MOODY'S
INVESTORS SERVICE

CREDIT OPINION
4 December 2018

New Issue

Rate this Research

**RATINGS**

**Mediobanca S.p.A.**

| | |
|---|---|
| Domicile | Italy |
| Long Term CRR | Baa1 |
| Type | LT Counterparty Risk Rating - Fgn Curr |
| Outlook | Not Assigned |
| Long Term Debt | Not Assigned |
| Long Term Deposit | Baa1 |
| Type | LT Bank Deposits - Fgn Curr |
| Outlook | Stable |

*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.*

**Contacts**

Lorenzo Gren +33.1.5330.1055
*Associate Analyst*
lorenzo.gren@moodys.com

Fabio Iannò +33.1.5330.3356
*VP-Sr Credit Officer*
fabio.ianno@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

**CLIENT SERVICES**

| | |
|---|---|
| Americas | 1-212-553-1653 |
| Asia Pacific | 852-3551-3077 |
| Japan | 81-3-5408-4100 |

# Mediobanca S.p.A.

## Update to credit analysis

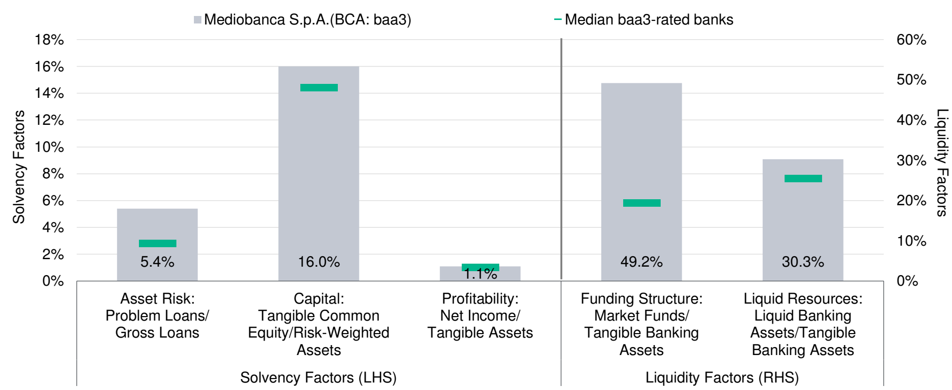
## Summary

Mediobanca S.p.A.'s Baa1 long-term issuer and deposit ratings reflects the bank's standalone creditworthiness (baa3), very low loss-given-failure for both debt classes, and our assessment of a low probability of government support. The outlook on the long-term issuer and deposit ratings is stable.

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, stable outlook). This exposes Mediobanca to idiosyncratic risk, mitigated in part by the liquidity of the investment and its contribution to earnings.

Mediobanca's long-term deposits rating was downgraded to Baa1 from A3 on 23 October 2018 following the downgrade on Italy to Baa3/stable outlook of 19 October 2018 as, according to our methodology, deposit ratings are typically constrained to two notches above the sovereign bond rating.

Exhibit 1
**Rating Scorecard - Key Financial Ratios**




*Source:Moody's Financial Metrics*

## Credit strengths

» Adequate capitalisation, with large buffers over prudential requirements

» Sound and diversified profitability

## Credit challenges

» High reliance on wholesale funding

» High borrower concentration and large stake in Generali

## Outlook

The stable outlook on Mediobanca's long-term issuer rating reflects 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.

The outlook on Mediobanca's Baa1 long-term deposit rating is stable, reflecting the stable outlook on Italy's sovereign bond rating (Baa3/stable). In accordance with our Banks methodology, deposit ratings 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 below that of the sovereign's own debt.

## Factors that could lead to an upgrade

An upgrade of Mediobanca's ratings and assessments is unlikely as they are currently capped by Italy's sovereign rating. Moody's does not typically rate a bank's BCA above the sovereign rating, and the long-term ratings more than two notches above the sovereign rating.

## Factors that could lead to a downgrade

Mediobanca's BCA could be downgraded if reliance on capital market activities were to increase; if capital ratios decreased materially; or if its dependence on short-term wholesale funding were to rise. A downgrade of the BCA could lead to a downgrade of Mediobanca's issuer ratings.

Mediobanca's ratings and assessments could also be downgraded following a downgrade of Italy's sovereign debt rating.

## Key indicators

Exhibit 2

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

| | 6-18[2] | 6-17[2] | 6-16[2] | 6-15[2] | 6-14[2] | CAGR/Avg.[3] |
|---|---|---|---|---|---|---|
| Total Assets (EUR million) | 69,940 | 67,958 | 66,155 | 66,669 | 65,647 | 1.6[4] |
| Total Assets (USD million) | 81,658 | 77,509 | 73,495 | 74,283 | 89,881 | -2.4[4] |
| Tangible Common Equity (EUR million) | 8,140 | 7,685 | 7,235 | 6,913 | 6,559 | 5.5[4] |
| Tangible Common Equity (USD million) | 9,504 | 8,766 | 8,037 | 7,703 | 8,980 | 1.4[4] |
| Problem Loans / Gross Loans (%) | 5.2 | 5.5 | 5.5 | 6.2 | 5.9 | 5.7[5] |
| Tangible Common Equity / Risk Weighted Assets (%) | 16.0 | 13.8 | 12.4 | 10.9 | 10.4 | 12.7[6] |
| Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%) | 23.1 | 23.9 | 24.7 | 28.5 | 28.6 | 25.8[5] |
| Net Interest Margin (%) | 2.1 | 2.0 | 1.9 | 1.8 | 1.6 | 1.9[5] |
| PPI / Average RWA (%) | 2.0 | 1.7 | 1.5 | 1.6 | 1.5 | 1.7[6] |
| Net Income / Tangible Assets (%) | 1.3 | 1.1 | 0.9 | 0.9 | 0.7 | 1.0[5] |
| Cost / Income Ratio (%) | 53.6 | 56.8 | 54.1 | 47.2 | 47.1 | 51.8[5] |
| Market Funds / Tangible Banking Assets (%) | 49.2 | 49.8 | 59.1 | 57.6 | 58.6 | 54.9[5] |
| Liquid Banking Assets / Tangible Banking Assets (%) | 30.3 | 32.7 | 29.9 | 31.3 | 31.5 | 31.2[5] |
| Gross Loans / Due to Customers (%) | 207.2 | 203.7 | 249.0 | 250.7 | 246.9 | 231.5[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 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 financial group with total assets of €72.3 billion as of June 2018, including a 13% stake in European insurer Generali valued at around €3.2 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. Mediobanca recently started purchasing Italian distressed loans at deep discounts through its subsidiary MB Credit Solutions, and its proprietary portfolio in September 2018 amounts to around €5 billion.

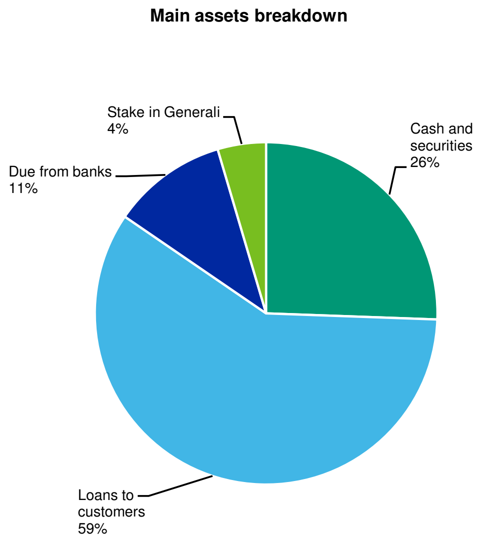
» Consumer Banking, mostly through its subsidiary Compass, one of the largest consumer credit companies in Italy. This division operates only in Italy in the following main products areas: unsecured consumer loans, secured personal loans with a direct pledge on the borrower's salary, auto- financing, credit cards, and other consumer loans for the purchase of specific goods. Mediobanca distributes its consumer finance products through (i) other banks and the postal network, (ii) its own branch network and (iii) agents. In August 2018 Compass signed an agreement to acquire a 19.9% stake in Indonesian independent consumer credit operator BFI Finance, but the deal has not yet been finalized.

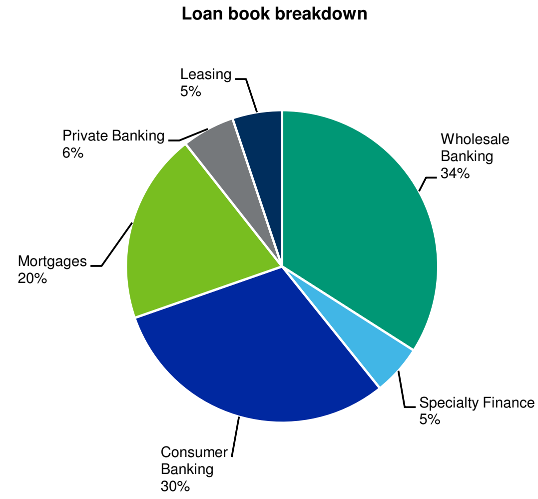
» Wealth Management, which includes retail banking through subsidiary CheBanca! (deposits and residential mortgages, unrated), the new "Mediobanca Private" brand, which focuses on high net worth individuals, and Monaco-based private bank Compagnie Monegasque de Banque (unrated). Recently CheBanca! has 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 around €3.2 billion; all other investments in this division are valued at less than €0.8 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

### Diversified corporate clients base

The weighted Macro Profile for Mediobanca is Strong -, reflecting its strong presence in Italy (Moderate +), but also its exposure to large cross-border companies that operate in the European Union (Strong). Furthermore, it takes account of Generali's international footprint, with only 33% of Generali's premiums generated in 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 to reflect the relatively high level of concentration in Mediobanca's loan book.

Mediobanca's problem loans at end-June 2018 accounted for 5.2% of gross loans, a level much lower than the Italian system average of 12.5% at the same date, although higher than the European Union average of below 4%, according to European Banking Authority's data. The coverage ratio is adequate at 68% and compares well with other domestic and international banks.

Our ba2 score also reflects:

» High risk yet granular in the consumer credit portfolio

» Low risk yet concentrated corporate loan book, with a small stock of problem loans (exhibit 4)

» Strict underwriting procedures and a good track record in managing credit risk

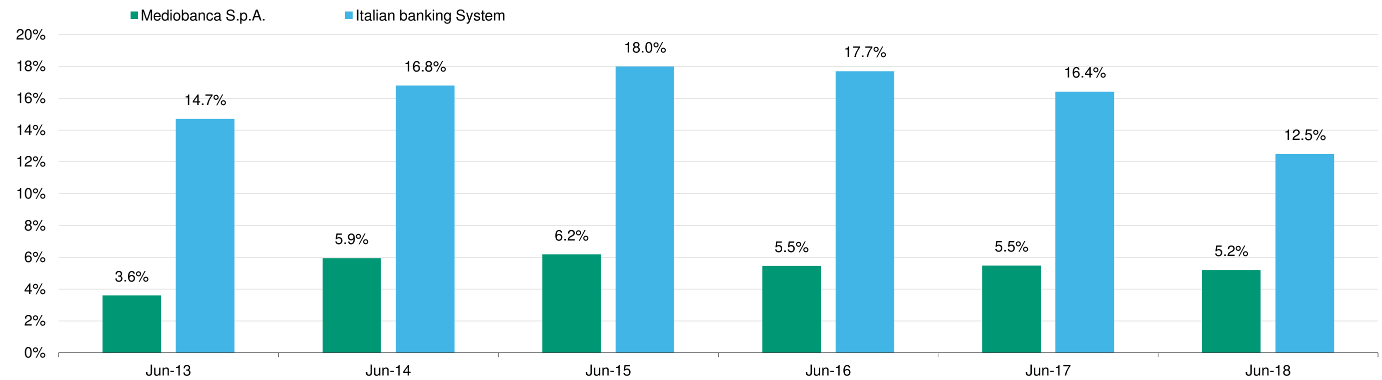
» Idiosyncratic risk resulting from the stake in Generali, which is equivalent to a relatively high around 40% of Mediobanca's Tangible Common Equity (TCE)

» Moderate market risk:

– Level 3 assets represent 5% of Mediobanca's Tangible Common Equity (TCE): this is significantly higher than the average for commercial banks, but modest compared to investments banks

– Trading activities are oriented more towards lower risk securities than complex products

Exhibit 4
**Problem loans are much lower than Italian average**
**Problem Loans % Gross Loans**




*Source: Moody's Investors Service, Bank of Italy*

## Adequate capitalisation, with large buffers over prudential requirements

Our assessment of Mediobanca's capital is baa1, two notches below the a2 macro adjusted score to reflect our expected trend for the bank's capital ratios, including the bank's strategy to grow through acquisitions, even though the bank has good track record of internal capital generation capabilities thanks to its sound profitability.

Mediobanca reported a 14.24% CET1 ratio and a total capital ratio of 18.1% as of end-June 2018, which Moody's considers to be adequate and largely above its minimum CET1 prudential requirement of 7.63%. The adoption of IFRS 9 had a negative impact of 20 basis points on the fully-loaded CET1 ratio. The bank estimates that without the so-called "Danish compromise" its pro-forma CET1 ratio would be 13.1%, but the bank expects this negative impact to be offset by the sale of a 3% share in Generali, which would bring its stake to, or below 10%.

Mediobanca's capital is less sensitive to volatility in Italian sovereign bond prices than other Italian banks. The banks disclosed that an increase in 100 basis points in government spread leads to a decrease in its CET1 ratio of just 8 basis points.

## Sound and diversified profitability

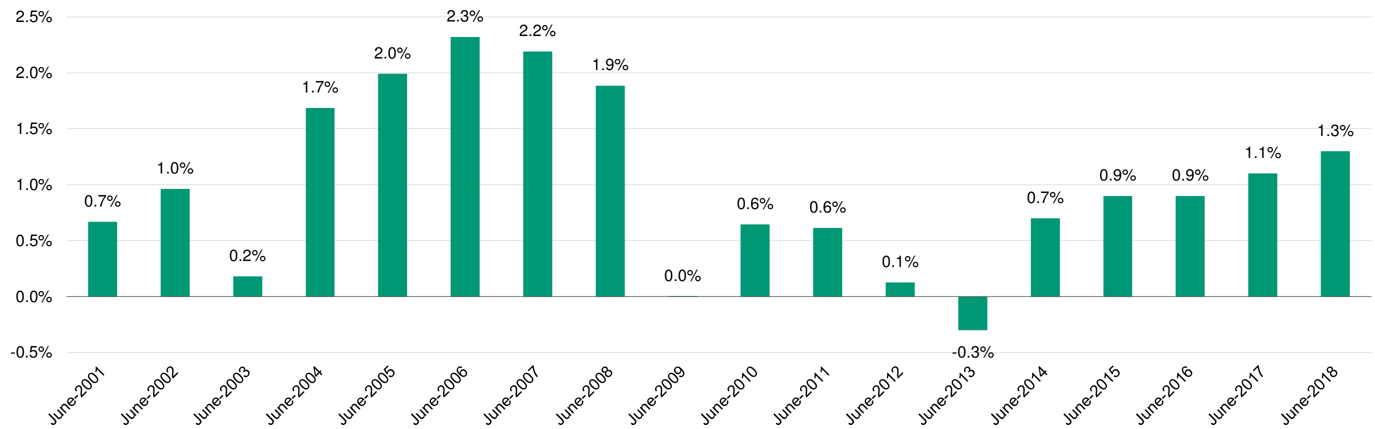
Our score for Mediobanca's profitability is baa3, one notch below our macro adjusted score. The assigned score reflects our medium-term view on Mediobanca's return on tangible assets once it has reduced its stake in Generali below 10%, as principal investing currently accounts for over one-third of Mediobanca's net profit.

In the last three years, Mediobanca reported an average return on tangible assets of about 110 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**

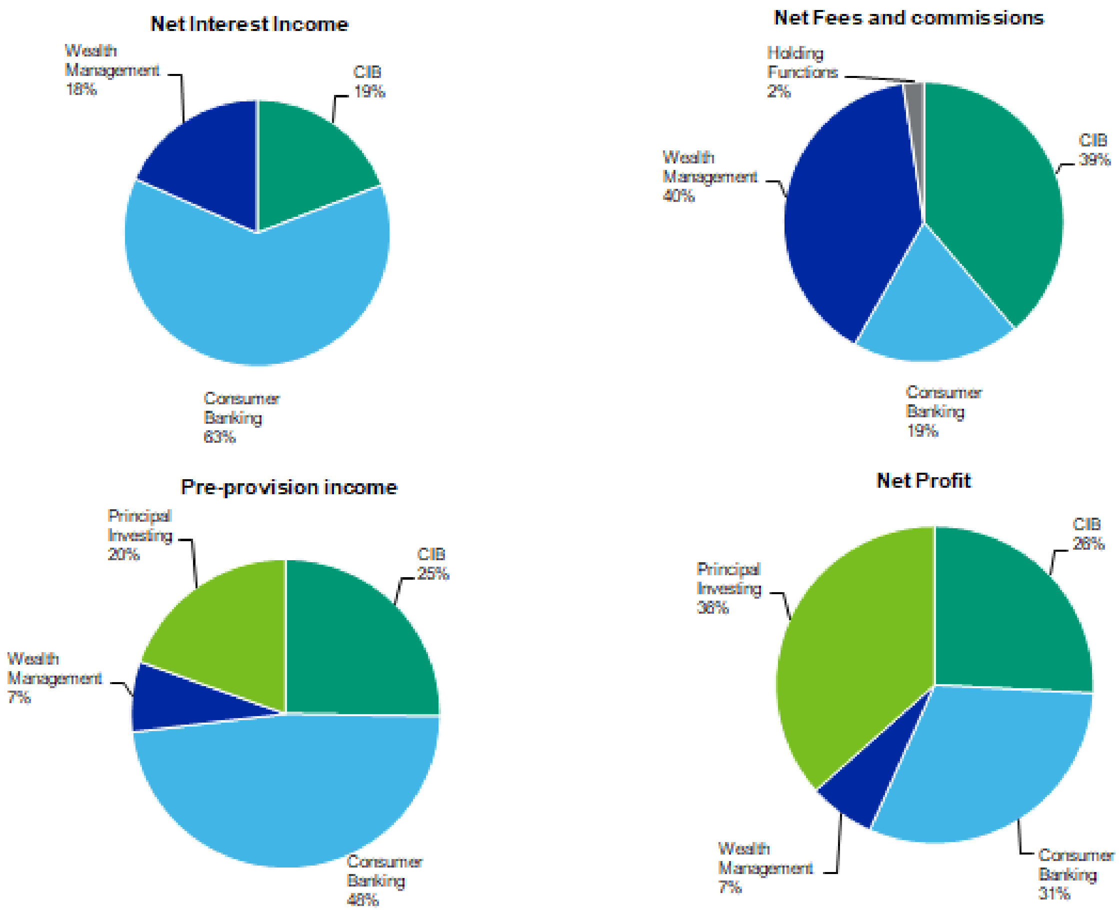



*Source: Moody's Investors Service, Bank's reports*

We believe that Mediobanca's business model of different activities has supported the bank's more stable earnings compared to peers. The bank has also significantly expanded its retail business over the next years though the growth of its retail bank subsidiary CheBanca!. 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**




*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-June 2018, market funds were around 49% 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), which amounts to €4.3 billion at end-June 2018, mostly n the form of TLTROs.

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. The bank reported a Liquidity Coverage Ratio of 186% at end-June 2018.

## 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 very 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, and the constraint indicated in our methodology according to which deposit ratings are typically constrained to two notches above the sovereign bond rating. This results in an uplift of two notches from the bank's baa3 BCA to the deposit rating.

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 ratings (CRRs)

Moody's Counterparty Risk Ratings (CRRs) are opinions on the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event that such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivative transactions and the uncollateralised portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

**Mediobanca's CRRs are positioned at Baa1/Prime-2**

Mediobanca's CRRs are two notches above the baa3 BCA. In accordance with our Banks methodology, CRRs are typically constrained to two notches above the sovereign bond rating, reflecting the agency's view that the expected loss of rated bank instruments is unlikely to be significantly lower that of the sovereign's own debt.

The Baa1 CRRs of Mediobanca do not include any further uplift resulting from our expectations for low probability of government support.

### 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 Baa2(cr)/Prime-2(cr)**

This is one notch above the bank's standalone BCA of baa3.

According to our 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 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 8

**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 | 5.4% | ba1 | ←→ | ba2 | Single name concentration | |
| Capital | | | | | | |
| TCE / RWA | 16.0% | a2 | ←→ | baa1 | 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 | 49.2% | b2 | ←→ | b1 | Term structure | Market funding quality |
| Liquid Resources | | | | | | |
| Liquid Banking Assets / Tangible Banking Assets | 30.3% | a3 | ←→ | baa1 | Expected trend | |
| Combined Liquidity Score | | ba2 | | ba1 | | |
| Financial Profile | | | | baa3 | | |
| Business Diversification | | | | 0 | | |
| Opacity and Complexity | | | | 0 | | |
| Corporate Behavior | | | | 0 | | |
| Total Qualitative Adjustments | | | | 0 | | |
| Sovereign or Affiliate constraint: | | | | Baa3 | | |
| 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 | 32,493 | 47.0% | 34,585 | 50.0% |
| Deposits | 20,513 | 29.7% | 18,421 | 26.6% |
| Preferred deposits | 15,180 | 21.9% | 14,421 | 20.8% |
| Junior Deposits | 5,333 | 7.7% | 4,000 | 5.8% |
| Senior unsecured bank debt | 11,627 | 16.8% | 11,627 | 16.8% |
| Dated subordinated bank debt | 2,471 | 3.6% | 2,471 | 3.6% |
| Equity | 2,075 | 3.0% | 2,075 | 3.0% |
| Total Tangible Banking Assets | 69,179 | 100% | 69,179 | 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 Rating | 29.2% | 29.2% | 29.2% | 29.2% | 2 | 2 | 2 | 2 | 0 | baa1 |
| Counterparty Risk Assessment | 29.2% | 29.2% | 29.2% | 29.2% | 1 | 1 | 1 | 1 | 0 | baa2 (cr) |
| Deposits | 29.2% | 6.6% | 29.2% | 23.4% | 2 | 2 | 2 | 2 | 0 | baa1 |
| Senior unsecured bank debt | 29.2% | 6.6% | 23.4% | 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 |
|---|---|---|---|---|---|---|
| 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 |

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
*Source: Moody's Financial Metrics*

## Ratings

Exhibit 9

| Category | Moody's Rating |
|---|---|
| **MEDIOBANCA S.P.A.** | |
| Outlook | Stable |
| 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 |

*Source: Moody's Investors Service*

REPORT NUMBER 1147793

## CLIENT SERVICES



| | |
|---|---|
| Americas | 1-212-553-1653 |
| Asia Pacific | 852-3551-3077 |
| Japan | 81-3-5408-4100 |
| EMEA | 44-20-7772-5454 |



MOODY'S INVESTORS SERVICE