STANDARD & POOR'S RATINGS SERVICES

RatingsDirect®

Mediobanca SpA

Table Of Contents

Mediobanca SpA

SACP	bbb+	+	Support	0	+	Additional Factors	0

Anchor	bbb	
Business Position	Adequate	0
Capital and Earnings	Adequate	0
Risk Position	Strong	+1
Funding	Average	0
Liquidity	Adequate	

GRE Support	0
Group Support	0
Sovereign Support	0

Issuer Credit Rating
BBB+/Negative/A-2

Major Rating Factors

Strengths:	Weaknesses:
• Satisfactory asset quality ratios. • Solid domestic franchise sustained by successful organic growth. • Adequate capitalization.	• Large equity portfolio that exposes the bank to stock market fluctuations. • Higher reliance on wholesale funding than peers. • Single-name concentrations.

Outlook: Negative

Standard & Poor's Ratings Services' outlook on Italy-based Mediobanca SpA is negative, reflecting the possibility that we could lower the rating if, all other factors remaining equal, we were to lower our ratings on the Republic of Italy (unsolicited BBB+/Negative/A-2). The ratings on Mediobanca cannot exceed those on Italy under our criteria regarding the relationship between the ratings on financial institutions and their related sovereign in the European Economic and Monetary Union (eurozone).

We could also lower our ratings on Mediobanca if:

- We saw further weakening in domestic economic and banking industry conditions, or
- We perceived that our forecast risk-adjusted capital (RAC) ratio for the bank and its funding access were likely to weaken substantially.

In particular, we could lower the ratings if we believed that potential impairments to Mediobanca's credit or equity portfolio would not be absorbed by earnings, leading to a decline in the RAC ratio to less than 7%. We may also lower the ratings if we believed Mediobanca's access to retail funding had diminished.

An outlook revision to stable on Italy would support a similar change of the outlook on Mediobanca. We could take such an action if, everything else being equal, we also anticipated an improvement in economic and operating conditions for the Italian banking system.

Rationale

The starting point for our ratings on Mediobanca is the 'bbb' anchor, which is based on our view of the Italian banking system. We consider the bank's business position to be "adequate," as defined in our criteria. This reflects our view of the bank's solid domestic corporate and investment banking franchise, although we see it as potentially more vulnerable to a prolonged difficult economic environment in Italy compared with Italy's largest banks. We assess Mediobanca's capital and earnings as "adequate" because we believe that the RAC ratio will remain at about 7% at year-end 2013. Our assessment of Mediobanca's risk position as "strong" reflects its prudent risk selection process and a loss experience track record that is much better than peers'. We view funding as "average," owing to Mediobanca's capacity to obtain retail funds, which mitigates its higher-than-domestic-peers' recourse to wholesale funding. Liquidity is "adequate," in our view, owing to the bank's strengthened liquid asset buffers. We see Mediobanca as having a "moderate" systemic importance in Italy, which takes into account the bank's solid franchise in corporate lending, but at the same time lower market shares in retail deposits and loans than the largest domestic players'.

Anchor: 'bbb' for banks operating mainly in Italy

Our bank criteria use our Banking Industry Country Risk Assessment economic risk and industry risk scores to determine a bank's anchor stand-alone credit profile (SACP), the starting point in assigning an issuer credit rating (ICR). Our anchor SACP for a bank operating in Italy is 'bbb'.

We view Italy as a diversified and competitive economy. Credit risk in Italy is high, owing to both high corporate credit risk for small and midsize enterprises and Italian banks' increased vulnerability to rising loan losses due to the combined effect of mounting problem assets and reduced coverage of loan loss reserves. The imbalances in domestic asset prices and the buildup of leverage are low, in our opinion. However, we consider that Italy's public debt is very high, and exposes the country to significant external refinancing risk given that nearly 40% of its public debt has been financed by nonresident operators. With regard to industry risk, we believe that systemwide funding benefits from Italian banks' generally limited reliance on long- and short-term wholesale sources. However, we see that current tensions in the eurozone sovereign debt markets significantly limit Italian banks' ability to roll over their wholesale debt. Italian banks' access to capital markets has been limited during the past 12 months, resulting in significantly increased reliance on European Central Bank (ECB) funding. Italian banks have restrained risk appetite, in our opinion. We think that their persistently weak profitability since 2009, however, has hampered their generation of a risk-adjusted return on core banking products. We consider regulatory standards to be in line with those of western European peers'.

Table 1

Mediobanca SpA Key Figures

		--Year-ended June 30--			
(Mil. €)	**2013***	**2012**	**2011**	**2010**	**2009**
Adjusted assets	78,987	78,255	74,954	76,059	73,444
Customer loans (gross)	36,126	38,157	38,463	36,383	37,801
Adjusted common equity	6,545	6,479	6,372	6,127	5,526
Operating revenues	466	2,040	2,042	1,875	1,655
Noninterest expenses	184	829	875	819	783
Core earnings	124	304	512	408	8

*Data as of Sept. 30.

Business position: Solid franchise and successful organic growth

We regard Mediobanca's business position as "adequate." This reflects our view of management's ability to preserve a solid domestic corporate and investment banking (CIB) franchise despite intense competition, as well as its prudent strategy of gradual organic growth implemented over the past decade. At the same time, we believe that Mediobanca's business stability is less resilient than that of some of its larger domestic peers. This is because we see Mediobanca's business model as potentially more vulnerable to a prolonged difficult economic environment in Italy, owing to its high share of nonrecurring revenues linked to capital markets and advisory activity.

Mediobanca's CIB business position has strengthened in the past few years, owing to its successful organic expansion into the U.K., France, Spain, and Germany, which now contribute about 25% of CIB revenues. Mediobanca did not post net losses during the 2008 financial crisis, reflecting its prudent growth strategy carried out over the past decade, in our view. The gradual buildup of retail banking operations via long-term organic growth has diversified both the bank funding and its revenue base, and has helped offset the negative effects of an unfavorable equity market in 2011 and 2012 (see table 2).

Table 2

Mediobanca SpA Business Position

		--Year-ended June 30--			
(%)	**2013***	**2012**	**2011**	**2010**	**2009**
Loan market share in country of domicile	2.1	2.2	2.2	2.1	2.4
Deposit market share in country of domicile	1.8	1.9	1.8	1.8	1.9

Table 2

Mediobanca SpA Business Position (cont.)					
Total revenues from business line (mil. €)	466	2,120	2,123	2,074	1,830
Commercial banking/total revenues from business line	84.5	86.8	93.7	84.9	83.9
Trading and sales income/total revenues from business line	9.7	5.5	(1.5)	(3.6)	10.9
Corporate finance/total revenues from business line	5.8	6.1	6.8	8.9	5.9
Other revenues/total revenues from business line	0.0	1.6	1.0	9.8	(0.6)
Investment banking/total revenues from business line	15.5	11.6	5.3	5.3	16.8
Return on equity	6.6	1.2	5.4	6.4	0.0

*Data as of Sept. 30.

Capital and earnings: Capital is adequate but exposed to some volatility stemming from equity exposure

We assess Mediobanca's capital and earnings as "adequate," reflecting our expectation that the projected RAC ratio will stand at more than 7% by the middle of 2013. Our projection factors in our view of Mediobanca's strong balance sheet control; at the same time, internal capital generation should remain limited, as it has been in past few years.

The bank's RAC ratio on June 30, 2012, stood at 6.9%, pro forma our changes in the economic risk score in February and August 2012. The main difference between Mediobanca's 11.5% core Tier 1 ratio and the RAC ratio is mainly the much-higher risk weight we assign to Mediobanca's equity exposure, including the 13.2% stake in Italian insurer Assicurazioni Generali SpA.

Mediobanca's capital position could be vulnerable to unexpected large credit or equity losses, given its concentrated equity and credit portfolio. Mitigating our concerns, the bank's earnings have provided a sufficient cushion to absorb any such loss, also reflecting the bank's conservative approach to underwriting. However, Mediobanca's earnings capacity, which has historically been higher than that of most domestic Italian banks, significantly worsened in 2011 and 2012, mainly reflecting high impairments in some financial assets.

Table 3

Mediobanca SpA Capital And Earnings					
		--Year-ended June 30--			
(%)	**2013***	**2012**	**2011**	**2010**	**2009**
Tier 1 capital ratio	11.5	11.5	11.2	11.1	10.3
S&P RAC ratio before diversification	N.M.	7.3	8.3	7.9	N.M.
S&P RAC ratio after diversification	N.M.	7.2	7.8	7.6	N.M.
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	57.2	53.6	55.6	56.4	51.8
Fee income/operating revenues	17.5	19.2	21.4	24.6	26.2
Market-sensitive income/operating revenues	11.2	7.7	0.5	(2.8)	12.7
Noninterest expenses/operating revenues	39.5	40.6	42.9	43.7	47.3
Preprovision operating income/average assets	1.4	1.6	1.5	1.4	1.3
Core earnings/average managed assets	0.6	0.4	0.7	0.5	0.0

*Data as of Sept. 30. N.M.--Not meaningful.

Table 4

Mediobanca SpA Pro Forma* RACF (Risk-Adjusted Capital Framework) Data

(€ 000s)	Exposure§	Basel II RWA	Average Basel II RW (%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)
Credit risk					
Government and central banks	8,959,540	225,578	2.5	2,255,080	25.2
Institutions	7,702,143	3,469,934	45.1	1,892,316	24.6
Corporate	23,609,132	22,613,516	95.8	24,088,766	102.0
Retail	14,767,564	9,794,831	66.3	12,571,389	85.1
Of which mortgage	3,903,639	1,368,862	35.1	1,756,638	45.0
Securitization†	272,202	324,753	119.3	885,427	325.3
Other assets	4,149,919	3,800,063	91.6	5,611,178	135.2
Total credit risk	59,460,500	40,228,674	67.7	47,304,157	79.6
Market risk					
Equity in the banking book‡	3,919,632	4,709,045	123.5	31,655,714	807.6
Trading book market risk	--	6,910,663	--	10,365,994	--
Total market risk	--	11,619,708	--	42,021,707	--
Insurance risk					
Total insurance risk	--	--	--	344,663	--
Operational risk					
Total operational risk	--	3,315,643	--	4,671,960	--
(€ 000s)		**Basel II RWA**		**Standard & Poor's RWA**	**% of Standard & Poor's RWA**
Diversification adjustments					
RWA before diversification		55,164,025		94,342,487	100.0
Total Diversification/Concentration Adjustments		--		353,830	0.4
RWA after diversification		55,164,025		94,696,317	100.4
(€ 000s)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**Standard & Poor's RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		6,338,913	11.5	6,479,464	6.9
Capital ratio after adjustments**		6,338,913	11.5	6,479,464	6.8

*Based on parameters such as sovereign ratings, BICRA, economic risk and industry risk scores as of Feb. 8, 2013 §Exposure at default. †Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework. ‡Exposure and Standard & Poor's risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. **Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of June. 30, 2012, Standard & Poor's.

Risk position: Asset quality metrics are better than peers' and demonstrate prudent risk management

Our risk position assessment for Mediobanca is "strong." Mediobanca has been prudent in managing its credit growth, avoiding lending to riskier borrowers such as real estate developers, and has a much better track record than domestic peers' in terms of loss experience.

Mediobanca's coverage of problem assets through provisioning is higher than that of banks doing similar business in

Italy. As a result, in our opinion, Mediobanca is in a better position than many Italian banks to weather the impact of increased credit losses in Italy that we expect in the coming quarters. Mediobanca's coverage of nonperforming assets (NPAs) was 40% at the end of September 2012. Coverage of bad loans, the most relevant subcomponent of total problem assets, stood at 66% on the same date, much higher than the average for Italian banks, which we estimate at less than 50% as of Sept. 30, 2012.

The bank's ratio of net NPAs to total loans of 2.4% as of Sept. 30, 2012, is much lower than the average of its Italian peers. However, Mediobanca's single-name concentration in its equity and loan book is high and adds some risk, in our view. Mediobanca's loan book credit quality is generally good, but with few notable exceptions. Positively, Mediobanca takes collateral in most operations, therefore reducing the risk of losses for the bank.

Mediobanca does not have a complex balance sheet, although it operates in the investment banking business. The bank has a low asset-liability mismatch, and it limits its underwriting risk to short periods. We therefore believe our RAC ratio properly captures all of Mediobanca's risks.

Table 5

Mediobanca SpA Risk Position

		--Year-ended June 30--			
(%)	**2013***	**2012**	**2011**	**2010**	**2009**
Growth in customer loans	(21.3)	(0.8)	5.7	(3.8)	7.0
Total diversification adjustment / S&P RWA before diversification	N.M.	1.2	5.7	3.7	N.M.
Total managed assets/adjusted common equity (x)	12.1	12.1	11.8	12.5	13.4
New loan loss provisions/average customer loans	1.1	1.1	1.1	1.3	1.3
Net charge-offs/average customer loans	N.M.	1.9	1.3	1.1	0.7
Gross nonperforming assets/customer loans + other real estate owned	5.0	3.8	4.2	4.0	3.5
Loan loss reserves/gross nonperforming assets	66.0	59.4	57.3	62.0	63.5

*Data as of Sept. 30. N.M.--Not meaningful.

Table 6

Mediobanca SpA RACF [Risk-Adjusted Capital Framework] Data

(€ 000s)	**Exposure***	**Basel II RWA**	**Average Basel II RW (%)**	**Standard & Poor's RWA**	**Average Standard & Poor's RW (%)**
Credit risk					
Government and central banks	8,959,540	225,578	2.5	2,323,677	25.9
Institutions	7,702,143	3,469,934	45.1	1,848,621	24.0
Corporate	23,609,132	22,613,516	95.8	21,074,018	89.3
Retail	14,767,564	9,794,831	66.3	10,649,461	72.1
Of which mortgage	3,903,639	1,368,862	35.1	1,444,346	37.0
Securitization§	272,202	324,753	119.3	885,427	325.3
Other assets	4,149,919	3,800,063	91.6	4,823,613	116.2
Total credit risk	59,460,500	40,228,674	67.7	41,604,817	70.0
Market risk					
Equity in the banking book†	3,919,632	4,709,045	123.5	31,655,714	807.6

Table 6

Mediobanca SpA RACF [Risk-Adjusted Capital Framework] Data (cont.)					
Trading book market risk	--	6,910,663	--	10,365,994	--
Total market risk	--	11,619,708	--	42,021,707	--
Insurance risk					
Total insurance risk	--	--	--	344,663	--
Operational risk					
Total operational risk	--	3,315,643	--	4,671,960	--
(€ 000s)		**Basel II RWA**		**Standard & Poor's RWA**	**% of Standard & Poor's RWA**
Diversification adjustments					
RWA before diversification		55,164,025		88,643,147	100.0
Total adjustments to RWA		--		1,068,517	1.2
RWA after diversification		55,164,025		89,711,664	101.2
(€ 000s)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**Standard & Poor's RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		6,338,913	11.5	6,479,464	7.3
Capital ratio after adjustments‡		6,338,913	11.5	6,479,464	7.2

*Exposure at default. §Securitisationexposure includes the securitisation tranches deducted from capital in the regulatory framework. †Exposure and Standard & Poor's risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of June. 30, 2012, Standard & Poor's.

Funding and liquidity: Access to retail investors mitigates high recourse to wholesale funding

Mediobanca has "average" funding, in our view, reflecting that the bank's funding position has improved over the past few years. Furthermore, the bank has become less confidence-sensitive, reflecting its efforts to increase its reliance on retail investors through its retail bank subsidiary CheBanca!, the Italian post office, or Italian commercial banks. As of June 30, 2012, about 60% of the bank's funding base came from retail investors (34% from bonds placed to retail investors, 21% from retail deposits, and 6% from private banking deposits). On the same date, 20% of funding came from bonds placed to institutional investors, 13% from deposits from the ECB, and 6% from interbank deposits. The bank's net stable funding ratio, a ratio introduced under the Basel III framework, would comfortably exceed 100%. Over the next few years, Mediobanca's long-term funding maturities are manageable, in our view, because of its limited asset growth.

We consider Mediobanca's liquidity to be "adequate." Mediobanca has a policy of maintaining a large buffer of liquid assets, also eligible for refinancing with the ECB, which more than covers the amount of wholesale funding coming due in the following 12 months. Our ratio of broad liquid assets to short-term wholesale funding stood at more than 2x at the end of June 2012. Recourse to the ECB (€7.5 billion at the end of June 2012, or 13% of total funding) has increased markedly since December 2011, coinciding with Italian banks' constrained access to the wholesale market because of worries about the country's sovereign debt. However, Mediobanca has used a significant part of ECB funding to increase the bank's exposure to short-term domestic government bonds (€9.2 billion as of June 30, 2012) and to increase its liquidity buffer (€4.5 billion).

Table 7

Mediobanca SpA Funding And Liquidity					
		--Year-ended June 30--			
(%)	**2013***	**2012**	**2011**	**2010**	**2009**
Core deposits/funding base	58.8	58.6	56.4	51.6	47.5
Customer loans (net)/customer deposits	98.3	105.2	113.2	112.2	125.6
Long term funding ratio	89.3	89.4	80.1	78.7	81.2
Broad liquid assets/short-term wholesale funding (x)	3.6	3.2	1.6	1.6	1.3
Net broad liquid assets/short-term customer deposits	114.8	98.3	60.4	64.2	38.0
Narrow liquid assets/3-month wholesale funding (x)	5.6	5.1	2.4	2.7	2.0
Net short-term interbank funding/total wholesale funding	0.7	6.0	13.6	15.4	12.8
Short-term wholesale funding/total wholesale funding	28.6	28.4	50.7	48.7	38.9

*Data as of Sept. 30.

External support: No notches of uplift to the SACP

We consider Mediobanca to have a "moderate" systemic importance to Italy and the Italian government to be "supportive" of its banking sector. The long-term rating on Mediobanca does not incorporate any uplift from the SACP, given the long-term sovereign rating on Italy.

Mediobanca does not qualify to be rated higher than the 'BBB+' long-term sovereign rating on Italy, in accordance with our criteria. We generally cap most bank issuer credit ratings at the foreign currency long-term rating on the related sovereign, reflecting our view that banks would be unlikely to survive sovereign stress. In the eurozone, this cap applies to the ratings on financial institutions that have at least 40% of their assets located in the sovereign jurisdiction of domicile and that receive no external group support. Italy is Mediobanca's country of domicile and its main market, where the bank has about 75% of its total loans. We therefore think that Mediobanca would very likely be affected by the same economic factors that could cause sovereign stress in Italy.

Additional rating factors: None

No additional factors affect this rating

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Group Rating Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	4	**5**	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	**bbb**	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of February 27, 2013)

Mediobanca SpA	
Counterparty Credit Rating	BBB+/Negative/A-2
Certificate Of Deposit	BBB+/A-2
Senior Secured	BBB+
Senior Secured	BBB+/Negative
Senior Unsecured	BBB+
Short-Term Debt	A-2
Subordinated	BBB
Counterparty Credit Ratings History	
10-Feb-2012	BBB+/Negative/A-2
07-Dec-2011	A/Watch Neg/A-1
21-Sep-2011	A/Negative/A-1
24-May-2011	A+/Negative/A-1
23-Apr-2010	A+/Stable/A-1
18-Nov-2008	AA-/Negative/A-1+
Sovereign Rating	
Italy (Republic of) (Unsolicited Ratings)	BBB+/Negative/A-2
Related Entities	
Mediobanca International (Luxembourg) S.A.	
Senior Unsecured	BBB+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

Additional Contact:
Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com