

# RatingsDirect®

---

Research Update:

## Italian Mediobanca 'BBB/A-2' Ratings Affirmed On Sovereign Rating Action And Stabilizing Industry Risk; Outlook Negative

### Table Of Contents

---

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria And Research

Ratings List

## Research Update:

# Italian Mediobanca 'BBB/A-2' Ratings Affirmed On Sovereign Rating Action And Stabilizing Industry Risk; Outlook Negative

## Overview

- On June 6, 2014, we affirmed our 'BBB/A-2' long- and short-term unsolicited sovereign credit ratings on the Republic of Italy.
- We now identify a stable trend for the Italian banking sector's industry risk, as we believe its systemwide funding is unlikely to deteriorate further.
- We believe that Mediobanca SpA is successfully implementing its previously announced capital-enhancing actions, thereby reducing the potential downside risk to its capital position.
- We are therefore affirming our 'BBB/A-2' long- and short-term ratings on Mediobanca.
- The outlook on the long-term rating remains negative, reflecting that on our long-term unsolicited sovereign rating on Italy.

## Rating Action

On June 17, 2014, Standard & Poor's Ratings Services affirmed its 'BBB/A-2' long- and short-term counterparty credit ratings on Italy-based Mediobanca SpA. The outlook remains negative.

## Rationale

The affirmation follows our June 6, 2014, affirmation of our 'BBB/A-2' long- and short-term unsolicited sovereign credit ratings on the Republic of Italy (see "Ratings On Italy Affirmed At 'BBB/A-2'; Outlook Remains Negative").

The affirmation also reflects our view the downside risks for the ratings on Mediobanca have diminished, as we now see a stable trend for the Italian banking sector's industry risk assessment. We also believe Mediobanca is less exposed than most of its peers to a potentially weaker-than-anticipated economic recovery in Italy. This is because it has what we view as a sound capital position and it is more geographically diversified than its peers.

Mediobanca, however, remains exposed to the potential deterioration of Italy's sovereign creditworthiness, our view on which is reflected in our negative outlook on our unsolicited long-term sovereign rating on Italy.

We believe that Mediobanca is successfully implementing the actions included

in its business plan. The plan aims to reduce its exposure to market risk through its equity stakes portfolio, improve the stability of its revenue base, and increase its business diversification. The bank has taken advantage of improved market conditions to accelerate the disposal of some of its largest equity stakes: Out of a total targeted €1.6 billion disposal by June 2016, the bank has already sold a total of €800 million, with total gross gains exceeding €200 million. We note that Mediobanca remains committed to completing the remaining disposals over the coming 12-18 months. We consider this target to be achievable in light of the current market environment.

Mediobanca's bottom-line performance in the past three quarters has been sound and outperformed expectations. It has mainly benefitted from sizable capital gains booked on equity disposals. However, we believe that an improving economy, the bank's increasing efforts to preserve its margins (which include the use of liquidity to reduce its reliance on costlier sources of funding), and more favorable market conditions should somewhat benefit the bank's operating revenue stream in 2014 and 2015. Moreover, we also consider that the bank's loan-loss provisioning needs will likely gradually decrease. We estimate that our risk-adjusted capital (RAC) ratio for Mediobanca is currently between 7.5% - 8.0%. We believe the bank can organically sustain this level and further strengthen it to 8.0% - 9.0% by 2015, considering its announced equity stake disposal.

We note that Mediobanca has been able to preserve what we view as a sound asset quality throughout the economic downturn. Its coverage level and nonperforming loan ratios compare very favourably with those of its Italian peers. Even if the bank is using part of its liquidity cushions to reduce its reliance on costlier sources of funding, we expect that its financing needs will remain modest over the next couple of years and that it will continue to adequately manage its funding and liquidity position.

## **Outlook**

The negative outlook on Mediobanca reflects the possibility that we could lower our ratings on the bank if we were to lower our unsolicited sovereign credit ratings on Italy. We believe that, under our criteria, Mediobanca would not qualify to be rated higher than our unsolicited long-term sovereign rating on Italy. We seldom rate financial institutions above the foreign currency rating on the country where they are based, as we see a strong connection between banks' creditworthiness and that of their country of domicile. Italy is Mediobanca's country of domicile and its main market. It accounts for about 75% of the bank's total loans, and we therefore believe that Mediobanca would be severely affected by the same economic factors that could cause sovereign stress in Italy, despite its geographic diversification.

We anticipate that a potential increase in our view of the economic risks faced by Italian banks may not necessarily lead to a downgrade of Mediobanca. That said, we could lower our ratings on Mediobanca if we were to anticipate that it could not sustain its RAC ratio above 7% over the next two years, most

likely due to a combination of increased economic risk, persistently high market risk exposure through equity stakes, and a materially lower-than-anticipated capital generation.

A review of the outlook to stable would be possible if we were to revise our outlook on our unsolicited long-term sovereign rating on Italy to stable.

## Ratings Score Snapshot

Issuer Credit Rating	BBB/Negative/A-2
SACP	bbb
Anchor	bbb-
Business Position	Adequate (0)
Capital And Earnings	Adequate (0)
Risk Position	Strong (+1)
Funding	Average (0)
Liquidity	Adequate
Support	(0)
GRE Support	(0)
Group Support	(0)
Sovereign Support	(0)

## Related Criteria And Research

### Related criteria

- Group Rating Methodology, Nov. 19, 2013
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- General Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

### Related research

- Ratings On Italy Affirmed At 'BBB/A-2'; Outlook Remains Negative, June 6, 2014
- S&P Publishes Latest Banking Industry Country Risk Assessment On Italy, June 17, 2014
- Banking Industry Country Risk Assessment: Italy, June 17, 2014

## Ratings List

Ratings Affirmed

Mediobanca SpA

Counterparty Credit Rating	BBB/Negative/A-2
Certificate Of Deposit	
Foreign Currency	BBB
Local Currency	BBB/A-2
Senior Unsecured	BBBp
Senior Unsecured	BBB
Subordinated	BBB-

Mediobanca International (Luxembourg) S.A.

Senior Unsecured	BBB
Certificate Of Deposit	A-2
Commercial Paper	A-2

**Additional Contact:**

Financial Institutions Ratings Europe; FIG\_Europe@standardandpoors.com

Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [spcapitaliq.com](http://spcapitaliq.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's 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.

Copyright © 2014 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription) and [www.spcapitaliq.com](http://www.spcapitaliq.com) (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).