FitchRatings

17 Jan 2020 | Affirmation

Fitch Affirms Romanian UniCredit Bank at 'BBB-' ; Outlook Negative

Fitch Ratings-Warsaw-17 January 2020:

Fitch Ratings has affirmed UniCredit Bank S.A.'s (UCBRO) Long-Term Issuer Default Rating (IDR) at 'BBB-' with a Negative Outlook and Viability Rating (VR) at 'bb'. A full list of rating actions is below.

Key Rating Drivers

IDRS AND SUPPORT RATING (SR)

UCBRO's IDRs and SR are driven by potential support from its majority owner, UniCredit S.p.A (UC) (BBB/Negative). In Fitch's view, UC will continue to have a high propensity to support the Romanian subsidiary, because Romania and the wider central and eastern European region remain strategically important for the group. The support likelihood is further strengthened by UCBRO's close operational and managerial group integration and the parent's high ability to provide support to its much smaller subsidiary. The Negative Outlook on the IDR is in line with that on UC's IDR.

VR

The affirmation of UCBRO's VR reflects stable developments since the last review. UCBRO's financial profile is slightly worse than larger domestic peers, in particular due to a higher impaired loans ratio and lower regulatory capitalisation. Fitch's outlook for Romanian banks in 2020 is stable, with banks well positioned to weather an expected economic slow-down. However rising fiscal and external imbalances pose a risk to medium-term economic prospects.

UCBRO's asset quality metrics improved only marginally over the last year and its Stage 3 ratio of 7.3% of gross loans at end-1H19, and 86% coverage by total loan loss allowances lag larger peers. We expect these measures to benefit from further work-out efforts, incentivised by a sector-wide drive to lower non performing exposure ratios below 5%, and a still benign near-term outlook for customer affordability.

UCBRO's operating profitability benefited from higher revenue, wider net interest margins and moderate loan impairment charges in 1H19 and 2018. Operating expenses grew below wage inflation. In addition, trading gains, which may not recur, supported a good 3% operating return on risk weighted assets in 1H19, and will help offset a modest negative impact from the bank tax that will be booked in 2H19. Moderate loan growth in 2020 and asset quality prospects underpin our outlook for profitability, despite an expected economic slowdown and returning pressure on interest margins.

Fitch views UCBRO's capitalisation as adequate. Capital ratios have been replenished by an equity and subordinated loan contribution from the parent and profit retention in 2018. However, with a Fitch Core Capital ratio of 16.5% at end-1H19 and CET1 ratio of 14.3% at end-9M19 (the latter excluding any retained earnings), the bank remains less well capitalised than peers (sector Tier 1 ratio: 19.7% at end-9M19).We expect capital to remain fungible within the UniCredit Group and allocated according to regulatory need.

UCBRO's loans to deposits ratio of 101% at end-1H19 remains higher than peers (rated peer median in 1H19: 71%), reflecting weaker deposit funding of UCBRO's non-bank subsidiaries and its mid-tier deposit franchise. Corporate deposits are more prevalent in the bank's deposit structure, although commercial efforts are being directed at increasing the retail customer base. In addition, UCBRO accesses wholesale markets through bond issuances by the bank and the leasing subsidiary, foreign currency subordinated debt and other funding from the parent. Liquidity is satisfactory, especially considering the availability of ordinary support from the parent.

Available liquidity buffers made up of cash net of mandatory reserves, unencumbered central bank repo-eligible securities and parent credit facilities (where applicable) were equivalent to 20% of assets at end-1H19. The consolidated liquidity coverage ratio of 143% at end-9M19 exceeds statutory requirements.

RATING SENSITIVITIES

IDRS AND SR

UCBRO's Long-Term IDR and Outlook are primarily sensitive to changes in its parent's ratings (currently on Negative Outlook) and to Fitch's assessment of the parent's ability and propensity to provide extraordinary support.

VR

The VR could be upgraded if UCBRO's financial metrics improve to a level comparable with higher rated peers. Conversely it would be downgraded if a sharp economic slowdown or idiosyncratic issues lead to a marked deterioration in asset quality and capital metrics. A downgrade could also ensue if underwriting standards were relaxed, e.g. to facilitate accelerated growth in consumer lending, which could be indicated by higher risk costs.

Public Ratings with Credit Linkage to other ratings

UCBRO's IDRs and SR are driven by support from UC and therefore linked to the latter's IDR.

ESG Considerations

The highest level of ESG credit relevance is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on UCBRO, either due to their nature or to the way in which they are being managed. For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

UniCredit Bank S.A.; Long Term Issuer Default Rating; Affirmed; BBB-; RO:Neg
; Short Term Issuer Default Rating; Affirmed; F3
; Viability Rating; Affirmed; bb
; Support Rating; Affirmed; 2

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Additional information is available on www.fitchratings.com

Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018)

Short-Term Ratings Criteria (pub. 02 May 2019)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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