

Research Update:

Mediobanca And MB Funding Lux Ratings Affirmed On Sovereign Rating Action; Outlook Remains Negative

October 29, 2020

Overview

- On Oct. 23, S&P Global Ratings affirmed its 'BBB/A-2' ratings on Italy and revised the outlook to stable from negative.
- While this removes a key risk to the ratings on Mediobanca, we continue to see potential constraints to the bank's earnings, capital, and asset quality if the economic recovery is significantly delayed amid the COVID-19-induced crisis.
- We are affirming the 'BBB/A-2' ratings on Mediobanca and its core subsidiary, MB Funding Lux, as we continue to assess that Mediobanca has sufficient buffers to cushion the pressure on earnings we expect over the next two years, under our base-case scenario.
- We are maintaining the negative outlook primarily to reflect our view that the cyclical economic recovery could be substantially weaker or delayed compared with our current expectations, which would imply a potential negative effect on Mediobanca's creditworthiness.

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Rating Action

On Oct. 29, 2020, S&P Global Ratings affirmed its 'BBB/A-2' long- and short-term issuer credit ratings on Italy-based Mediobanca SpA and its core subsidiary, MB Funding Lux S.A. The outlook on the long-term ratings remains negative.

We also affirmed all other ratings on these banks.

Rationale

The affirmations follow the recent rating action on Italy (see "Italy Outlook Revised To Stable From Negative; Ratings Affirmed At 'BBB/A-2'"), as well as our updated macroeconomic view of Italy. We consider that the outlook revision on Italy to stable removes a risk for the ratings on Mediobanca as we believe that it could not be rated above the sovereign, given its large concentration in Italy

and exposure to Italian economic risk. Conversely, further evolution of the pandemic in Italy and the potential introduction of new restrictive measures could heighten pressure on Italy's ongoing recovery in the coming months and constrain our existing forecast. This would be particularly detrimental for the recovery of Italian banks' asset quality. We currently project that Italian GDP will fall by 8.9% in 2020, gradually bouncing back from 2021 and 2022 and returning to 2019 levels only in 2023.

Despite the material pressure on earnings in 2020 and 2021, we anticipate that Mediobanca will be able to keep its risk-adjusted capital (RAC) ratio at about 8%, while also maintaining better asset quality metrics than peers. Compared to most Italian banks, we believe that Mediobanca will benefit from stronger earnings resilience due to its more diversified business model and controlled cost of risk.

We also anticipate that Mediobanca's asset quality deterioration will remain manageable overall. As in the previous economic recession, Mediobanca's good corporate loan diversification by sector and geography and proactive loan collection approach on its consumer finance portfolio should help it maintain lower-than-system-average inflows of nonperforming exposures (NPEs).

Nevertheless, the negative outlook reflects our view that the risks to Mediobanca's credit profile linked to the COVID-19-induced downturn have not abated. We see a risk that the economic rebound in Italy might take longer than currently expected or fiscal countermeasures introduced by the government prove less effective than anticipated.

Outlook

The negative outlooks on Mediobanca and its subsidiary, MB Funding Lux, primarily reflect heightened pressure on revenue and asset quality, as well as significant risks we see to our base-case expectations over the next two years.

Downside scenario

We could lower the ratings over the next 12-24 months if we observed further material deterioration in economic and operating conditions in Italy, either because the downturn is deeper and longer, or the recovery weaker, than we currently anticipate, thus potentially triggering a substantial weakening of Mediobanca's capital, profitability, and asset quality. In addition, we could take a negative rating action if we concluded that Mediobanca's strategy shifted to become substantially more aggressive or risky.

Upside scenario

We could revise the outlook on Mediobanca to stable if we were to see easing domestic economic conditions and/or diminished risks to our expectations.

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 stand-alone credit profile (SACP) and issuer credit rating (ICR). Therefore, if we were to lower the ICR on Mediobanca, we would also lower the rating on the bank's rated subordinated debt.

Ratings Score Snapshot

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

Related Criteria

- 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: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment 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

Related Research

- Italy Outlook Revised To Stable From Negative; Ratings Affirmed At 'BBB/A-2', Oct. 23, 2020
- EMEA Financial Institutions Monitor 4Q2020: Banks Prepare As Winter Is Coming, Oct. 23, 2020
- How COVID-19 Is Affecting Bank Ratings: October 2020 Update, Oct. 22, 2020
- European Economic Snapshots: A Second COVID-19 Wave Is Dampening The Recovery, Oct. 14, 2020
- COVID-19 Puts The Brakes On Capital Strengthening For The 50 Largest European Banks, Oct. 14, 2020
- Banking Horizons Europe 2020: COVID-19 As A Catalyst For Change, Oct. 13, 2020
- European Bank Asset Quality: Half Year Results Tell Only Half The Story, Sept. 28, 2020
- Mediobanca SpA 'BBB/A-2' Ratings Affirmed On Capital Buffer; Outlook Negative, April 29, 2020
- Outlooks On Most Italian Banks Now Negative On Deepening COVID-19 Downside Risks, April 29, 2020

Ratings List

Ratings Affirmed

Mediobanca SpA

Issuer Credit Rating

Resolution Counterparty Rating

MB Funding Lux S.A.

Issuer Credit Rating	BBB/Negative/A-2
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Resolution Counterparty Rating	BBB+/-/A-2
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Mediobanca SpA

Certificate Of Deposit	
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Foreign Currency	BBB
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Local Currency	BBB/A-2
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Mediobanca SpA

Senior Unsecured	BBB
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Senior Unsecured	BBBp
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Senior Subordinated	BBB-
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Subordinated	BB+
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MB Funding Lux S.A.

Resolution Counterparty Liability	BBB+
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of

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