

FITCH AFFIRMS MEDIOBANCA AT 'BBB+'; OUTLOOK STABLE

Fitch Ratings-Milan/London-12 April 2016: Fitch Ratings has affirmed Mediobanca S.p.A.'s (Mediobanca) Long-term Issuer Default Rating (IDR) at 'BBB+' and Viability Rating (VR) at 'bbb+'. The Outlook on the Long-term IDR is Stable. A full list of ratings is available at the end of this rating action commentary.

KEY RATING DRIVERS

VR, IDRs and SENIOR DEBT RATINGS

Mediobanca's Long- and Short-term IDRs are driven by the bank's standalone intrinsic strength as captured in the VR. The ratings reflect the group's adequate capitalisation and leverage, which are maintained with satisfactory buffers over regulatory minimums and are commensurate with the bank's risk profile.

Mediobanca also benefits from a strong historical franchise in specialised businesses in Italy, which provides it with business and revenue diversification, although operating profits continue to rely on proceeds from its large equity stake in Italian insurer, Assicurazioni Generali, and fluctuate due to its more cyclical businesses. The ratings also factor in a risk appetite, which has to date remained reasonable but is at risk from continued expansion, and better-than-domestic peers' asset quality. The ratings further take into account a funding profile that is biased towards wholesale and retail bonds placed through third-party networks, complemented by sound liquidity.

Mediobanca has maintained a strong franchise in Italian corporate and investment banking and consumer finance over several business cycles. At the same time for a number of years it has made progress in diversifying its corporate and investment banking activities geographically in selected western and south eastern European countries where it has a branch presence. Over the course of 2015 Mediobanca made a couple of targeted acquisitions to strengthen its alternative asset management and retail banking franchises.

Mediobanca's risk metrics are adequate for the bank's type of activities and their inherent risks. In Fitch's opinion, the group's risk appetite in its selected businesses has been conservative and underpinned by coherent underwriting standards. Fitch expects the more recent expansion not to alter the group's overall risk appetite and profile materially. The group's risk management framework has evolved and strengthened in line with business growth. Although corporate and investment banking activities result in high single-name concentration levels concentration limits on large credit exposures are lower than in the past and respect of these limits is strict, while the bank's plan to dispose of historical equity participations is progressing.

Asset quality is adequate relative to Mediobanca's lending exposure and much stronger than domestic banks' averages while it compares adequately with international peers. The group's impaired loans ratio and unreserved impaired loans in relation to Fitch Core Capital are better than domestic averages despite having deteriorated since 2013, reflecting the long recession in Italy.

Mediobanca's profitability tends to fluctuate and is sensitive to the economic and interest rate cycles as well as international capital markets swings, given the share of investment banking profits and net interest income generated by the group's wholesale and retail/consumer lending activities. The increased focus on business volume expansion outside of Italy and on expanding the group's asset management activities should compensate for reduced contribution to operating

profitability from its equity investments, in particular Assicurazioni Generali which still contributes significantly to the group's operating profits.

Funding is skewed towards wholesale and unconventional retail funding channels but to date this has not led to undue volatility. The bank's long-term funding channels are adequately diversified and the bank benefits from a sound franchise and reputation in the wholesale and retail third-party channels segment. Refinancing risk is limited and management of debt maturities is cautious. Liquidity is underpinned by abundant unencumbered eligible assets available for central bank refinancing.

Mediobanca's regulatory and Fitch-calculated capital ratios are adequate given risk concentrations in the bank's aggregate equity and credit exposures and the diverse businesses, including some comparatively more volatile activities. The bank's ability to maintain high weighted capital ratios mitigates concentration and volatility risk. Leverage is low by international standards.

The ratings of the senior debt issued by Mediobanca International (Luxemburg) SA are equalised with that of the parent since the debt is unconditionally and irrevocably guaranteed by Mediobanca.

SUPPORT RATING AND SUPPORT RATING FLOOR

Mediobanca's Support Rating (SR) of '5' and Support Rating Floor (SRF) of 'No Floor' reflect Fitch's view that, external support for the bank from national authorities is possible in case of need but cannot be relied upon. In Italy where the parent is based, senior creditors can no longer rely on receiving full extraordinary support from the sovereign if a bank becomes non-viable. Under the EU's Bank Recovery and Resolution Directive and Single Resolution Mechanism framework for resolving banks, senior creditors will be required to participate in losses, if necessary, instead of ahead of a bank receiving sovereign support. Full application of BRRD, including the bail-in tool, is required from 1 January 2016. BRRD was transposed into Italian legislation in November 2015, with full implementation from 1 January 2016.

Additionally, Fitch's assessment of support also looks at Mediobanca's limited retail customer deposit franchise domestically, the bias in its funding mix toward wholesale and third-party retail bond funding, and its specialised lending activities.

SUBORDINATED DEBT

Mediobanca's subordinated debt is rated one notch below the 'bbb+' VR, in accordance with Fitch's criteria "Global Banks Rating Criteria", to reflect one notch for loss severity and zero notches for non-performance risk. The one notch for loss severity reflects below-average recovery prospects for the notes.

RATING SENSITIVITIES

VR, IDRs and SENIOR DEBT RATINGS

Mediobanca's IDRs and senior debt ratings are sensitive to movements in the VR.

Rating upside is limited in view of the bank's business profile, risk appetite with reliance on a large equity stake for revenue and risk concentration. Increased risk appetite, such as growing high-risk activities in non-Italian operations, for large exposures above the limits currently in place, or a less rigorous approach to pricing its consumer finance risks or asset quality deterioration could lead to a downgrade of the bank's VR.

Similarly, significantly increased volumes of foreign-originated activities without an equivalent evolution of its risk controls framework could put pressure on the ratings. Deterioration of group liquidity and of its funding profile could also result in a downgrade.

Mediobanca's credit profile is influenced by the sovereign's and, in particular, by the operating environment in Italy, where a large part of the group's operations are located. Mediobanca's VR and IDRs are therefore sensitive to a downgrade of the sovereign rating (BBB+/Stable).

SUPPORT RATING AND SUPPORT RATING FLOOR

Any upgrade of the SR and upward revision of the SRF would be contingent on a positive change in the sovereign's propensity to support its banks. While not impossible, this is highly unlikely, in Fitch's view. In addition, even if that was to happen, it is Fitch's view that Mediobanca would only benefit if its funding structure and lending activities become less niche and specialised and more domestically relevant. Given all these factors, Fitch considers that changes to Mediobanca's SR and SRF are unlikely.

SUBORDINATED DEBT

The subordinated debt rating is sensitive to the same factors that may affect the bank's VR. The rating is also sensitive to a change in notching should Fitch change its assessment of loss severity or non-performance risk.

The rating actions are as follows:

Mediobanca S.p.A.

Long-term IDR: affirmed at 'BBB+'; Outlook Stable

Short-term IDR: affirmed at 'F2'

Viability Rating: affirmed at 'bbb+'

Support Rating; affirmed at '5'

Support Rating Floor: affirmed at 'No Floor'

Senior unsecured short-term and long-term debt: affirmed at 'F2'/'BBB+'

Market-linked notes: affirmed at 'BBB+emr'

Subordinated debt: affirmed at 'BBB'

Mediobanca International (Luxemburg) SA

Senior unsecured short-term and long-term debt: affirmed at 'F2'/'BBB+'

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Additional information is available on www.fitchratings.com

Applicable Criteria

Global Bank Rating Criteria (pub. 20 Mar 2015)

https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=863501

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