

Research Update:

Mediobanca SpA 'BBB/A-2' Ratings Affirmed On Capital Buffer; Outlook Negative

April 29, 2020

Overview

- Despite governments' measures to contain the COVID-19 pandemic and the unprecedented support committed to their corporate and household sectors, European economies, including Italy, face an unprecedented challenge ahead.
- Even under our base case of an economic recovery starting in third-quarter 2020, we expect Mediobanca SpA's earnings and asset quality to weaken through year-end 2020 and into 2021, although it has a sufficient capital buffer to mitigate the impact.
- We are consequently affirming the 'BBB/A-2' ratings on Mediobanca and its subsidiary, MB Funding Lux S.A.
- The negative outlook reflects that on Italy and our view that the cyclical economic recovery could be substantially weaker or delayed compared with our current expectations, which would imply a far more negative effect on Mediobanca's credit metrics.

Rating Action

On April 29, 2020, S&P Global Ratings affirmed its 'BBB/A-2' long- and short-term issuer credit ratings on Mediobanca SpA and its subsidiary, MB Funding Lux S.A.

The outlook on the long-term ratings remains negative.

Rationale

Today's rating action follows a review of several Western European Banking sectors, including Italy. We expect the COVID-19 pandemic to cause a severe recession in Italy, where Mediobanca mainly operates, in 2020. Although we forecast a recovery in 2021, we anticipate it will not immediately and entirely offset the damage caused to the economy, household wealth, and various corporate sectors.

The outlook remains negative, reflecting both that on Italy and the material downside risks we see to our base-case expectations, particularly if the economic rebound we expect in Italy is delayed

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or fiscal countermeasures introduced by the government prove less effective than expected.

Under our economic base case, we expect a meaningful deterioration of Italian banks'--including Mediobanca's--asset quality, revenue, and profitability through the course of 2020 and into 2021.

We forecast a decline in pre-provisions operating income by cumulatively about 10% at June 30, 2021, compared with June 30, 2019, and a rise in cost of credit risk to about 130 basis points (bps) on average compared with only 60 bps as of Dec. 31, 2019. Despite pressure on its earnings, we forecast Mediobanca's risk-adjusted capital (RAC) will remain at about 8% over the next two years, compared with 8.9% as of June 30, 2019, with asset-quality metrics remaining better than system average.

We have affirmed the ratings due to the resilience that we expect the bank to demonstrate in the face of this short-term cyclical event. In particular, compared with most Italian banks, Mediobanca will benefit from stronger capital buffers, better risk management, and significantly lower nonperforming exposures.

Outlook

The negative outlook on Mediobanca and its subsidiary, MB Funding Lux, reflects the outlook on Italy as well as increased pressures on the bank's revenue and asset quality over the next 12-24 months.

Downside scenario

We could downgrade Mediobanca if we lower the rating on Italy and concluded that the bank would be unlikely to withstand a sovereign default without defaulting on its senior debt obligations.

We could also lower the ratings if, over the next 12-24 months, we see that economic conditions have materially deteriorated, particularly if the economic rebound is delayed and we perceived that this could significantly erode Mediobanca's capitalization and asset quality. In addition, we could take a negative rating action if we concluded that Mediobanca shifted toward a substantially more aggressive or risky strategy.

Upside scenario

We could revise the outlook on Mediobanca to stable if we took the same action on Italy and we saw easing domestic economic conditions.

Hybrids

We do not assign outlooks to bank issue ratings. We currently rate Mediobanca's issuances by notching down from the stand-alone credit profile (SACP). Therefore, we would expect the issue ratings to move in tandem with the SACP. If we were to lower the rating on Mediobanca, we would also lower the rating on the bank's rated subordinated debt, since we would notch the ratings on the hybrids downward from the already-lowered SACP or issuer credit rating.

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	Average and
Liquidity	Adequate (0)
Support	0
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	
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: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 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

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- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- How COVID-19 Risks Prompted European Bank Rating Actions, April 29, 2020
- Outlooks On Most Italian Banks Now Negative On Deepening COVID-19 Downside Risks, April 29, 2020
- Italy 'BBB/A-2' Ratings Affirmed; Outlook Negative, April 24, 2020
- Europe Braces For A Deeper Recession In 2020, April 20, 2020
- European Banks' First-Quarter Results: Many COVID-19 Questions, Few Conclusive Answers, April 1, 2020
- COVID-19 Countermeasures May Contain Damage To Europe's Financial Institutions For Now, March 13, 2020
- The Coronavirus Pandemic Is Set To Test The Resiliency Of Italy's Banks, March 13, 2020.
- Italian Banks Not Adapting To The Digital World Quickly Will Be Left Behind, Feb. 17, 2020.

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 S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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