S&P Global
Ratings

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Mediobanca SpA

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Mediobanca SpA

SACP	bbb	+	Support	0	+	Additional Factors	-1

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

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

Issuer Credit Rating
BBB-/Stable/A-3

Major Rating Factors

Strengths:	Weaknesses:
• Sound asset quality ratios. • Satisfactory capitalization. • Solid domestic franchise in selected business segments.	• Comparatively weaker creditworthiness of Italy. • Single-name concentration. • Higher reliance on wholesale funding than domestic peers.

Outlook: Stable

S&P Global Ratings' outlook on Italy-based Mediobanca SpA (Mediobanca) is stable, mirroring that on Italy. The ratings on Mediobanca are constrained by the long-term sovereign credit rating on Italy and we would therefore expect any positive or negative rating action on Italy to trigger a similar action on the bank, all else being equal, in the next 24 months. In this context, and also given the one-notch gap between the long-term rating on the bank and its 'bbb' stand-alone credit profile (SACP), we currently consider it unlikely that changes in the bank's stand-alone creditworthiness would trigger rating actions.

That said, despite the difficult economic and operating environment in Italy, we do not currently envisage any significant downward pressure to our assessment of Mediobanca's SACP, as we anticipate that the bank's asset quality will continue to outperform the Italian financial system average, in line with its track record. We also expect that the bank will be able to absorb the impact of still-high, albeit declining, loan loss provisions while posting positive net profits.

Rationale

The ratings on Mediobanca primarily reflect our view that the bank will maintain stronger-then-peers' asset quality, adequate capitalization, and its strong reputation in Italy.

Mediobanca's nonperforming assets (NPA) ratio was 5.5% as of December 2016, well below the average 19.5% for Italian banks. It benefited from the bank's prudent risk selection process and strict controls. We also consider that Mediobanca will continue to successfully expand in the retail business and enjoy a solid domestic corporate and investment banking (CIB) franchise.

We expect Mediobanca to maintain satisfactory capitalization overall, in relation to its risk profile. We expect its risk-adjusted capital (RAC) ratio to improve to about 7.8%-8.2% by June 2018. Ongoing reduction in equity exposure and continuous organic capital generation will contribute to the strengthening of its capital position, in our view.

The bank has a comparatively higher-than-domestic-peers' recourse to wholesale funding, though its demonstrated capacity to obtain retail funds partly offsets this risk.

The ratings on Mediobanca are currently constrained by the weaker creditworthiness of Italy, where the bank is domiciled and where it runs the majority of its operations. Because of its domestic concentration, we believe it is unlikely that Mediobanca will continue to fulfil its obligations in a timely manner in the event of Italian sovereign default. In such a scenario, we expect that Mediobanca could face losses in its portfolio of government bonds, equity investments, and loans to domestic customers above its capital base. As a result, our long-term rating on Mediobanca is one notch below its 'bbb' SACP.

Anchor:'bbb-', based on the weighted average of economic risks in its countries of operation and the industry risk of Italy where it is domiciled

Our bank criteria use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. We assess the economic risk for Mediobanca based on our opinion of the weighted-average economic risk in the countries in which Mediobanca operates. The economic risk score we apply to Mediobanca is '6' (on a scale of 1 to 10, 1 being the lowest risk). This mainly reflects the bank's high exposure to Italy--around 80% of its exposure--but also its geographic diversification in countries where we see lower economic risk than in Italy. As such, Mediobanca's anchor of 'bbb-' compares favorably with those of most of the Italian banks that operate almost exclusively in Italy.

Italian banks face high economic risks compared with their global peers, in our view. This reflects our opinion that economic growth will remain less supportive for Italian banks in Italy than for those in other European countries that are recovering from a deep recession that eroded the private sector's financial position and creditworthiness. In 2017 and 2018, we forecast that GDP will grow cumulatively by only 1.7% in Italy, compared to 4.3% in Spain and 7.1% in Ireland.

Economic growth remains constrained, in our opinion, by some structural rigidities, the diminished competitiveness of domestic small and midsize enterprises, and high government debt. Consequently, the banking sector has accumulated a high stock of NPAs in the past few years--19.3% of loans as of June 2016--and we anticipate that working out this portfolio will take significant time, especially considering the long time it takes to recover such assets in Italy. We therefore believe that credit losses are unlikely to return to what we view as the Italian banking sector norm--about 80 basis points (bps) on average loans--over the next two years.

We see medium industry risk for the Italian banking sector. Low interest rates, modest economic activity, and still-high credit losses lower banks' profitability prospects. Furthermore, structural problems, such as high cost bases and fragmentation, constrain profitability, in our opinion. In this context, the banks' access to markets will be more limited and the cost of financing is likely to remain higher than in other eurozone banking sectors, despite ample liquidity in the market. Although the €20 billion facility that the Italian government recently created will provide some capital and liquidity relief, we doubt that it will materially reduce the problems faced by the Italian banking sector as a whole.

Supportive factors for the Italian banking system are Italy's traditional focus on retail and commercial lending, and our view that its regulatory standards are aligned with international best practices.

Table 1

Mediobanca SpA Key Figures					
		--Year-ended June 30--			
(Mil. €)	**Dec. 31, 2016**	**2016**	**2015**	**2014**	**2013**
Adjusted assets	72,992.5	69,365.7	70,300.4	70,054.6	72,429.0
Customer loans (gross)	39,256.6	35,772.7	34,914.7	33,369.4	35,330.3
Adjusted common equity	7,331.0	7,093.0	6,808.4	6,536.7	6,226.4
Operating revenues	1,156.3	2,087.7	2,004.5	1,790.9	1,734.5
Noninterest expenses	528.1	983.7	917.5	852.1	815.7
Core earnings	360.6	578.9	480.5	232.5	247.4

Business position: Strong corporate and investment banking franchise complemented by growing retail banking activity

Mediobanca's has a strong CIB business position. It benefits from its management's ability to preserve a solid domestic franchise, despite intense competition, organic international expansion over the past few years. In 2016, foreign operations contributed about 45% of CIB total revenues.

Also, in recent years, Mediobanca has successfully built up its retail banking operations via long-term organic growth and the acquisition of a portion of Barclays' Italian assets. Expansion in the retail business enhanced both the bank's funding structure and its revenue base. In addition, the acquisition of Barclays' assets increased Mediobanca's market penetration in the high-net-worth-individuals segment.

Increasing retail business reduces Mediobanca's higher-than-domestic peers' exposure to potential revenues volatility deriving from its still-high, albeit declining, share of revenues linked to capital markets and advisory activity, in our view.

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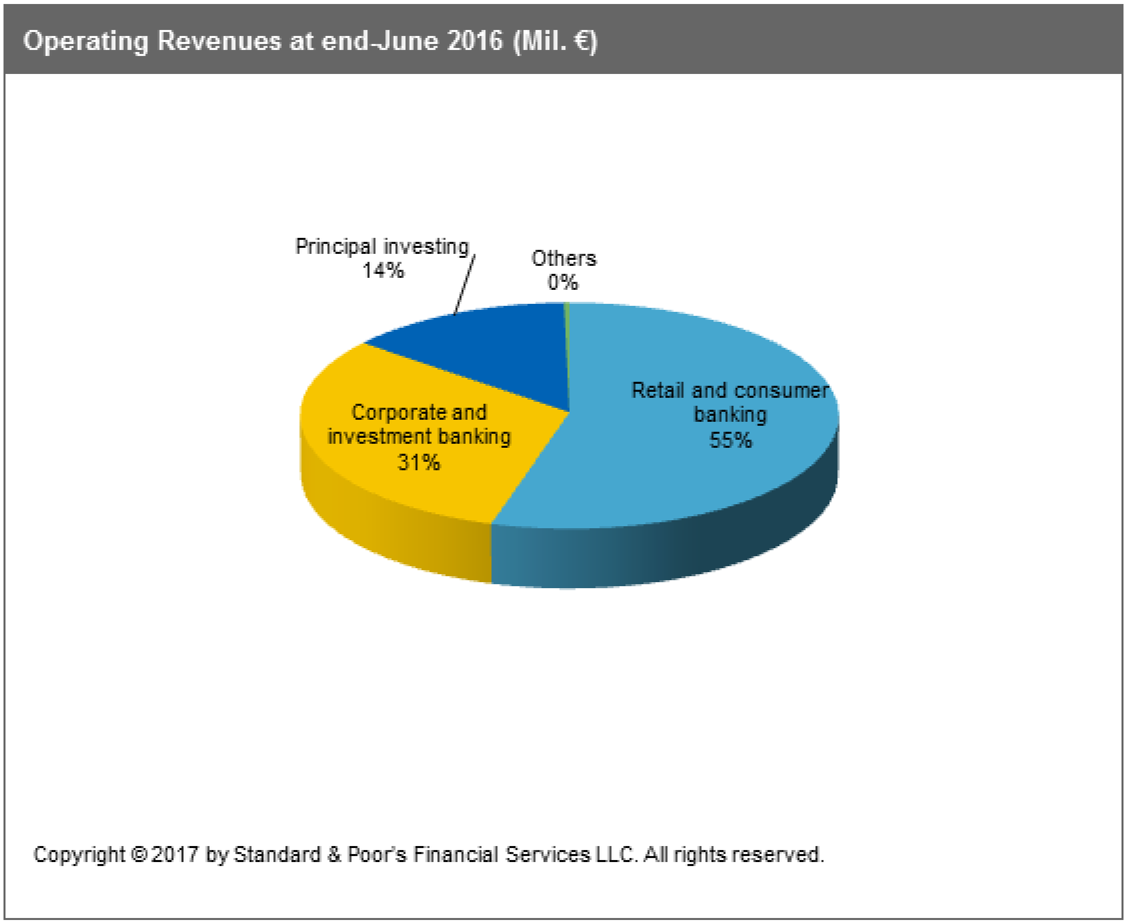
Chart 1



In this context, we view positively Mediobanca's recently announced 2016-2019 business plan. It aims to continue increasing business and geographic diversification and leverage on cross-selling opportunities. Specifically, the bank expects to grow in the domestic retail market and in banking businesses with individuals, including private banking, as well as in asset management activities. The bank is likely to continue growing its CIB geographic diversification, as Mediobanca intends to increase its penetration outside of Italy. In line with its previous strategy, the bank also intends to protect its capital position, adapt to upcoming regulatory changes, and simplify its business model.

Successful completion of this business plan would allow Mediobanca to improve its profitability prospects as well as its earnings stability. By 2019, these initiatives are intended to increase the bank's return on tangible equity to 10% from 7% at present. We think that intensified competition in the segments where Mediobanca operates could make it difficult for the bank to fully achieve its business targets. However, in our view, Mediobanca has a good track record and can lean on its competitive advantages to achieve its stated targets--particularly its recognized brand, strong corporate culture, and customer-oriented focus.

Table 2

Mediobanca SpA Business Position

		--Year-ended June 30--			
(%)	**Dec. 31, 2016**	**2016**	**2015**	**2014**	**2013**
Loan market share in country of domicile	2.5	2.3	2.2	2.0	N/A
Deposit market share in country of domicile	1.3	1.2	1.0	1.5	1.6
Total revenues from business line (currency in millions)	1,312.8	2,203.9	2,172.9	2,082.7	1,775.2
Commercial banking/total revenues from business line	23.9	88.0	82.0	N/A	N/A
Retail banking/total revenues from business line	36.2	N/A	N/A	N/A	N/A
Commercial & retail banking/total revenues from business line	60.2	88.0	82.0	82.7	89.6
Trading and sales income/total revenues from business line	11.9	1.8	4.6	(2.0)	2.4
Corporate finance/total revenues from business line	N/A	4.8	5.6	5.3	5.7
Asset management/total revenues from business line	16.3	N/A	N/A	N/A	N/A
Other revenues/total revenues from business line	11.6	5.4	7.9	14.0	2.3
Investment banking/total revenues from business line	11.9	6.6	10.1	3.3	8.1
Return on equity	9.4	6.9	7.1	6.3	(2.7)

N/A--Not applicable.

Capital and earnings: Ongoing capital strengthening through retained earnings and de-risking

Mediobanca will continue strengthening its capital position in the next few years, in our view. This is despite the high economic risk we see in Italy, which constrains the bank's overall solvency. We expect Mediobanca's capitalization to benefit primarily from the successful completion of capital-enhancing actions currently underway, including the disposal of much of its equity stakes. These actions, combined with modest credit growth, will likely allow Mediobanca to gradually increase its RAC ratio. We estimate that our RAC ratio for Mediobanca, according to our calculations, will range between 7.8%-8.2% by June 2018.

Our RAC ratio before diversification was 7.6% as of June 30, 2016--well below the bank's regulatory ratios. The main difference between the two is the much-higher risk weight we assign to Mediobanca's equity exposure, including the 13.0% stake in Italian insurer Assicurazioni Generali SpA, and the higher risk we see in its Italian exposure.

In this context, the announced disposals of a significant portion of the bank's equity stakes should allow Mediobanca to continue enhancing its solvency. We estimate that these actions, which should account for a total of about €1.3 billion risk-weighted equity exposure reduction, should enhance Mediobanca's June 30, 2016 RAC ratio before diversification by about an additional 40bps.

We also anticipate that Mediobanca's organic capital generation will remain positive, though still modest, in the coming two years. The bank's core operating profitability is likely to gradually improve in the next few quarters, mainly due to growing revenues and declining loan loss provisioning needs. Mediobanca has taken several actions to enhance its net interest income, managing its financing needs more tightly and reducing its reliance on costlier funding sources. In our view, these actions, combined with some growth in new lending volumes over the coming years, should be sufficient to gradually increase the bank's net interest income in 2017 and 2018. We also expect that fees and commissions income is likely to grow on the back of rising activity in corporate and investment banking and in asset management businesses. Provisioning needs are likely to decline, in our view, as net inflows of nonperforming loans will gradually reduce and we expect Mediobanca's cost of risk to progressively decrease to about 100bps by June 2017 and stabilize by June 2018. Mediobanca's operating net income (net of extraordinary gains and losses) will gradually grow in 2017 and 2018, in our view. Without taking into account any extraordinary income, we expect its bottom line earnings in 2018 to reach levels slightly higher than those reported by the bank in 2015, when they were boosted by some sizable capital gains obtained from the disposal of equity stakes. We factor a 40% payout ratio for the forecast period.

In our view, Mediobanca has maintained adequate loss-absorption capacity through the cycle, taking into consideration its overall contained risk profile. We estimate that the bank's three-year average earnings buffer will account for about 50bps-60bps.

Table 3

Mediobanca SpA Capital And Earnings

		--Year-ended June 30--			
(%)	**Dec. 31, 2016**	**2016**	**2015**	**2014**	**2013**
Tier 1 capital ratio	12.3	12.1	12.0	11.1	11.8
S&P RAC ratio before diversification	N.M.	7.6	7.0	7.5	7.2
S&P RAC ratio after diversification	N.M.	7.7	6.9	7.4	7.0
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	55.2	57.7	57.2	59.5	61.7
Fee income/operating revenues	14.3	15.5	18.3	18.7	17.8
Market-sensitive income/operating revenues	0.3	1.3	2.7	(6.1)	5.5
Noninterest expenses/operating revenues	45.7	47.1	45.8	47.6	47.0
Preprovision operating income/average assets	1.8	1.6	1.5	1.3	1.2
Core earnings/average managed assets	1.0	0.8	0.7	0.3	0.3

N.M.--Not meaningful.

Table 4

Mediobanca SpA RACF [Risk-Adjusted Capital Framework] Data

(€ 000s)	**Exposure***	**Basel II RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**Average S&P Global Ratings RW (%)**
Credit risk					
Government and central banks	7,135,825	6,872	0	2,867,172	40
Institutions	6,603,728	2,938,258	44	3,370,996	51
Corporate	23,529,311	20,576,024	87	30,089,799	128
Retail	16,657,388	10,517,294	63	19,919,349	120
Of which mortgage	4,600,307	1,609,258	35	2,938,680	64
Securitization§	161,317	392,938	244	525,670	326
Other assets	3,342,906	3,175,354	95	6,705,772	201
Total credit risk	57,430,475	37,606,740	65	63,478,758	111
Market risk					
Equity in the banking book†	3,029,578	8,107,179	268	19,571,509	646
Trading book market risk	--	4,015,175	--	6,022,762	--

Table 4

Mediobanca SpA RACF [Risk-Adjusted Capital Framework] Data (cont.)					
Total market risk	--	12,122,354	--	25,594,271	--
Insurance risk					
Total insurance risk	--	--	--	811,675	--
Operational risk					
Total operational risk	--	3,308,386	--	3,382,888	--
(€ 000s)		**Basel II RWA**		**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification		53,861,538		93,267,592	100
Total Diversification/Concentration Adjustments		--		(1,394,990)	(1)
RWA after diversification		53,861,538		91,872,601	99
(€ 000s)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		6,504,803	12.1	7,093,007	7.6
Capital ratio after adjustments‡		6,504,803	12.1	7,093,007	7.7

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of June. 30, 2016, S&P Global Ratings.

Risk position: Prudent risk management

Mediobanca will maintain better-than-peers' asset quality, in our view. We expect the bank to continue to benefit from its prudent lending strategy. Over the past years, Mediobanca avoided lending to riskier borrowers, such as real estate developers, and strictly controlled the performance of its retail loans book. This resulted in a much better track record than domestic peers in terms of loss experience over the recent crisis.

The bank's ratio of net NPAs to total loans of 1.7% as of December 2016 is much lower than the average of its Italian peers. However, Mediobanca's shows some single-name concentration in its equity and loan book which adds some risk, in our view. Mediobanca's corporate loan book's credit quality is generally good, albeit with a few notable exceptions. Positively, Mediobanca takes collateral in most operations, therefore reducing the risk of losses for the bank.

In addition, we anticipate that Mediobanca is in a better position than many Italian banks to weather the anticipated high credit losses in Italy over the next few quarters. In fact, Mediobanca's coverage of NPAs was 70% as of December 2016, a level which compares well with that of Mediobanca's domestic peers.

Mediobanca does not have a complex balance sheet, although it operates in the investment banking business. The bank has a low asset-liability mismatch, and it limits its underwriting risk to short periods. We therefore believe our RAC ratio adequately captures all of Mediobanca's risks.

Mediobanca has historically been significantly exposed to market risk through its portfolio of equity stakes. We believe, however, that this risk is adequately captured under our RAC framework. Moreover, Mediobanca has already disposed of a significant part of these stakes, and will continue reducing them in the coming months.

Table 5

Mediobanca SpA Risk Position

		--Year-ended June 30--			
(%)	**Dec. 31, 2016**	**2016**	**2015**	**2014**	**2013**
Growth in customer loans	19.5	2.5	4.6	(5.6)	(7.4)
Total diversification adjustment / S&P RWA before diversification	N.M.	(1.5)	0.7	1.1	3.3
Total managed assets/adjusted common equity (x)	10.0	9.8	10.4	10.8	11.7
New loan loss provisions/average customer loans	1.0	1.1	1.4	2.0	1.4
Net charge-offs/average customer loans	(0.5)	0.0	(0.6)	0.1	0.6
Gross nonperforming assets/customer loans + other real estate owned	5.5	6.0	6.8	6.8	4.9
Loan loss reserves/gross nonperforming assets	72.1	68.0	62.1	58.8	60.0

N.M.--Not meaningful.

Funding and liquidity: Mainly retail financed, though reliance on wholesale funding remains high

We expect that Mediobanca will continue to sustainably finance its long-term funding needs through stable long-term funding sources. Our measure of the bank's net stable funding ratio stood at 105% as of June 30, 2016 and we expect it to remain around this level.

In the past few years, Mediobanca has progressively rebalanced its funding position and increased retail funding--which is now its main financing source--through its retail bank subsidiary CheBanca!, the Italian post office, and Italian commercial banks. As of Sept. 30, 2016, about 57% of the bank's funding base came from retail investors (27% from retail deposits, 24% from bonds placed to retail investors, and 6% from private banking deposits). We consider that Mediobanca remains more reliant on wholesale funding than most of its domestic peers. As of Sept. 30, 2016, 17% of its funding came from bonds placed with institutional investors, 11% from deposits from the European Central Bank (ECB), and 8% from interbank deposits. That said, Mediobanca's long-term funding maturities are well spread over time, in our view. Moreover, Mediobanca has demonstrated its capacity to access capital markets even under tight conditions.

We expect Mediobanca to continue maintaining comfortable liquidity buffers. We anticipate that our measure of liquid assets covering our assessment of the bank's short-term wholesale funding will remain close to 1.3x as of end-June 2016. We base our view on Mediobanca's liquidity policy-- which requires the bank to maintain a large buffer of liquid assets also eligible for refinancing with the ECB--which more than covers the amount of wholesale funding coming due in the following 12 months.

We anticipate that Mediobanca's funding from the ECB will remain stable over the next two years. As of December 2016, it amounted to €6.5 billion or about 14% of stable funding needs.

Table 6

Mediobanca SpA Funding And Liquidity					
		--Year-ended June 30--			
(%)	**Dec. 31, 2016**	**2016**	**2015**	**2014**	**2013**
Core deposits/funding base	48.3	46.7	45.8	53.4	55.6
Customer loans (net)/customer deposits	135.8	137.3	135.9	111.7	107.9
Long term funding ratio	N/A	76.7	66.9	73.8	73.9
Stable funding ratio	N/A	105.2	89.4	96.8	98.3
Short-term wholesale funding/funding base	N/A	27.0	38.3	29.9	29.1
Broad liquid assets/short-term wholesale funding (x)	N/A	1.3	0.9	1.2	1.2
Net broad liquid assets/short-term customer deposits	N/A	30.8	(16.0)	18.9	17.8
Short-term wholesale funding/total wholesale funding	N/A	50.6	70.8	64.2	65.5
Narrow liquid assets/3-month wholesale funding (x)	N/A	N/A	N/A	1.9	1.4

N/A--Not applicable.

External support: Ratings constrained at the sovereign level

We equalize our long-term rating on Mediobanca with our long-term sovereign credit rating on Italy, and our rating on Mediobanca remains constrained one notch below our view of the bank's stand-alone creditworthiness ('bbb' SACP). To date, Mediobanca does not qualify to be rated higher than the 'BBB-' long-term sovereign credit rating on Italy.

Additional rating factors:None

No additional factors affect this rating.

Related Criteria And Research

Related Criteria

- Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity - April 27, 2015
- Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks - May 04, 2010
- Commercial Paper I: Banks - March 23, 2004
- Group Rating Methodology - November 19, 2013
- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions - January 29, 2015
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework - June 22, 2012
- Banks: Rating Methodology And Assumptions - November 09, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011
- Bank Capital Methodology And Assumptions - December 06, 2010
- Principles For Rating Debt Issues Based On Imputed Promises - December 19, 2014
- Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions - November 19, 2013

Related Research

- Banking Industry Country Risk Assessment: Italy, Jan. 11, 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-

Ratings Detail (As Of February 16, 2017)

Mediobanca SpA	
Counterparty Credit Rating	BBB-/Stable/A-3
Senior Unsecured	BBB-
Short-Term Debt	A-3
Subordinated	BB
Counterparty Credit Ratings History	
18-Dec-2014	BBB-/Stable/A-3
24-Jul-2013	BBB/Negative/A-2
12-Jul-2013	BBB/Watch Neg/A-2
Sovereign Rating	
Italy (Republic of)	BBB-/Stable/A-3
Related Entities	
Mediobanca International (Luxembourg) S.A.	
Commercial Paper	
Local Currency	A-3

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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