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## Mediobanca SpA

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# Mediobanca SpA

|                             |             |           |   |                          |          |   |                                       |          |
|-----------------------------|-------------|-----------|---|--------------------------|----------|---|---------------------------------------|----------|
| <b>SACP</b>                 | <b>bbb</b>  |           | + | <b>Support</b>           | <b>0</b> | + | <b>Additional Factors</b>             | <b>0</b> |
| <b>Anchor</b>               | <b>bbb-</b> |           |   | <b>ALAC Support</b>      | <b>0</b> |   | <b>Issuer Credit Rating</b>           |          |
| <b>Business Position</b>    | Adequate    | <b>0</b>  |   | <b>GRE Support</b>       | <b>0</b> |   | <b>BBB/Negative/A-2</b>               |          |
| <b>Capital and Earnings</b> | Adequate    | <b>0</b>  |   | <b>Group Support</b>     | <b>0</b> |   | <b>Resolution Counterparty Rating</b> |          |
| <b>Risk Position</b>        | Strong      | <b>+1</b> |   | <b>Sovereign Support</b> | <b>0</b> |   | <b>BBB+/--/A-2</b>                    |          |
| <b>Funding</b>              | Average     | <b>0</b>  |   |                          |          |   |                                       |          |
| <b>Liquidity</b>            | Adequate    |           |   |                          |          |   |                                       |          |

## Major Rating Factors

|                                                                                                                                                                  |                                                                                                                                                                                         |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Strengths:</b>                                                                                                                                                | <b>Weaknesses:</b>                                                                                                                                                                      |
| <ul style="list-style-type: none"> <li>• Sound asset quality ratios.</li> <li>• Satisfactory capitalization.</li> <li>• Diversified business profile.</li> </ul> | <ul style="list-style-type: none"> <li>• Single-name concentration.</li> <li>• Higher reliance on wholesale funding than domestic peers'.</li> <li>• High exposure to Italy.</li> </ul> |

## Outlook: Stable

S&P Global Ratings' negative outlook on Mediobanca SpA and its subsidiary, MB Funding Lux, reflects that we could lower the rating if we were to lower our ratings on Italy. We could also take this action if, over the next 12-24 months, operating conditions deteriorate and market pressure rises further for a prolonged period, and we perceived this could significantly erode Mediobanca's funding profile.

We could revise the outlook on Mediobanca to stable if we took the same action on Italy. Although less likely, we could also revise the outlook to stable if we considered that Mediobanca were unlikely to default if the sovereign defaulted. This could happen if Mediobanca's capital position strengthened and the bank demonstrated that it could roll over its maturing debt without hampering profitability.

We do not assign outlooks to bank issue ratings. We currently rate Mediobanca's issues by notching down from the stand-alone credit profile (SACP). Therefore, we would expect the issue ratings to move in tandem with the SACP. If we were to lower the rating on Mediobanca, we would also lower the rating on the bank's rated subordinated debt, since we would notch downward the ratings on the hybrids from the lower of the bank's SACP and the issuer credit rating.

## Rationale

The ratings on Mediobanca primarily reflect our view that it will maintain stronger-than-peers' asset quality and sound capitalization.

We expect Mediobanca's superior asset quality, with a nonperforming exposure (NPE) ratio at 4.4% (or 5.2% including purchased NPEs) as of end-December 2018, to continue to outperform its domestic peers. This mostly stems from its prudent risk selection process, strict controls, and efficient management of NPEs.

We anticipate Mediobanca will maintain satisfactory capitalization overall, in relation to its risk profile. Specifically, we forecast that its RAC ratio will be about 8.5%-9.0% in June 2021, versus about 8.7% as of June 2018. Our forecast includes our expectation that Mediobanca will continue expanding its retail and wealth management business via earning retention and reduction in equity exposure. We expect Mediobanca's payout ratio to remain at about 40%-50%.

Mediobanca will continue benefiting from a solid domestic corporate and investment banking franchise and strong market share in consumer banking, in our view. At the same time, we expect it to continue expanding its wealth management business in the next 12-18 months. This would allow it to improve its profitability prospects and its earnings stability, in our view. That said, we think Mediobanca still lacks the scale to compete with national leaders.

Mediobanca has demonstrated its capacity to obtain retail funds. The bank also complies with the minimum requirement for own funds and eligible liabilities (MREL), and its reliance on targeted longer-term refinancing operations (TLTRO) is lower than the system average. These factors all reduce the risks deriving from its recourse to wholesale funding, which is higher than domestic peers'. As of December-end 2018, 63% of Mediobanca's funding came from deposits or bonds placed with retail investors, compared with the 80.3% average for the Italian banking sector. At the same time, we think this exposes Mediobanca to persistent market turbulence linked to concerns about Italy's creditworthiness. This could have repercussions for the bank's funding strategy and its cost of financing in the long term.

### **Anchor: 'bbb-', based on its high exposure to Italy**

Our view of economic risk for Mediobanca indicates that about 75% of its loan book exposure is to Italy, mainly through its retail portfolio. The corporate loans book is much more geographically diversified in countries where we see lower economic risk than in Italy, such as France, Germany, and the U.K.

We think Italian banks continue to face higher economic risk than most of its peers, despite the improvement made in the past three years. Gradual economic recovery in Italy in recent quarters has encouraged Italian banks to reduce their large stock of NPEs, helped by a more developed secondary market for those assets. The overall gross stock of NPEs fell to €221 billion as of June 2018--about 12.5% of customer loans--compared with €340 billion in 2015, mainly thanks to disposals. If the economy progresses as we expect, we anticipate the improving trend to continue, with the stock of NPEs falling below 10% in 2020. While this represents material progress, this stock would still represent a tail risk if the Italian economy deteriorates materially. Moreover, the substantial amount of time needed for creditors in Italy to recover collateral and settle lawsuits--due to the less effective insolvency and foreclosure procedures and

judicial system--is likely to prevent a more material reduction of the stock than we currently envisage.

Industry risks for Italian banks are also higher than for banks in peer countries. Many banks will continue to have limited access to markets and the cost of financing could remain higher than in other European Economic and Monetary Union banking sectors. We acknowledge that the abundant liquidity provided to Italian banks by the European Central Bank (ECB) in the past, and the banking sector's very low external position--just 5% excluding ECB funding--have so far largely cushioned the effects of this constrained access. In this context, if rising concerns about the Italian sovereign's creditworthiness were to further increase market pressure for a prolonged period, this could erode the banks' already modest profitability and the banks' funding profiles. Structural problems, such as high cost bases and fragmentation, paired with still very low interest rates, will continue to constrain the banks' profitability, in our opinion.

We view positively that the Italian banking system traditionally focuses on retail and commercial lending. We also note that its regulatory standards are aligned with international best practices, mainly thanks to the ECB directly supervising more than 80% of the banking sector.

**Table 1**

| Mediobanca SpA Key Figures |                                  |          |          |          |          |
|----------------------------|----------------------------------|----------|----------|----------|----------|
|                            | --Financial year-ended June 30-- |          |          |          |          |
| (Mil. €)                   | 2019*                            | 2018     | 2017     | 2016     | 2015     |
| Adjusted assets            | 75,791.4                         | 71,560.7 | 69,893.4 | 69,365.7 | 70,300.4 |
| Customer loans (gross)     | 43,705.3                         | 42,050.4 | 39,627.4 | 35,759.1 | 34,902.2 |
| Adjusted common equity     | 8,017.7                          | 7,696.3  | 7,356.6  | 7,027.4  | 6,808.4  |
| Operating revenues         | 1,270.6                          | 2,431.1  | 2,210.1  | 2,087.7  | 2,004.5  |
| Noninterest expenses       | 583.4                            | 1,178.8  | 1,132.2  | 983.7    | 917.5    |
| Core earnings              | 446.6                            | 822.8    | 640.1    | 578.9    | 480.5    |

\*Data for first six months of financial year 2018/2019: July 1, 2018-Dec. 31, 2018.

### **Business position: Strong corporate and investment banking franchise complemented by growing retail banking activity**

Mediobanca is a unique player in the Italian banking sector. It has a strong corporate and investment banking franchise that it has been able to preserve, despite intense competition. It has achieved organic international expansion over the past few years that we expect to continue. Increasing geographic diversification is a positive rating factor, in our view.

In addition, it has significantly expanded its retail operations in recent years, and we anticipate the bank's business and geographic diversification will continue to increase in the next couple of years, as it continues implementing its 2016-2019 business plan. Mediobanca's net new money increased by €8.1 billion (or 13.5%) between June 2017 and December 2018.

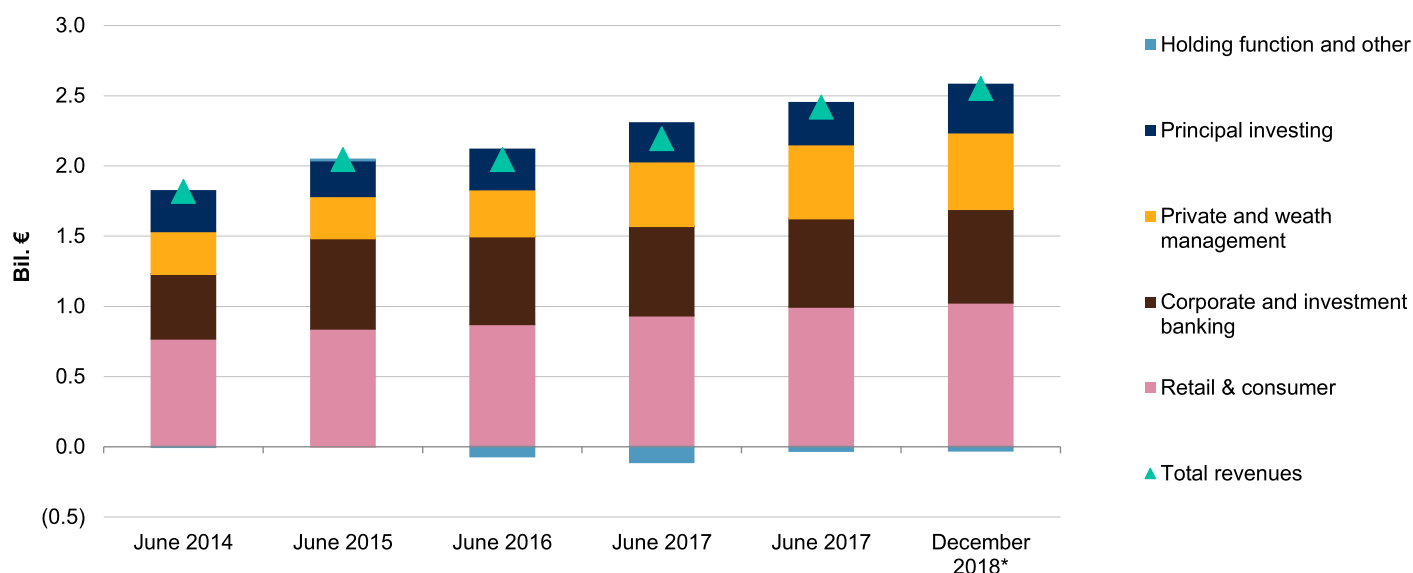
We consider Mediobanca's expansion in asset management and consumer banking to be positive because it would improve its profitability prospects and its earnings stability, while interest rates remain low. Mediobanca's market share in the wealth management segment remains low compared to its major peers.

Some of Mediobanca's expansion occurred via acquisitions, and we will monitor the bank's ability to deploy synergies

and successfully integrate acquired businesses because competition is intense in the segments in which Mediobanca is targeting expansion. The bank has signed an agreement to acquire 19% of BFI Finance, a consumer finance company in Indonesia, in August 2018. It also bought 50% of Banca Esperia, a private bank, in late 2016; RAM Active Investments S.A., a small investment manager based in Switzerland, in late 2017; and a portion of Barclay's Italian assets in late 2015. We expect Mediobanca to continue prudently acquiring new business in these segments, in line with its recent track year.

**Chart 1**

**Mediobanca Has Strengthened Its Revenue Profile In Recent Years**



\*Semiannual data are annualized for comparison. Source: Mediobanca SpA, S&P Global Ratings. Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

Italian insurer Assicurazioni Generali SpA (Generali), which accounted for about 12.8% of total revenues as of December 2018, is another key contributor to Mediobanca's profitability. We note that Mediobanca could reduce its stake in Generali from the current 13% to fund further expansion, if major opportunities arise in asset management and consumer banking. If the sale occurs, we expect the bank's better profitability prospects to more than offset the lower profits it will report after disposing of part of its Generali stake.

**Table 2**

| Mediobanca SpA Business Position            |                                  |         |         |         |         |
|---------------------------------------------|----------------------------------|---------|---------|---------|---------|
|                                             | --Financial year-ended June 30-- |         |         |         |         |
| (%)                                         | 2019*                            | 2018    | 2017    | 2016    | 2015    |
| Loan market share in country of domicile    | 2.5                              | 2.9     | 2.6     | 2.3     | 2.2     |
| Deposit market share in country of domicile | 1.3                              | 1.3     | 1.3     | 1.2     | 1.0     |
| Total revenues from business line (mil. €)  | 1,292.6                          | 2,557.9 | 2,633.5 | 2,203.9 | 2,172.9 |

**Table 2**

| <b>Mediobanca SpA Business Position (cont.)</b>               |                                         |             |             |             |             |
|---------------------------------------------------------------|-----------------------------------------|-------------|-------------|-------------|-------------|
|                                                               | <b>--Financial year-ended June 30--</b> |             |             |             |             |
| <b>(%)</b>                                                    | <b>2019*</b>                            | <b>2018</b> | <b>2017</b> | <b>2016</b> | <b>2015</b> |
| Commercial banking/total revenues from business line          | 25.8                                    | 24.7        | 24.1        | 88.0        | 82.0        |
| Retail banking/total revenues from business line              | 39.7                                    | 38.9        | 35.6        | N/A         | N/A         |
| Commercial & retail banking/total revenues from business line | 65.5                                    | 63.6        | 59.7        | 88.0        | 82.0        |
| Trading and sales income/total revenues from business line    | 1.3                                     | 1.6         | 1.9         | 2.1         | 4.5         |
| Corporate finance/total revenues from business line           | N/A                                     | N/A         | N/A         | 4.8         | 5.6         |
| Insurance activities/total revenues from business line        | 12.8                                    | 10.9        | 10.0        | N/A         | N/A         |
| Asset management/total revenues from business line            | 21.1                                    | 20.6        | 17.4        | N/A         | N/A         |
| Other revenues/total revenues from business line              | (0.6)                                   | 3.3         | 10.9        | 5.1         | 8.0         |
| Investment banking/total revenues from business line          | 1.3                                     | 1.6         | 1.9         | 7.0         | 10.1        |
| Return on average common equity                               | 9.6                                     | 9.2         | 8.4         | 6.9         | N/A         |

\*Data for first six months of financial year 2018/2019: July 1, 2018-Dec. 31, 2018. N/A--Not applicable.

### **Capital and earnings: Good profitability and better-than-domestic-peers capitalization**

Mediobanca will maintain its sound capital position in the next few years, even though we expect high economic risk in Italy to continue constraining the bank's overall solvency.

Our pro forma RAC ratio before diversification was 8.7%, as of June 30, 2018. We expect this ratio to remain fairly stable by June 2021, as a result of Mediobanca's announced payout of about 40%-50% and our expectation that it will mainly expand in its retail and wealth management business.

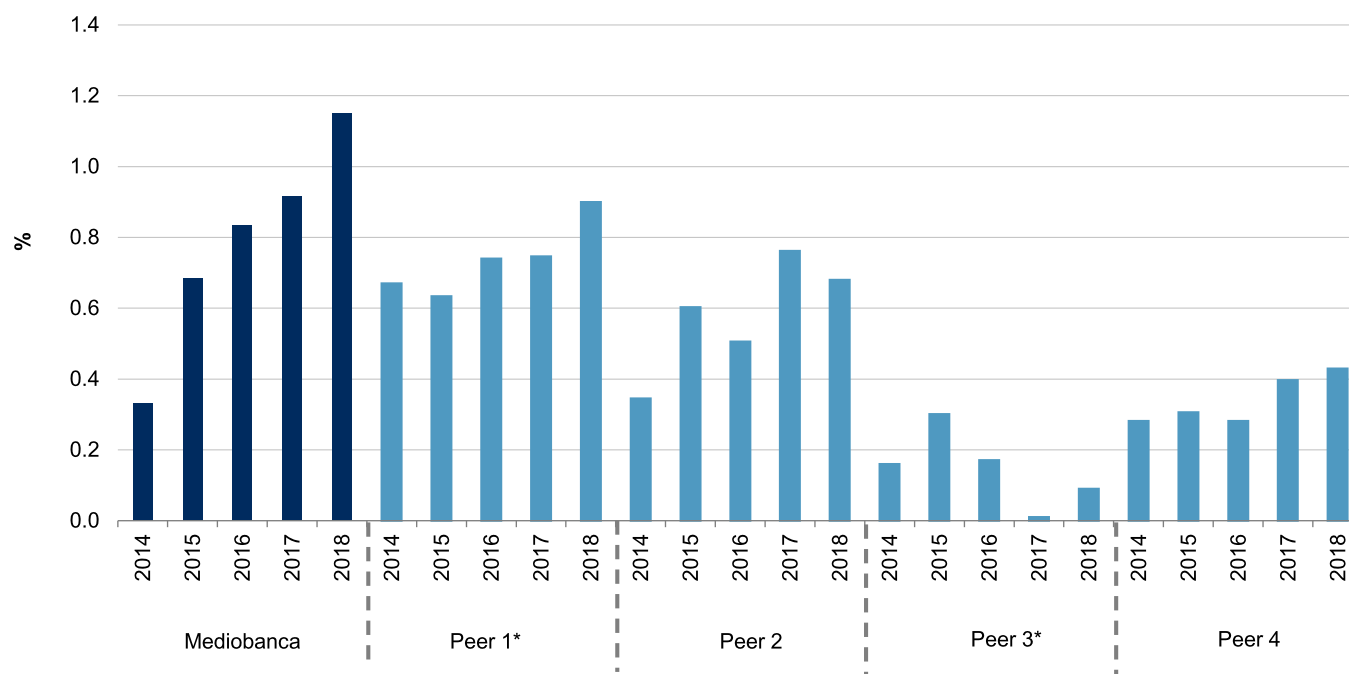
We consider Mediobanca's profitability to be higher than peers', owing to its diversified business mix and controlled cost of risk. Given the difficult operating environment in Italy, we anticipate that Mediobanca's operating profitability will only moderately strengthen over the next two years. Provisioning needs are likely to remain contained, in our view, as NPEs will remain low. We expect Mediobanca's cost of risk to normalize at about 80 basis points (bps) over the forecasted period after a low of approximately 64 bps over 2017-2018.

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 will account for about 80 bps.

Mediobanca's exposure to market risk has significantly declined in recent years following its disposal of a significant part of its equity stakes. Generali currently accounts for the largest proportion of these stakes, and we factor into our forecasts that Mediobanca might sell a portion of its stake in Generali to fund its expansion in retail and wealth management business.

**Chart 2**

**Mediobanca's Profitability Is Stronger Than Peers'**  
Core earnings/adjusted assets



\*Data for 2018 as of September. Year-end for Mediobanca is end-June.

Peers are: BBVA, Intesa Sanpaolo, Deutsche Bank, and SocGen. Source: S&P Global Ratings.

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**Table 3**

**Mediobanca SpA Capital And Earnings**

| (%)                                                  | --Financial year-ended June 30-- |       |       |       |       |
|------------------------------------------------------|----------------------------------|-------|-------|-------|-------|
|                                                      | 2019*                            | 2018  | 2017  | 2016  | 2015  |
| Tier 1 capital ratio                                 | 13.9                             | 14.2  | 13.3  | 12.1  | 12.0  |
| S&P Global Ratings' RAC ratio before diversification | N/A                              | 8.7   | 8.2   | N/A   | 7.0   |
| S&P Global Ratings' RAC ratio after diversification  | N/A                              | 8.1   | 7.6   | N/A   | 6.9   |
| Adjusted common equity/total adjusted capital        | 100.0                            | 100.0 | 100.0 | 100.0 | 100.0 |
| Net interest income/operating revenues               | 57.1                             | 56.4  | 58.0  | 57.7  | 57.2  |
| Fee income/operating revenues                        | 17.8                             | 18.8  | 17.1  | 15.5  | 18.3  |
| Market-sensitive income/operating revenues           | 2.3                              | 1.0   | 1.0   | 1.3   | 2.7   |
| Noninterest expenses/operating revenues              | 45.9                             | 48.5  | 51.2  | 47.1  | 45.8  |
| Preprovision operating income/average assets         | 1.8                              | 1.8   | 1.5   | 1.6   | N/A   |
| Core earnings/average managed assets                 | 1.2                              | 1.2   | 0.9   | 0.8   | N/A   |

\*Data for first six months of financial year 2018/2019: July 1, 2018-Dec. 31, 2018. RAC--Risk-adjusted capital.

Table 4

| S&P Global Ratings Risk-Adjusted Capital Framework Detailed Results Publication Table |            |                       |                          |                               |                                             |
|---------------------------------------------------------------------------------------|------------|-----------------------|--------------------------|-------------------------------|---------------------------------------------|
| (Mil. €)                                                                              | EAD*       | Basel III RWA§        | Average Basel III RW (%) | S&P Global Ratings RWA        | Average S&P Global Ratings RW (%)           |
| Government and central banks                                                          | 7,456,699  | 164,947               | 2                        | 1,984,574                     | 27                                          |
| Of which regional governments and local authorities                                   | 8,631      | 1,726                 | 20                       | 4,070                         | 47                                          |
| Institutions and CCPs                                                                 | 8,116,226  | 2,041,960             | 25                       | 2,223,589                     | 27                                          |
| Corporate                                                                             | 24,284,639 | 15,991,464            | 66                       | 25,494,258                    | 105                                         |
| Retail                                                                                | 21,538,163 | 12,895,016            | 60                       | 21,582,958                    | 100                                         |
| Of which mortgage                                                                     | 7,574,031  | 2,650,720             | 35                       | 4,495,325                     | 59                                          |
| Securitization†                                                                       | 161,641    | 128,037               | 79                       | 554,466                       | 343                                         |
| Other assets‡                                                                         | 2,460,363  | 2,192,654             | 89                       | 4,971,296                     | 202                                         |
| Total credit risk                                                                     | 64,017,731 | 33,414,079            | 52                       | 56,811,142                    | 89                                          |
| Total credit valuation adjustment                                                     | --         | 621,551               | --                       | 808,016                       | --                                          |
| Equity in the banking book                                                            | 3,813,653  | 7,065,771             | 185                      | 22,543,401                    | 591                                         |
| Trading book market risk                                                              | --         | 2,363,665             | --                       | 3,542,518                     | --                                          |
| Total market risk                                                                     | --         | 9,429,436             | --                       | 26,085,919                    | --                                          |
| Total operational risk                                                                | --         | 3,897,599             | --                       | 4,305,635                     | --                                          |
| RWA before diversification                                                            | --         | 47,362,665            | --                       | 88,010,712                    | 100                                         |
| Total diversification/concentration adjustments                                       | --         | --                    | --                       | 6,800,685                     | 8                                           |
| RWA after diversification                                                             | --         | 47,362,665            | --                       | 94,811,396                    | 108                                         |
|                                                                                       |            | <b>Tier 1 capital</b> | <b>Tier 1 ratio (%)</b>  | <b>Total adjusted capital</b> | <b>S&amp;P Global Ratings RAC ratio (%)</b> |
| Capital ratio before adjustments                                                      |            | 6,746,599             | 14.2                     | 7,696,326                     | 8.7                                         |
| Capital ratio after adjustments**                                                     |            | 6,746,599             | 14.2                     | 7,696,326                     | 8.1                                         |

\*EAD--Exposure at default. §RWA--Risk-weighted assets. †Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. ‡Other assets includes deferred tax assets (DTAs) not deducted from ACE. \*\*For Tier 1 ratio, adjustments are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). CCP--Central counterparty.

### Risk position: Prudent risk management

We think Mediobanca will maintain better-than-peers' asset quality, owing to its more prudent lending strategy and effective management of its NPE portfolio.

The bank's net NPE-to-Common Equity Tier 1 (CET1) ratio of 4.7%--or 9.9% including purchased NPEs--as of December 2018 is much lower than the average of its Italian peers, and it is in line with most international counterparties. This is primarily because Mediobanca has avoided lending to riskier borrowers, such as real estate developers and small and midsize enterprises, and strictly controlled the performance of its retail loans book. This has led to a much better track record than domestic peers' in terms of loss experience over the recent crisis.

More specifically, the credit quality of Mediobanca's corporate loan book benefits from a highly geographically diversified portfolio of large clients--Mediobanca grants more than 70% of its loans to corporates with turnover mainly outside Italy. In addition, Mediobanca takes collateral in most operations, which we view as positive because it

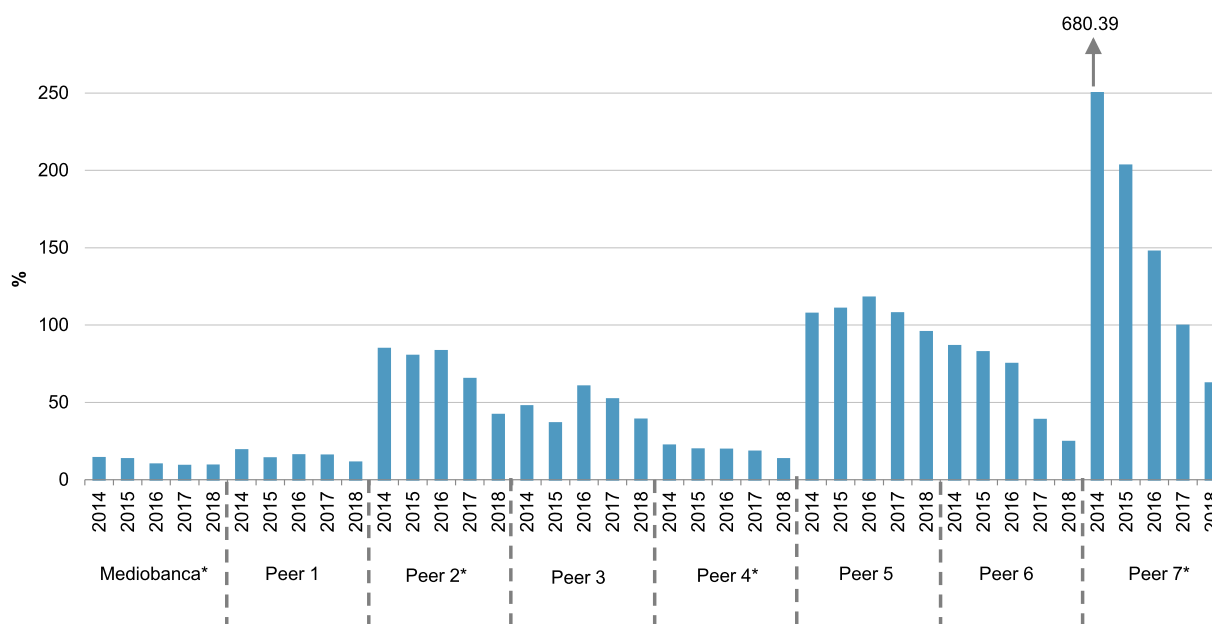


reduces the risk of losses for the bank. This resulted in a low net NPE ratio of 2.1% as of December 2018. That said, Mediobanca shows some single-name concentration in its loan book, which adds some risk, in our view.

Mediobanca's retail portfolio predominantly comprises consumer finance loans (61%), with mortgages accounting for the remaining 39%. Its mortgage NPE ratio of 3.7% is lower than the domestic average of about 5.5%, and its consumer finance segment had a contained cost of risk of about 180 bps as of December 2018. The retail portfolio benefits from the bank's proactive management of NPEs. The bank initiates collection activities at a very early stage past due, and write-offs or disposals of consumer NPEs after about 12 months, on average.

**Chart 3**

**Mediobanca's Asset Quality Is Better Than Peers'**



Peers are BBVA, Intesa Sanpaolo, Deutsche Bank, Caixabank, UBI, Unicredit, AIB, and SocGen. \*2018 data is as of December 2018. Data for remaining banks as of September 2018. Year-end for Mediobanca is end-June. Source: S&P Global Ratings. Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

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 consider that our RAC ratio adequately captures all of Mediobanca's risks.

**Table 5**

| Mediobanca SpA Risk Position |                                  |      |      |      |      |
|------------------------------|----------------------------------|------|------|------|------|
|                              | --Financial year-ended June 30-- |      |      |      |      |
| (%)                          | 2019*                            | 2018 | 2017 | 2016 | 2015 |
| Growth in customer loans     | 7.9                              | 6.1  | 10.8 | 2.5  | N.M. |

**Table 5**

| Mediobanca SpA Risk Position (cont.)                                            |                                  |       |       |      |      |
|---------------------------------------------------------------------------------|----------------------------------|-------|-------|------|------|
| (%)                                                                             | --Financial year-ended June 30-- |       |       |      |      |
|                                                                                 | 2019*                            | 2018  | 2017  | 2016 | 2015 |
| Total diversification adjustment/S&P Global Ratings' RWA before diversification | N/A                              | 7.7   | 9.0   | N/A  | 0.7  |
| Total managed assets/adjusted common equity (x)                                 | 9.5                              | 9.4   | 9.6   | 9.9  | 10.4 |
| New loan loss provisions/average customer loans                                 | 0.5                              | 0.5   | 0.8   | 1.1  | N/A  |
| Net charge-offs/average customer loans                                          | N.M.                             | (0.1) | (0.5) | 0.0  | N/A  |
| Gross nonperforming assets/customer loans + other real estate owned             | 5.2                              | 5.3   | 5.6   | 6.0  | 6.8  |
| Loan loss reserves/gross nonperforming assets                                   | 70.7                             | 68.1  | 69.9  | 67.4 | 61.6 |

\*Data for first six months of financial year 2018/2019: July 1, 2018-Dec. 31, 2018. N/A--Not applicable. N.M.--Not meaningful.  
RWA--Risk-weighted assets.

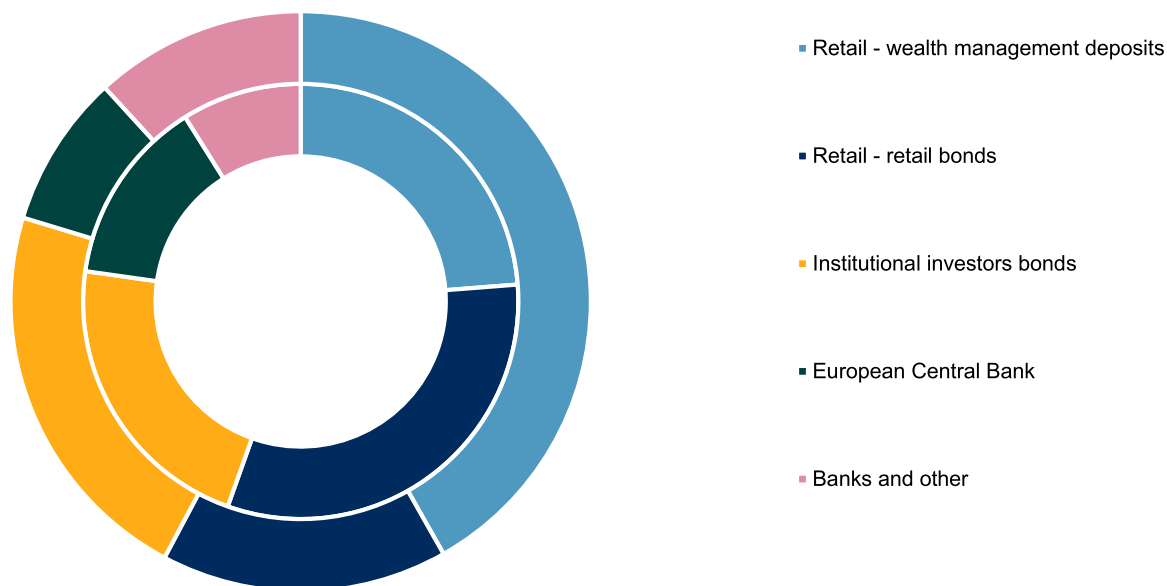
### **Funding and liquidity: Mainly retail-financed, though reliance on wholesale funding remains high**

We expect that Mediobanca will continue to sustainably finance its long-term funding needs through stable sources.

In the past few years, Mediobanca has progressively rebalanced its funding position and increased retail funding--which is now its main financing source--through its retail and private banking subsidiaries, Italian commercial banks, and the regulated debt market. Mediobanca has spread its long-term funding maturities well over time, in our view. In addition, Mediobanca's recourse to ECB financing only represents 9% of its funding base as of December 2018, compared with about 13% as of June 2012.

**Chart 4**

**Mediobanca Funding Composition And Evolution**  
2012-2018



Data as of December 2018. Inner circle refers to 2012 data. Outer circle refers to 2018 data. Source: Mediobanca SpA. Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

We think persistent market turbulence, linked to concerns about Italy's creditworthiness, could have repercussions for Italian banks' cost of financing. This includes Mediobanca, given its higher-than-peers' reliance on wholesale funding. However, we understand that Mediobanca does not need to issue new subordinated instruments to comply with its MREL, unlike its peers. This will partly help reduce pressure on cost of financing, in our view.

Mediobanca will likely retain its comfortable liquidity buffers. We calculate that its broad liquid assets covered its short-term wholesale funding by more than 1.7x as of December 2018, and we expect this ratio to remain stable. We expect that liquid assets will continue to cover the bank's short-term wholesale funding. We base our view on Mediobanca's liquidity policy, which requires the bank to maintain a large buffer of liquid assets that are eligible for refinancing with the ECB. This more than covers the amount of wholesale funding coming due in the next 12 months. We note that Mediobanca's liquid assets are highly diversified, with only €2.7 billion--or about 41% of its CET1--accounting for Italian government bonds, the lowest level among its peers.

**Table 6**

| <b>Mediobanca SpA Funding And Liquidity</b>          |                                         |             |             |             |             |
|------------------------------------------------------|-----------------------------------------|-------------|-------------|-------------|-------------|
|                                                      | <b>--Financial year-ended June 30--</b> |             |             |             |             |
| (%)                                                  | <b>2019*</b>                            | <b>2018</b> | <b>2017</b> | <b>2016</b> | <b>2015</b> |
| Core deposits/funding base                           | 46.4                                    | 48.2        | 49.4        | 46.7        | 45.8        |
| Customer loans (net)/customer deposits               | 147.0                                   | 147.9       | 139.1       | 137.3       | 135.9       |
| Long-term funding ratio                              | 84.8                                    | 85.6        | 86.4        | 76.7        | 66.9        |
| Stable funding ratio                                 | 105.7                                   | 107.3       | 112.2       | 105.2       | 89.4        |
| Short-term wholesale funding/funding base            | 17.3                                    | 16.7        | 15.8        | 27.0        | 38.3        |
| Broad liquid assets/short-term wholesale funding (x) | 1.6                                     | 1.8         | 2.1         | 1.3         | 0.9         |
| Net broad liquid assets/short-term customer deposits | 32.6                                    | 37.0        | 50.2        | 30.8        | (16.0)      |
| Short-term wholesale funding/total wholesale funding | 32.2                                    | 32.2        | 31.2        | 50.6        | 70.8        |

\*Data for first six months of financial year 2018/2019: July 1, 2018-Dec. 31, 2018.

### **Support: No uplift for additional loss-absorbing capacity**

We assess the resolution regime in Italy as effective. The bank is likely to be subject to a resolution that entails a bail-in if it reaches nonviability. However, we do not apply uplift for additional loss-absorbing capacity (ALAC) because we currently expect the amount of ALAC on S&P Global Ratings' risk-weighted assets to remain below our 5% threshold for one notch of uplift. In our ALAC calculation, we include capital instruments issued by Mediobanca that have the capacity to absorb losses without triggering a default on senior obligations--namely subordinated debt. We also include in this ALAC calculation common equity that we already count in total adjusted capital. Specifically, we include the amount exceeding the minimum required for Mediobanca to maintain a RAC ratio of 7%, consistent with our assessment of the bank's capital and earnings.

### **Subsidiaries**

We align our ratings on MB Funding Lux with our ratings on Mediobanca, reflecting our assessment of its core status to the parent bank. We base this on the company's integration into its parent and the unconditional and irrevocable guarantees provided by Mediobanca, among other factors.

### **Resolution Counterparty Ratings (RCRs)**

Our RCRs on Mediobanca are one notch above the 'BBB' long-term issuer credit rating. RCRs exceed the foreign currency long-term sovereign rating on Italy by one notch, because we see a considerable likelihood that a sovereign default would not immediately trigger a default on the RCR liabilities. This reflects our view that, in a hypothetical stress scenario, the authorities would initiate a resolution of the group, bailing in eligible liabilities that are sufficient to help the group absorb the impact of such an adverse scenario. We assume that, as part of the resolution process, the group would receive sufficient and timely liquidity support, primarily from the ECB, to meet the likely meaningful liquidity outflows it would face. This means we rate 'BBB+' MB Funding Lux's collateralized notes.

### **Hybrid Instruments**

We currently rate Mediobanca's hybrid instruments by applying our standard notching-down from the bank's 'bbb' SACP.

This means we currently rate 'BB+' the bank's subordinated liabilities, such as its nondeferrable Tier II. We apply one

downward notch for subordination and one additional downward notch to reflect the risk that regulators may enforce the write-down or conversion to equity of those instruments, even outside a resolution or liquidation scenario.

**Additional rating factors: None**

No additional factors affect this rating.

## Related Criteria

- 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
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 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: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

## Related Research

- ECB's Fresh Stimulus Spotlights Rising Risks For European Banks, March 8, 2019
- Banking Industry Country Risk Assessment: Italy, Dec. 6, 2018
- Various Italian Bank Outlooks Revised To Negative After Action On Sovereign And BICRA Industry Trend; Ratings Affirmed, Oct. 30, 2018
- Outlook On Italy Revised To Negative On Risks To Economic Growth Following Budget Plan; Ratings Affirmed At 'BBB/A-2', Oct. 26, 2018

- 31 European Banking Groups Assigned Resolution Counterparty Ratings; Four Collateralized Notes Upgraded; UCO Removed, June 12, 2018
- Guidance - Criteria - Financial Institutions - General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Research Update: MB Funding Lux S.A. Assigned 'BBB/A-2' Ratings As Core Subsidiary Of Mediobanca; Outlook Stable; Feb. 21, 2018

| 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 March 22, 2019)

#### Mediobanca SpA

|                                |                  |
|--------------------------------|------------------|
| Issuer Credit Rating           | BBB/Negative/A-2 |
| Resolution Counterparty Rating | BBB+/--/A-2      |
| Senior Unsecured               | BBB              |
| Short-Term Debt                | A-2              |
| Subordinated                   | BB+              |

#### Issuer Credit Ratings History

|             |                  |
|-------------|------------------|
| 30-Oct-2018 | BBB/Negative/A-2 |
| 31-Oct-2017 | BBB/Stable/A-2   |
| 18-Dec-2014 | BBB-/Stable/A-3  |

#### Sovereign Rating

|       |                  |
|-------|------------------|
| Italy | BBB/Negative/A-2 |
|-------|------------------|

#### Related Entities

##### MB Funding Lux S.A.

|                                |                  |
|--------------------------------|------------------|
| Issuer Credit Rating           | BBB/Negative/A-2 |
| Resolution Counterparty Rating | BBB+/--/A-2      |

##### Mediobanca International (Luxembourg) S.A.

|                  |     |
|------------------|-----|
| Commercial Paper |     |
| Local Currency   | A-2 |

**Ratings Detail (As Of March 22, 2019) (cont.)**

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' 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.

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