FITCH AFFIRMS MEDIOBANCA AT 'BBB+'; OUTLOOK NEGATIVE

Fitch Ratings-Milan/London-23 March 2017: Fitch Ratings has affirmed Mediobanca S.p.A.'s Long-Term Issuer Default Rating (IDR) at 'BBB+' and Viability Rating (VR) at 'bbb+'. The Outlook on the Long-Term IDR is Negative. A full list of ratings is at the end of this rating action commentary.

In addition, Fitch has assigned Mediobanca a 'BBB+(dcr)' Derivative Counterparty Rating (DCR) as part of its roll-out of DCRs to significant derivative counterparties in western Europe and the US. DCRs are issuer ratings and express Fitch's view of banks' relative vulnerability to default under derivative contracts with third-party, non-government counterparties.

KEY RATING DRIVERS
VR, IDRs, DCR and SENIOR DEBT RATINGS
Mediobanca's IDRs and VR reflect the group's adequate capitalisation and leverage, which are commensurate with the bank's risk profile and are supported by sound internal capital generation. The ratings also reflect relatively strong asset quality by Italian bank standards, with a 5.2% gross impaired loan ratio at end-2016, which compares adequately with international peers, and the group's ample liquidity.

Mediobanca's regulatory capital and Fitch Core Capital (FCC) ratios are adequate given risk concentration in the bank's equity and credit exposures and its business mix, which includes some volatile activities. At end-2016, Mediobanca's phased-in common equity Tier 1 ratio was 12.3% and its FCC ratio 16.1%. Leverage is low by international standards. The group's impaired loans ratio and unreserved impaired loans in relation to FCC are much better than domestic averages.

Mediobanca has traditionally benefited from a strong franchise in specialised businesses in Italy, which provides it with business and revenue diversification. However, proceeds from the bank's large equity stake in Italian insurer Assicurazioni Generali (A-/Stable) remain an important contributor to operating profit. Mediobanca has maintained a strong franchise in Italian corporate and investment banking and consumer finance over several business cycles, and has diversified geographically in selected western and south eastern European countries where it has a direct branch presence. A recently announced strategic plan concentrates on developing a wealth management franchise, which is still in its infancy, including through the integration of recent acquisitions.

During 2016 Mediobanca made several acquisitions to strengthen its alternative asset management and wealth management franchises. These included the acquisition of Barclays' Italian retail operations, which in addition to enlarging Mediobanca's domestic franchise in the mass affluent segment, contributed to diversifying its funding further thanks to acquired customer deposits. In terms of asset quality, the acquisition only included performing exposures.

In Fitch's opinion, the group's risk appetite is conservative given the risks inherent to the bank's businesses and underpinned by coherent underwriting standards. Fitch expects the group's overall risk appetite and profile to remain broadly stable in the medium term, but further growth in the consumer finance and wealth management segments would result in a moderate change in the business mix if the size of the bank's corporate and investment banking remains stable. Corporate and investment banking activities result in high single-name concentration but the bank maintains concentration limits on large credit exposures. Mediobanca continues to reduce its equity participations, which at end-2016 amounted to EUR3.5 billion.

Mediobanca's profitability has remained sound, although it tends to be sensitive to economic and interest rate cycles as well as to international capital markets in general. The increased focus on expanding the group's wealth management activities and business volume outside Italy should compensate for the reduced contribution to operating profit from its equity investments, in particular from Assicurazioni Generali.

Funding is skewed towards wholesale funding and retail funding sourced through third-party distribution channels, but the bank is expanding its own retail deposit base significantly. In our view, funding is adequately diversified, and the bank benefits from its sound franchise and reputation. Refinancing risk is limited and well managed. Liquidity is underpinned by a large portfolio of unencumbered eligible assets available for central bank refinancing, which at end-2016 was EUR11 billion, equal to 15% of total assets.

Fitch has assigned a DCR to Mediobanca since the bank has significant derivatives activity and is a swap counterparty to Fitch-rated transactions. The DCR is at the same level as the Long-Term IDR because in Italy derivative counterparties have no preferential legal status over other senior obligations in a resolution.

The ratings of the senior debt issued by Mediobanca International (Luxemburg) SA are equalised with the parent's Long-Term IDR since the debt is unconditionally and irrevocably guaranteed by Mediobanca, and Fitch expects the parent to honour this guarantee.

SUPPORT RATING (SR) AND SUPPORT RATING FLOOR (SRF)
Mediobanca's SR and SRF reflect Fitch's view that senior creditors cannot rely on receiving full extraordinary support from the sovereign in the event that the bank becomes non-viable. The EU's Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) for eurozone banks provide a framework for resolving banks that require senior creditors participating in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

SUBORDINATED DEBT
Mediobanca's subordinated debt is rated one notch below its VR to reflect below-average recovery prospects for the notes.

RATING SENSITIVITIES
VR, IDRS, DCR AND SENIOR DEBT RATINGS
Mediobanca's Negative Outlook is in line with the Outlook on Italy's sovereign rating. A downgrade of Italy's rating would result in a downgrade of Mediobanca's VR, IDRs, DCR and debt ratings. Mediobanca's ratings would also be downgraded if there was material further deterioration in the economic environment in Italy.

Increased risk appetite, such as by expanding higher-risk activities, for example in non-Italian operations, increasing concentration risk, a less rigorous approach to pricing consumer finance risks or asset quality deterioration could also lead to a downgrade. Significant growth in foreign activities without an adequate tightening of risk controls could also put pressure on the bank's ratings. Deterioration in group liquidity and funding could also result in a downgrade.

SUPPORT RATING AND SUPPORT RATING FLOOR
Any upgrade of the SR and upward revision of the SRF would be contingent on a positive change in the sovereign's propensity to support its banks. While not impossible, this is highly unlikely, in Fitch's view. Because of its limited retail deposit and lending market shares, a change in the

sovereign's propensity to provide support to the banking sector in general would not necessarily mean that the propensity to provide support to Mediobanca increases to the same extent.

SUBORDINATED DEBT
The subordinated debt rating is primarily sensitive to the same factors that would affect the bank's VR. The rating is also sensitive to a change in notching if Fitch changes its assessment of loss severity or non-performance risk.

The rating actions are as follows:

Mediobanca S.p.A.
Long-Term IDR: affirmed at 'BBB+'; Outlook Negative
Short-Term IDR: affirmed at 'F2'
Viability Rating: affirmed at 'bbb+'
Support Rating; affirmed at '5'
Support Rating Floor: affirmed at 'No Floor'
Derivative Counterparty Rating: assigned at 'BBB+(dcr)'
Senior unsecured short-term and long-term debt: affirmed at 'F2'/'BBB+'
Market-linked notes: affirmed at 'BBB+emr'
Subordinated debt: affirmed at 'BBB'

Mediobanca International (Luxemburg) SA
Senior unsecured short-term and long-term debt: affirmed at 'F2'/'BBB+'

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Additional information is available on www.fitchratings.com

Applicable Criteria
Global Bank Rating Criteria (pub. 25 Nov 2016)
https://www.fitchratings.com/site/re/891051