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Update: Mediobanca SpA

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Update: Mediobanca SpA

SACP	bbb		+	Support	0	+	Additional Factors	0
Anchor	bbb-			ALAC Support	0		Issuer Credit Rating	BBB/Positive/A-2
Business Position	Adequate	0		GRE Support	0		Resolution Counterparty Rating	BBB+/--/A-2
Capital and Earnings	Adequate	0		Group Support	0			
Risk Position	Strong	+1		Sovereign Support	0			
Funding	Average	0						
Liquidity	Adequate							

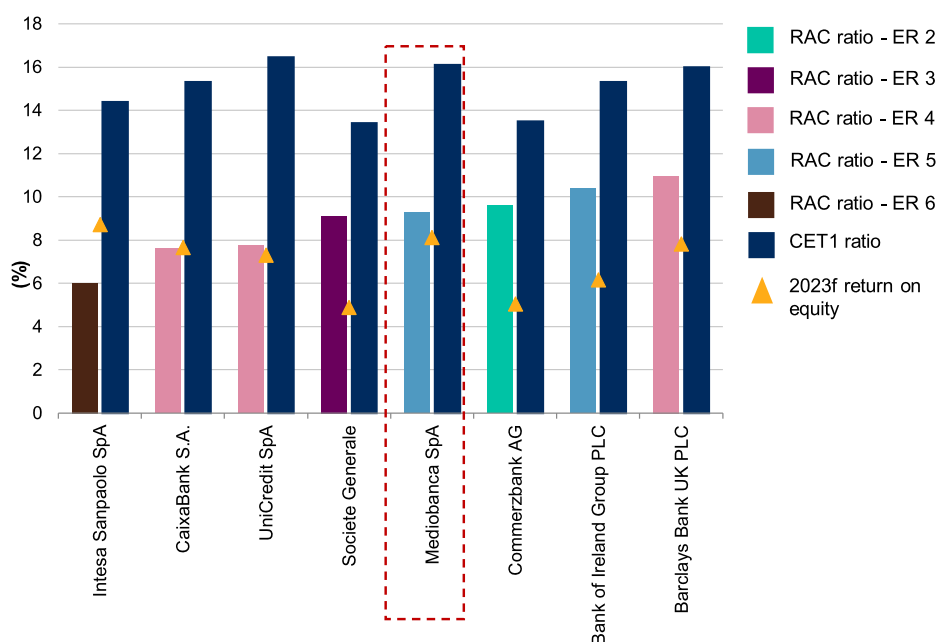
Credit Highlights

Key strengths	Key risks
Stronger-than-peers credit risk profile, leading to healthier asset-quality metrics.	High exposure to Italy.
Well-diversified business profile resulting in resilient earnings despite the difficult operating environment.	Some single-name concentration in its corporate loan book.
Sound capitalization.	

We expect that Mediobanca's well-diversified business model will continue to support its earnings generation capacity in 2022-2024. The bank's diversification into wealth management, corporate and investment banking, and consumer lending has supported a track-record of sound and resilient returns over the years and we expect this will continue to be a competitive advantage. We therefore anticipate the bank's operating efficiency to remain outstanding, with a cost-to-income ratio at about 50% and return on equity at about 8%-9% over the next couple of years, a higher level than domestic peers and closer to the best performing and highly rated European banks (see chart 1).

Chart 1

Mediobanca's Capitalization And Profitability Metrics Compare Favorably With Peers



ER--Economic risk. CET1--Common equity tier 1. f--Forecast.

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We also anticipate the bank to preserve a better risk profile than peers. This is primarily because the bank is less exposed to small and midsize enterprises than peers and to the economic sectors vulnerable to the COVID-19 pandemic. Moreover, its corporate loan book benefits from high geographic diversification in its portfolio of large clients, although some single-name concentration adds a degree of risk. The bank grants about 75% of its corporate loans to clients whose turnover is mainly outside Italy. As a result, significantly fewer of Mediobanca's loans are subject to a moratorium--€500 million or about 1% of the group's total loan book as of end-September 2021, down from the 5% peak in April. Most clients have resumed regular payments and those still subject to a moratorium are classified as stage 2 or stage 3 and are adequately covered by provisions. This, coupled with a proactive loan collection approach on its consumer finance portfolio, should help Mediobanca maintain a lower-than-system-average new inflow of non-performing exposures and credit losses.

We anticipate that Mediobanca's stronger-than-peer operating performance will sustain its capitalization. As a result of the bank's sound revenue generation, outstanding cost efficiency, and contained credit losses, we expect the bank's risk-adjusted capital (RAC) ratio to remain 9.0%-9.5%, at least until 2024, the highest among other Italian banks. This includes the bank's planned distribution policy to its shareholders. In addition, if we conclude that economic risks for Italian banks have diminished and upgrade the sovereign, this could add up to 80 basis points (bps) points roughly to our RAC ratio projections. Higher economic risks and relative weaker sovereign creditworthiness than peers' countries have been the primary reasons of the material gap between our view of bank's capitalization and its relatively sound regulatory capital ratios. For instance, its fully loaded common equity Tier 1 (CET1) ratio stood at 15% as of end-September 2021, around 700 bps above its regulatory requirement.

We believe that Mediobanca's ownership structure and its large stake in Assicurazioni Generali (13%) add complexity to its governance. We will continue to monitor how the latest and any further changes in the bank's shareholder structure (after Mr. Leonardo Del Vecchio increased its stake in the bank's capital to 18.9% from the original 9.9%) might affect Mediobanca's governance and strategy. That said, we do not anticipate any meaningful changes to the bank's strategy. The term of the board and management team was extended for three years until October 2023, and we expect the management to remain committed to implementing the 2019-2023 business plan.

Outlook: Positive

The positive outlooks on Mediobanca and its core subsidiary, MB Funding Lux, primarily reflect our view that improving economic conditions in Italy could potentially enhance Mediobanca's projected profitability and capitalization. The positive outlook also mirrors that on Italy.

Upside scenario

We could raise the long-term ratings on Mediobanca and MB Funding Lux if we take a similar action on Italy and we conclude that the bank's operating profitability and overall creditworthiness have strengthened. This would most likely happen if we perceive that domestic economic conditions have improved, resulting in our projections for Mediobanca's RAC ratio sustainably exceeding the 10% threshold over the next two years, while its risk profile remains resilient, and its operating performance keeps exceeding that of peers.

Downside scenario

We could revise the outlook back to stable if we take a similar action on the sovereign and/or if we became less confident about the positive effects of Italy's economic performance on banks' balance sheets, thus undermining the potential upside for Mediobanca's creditworthiness. In addition, we could take a negative rating action if we conclude that the bank's strategy has shifted to become substantially more aggressive or risky.

Hybrids

We do not assign outlooks to bank issue ratings. However, we will continue to notch down the ratings on Mediobanca's hybrids from the lower of the SACP and ICR. Therefore, if we raise the ratings on Mediobanca, we would also raise the ratings on the bank's rated subordinated debt obligations.

Key Metrics

Mediobanca SpA--Key Ratios And Forecasts

	--Fiscal year ended June 30--				
(%)	2020a	2021a	2022f	2023f	2024f
Growth in operating revenue	2.2	10.9	2.5-3.0	2.5-3.0	3.5-4.0
Growth in customer loans	6.2	2.7	3.5-4.5	3.5-4.5	2.5-3.5
Cost to income ratio	51.3	49.0	45-50	45-50	45-50
Return on average common equity	6.2	7.8	7.5-8.0	8.0-8.5	8.0-8.5
New loan loss provisions/average customer loans	0.9	0.6	0.6-0.8	0.6-0.7	0.6-0.7
Gross nonperforming assets/customer loans	4.8	4.0	4.5-5.0	3.8-4.3	3.5-4.0

Mediobanca SpA--Key Ratios And Forecasts (cont.)

(%)	--Fiscal year ended June 30--				
	2020a	2021a	2022f	2023f	2024f
Risk-adjusted capital ratio before diversification adjustments	8.9	9.3	9.0-9.5	9.0-9.5	9.0-9.5

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. Mediobanca's fiscal years end on June 30. Year-end financial statements are audited, consolidated, and prepared according to International Financial Reporting Standards. The data and ratios are S&P Global Ratings' adjustments or calculations of data from publicly disclosed financial statements, and may differ from the issuer's own data and ratios.

Key Statistics**Table 1****Mediobanca SpA--Key Figures**

Mil. €	Qtr Sep. 2021	Annual June 2021	Annual June 2020	Annual June 2019	Annual June 2018
Adjusted assets	84,747.2	81,854.6	78,133.7	77,343.0	71,560.7
Customer loans (gross)	48,905.2	49,133.4	47,826.2	45,038.5	42,050.4
Adjusted common equity	8,886.2	8,673.5	8,419.4	7,850.8	7,696.3
Operating revenues	706.4	2,837.3	2,559.5	2,504.2	2,431.1
Noninterest expenses	302.6	1,390.3	1,312.9	1,267.7	1,178.8
Core earnings	264.7	896.4	623.0	783.1	822.8

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Table 2**Mediobanca SpA--Business Position**

Mil. €	Qtr Sep. 2021	Annual June 2021	Annual June 2020	Annual June 2019	Annual June 2018
Loan market share in country of domicile	N/A	3.5	3.3	3.1	2.9
Deposit market share in country of domicile	N/A	1.3	1.3	1.3	1.3
Total revenues from business line (currency in millions)	706.9	2,837.3	2,633.7	2,571.2	2,557.9
Commercial & retail banking/total revenues from business line	62.5	56.6	62.5	64.3	63.6
Trading and sales income/total revenues from business line	7.1	6.9	(0.7)	(0.3)	1.6
Insurance activities/total revenues from business line	13.8	9.6	11.5	12.4	10.9
Asset management/total revenues from business line	24.4	21.7	22.2	21.3	20.6
Other revenues/total revenues from business line	(7.7)	5.1	4.5	2.2	3.3
Return on average common equity	9.6	7.8	6.2	8.5	9.2

N/A--Not applicable. Mediobanca's fiscal years end on June 30. Year-end financial statements are audited, consolidated, and prepared according to International Financial Reporting Standards. The data and ratios are S&P Global Ratings' adjustments or calculations of data from publicly disclosed financial statements, and may differ from the issuer's own data and ratios.

Table 3

Mediobanca SpA--Capital And Earnings					
Mil. €	Qtr Sep. 2021	Annual June 2021	Annual June 2020	Annual June 2019	Annual June 2018
Tier 1 capital ratio	16.1	16.3	16.1	14.1	14.2
S&P Global Ratings' RAC ratio before diversification	N/A	9.3	8.9	8.9	8.7
S&P Global Ratings' RAC ratio after diversification	N/A	8.7	8.2	8.4	8.1
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	50.7	50.0	56.3	56.1	56.4
Fee income/operating revenues	28.7	20.6	19.0	17.6	18.8
Market-sensitive income/operating revenues	7.1	10.9	0.3	0.9	1.0
Cost to income ratio	42.8	49.0	51.3	50.6	48.5
Preprovision operating income/average assets	1.9	1.8	1.6	1.6	1.8
Core earnings/average managed assets	1.3	1.1	0.8	1.0	1.2

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Table 4

Mediobanca Banca di Credito Finanziario S.p.A--Risk-Adjusted Capital Framework Data					
(€ 000s)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk					
Government and central banks	8,424,568	91,587	1	2,411,488	29
Of which regional governments and local authorities	1,905	381	20	906	48
Institutions and CCPs	7,839,104	1,349,695	17	1,824,006	23
Corporate	29,275,900	16,832,607	57	26,468,500	90
Retail	26,386,067	11,620,007	44	24,107,369	91
Of which mortgage	11,866,615	1,905,607	16	6,936,308	58
Securitization§	196,948	113,153	57	309,826	157
Other assets†	2,390,320	2,613,620	109	4,830,121	202
Total credit risk	74,512,907	32,620,669	44	59,951,311	80
Credit valuation adjustment					
Total credit valuation adjustment	--	236,733	--	0	--
Market risk					
Equity in the banking book	4,493,071	8,107,662	180	25,383,652	565
Trading book market risk	--	2,071,236	--	3,076,384	--
Total market risk	--	10,178,898	--	28,460,036	--
Operational risk					
Total operational risk	--	4,122,956	--	5,129,138	--
RWA before diversification	--	47,159,255.4	--	93,540,485.0	100.0

Table 4

Mediobanca Banca di Credito Finanziario S.p.A--Risk-Adjusted Capital Framework Data (cont.)				
	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio				
Capital ratio before adjustments	7,689,394.4	16.3	8,673,463.0	9.3

*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). Mediobanca's fiscal years end on June 30. Year-end financial statements are audited, consolidated, and prepared according to International Financial Reporting Standards. The data and ratios are S&P Global Ratings' adjustments or calculations of data from publicly disclosed financial statements, and may differ from the issuer's own data and ratios. CCP--Central clearing counterparty. RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital.

Sources: Company data as of June. 30 2021, S&P Global Ratings.

Table 5

Mediobanca SpA--Risk Position					
Mil. €	Qtr Sep. 2021	Annual June 2021	Annual June 2020	Annual June 2019	Annual June 2018
Growth in customer loans	(1.9)	2.7	6.2	7.1	6.1
New loan loss provisions/average customer loans	0.5	0.6	0.9	0.5	0.5
Gross nonperforming assets/customer loans + other real estate owned	4.1	4.0	4.8	5.1	5.3
Loan loss reserves/gross nonperforming assets	74.4	85.5	69.0	60.2	68.1

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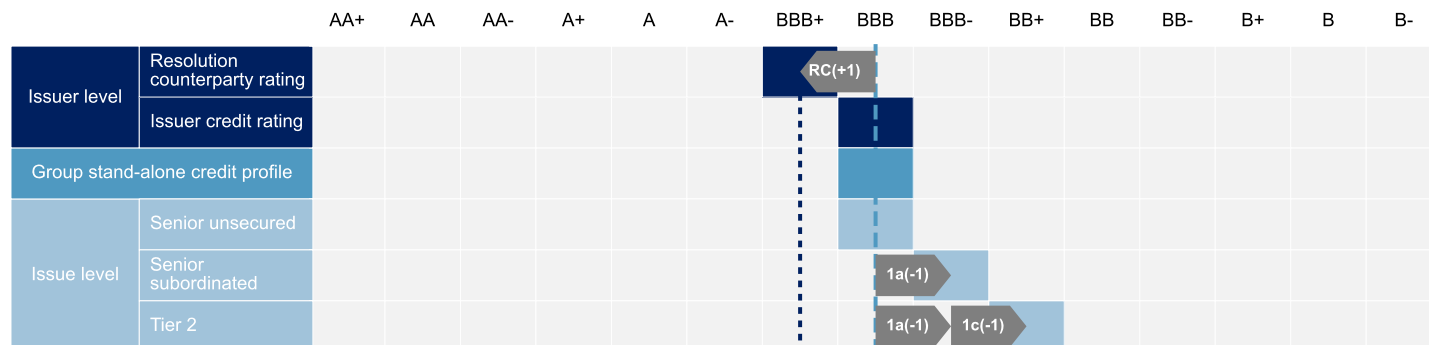
Table 6

Mediobanca SpA--Funding And Liquidity				
Mil. €	Annual June 2021	Annual June 2020	Annual June 2019	Annual June 2018
Core deposits/funding base	50.6	48.2	47.7	48.2
Customer loans (net)/customer deposits	147.9	153.8	146.9	147.9
Long-term funding ratio	87.0	87.7	83.0	85.6
Stable funding ratio	107.0	108.0	105.0	107.3
Short-term wholesale funding/funding base	15.2	14.1	19.4	16.7
Broad liquid assets/short-term wholesale funding (x)	1.9	2.0	1.5	1.8

N.A.--Not available. Mediobanca's fiscal years end on June 30. Year-end financial statements are audited, consolidated, and prepared according to International Financial Reporting Standards. The data and ratios are S&P Global Ratings' adjustments or calculations of data from publicly disclosed financial statements, and may differ from the issuer's own data and ratios.

Appendix

Mediobanca SpA: Notching



Key to notching

- Group stand-alone credit profile
- Issuer credit rating
- RC Resolution counterparty liabilities (senior secured debt)
- 1a Contractual subordination
- 1c Mandatory contingent capital clause or equivalent

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 3 of our "Hybrid Capital: Methodology And Assumptions" criteria, published on July 1, 2019.

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Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: 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
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 20, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011

- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

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 December 1, 2021)*

Mediobanca SpA

Issuer Credit Rating	BBB/Positive/A-2
Resolution Counterparty Rating	BBB+/--/A-2
Senior Unsecured	BBB
Short-Term Debt	A-2
Subordinated	BB+

Issuer Credit Ratings History

23-Nov-2021	BBB/Positive/A-2
11-Mar-2021	BBB/Stable/A-2
30-Oct-2018	BBB/Negative/A-2
31-Oct-2017	BBB/Stable/A-2

Sovereign Rating

Italy	BBB/Positive/A-2
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Related Entities**MB Funding Lux S.A.**

Issuer Credit Rating	BBB/Positive/A-2
Resolution Counterparty Rating	BBB+/--/A-2

*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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