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Ratings

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Research Update:

Mediobanca And MB Funding Lux Outlooks Revised To Stable On Reduced Downside Risks; 'BBB/A-2' Ratings Affirmed

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Overview

- In October 2020, we revised the outlook on the sovereign rating of Italy to stable from negative, which in our view removed a key risk for the creditworthiness of Italy-based bank Mediobanca SpA.
- At the current rating level, we believe Mediobanca's more-diversified business model, prudent risk management, and solid capitalization should provide sufficient buffers to cushion the bank's creditworthiness against the residual impacts of the pandemic-induced crisis.
- We are therefore revising our outlook on Mediobanca and its core subsidiary, MB Funding Lux S.A., to stable from negative and affirming all ratings, including our 'BBB/A-2' long- and short-term issuer credit ratings, on the two entities.
- The stable outlook indicates that Mediobanca's creditworthiness will remain resilient amid the still-difficult economic and operating environment.

Rating Action

On March 11, 2021, S&P Global Ratings revised its outlook on Italian bank Mediobanca and its core subsidiary, MB Funding Lux, to stable from negative. At the same time, we affirmed our issuer and issue ratings, including our 'BBB/A-2' long- and short-term issuer credit ratings, on the two entities.

Rationale

At the current rating level, we consider that Mediobanca is more resilient than peers to the difficult economic and operating environment. In October 2020, the outlook revision of Italy to stable from negative (see "Italy Outlook Revised To Stable From Negative; Ratings Affirmed At 'BBB/A-2'," published Oct. 23, 2020) removed a key risk to our ratings on Mediobanca. However, at that time, we believed that the magnitude of the downside risks that the COVID-19-induced downturn posed to the bank's credit profile was highly uncertain. While the economic uncertainties faced by Italian banks remain, we believe that Mediobanca has demonstrated resilience to the stress, and that, at the 'BBB' rating level, there is a reduced likelihood that we could lower the ratings on Mediobanca in the absence of a similar action on the sovereign.

We believe Mediobanca's diversified business model and prudent risk management will likely continue to limit the downside risks on its credit quality. We anticipate the bank will maintain lower-than-peers credit losses throughout the remainder of the fallout from the pandemic, for the following reasons:

- Mediobanca is less exposed than peers to small and midsize enterprises and to the economic sectors vulnerable to the pandemic; it grants about 75% of its corporate loans to clients with turnover mainly outside Italy. As a result, Mediobanca's amount of loans in moratoria is significantly lower than peers: €1.2 billion or 2.4% of the total loan book as of end-December 2020 (compared with about 13%-15% for the other domestic banks on average), down from the 5% peak in April, with most clients having resumed regular payments and those still in moratoria half covered by provisions.
- Mediobanca's prudent provisioning policy allowed it to keep its net nonperforming exposures (NPEs) ratio at very low levels (0.8% as of end-December 2020). Indeed, the bank took a conservative provisioning approach and increased the NPE coverage to about 82% as of end-December 2020, from an already high 69% at end-June 2020. This should provide sufficient buffer to absorb a potential deterioration in its consumer credit loan portfolio (accounting for about one-third of its total loans), should the effects of the pandemic extend beyond our current expectations.
- We anticipate Mediobanca's conservative underwriting standards and proactive loan collection process, enhanced by digital channels, should help it maintain lower-than-system-average inflow of NPEs. This is evidenced by Mediobanca's delinquencies on its consumer lending division being already back to pre-pandemic levels.

We expect Mediobanca's capitalization to remain solid. The diversified revenue base and the controlled cost of credit risk will keep Mediobanca's risk-adjusted capital (RAC) ratio at about 9% in 2021-2023, well above the average for its domestic peers. Our RAC projections also take into account our expectation that the bank will resume the distribution of its earnings to shareholders in 2021 and 2022, provided the European Central Bank removes the limitation on dividend distribution. The bank's Common Equity Tier 1 (CET1) ratio was a high 16.2% at end-December 2020, which was about 820 basis points (bps) above the minimum regulatory requirement and about 270 bps over its 13.5% CET1 2023 target. In our view, this means the bank has an ample capital buffer to withstand potential further impact from the pandemic. Although we do not incorporate any mergers and acquisitions (M&A) transactions in our forecasts, we would expect that a potential decrease in capital measure would be still consistent with our assessment on the bank's capitalization. We acknowledge that management has historically been disciplined and prudent in executing its M&A strategy while maintaining its capital.

Mediobanca's diversified revenue sources will likely support its earning capacity during the remainder of the current credit cycle. Specifically, we anticipate the bank's diversification into wealth management and corporate and investment banking activities will likely continue to balance the downside on its revenue base. In the second half of 2020 (the first half of the bank's fiscal year), Mediobanca's operating revenues decreased by only 2% compared with the same period of 2019, despite the pandemic fallout and the low interest rate environment. The corporate and investment banking division (CIB)'s buoyant performance offset lower volumes and margins in consumer credit business, while asset management-related fees remain steady, thanks to their recurring nature. Although we think CIB may struggle to repeat its performance in the second half of fiscal year (FY) ending June 30, 2021, we anticipate that Mediobanca's advisory activities will continue to benefit from positive momentum in the deals pipeline. In addition, we expect robust organic growth in the wealth management business will support the bank's recurring revenue stream.

Outlook

The stable outlooks on Mediobanca and its core subsidiary, MB Funding Lux, reflect our view that, at the current rating level, Mediobanca's creditworthiness will remain resilient over the next two years despite the still-difficult economic and operating environment. In our base-case scenario, we anticipate the bank's operating performance will remain stronger than most peers' as a result of a more diversified revenue base and expected lower-than-sector-average credit losses in 2021 and 2022.

We therefore forecast that the bank's retained earnings will allow it to maintain its RAC ratio comfortably above the 7% threshold over the next 18-24 months, supporting its ratings.

Downside scenario

We could lower the ratings on Mediobanca over the next 18-24 months if we perceived that the bank's combined capital and risk profile did not provide a sufficient cushion to absorb further deterioration within the economic and operating conditions. In addition, we could take a negative rating action if we concluded that the bank's strategy had shifted to become substantially more aggressive or risky.

A negative rating action on Italy could also trigger a similar action on Mediobanca's ratings. This is because we believe Mediobanca is unlikely to withstand the effects of a hypothetical default of Italy without defaulting on its senior unsecured debt, given its high exposure to the Italian economy.

Upside scenario

Although unlikely at this stage of the credit cycle, we could consider an upgrade if we anticipated that Mediobanca's RAC ratio had improved above the 10% threshold, due to higher-than-expected internal capital generation, and, at the same time, if we were to raise our ratings on Italy.

Hybrids

We do not assign outlooks to bank issue ratings. However, we will continue to notch down the ratings on Mediobanca's hybrids from the lower of the stand-alone credit profile (SACP) and issuer credit rating. Therefore, if we were to lower the issuer credit rating or the SACP, we would also lower the rating on the bank's rated subordinated debt.

Ratings Score Snapshot

	To	From
Issuer credit rating	**BBB/Stable/A-2**	**BBB/Negative/A-2**
SACP	bbb	bbb
Anchor	bbb-	bbb-
Business position	Adequate (0)	Adequate (0)
Capital and earnings	Adequate (0)	Adequate (0)
Risk position	Strong (+1)	Strong (+1)
Funding and liquidity	Average and Adequate (0)	Average and Adequate (0)
Support	0	0
ALAC support	0	0
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 20, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Bulletin: Italy's Ambitious Reform Agenda Has No Immediate Credit Impact, Feb. 22, 2021
- Capital Resilience Alone Won't Stabilize European Bank Ratings In 2021, Feb. 3, 2021
- Low-For-Even-Longer Interest Rates Maintain Margin Pressure On European Banks, Feb. 2, 2021
- Lower And Later: The Shifting Horizon For Bank Credit Losses, Feb. 2, 2021
- For Italian Banks, The Big Test Could Come In 2021, Jan. 13, 2021
- Mediobanca SpA, Dec. 11, 2020
- Mediobanca And MB Funding Lux Ratings Affirmed On Sovereign Rating Action; Outlook Remains Negative, Oct. 29, 2020
- Italy Outlook Revised To Stable From Negative; Ratings Affirmed At 'BBB/A-2', Oct. 23, 2020
- Bulletin: Impact Of Potential Change In Mediobanca SpA Shareholder Structure Remains To Be Seen, June 4, 2020
- Mediobanca SpA 'BBB/A-2' Ratings Affirmed On Capital Buffer; Outlook Negative, April 29, 2020
- Outlooks On Most Italian Banks Now Negative On Deepening COVID-19 Downside Risks, April 29, 2020
- Mediobanca SpA's Senior Nonpreferred Notes Assigned 'BBB-' Issue Rating, Jan. 17, 2020
- Mediobanca's New Business Plan Targets Continuity In Strategy, Nov. 12, 2019

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Mediobanca SpA		
MB Funding Lux S.A.		
Issuer Credit Rating	BBB/Stable/A-2	BBB/Negative/A-2
Ratings Affirmed		
Mediobanca SpA		
MB Funding Lux S.A.		
Resolution Counterparty Rating	BBB+/--/A-2	

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.