STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Mediobanca SpA

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

Secondary Contact:
Mirko Sanna, Milan (39) 02-72111-275; mirko.sanna@standardandpoors.com

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	

ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	-1

Issuer Credit Rating
BBB-/Stable/A-3

Major Rating Factors

Strengths:	Weaknesses:
• Sound asset quality ratios. • Satisfactory capitalization. • Solid domestic franchise in selected business segments.	• Comparatively weaker creditworthiness of Italy. • Higher reliance on wholesale funding than domestic peers. • Single-name concentration.

Outlook: Stable

Standard & Poor's Ratings Services' outlook on Italy-based Mediobanca SpA (Mediobanca) is stable, mirroring that on Italy. The ratings on Mediobanca are constrained by the long-term sovereign credit rating on Italy and we would therefore expect any positive or negative rating action on Italy to trigger a similar action 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 do not 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 Italian financial system average, in line with its track record. We also expect that the bank will be able to absorb the impact of still-high, albeit declining, credit charges while posting positive net profits.

Rationale

Our ratings on Mediobanca primarily reflect the bank's overall strong risk profile and prudent risk selection process. We base our view on the bank's loss experience track record that is much better than its domestic peers'. We also consider that Mediobanca enjoys a 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. Mediobanca's capitalization is adequate overall in relation to its risk profile, in our view.

The 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. The bank maintains a comparatively higher-than-domestic-peers' recourse to wholesale funding, though its demonstrated capacity to obtain retail funds partly offset this risk.

Anchor:'bbb-', based on the weighted average of economic risks in its countries of operation and the industry risk of Italy where it 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.

Italian banks face high economic risks compared with global peers, in our view. This mainly reflects our view that Italy is only slowly recovering from a long and deep economic recession that eroded the private sector's financial position and creditworthiness. Economic growth remains constrained, in our view, by some of its structural rigidities, the diminished competitiveness of domestic small and midsize enterprises (SMEs), and high government debt. The banking sector has consequently accumulated a high stock of nonperforming assets (NPAs) in the past few years and we anticipate that working out this portfolio will take time. We thus believe that credit losses will decline only gradually over the coming quarters, though they are unlikely to return to what we view as the Italian banking sector norm before the next two-to-three years.

We also see medium industry risk for Italian banks. Their cost of financing is still higher than in other banking markets in the eurozone, although their capacity to affordably access unsecured wholesale funding is improving due to better credit conditions and ample liquidity in the market. Moreover, the Italian banking sector still lacks efficiency levels and earnings generation of other financial systems, mainly due to its high fragmentation. These structural constraints, combined with other cyclical factors, are likely to keep containing Italian banks' profitability at relatively modest levels. Italy's traditional focus on retail and commercial lending and our view that its regulatory standards will be aligned to international best practices remain supportive factors for the banking system.

Table 1

Mediobanca SpA Key Figures					
		--Year-ended June 30--			
(Mil. €)	**2016***	**2015**	**2014**	**2013**	**2012**
Adjusted assets	69,572.8	70,300.4	70,054.6	72,429.0	78,254.8
Customer loans (gross)	34,404.1	34,914.7	33,369.4	35,330.3	38,156.9
Adjusted common equity	6,982.5	6,808.4	6,536.7	6,226.4	6,479.5
Operating revenues	511.6	2,004.5	1,790.9	1,734.5	2,040.3
Noninterest expenses	204.9	917.5	852.1	815.7	829.0
Core earnings	169.5	480.5	232.5	247.4	303.5

*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

Mediobanca's business position benefits from its 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 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, albeit declining, share of inherently more volatile revenues linked to capital markets and advisory activity.

Mediobanca is completing the implementation of its 2013-2016 business plan, which aims to simplify the bank's business model, protect its capital position, increase its business and geographic diversification, and adapt to upcoming regulatory changes. We consider that the successful completion of this plan would allow Mediobanca to enhance its solvency and improve its earnings stability.

We consider that Mediobanca is on track to achieving most of its business and financial goals set out in the plan, despite challenging 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 international organic expansion. In 2015, foreign operations contributed about 45% of CIB total revenues. We anticipate that the bank's geographic diversification is likely to continue growing, as Mediobanca intends to increase its penetration outside of Italy.

In past few years, Mediobanca has 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.

More recently, the bank has also announced the acquisition of a portion of Barclays' Italian assets. We consider this acquisition to be in line with Mediobanca's strategy to expand in its domestic retail market. In particular, it should allow CheBanca!, Mediobanca's retail banking subsidiary, to boost its size and to significantly accelerate its growth plan. Also, through this transaction, Mediobanca is increasing its market penetration in the high-net-worth-individuals segment, in line with its business and commercial targets. However, the latter will depend on the bank's capacity to reduce the inevitable attrition that the transaction will have on the acquired customer base.

In the coming years we expect Mediobanca to maintain its strategic focus on growing in the domestic retail market and in banking businesses with individuals, including private banking, as well as in asset management activities.

Table 2

Mediobanca SpA Business Position					
		--Year-ended June 30--			
(%)	**2016***	**2015**	**2014**	**2013**	**2012**
Loan market share in country of domicile	2.2	2.2	2.0	N/A	N/A
Deposit market share in country of domicile	1.2	1.0	1.5	1.6	1.9
Total revenues from business line (currency in millions)	604.9	2,172.9	2,082.7	1,775.2	2,119.9
Commercial banking/total revenues from business line	79.2	82.0	N/A	N/A	N/A
Commercial & retail banking/total revenues from business line	79.2	82.0	82.7	89.6	86.8
Trading and sales income/total revenues from business line	1.9	4.6	(2.0)	2.4	5.5
Corporate finance/total revenues from business line	3.5	5.6	5.3	5.7	6.1
Other revenues/total revenues from business line	15.4	7.9	14.0	2.3	1.6
Investment banking/total revenues from business line	5.4	10.1	3.3	8.1	11.6
Return on equity	11.3	7.1	6.3	(2.7)	1.2

*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 constrains Mediobanca's overall solvency, we believe that the bank should be able to continue strengthening its capital position 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% by June 2017.

Our RAC ratio before diversification was 7.0% as of June 30, 2015--well below the bank's regulatory ratios. The main difference between the two 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 2013--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, 2015 pro forma RAC ratio before diversification by an additional 50 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 its 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 gradually increase the bank's net interest income in 2016 and 2017. 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, 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 and below that level by June 2017. We anticipate that Mediobanca's operating net income (net of extraordinary gains and losses) will gradually grow in 2016 and 2017 and that its bottom line earnings will reach levels similar to those reported by the bank in 2014, when they were boosted by some sizable capital gains obtained from the disposal of 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.

Table 3

Mediobanca SpA Capital And Earnings

		--Year-ended June 30--			
(%)	**2016***	**2015**	**2014**	**2013**	**2012**
Tier 1 capital ratio	12.5	12.0	11.1	11.8	11.5
S&P RAC ratio before diversification	N.M.	7.0	7.5	7.2	7.3
S&P RAC ratio after diversification	N.M.	6.9	7.4	7.0	7.2
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	59.3	57.2	59.5	61.7	53.6
Fee income/operating revenues	12.5	18.3	18.7	17.8	19.2
Market-sensitive income/operating revenues	2.6	2.7	(6.1)	5.5	7.7
Noninterest expenses/operating revenues	40.1	45.8	47.6	47.0	40.6
Preprovision operating income/average assets	1.7	1.5	1.3	1.2	1.6
Core earnings/average managed assets	1.0	0.7	0.3	0.3	0.4

*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	5,652,764	17,587	0	2,228,249	39
Institutions	9,885,393	3,711,843	38	4,254,564	43
Corporate	20,717,655	19,895,430	96	24,654,759	119

Table 4

Mediobanca SpA RACF [Risk-Adjusted Capital Framework] Data (cont.)

Retail	17,224,668	10,179,491	59	20,580,230	119
Of which mortgage	4,837,277	1,740,042	36	3,087,908	64
Securitization§	154,973	379,175	245	825,034	532
Other assets	3,943,288	3,696,114	94	7,094,389	180
Total credit risk	57,578,741	37,879,640	66	59,637,224	104
Market risk					
Equity in the banking book†	4,167,446	12,579,254	309	24,806,231	595
Trading book market risk	--	5,924,930	--	8,887,395	--
Total market risk	--	18,504,184	--	33,693,626	--
Insurance risk					
Total insurance risk	--	--	--	769,588	--
Operational risk					
Total operational risk	--	3,193,263	--	3,382,888	--
(€ 000s)		**Basel II RWA**		**Standard & Poor's RWA**	**% of Standard & Poor's RWA**
Diversification adjustments					
RWA before diversification		59,577,086		97,483,326	100
Total Diversification/Concentration Adjustments		--		677,590	1
RWA after diversification		59,577,086		98,160,916	101
(€ 000s)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**Standard & Poor's RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		7,137,494	12.0	6,808,424	7.0
Capital ratio after adjustments‡		7,137,494	12.0	6,808,424	6.9

*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, 2015, Standard & Poor's.

Risk position: Prudent risk management resulting in better asset quality than peers

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 53% at June 2015. 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 3.5% as of June 2015 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, albeit with a 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 adequately 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--			
(%)	**2016***	**2015**	**2014**	**2013**	**2012**
Growth in customer loans	(5.8)	4.6	(5.6)	(7.4)	(0.8)
Total diversification adjustment / S&P RWA before diversification	N.M.	0.7	1.1	3.3	1.2
Total managed assets/adjusted common equity (x)	10.0	10.4	10.8	11.7	12.1
New loan loss provisions/average customer loans	1.3	1.4	2.0	1.4	1.1
Net charge-offs/average customer loans	N.M.	(0.6)	0.1	0.6	1.9
Gross nonperforming assets/customer loans + other real estate owned	7.0	6.8	6.8	4.9	3.8
Loan loss reserves/gross nonperforming assets	63.5	62.1	58.8	60.0	59.4

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

Funding and liquidity: Mainly retail financed, though reliance on wholesale funding remains high and liquidity management tight

In the past few years, Mediobanca has progressively rebalanced its funding position and 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, 2015, about 55% of the bank's funding base came from retail investors (26% from bonds placed to retail investors, 24% from retail deposits, and 5% from private banking deposits).

Table 6

Mediobanca SpA Funding And Liquidity

		--Year-ended June 30--			
(%)	**2016***	**2015**	**2014**	**2013**	**2012**
Core deposits/funding base	N.A.	45.8	53.4	55.6	55.9
Customer loans (net)/customer deposits	N.A.	135.9	111.7	107.9	107.9
Long term funding ratio	N.A.	66.9	73.8	73.9	76.6
Stable funding ratio	N.A.	89.4	96.8	98.3	94.1
Short-term wholesale funding/funding base	N.A.	38.3	29.9	29.1	25.7
Broad liquid assets/short-term wholesale funding (x)	N.A.	0.9	1.2	1.2	1.2
Net broad liquid assets/short-term customer deposits	N.A.	(16.0)	18.9	17.8	18.6
Short-term wholesale funding/total wholesale funding	N.A.	70.8	64.2	65.5	58.4

Table 6

Mediobanca SpA Funding And Liquidity (cont.)					
Narrow liquid assets/3-month wholesale funding (x)	N/A	N/A	1.9	1.4	3.2

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

External support: Ratings constrained at the sovereign level

We equalize our long-term rating on Mediobanca with our long-term sovereign credit rating on Italy, and our rating on Mediobanca remains constrained one notch below our view of the bank's stand-alone creditworthiness ('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.

We consider that Mediobanca remains more reliant on wholesale funding than most of its domestic peers, however. As of Sept. 30, 2015, 21% of its funding came from bonds placed with institutional investors, 12% from deposits from the ECB, and 8% 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.

In past 12 months Mediobanca has tightened its funding and liquidity management and reduced its reliance on costlier financing sources with the aim of protecting its net interest margin and supporting its profitability. With this purpose, the bank has reduced the level of bonds issued in both retail and wholesale markets, and consumed part of the liquidity cushions built up through the recent financial crisis. Consequently, the bank's funding and liquidity ratios deteriorated somewhat. Mediobanca's stable funding ratio, measured according to our methodology, reduced to about 90% as of June 30, 2015, from 97% as of June 30, 2014. In the same period, our broad liquid assets-to-short-term wholesale funding ratio declined to 0.9x from 1.2x.

While the evolution of these ratios point to some deterioration of Mediobanca's funding and liquidity, we consider this adjustment to remain manageable overall. Moreover, new business financing needs remain contained. Finally, and even more importantly, the bank completed its funding optimization plan as of June 2015. Since then, Mediobanca has again relaxed its liquidity policy. We thus expect the bank to continue maintaining a comfortable liquidity position overall and its ratios to improve somewhat in the next 12 months. 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.

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 January 18, 2016)

Mediobanca SpA	
Counterparty Credit Rating	BBB-/Stable/A-3
Certificate Of Deposit	
Local Currency	A-3
Senior Secured	A
Senior Secured	A/Stable
Senior Unsecured	A-3
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
Sovereign Rating	
Italy (Republic of)	BBB-/Stable/A-3
Related Entities	
Mediobanca International (Luxembourg) S.A.	
Commercial Paper	
Local Currency	A-3
Senior Unsecured	BBB-
Short-Term Debt	A-3
Subordinated	BB

Ratings Detail (As Of January 18, 2016) (cont.)

*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