

Research Update:

# UniCredit SpA Ratings Affirmed On Sufficient Capital Cushion; Outlook Remains Negative

October 29, 2020

## Overview

- On Oct. 23, S&P Global Ratings affirmed its 'BBB/A-2' ratings on Italy and revised the outlook to stable from negative.
- While we consider this a positive development, we still see a risk that the cyclical economic recovery in the countries in which UniCredit operates could be substantially weaker than we currently anticipate.
- We continue to assess that the group has sufficient buffers to cushion the pressure on earnings we expect over the next two years, under our base-case scenario.
- We are therefore affirming the 'BBB/A-2' ratings on UniCredit.
- We are maintaining the negative outlook, primarily to reflect the risk that the economic rebound might take longer than currently expected, which would imply a more negative effect on UniCredit's asset quality and capital.

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## Rating Action

On Oct. 29, 2020, S&P Global Ratings affirmed its 'BBB/A-2' long- and short-term issuer credit ratings on UniCredit SpA. The outlook remains negative.

At the same time, we affirmed all other ratings on the bank.

## Rationale

The affirmation follows the recent rating action on Italy (see "Italy Outlook Revised To Stable From Negative; Ratings Affirmed At 'BBB/A-2'"), as well as our updated macroeconomic view of Italy.

While we consider the revision of the outlook on Italy to stable a positive development, we continue to think that UniCredit's creditworthiness is less correlated to that of the Italian sovereign than other domestic players. This is because of its high geographic diversification and material progress it has made so far in reducing its direct exposure in Italy, which in our view could allow UniCredit to withstand a hypothetical sovereign stress scenario.

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The affirmation reflects our expectation that the material progress the bank has made in recent years to increase its capital base, clean up its balance sheet, and enhance its credit risk management, as well as enhanced operating efficiency, will continue to support its creditworthiness during the downturn.

We anticipate that UniCredit will be able to maintain its risk-adjusted capital (RAC) ratio sustainably above 7% by 2021, compared with 8.2% at year-end 2019. This is despite the material pressure we anticipate on earnings in 2020 and 2021, amid the COVID-19-induced downturn.

We expect eurozone GDP to contract by 7.4% this year and rebound by 6.1% next year, and Italian GDP to fall by 8.9% in 2020, gradually returning to 2019 levels only in 2023. In this context, we forecast a decline in UniCredit's operating income in 2020 as a result of falling revenues--by about 10% compared with 2019--and credit losses almost doubling. We anticipate that this trend will only partially reverse in 2021.

Still, the negative outlook reflects our view that the material risks to UniCredit's credit profile linked to the COVID-19-induced downturn have not abated. We think that further evolution of the pandemic and the potential introduction of new restrictive measures could heighten pressure on ongoing recovery in the coming months and constrain our existing forecasts. This would be particularly detrimental for asset quality and capital if the economic rebound takes longer than currently expected or fiscal countermeasures introduced by the government proved less effective than anticipated.

## Outlook

The negative outlook on UniCredit primarily reflects the significant risks we see to our base-case expectations over the next two years.

## Downside scenario

We could lower the ratings on UniCredit if we see that economic and operating conditions have materially deteriorated, to the extent that they imply a far more negative effect on UniCredit's creditworthiness. In particular, if we see the bank's projected RAC ratio falling below 7% and a sharp deterioration in asset quality metrics.

## Upside scenario

We could revise the outlook back to stable if we were to see easing economic conditions, particularly in Italy, or we concluded that risks to UniCredit's creditworthiness had reduced.

## Hybrids

We do not assign outlooks to bank issue ratings. However, we will continue to notch down the ratings on UniCredit's hybrids--namely senior nonpreferred, subordinated, and junior subordinated notes--from the lower of two potential starting points: the stand-alone credit profile and the ICR.

## Ratings Score Snapshot

Issuer Credit Rating	BBB/Negative/A-2
SACP	bbb
Anchor	bbb
Business Position	Strong (+1)
Capital and Earnings	Adequate (0)
Risk Position	Moderate (-1)
Funding and liquidity	Average and Adequate (0)
<b>Support</b>	0
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	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: 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: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

## Related Research

- Italy Outlook Revised To Stable From Negative; Ratings Affirmed At 'BBB/A-2', Oct. 23, 2020
- EMEA Financial Institutions Monitor 4Q2020: Banks Prepare As Winter Is Coming, Oct. 23, 2020
- How COVID-19 Is Affecting Bank Ratings: October 2020 Update, Oct. 22, 2020
- COVID-19 Puts The Brakes On Capital Strengthening For The 50 Largest European Banks, Oct. 14, 2020
- Economic Research: European Economic Snapshots: A Second COVID-19 Wave Is Dampening The Recovery, Oct. 14, 2020
- Banking Horizons Europe 2020: COVID-19 As A Catalyst For Change, Oct. 13, 2020
- European Bank Asset Quality: Half Year Results Tell Only Half The Story, Sept. 28, 2020
- Outlooks On Most Italian Banks Now Negative On Deepening COVID-19 Downside Risks, April 29, 2020

## Ratings List

### Ratings Affirmed

#### UniCredit SpA

Issuer Credit Rating	BBB/Negative/A-2
Certificate Of Deposit	
Foreign Currency	BBB/A-2
Local Currency	BBB/A-2
Resolution Counterparty Rating	BBB+/-/-A-2
Senior Unsecured	BBB
Senior Subordinated	BBB-
Subordinated	BB+
Certificate Of Deposit	A-2
Commercial Paper	A-2

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