STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Mediobanca SpA

Primary Credit Analyst:
Luigi Motti, Madrid (34) 91-788-7234; luigi.motti@standardandpoors.com

Secondary Contact:
Regina Argenio, Milan (39) 02-72111-208; regina.argenio@standardandpoors.com

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Mediobanca SpA

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

+

Additional Factors	0

Issuer Credit Rating
BBB-/Stable/A-3

Major Rating Factors

Strengths:	Weaknesses:
• Satisfactory asset quality ratios. • Solid domestic franchise sustained by successful organic growth. • Adequate capitalization.	• Comparatively weaker creditworthiness of Italy. • Higher reliance on wholesale funding than domestic peers. • Single-name concentrations.

Outlook: Stable

Standard & Poor's Ratings Services' outlook on Italy-based Mediobanca SpA is stable, mirroring that on our long-term unsolicited sovereign credit rating on Italy. The ratings on Mediobanca are constrained by the long-term sovereign credit rating on Italy; therefore we would expect any positive or negative rating action on Italy to trigger a similar action on the ratings on the bank, all else being equal. In this context, and also given the one-notch gap between the long-term rating on the bank and its 'bbb' stand-alone credit profile (SACP), we currently consider it unlikely that changes in the bank's stand-alone creditworthiness would trigger rating actions.

That said, despite the difficult economic and operating environment in Italy, we don't currently envisage any significant downward pressure to our assessment of Mediobanca's SACP as we anticipate that the bank's asset quality will continue to outperform the average of the Italian financial system, in line with its track record, and that the bank will be able to absorb the impact of still-high credit charges while posting positive, albeit moderate, net profits.

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 bank will be able to strengthen its RAC ratio significantly above 7% in next 18-24 months. 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'. Our ratings on Mediobanca are currently constrained by the weaker creditworthiness of Italy, where the bank is domiciled and where it runs the majority of its operations.

Anchor:'bbb-', based on the weighted average of the economic risks related to the countries where Mediobanca operates and the industry risk of Italy where the bank is domiciled

Our bank criteria use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. We assess the economic risk for Mediobanca based on our opinion of the weighted-average economic risk in the countries in which Mediobanca operates. The economic risk score we apply to Mediobanca is '6' (on a scale of 1 to 10, 1 being the lowest risk). This mainly reflects the bank's high exposure to Italy--around 80% of its exposure--but also its geographic diversification in countries where we see lower economic risk than in Italy. As such, Mediobanca's anchor of 'bbb-' compares favorably with those of most of the Italian banks that operate almost exclusively in Italy.

We see high economic risk for the Italian banking sector. Although Italy has a well-diversified economy, in our view, the protracted recession and the government's limited fiscal flexibility has affected Italy's economic resilience. We consider credit risk in Italy to be high; not only for small and midsize enterprises (SMEs) but also Italian banks, which are increasingly vulnerable to the effects of asset quality deterioration. Mounting problem assets, covered through modest--albeit increasing--loan loss reserves, have pushed up loan losses. In our opinion, although the imbalances in domestic asset prices and the buildup of leverage are limited, persistently weak economic conditions in Italy are likely to continue to undermine the creditworthiness of the private sector and, consequently, banks' asset quality and profitability prospects. We therefore believe that Italian banks' credit losses will likely be high over the next couple of years, and that they will start to normalize only in the medium-to-long term. In this context, our expectations for losses in the banks' credit portfolios are affected by our view that problematic assets will likely continue to grow and credit recovery processes will remain long. We therefore expect the likely impact of the ongoing correction will be severe on the Italian banking sector.

Our opinion of Italy's high industry risks reflects that the cost of funding in Italy remains higher than in most other banking markets in the eurozone (European Economic and Monetary Union), and banks still have limited access to affordable capital market financing. Although the system's competitive dynamics benefit from their traditional business model, we expect that Italian banks' profitability will remain low over the next few years, partly due to cyclical factors. Our expectations include our assessment of how the high fragmentation of the Italian banking system, which negatively weighs on Italian banks' efficiency and earnings generation, would affect the system's competitive dynamics. We expect the system's regulatory standards will be in line with those of Western European peers.

Table 1

Mediobanca SpA Key Figures					
		--Year-ended June 30--			
(Mil. €)	**2015***	**2014**	**2013**	**2012**	**2011**
Adjusted assets	68,514.1	70,054.6	72,429.0	78,254.8	74,954.1
Customer loans (gross)	30,044.9	33,369.4	35,330.3	38,156.9	38,462.6
Adjusted common equity	6,613.7	6,536.7	6,226.4	6,479.5	6,372.2
Operating revenues	531.9	1,790.9	1,734.5	2,040.3	2,041.6
Noninterest expenses	194.2	852.1	815.7	829.0	875.1
Core earnings	163.7	232.5	247.4	303.5	512.4

*Data as of Sept. 30. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

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 regard Mediobanca's business profile as potentially more vulnerable to a prolonged difficult economic environment in Italy than that of some of its larger domestic peers. This is due, in our view, to its still high share of inherently more volatile revenues linked to capital markets and advisory activity.

Mediobanca is focused on implementing its 2013-2016 business plan, which is aimed at simplifying the bank's business model, protecting its capital position, increasing its business and geographic diversification, and adapting to upcoming regulatory changes. We value positively all the initiatives encompassed by the plan, as their successful completion would allow Mediobanca to enhance its solvency and improve its operating profitability as well as its earnings stability.

We consider that Mediobanca is on track to achieve most of the business and financial goals set up in the plan, despite the tough operating conditions in its core markets and the high competitive pressure in the segments in which it operates. This is because Mediobanca can lean on its competitive advantages to achieve its stated targets--particularly its deep knowledge of the markets and business lines in which it operates, its recognized brand, its strong corporate culture, and its customer-oriented focus.

We also believe that some of the measures included in the business plan--such as the disposal of some equity stakes--could have a negative impact on the bank's revenue stream in the short term. Still, the successful completion of these actions will benefit the bank's solvency and, in the long term, their negative impact would be offset by the other initiatives which will improve the stability of Mediobanca's revenue streams.

Mediobanca's CIB business position has strengthened in the past few years, owing to its successful international organic expansion. In 2014, foreign operations contributed about 48% of CIB total revenues; this was also because of a significant decline in the bank's domestic revenues last year. We anticipate that the bank's geographic diversification will continue growing in the future, as Mediobanca intends to increase its penetration outside of Italy.

In recent years, Mediobanca has also successfully built up its retail banking operations via long-term organic growth, thus enhancing both its funding structure and its revenue base. This has also allowed the bank to offset the negative effects of an unfavorable equity market in recent years and to post net gains during the 2008 financial crisis. We expect this trend to continue as the bank aims to keep growing in banking businesses with individuals.

Table 2

Mediobanca SpA Business Position					
		--Year-ended June 30--			
(%)	**2015***	**2014**	**2013**	**2012**	**2011**
Loan market share in country of domicile	1.9	2.0	N/A	N/A	N/A
Deposit market share in country of domicile	1.4	1.5	1.6	1.9	1.8
Total revenues from business line (currency in millions)	538.2	2,082.7	1,775.2	2,119.9	2,123.0
Commercial banking/total revenues from business line	85.1	82.7	N/A	N/A	N/A
Commercial & retail banking/total revenues from business line	85.1	82.7	89.6	86.8	93.7
Trading and sales income/total revenues from business line	6.3	(2.0)	2.4	5.5	(1.5)
Corporate finance/total revenues from business line	7.4	5.3	5.7	6.1	6.8
Other revenues/total revenues from business line	1.2	14.0	2.3	1.6	1.0
Investment banking/total revenues from business line	13.7	3.3	8.1	11.6	5.3
Return on equity	8.1	6.3	(2.7)	1.2	5.4

*Data as of Sept. 30. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Capital and earnings: Ongoing capital strengthening to offset the impact of high economic risk

Despite the high economic risk we see in Italy, which in our view is constraining Mediobanca's overall solvency, we believe that the bank should be able to preserve its capital position at a level that we consider to be "adequate" in the next two years. This is primarily due to the successful completion of capital-enhancing actions currently underway, including the disposal of much of its equity stakes. We expect that these actions, combined with still modest credit growth, will likely allow Mediobanca to smooth the impact of weak economic conditions on its capital base. We therefore estimate that our risk-adjusted capital (RAC) ratio for Mediobanca, according to our calculations, will range between 7.5%-8.0% over the next 18-24 months.

Our RAC ratio before diversification as of June 30, 2013, stood at 6.1%, pro forma the revised economic risk score. This is well below the bank's regulatory ratios. The main difference between the bank's regulatory capital ratios and the RAC ratio is the much-higher risk weight we assign to Mediobanca's equity exposure, including the 13.2% stake in Italian insurer Assicurazioni Generali SpA.

In this context, the announced, and to a large extent already completed, disposals of a significant portion of the bank's equity stakes--combined with the equity write-downs that it completed in past quarters--should allow Mediobanca to continue enhancing its solvency. We estimate that these actions, which should account for a total €2 billion equity exposure reduction, should enhance Mediobanca's June 30, 2013 pro forma RAC ratio before diversification by about

100 basis points (bps).

We also anticipate that Mediobanca's organic capital generation will remain positive, though still modest, in the coming two years. We expect Mediobanca's core operating profitability to gradually improve in coming quarters, mainly due to growing revenues and declining loan loss provisioning needs. The bank has recently taken several actions to enhance its net interest income, managing its financing needs more tightly and reducing reliance on costlier funding sources. In our view, these actions, combined with some likely moderate growth in new lending volumes over the coming years, should be sufficient to moderately increase the bank's net interest income in 2015 and 2016. We also expect that fees and commissions income is likely to grow on the back of rising activity in corporate and investment banking and in asset management businesses. Provisioning needs are likely to decline following the 2014 peak, in our view, as net inflows of nonperforming loans will gradually reduce and we expect Mediobanca's cost of risk to progressively reduce to about 150 basis points (bps) by June 2016. We anticipate that Mediobanca's pretax income in 2015 will reach levels similar to those reported by the bank in 2014, when the bank's bottom line performance was boosted by some sizable capital gains it obtained from the disposal of its equity stakes.

In our view, Mediobanca has maintained adequate loss-absorption capacity through the cycle, taking into consideration its overall contained risk profile. We estimate that the bank's three-year average earnings buffer, as defined under our methodology, will account for about 65-70bp as of June 2014.

Table 3

Mediobanca SpA Capital And Earnings

		--Year-ended June 30--			
(%)	**2015***	**2014**	**2013**	**2012**	**2011**
Tier 1 capital ratio	11.0	11.1	11.8	11.5	11.2
S&P RAC ratio before diversification	N.M.	N.M.	7.2	7.3	8.3
S&P RAC ratio after diversification	N.M.	N.M.	7.0	7.2	7.8
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	49.3	59.5	61.7	53.6	55.6
Fee income/operating revenues	22.7	18.7	17.8	19.2	21.4
Market-sensitive income/operating revenues	9.2	(6.1)	5.5	7.7	0.5
Noninterest expenses/operating revenues	36.5	47.6	47.0	40.6	42.9
Preprovision operating income/average assets	1.9	1.3	1.2	1.6	1.5
Core earnings/average managed assets	0.9	0.3	0.3	0.4	0.7

*Data as of Sept. 30. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 4

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	9,959,344	271,718	3	2,323,081	23
Institutions	7,099,700	4,094,233	58	1,815,677	26
Corporate	20,114,070	19,491,376	97	20,921,503	104
Retail	15,045,683	10,011,846	67	12,841,798	85

Table 4

Mediobanca SpA RACF [Risk-Adjusted Capital Framework] Data (cont.)					
Of which mortgage	3,827,186	1,341,773	35	1,722,234	45
Securitization§	245,496	371,565	151	714,350	291
Other assets	4,758,707	4,127,866	87	6,100,249	128
Total credit risk	57,223,000	38,368,604	67	44,716,657	78
Market risk					
Equity in the banking book†	4,407,245	4,225,600	98	26,825,117	609
Trading book market risk	--	6,564,575	--	9,846,863	--
Total market risk	--	10,790,175	--	36,671,980	--
Insurance risk					
Total insurance risk	--	--	--	516,088	--
Operational risk					
Total operational risk	--	3,213,297	--	4,545,880	--
(€ 000s)		**Basel II RWA**		**Standard & Poor's RWA**	**% of Standard & Poor's RWA**
Diversification adjustments					
RWA before diversification		52,372,075		86,450,605	100
Total Diversification/Concentration Adjustments		--		2,813,772	3
RWA after diversification		52,372,075		89,264,377	103
(€ 000s)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**Standard & Poor's RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		6,153,185	11.7	6,226,415	7.2
Capital ratio after adjustments‡		6,153,185	11.5	6,226,415	7.0

*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, 2013, 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 51% at the end of December 2014. Coverage of bad loans, the most relevant subcomponent of total problem assets, stood at 66% on the same date, a level that also compares well with that of Mediobanca's domestic peers.

The bank's ratio of net NPAs to total loans of 3.8% as of Dec. 31, 2014, 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.

Mediobanca has historically been significantly exposed to market risk through its portfolio of equity stakes. We believe, however, that this risk is adequately captured under our RAC framework. Moreover, Mediobanca has already disposed of a significant part of these stakes, and will continue selling the majority of what it retains on its balance sheet in the coming months.

Table 5

Mediobanca SpA Risk Position

		--Year-ended June 30--			
(%)	**2015***	**2014**	**2013**	**2012**	**2011**
Growth in customer loans	(39.9)	(5.6)	(7.4)	(0.8)	5.7
Total diversification adjustment / S&P RWA before diversification	N.M.	N.M.	3.3	1.2	5.7
Total managed assets/adjusted common equity (x)	10.4	10.8	11.7	12.1	11.8
New loan loss provisions/average customer loans	1.5	2.0	1.4	1.1	1.1
Net charge-offs/average customer loans	N.M.	0.1	0.6	1.9	1.3
Gross nonperforming assets/customer loans + other real estate owned	5.9	6.8	4.9	3.8	4.2
Loan loss reserves/gross nonperforming assets	46.6	58.8	60.0	59.4	57.3

*Data as of Sept. 30. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Funding and liquidity: Improved financing structure on increased reliance on retail funding

Mediobanca has "average" funding, in our view, reflecting our view that the bank has progressively rebalanced its funding position over the past few years. In this context, we note that Mediobanca has significantly increased its reliance on retail funding, which is now its main financing source, through its retail bank subsidiary CheBanca!, the Italian post office, or Italian commercial banks. As of Sept. 30, 2014, about 60% of the bank's funding base came from retail investors (28% from bonds placed to retail investors, 26% from retail deposits, and 4% from private banking deposits). On the same date, our stable funding ratio accounted for about 97%, a level that compares well with those of Mediobanca's domestic peers, and the bank's Basel III pro forma net stable funding ratio would comfortably exceed 100%. We anticipate that Mediobanca should be able to preserve its enhanced funding profile in coming quarters and to sustain its improved funding ratios in the context of subdued asset growth and manageable financing needs.

We consider that Mediobanca remains more reliant on wholesale funding than most of its domestic peers, however. As of Sept. 30, 2014, 20% of its funding came from bonds placed with institutional investors, 12% from deposits from the ECB, and 7% from interbank deposits. That said, we consider Mediobanca's long-term funding maturities to be well spread over time. Moreover, Mediobanca has demonstrated its capacity to access capital markets even under tight conditions.

We consider Mediobanca's liquidity to be "adequate." Our ratio of broad liquid assets to short-term wholesale funding (including ECB funding) stood at about 1.2x at the end of June 2013. Recourse to the ECB (€5.1 billion at the end of 2014) has reduced in past few months, as the bank paid back part of the LTRO funding that matured in 2014. We acknowledge that Mediobanca is consuming part of its liquidity cushions to reduce its reliance on costlier funding sources and ultimately to protect its net interest margin. Still, we expect the bank to continue maintaining an overall comfortable liquidity position. We base our view on Mediobanca's liquidity policy which requires the bank to maintain 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.

Table 6

Mediobanca SpA Funding And Liquidity

		--Year-ended June 30--			
(%)	**2015***	**2014**	**2013**	**2012**	**2011**
Core deposits/funding base	52.5	53.4	55.6	55.9	55.4
Customer loans (net)/customer deposits	107.2	111.7	107.9	107.9	113.2
Long term funding ratio	72.7	73.8	73.9	76.6	78.8
Stable funding ratio	97.8	96.8	98.3	94.1	92.9
Short-term wholesale funding/funding base	31.3	29.9	29.1	25.7	23.5
Broad liquid assets/short-term wholesale funding (x)	1.2	1.2	1.2	1.2	1.2
Net broad liquid assets/short-term customer deposits	24.8	18.9	17.8	18.6	17.4
Short-term wholesale funding/total wholesale funding	65.8	64.2	65.5	58.4	52.8
Narrow liquid assets/3-month wholesale funding (x)	N/A	1.9	1.4	3.2	1.6

*Data as of Sept. 30. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

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 credit rating on Italy.

We equalize our long-term rating on Mediobanca with our long-term sovereign credit rating on Italy, and our rating on Mediobanca is one notch below the bank's 'bbb' SACP. To date, Mediobanca does not qualify to be rated higher than the 'BBB-' long-term sovereign credit rating on Italy, in accordance with our criteria.

Additional rating factors: None

No additional factors affect this rating

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 25, 2015)

Mediobanca SpA	
Counterparty Credit Rating	BBB-/Stable/A-3
Certificate Of Deposit	
Foreign Currency	BBB-/A-3
Local Currency	BBB-/A-3/A-3
Commercial Paper	
Local Currency	A-3
Senior Secured	A
Senior Secured	A/Stable
Senior Unsecured	BBB-
Short-Term Debt	A-3
Subordinated	BB
Counterparty Credit Ratings History	
18-Dec-2014	BBB-/Stable/A-3
24-Jul-2013	BBB/Negative/A-2
12-Jul-2013	BBB/Watch Neg/A-2
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
Sovereign Rating	
Italy (Republic of)	BBB-/Stable/A-3

*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. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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