

CREDIT OPINION

2 September 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	Negative
Long Term Deposit	Baa1
Type	LT Bank Deposits - Fgn Curr
Outlook	Negative

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 following change in outlook to negative

Summary

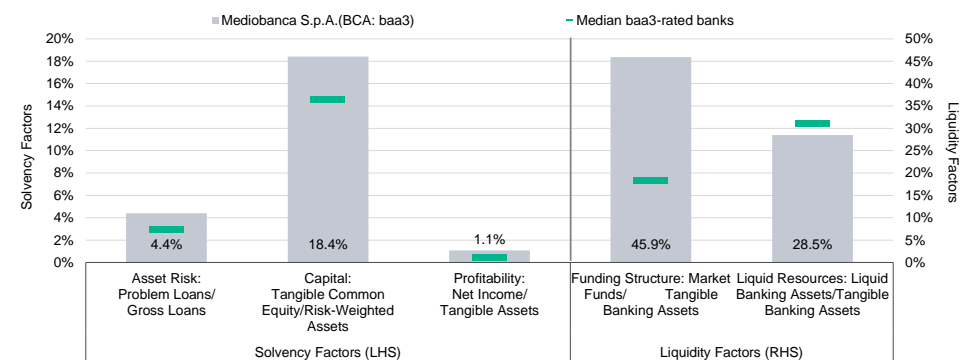
[Mediobanca S.p.A.](#)'s Baa1 long-term deposit and senior unsecured debt ratings reflect the bank's standalone Baseline Credit Assessment (BCA) of baa3; extremely low loss given failure under Moody's Advanced Loss Given Failure (LGF) analysis, resulting in three notches of uplift for the deposits, which are capped at Baa1, two notches above Italy's sovereign rating of Baa3 as per our [Banks Methodology](#); 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 negative), which results in no further uplift because of the aforementioned cap.

The baa3 BCA reflects the bank's good capitalisation, sound and diversified profitability, as well as 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 A3, stable), which exposes Mediobanca to idiosyncratic risk, mitigated by the securities' liquidity and contribution to earnings.

The outlook on the bank's ratings is negative following [the rating action on 14 Italian financial institutions](#) on 9 August 2022. This action was prompted by [the change of outlook to negative on the Italian government debt rating](#). We consider that risks to Italy's credit profile have been accumulating more recently because of the economic impact of Russia's invasion of [Ukraine](#) (Caa3 negative) and domestic political developments, both of which could have material credit implications.

Exhibit 1

Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics™

Credit strengths

- » Good capitalisation
- » Sound and diversified profitability

Credit challenges

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

Outlook

The negative outlook on Mediobanca's long-term deposit and senior unsecured debt ratings is aligned with the negative outlook on the Italian government's Baa3 bond rating, reflecting the weakening operating environment.

Factors that could lead to an upgrade

An upgrade of Mediobanca's ratings is unlikely as long as the outlook remains negative. Besides, the deposit and senior unsecured 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 ratings. We could lower Mediobanca's BCA in case of a significant deterioration in its operating environment weighing on the bank's asset quality, profitability and liquidity. A significant reduction in its capitalisation could also trigger a BCA downgrade.

The bank's senior unsecured ratings could also be downgraded following a significant reduction in its stock of bail-in-able debt.

A downgrade of Italy's sovereign debt rating could also prompt a downgrade of Mediobanca's ratings and assessments.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.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]

	12-21 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 €90.5 billion as of June 2022. The group is internationally diversified, and provides its clients with lending and other services in financial advisory and asset management. As of December 2021, Italy accounted for 48% of the group's corporate lending portfolio. Mediobanca's development strategy also involves acquisitions in particular in its asset management and private banking activities.

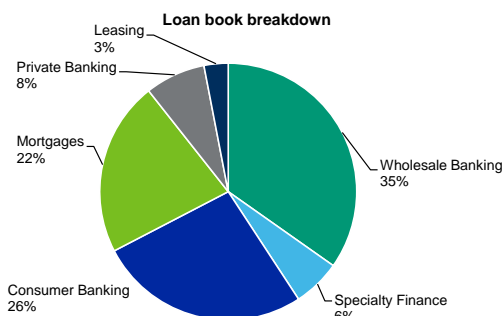
In August 2021, Mediobanca closed the acquisition of ByBrook Capital, a European distressed debt manager based in London. In April 2019, Mediobanca announced the acquisition of 66% of the French corporate finance company, Messier Maris & Associés, through which France will become the group's third-biggest 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.

Mediobanca's main commercial divisions are:

- » Corporate and Investment Banking (€225 million net profit in the 12 months that ended June 2022), which focuses on lending, capital market activities, and advisory services to large corporate clients. Customers are typically Italian, French and Iberian mid and large caps.
- » Consumer Banking (€370 million net profit in the 12 months that ended June 2022). This division operates only in Italy, where it is positioned among the top three market participants in terms of lending volumes. These mainly cover unsecured consumer loans, secured personal loans with a direct pledge on the borrower's salary, auto-financing and credit cards through the subsidiaries Compass Banca and Compass RE.
- » Wealth Management (€134 million net profit in the 12 months that ended June 2022), which targets premium and affluent clients through: CheBanca! offering traditional banking services; the Mediobanca Private brand, which focuses on high-net-worth individuals/families; and Cairn Capital, Mediobanca SGR, Mediobanca Management Company, Compagnie Monégasque de Gestion, CMB Asset Management and RAM Active Investment that focus on growing its wealth management and alternative business, targeting particularly affluent clients.
- » Principal Investing (€320 million net profit in the 12 months that ended June 2022), which combines the bank's portfolio of equity investments and other stakes. The main holding of the division is the 12.8% share in Generali, valued at around €3.1 billion as of June 2022.

Exhibit 3

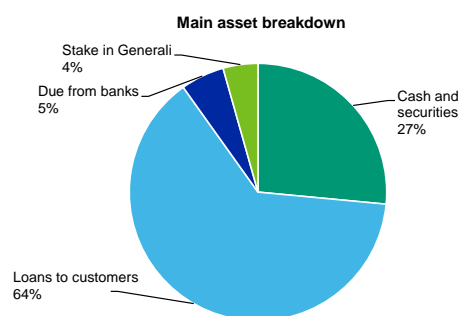
Mediobanca has a diversified loan book:
Around half of the group's activities are in retail



Source: Bank's reports as of June 2022

Exhibit 4

Mediobanca's asset diversification is broadly in line with the sector
Some concentration on Generali equity shares



Source: Bank's reports as of December 2021

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 (Macro Profile of Strong). Furthermore, it takes account of Generali's international footprint, with only around one-third of Generali's premiums generated in Italy.

If the deterioration in the operating environment were to crystallize, it would be reflected in a lower macro profile for Italy and could lead to a lower BCA for the bank.

Moderate asset risk

We assign a ba1 Asset Risk score to Mediobanca, one notch below the Macro-Adjusted score. This reflects our expectation of an asset-quality deterioration in the Italian banking system because of the current environment of high inflation, exacerbated by the military conflict in Ukraine. However, Mediobanca has no significant direct exposure to Russia/Ukraine.

The score also reflects a reported problem loan ratio of 2.5% as of the end of June 2022, lower than the Italian sector average of around 3.0% but higher than the European Union average of 1.9% as of March 2022, according to the European Banking Authority ([Risk Dashboard - Q1 2022](#)).

Mediobanca's cost of risk is somewhat aligned with the European banking system. It was around 50 basis point (bps) in the last twelve months as of June 2022 improving since June 2020 when it stood slightly above 80 bps.

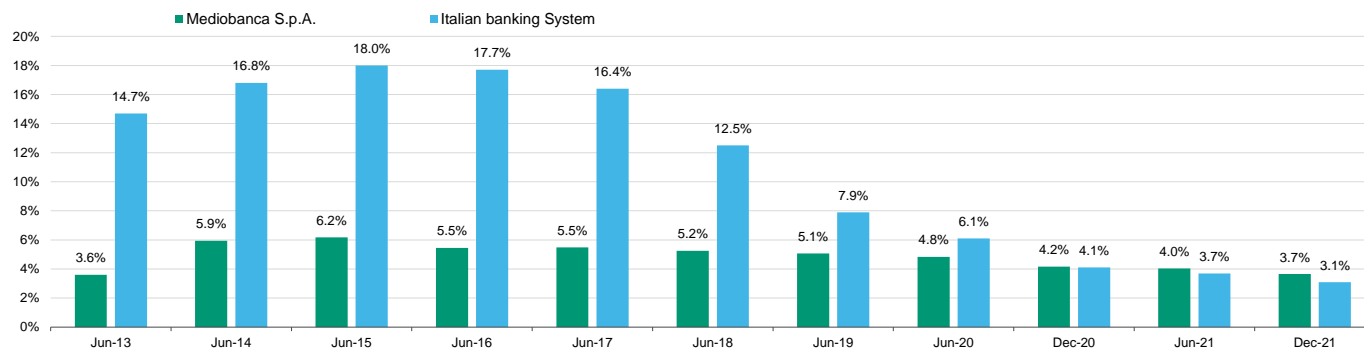
Mediobanca holds a 12.8% stake in Generali booked at €3.1 billion as of June 2022; based on Generali's stock price, the 12.8% stake had a market value close to the book value as of June 2022.

Our ba1 score also reflects:

- » The relatively high level of concentration in Mediobanca's corporate loan book
- » Idiosyncratic risk resulting from the stake in Generali
- » Strict underwriting procedures and a good track record in managing credit risk
- » Moderate market risk; trading activities are oriented more towards lower-risk securities than complex products

Exhibit 5

Moody's-adjusted nonperforming loan (NPL) ratio is close to the Italian banking system average NPLs as a percentage of gross loans



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

Good capitalisation, with large buffers for prudential requirements

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

Mediobanca reported a transitional phased-in 15.7% Common Equity Tier 1 (CET1) ratio (14.5% fully loaded) and a total capital ratio of 17.6% as of the end of June 2022. We consider the CET1 ratio strong as it is largely above its minimum CET1 Supervisory Review and Evaluation Process requirement of 7.9% on a consolidated basis, which includes a 4.5% Pillar I requirement, a 0.89% Pillar II requirement and a capital conservation buffer of 2.5%.

Capital ratios slightly decreased from the 16.3% as of June 2021, mainly because of provisions made for the 70% dividend payout (a -130 bps impact), the share buyback (-60 bps), the strong growth in assets (-60 bps) and the Bybrook acquisition (-13 bps). The negative impacts on the capital ratio were partially counterbalanced by Mediobanca's net income for the period (+190 bps). In its 2019-23 strategic plan, Mediobanca set a CET1 ratio target of minimum 13.5%.

Sound and diversified profitability

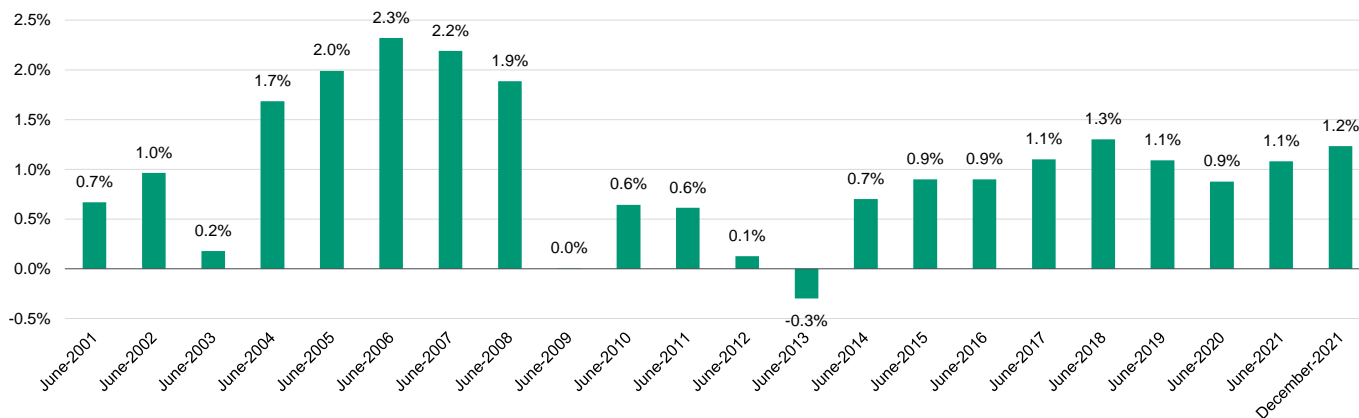
The score for Mediobanca's Profitability is baa3, one notch below the Macro-Adjusted score. The assigned score reflects our view on Mediobanca's return on tangible assets over the next two or three years, including a possible reduction in its stake in Generali, which is a significant contributor to Mediobanca's profitability. In the 12 months that ended June 2022¹, net profit increased 12% to €907 million, driven by a 5% increase in net interest income and a 14% increase in fee income, which was underpinned by sound performance in wealth management and corporate and investment banking divisions.

Mediobanca's strategy might involve a reduction in its stake in Generali to finance large-scale acquisitions.

In the three years that ended in December 2021, Mediobanca reported an average return on tangible assets of almost 114 bps (see Exhibit 5). This compares favorably with the Italian and European contexts. However, this is partly because of the substantial income contribution from the stake in Generali. The division which includes Generali holding generated €320 million in net profit in the 12 months that ended June 2022. Generali's half-year net income reduced by close to 9% year over year as of June 2022.

Exhibit 6

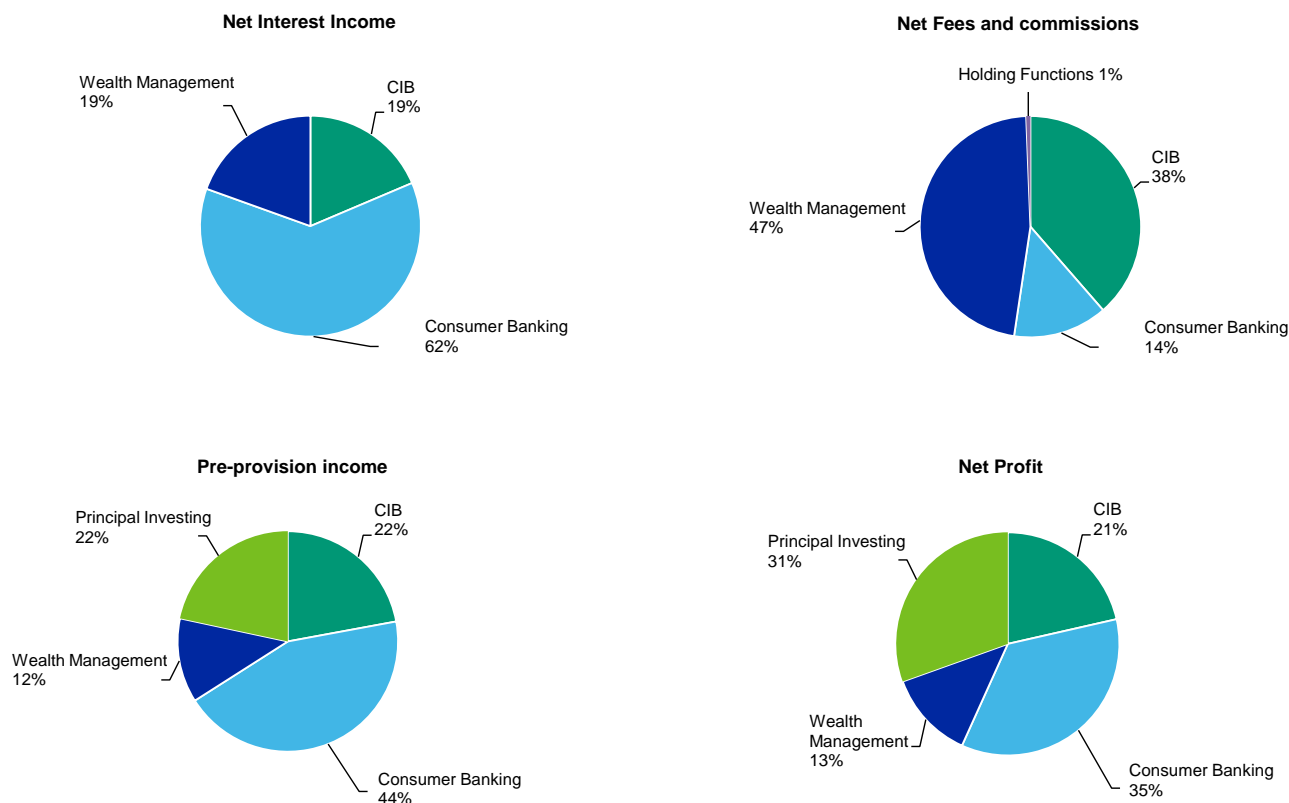
Good track record of profit
Mediobanca's return on tangible assets



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 as of June 2022

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 with 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 loan-to-deposit ratio of around 177% at year-end 2021. 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 95% covered by subordinated liabilities and own funds. The bank's buffer is well above the requirement, with the reported MREL ratio above 30% as of June 2022.

Mediobanca has also drawn €8.4 billion of European Central Bank (ECB) targeted longer-term refinancing operations (TLTRO) funding as of the end of June 2022, up from the €7.4 billion as of June 2021, which finances around 9.3% of total assets.

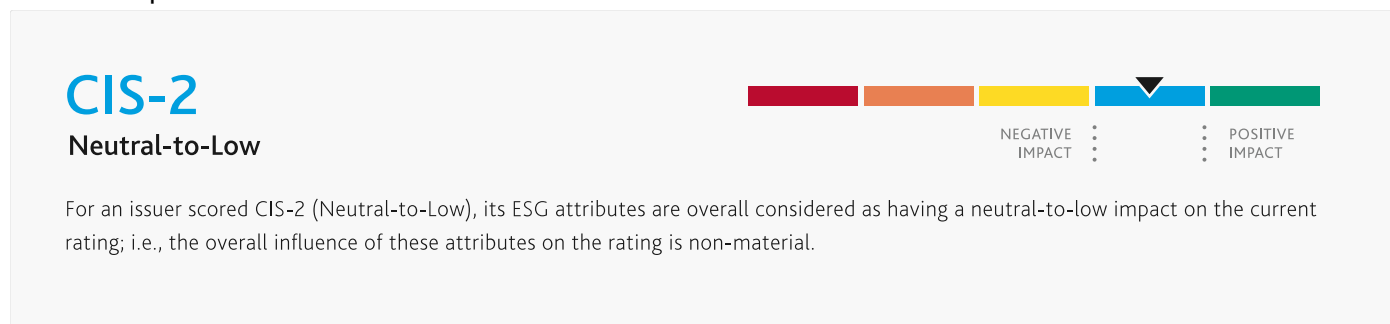
Mediobanca's Liquid Resources score is baa2, in line with the Macro-Adjusted score, reflecting the bank's strong liquidity. As of the end of June 2022, the bank reported a good liquidity coverage ratio of 159% and an adequate net stable funding ratio of 116%.

ESG considerations

Mediobanca S.p.A.'s ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 8

ESG Credit Impact Score

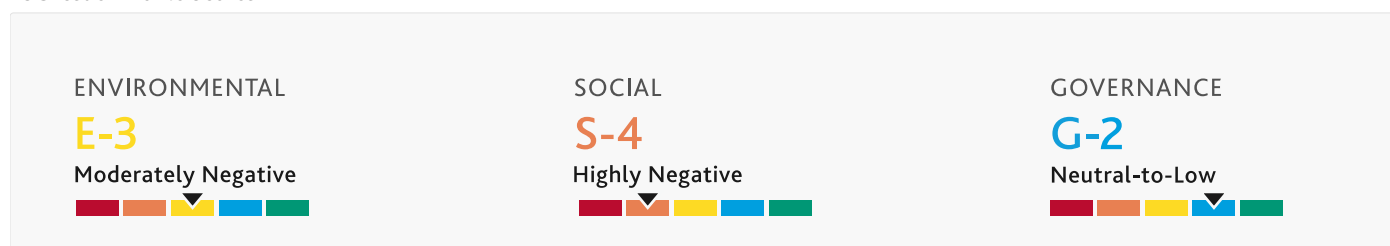


Source: Moody's Investors Service

Mediobanca's ESG Credit Impact Score is neutral-to-low (**CIS-2**), reflecting the limited credit impact of environment and social factors on the ratings to date and neutral-to-low governance risks.

Exhibit 9

ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

Mediobanca faces moderate exposure to environmental risks primarily because of its portfolio exposure to carbon transition risks as a diversified bank mainly operating in Italy. In line with its peers, Mediobanca is facing mounting business risks and stakeholders' pressure to meet more demanding carbon transition targets. In response, Mediobanca has taken steps to further develop its comprehensive risk management and climate risk reporting frameworks.

Social

Mediobanca faces high industrywide social risks related to regulatory risk and litigation exposure, in particular in the area of customer relationships, and is required to meet high compliance standards. These risks are mitigated by the bank's developed policies and procedures. High cyber and personal data risks are mitigated by a sound IT framework.

Governance

Mediobanca faces neutral-to-low governance risks. Its risk management, policies and procedures are in line with industry practices. However, dissenting views among main shareholders may have a bearing on the bank's strategy. Mediobanca's large investment in Generali shares exposes the bank to idiosyncratic risk, which is mitigated by the securities' liquidity and contribution to earnings.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

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.

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 had the ratings not been constrained to two notches above the sovereign bond rating per our Banks Methodology. Hence, the 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 no adjustment for junior senior debt rating and minus one notch for subordinated debt ratings from the bank's baa3 BCA.

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 than that of the sovereign's own debt.

The Baa1 CRRs of Mediobanca do not include any further uplift because of 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 domestic bank, 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 10

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						
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	2	0	baa1
Counterparty Risk Assessment	23.0%	23.0%	23.0%	23.0%	3	3	3	1	0	baa2 (cr)
Deposits	23.0%	5.5%	23.0%	16.4%	2	3	3	2	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	2	0	baa1	0	Baa1	Baa1
Counterparty Risk Assessment	1	0	baa2 (cr)	0	Baa2(cr)	
Deposits	2	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 11

Category	Moody's Rating
MEDIOBANCA S.P.A.	
Outlook	Negative
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	Negative
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 Mediobanca reports full-year financial statements in June and not in December like most other banks.

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