

CREDIT OPINION

17 April 2020

Update

✓ Rate this Research

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	Negative
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.

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Mediobanca S.p.A.

Update to credit analysis

Summary

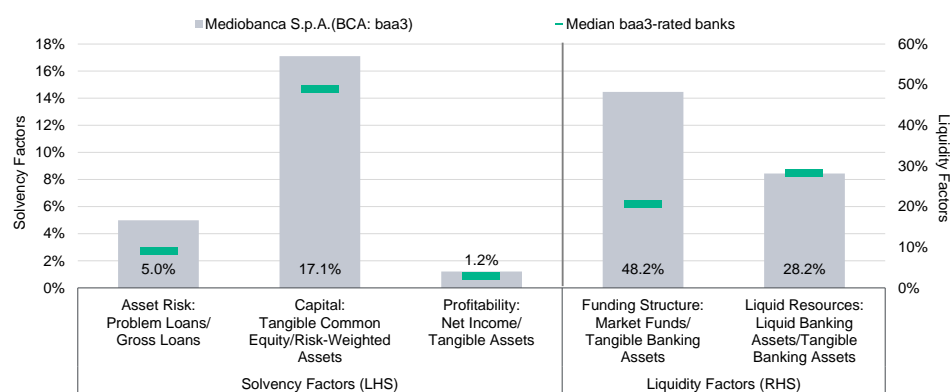
[Mediobanca S.p.A.](#)'s Baa1 long-term senior unsecured debt and deposit ratings reflect the bank's standalone Baseline Credit Assessment (BCA) of baa3, very low loss-given-failure (LGF) for both debt classes, which results in a two-notch uplift, and our assessment of a low probability of support from the [Government of Italy](#) (Baa3 stable), which results in no further uplift.

The outlooks on the issuer and senior unsecured ratings are negative, reflecting the deteriorating operating environment in Italy because of the coronavirus outbreak and the associated downside risks to the bank's standalone credit profile. However, the outlook on the long-term deposit ratings is stable because even though our LGF analysis suggests an uplift of three notches from the BCA, these ratings are constrained at two notches above Italy's sovereign rating of Baa3 and, therefore, are unlikely to be downgraded in the event of a potential one-notch downgrade of the BCA.

The baa3 BCA reflects the bank's good capitalisation, sound and diversified profitability, and 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, which is mitigated in part by the liquidity of the securities, and their 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

- » Deteriorating operating environment
- » High reliance on wholesale funding
- » High borrower concentration and large stake in Generali

Outlook

The negative outlook on Mediobanca's long-term senior unsecured and issuer ratings reflects the possibility that, given the magnitude of the coronavirus pandemic, the bank will be affected by the deterioration in the operating environment and the associated rise in problem loans, declining capital and falling profitability.

The bank's long-term deposit rating carries a stable outlook because the rating is currently capped at two notches above Italy's government bond rating of Baa3, and therefore is unlikely to be downgraded in the event of a lower BCA.

Factors that could lead to an upgrade

An upgrade of Mediobanca's senior unsecured and issuer ratings is unlikely given the negative outlook.

Moreover, Mediobanca's senior unsecured and deposit ratings already exceed Italy's sovereign rating by two notches and are constrained at that level under our banks methodology. This reflects our view that the expected loss of the bank's debt and deposits is unlikely to be significantly lower than that of the sovereign's own debt.

Factors that could lead to a downgrade

Mediobanca's BCA could be downgraded if there is a material deterioration in the operating environment leading to a worsening of asset quality and profitability, and reduced loss-absorption capacity. A downgrade of the BCA could also be triggered by a significant reduction in capitalisation or a material deterioration in liquidity.

A downgrade of Mediobanca's BCA could lead to a downgrade of the bank's senior unsecured and issuer ratings. 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.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

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

	12-19 ²	06-19 ²	06-18 ²	06-17 ²	06-16 ²	CAGR/Avg. ³
Total Assets (EUR Million)	80,641.0	76,606.4	69,939.7	67,957.6	66,154.7	5.8 ⁴
Total Assets (USD Million)	90,519.3	87,239.1	81,658.5	77,509.0	73,494.6	6.1 ⁴
Tangible Common Equity (EUR Million)	8,299.3	8,310.0	8,140.2	7,685.3	7,234.7	4.0 ⁴
Tangible Common Equity (USD Million)	9,315.9	9,463.4	9,504.1	8,765.5	8,037.4	4.3 ⁴
Problem Loans / Gross Loans (%)	4.4	4.8	5.2	5.5	5.5	5.1 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	17.1	17.4	16.0	13.8	12.4	15.3 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	21.5	23.5	23.1	23.9	24.7	23.4 ⁵
Net Interest Margin (%)	2.0	2.0	2.1	2.0	1.9	2.0 ⁵
PPI / Average RWA (%)	2.4	2.0	2.0	1.7	1.5	1.9 ⁶
Net Income / Tangible Assets (%)	1.2	1.1	1.3	1.1	0.9	1.1 ⁵
Cost / Income Ratio (%)	52.5	56.8	53.6	56.8	54.1	54.8 ⁵
Market Funds / Tangible Banking Assets (%)	53.2	48.2	49.2	49.8	59.1	51.9 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	28.7	28.2	30.3	32.7	29.9	30.0 ⁵
Gross Loans / Due to Customers (%)	207.5	198.4	207.2	203.7	249.0	213.2 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.

Sources: Moody's Investors Service and company filings

Profile

Mediobanca is a medium-sized financial group with total assets of €82 billion as of December 2019. 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 a majority stake in Ram Active Investments in Switzerland, having previously bought Cairn Capital in the UK.

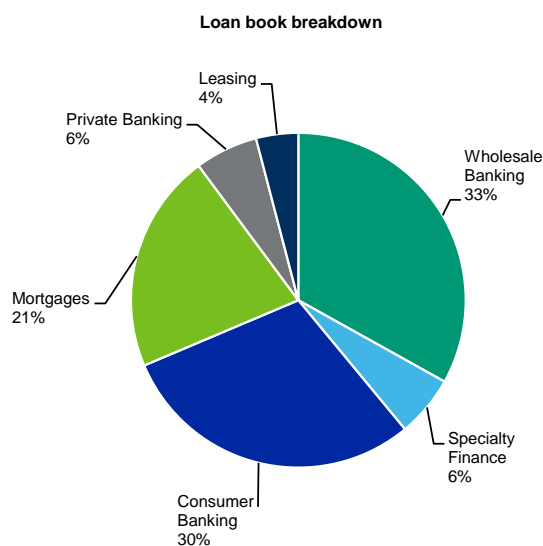
Mediobanca's main divisions are:

- » 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 providers in Italy; its clients are usually large Italian corporates with an international footprint. Mediobanca recently started purchasing Italian nonperforming 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 product 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 (1) other banks and the postal network, (2) its own branch network under the CheBanca brand, and (3) agents.
- » Wealth Management, which includes retail banking through its subsidiary CheBanca! (deposits and residential mortgages); the Mediobanca Private brand, which focuses on high-net-worth individuals; and Monaco-based private bank Compagnie Monegasque de Banque – 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 booked at around €3.8 billion – All other investments in this division are valued at less than €0.6 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.

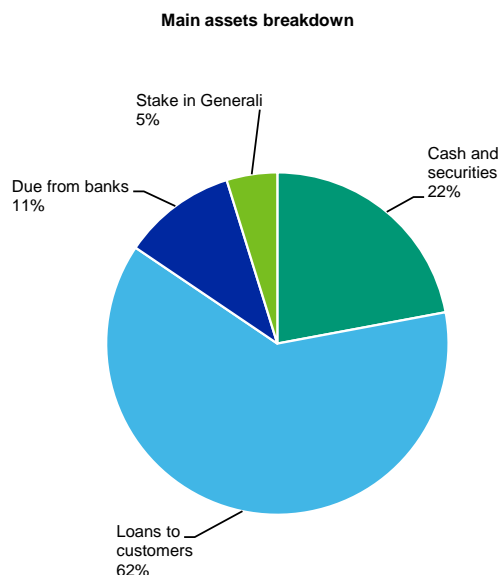
Exhibit 3

Mediobanca has a diversified business model

Main assets and loan book breakdown as of December 2019



Source: Bank's reports



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 Asset Risk score to Mediobanca, one notch below the Macro-Adjusted score. The score reflects a problem loan ratio of 4.4% as of the end of December 2019, a level lower than the Italian sector average of around 8%, although higher than the European Union average of just below 3%, according to European Banking Authority data (Risk Dashboard - Q3 2019).

Mediobanca holds a 13% stake in Generali booked at €3.8 billion; however, Generali's stock price has fallen significantly since the coronavirus outbreak and the 13% stake now has a market value of around €2.6 billion. Mediobanca deducts from its CET1 €2.2 billion, around 58% of its stake in Generali.

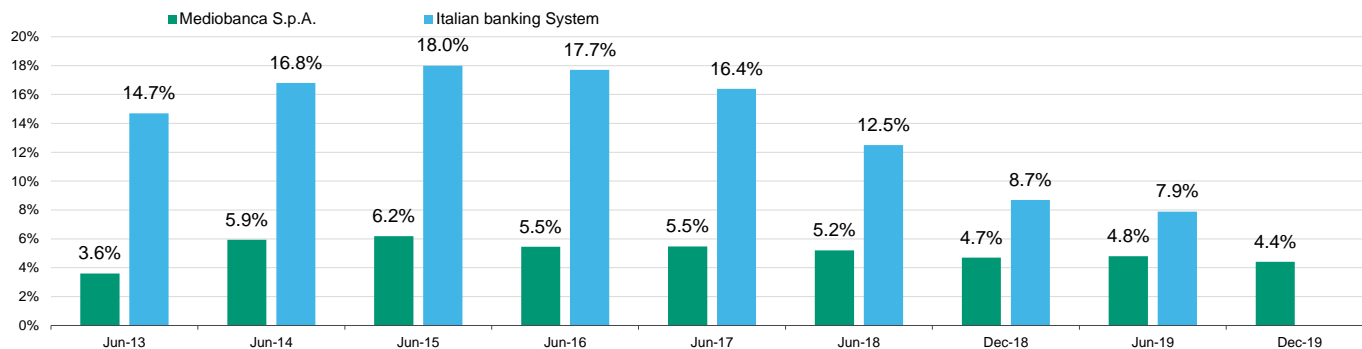
Our ba1 score also reflects:

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

Exhibit 5

NPLs are much lower than the Italian average

NPLs as a percentage of gross loans



Sources: Moody's Investors Service, Bank of Italy and 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 the trend we expect in the bank's capital ratios. We factor in the bank's growth strategy, including acquisitions, even though the bank has a good track record of internal capital generation, thanks to its sound profitability.

Mediobanca reported a 14.1% CET1 ratio and a total capital ratio of 17.1% as of the end of December 2019, which we consider 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%, one of the lowest among the banks supervised by the European Central Bank (ECB), and the capital conservation buffer of 2.50%). Mediobanca typically distributes dividends in November as its financial year ends on 30 June; therefore, the bank has not yet made any announcement regarding the potential suspension of dividend payments like other European banks have done following the recommendation from the ECB.

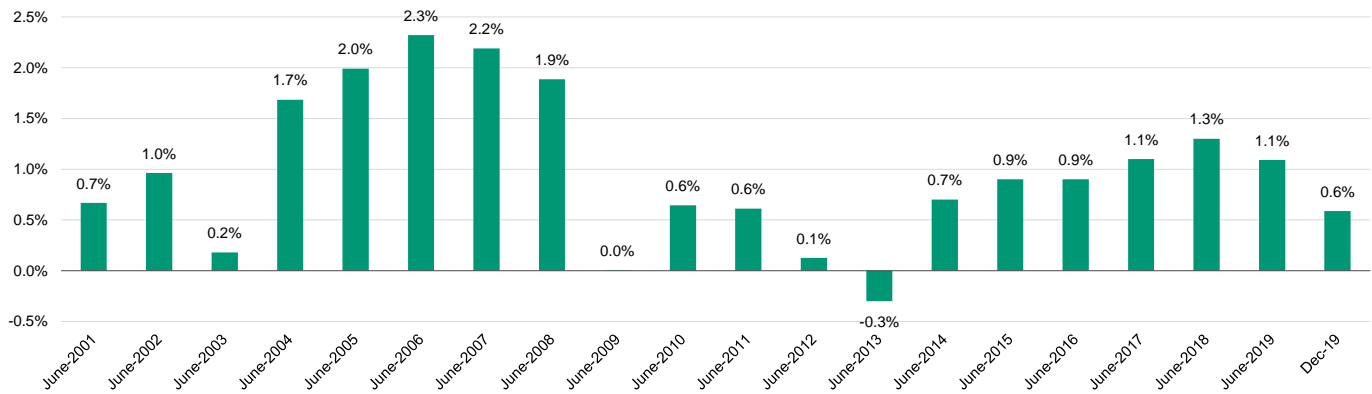
Sound and diversified profitability

The score for Mediobanca's Profitability is baa3, one notch below the Macro-Adjusted score. The assigned score reflects our medium-term view on Mediobanca's return on tangible assets, including a possible reduction in its stake in Generali, which is a material contributor to Mediobanca's profitability: in the second half of 2019, principal investing generated a profit of €187 million. Mediobanca presented its new 2019-23 business plan in November 2019, which primarily focuses on growth in revenue and earnings, and which could include a reduction in its stake in Generali to finance acquisitions. The bank did not announce any revision of its business plan guidelines following the coronavirus outbreak. That said, the bank's profitability is likely to be materially affected given the importance of its consumer finance activity, which accounts for around 30% of the loan book.

In the last three years, Mediobanca reported an average return on tangible assets of about 115 basis points, which is sound in the Italian and European contexts. Furthermore, despite a difficult operating environment, particularly in Italy, Mediobanca has a good track record of generating profit (Exhibit 5). Since 2001, the bank has reported only one net annual loss (in 2013). This was because of losses on the disposal of large stakes in companies, rather than by loan impairments, trading losses, restructuring costs or conduct-related fines.

Exhibit 6

Good track record of profit Return on tangible assets

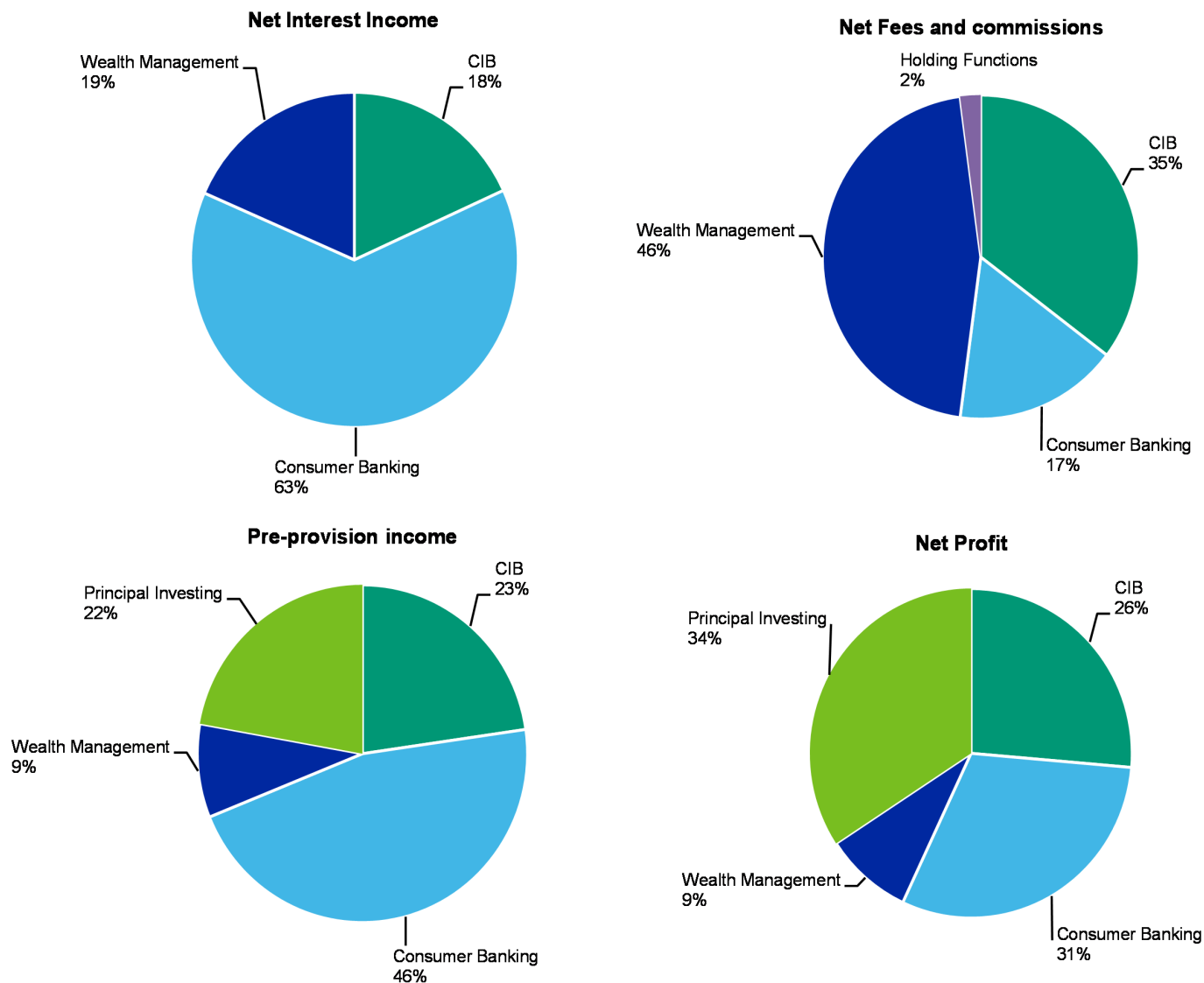


Sources: Moody's Investors Service and bank's reports

Mediobanca's diversified business model has supported the bank's earnings. The bank has also significantly expanded its retail business over the last few years by growing its retail bank subsidiary CheBanca!. Nevertheless, the high concentration in Generali represents a material dependence on earnings. Moreover, we believe that the coronavirus outbreak will put strong pressure on Mediobanca's commission income, as many clients are moving assets from wealth management products to deposits given the high market volatility.

Exhibit 7

Income breakdown by business line



Sources: Moody's Investors Service and 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 to some extent mitigates the risk stemming from its high reliance on market funding.

Despite Mediobanca's efforts in recent years to increase its share of deposit funding by creating CheBanca! in 2008, the bank is still highly reliant on wholesale funding. Market funds account for 48% of tangible banking assets, which is a key weakness. This risk is partially mitigated by the maturity profile of its funding, the short duration of its loan book and its ample liquidity. Mediobanca has also drawn €4.3 billion of ECB funding (TLTRO), which finances around 5% of total assets.

Mediobanca's Liquid Resources score is baa1, one notch above the baa2 Macro-Adjusted score to reflect the expected trends. As of the end of December 2019, the bank reported a liquidity coverage ratio of 193% and a net stable funding ratio of 103%.

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. Moreover, we regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

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 bank'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 bank's default.

Mediobanca's governance changed in H2 2019: in November 2019, Leonardo Del Vecchio (executive chairman of [EssilorLuxottica](#)) became the main shareholder with a 9.9% stake, while Unicredit entirely divested its participation in Mediobanca. Overall, 75% of shareholders are institutional investors (mainly from Italy and the US) 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.

Support and structural considerations

Loss Given Failure Analysis

Mediobanca is subject to the EU Bank Recovery and Resolution Directive, which we consider 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 deposits to 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 because of 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 in the absence of the constraint indicated in our methodology, according to which deposit ratings are typically constrained to two notches above the sovereign bond rating and hence an uplift limited to two notches.

We believe that Mediobanca's senior unsecured debt is likely to face very low loss-given-failure because of 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 benefit from considerable subordination and would be three notches above the baa3 BCA, but we constrain this 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 than 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 buffer 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 judgement. When read in conjunction with our research, a fulsome presentation of our judgement 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 8

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	5.0%	baa3	↔	ba1	Single name concentration		
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	17.1%	a1	↔	baa1	Expected trend	Stress capital resilience	
Profitability							
Net Income / Tangible Assets	1.2%	baa2	↔	baa3	Expected trend		
Combined Solvency Score		baa1		baa3			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	48.2%	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		39,369	49.4%	41,663	52.3%		
Deposits		22,491	28.2%	20,197	25.3%		
Preferred deposits		16,644	20.9%	15,811	19.8%		
Junior deposits		5,848	7.3%	4,386	5.5%		
Senior unsecured bank debt		13,094	16.4%	13,094	16.4%		
Dated subordinated bank debt		2,355	3.0%	2,355	3.0%		
Equity		2,391	3.0%	2,391	3.0%		
Total Tangible Banking Assets		79,700	100.0%	79,700	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	27.9%	27.9%	27.9%	27.9%	3	3	3	3	0	baa1
Counterparty Risk Assessment	27.9%	27.9%	27.9%	27.9%	3	3	3	3	0	baa2 (cr)
Deposits	27.9%	6.0%	27.9%	22.4%	2	3	3	3	0	baa1
Senior unsecured bank debt	27.9%	6.0%	22.4%	6.0%	2	2	2	2	0	baa1
Junior senior unsecured bank debt	6.0%	6.0%	6.0%	6.0%	-1	-1	-1	0	0	baa3
Dated subordinated bank debt	6.0%	3.0%	6.0%	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	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 9

Category	Moody's Rating
MEDIOBANCA S.P.A.	
Outlook	Stable(m)
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 -Dom Curr	Baa3
Junior Senior Unsecured MTN	(P)Baa3
Subordinate MTN	(P)Ba1
Other Short Term	(P)P-2
MEDIOBANCA INTERNATIONAL (LUXEMBOURG) SA	
Outlook	Negative
Bkd Senior Unsecured	Baa1
Bkd Commercial Paper -Dom Curr	P-2
Bkd Other Short Term	(P)P-2

Source: Moody's Investors Service

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