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Ratings

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UniCredit SpA

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UniCredit SpA

SACP	bbb	
Anchor	bbb	
Business Position	Strong	+1
Capital and Earnings	Adequate	0
Risk Position	Moderate	-1
Funding	Average	0
Liquidity	Adequate	

+

Support	0
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

+

Additional Factors	0

Issuer Credit Rating

BBB/Negative/A-2

Resolution Counterparty Rating

BBB+/--/A-2

Major Rating Factors

Strengths:	Weaknesses:
• Strong franchise in Italy, Germany, Austria, and Central and Eastern Europe (CEE). • High level of geographic diversification. • Sound and well-balanced funding base.	• Significant business and credit exposure in higher-risk countries than international peers. • Likely rise in nonperforming exposures and credit losses amid a COVID-19-induced recession. • Modest profitability prospects.

Outlook: Negative

The negative outlook on UniCredit SpA primarily indicates increased pressure on revenue and asset quality, and significant downside risks S&P Global Ratings sees to its base-case expectations over the next two years.

Downside scenario

We could lower the rating if economic and operating conditions have materially deteriorated, implying far more negative effects on the organization's credit metrics compared with our current expectations. In particular, a downgrade could follow if the bank's projected risk-adjusted capital (RAC) fell below 7% and its asset-quality metrics deteriorate much more than we expect over the next two years.

A negative rating action on the Italian sovereign would not necessarily lead to a downgrade on UniCredit. We could affirm the ratings on the bank in such circumstances, and potentially rate it above the sovereign, provided that we continue to believe that it will maintain sufficient loss-absorbing buffers to protect senior bondholders, reduces its exposures in Italy, and nonperforming exposures (NPEs) do not increase too much, improving the chances of it withstanding a sovereign default.

Upside scenario

We could revise the outlook to stable if economic conditions improved, particularly in Italy, or we were to conclude that there are reduced downside risks to UniCredit's creditworthiness.

Hybrids

We do not assign outlooks to bank issue ratings. However, we will continue to notch the ratings on the hybrids--namely senior nonpreferred, subordinated, and junior subordinated notes--down from the lower of two potential starting points: the stand-alone credit profile (SACP) and the issuer credit rating (ICR). Still, in the event of a downgrade of Italy, we might lower our issue ratings on the hybrid instruments by widening the notching, even if we were to affirm the ICR on UniCredit. At this stage, we conclude that our hypothetical sovereign default scenario would trigger the resolution of the bank relatively quickly, given its direct sovereign exposures, with a bail-in of the subordinated instruments to recapitalize the bank.

Rationale

The starting point for our ratings on UniCredit group is its 'bbb' anchor, which we base on our view of economic risks across the countries in which the group operates and industry risks in its home market of Italy.

The ratings on UniCredit reflect our opinion that the bank will continue to build on its strengths--its strong franchises and leading positions in commercial banking in its core markets of Italy, Germany, Austria, and most of the countries in Eastern Europe, in continuity with the business strategy it launched in 2016 and reiterated in the 2020-2023 business plan (which is under revision to factor in the impact from the COVID-19 pandemic). We also believe the efforts UniCredit made to shed its legacy NPEs in Italy, improve quality of credit underwriting, and build up capital could put it in a better position to cope with challenging economic conditions, compared with most Italian banks.

Still, we expect the pandemic to cause a severe recession in Italy and most European countries where UniCredit operates in 2020. Although we expect a recovery in 2021-2022, we anticipate it will not immediately and entirely offset the damage caused to the economy, household wealth, and some corporate sectors. Even under our base-case scenario, we expect a meaningful deterioration of UniCredit's asset quality, revenue, and profitability into 2021. More specifically, we expect operating income to sharply decline in 2020, because of falling revenue--by 5%-10%--and almost doubling credit losses from €3.3 billion. We anticipate this trend will only partially reverse in 2021, returning to pre-COVID-19 earnings in 2022.

Despite pressure on its earnings, we forecast UniCredit's RAC will remain sustainably above 7% over the next two years, compared with 8.2% as of year-end 2019. On this point, we think management's commitment to confirm its target of Common Equity Tier 1 (CET 1) maximum distributable amount (MDA) buffers of 200-250 basis points (bps) over the medium term would likely result in prudent capital management, supporting our expectations over the next couple of years.

We assess UniCredit group's creditworthiness, including its capital position, on a consolidated basis. In this context, we assume fungibility of resources among the group's entities within regulatory limits. Our assessment accounts for management's public stance on managing capital allocations on a consolidated basis, including excess regulatory capital in certain operations, and the group's track record in this respect.

Anchor:'bbb', based on the average economic risk score of countries where UniCredit operates, and industry risk in Italy

Our bank criteria use our Banking Industry Country Risk Assessment economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an ICR. We assess the economic risk for UniCredit based on our view of the weighted-average economic risk in the countries in which the bank operates--Italy, Germany, Austria, and CEE countries. Italy's share is the largest in our assessment of UniCredit's weighted economic risk. The economic risk score we apply to determine the bank's anchor is '4' (on a scale of '1' to '10'). By contrast, UniCredit's anchor takes into account our industry risk score for Italy, the bank's country of domicile, which is '5' (on a scale of '1' to '10'). Our anchor for UniCredit is 'bbb'. This anchor compares favorably with those of other Italian banks operating almost exclusively in Italy. It benefits from the bank's high degree of diversification in countries with comparatively lower economic risk than that of UniCredit's domestic market, in our view.

We believe that Italian banks continue to face higher economic risk than most European peers. While most Italian banks had largely absorbed the effect of past recessions and tightened their underwriting standards, some still have meaningful legacy NPEs, an additional burden in a deteriorating economy. Moreover, the substantial time needed for creditors in Italy to recover collateral and settle lawsuits--due to the less effective insolvency and foreclosure procedures and judicial system--remains a weakness compared with that of most advanced economies. In this context, the sharp contraction in economic activity in 2020 amid the coronavirus outbreak is likely to impact a large number of small and midsize enterprises to which the Italian banks are particularly exposed, in our opinion. We anticipate Italian banks' credit losses will double in 2020 and 2021, versus roughly 70 bps in 2019, before then normalizing again only in 2022 when we expect Italy's GDP to return to near 2019 levels.

The bank's German and Austrian operations also account for a significant portion of its total assets. Our economic risk assessment for Germany reflects the country's highly diversified and competitive economy and lack of major economic imbalances. Our economic risk assessment for Austria reflects its highly competitive and diverse economy and its strong economic fundamentals.

Industry risks for Italian banks are also higher than for banks in peer countries, in our opinion. The banks' access to affordable unsecured wholesale funding remains constrained on occasion by uncertainties about the sovereign's creditworthiness and economic prospects. Near-to-medium-term refinancing risk has abated, given the abundant liquidity provided the European Central Bank (ECB), the large deposit funding base, and the banking sector's very low external position, with only 5% of reliance on wholesale funding. Failing business volume and margins combined with structural problems, such as high cost bases and fragmentation, will constrain the banks' capacity to absorb the likely rise in credit losses over the next couple of years.

Table 1

UniCredit SpA--Key Figures

	--Year ended Dec. 31--				
(Mil. €)	**2020***	**2019**	**2018**	**2017**	**2016**
Adjusted assets	889,899	852,847	827,961	833,404	856,341
Customer loans (gross)	449,044	442,493	466,990	451,275	467,741
Adjusted common equity	45,021	48,142	44,200	45,842	30,747
Operating revenues	7,195	17,995	20,086	19,208	18,165
Noninterest expenses	4,938	10,030	10,703	11,356	12,237
Core earnings	N/A	3,258	6,150	4,478	(6,992)

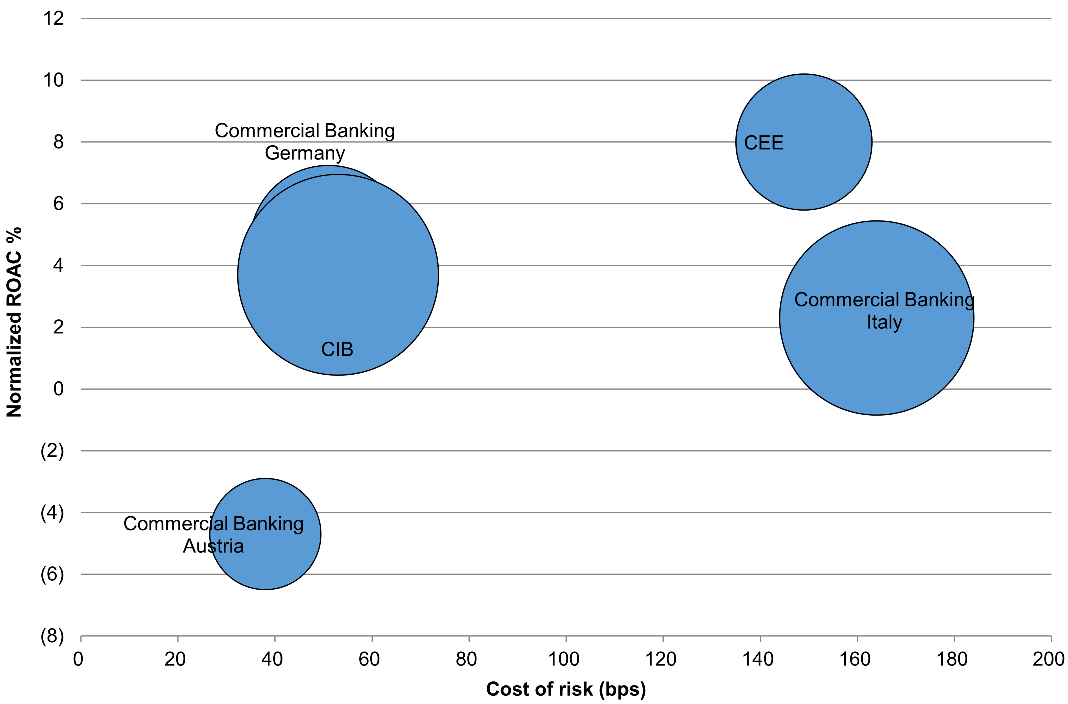
*Data as of June 30. N/A--Not applicable.

Business position: Revenues stream benefits from high geographic diversification

The stability of the group's revenue stream will continue to stem from its higher degree of geographic diversification compared with that of most domestic and international peers, in our opinion (see chart 1).

Chart 1

Profitability Benefits From High Geographic Diversification



Bps--Basic points. Bubble size represents gross customer loans. Data as of midyear 2020. Source: S&P Global Ratings.

UniCredit is the second-largest bank in Italy after Intesa Sanpaolo SpA, with a market share of about 12% of domestic loans. Germany's UniCredit Bank AG has a strong domestic footprint, while UniCredit Bank Austria AG has a domestic market share of about 14% of total lending. The group also has franchises in several CEE countries, particularly Croatia, Bulgaria, and Russia. UniCredit's subsidiaries in these countries have sound market shares in most of the segments in which they operate. This translates into well-balanced revenue diversification, with approximately 50% from Italy, slightly more than 20% from Germany, and the remainder from Austria and other countries in CEE, as of June 2020.

We expect UniCredit to benefit from its successful efforts in recent years in making the group simpler, more cost efficient, better capitalized, and less risky. Therefore, we consider the group's decision to dispose of some of its most valuable assets consistent with its capital optimization plan and focus on core businesses. Most recently, the decision to exit from Turkey, while costly, appeared effective. Given the current context, these decisions will likely pay off and the accumulated capital buffers and enhanced efficiency and risk management put UniCredit in a better position today than before the prior recessions.

More structurally, however, we think the sale of valuable assets such as Fineco Bank, Pioneer, or Pekao reduced UniCredit's business diversification compared with that of most large international peers. We anticipate that the bank will continue to accurately allocate its capital to countries, businesses, or segments that could provide adequate return.

Capital and earnings: Management committed to maintaining sound capital buffers

UniCredit reiterated its goal to maintain at least a 200-250 bps CET1 MDA buffer over the next three years, amid a significantly tougher economic and operating context. After progress in recent years, UniCredit is starting from a strong base, and the bank's CET 1 MDA buffers stood at 481 bps in first-half 2020 on a fully loaded basis. We anticipate achieving this target will require the bank to maintain a prudent dividend policy.

In our base-case scenario, we estimate the bank's RAC to remain comfortably at 7% in the next two years, from the 8.2% as of December 2019. In this forecast, we are factoring in our view that:

- The group will record losses in 2020, mainly from the €2.9 billion net one-offs related to the deconsolidation of Yapi in Turkey and restructuring charges in Italy the bank had already communicated to the market before COVID-19;
- Revenue contracting by about 10%; and
- Credit losses likely doubling compared with 2019 figures.

In 2021, we expect profitability to recover to a relatively modest level, with underlying earnings of €2.5 billion–€3 billion. We assume no dividends in 2020 and a roughly 50% payout in 2021 (via a mix of dividend and share buyback). We also assume corporate loans will increase over the next two years, to support the near-term liquidity needs triggered by the pandemic. The bank communicated that it is targeting to grant about €15 billion of new loans, with the guarantee provided by the government. This would reduce the capital absorption.

Our RAC calculation, however, is sensitive to potential changes of economic risks we could see in Italy, Germany, and Austria for which we currently see negative trends, and eventually to the rating of Italy (BBB/Negative/A-2). We calculate the overall sensitivity of the projected RAC ratio to all those factors would be 70-80 bps.

Table 3

UniCredit SpA--Capital And Earnings

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Tier 1 capital ratio	16.6	14.9	13.6	15.4	9.0
S&P Global Ratings' RAC ratio before diversification	N/A	8.2	7.2	7.5	4.4
S&P Global Ratings' RAC ratio after diversification	N/A	9.2	8.0	8.2	4.8
Adjusted common equity/total adjusted capital	82.1	84.6	85.1	85.5	84.8
Net interest income/operating revenues	67.9	56.7	54.0	53.1	56.7
Fee income/operating revenues	41.7	35.0	33.6	34.9	30.0
Market-sensitive income/operating revenues	7.4	8.5	6.2	8.7	9.9
Cost to income ratio	68.6	55.7	53.3	59.1	67.4
Preprovision operating income/average assets	0.5	0.9	1.1	0.9	0.7
Core earnings/average managed assets	N/A	0.4	0.7	0.5	(0.8)

*Data as of June 30. N/A--Not applicable. RAC--Risk adjusted capital.

Table 4

UniCredit SpA--Risk-Adjusted Capital Framework Data

(Mil. €)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk					
Government and central banks	224,142	18,655	8.3	58,581	26.1
Of which regional governments and local authorities	27,864	680	2.4	9,328	33.5
Institutions and CCPs	67,967	15,042	22.1	28,571	42.0
Corporate	312,126	180,775	57.9	331,764	106.3
Retail	160,775	60,971	37.9	107,272	66.7
Of which mortgage	92,188	23,679	25.7	40,280	43.7
Securitization§	21,388	4,661	21.8	7,640	35.7
Other assets†	32,905	39,884	121.2	58,311	177.2
Total credit risk	819,302	319,989	39.1	592,139	72.3
Credit valuation adjustment					
Total credit valuation adjustment	--	1,609	--	6,285	--
Market risk					
Equity in the banking book	5,129	0	0.0	43,747	853.0
Trading book market risk	--	9,315	--	13,428	--
Total market risk	--	9,315	--	57,175	--
Operational risk					
Total operational risk	--	32,965	--	39,016	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	378,718	--	694,615	100.0
Total Diversification/ Concentration Adjustments	--	--	--	(77,467)	(11.2)
RWA after diversification	--	378,718	--	617,148	88.8
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		56,414	14.9	56,889	8.2
Capital ratio after adjustments‡		56,414	14.9	56,889	9.2

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31 2019, S&P Global Ratings.

Risk position: The economic contraction will test the resilience of UniCredit's credit quality

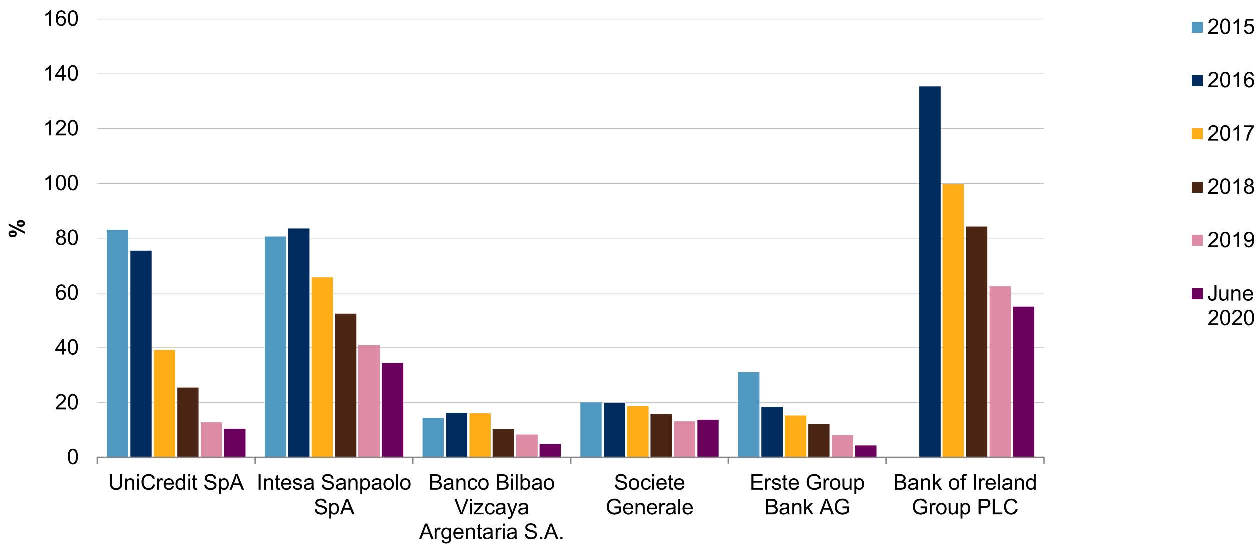
We think the bank will definitely benefit from the effective efforts made in recent years to strengthen its risk management, improve the quality of new loans, and get rid of large legacy NPEs from the past recession (see chart 2). As of June 2020, the gross stock of NPEs amounted to €23.7 billion, or about 4.8% of customer loans, compared with

€78 billion in 2014 (18% of loans).

Chart 2

UniCredit's Coverage Has Improved

Net nonperforming exposures/total adjusted capital

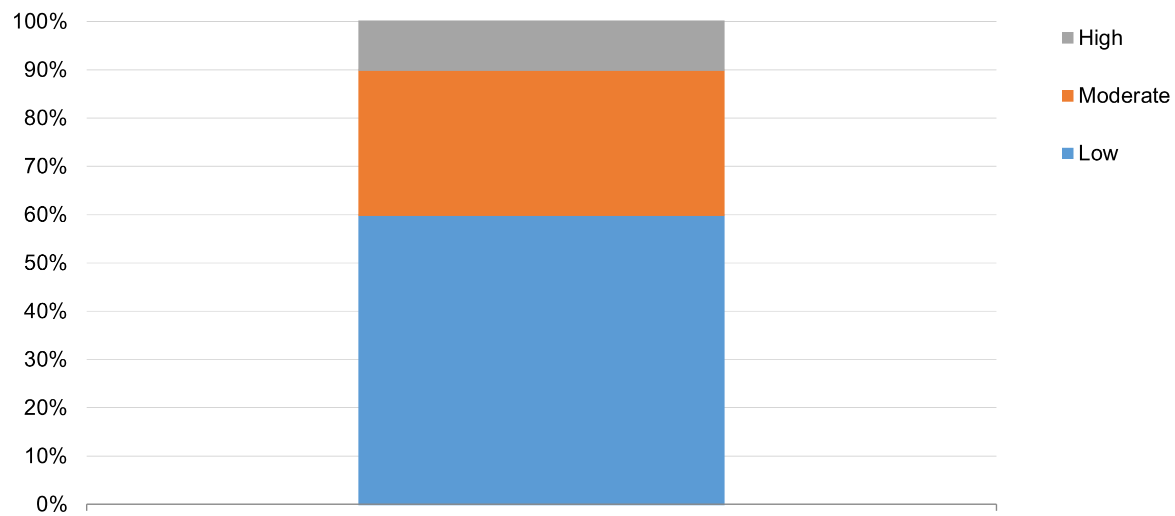


Source: S&P Global Ratings.

Despite this progress, we expect NPEs to start rising at the end of 2020, and to continue in first-quarter 2021. During its first half results presentation, UniCredit communicated it has already granted moratorium to loans corresponding to €35 billion (7.3% of total loans). The group has also granted €7 billion of loans benefiting from government guarantee. About 10% of its loans are to sectors highly affected by the pandemic, such as tourism (1%), transport and travel (3%), airlines (1%) and auto suppliers (1%)(see chart 3).

Chart 3

UniCredit Group's Exposure To Vulnerable Sectors
As of June 2020



Note: High, moderate, and low refer to the sensitivity to the COVID-19-induced recession and decline in oil and gas prices. Source: UniCredit Group Presentation for the quarter ended June 30, 2020; S&P Global Ratings.

In our base-case scenario, we assume the deterioration will eventually be manageable for UniCredit and materially lower than the one in the past downturn. In our forecast, we anticipate cumulative credit losses in 2020 and 2021 of 220-240 bps, just above management's guidance of 100-120 bps in 2020 and 70-90 bps in 2021. Risks remains, however, if the economic contraction were to become deeper and longer than we anticipate or the recovery delayed. While we expect UniCredit to be overall more resilient in this downturn than most Italian banks, we think that its larger presence in Italy makes the bank's asset quality more vulnerable compared with most other international peers.

Compared with recent times, UniCredit's decision to reduce its stake in Yapi Kredi to 20% from 45% in Turkey will pay off in the current environment, because it reduced further downside risks to the group risk position. Other meaningful exposures to high economic risk countries include Russia and Croatia. The bank's total exposure to Russia remains contained and accounts for less than 3% of the group's consolidated loan book. We also believe that the Russian unit, UniCredit ZAO, will remain one of the best-performing banks in Russia.

Table 5

UniCredit SpA--Risk Position

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Growth in customer loans	3.0	(5.2)	3.5	(3.5)	(4.4)
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	(11.2)	(10.2)	(9.1)	(9.1)

Table 5

UniCredit SpA--Risk Position (cont.)

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Total managed assets/adjusted common equity (x)	19.8	17.8	18.8	18.3	28.0
New loan loss provisions/average customer loans	1.0	0.7	0.6	0.6	2.6
Net charge-offs/average customer loans	N.M.	(0.1)	(0.5)	3.0	(0.7)
Gross nonperforming assets/customer loans + other real estate owned	5.8	6.4	8.6	11.1	16.5
Loan loss reserves/gross nonperforming assets	78.8	74.7	67.6	58.6	64.7

*Data as of June 30. N/A--Not applicable. N.M.--Not meaningful. RWA--Risk weighted assets.

Funding and liquidity: Well positioned to withstand the effect of market turbulence on Italian banks' access to funding sources

We expect UniCredit to maintain a well-balanced funding profile, broadly in line with its domestic and international peers. This stems from its sizable core customer deposits, covering about 60% of UniCredit's total funding as of June 2020. Retail funding growth and asset deleveraging support the bank's efforts to progressively reduce its reliance on wholesale funding, in our view.

We also think that UniCredit's funding is mainly oriented toward long-term financing instruments, reducing refinancing risk. We estimate the bank's stable funding ratio was about 110% as of June 30, 2020, in line with most of its international peers. Moreover, UniCredit has issued covered bonds and senior unsecured notes through group entities in Italy, Germany, and Austria, even when market access was unavailable to many domestic peers. It was the first Italian bank to issue senior nonpreferred bonds in January 2018, and managed to issue subordinated bonds in the wholesale market even during the most turbulent period in 2018.

In our view, this ability constitutes a strong element of UniCredit's superior market access compared with other Italian banks. Nevertheless, persistent market turbulence linked to concerns about Italy's creditworthiness could have repercussions for the bank's funding strategy and most likely on its cost of financing. Still, we observe that UniCredit has already completed its funding plan for the year 2020 and started to pre fund 2021.

To optimize its cost of funding and reduce the interconnection with Italy's perceived creditworthiness, the bank's announced that it will materially reduce intragroup funding exposures.

The group's reliance on short-term wholesale financing will remain generally manageable, and we expect it to maintain sufficient liquidity if needed. UniCredit's unencumbered eligible assets with central banks, plus cash and deposits, net of regulatory deductions, stood at about €201 billion in June 2020, providing the bank with a significant cushion. We estimate broad liquid assets to short-term wholesale funding was about 1.4x as of June 30, 2020.

In addition, UniCredit took advantage of the attractive pricing conditions offered by the ECB's targeted long-term refinancing operations (TLTRO III), and increased its use to €94.3 billion as of June 2020. We do not consider the use of TLTRO III as structural and we expect that this reliance will generally remain manageable, and that the bank will manage it carefully to avoid a large maturity concentration.

Table 6

UniCredit SpA--Funding And Liquidity

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Core deposits/funding base	59.7	60.4	61.7	60.6	60.8
Customer loans (net)/customer deposits	95.3	96.0	100.2	97.9	98.3
Long-term funding ratio	74.9	74.6	76.2	76.4	73.1
Stable funding ratio	110.4	105.6	106.9	111.7	93.5
Short-term wholesale funding/funding base	27.1	27.4	25.6	25.5	28.4
Broad liquid assets/short-term wholesale funding (x)	1.5	1.3	1.4	1.5	1.2
Net broad liquid assets/short-term customer deposits	23.4	16.9	19.4	23.5	8.6
Short-term wholesale funding/total wholesale funding	65.1	67.2	65.1	62.8	71.2
Narrow liquid assets/three-month wholesale funding (x)	N/A	N/A	1.6	2.2	1.7

*Data as of June 30. N/A--Not applicable.

Environmental, social, and governance (ESG)

We believe ESG factors influence UniCredit's credit quality similarly to its industry and local peers. As a large commercial bank operating in multiple jurisdictions, UniCredit has robust control practices, unified risk culture, adequate underwriting, and know-your-customer practices in all those countries. Since the appointment of Jean-Pierre Mustier as CEO in 2016, management has focused on making the bank's structure simpler, less risky, better capitalized, and more transparent. We believe UniCredit follows a clearer strategy and vision among the different group entities. The bank's well-balanced board composition and diversity looks to all the stakeholders' interest. Nevertheless, like other large and diversified banks, UniCredit has been, and remains, exposed to a wide range of legal and nonfinancial risks, as evidenced by UniCredit and its German and Austrian subsidiaries paying a $1.3 billion fine to U.S. authorities related to the violation of U.S. sanctions on Iran, for prohibited operations concluded from 2002-2011. We are not aware of any large-scale pending litigation or compliance-related issues, though. Environment and social factors do not affect credit quality differently from industry peers. The group is exposed to transition risks, in particular through its exposure to the car industry (in Italy and Germany). Regarding social risk, UniCredit has undertaken sizable staff reductions in recent years, and this is likely to continue over the next years as part of its efficiency enhancement plan. We believe the layoffs have been handled carefully in the bank's main countries of operations, primarily in agreement with local unions and predominantly through participation to voluntary early retirement scheme.

Support: No uplift for additional loss-absorbing capital (ALAC)

In our ALAC calculation, we include capital instruments issued by UniCredit that have the capacity to absorb losses without triggering a default on senior obligations; namely, subordinated debt and hybrid instruments with minimal equity content, which we exclude from our calculation of total adjusted capital (TAC). ALAC also includes hybrids and common equity already counted in TAC up to an amount whereby together they exceed the minimum needed to maintain a RAC ratio consistent with our assessment of a bank's capital and earnings (which for UniCredit is 7%).

Our ALAC estimate is likely to remain at 200-300 bps over the next three years, which is well below the 500 bps threshold we set for a higher potential ICR.

Government support: High systemic importance in a country where we assess government support for banks as uncertain

We view UniCredit as having high systemic importance for Italy. This is combined with our assessment of the Italian government's tendency to support its banking system as uncertain. As a result, systemic banks, including UniCredit, are no longer eligible for uplift for extraordinary support from the Italian government.

Additional rating factors: UniCredit could withstand a hypothetical sovereign stress scenario

We believe the bank's about €18 billion of subordinated instruments (excluding AT1), combined with the clean-up of its domestic balance sheet, enhanced its ability to withstand a sovereign distress scenario. In addition, UniCredit has largely reduced its Italian Government securities to about €44 billion as of end-June 2020, compared with about €53 billion the year before, and remains committed to the market and to containing the proportion of Italian government bonds on tangible equity. We anticipate that the exposure to these bonds will gradually decline in the coming years.

As one of the global systemically important financial institutions (SIFIs), UniCredit is geographically diversified outside of Italy--which accounts for about 45% of its total exposures--and subject to more advanced resolution planning than many peers, in our view. As a global SIFI, it has been building up buffers of subordinated liabilities to comply with TLAC. These issuances, as well as the bank's enhanced capital base, provide more cushion to cover the potential high losses from a hypothetical scenario of sovereign default.

In our base-case scenario, a sovereign default would most likely trigger the resolution of UniCredit, the Italian parent company. We expect that the conversion of the loss-absorbing subordinated instruments to equity would be sufficient to adequately recapitalize the bank. Still, we expect that the authorities would require the group to restore its consolidated minimum capital requirement as well.

Hybrid instruments

We rate UniCredit's hybrid instruments by applying our standard notching from the group's SACP. This means we rate the bank's senior nonpreferred notes 'BBB-', by applying one notch of subordination compared with the preferred senior unsecured liabilities. As we do for all the senior nonpreferred notes issued by banks operating in the eurozone, we assume that a write-down of those instruments would apply only in a bail-in scenario.

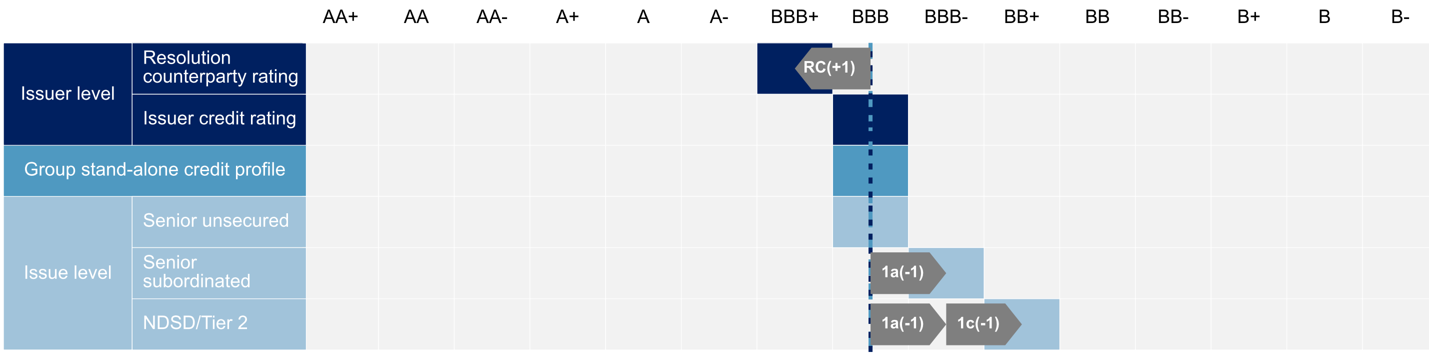
This differs from other subordinated liabilities such as non-deferrable Tier II notes issued by UniCredit. We rate them 'BB+' because we apply one additional notch to reflect the risk that regulators might force the write-down/conversion to equity of those instruments even outside a resolution/liquidation scenario.

Resolution counterparty ratings (RCRs)

We set the RCR on UniCredit one notch above our long-term issuer credit rating on the entity. Our RCR on UniCredit SpA is one notch above the sovereign rating on Italy, reflecting the large buffer of instruments, including senior obligation, that would protect the RCRs liabilities in the hypothetical scenario of stress linked to a sovereign default.

UniCredit SpA: Notching

UniCredit SpA: Notching



Key to notching

--- Group stand-alone credit profile

..... Issuer credit rating

RC Resolution counterpartyliabilities (senior secured debt)

1a Contractual subordination

1c Mandatory contingent capital clause or equivalent

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 3 of our “Hybrid Capital: Methodology And Assumptions” criteria, published on July 1, 2019.
NDSD--Non-deferrable subordinated debt.

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. 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

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

Related Research

- Managing Through The Crisis, Europe's Banks Look To The Future, Sept. 28, 2020
- European Bank Asset Quality: Half-Year Results Tell Only Half The Story, Sept. 28, 2020
- European Investment Banks Face A Continued Fight To Remain Competitive, Sept. 28, 2020
- The Resolution Story For Europe's Banks: More Flexibility For Now, More Resilience Eventually, Sept. 28, 2020
- Embedding Environmental Factors In Strategy and Risk Management: For Banks, A Long Journey Just Begun, Sept. 28, 2020
- UniCredit SpA Outlook Revised To Negative On Deepening COVID-19 Downside Risks; 'BBB/A-2' Ratings Affirmed, 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
- 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

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	**4**	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	**bbb**	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of October 20, 2020)*

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

Ratings Detail (As Of October 20, 2020)*(cont.)	
Certificate Of Deposit	
Foreign Currency	A-2
Commercial Paper	
Local Currency	A-2
Junior Subordinated	BB-
Senior Secured	AA-/Negative
Senior Subordinated	BBB-
Senior Unsecured	BBB
Subordinated	BB+
Issuer Credit Ratings History	
29-Apr-2020	BBB/Negative/A-2
15-Jul-2019	BBB/Stable/A-2
30-Oct-2018	BBB/Negative/A-2
31-Oct-2017	BBB/Stable/A-2
Sovereign Rating	
Italy	BBB/Negative/A-2
Related Entities	
BA-CA Finance (Cayman) (2) Ltd.	
Issuer Credit Rating	BBB+/Negative/A-2
Junior Subordinated	BB
BA-CA Finance (Cayman) Ltd.	
Issuer Credit Rating	BBB+/Negative/A-2
Junior Subordinated	BB
HVB Capital LLC I	
Junior Subordinated	BB
HVB Capital LLC II	
Junior Subordinated	BB
HVB Capital LLC III	
Junior Subordinated	BB
HVB Funding Trust I	
Junior Subordinated	BB
HVB Funding Trust II	
Junior Subordinated	BB
HVB Funding Trust III	
Junior Subordinated	BB
UniCredit Bank AG	
Issuer Credit Rating	BBB+/Negative/A-2
Resolution Counterparty Rating	A-/--/A-2
Senior Subordinated	BBB
Senior Unsecured	BBB+
UniCredit Bank AO	
Issuer Credit Rating	BBB-/Negative/A-3

Ratings Detail (As Of October 20, 2020)*(cont.)	
UniCredit Bank Austria AG	
Issuer Credit Rating	BBB+/Negative/A-2
Resolution Counterparty Rating	A-/--/A-2
Senior Unsecured	BBB+
Short-Term Debt	A-2
Subordinated	BBB-
Zagrebacka banka dd	
Issuer Credit Rating	BBB-/Negative/--
Resolution Counterparty Rating	BBB-/--/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.