MOODY'S
INVESTORS SERVICE

CREDIT OPINION
27 November 2019

Update

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RATINGS

Mediobanca S.p.A.

Domicile	Italy
Long Term CRR	Baa1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Baa1
Type	Senior Unsecured - Dom Curr
Outlook	Stable
Long Term Deposit	Baa1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Raffaele Del Cimmuto +33.1.5330.3360
Associate Analyst
raffaele.delcimmuto@moodys.com

Fabio Iannò +33.1.5330.3356
VP-Sr Credit Officer
fabio.ianno@moodys.com

Alain Laurin +33.1.5330.1059
Associate Managing Director
alain.laurin@moodys.com

Nick Hill +33.1.5330.1029
MD-Banking
nick.hill@moodys.com

Mediobanca S.p.A.

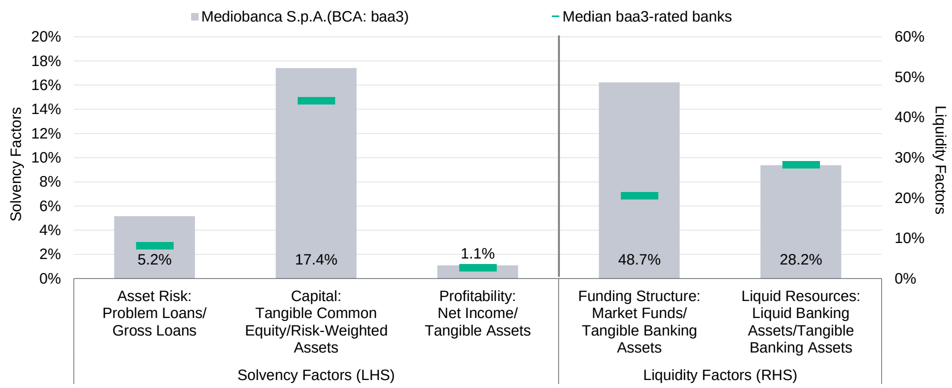
Update to credit analysis

Summary

Mediobanca S.p.A.'s Baa1 long-term senior unsecured and deposit ratings reflects the bank's standalone Baseline Credit Assessment (BCA) of baa3, very low loss-given-failure for both debt classes, which result in a two-notch uplift, and our assessment of a low probability of government support. The outlook on the long-term senior unsecured and deposit ratings is stable.

The baa3 BCA reflects the bank's good capitalisation, sound and diversified profitability, as well as high reliance on wholesale funding. The BCA also takes account of the bank's large stake in Assicurazioni Generali S.p.A. (Generali, Insurance Financial Strength rating Baa1, stable outlook). This investment exposes Mediobanca to idiosyncratic risk, mitigated in part by the liquidity of the securities and its large and recurrent contribution to earnings.

Exhibit 1
Rating Scorecard - Key Financial Ratios



Source: Moody's Financial Metrics

Credit strengths

» Good capitalisation

» Sound and diversified profitability

Credit challenges

» High reliance on wholesale funding

» High borrower concentration and large stake in Generali

Rating outlook

The stable outlook on Mediobanca's long-term senior unsecured and deposit ratings reflect our expectation that the bank's main financials will remain broadly stable over the next 12-18 months, and that the Italian and European economy will continue to grow at a moderate pace.

Factors that could lead to an upgrade

An upgrade of Mediobanca's senior unsecured and deposit ratings is unlikely as the ratings already exceed Italy's sovereign rating (Baa3 stable) by two notches and are constrained at that level under Moody's methodology. This reflects the agency's view that the expected loss of the bank's debt and deposits would unlikely to be significantly lower that of the sovereign's own debt.

Factors that could lead to a downgrade

A downgrade of Mediobanca's BCA could lead to a downgrade of the bank's senior unsecured and deposit ratings. The BCA could be downgraded if reliance on capital market activities were to increase; if capital ratios decreased materially; or if its dependence on short-term wholesale funding were to rise. The senior unsecured ratings could also be downgraded following a material reduction in the bank's stock of bail-in-able debt.

Mediobanca’s ratings and assessments could also be downgraded following a downgrade of Italy’s sovereign debt rating.

Key Indicators

Exhibit 2
Mediobanca S.p.A. (Consolidated Financials) [1]

	06-19[2]	06-18[2]	06-17[2]	06-16[2]	06-15[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	76,606.4	69,939.7	67,957.6	66,154.7	66,669.0	3.5[4]
Total Assets (USD Million)	87,239.1	81,658.5	77,509.0	73,494.6	74,283.0	4.1[4]
Tangible Common Equity (EUR Million)	8,310.0	8,140.2	7,685.3	7,234.7	6,913.3	4.7[4]
Tangible Common Equity (USD Million)	9,463.4	9,504.1	8,765.5	8,037.4	7,702.8	5.3[4]
Problem Loans / Gross Loans (%)	4.8	5.2	5.5	5.5	6.2	5.4[5]
Tangible Common Equity / Risk Weighted Assets (%)	17.4	16.0	13.8	12.4	10.9	14.1[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	23.5	23.1	23.9	24.7	28.5	24.7[5]
Net Interest Margin (%)	2.0	2.1	2.0	1.9	1.8	2.0[5]
PPI / Average RWA (%)	1.9	2.0	1.7	1.5	1.6	1.7[6]
Net Income / Tangible Assets (%)	1.1	1.3	1.1	0.9	0.9	1.1[5]
Cost / Income Ratio (%)	56.8	53.6	56.8	54.1	47.2	53.7[5]
Market Funds / Tangible Banking Assets (%)	48.7	49.2	49.8	59.1	57.6	52.9[5]
Liquid Banking Assets / Tangible Banking Assets (%)	28.2	30.3	32.7	29.9	31.3	30.5[5]
Gross Loans / Due to Customers (%)	198.4	207.2	203.7	249.0	250.7	221.8[5]

[1]All figures and ratios are adjusted using Moody's standard adjustments. [2]Basel III - fully-loaded or transitional phase-in; IFRS. [3]May include rounding differences due to scale of reported amounts. [4]Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime. [5]Simple average of periods presented for the latest accounting regime. [6]Simple average of Basel III periods presented.
Source: Moody's Investors Service; Company Filings

Profile

Mediobanca is a medium-sized financial group with total assets of €82 billion as of September 2019, including a 13% stake in European insurer Generali currently valued at around €3.5 billion. The group is internationally diversified: in April 2019 Mediobanca announced the acquisition of 66% of French corporate finance company Messier Maris & Associés, through which France will become the group's third biggest regional investment banking market after Italy and Spain. In 2018, Mediobanca also acquired majority stakes in Ram Active Investments in Switzerland, having previously bought Cairn Capital in the UK. In 2018 Mediobanca reached an agreement for the acquisition or a 19.9% stake in Indonesian consumer finance company BFI Finance through its subsidiary Compass ; the deal has yet to be finalized.

Mediobanca's main divisions are:

» Corporate and Investment Banking (CIB), which focuses on lending, capital market activities, and advisory services to large corporate clients. Mediobanca is one of the main CIB players in Italy; its clients are usually large Italian corporates with an international footprint. Mediobanca recently started purchasing Italian non performing loans (NPLs) at deep discounts through its subsidiary MB Credit Solutions, an entity specialised in the management of NPLs.

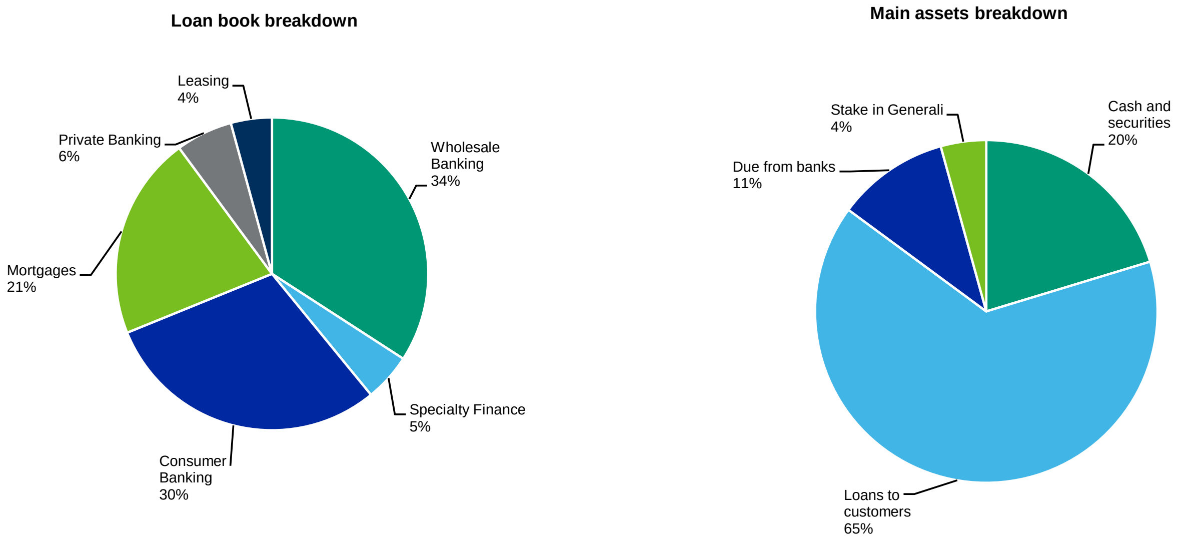
» Consumer Banking, mostly through its subsidiary Compass, one of the largest consumer credit companies in Italy. This division operates only in Italy in the following main products areas: unsecured consumer loans, secured personal loans with a direct pledge on the borrower's salary, auto- financing, credit cards, and other consumer loans for the purchase of specific goods. Mediobanca distributes its consumer finance products through (i) other banks and the postal network, (ii) its own branch network and (iii) agents.

» Wealth Management, which includes retail banking through subsidiary CheBanca! (deposits and residential mortgages, unrated), the "Mediobanca Private" brand, which focuses on high net worth individuals, and Monaco-based private bank Compagnie Monegasque de Banque (unrated). CheBanca! particularly focuses on growing its wealth management business, targeting in particular affluent clients.

» Principal Investing, which now mostly consists of the bank's 13% share in Generali valued at around €3.5 billion; all other investments in this division are valued at less than €0.7 billion in the bank's books, and are currently being reduced.

» Holding Function, which includes all general costs, asset and liability management (ALM), treasury, and leasing business.

Exhibit 3
Mediobanca has a diversified business model
Main assets and loan book breakdown at June 2019



Source: Bank's reports

Detailed credit considerations

Macro Profile is Strong -

The weighted Macro Profile for Mediobanca is Strong -, reflecting its strong presence in Italy (Moderate +), but also its exposures to large cross-border companies that operate in the European Union (Strong). Furthermore, it takes account of Generali's international footprint, with only around one-third of Generali's premiums generated in Italy.

Moderate asset risk

We assign a ba1 score to Mediobanca, in line with the macro- adjusted score, which reflects a problem loans at end-June 2019 of 4.8% of gross loans, a level lower than the Italian sector average of around 8% in June 2019, although higher than the European Union average of around 3% at the same date, according to European Banking Authority data.

Our ba1 score also reflects:

» High risks despite granularity in the consumer credit portfolio

» The relatively high level of concentration in Mediobanca's corporate loan book

» Strict underwriting procedures and a good track record in managing credit risk

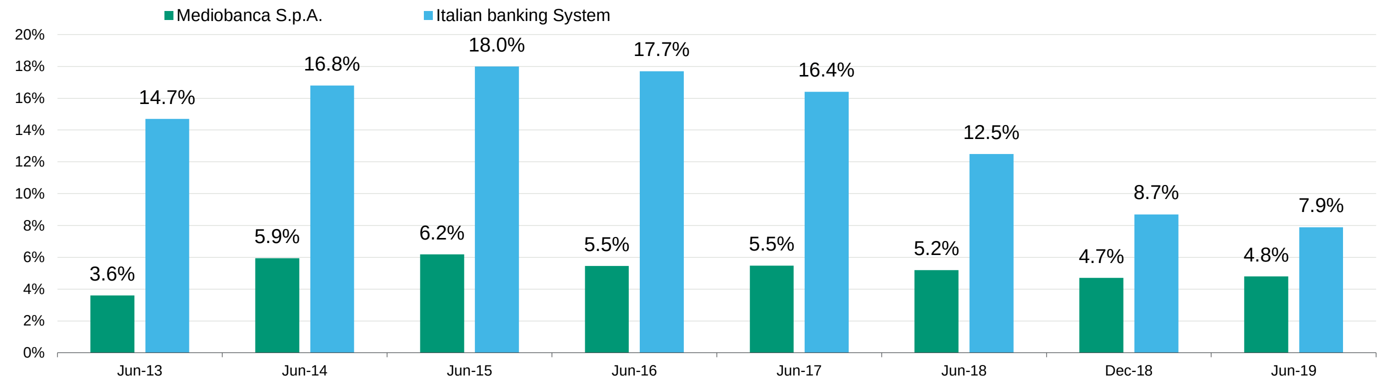
» Idiosyncratic risk resulting from the stake in Generali, which is equivalent to a relatively high around 40% of Mediobanca's Tangible Common Equity (TCE)

» Moderate market risk, although trading activities are oriented more towards lower risk securities than complex products

Exhibit 4

Non-performing loans are much lower than Italian average

NPLs % Gross Loans



Source: Moody's Investors Service, Bank of Italy, European Banking Authority

Adequate capitalisation, with large buffers over prudential requirements

Our assessment of Mediobanca's capital is baa1, three notches below the a1 macro adjusted score to reflect our expected trend for the bank's capital ratios. We factor in the bank's external growth strategy, through acquisitions, even though the bank has a good track record of internal capital generation capacity thanks to its sound profitability.

Mediobanca reported a 14.2% CET1 ratio and a total capital ratio of 17.4% at end- September 2019, which Moody's considers to be strong and largely above its minimum CET1 Supervisory Review and Evaluation Process (SREP) requirement of 8.25% for 2019 (which includes the Pillar 2 requirement of 1.25% and the capital conservation buffer of 2.50%). The possibility allowed by supervisory authorities to adopt the so-called "Danish compromise" for the exposire to Assicurazioni Generali until 2024 precluded deduction of around 100 basis points from the bank's CET1 ratio.

Sound and diversified profitability

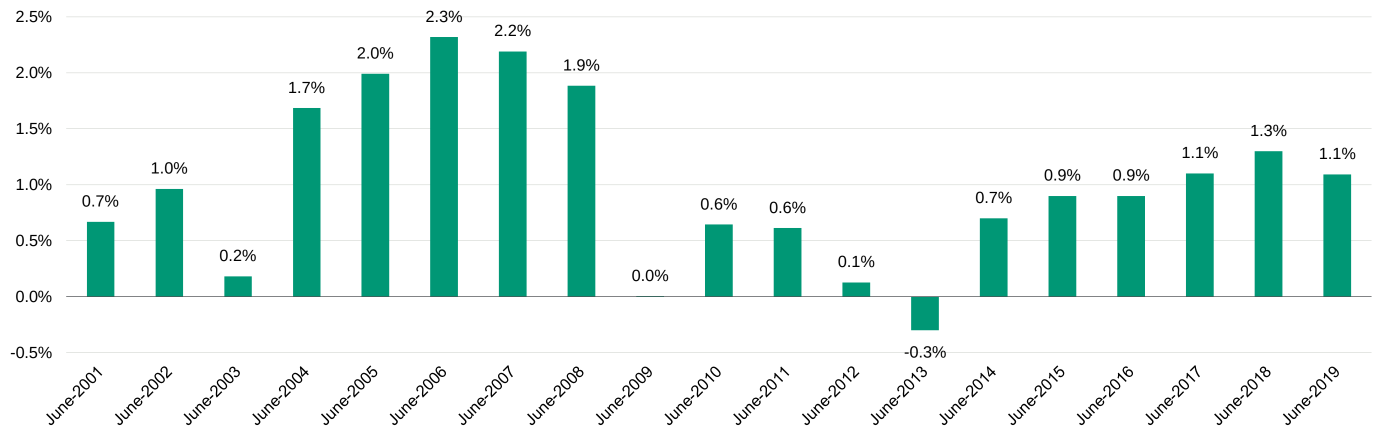
Our score for Mediobanca's profitability is baa3, one notch below our macro adjusted score. The assigned score reflects our medium-term view on Mediobanca's return on tangible assets, including a possible reduction of its stake in Generali, which is a material contributor to Mediobanca's profitability: in the nine months to September 2019 principal investing generated profits for €136 million. Mediobanca presented its new 2019-2023 business plan in November 2019 which primarily focuses on growth in revenues and earnings, and which could include a reduction in its stake in Generali to finance acquisitions.

In the last three years, Mediobanca reported an average return on tangible assets of about 116 bps, which is sound in the Italian and European contexts. Furthermore, despite a challenging operating environment, particularly in Italy, Mediobanca has a good track record of generating profits (exhibit 5). Since 2001 the bank has reported only one net annual loss (in 2013). This was driven by losses on the disposal of large stakes in companies, rather than by loan impairments, trading losses, restructuring costs, or conduct-related fines.

Exhibit 5

Good track record of profits

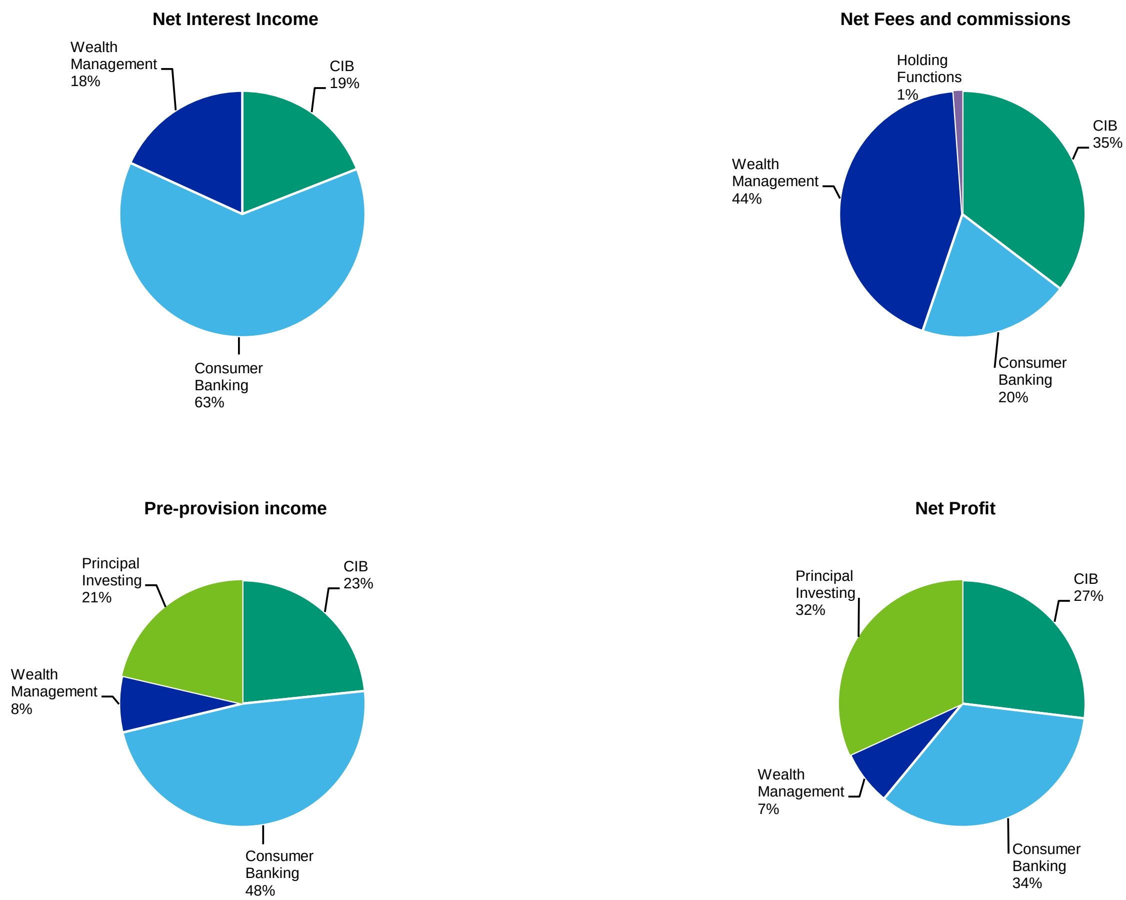
Returns on Tangible Assets



Source: Moody's Investors Service, Bank's reports

We believe that Mediobanca's business model which encompasses different activities has supported the bank's more stable earnings than observed at peers. The bank has also significantly expanded its retail business over the last years through the growth of its retail bank subsidiary CheBanca!. Nevertheless, the high concentration in Generali represents a material dependence on earnings outside Mediobanca's full control.

Exhibit 6
Income's breakdown by business line



Source: Moody's Investor Service, Bank's reports

High reliance on wholesale funding

Our score for Mediobanca's funding structure is b1, one notch above the b2 macro adjusted score. Our adjustment reflects the overall short maturity of the bank's assets, which somehow mitigates risk stemming from high reliance on market funding.

Despite Mediobanca's efforts in recent years to increase its share of deposit funding through the creation of retail bank CheBanca! in 2008, the bank is still highly reliant on wholesale funding. Market funds account for 49% of tangible banking assets, which is a key weakness. This is partially mitigated by the maturity profile of its funding, the short duration of its loan book, and its ample liquidity. Mediobanca also has around €4 billion of European Central Bank (ECB)'s funding (TLTRO), accounting for around 5% of total assets.

Mediobanca's liquid resources score is baa1, one notch above the baa1 macro adjusted score to reflect expected trends. The bank reported a Liquidity Coverage Ratio of 160% at end-September 2019 and Net Stable Funding Ratio of 107 % at end-June 2019.

Environmental, social and governance considerations

In line with our general view for the banking sector, Mediobanca has low exposure to environmental risks. See our Environmental risk heat map for further information.

We expect Mediobanca to face moderate social risks, in line with our view on the banking sector. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which are partly mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct are a further social risk.

Social trends are also relevant in a number of areas, such as shifting customer preferences towards digital banking services, increasing information technology cost, ageing population concerns in several countries affecting demand for financial services or socially driven policy agendas that may translate into regulations that affect banks' revenue base. See our Social heat map for further information.

Corporate governance is highly relevant to all banks' creditworthiness. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. When credit quality deteriorates because of poor governance, such as breakdown in controls resulting in financial misconduct, it can take a long time to recover. In more extreme cases, a loss of confidence among clients and creditors following the disclosure of a major governance breach can result in a company's default.

Mediobanca's governance has changed in the second half of 2019: in November 2019 Leonardo Del Vecchio (Executive Chairman of EssilorLuxottica) became the main shareholder with a 9.9% stake, while Unicredit's entirely divested its participation in Mediobanca. Overall, 75% of shareholders are institutional investors (mainly from Italy and the United States) and 25% are retail investors. Leonardo Del Vecchio has publicly expressed its intention to increase his stake further to above 10%, which requires the ECB's clearance. Overall, we believe that the bank displays an appropriate risk management framework commensurate with its risk appetite.

Support and structural considerations

Loss Given Failure Analysis

Mediobanca is subject to the EU Bank Recovery and Resolution Directive, which we consider to be an operational resolution regime. Our analysis assumes residual tangible common equity of 3% and losses post-failure equivalent to 8% of tangible banking assets, a 25% run-off in junior wholesale deposits, a 5% run-off in preferred deposits and 26% of junior deposits over total deposits. These assumptions are in line with our standard assumptions. Furthermore, we expect that deposits will in practice rank above senior debt in a resolution, given the introduction of full deposit preference in Italy in 2019.

Under these assumptions, Mediobanca's deposits are likely to face very low loss-given-failure, owing to the loss absorption provided by the residual equity that we expect in resolution (3%), subordinated debt and senior unsecured debt, as well as the volume of deposits themselves. This is supported by the combination of deposit volume and subordination. This would have resulted in an uplift of three notches from the bank's baa3 BCA to the deposit rating absent the constraint indicated in our methodology according to which deposit ratings are typically constrained to two notches above the sovereign bond rating hence an uplift limited to two notches.

We believe that Mediobanca's senior unsecured debt is likely to face very low loss-given-failure, owing to the loss absorption provided by the residual equity that we expect in resolution, and by subordinated debt, as well as the volume of senior unsecured debt itself. This results in an uplift of two notches from the bank's baa3 BCA.

Counterparty risk ratings (CRRs)

Moody's Counterparty Risk Ratings (CRRs) are opinions on the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event that such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivative transactions and the uncollateralised portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

Mediobanca's CRRs are positioned at Baa1/Prime-2

Mediobanca's CRRs are three notches above the baa3 BCA, we however constrain the uplift to two notches above Italy's Baa3 sovereign debt rating. In accordance with our Banks methodology, CRRs are typically constrained to two notches above the sovereign bond rating, reflecting the agency's view that the expected loss of rated bank instruments is unlikely to be significantly lower that of the sovereign's own debt.

The Baa1 CRRs of Mediobanca do not include any further uplift resulting from our expectations for low probability of government support.

Counterparty risk assessment

Counterparty Risk (CR) Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails, and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss, and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

Mediobanca's CR Assessment is positioned at Baa2(cr)/Prime-2(cr)

This is one notch above the bank's standalone BCA of baa3.

According to our methodology, CR Assessments do not typically exceed by more than one notch the rating of the sovereign in which the bank is domiciled, reflecting our view that the probability of default of counterparty obligations is unlikely to be significantly below that of the sovereign’s own debt.

The uplift to Mediobanca’s CR Assessment derives from the cushion against default provided to the operating obligations by substantial bail-in-able debt and deposits. The main difference with our Advanced LGF approach used to determine instrument ratings is that the CR Assessment captures the probability of default on certain senior obligations, rather than expected loss, therefore we focus purely on subordination and take no account of the volume of the instrument class

Government support considerations

We assess the probability of government support to Mediobanca’s depositors and senior bondholders as Low hence we assign no rating uplift.

Mediobanca is a modestly sized bank domestically, and not a key participant in global financial markets. As such we think it unlikely that its debt or deposits would benefit from government support.

About Moody’s scorecard

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from what suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 7

Mediobanca S.p.A.

Macro Factors						
Weighted Macro Profile	**Strong -**	**100%**				

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	5.2%	ba1	←→	ba1	Single name concentration	
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	17.4%	a1	←→	baa1	Expected trend	Stress capital resilience
Profitability						
Net Income / Tangible Assets	1.1%	baa2	←→	baa3	Expected trend	
Combined Solvency Score		baa1		baa3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	48.7%	b2	←→	b1	Term structure	Market funding quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	28.2%	baa2	←→	baa1	Expected trend	
Combined Liquidity Score		ba2		ba1		
Financial Profile				baa3		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Baa3		
BCA Scorecard-indicated Outcome - Range				baa2 - ba1		
Assigned BCA				baa3		
Affiliate Support notching				0		
Adjusted BCA				baa3		

Balance Sheet	**in-scope (EUR Million)**	**% in-scope**	**at-failure (EUR Million)**	**% at-failure**
Other liabilities	35,653	47.1%	38,018	50.2%
Deposits	23,193	30.6%	20,827	27.5%
Preferred deposits	17,163	22.7%	16,305	21.5%
Junior deposits	6,030	8.0%	4,523	6.0%
Senior unsecured bank debt	12,214	16.1%	12,214	16.1%
Dated subordinated bank debt	2,352	3.1%	2,352	3.1%
Equity	2,270	3.0%	2,270	3.0%
Total Tangible Banking Assets	75,682	100.0%	75,682	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	28.2%	28.2%	28.2%	28.2%	3	3	3	3	0	baa1
Counterparty Risk Assessment	28.2%	28.2%	28.2%	28.2%	3	3	3	3	0	baa2 (cr)
Deposits	28.2%	6.1%	28.2%	22.2%	2	3	3	3	0	baa1
Senior unsecured bank debt	28.2%	6.1%	22.2%	6.1%	2	2	2	2	0	baa1
Junior senior unsecured bank debt	6.1%	6.1%	6.1%	6.1%	0	0	0	0	0	baa3
Dated subordinated bank debt	6.1%	3.0%	6.1%	3.0%	-1	-1	-1	-1	0	ba1

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	baa1	0	Baa1	Baa1
Counterparty Risk Assessment	3	0	baa2 (cr)	0	Baa2(cr)	
Deposits	3	0	baa1	0	Baa1	Baa1
Senior unsecured bank debt	2	0	baa1	0	Baa1	(P)Baa1
Junior senior unsecured bank debt	0	0	baa3	0	(P)Baa3	(P)Baa3
Dated subordinated bank debt	-1	0	ba1	0	(P)Ba1	(P)Ba1

[1]Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 8

Category	Moody's Rating
MEDIOBANCA S.P.A.	
Outlook	Stable
Counterparty Risk Rating	Baa1/P-2
Bank Deposits	Baa1/P-2
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	Baa2(cr)/P-2(cr)
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
Junior Senior Unsecured MTN	(P)Baa3
Subordinate MTN	(P)Ba1
Other Short Term	(P)P-2
MEDIOBANCA INTERNATIONAL (LUXEMBOURG) SA	
Bkd Senior Unsecured	Baa1
Bkd Other Short Term	(P)P-2

Source: Moody's Investors Service

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454