

Rating Action: Moody's takes actions on UniCredit's ratings

18 Jul 2019

Junior senior unsecured and subordinated debt ratings upgraded to Baa2 and Baa3 respectively

Madrid, July 18, 2019 -- Moody's Investors Service ("Moody's") today took the following actions on the ratings and assessments of UniCredit S.p.A. (UniCredit). The agency (1) upgraded the bank's baseline credit assessment (BCA) and adjusted BCA to baa3 from ba1; (2) affirmed the bank's deposit ratings at Baa1/Prime-2; (3) affirmed the bank's long-term senior unsecured debt ratings at Baa1; (4) upgraded the bank's junior senior unsecured debt ratings to Baa2 from Baa3; (5) upgraded the bank's subordinated debt ratings to Baa3 from Ba1 and (6) upgraded the bank's preferred stock rating to Ba3(hyb) from B1(hyb). The outlook on the long-term deposit and senior unsecured debt ratings remains stable.

Today's rating action reflects the continued de-risking and strengthening of UniCredit's credit profile underpinned by a sharp reduction in the stock of problem loans in recent years together with improved and more stable profitability.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

RATIONALE FOR UPGRADING THE BCA

The upgrade of UniCredit's BCA to baa3 from ba1 primarily reflects the bank's improved credit profile following the implementation of its 2019 strategic plan that Moody's believes is now largely complete, ahead of schedule. This plan has delivered a material improvement in the bank's asset risk, with the stock of non-performing exposures (NPEs) declining to €37.6 billion as of the end of March 2019 from its year-end 2014 peak of €84.4 billion. This has been achieved through a combination of large-scale disposals, recoveries and write-offs and has reduced the NPE ratio to 7.6% as of the end of March 2019 from 16.3% at year-end 2014.

The higher BCA also reflects Moody's expectation of further reductions in UniCredit's NPE ratio to around 6% by year-end 2019 and the winding-down of its so-called "non core" unit by 2021, which hosted €17.7 billion of NPEs as of the end of March 2019. The rating agency expects this will deliver a group NPE ratio of around 4%-4.5% in 2021, which is closer to the European Union average of 3.1% as of the end of March 2019 (source: European Banking Authority).

Today's rating action also reflects the bank's higher and more stable profitability after years of volatility, thanks to a substantial decline in operating costs as part of the group's restructuring plan and a reduction in the cost of risk as asset quality metrics continue to improve. UniCredit targets a net profit of €4.7 billion in 2019, equivalent to 0.6% of tangible assets, compared to €3.9 billion in 2018. In upgrading the group's BCA, Moody's also took into consideration UniCredit's commitment to maintain its fully loaded Common Equity Tier 1 (CET 1) ratio between 12%-12.5% in 2019 (12.3% as of the end of March 2019), as retained earnings are partially absorbed by regulatory changes. The group's capitalization will benefit over the next 12 to 18 months from a set of financial measures that UniCredit has announced ahead of its 2020-2023 strategic plan, including the reduction of its exposure to Italian government debt (€54 billion as of the end of March 2019), commitment to de-risking targets and the optimization of funding costs across the group.

In this context Moody's sees limited downside to UniCredit from the bank's exposures to Turkey. UniCredit already anticipated a sharp deterioration of its operations in Turkey in 2018, when it made an extraordinary impairment of €846 million related to its 41% stake in Yapi ve Kredi Bankasi A.S. (B3 negative, b3) and has committed to halve intragroup funding to its Turkish subsidiary over the next two years, which was €2.1 billion at end of March 2019. The group's capital position is no longer materially sensitive to a potential depreciation in the Turkish lira.

RATIONALE FOR AFFIRMING THE DEPOSIT AND SENIOR UNSECURED DEBT RATINGS WITH A STABLE OUTLOOK

The affirmation of UniCredit's long-term deposit and senior unsecured debt ratings at Baa1 reflect: (1) the upgrade of the bank's BCA and adjusted BCA to baa3 from ba1; (2) the result of the rating agency's Advanced Loss Given Failure (LGF) analysis which would lead to three notches of uplift for the long-term deposit and senior unsecured debt ratings, but which are capped at Baa1, two notches above Italy's sovereign rating of Baa3; and (3) Moody's unchanged assessment of a moderate probability of government support for UniCredit, resulting in no uplift for the deposit and senior unsecured debt ratings given that these ratings, prior to government support, are already two notches above the sovereign rating.

The long-term deposit and senior unsecured debt ratings for UniCredit carry stable outlooks, indicating the rating agency's expectation that the bank's credit profile and degree of protection for its senior creditors from the stock of bail-in-able liabilities will not materially change over the next 12-18 months. The stable outlook also reflects the stable outlook on Italy's Baa3 government bond ratings.

RATIONALE FOR UPGRADING THE JUNIOR SENIOR UNSECURED AND SUBORDINATED DEBT RATINGS

The upgrade of UniCredit's junior senior unsecured (sometimes referred to as senior non-preferred) and subordinated debt ratings to Baa2 and Baa3 from Baa3 and Ba1, respectively, reflect: (1) the upgrade of the bank's BCA and adjusted BCA to baa3 from ba1; and (2) Moody's Advanced LGF analysis, which continues to result in one notch of uplift for the junior senior debt ratings and no uplift for the subordinated debt ratings. For junior senior and subordinated debt Moody's believes that the potential for government support is low.

WHAT COULD CHANGE THE RATING UP

An upgrade of UniCredit's BCA is unlikely as long as the Italian government's bond rating remains at Baa3. A bank's BCA would not typically exceed the sovereign rating under Moody's methodology absent a material reduction in the linkages between the bank, its domestic economy and the creditworthiness of the domestic government, which is unlikely.

The bank's Baa1 long-term deposit and senior unsecured debt ratings are capped at two notches above Italy's Baa3 sovereign debt rating.

WHAT COULD CHANGE THE RATING DOWN

UniCredit's BCA could be downgraded as a result of weaker-than-expected capitalization, liquidity or a failure to deliver targeted asset quality improvements.

The bank's deposit, senior unsecured and subordinated debt ratings (including junior senior) could be downgraded if the bank reduced the cushion of bail-in-able debt issued by itself or its guaranteed funding vehicles.

LIST OF AFFECTED RATINGS

Issuer: UniCredit S.p.A.

..Upgrades:

....Baseline Credit Assessment, upgraded to baa3 from ba1

....Adjusted Baseline Credit Assessment, upgraded to baa3 from ba1

....Junior Senior Unsecured Regular Bond/Debenture, upgraded to Baa2 from Baa3

....Junior Senior Unsecured Medium-Term Note Program, upgraded to (P)Baa2 from (P)Baa3

....Subordinate Regular Bond/Debenture, upgraded to Baa3 from Ba1

....Subordinate Medium-Term Note Program, upgraded to (P)Baa3 from (P)Ba1

....Preferred Stock Non-cumulative, upgraded to Ba3(hyb) from B1(hyb)

..Affirmations:

....Long-term Counterparty Risk Ratings, affirmed Baa1

...Short-term Counterparty Risk Ratings, affirmed P-2

...Long-term Bank Deposits, affirmed Baa1, outlook remains Stable

...Short-term Bank Deposits, affirmed P-2

...Long-term Counterparty Risk Assessment, affirmed Baa2(cr)

...Short-term Counterparty Risk Assessment, affirmed P-2(cr)

...Senior Unsecured Regular Bond/Debenture, affirmed Baa1, outlook remains Stable

...Senior Unsecured Medium-Term Note Program, affirmed (P)Baa1

...Other Short Term, affirmed (P)P-2

..Outlook Action:

...Outlook remains Stable

Issuer: UniCredit Bank Ireland p.l.c.

..Affirmations:

...Backed Senior Unsecured Regular Bond/Debenture, affirmed Baa1, outlook remains Stable

...Backed Senior Unsecured Medium-Term Note Program, affirmed (P)Baa1

...Backed Commercial Paper, affirmed P-2

...Backed Other Short Term, affirmed (P)P-2

..Outlook Action:

...Outlook remains Stable

Issuer: UniCredit Delaware Inc.

..Affirmation:

...Backed Commercial Paper, affirmed P-2

..No Outlook assigned

Issuer: UniCredit Int'l Bank (Luxembourg) S.A.

..Upgrade:

...Backed Preferred Stock Non-cumulative, upgraded to Ba3(hyb) from B1(hyb)

..No Outlook assigned

Issuer: UniCredit S.p.A., London Branch

..Affirmations:

...Long-term Counterparty Risk Ratings, affirmed Baa1

...Short-term Counterparty Risk Ratings, affirmed P-2

...Long-term Counterparty Risk Assessment, affirmed Baa2(cr)

...Short-term Counterparty Risk Assessment, affirmed P-2(cr)

...Commercial Paper, affirmed P-2

..No Outlook assigned

Issuer: UniCredit S.p.A., New York Branch

..Affirmations:

...Long-term Counterparty Risk Ratings, affirmed Baa1

...Short-term Counterparty Risk Ratings, affirmed P-2

...Long-term Bank Deposits, affirmed Baa1, outlook remains Stable

...Long-term Counterparty Risk Assessment, affirmed Baa2(cr)

...Short-term Counterparty Risk Assessment, affirmed P-2(cr)

..Outlook Action:

...Outlook remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in August 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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