S&P Global Ratings

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Summary:

Mediobanca SpA

Primary Credit Analyst:
Regina Argenio, Milan (39) 02-72111-208; regina.argenio@spglobal.com

Secondary Contact:
Mirko Sanna, Milan (39) 02-72111-275; mirko.sanna@spglobal.com

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Summary:

Mediobanca SpA

SACP	bbb
Anchor	bbb-
Business Position	Adequate 0
Capital and Earnings	Adequate 0
Risk Position	Strong +1
Funding	Average 0
Liquidity	Adequate

\+

Support	0
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

\+

Additional Factors	0

Issuer Credit Rating
BBB/Stable/A-2

Major Rating Factors

Strengths:	Weaknesses:
• Sound asset quality ratios. • Satisfactory capitalization. • Improving earning stability.	• Higher reliance on wholesale funding than domestic peers. • Single-name concentration • Business concentraion in Italy.

Outlook: Stable

S&P Global Ratings' outlook on Mediobanca is stable reflecting our expectation that the bank's asset quality will continue to outperform the Italian financial system average, in line with its track record, while preserving its sound capitalization in the next 24 months. We expect its risk-adjusted capital (RAC) ratio to remain around 8% over the same period.

We could raise the rating on Mediobanca if we raised the ratings on Italy and, at the same time, we considered that Mediobanca's capitalization had materially strengthened, leading our measure of the bank's RAC ratio to increase above 10%. We could also take this action if the Italian operating environment improved, ultimately resulting in a strengthening of bank's creditworthiness and, therefore, leading to a higher anchor for the bank.

We could lower the ratings if we downgraded Italy, as we believe it is unlikely that Mediobanca will continue to fulfil its obligations in a timely manner in the event of an Italian sovereign default, given its domestic concentration. Although appears unlikely at this stage, we could also lower the ratings on Mediobanca if we anticipated that the bank's superior asset quality had deteriorated or if we anticipated that it could not maintain its RAC ratio sustainably above 7%, most likely due to material expansion of the bank's business not sustained by internal capital generation.

Rationale

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

Mediobanca's superior asset quality is the result of the bank's prudent risk selection process, strict controls and efficient nonperforming exposure (NPEs) management. This results in a considerably lower stock of NPEs than peers. As of September 2017, the NPE ratio was 5.4% compared with an average 18.7% for Italian banks.

In addition, the bank's specific coverage of NPEs, at about 55% as of September 2017, compares well with Mediobanca's domestic peers'. We expect the bank to maintain lower-than-Italian average cost of risk at about 80 basis points over the next 24 months. That said, Mediobanca's shows some single-name concentration in its equity and loan book, which adds some risk in our view.

We expect Mediobanca to maintain satisfactory capitalization overall, in relation to its risk profile. Specifically, we forecast that its RAC ratio will remain around 8.0-8.5% in June 2019 from about 8.2% in June 2016. This incorporates the benefits of the ongoing reduction in equity exposure. We are also factoring in that capital above about 12% Common Equity Tier 1 ratio will be used to finance acquisition to expand its wealth management business or distributed to shareholders, if no acquisition materializes.

We also consider that Mediobanca will continue to expand in the retail business and benefit from a solid domestic corporate and investment banking franchise. We anticipate that Mediobanca's successful completion of this business plan would allow the bank to improve its profitability prospects as well as its earnings stability.

The bank has a higher-than-domestic-peers' recourse to wholesale funding, with 25.9% of its funding coming from bonds placed with institutional investors, 9% from deposits from the European Central Bank, and 12.8% from interbank deposits, as of Sept. 30, 2017. That said, its demonstrated capacity to obtain retail funds partly offsets this risk, in our view. In addition, the bank's long-term funding maturities are well spread over time and we calculated that the bank's broad liquid assets covered by more than 1x its short-term wholesale funding, as of end-June 2017.

Related Criteria

- 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: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- 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
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Positive Actions Taken On Italian Banks On Reduced Economic Risks And Sovereign Upgrade, Oct. 31, 2017
- Italy Upgraded To 'BBB/A-2' On Firming Economic Recovery; Outlook Stable, Oct. 27, 2017
- The ECB's Proposed Guidance For Nonperforming Exposures Could Beef Up Banks' Balance Sheets, Oct. 16, 2017

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-

Additional Contact:
Financial Institutions Ratings Europe; FIG_Europe@spglobal.com