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CREDIT OPINION
20 May 2022

Update

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RATINGS

Mediobanca S.p.A.

Domicile	Milan, Italy
Long Term CRR	Baa1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Baa1
Type	Senior Unsecured - Fgn 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.

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Mediobanca S.p.A.

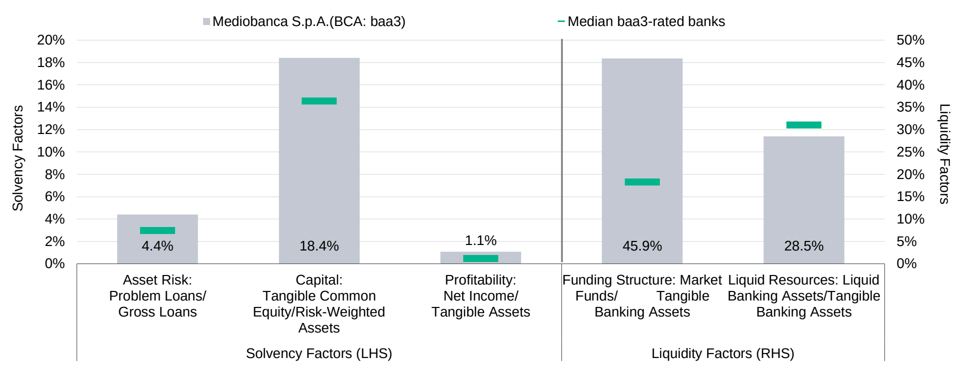
Update to credit analysis

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; extremely low loss-given-failure under Moody's Advanced Loss Given Failure (LGF) analysis resulting in three notches of uplift for the deposits, but which are capped at Baa1, two notches above Italy's sovereign rating of Baa3 as per our Banks Methodology and very low loss-given-failure resulting in two notches of uplift for the senior unsecured rating; and our assessment of a low probability of support from the Government of Italy (Baa3 stable), which results in no further uplift because of the aforementioned cap.

The baa3 BCA reflects the bank's good capitalisation, sound and diversified profitability, and high reliance on wholesale funding. The BCA also factors in the bank's large stake in Assicurazioni Generali S.p.A. (Generali, insurance financial strength rating Baa1, stable). This investment exposes Mediobanca to idiosyncratic risk, which is mitigated by the securities' liquidity and 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

Outlook

The outlook on Mediobanca's ratings is stable, reflecting our expectation that the bank's level of problem loans and profitability will remain broadly stable over the next 12-18 months. The stable outlook also reflects Mediobanca's good capitalisation that would allow to absorb further asset quality deterioration.

The outlook on the long-term deposit ratings is stable also because even though our Loss Given Failure (LGF) analysis suggests a three-notch uplift 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.

Factors that could lead to an upgrade

An upgrade of Mediobanca's ratings is unlikely, as the 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 losses on the bank's debt and deposits are unlikely to be significantly lower than 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 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 BCA could be downgraded in case of a material deterioration in its 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.

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]

	12-21[2]	06-21[2]	06-20[2]	06-19[2]	06-18[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	86,197.8	79,448.4	76,997.9	76,215.9	69,939.7	6.2[4]
Total Assets (USD Million)	97,671.2	94,218.0	86,480.5	86,794.4	81,658.5	5.2[4]
Tangible Common Equity (EUR Million)	9,189.9	9,337.5	8,457.9	8,310.0	8,140.2	3.5[4]
Tangible Common Equity (USD Million)	10,413.1	11,073.3	9,499.6	9,463.4	9,504.1	2.6[4]
Problem Loans / Gross Loans (%)	3.7	4.0	4.8	5.1	5.2	4.6[5]
Tangible Common Equity / Risk Weighted Assets (%)	18.4	19.1	17.0	17.4	16.0	17.6[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	17.4	18.0	23.0	23.5	23.1	21.0[5]
Net Interest Margin (%)	1.9	1.9	2.0	2.0	2.1	2.0[5]
PPI / Average RWA (%)	2.4	2.4	2.0	2.0	2.0	2.2[6]
Net Income / Tangible Assets (%)	1.2	1.1	0.9	1.1	1.3	1.1[5]
Cost / Income Ratio (%)	53.7	54.2	56.9	56.8	53.6	55.0[5]
Market Funds / Tangible Banking Assets (%)	47.4	45.9	47.1	48.6	49.2	47.6[5]
Liquid Banking Assets / Tangible Banking Assets (%)	30.7	28.5	28.2	31.7	30.3	29.9[5]
Gross Loans / Due to Customers (%)	176.9	184.2	187.9	191.5	207.2	189.5[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 because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Investors Service and company filings

Profile

Mediobanca is a medium-sized financial group with reported total assets of €89.1 billion as of December 2021. The group is internationally diversified and provides its clients with lending and other services in financial advisory and asset management. In April 2019, Mediobanca announced the acquisition of 66% of the 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. In August 2021 Mediobanca also closed the acquisition of ByBrook Capital, a European distressed debt manager based in London. As of December 2021, Italy accounted for 48.4% of the group's corporate lending portfolio.

Mediobanca's main divisions are:

» Corporate and Investment Banking (€131.7 million net profit in the six months to December 2021), which focuses on lending, capital market activities, and advisory services to large corporate clients — Mediobanca has preserved its traditional leading positioning in Corporate & Investment Banking in Italy, while the franchise has been enhanced in last few years on Italian mid caps and mid/large caps in France and Iberia, also leveraging on synergies with Private Banking. The division provides services in Wholesale Banking[1] and Specialty Finance[2] areas.

» Consumer Banking (€190.1 million net profit in the six months to December 2021). This division operates only in Italy, where it is positioned among the top three players in the market in terms of lending volumes, 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. It provides retail clients with the complete range of consumer credit products, namely personal loans, salary-backed finance, etc. through its subsidiaries Compass Banca and Compass RE.

» Wealth Management (€72.4 million net profit in the six months to December 2021), which includes Premier banking through its subsidiary CheBanca! (wealth management services to affluent and wealth customers including asset management, deposits and residential mortgages); the Mediobanca Private brand, which focuses on high-net-worth individuals/families with a synergic approach with CIB; and Cairn Capital, Mediobanca SGR, Mediobanca Management Company, Compagnie Monégasque de Gestion, CMB Asset Management and RAM Active Investment that focuses on growing its wealth management and alternative business, targeting particularly affluent clients.

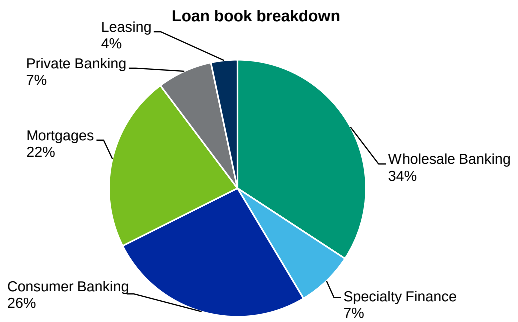
» Principal Investing (€184.6 million net profit in the six months to December 2021), that combines the bank's portfolio of equity investments and holdings. The main holding of the division is the 12.9% share in Assicurazioni Generali S.p.A., valued at around €3.8 billion.

» Holding Function. It consists of the bank's Treasury and Asset and Liability Management operations (as part of Mediobanca S.p.A.), which seek to optimize funding and liquidity processes; it also includes all costs relating to group staffing and management functions based at Mediobanca S.p.A., and continues to include the leasing operations (headed by SelmaBipiemme Leasing S.p.A.) and the services and minor companies (Mediobanca Innovation Services and Prominvestment S.p.A.). Since 1 January 2019, the division also includes the corporate services area (performed by Spafid Connect).

Exhibit 3

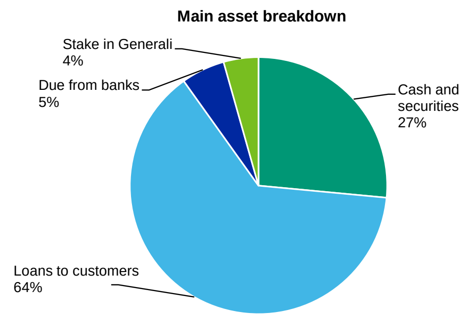
Mediobanca has a diversified business model

Around half of the group's activities are retail



Source: Bank's reports

Exhibit 4



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 +), as well as 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. This reflects our expectation of moderate asset quality deterioration in the Italian banking system due to the current environment of high inflation, exacerbated by the military conflict in Ukraine. However, Mediobanca has no material direct exposure to Russia/Ukraine.

The score also reflects a reported problem loan ratio of 2.8% as of the end of December 2021, lower than the Italian sector average of around 3.1% but higher than the European Union average of 2.0%, according to European Banking Authority (Risk Dashboard - Q4 2021).

Mediobanca holds a 12.9% stake in Generali booked at €3.8 billion as of December 2021; based on Generali's stock price, the 12.9% stake had a market value close to the book value as of December 2021.

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

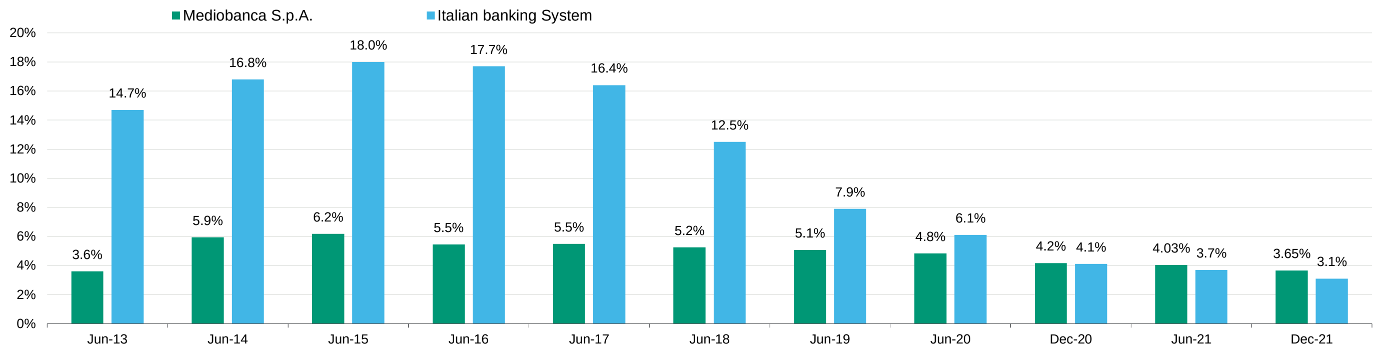
» idiosyncratic risk resulting from the stake in Generali

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

Exhibit 5

Moody`s adjusted NPLs ratio is close to the Italian banking system average

NPLs as a percentage of gross loans



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

Good capitalisation, with large buffers over prudential requirements

We assign a score to Mediobanca’s Capital of a3, three notches below the aa3 Macro-Adjusted score. The assigned score reflects Mediobanca's good capital ratios, its growth strategy, including through acquisitions, and its good track record of internal capital generation owing to its sound profitability, but also our forward-looking view on capital's expected trend and stress resilience.

Mediobanca reported a transitional phased-in 15.4% CET1 ratio and a total capital ratio of 17.7% as of the end of December 2021 (fully loaded ratios at 14.1% and 16.6%, respectively). We consider it strong as it is largely above its minimum CET1 Supervisory Review and Evaluation Process (SREP) requirement of 7.90% on a consolidated basis, which includes the capital conservation buffer of 2.50%.

Capital ratios slightly decreased over the last six months, when CET1 ratio was 16.3%, mainly because of provisions made for the 70% dividend payout (-78 basis points), the share buyback launched after the cancellation of 22.6 million treasury shares held by the bank (-64 basis points), the strong growth in assets (-32 basis points), the higher deduction for the Assicurazioni Generali investment (-20 basis points), and the Bybrook acquisition (-11 basis points). The negative impacts on the capital ratio were partially counterbalanced by Mediobanca's net income for the period (+111 basis point). In its 2019-2023 stretegic plan, Mediobanca set a target CET1 ratio of minimum 13.5%.

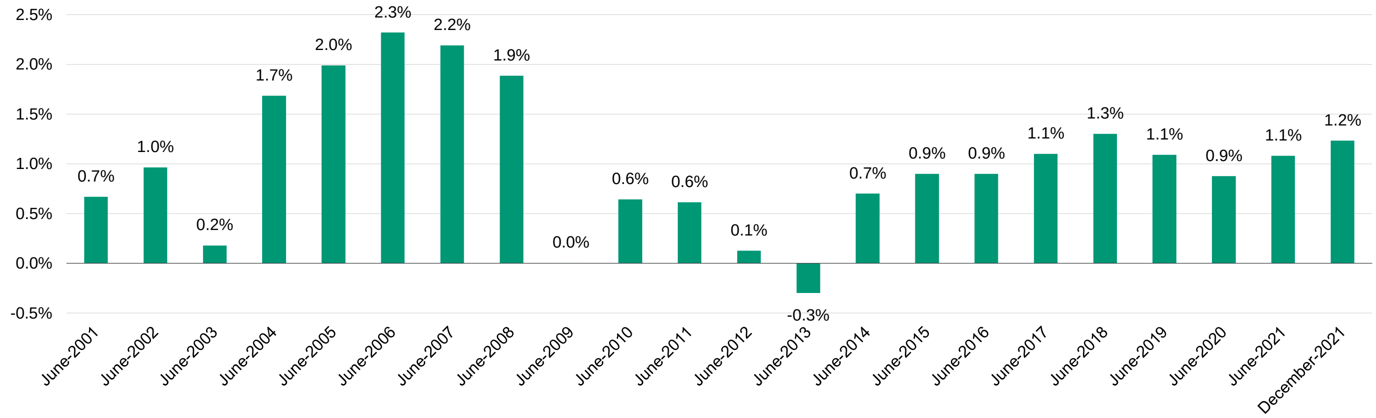
Sound and diversified profitability

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 six months ending in December 2021[3], principal investing generated a net profit of €185 million, recording a +44% with respect to last year mostly attributable to extraordinary negative charges due to the disposal of BSI that affected results for the first half of 2021, and to the contribution of the improved performance by Generali.

Mediobanca presented its 2019-23 business plan in November 2019, which primarily focuses on growth in revenues and earnings, and which might involve the reduction in its stake in Generali to finance large scale acquisitions. The bank did not announce any revision of its business plan guidelines following the coronavirus pandemic.

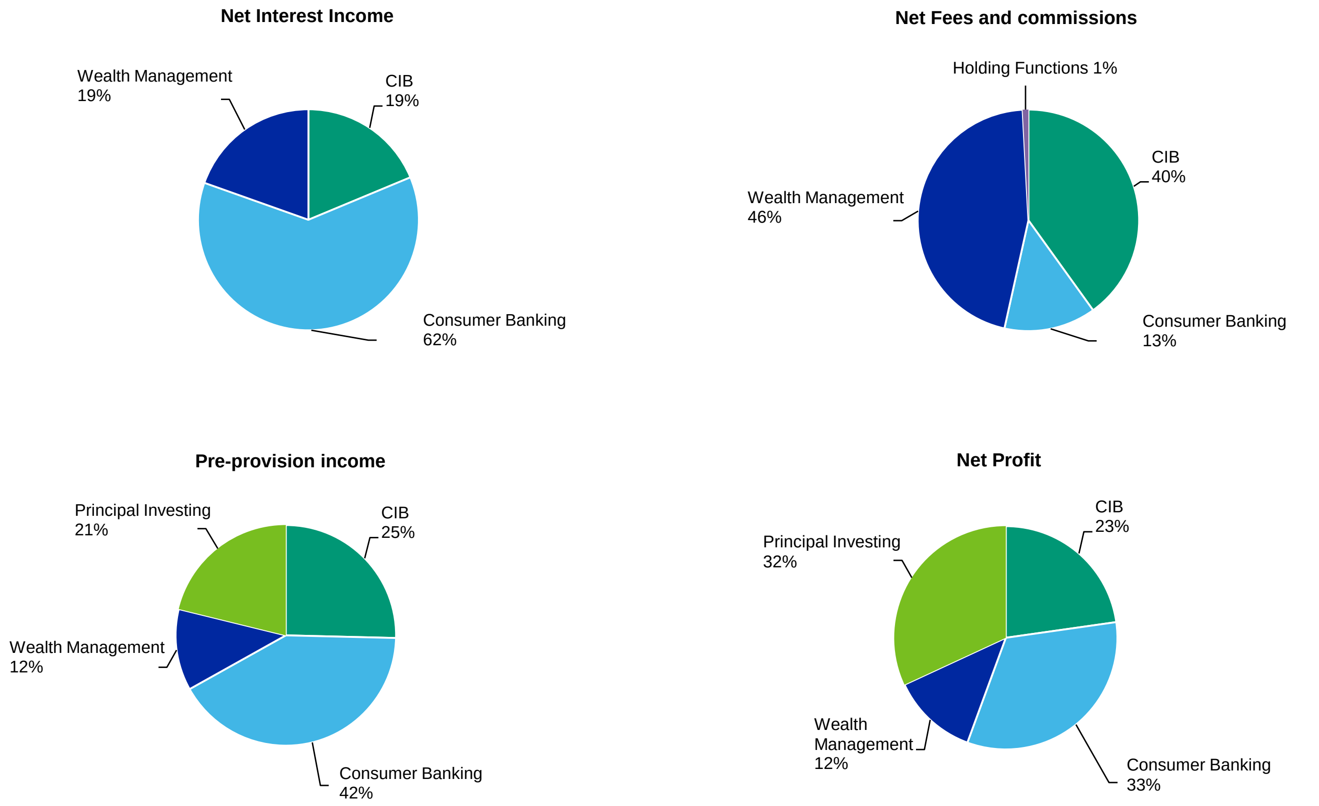
In the last three years, Mediobanca reported an average return on tangible assets of almost 114 bps, which is sound in the Italian and European contexts. Furthermore, despite a difficult operating environment, particularly in Italy, Mediobanca has a good track record of generating profit (see Exhibit 5), even though this is partly due to the material contribution to income from the stake in Generali, with the principal investing division generating €184.6 million net profit in the six months to December 2021.

Exhibit 6
Good track record of profit
Return on tangible assets



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

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 b2, in line with the Macro-Adjusted score, reflecting the relatively high reliance on wholesale funding compared to other Italian banks.

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, with a Moody's-calculated gross loans to deposit ratio of around 170%. Market funds as of December 2021 accounted for 47.4% of tangible banking assets, which is a key weakness. This risk is mitigated by the maturity profile of its funding, the short duration of its loan book and its adequate liquidity. Mediobanca has a minimum requirement for own funds and eligible liabilities (MREL) of 21.85% of risk-weighted assets, which is covered for 95% by subordinated liabilities and own funds. The bank's buffer is well above the requirement, with the reported MREL ratio above 30% as of December 2021.

Mediobanca has also drawn €8.5 billion of European Central Bank (ECB) funding (TLTRO III) as of end December 2021, increased from the €6.2 billion as of December 2020, which finances around 9.5% of total assets. In our banks' ratings and assessments analysis, we deduct the part of ECB TLTRO that is deposited back at the ECB (in excess to the ordinary amount) from banks' funding ratios, liquidity ratios, and total banking assets (TBAs). We consider that this resource, which is not used to fund a bank's normal activity but rather to benefit from current attractive remuneration terms, will only be relied upon temporarily.

Mediobanca's Liquid Resources score is baa2, in line with the Macro-Adjusted score, reflecting the bank's strong liquidity. As of the end of December 2021, the bank reported a liquidity coverage ratio of 162% and a net stable funding ratio of 110%.

Environmental, social and governance considerations

Environmental

In line with our general view of the banking sector, Mediobanca has low exposure to environmental risks (See our Environmental heat map for details).

Social

We expect Mediobanca to face moderate social risks, in line with our view of the banking sector (See our Social heat map for details). The most relevant social risks for banks arise from the way they interact with their customers. Moreover, we regard the pandemic as a social risk under our environmental, social and governance (ESG) framework, given the substantial implications for public health and safety.

Governance

Mediobanca's governance changed in the last twelve months: in November 2019, Leonardo Del Vecchio (executive chairman of EssilorLuxottica, long-term Issuer rating a2, stable) gradually increased his stake in the bank and as of April 2022, he was the main single shareholder with an almost 20% stake, while UniCredit S.p.A. (Baa1 / Baa1 stable, baa3) entirely divested its participation in Mediobanca in 2019. Francesco Gaetano Caltagirone owns a 5.5% stake. These changes in the shareholding structure could have an impact on the bank's strategy going forward. Overall, 50% of shareholders are institutional investors (mainly from Italy, UK and the US) and 16.8% are retail and other investors.

Support and structural considerations

Loss Given Failure (LGF) 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 post-failure losses 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.

In our LGF analysis, we deduct from the banks' TBAs, the part of ECB TLTROs that is deposited back at the ECB, in excess to the ordinary amount of ECB deposits. We consider that these amounts are not used by banks to fund their balance sheet activities but rather to benefit from attractive remuneration terms.

Under these assumptions, Mediobanca's deposits are likely to face extremely 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 ratings in the absence of the constraint whereby ratings are constrained to two notches above the sovereign bond rating as per our Banks Methodology. Hence uplift from the current BCA is limited to two notches (Baa1).

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 (Baa1).

Our LGF analysis shows a moderate loss given failure for junior senior debt and a high loss given failure for subordinated debt of Mediobanca, given the small volume of debt and limited protection from more subordinated instruments and residual equity. This results in zero notch and less one notch from the bank's baa3 BCA, respectively.

Counterparty Risk Ratings (CRRs)

Mediobanca's CRRs are 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 our 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 expectation for low probability of government support.

Counterparty Risk (CR) Assessment

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

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

According to our banks 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.

Government support considerations

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

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

Methodology and scorecard

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	4.4%	baa3	↔	ba1	Single name concentration	
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	18.4%	aa3	↔	a3	Expected trend	Stress capital resilience
Profitability						
Net Income / Tangible Assets	1.1%	baa2	↔	baa3	Expected trend	
Combined Solvency Score		a3		baa2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	45.9%	b2	↔	b2	Term structure	Market funding quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	28.5%	baa2	↔	baa2	Expected trend	
Combined Liquidity Score		ba2		ba2		
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	40,715	47.7%	45,316	53.1%
Deposits	28,956	33.9%	26,002	30.5%
Preferred deposits	21,427	25.1%	20,356	23.9%
Junior deposits	7,528	8.8%	5,646	6.6%
Senior unsecured bank debt	10,510	12.3%	9,363	11.0%
Junior senior unsecured bank debt	1,000	1.2%	1,000	1.2%
Dated subordinated bank debt	1,599	1.9%	1,099	1.3%
Equity	2,560	3.0%	2,560	3.0%
Total Tangible Banking Assets	85,340	100.0%	85,340	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	23.0%	23.0%	23.0%	23.0%	3	3	3	3	0	baa1
Counterparty Risk Assessment	23.0%	23.0%	23.0%	23.0%	3	3	3	3	0	baa2 (cr)
Deposits	23.0%	5.5%	23.0%	16.4%	2	3	3	3	0	baa1
Senior unsecured bank debt	23.0%	5.5%	16.4%	5.5%	2	2	2	2	0	baa1
Junior senior unsecured bank debt	5.5%	4.3%	5.5%	4.3%	0	0	0	0	0	baa3
Dated subordinated bank debt	4.3%	3.0%	4.3%	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	Baa1
Junior senior unsecured bank debt	0	0	baa3	0	Baa3	(P)Baa3
Dated subordinated bank debt	-1	0	ba1	0	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
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	Baa1
Junior Senior Unsecured -Dom Curr	Baa3
Junior Senior Unsecured MTN	(P)Baa3
Subordinate -Dom Curr	Ba1
Commercial Paper -Dom Curr	P-2
Other Short Term	(P)P-2
MEDIOBANCA INTERNATIONAL (LUXEMBOURG) SA	
Outlook	Stable
Bkd Senior Unsecured	Baa1
Bkd Commercial Paper -Dom Curr	P-2
Bkd Other Short Term	(P)P-2

Source: Moody's Investors Service

Endnotes

1 comprising investment banking (including lending, advisory and capital market activities) and proprietary trading (businesses performed by Mediobanca and Mediobanca International, Mediobanca Securities and Messier Maris & Associés).

2 comprises factoring and credit management (including nonperforming loan portfolio acquisition and management) performed by MBFACTA and MBCredit Solutions.

3 Mediobanca reports full year financial statements in June and not in December like most other banks

REPORT NUMBER 1313169

CLIENT SERVICES

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