S&P Global Ratings

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Update: UniCredit SpA

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Update: UniCredit SpA

Rating Score Snapshot

Global Scale Ratings
Issuer Credit Rating
BBB/Stable/A-2
Resolution Counterparty Rating
BBB+/--/A-2

SACP: bbb+ → **Support: 0** → **Additional factors: -1**

Anchor	bbb	
Business position	Strong	+1
Capital and earnings	Adequate	0
Risk position	Adequate	0
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment		0

ALAC support	0
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
BBB/Stable/A-2
Resolution counterparty rating
BBB+/A-2

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
Wide geographic diversification and leading positions in its main markets.	Weak economic activity and high inflation in its main geographies.
Solid capitalization and liquidity profile.	Direct presence in Russia.
Good progress in the clean-up of legacy nonperforming exposures and improved underwriting standards.	Exposure to small and midsize enterprises (SMEs) and commercial real estate (CRE).

Strong geographic diversification continues to support UniCredit's business profile. The group's solid franchise and leading positions in commercial banking in the core markets where it operates, coupled with more than 50% of its activities being outside of Italy (unsolicited BBB/Stable/A-2), supports its resilience and revenue stability. UniCredit is the second-largest bank in Italy, where it holds a 10% market share. It also enjoys a solid domestic footprint in Germany, Austria, and several Central and Eastern European countries (notably Croatia, Bulgaria, and Hungary).

The bank is delivering on its 2022-2024 strategic plan. Launched following Andrea Orcel's appointment as CEO, the plan aims to enhance revenue diversification and further improve efficiency to enable profitable growth. To improve its business diversification, UniCredit is focusing on expanding capital-light businesses, namely payments, asset management, and bancassurance, mostly via partnerships (such as the recently announced one with Greek Alpha Bank). We note that the bank's business diversification is currently weaker than that of peers, following the disposal of important subsidiaries over the difficult years between 2016-2019. We do not disregard that management could resort to further acquisitions to speed up growth. On the efficiency front, we expect the bank to continue delivering strong cost controls, as has been the case recently, with the group's cost-to-income ratio remaining below 50% as targeted despite inflationary pressures and ongoing investments in digital transformation.

Capitalization will remain adequate. We expect our risk-adjusted capital (RAC) ratio to slightly decline, to about 7.5%-8% by end-2025, from an estimated 8.5% at end-2022 (pro forma considering the improved BICRA economic risk score for Italy, now at '5').

The bank will maintain solid earnings generation thanks to the prevailing high interest rates, and despite the weaker economic growth and inflation that will affect its main countries of operation. Net interest income may peak in 2023, but will remain strong and continue to support revenues over the next two years. The gradual recovery of fees and continuous cost-containment initiatives will also contribute to sound pre-provision profitability. While UniCredit's cost-to-income reached a low 39.6% at June 2023, we expect that it will hover around 40%-45% over the next two years. We factor in credit losses at about 40 basis points (bps), a more prudent level than the guidance provided by the bank (less than 25 bp).

Revenue growth, stronger efficiency, and lower risk appetite will support an improvement of UniCredit's earnings buffer to about 1.4%-1.5% over the next two years (from 1.2% in 2022)--this compares well to the levels expected for large and diversified players.

At the same time, we acknowledge that UniCredit will use most of its organic capital generation to distribute dividends to shareholders and buyback shares. In our capital forecasts we factor in more than €4 billion profit distribution per year and the write-off of the capital invested in its Russian subsidiary.

We expect UniCredit's asset quality to remain close to that of large European banks facing similar economic risks. In our view, UniCredit will benefit from the progress made in recent years to clean up its balance sheet and strengthen its risk management and underwriting, domestically and abroad, as well as from the continuous reduction of its Russian exposures. We expect nonperforming exposures to increase, particularly in the SME, real estate, and consumer finance segments, but we assume that asset-quality deterioration will be manageable.

Liquidity buffer will remain high. We also expect UniCredit to maintain a well-balanced funding profile, benefiting from a stable, cost-effective retail funding base, and better access to different market sources than most domestic peers. As of September 2023, the bank holds about €12.6 billion of the ECB's targeted long-term refinancing operations (TLTRO III) maturing in March 2024. But it also enjoys a high cash buffer of €87 billion.

UniCredit's 'BBB' long term rating is capped at the level of Italy's sovereign rating. We recently improved our view of UniCredit's stand-alone creditworthiness to 'bbb+'. However, there was no ratings upside as the ratings are constrained by Italy's sovereign creditworthiness. Despite UniCredit being geographically diversified outside of Italy, its home market exposure is still high. We therefore think that if Italy were to default, it is unlikely that UniCredit would not default on its senior debt obligations. In the stress scenario that would likely accompany a sovereign default, the bank would face substantial impairments that would erode its capital base, as well as sizable liquidity outflows. Both will likely trigger the bank's bail-in resolution.

Outlook

The stable rating outlook on UniCredit mirrors that on Italy, as its ratings are capped. On a stand-alone basis, we also expect the group's credit profile will remain resilient over the next two years. In particular, that the bank's asset-quality metrics will only moderately deteriorate and its RAC ratio will be sustainably above 7%.

Downside scenario

We could lower the rating on UniCredit if we were to downgrade Italy. This because we believe that the bank would be unable to withstand a hypothetical sovereign stress. If we revise down our assessment of UniCredit's SACP by one notch, this would not translate into a downgrade, since the SACP is currently higher than Italy's long-term sovereign rating.

Upside scenario

We would raise the rating if we were to upgrade Italy providing that we at least maintain our existing view of the bank's stand-alone creditworthiness.

Key Metrics

UniCredit SpA--Key ratios and forecasts

	--Fiscal year ended Dec. 31--				
(%)	**2021a**	**2022a**	**2023f**	**2024f**	**2025f**
Growth in customer loans	0.4	2.3	(2.3)-(2.8)	1.3-1.5	2.7-3.3
Net interest income/average earning assets (NIM)	1.3	1.6	1.9-2.1	1.9-2.0	1.7-1.9
Cost to income ratio	55.5	47.9	42.6-44.8	43.0-45.2	44.8-47.1
Return on average common equity	3.0	12.2	12.9-14.3	13.2-14.6	12.0-13.3
New loan loss provisions/average customer loans	0.4	0.4	0.3-0.3	0.5-0.5	0.4-0.5
Gross nonperforming assets/customer loans	4.1	3.1	3.5-3.9	4.3-4.8	4.2-4.7
Risk-adjusted capital ratio	7.4	8.5	7.5-7.9	7.4-7.8	7.4-7.8

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

Key Statistics

Table 1

UniCredit SpA--Key figures

	--Year ended Dec. 31--				
(Mil. €)	**2023***	**2022**	**2021**	**2020**	**2019**
Adjusted assets	841,251	855,423	914,458	929,339	852,847
Customer loans (gross)	433,482	442,448	432,522	430,663	442,493
Adjusted common equity	41,723	41,719	38,576	37,620	40,760
Operating revenues	11,772	19,959	17,636	16,825	17,995
Noninterest expenses	4,656	9,561	9,796	9,806	10,030
Core earnings	5,179	6,866	6,866	1,335	3,258

*Data as of June 30.

Table 2

UniCredit SpA-- Business position

	--Year ended Dec. 31--				
(%)	**2023***	**2022**	**2021**	**2020**	**2019**
Loan market share in country of domicile	N/A	11.4	11.4	12.5	14.0
Deposit market share in country of domicile	N/A	12.5	12.9	13.6	14.1
Total revenues from business line (currency in millions)	11,772.0	20,161.0	17,636.0	17,351.0	19,250.0
Commercial & retail banking/total revenues from business line	90.9	87.0	89.3	78.6	96.7
Trading and sales income/total revenues from business line	8.4	12.8	9.3	22.7	5.3
Other revenues/total revenues from business line	0.8	0.3	1.4	(1.4)	(1.9)
Investment banking/total revenues from business line	8.4	12.8	9.3	22.7	5.3
Return on average common equity	16.2	12.2	3.0	(5.4)	6.7

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

Table 3

UniCredit SpA--Capital and earnings

	--Year ended Dec. 31--				
(%)	**2023***	**2022**	**2021**	**2020**	**2019**
Tier 1 capital ratio	18.6	18.7	17.9	18.2	14.9
S&P Global Ratings' RAC ratio before diversification	N/A	8.2	7.4	7.4	7.1
S&P Global Ratings' RAC ratio after diversification	N/A	8.9	8.0	8.2	8.0
Adjusted common equity/total adjusted capital	84.1	82.1	79.7	78.4	82.3
Double leverage	N.M.	N.M.	N.M.	N.M.	N.M.
Net interest income/operating revenues	57.7	53.6	51.4	56.1	56.7
Fee income/operating revenues	33.1	34.3	37.9	35.5	35.0
Market-sensitive income/operating revenues	8.4	12.9	9.3	8.4	8.5
Cost to income ratio	39.6	47.9	55.5	58.3	55.7
Preprovision operating income/average assets	1.7	1.2	0.8	0.8	0.9
Core earnings/average managed assets	1.2	0.8	0.7	0.1	0.4

*Data as of June 30. N/A--Not applicable. N.M.--Not meaningful. 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 & central banks	308,591.4	18,927.7	6.1	46,048.3	14.9
Of which regional governments and local authorities	21,679.5	464.8	2.1	6,008.3	27.7
Institutions and CCPs	57,651.0	10,249.8	17.8	22,738.9	39.4
Corporate	296,783.7	143,163.6	48.2	302,960.9	102.1
Retail	147,116.8	48,865.2	33.2	93,165.8	63.3
Of which mortgage	91,609.5	23,126.9	25.2	39,163.4	42.8
Securitization§	35,786.5	9,083.8	25.4	13,862.1	38.7
Other assets†	29,422.6	31,018.0	105.4	46,862.2	159.3
Total credit risk	875,352.0	261,308.1	29.9	525,638.2	60.0
Credit valuation adjustment					
Total credit valuation adjustment	--	1,235.3	--	0.0	--
Market Risk					
Equity in the banking book	5,624.0	0.0	0.0	47,481.7	844.3
Trading book market risk	--	9,850.0	--	13,648.5	--
Total market risk	--	9,850.0	--	61,130.2	--
Operational risk					
Total operational risk	--	31,217.7	--	36,374.7	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	308,473.6	--	623,143.1	100.0
Total diversification/ Concentration adjustments	--	--	--	(50,961.2)	(8.2)
RWA after diversification	--	308,473.6	--	572,181.8	91.8
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		57,520.7	18.6	50,663.0	8.1
Capital ratio after adjustments‡		57,520.7	18.6	50,663.0	8.9

*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. CCPs--Central counterparty clearing house. Sources: Company data as of Dec. 31, 2022 and S&P Global Ratings.

Table 5

UniCredit SpA--Risk position

	--Year ended Dec. 31--				
(%)	**2023***	**2022**	**2021**	**2020**	**2019**
Growth in customer loans	(4.1)	2.3	0.4	(2.7)	(5.2)

Table 5

UniCredit SpA--Risk position (cont.)					
	--Year ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	(8.2)	(7.3)	(9.1)	(11.2)
Total managed assets/adjusted common equity (x)	20.2	20.6	23.8	24.8	21.0
New loan loss provisions/average customer loans	0.1	0.4	0.4	1.1	0.7
Net charge-offs/average customer loans	N.M.	(0.1)	(0.1)	0.1	0.5
Gross nonperforming assets/customer loans + other real estate owned	2.8	3.1	4.1	5.2	6.4
Loan loss reserves/gross nonperforming assets	98.7	87.2	84.4	79.1	74.7

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

Table 6

UniCredit SpA--Funding and liquidity					
	--Year ended Dec. 31--				
(%)	2023*	2022	2021	2020	2019
Core deposits/funding base	66.0	67.6	62.5	59.6	60.0
Customer loans (net)/customer deposits	86.6	85.1	85.1	86.9	96.7
Long-term funding ratio	82.7	88.0	87.3	84.6	74.6
Stable funding ratio	120.4	129.8	133.5	135.1	105.6
Short-term wholesale funding/funding base	18.7	13.0	13.7	16.5	27.4
Regulatory net stable funding ratio	133.0	130.0	134.0	N/A	N/A
Broad liquid assets/short-term wholesale funding (x)	2.0	2.9	3.1	2.7	1.3
Broad liquid assets/total assets	32.8	33.0	35.8	37.7	30.9
Broad liquid assets/customer deposits	56.8	55.9	66.8	73.9	60.7
Net broad liquid assets/short-term customer deposits	31.4	40.5	49.5	51.7	16.9
Regulatory liquidity coverage ratio (LCR) (x)	1.6	1.6	1.8	1.7	1.4
Short-term wholesale funding/total wholesale funding	53.5	38.7	35.3	39.6	66.5

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

UniCredit SpA--Rating component scores	
Issuer Credit Rating	**BBB/Stable/A-2**
SACP	bbb+
Anchor	bbb
Economic risk	3.85
Industry risk	5
Business position	Strong
Capital and earnings	Adequate
Risk position	Adequate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	0
ALAC support	0

UniCredit SpA--Rating component scores (cont.)	
Issuer Credit Rating	**BBB/Stable/A-2**
GRE support	0
Group support	0
Sovereign support	0
Additional factors	-1

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- 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: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Various Rating Actions On Italian Banks On Balance Sheets' Resilience To Economic Cycles, Oct. 25, 2023
- Bulletin: Alpha Bank And UniCredit Partnership Will Be A Milestone For Greece's Financial System, Oct. 24, 2023
- Banking Industry Country Risk Assessment: Italy, June 23, 2023
- Transaction Update: UniCredit SpA Mortgage Covered Bonds, June 16, 2023
- UniCredit SpA, June 12, 2023
- Bulletin: UniCredit SpA's 2022 Results Point To Strong Benefits Of Rising Interest Rates And Cost-Containment Measures, Feb. 01, 2023

Ratings Detail (As Of November 30, 2023)*	
UniCredit SpA	
Issuer Credit Rating	BBB/Stable/A-2
Resolution Counterparty Rating	BBB+/--/A-2
Commercial Paper	
Local Currency	A-2

Ratings Detail (As Of November 30, 2023)*(cont.)	
Junior Subordinated	BB-
Senior Secured	AA-/Stable
Senior Subordinated	BBB-
Senior Unsecured	BBB
Subordinated	BB+
Issuer Credit Ratings History	
29-Jul-2022	BBB/Stable/A-2
23-Nov-2021	BBB/Positive/A-2
24-Jun-2021	BBB/Stable/A-2
29-Apr-2020	BBB/Negative/A-2
15-Jul-2019	BBB/Stable/A-2
Sovereign Rating	
Italy	BBB/Stable/A-2
Related Entities	
UniCredit Bank AG	
Issuer Credit Rating	BBB+/Stable/A-2
Resolution Counterparty Rating	A-/--/A-2
Senior Subordinated	BBB
Senior Unsecured	BBB+
UniCredit Bank Austria AG	
Issuer Credit Rating	BBB+/Stable/A-2
Resolution Counterparty Rating	A-/--/A-2
Senior Unsecured	BBB+
Short-Term Debt	A-2
Subordinated	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.