and a good track record in managing credit risk

» idiosyncratic risk resulting from the stake in Generali

» moderate market risk, trading activities are oriented more towards lower-risk securities than complex products

Exhibit 5
NPLs are much lower than the Italian average
NPLs as a percentage of gross loans



Sources: Moody's Investors Service, Bank of Italy and European Banking Authority

Good capitalisation, with large buffers over prudential requirements

Our assessment of Mediobanca's Capital is baa1, three notches below the a1 Macro-Adjusted score to reflect the trend we expect in the bank's capital ratios. We factor in the bank's growth strategy, including acquisitions, even though the bank has a good track record of internal capital generation because of its sound profitability.

Mediobanca reported a transitional phased-in 16.1% CET1 ratio and a total capital ratio of 18.8% as of the end of June 2020 (fully loaded ratios at 14.5% and 17.5%, respectively), which we consider strong and largely above its minimum CET1 Supervisory Review and Evaluation Process (SREP) requirement of 7.94% for 2020 (which includes the Pillar 2 requirement of 1.25%, one of the lowest among the banks supervised by the European Central Bank [ECB], and the capital conservation buffer of 2.50%). Capital ratios significancy increased from March 2020 when the CET1 ratio was 13.9%, mainly because of retained earnings (30 basis points [bps]), suspension of dividend distribution (50 bps) and the effect of the new concentration risk rules on the stake in Generali (50 bps, the deduction is now calculated on the book value of Generali exceeding 25% of Mediobanca's total capita, linstead of 20% previously). The Capital Requirements Regulation (CRR) quick fix had a positive impact on the bank's CET1 in June 2020 of 25 basis points.

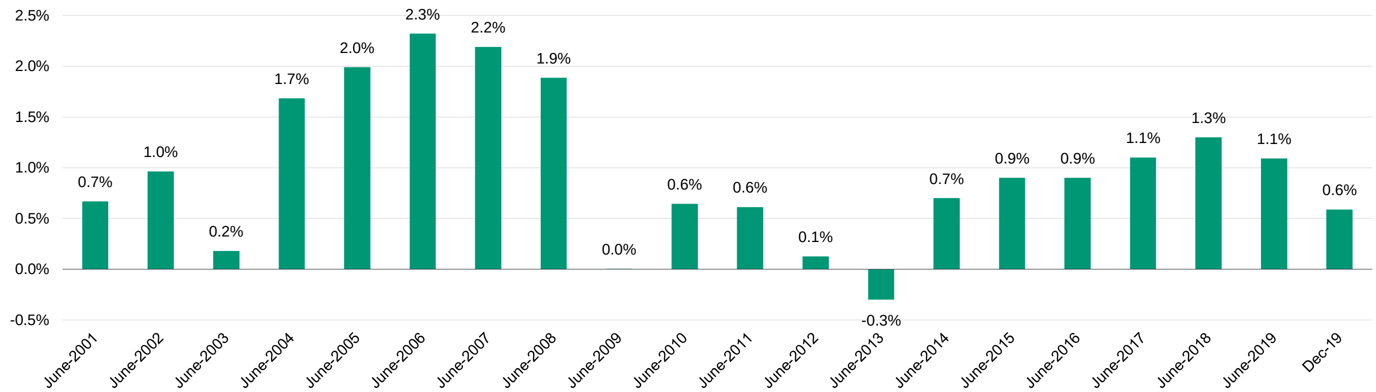
Sound and diversified profitability

The score for Mediobanca's Profitability is baa3, one notch below the Macro-Adjusted score. The assigned score reflects our medium-term view on Mediobanca's return on tangible assets, including a possible reduction in its stake in Generali, which is a material contributor to Mediobanca's profitability: in the full-year ending in June 2020[1], principal investing generated a net profit of €295 million.

Mediobanca presented its 2019-23 business plan in November 2019, which primarily focuses on growth in revenue and earnings, and which could include a reduction in its stake in Generali to finance acquisitions. The bank did not announce any revision of its business plan guidelines following the coronavirus pandemic. However, we expect the bank's profitability to be under pressure given the importance of its consumer finance activity, which accounts for around 28% of the loan book.

In the last three years, Mediobanca reported an average return on tangible assets of about 115 bps, which is sound in the Italian and European contexts. Furthermore, despite a difficult operating environment, particularly in Italy, Mediobanca has a good track record of generating profit (see Exhibit 5), even though this is partly due to the contribution to income from the stake in Generali.

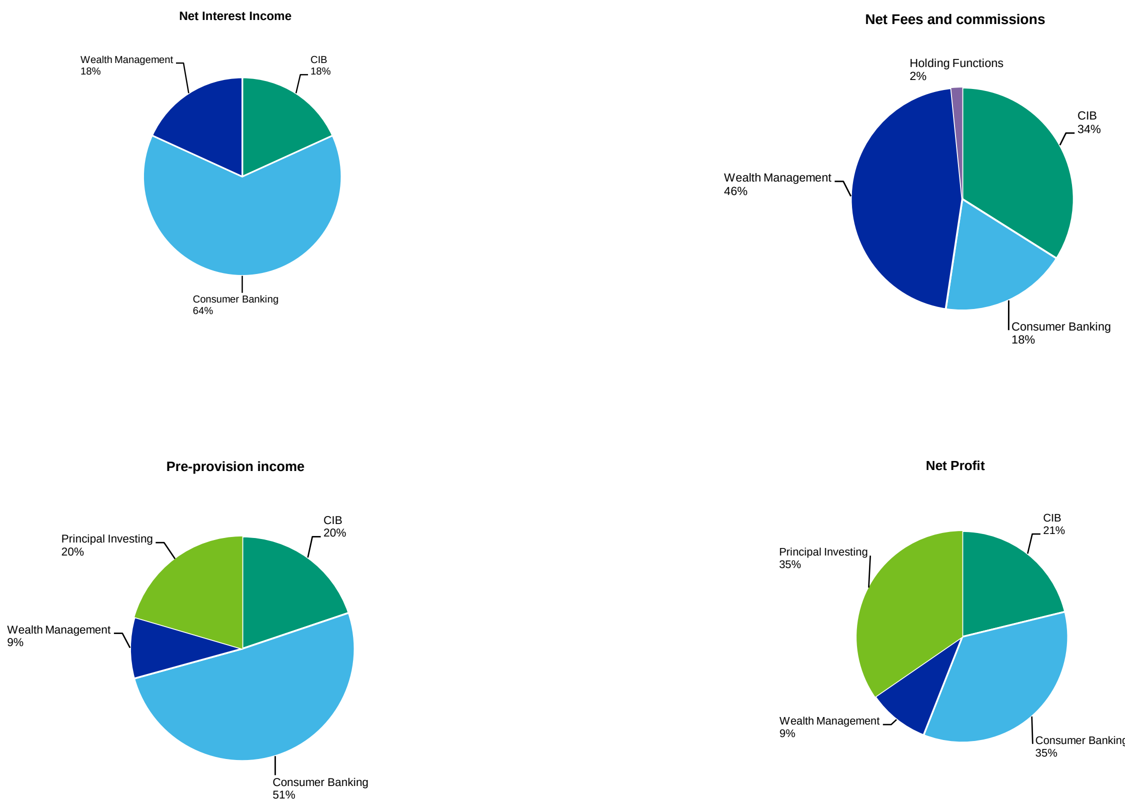
Exhibit 6
Good track record of profit
Return on tangible assets



Sources: Moody's Investors Service and bank's reports

Mediobanca's diversified business model has supported the bank's earnings and the group has also significantly expanded its retail business over the last few years by growing its retail bank subsidiary CheBanca!. Nevertheless, the high concentration in Generali represents a material dependence on earnings. Moreover, we believe that the pandemic will exert strong pressure on Mediobanca's commission income, as many clients are moving assets from wealth management products to deposits given the high market volatility.

Exhibit 7
Income breakdown by business line



Sources: Moody's Investors Service and bank's reports

High reliance on wholesale funding

Our score for Mediobanca's Funding Structure is b1, one notch above the b2 Macro-Adjusted score. Our adjustment reflects the overall short maturity of the bank's assets, which mitigates the risk stemming from its high reliance on market funding.

Despite Mediobanca's efforts in recent years to increase its share of deposit funding by creating CheBanca! in 2008, the bank is still highly reliant on wholesale funding, with a loan to deposit ratio well above 100%. Market funds as of December 2019 accounted for 53% of tangible banking assets, which is a key weakness. This risk is mitigated by the maturity profile of its funding, the short duration of its loan book and its adequate liquidity. Mediobanca has an MREL requirement of 21.6% of risk-weighted assets, with a subordination requirement of 14.3%. Mediobanca has also drawn €5.7 billion of ECB funding (TLTRO), increased from the €4.3 billion as of December 2019, which finances around 7% of total assets.

Mediobanca's Liquid Resources score is baa1, one notch above the baa2 Macro-Adjusted score to reflect the expected trends. As of the end of June 2020, the bank reported a liquidity coverage ratio of 165% and a net stable funding ratio of 109%.

Environmental, social and governance considerations

In line with our general view for the banking sector, Mediobanca has low exposure to environmental risks. See our environmental risk heat map for further information.

We expect Mediobanca to face moderate social risks, in line with our view on the banking sector. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which are mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct are a further social risk. Moreover, we regard the coronavirus pandemic as a social risk under our ESG framework, given the substantial implications for public health and safety.

Social trends are also relevant in a number of areas, such as shifting customer preferences towards digital banking services increasing information technology costs, ageing population concerns in several countries affecting demand for financial services or socially driven policy agendas that may translate into regulations that affect banks' revenue base. See our social heat map for further information.

Corporate governance is highly relevant to all banks' creditworthiness. Corporate governance weaknesses can lead to a deterioration in a bank's credit quality, while governance strengths can benefit its credit profile. When credit quality deteriorates because of poor governance, such as breakdown in controls resulting in financial misconduct, it can take a long time to recover. In more extreme cases, a loss of confidence among clients and creditors following the disclosure of a major governance breach can result in a bank's default.

Mediobanca's governance changed in the last twelve months: in November 2019, Leonardo Del Vecchio (executive chairman of EssilorLuxottica) gradually increased his stake in the bank and as of October 2020 he is the main single shareholder with a 10.2% stake, while Unicredit entirely divested its participation in Mediobanca in 2019. These changes in the shareholding structure could have an impact on the bank's strategy going forward. Overall, 75% of shareholders are institutional investors (mainly from Italy and the US) and 25% are retail investors.

Support and structural considerations

Loss Given Failure (LGF) analysis

Mediobanca is subject to the EU Bank Recovery and Resolution Directive, which we consider an operational resolution regime. Our analysis assumes residual tangible common equity of 3% and post-failure losses equivalent to 8% of tangible banking assets, a 25% run-off in junior wholesale deposits, a 5% run-off in preferred deposits and 26% of junior deposits over total deposits. These assumptions are in line with our standard assumptions. Furthermore, we expect deposits to rank above senior debt in a resolution, given the introduction of full deposit preference in Italy in 2019.

Under these assumptions, Mediobanca's deposits are likely to face very low loss given failure because of the loss absorption provided by the residual equity that we expect in resolution, (3%), subordinated debt and senior unsecured debt, as well as the volume of deposits themselves. This is supported by the combination of deposit volume and subordination. This would have resulted in an uplift of three notches from the bank's baa3 BCA to the deposit rating in the absence of the constraint indicated in our methodology : deposit ratings are typically constrained to two notches above the sovereign bond rating and hence uplift from the current BCA is limited to two notches (Baa1).

We believe that Mediobanca's senior unsecured debt is likely to face very low loss given failure because of the loss absorption provided by the residual equity that we expect in resolution and by subordinated debt, as well as the volume of senior unsecured debt itself. This results in an uplift of two notches from the bank's baa3 BCA (Baa1).

Counterparty Risk Ratings (CRRs)

Our CRRs are opinions on the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event that such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivative transactions and the uncollateralised portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

Mediobanca's CRRs are positioned at Baa1/Prime-2

Mediobanca's CRRs benefit from considerable subordination and would be three notches above the baa3 BCA, but we constrain this uplift to two notches above Italy's Baa3 sovereign debt rating. In accordance with our Banks methodology, CRRs are typically constrained to two notches above the sovereign bond rating, reflecting our view that the expected loss of rated bank instruments is unlikely to be significantly lower that of the sovereign's own debt.

The Baa1 CRRs of Mediobanca do not include any further uplift resulting from our expectation for low probability of government support.

Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails, and are distinct from debt and deposit ratings in that they consider only the risk of default rather than both the likelihood of default and the expected financial loss, and apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

Mediobanca's CR Assessment is positioned at Baa2(cr)/Prime-2(cr)

This is one notch above the bank's standalone BCA of baa3.

According to our methodology, CR Assessments do not typically exceed by more than one notch the rating of the sovereign in which the bank is domiciled, reflecting our view that the probability of default of counterparty obligations is unlikely to be significantly below that of the sovereign's own debt.

The uplift to Mediobanca's CR Assessment derives from the buffer against default provided to the operating obligations by substantial bail-in-able debt and deposits. The main difference with our Advanced LGF approach used to determine instrument ratings is that the CR Assessment captures the probability of default on certain senior obligations, rather than expected loss, and therefore, we focus purely on subordination and take no account of the volume of the instrument class

Government support considerations

We assess the probability of government support to Mediobanca's depositors and senior bondholders as Low and hence we assign no rating uplift.

Mediobanca is a modestly sized bank domestically, and not a key participant in global financial markets. As such, its debt or deposits are unlikely to benefit from government support.

Methodology and scorecard

About Moody's scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from what suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 8

Mediobanca S.p.A.

Macro Factors							
Weighted Macro Profile	**Strong -**	**100%**					
Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	5.0%	baa3	←→	ba1	Single name concentration		
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	17.1%	a1	←→	baa1	Expected trend	Stress capital resilience	
Profitability							
Net Income / Tangible Assets	1.2%	baa2	←→	baa3	Expected trend		
Combined Solvency Score		baa1		baa3			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	48.2%	b2	←→	b1	Term structure	Market funding quality	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	28.2%	baa2	←→	baa1	Expected trend		
Combined Liquidity Score		ba2		ba1			
Financial Profile				baa3			
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				0			
Sovereign or Affiliate constraint				Baa3			
BCA Scorecard-indicated Outcome - Range				baa2 - ba1			
Assigned BCA				baa3			
Affiliate Support notching				0			
Adjusted BCA				baa3			

Balance Sheet	**in-scope (EUR Million)**	**% in-scope**	**at-failure (EUR Million)**	**% at-failure**
Other liabilities	39,369	49.4%	41,663	52.3%
Deposits	22,491	28.2%	20,197	25.3%
Preferred deposits	16,644	20.9%	15,811	19.8%
Junior deposits	5,848	7.3%	4,386	5.5%
Senior unsecured bank debt	13,094	16.4%	13,094	16.4%
Dated subordinated bank debt	2,355	3.0%	2,355	3.0%
Equity	2,391	3.0%	2,391	3.0%
Total Tangible Banking Assets	79,700	100.0%	79,700	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	27.9%	27.9%	27.9%	27.9%	3	3	3	3	0	baa1
Counterparty Risk Assessment	27.9%	27.9%	27.9%	27.9%	3	3	3	3	0	baa2 (cr)
Deposits	27.9%	6.0%	27.9%	22.4%	2	3	3	3	0	baa1
Senior unsecured bank debt	27.9%	6.0%	22.4%	6.0%	2	2	2	2	0	baa1
Junior senior unsecured bank debt	6.0%	6.0%	6.0%	6.0%	-1	-1	-1	0	0	baa3
Dated subordinated bank debt	6.0%	3.0%	6.0%	3.0%	-1	-1	-1	-1	0	ba1

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	baa1	0	Baa1	Baa1
Counterparty Risk Assessment	3	0	baa2 (cr)	0	Baa2(cr)	
Deposits	3	0	baa1	0	Baa1	Baa1
Senior unsecured bank debt	2	0	baa1	0	Baa1	(P)Baa1
Junior senior unsecured bank debt	0	0	baa3	0	Baa3	(P)Baa3
Dated subordinated bank debt	-1	0	ba1	0	(P)Ba1	(P)Ba1

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 9

Category	Moody's Rating
MEDIOBANCA S.P.A.	
Outlook	Stable(m)
Counterparty Risk Rating	Baa1/P-2
Bank Deposits	Baa1/P-2
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	Baa2(cr)/P-2(cr)
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
Junior Senior Unsecured -Dom Curr	Baa3
Junior Senior Unsecured MTN	(P)Baa3
Subordinate MTN	(P)Ba1
Other Short Term	(P)P-2
MEDIOBANCA INTERNATIONAL (LUXEMBOURG) SA	
Outlook	Negative
Bkd Senior Unsecured	Baa1
Bkd Commercial Paper -Dom Curr	P-2
Bkd Other Short Term	(P)P-2

Source: Moody's Investors Service

Endnotes

1 Mediobanca report full year financial statements in June and not in December like most other banks

REPORT NUMBER 1249015

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Moody's INVESTORS SERVICE