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Research Update:

Italy-Based Mediobanca 'BBB-/A-3' Ratings Affirmed On Announced Acquisition Of Barclays Assets; Outlook Stable

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Overview

- On Dec. 3, 2015, Mediobanca announced that it acquired some Italian assets from Barclays.
- We believe the transaction has a limited impact on Mediobanca's business and financial profile, considering the small acquisition size and the terms of the agreement.
- We are therefore affirming the 'BBB-' long-term and 'A-3' short-term ratings on Mediobanca.
- The outlook remains stable, mirroring that on our long-term sovereign credit rating on Italy.

Rating Action

On Dec. 4, 2015, Standard & Poor's Ratings Services affirmed its 'BBB-' long-term and 'A-3' short-term counterparty credit ratings on Italy-based Mediobanca SpA. The outlook is stable.

Rationale

The affirmation follows Mediobanca's announcement that it has reached a final agreement with Barclays Bank PLC to buy a portion of Barclays' Italian assets. The affirmation reflects our belief that the impact of the transaction on Mediobanca's business and financial profile is likely to be contained overall. This is primarily due to the size of the operations acquired, as total loans included in the transaction account for less than 10% of Mediobanca's credit portfolio. We also consider that the terms of the agreement reduce the potential additional downside risk that the integration and consolidation of the acquired assets could have had for Mediobanca's credit profile. Finally, we also see the execution risk as fairly limited, in line with the size of the transaction.

Mediobanca is acquiring a portion of Barclays' Italian assets, which include a total €2.9 billion of residential mortgage lending, €3.0 billion of retail deposits, €3.1 billion of assets under management, and 89 branches. As part of the final agreement, Mediobanca will also receive €237 million from Barclays to cover the expected restructuring costs related to the integration of the acquired assets, and will not pay Barclays for the acquisition of the assets.

We consider this acquisition to be in line with Mediobanca's strategy to expand in its domestic retail market. Particularly, 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. The latter, however, will depend on the bank's capacity to reduce the inevitable attrition that the transaction will have on the acquired customer base.

The transaction will have a negative impact on Mediobanca's capital position, although we anticipate that it will be contained overall. We estimate that the consolidation of the acquired assets will account for about €2 billion additional risk-weighted assets, under our methodology, and reduce our risk-adjusted capital ratio by about 20 basis points. We also believe that Mediobanca's asset quality is likely to remain unchanged, as the assets acquired only comprise performing loans with a low risk profile. Finally, the transaction is likely to be neutral for the bank's funding and liquidity position, as the assets acquired are fully financed by the retail customer deposits that will be transferred to Mediobanca as part of the deal.

Outlook

The outlook on 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.

Ratings Score Snapshot

Issuer Credit Rating	BBB-/Stable/A-3
SACP	bbb
Anchor	bbb-

Business Position	Adequate	0
Capital and Earnings	Adequate	0
Risk Position	Strong	+1
Funding	Adequate	0
Liquidity and Liquidity	Average and Adequate	
Support		-1
ALAC Support		0
GRE Support		0
Group Support		0
Sovereign Support		-1
Additional Factors		0

Related Criteria And Research

- 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: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Banks: Bank Capital Methodology And Assumptions, Dec. 6, 2010

Ratings List

Ratings Affirmed

Mediobanca SpA

Counterparty Credit Rating	BBB-/Stable/A-3
Senior Unsecured	BBB-
Senior Unsecured	BBB-p
Subordinated	BB

Mediobanca International (Luxembourg) S.A.

Senior Unsecured*	BBB-
Certificate Of Deposit*	A-3
Commercial Paper	A-3

*Guaranteed by Mediobanca SpA.

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