

CREDIT OPINION

22 March 2018

New Issue

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RATINGS

Mediobanca S.p.A.

Domicile	Italy
Long Term Issuer Rating	Baa1
Outlook	Stable
Long Term Deposit	A3
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.

Analyst Contacts

Edoardo Calandro +44.20.7772.1097
VP-Senior Analyst
edoardo.calandro@moodys.com

Maria Jose Mori +34.91.768.8227
VP-Sr Credit Officer
mariajose.mori@moodys.com

Alain Laurin +33.1.5330.1059
Associate Managing
Director
alain.laurin@moodys.com

Nick Hill +33.1.5330.1029
MD-Banking
nick.hill@moodys.com

Valentino Balletta +44.20.7772.1744
Associate Analyst
valentino.balletta@moodys.com

Mediobanca S.p.A.

New Issuer

Summary

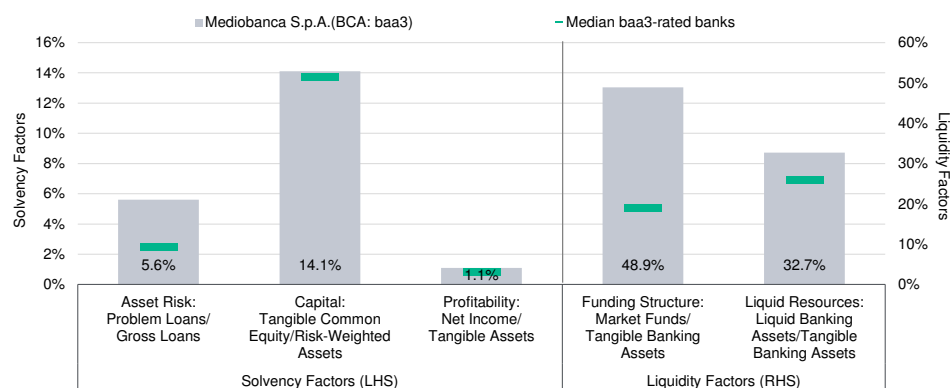
Mediobanca S.p.A.'s (Mediobanca) A3 bank deposit and Baa1 issuer rating reflect the bank's standalone creditworthiness (baa3), extremely low and very low loss-given-failure respectively, and our assessment of a low probability of government support.

The bank's baa3 standalone baseline credit assessment (BCA) reflects the bank's good capitalisation sound and diversified profitability, as well as its reliance on wholesale funding, and high borrower concentration. The BCA also takes account of the bank's large stake in [Assicurazioni Generali S.p.A.](#) (Generali, Insurance Financial Strength rating Baa1 with stable outlook). This exposes Mediobanca to idiosyncratic risk, mitigated in part by the liquidity of the investment and its contribution to earnings

The outlook on the long-term bank deposit rating is negative, while the outlook on the long-term issuer rating is stable.

Exhibit 1

Rating Scorecard - Key Financial Ratios



Source: Moody's Financial Metrics

Credit strengths

- » Good capitalisation, with large buffers over prudential requirements
- » Sound and diversified profitability

Credit challenges

- » Reliance on wholesale funding
- » High borrower concentration and large stake in Generali

Rating outlook

The outlook on Mediobanca's A3 bank deposit rating is negative, mirroring the negative outlook on the [Government of Italy's](#) Baa2 rating, assigned on [7 December 2016](#) and maintained on [6 October 2017](#). In accordance with our Banks methodology, bank ratings are typically no more than 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 outlook on Mediobanca's Baa1 issuer rating is stable, reflecting our expectation that the bank's main financials will remain broadly stable in the next 12-18 months, and that the Italian and European economy will continue to grow at a moderate pace.

Factors that could lead to an upgrade

Mediobanca's BCA could be upgraded given lower concentration risk, a reduction in capital market activities, an increase in capital ratios above the bank's targets, or a move to a more diversified funding profile with longer maturities. An upgrade of the BCA would likely lead to an upgrade of Mediobanca's issuer rating, whilst the bank's deposit rating is constrained by Italy's sovereign debt rating.

Mediobanca's issuer rating could also be upgraded following a material increase in the bank's stock of subordinated debt.

Factors that could lead to a downgrade

Mediobanca's BCA could be downgraded if reliance on capital market activities were to increase; if capital were to fall below the bank's targets; or if its dependence on short-term wholesale funding were to rise. A downgrade of the BCA would lead to a downgrade of Mediobanca's deposit and issuer ratings.

Mediobanca's long-term deposit rating would be downgraded following a downgrade of Italy's sovereign debt rating.

Key indicators

Exhibit 2

Mediobanca S.p.A. (Consolidated Financials) [1]

	12-17 ²	6-17 ²	6-16 ²	6-15 ²	6-14 ²	CAGR/Avg. ³
Total Assets (EUR million)	69,894	67,958	66,155	66,669	65,647	1.8 ⁴
Total Assets (USD million)	83,928	77,509	73,495	74,283	89,881	-1.9 ⁴
Tangible Common Equity (EUR million)	7,831	7,685	7,235	6,913	6,559	5.2 ⁴
Tangible Common Equity (USD million)	9,404	8,766	8,037	7,703	8,980	1.3 ⁴
Problem Loans / Gross Loans (%)	5.2	5.5	5.5	6.2	5.9	5.7 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	14.1	13.8	12.4	10.9	10.4	12.3 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	24.1	23.9	24.7	28.5	28.6	26.0 ⁵
Net Interest Margin (%)	2.1	2.0	1.9	1.8	1.6	1.9 ⁵
PPI / Average RWA (%)	2.1	1.7	1.5	1.6	1.5	1.7 ⁶
Net Income / Tangible Assets (%)	1.4	1.1	0.9	0.9	0.7	1.0 ⁵
Cost / Income Ratio (%)	48.9	56.8	54.1	47.2	47.8	50.9 ⁵
Market Funds / Tangible Banking Assets (%)	48.1	48.9	55.5	54.8	58.0	53.1 ⁵

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Liquid Banking Assets / Tangible Banking Assets (%)	27.4	32.7	29.9	31.3	31.5	30.6 ⁵
Gross Loans / Due to Customers (%)	197.7	197.9	216.5	228.7	230.3	214.2 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 due to scale of reported amounts [4] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime [5] Simple average of periods presented for the latest accounting regime. [6] Simple average of Basel III periods presented

Source: Moody's Financial Metrics

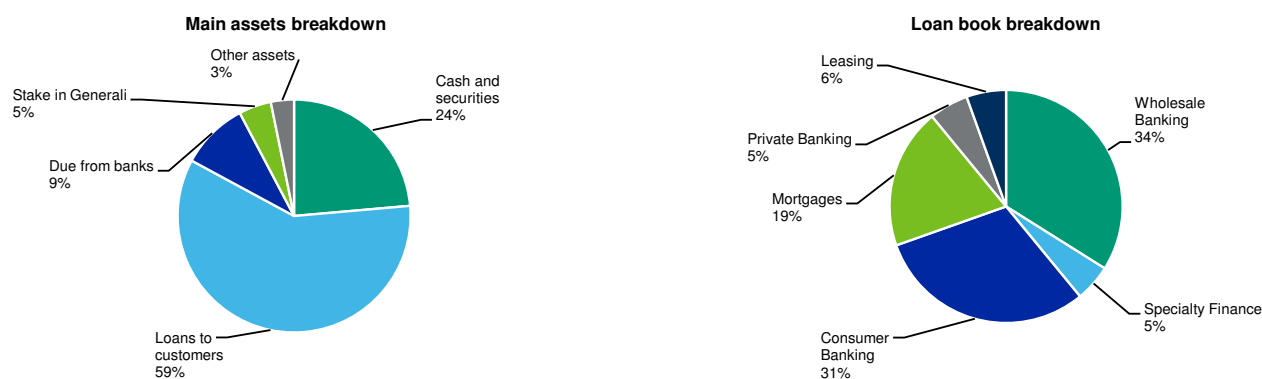
Profile

Mediobanca is a medium-sized group with total assets of €72 billion as of December 2017, including a 13% stake in European insurer Generali valued at €3.1 billion. Its main divisions are:

- » Corporate and Investment Banking (CIB), which focuses on lending, capital market activities, and advisory services to large corporate clients. Mediobanca is one of the main CIB players in Italy; its clients are usually large Italian corporates with an international footprint. This division also has a small factoring business, and it has recently started to purchase distressed loans at deep discounts.
- » Consumer Banking, mostly through subsidiary Compass, one of the largest consumer credit companies in Italy. This division operates only in Italy in the following main products areas: unsecured consumer loans (59% of total stock), secured personal loans with a direct pledge on the borrower's salary (16%), auto financing (14%), credit cards (5%), and other consumer loans for the purchase of specific goods (6%). Mediobanca distributes its consumer finance products through other banks and the postal network, through its own branch network, and through agents.
- » Wealth Management, which includes retail banking through subsidiary CheBanca! (deposits and residential mortgages, unrated), the new "Mediobanca Private" brand, which focuses on high net worth individuals (HNWI), and Monaco-based private bank Compagnie Monegasque de Banque (unrated). Recently CheBanca! has focused on growing its wealth management business, targeting in particular affluent clients.
- » Principal Investing, which now mostly consists of the bank's 13% share in Generali valued at €3.1 billion; all other investments in this division are valued at less than €0.5 billion in the bank's books, and are being reduced.
- » Holding Function, which includes all general costs, asset and liability management (ALM), treasury, and leasing business.

Exhibit 3

Mediobanca has a diversified business model Main assets and loan book breakdown



Source: Moody's Investors Service, Bank's reports

Detailed credit considerations

Mediobanca's corporate clients are diversified outside of Italy

The weighted Macro Profile for Mediobanca is Strong -, reflecting its strong presence in Italy (Moderate +), as well as its exposure to large cross-border companies that operate in the European Union (Strong). Furthermore, Generali has an international footprint, with only 33% of Generali's premiums are from Italy.

Moderate asset risk

We assess Mediobanca's asset risk as moderate, as indicated by our ba2 score, one notch below the ba1 Macro Adjusted score.

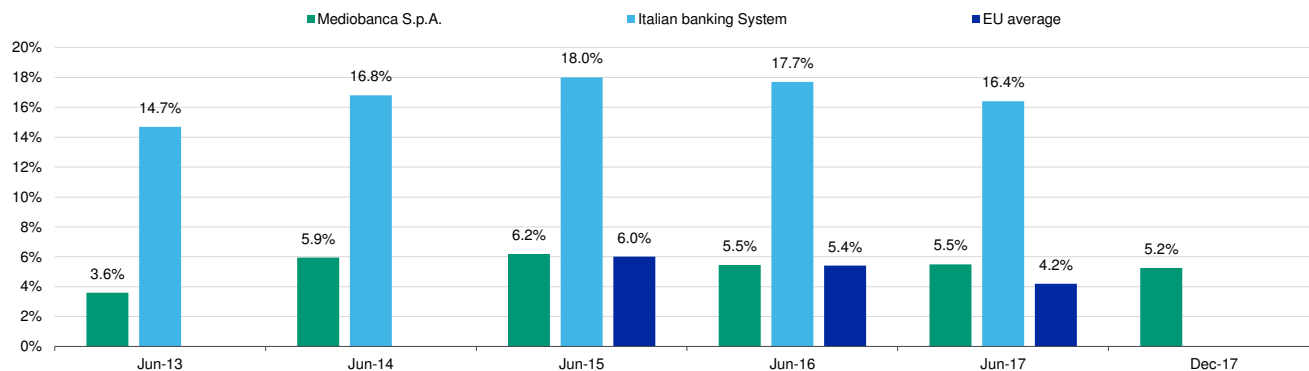
Our score reflects:

- » High but granular risk in the consumer credit portfolio
- » Low but concentrated risk in the corporate loan book, with a small stock of problem loans (exhibit 4)
- » Relatively strict underwriting procedures and a good track record in managing credit risk
- » Idiosyncratic risk resulting from the stake in Generali, which is equivalent to 40% of Mediobanca's Tangible Common Equity (TCE)
- » Moderate market risk:
 - Level 3 assets are 6% of Mediobanca's Tangible Common Equity (TCE): this is significantly higher than the average for commercial banks, but modest compared to global investments banks
 - Trading activities are oriented more towards lower risk securities than complex products

Exhibit 4

Stock of problem loans is in line with EU average

Problem Loans % Gross Loans



Note: Data for Mediobanca include a portfolio of problem loans acquired from third parties; excluding this portfolio, Mediobanca's ratio would have been 4.6% in December 2017.

Source: Moody's Investors Service, Bank of Italy, European Banking Authority (EBA)

Good capitalisation, with large buffers over prudential requirements

Our assessment of Mediobanca's capital is baa2, two notches below the a3 macro adjusted score to reflect our expected trend for the bank's capital ratios, including the bank's strategy to grow through acquisitions.

In December 2017, Mediobanca's fully-loaded CET1 ratio was 14.3% (pro-forma for the benefit of credit risk models for corporate loans approved by the ECB in February), and subject to several moving parts. The end of favourable capital treatment for holdings in insurance companies, known as the "Danish compromise", will lead to a lower capital ratio. However, Mediobanca believes that will be fully offset by its planned sale of 3% of Generali. The bank also states that its capital ratio will not be materially affected by new regulatory guidelines on problem loans or the so-called Basel IV reforms.

Mediobanca's CET1 ratio compares with a minimum prudential requirement of 7.63% which the bank needs to maintain in 2018.

Sound and diversified profitability

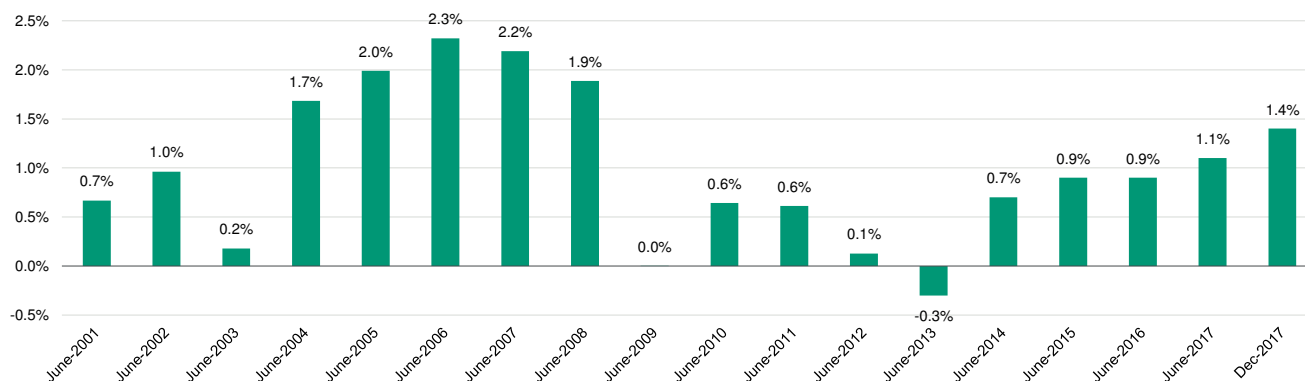
Our score for Mediobanca's profitability is baa3, one notch below our macro adjusted score. The assigned score reflects our medium-term view on Mediobanca's return on tangible assets once it reduces its stake in Generali to 10%.

In the last three years, Mediobanca reported an average return on tangible assets of about 100 bps, which is sound in the Italian and European contexts. Furthermore, despite a challenging operating environment, particularly in Italy, Mediobanca has a good track record of generating profits (exhibit 5). Since 2001 the bank has reported only one net annual loss (in 2013). This was driven by losses on the disposal of large stakes in companies, rather than by loan impairments, trading losses, restructuring costs, or conduct-related fines.

Exhibit 5

Good track record of profits

Returns on Tangible Assets



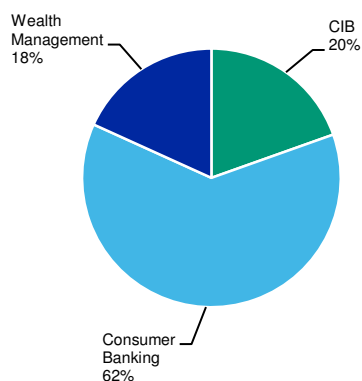
Source: Moody's Investors Service, Bank's reports

We believe that Mediobanca's business model of different activities has supported the bank's more stable earnings compared to peers. Nevertheless, the high concentration in Generali, which makes a sizeable contribution to Mediobanca's consolidated earnings (exhibit 6), represents a material dependence on non-cash earnings outside Mediobanca's full control.

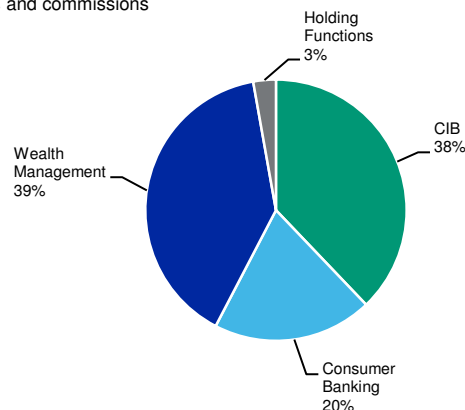
Exhibit 6

Income's breakdown by business line

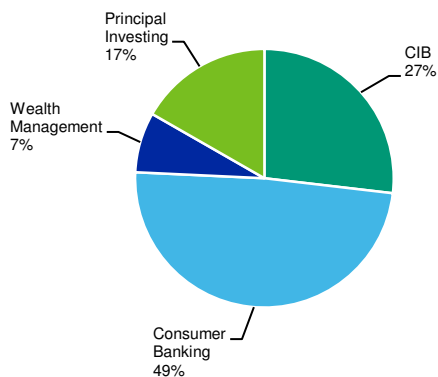
Net Interest Income



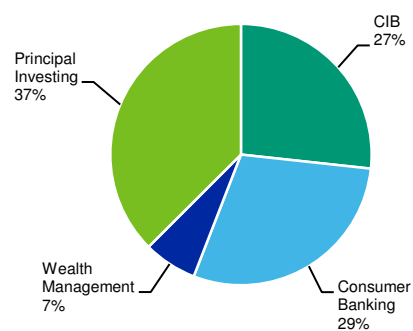
Net Fees and commissions



Pre-provision income



Net Profit



Source: Moody's Investors Service, Bank's reports

High reliance on wholesale funding

Our score for Mediobanca's funding structure is b1, one notch above the b2 macro adjusted score. Our adjustment reflects the overall short maturity of the bank's assets.

Despite Mediobanca's efforts in recent years to increase its share of more stable deposit funding through the creation of retail bank CheBanca! in 2008, the bank is still highly reliant on wholesale funding. At end-2017, market funds were 48% of tangible banking assets, in line with the average for recent years. Mediobanca's reliance on less dependable wholesale funding is the key risk for the bank.

This is partially mitigated by the maturity profile of its funding, the short duration of its loan book, and a large stock of assets that could be pledged against additional funding from the European Central Bank (ECB).

Mediobanca's liquid resources score is baa1, one notch below the a3 macro adjusted score to reflect expected trends, and the bank's large stock of assets eligible for repo transactions with the ECB.

Support and structural considerations**Loss Given Failure Analysis**

Mediobanca is subject to the EU Bank Recovery and Resolution Directive, which we consider to be an operational resolution regime. Our analysis assumes residual tangible common equity of 3% and losses post-failure 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 that deposits will in practice 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, owing to the loss absorption provided by the residual equity that we expect in resolution, 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 results in an uplift of three notches from the bank's baa3 BCA.

We believe that Mediobanca's senior unsecured debt is likely to face very low loss-given-failure, owing to 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.

Counterparty risk assessment

Counterparty Risk (CR) Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails, and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss, and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

Mediobanca's CR Assessment is positioned at Baa1(cr)/Prime-2(cr)

This is two notches above the bank's standalone BCA of baa3. CR Assessments are typically constrained to one notch above the sovereign bond rating, 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 cushion against default provided to the operating obligations by substantial bail-in-able debt and deposits. The main difference with our Advanced LGF approach used to determine instrument ratings is that the CR Assessment captures the probability of default on certain senior obligations, rather than expected loss, therefore we focus purely on subordination and take no account of the volume of the instrument class

Government support considerations

We assess the probability of government support to Mediobanca's depositors and senior bondholders as Low.

Mediobanca is a modestly sized bank domestically, and not a key participant in global financial markets. As such we think it unlikely that its debt or deposits would benefit from government support.

About Moody's scorecard

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment 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 7

Mediobanca S.p.A.

Macro Factors

Weighted Macro Profile **Strong - 100%**

Factor	Historic Ratio	Macro Adjusted Score	Credit Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	5.6%	ba1	← →	ba2	Single name concentration	
Capital						
TCE / RWA	14.1%	a3	← →	baa2	Expected trend	Stress capital resilience
Profitability						
Net Income / Tangible Assets	1.1%	baa2	↓	baa3	Expected trend	
Combined Solvency Score		baa2		baa3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	48.9%	b2	← →	b1	Term structure	Market funding quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	32.7%	a3	← →	baa1	Expected trend	
Combined Liquidity Score		ba2		ba1		
Financial Profile						
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				Baa2		
Scorecard Calculated BCA 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		31,857		46.0%	34,072	49.2%
Deposits		21,722		31.3%	19,506	28.1%
Preferred deposits		16,074		23.2%	15,271	22.0%
Junior Deposits		5,648		8.1%	4,236	6.1%
Senior unsecured bank debt		11,178		16.1%	11,178	16.1%
Dated subordinated bank debt		2,471		3.6%	2,471	3.6%
Equity		2,079		3.0%	2,079	3.0%
Total Tangible Banking Assets		69,307		100%	69,307	100%

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 Assessment	28.8%	28.8%	28.8%	28.8%	2	2	2	2	0	baa1 (cr)
Deposits	28.8%	6.6%	28.8%	22.7%	2	3	3	3	0	a3
Senior unsecured bank debt	28.8%	6.6%	22.7%	6.6%	2	2	2	2	0	baa1

Instrument class	Loss Given Failure notching	Additional Notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Deposits	3	0	a3	0	A3	A3
Senior unsecured bank debt	2	0	baa1	0	Baa1	Baa1

Source: Moody's Financial Metrics

Ratings

Exhibit 8

Category [Moody's Rating](#)

MEDIOBANCA S.P.A.	
Outlook	Negative(m)
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	Baa1(cr)/P-2(cr)
Issuer Rating	Baa1

Source: Moody's Investors Service

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Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454