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## Fitch Affirms Romanian UniCredit Bank at 'BBB'; Maintains VR on Rating Watch Positive

Fitch Ratings - Warsaw - 06 Dec 2023: Fitch Ratings has affirmed UniCredit Bank S.A.'s (UCBRO) Long-Term Issuer Default Rating (IDR) at 'BBB' with a Stable Outlook, and maintained the 'bb' Viability Rating (VR) on Rating Watch Positive (RWP). A full list of rating actions is below.

### Key Rating Drivers

**Support-Driven IDRs:** UCBRO's IDRs and Shareholder Support Rating (SSR) reflect a high probability of support from the bank's majority owner, UniCredit S.p.A. (UC; BBB/Stable). The Stable Outlook on UCBRO's Long-Term IDR reflects that on the parent.

**Merger Announced:** UCBRO's VR reflects its moderate franchise and weaker profitability than at larger domestic peers. It also considers its satisfactory asset quality, strong capitalisation and stable funding and liquidity. The RWP on UCBRO's VR reflects the potential benefits to its standalone credit profile from the announced merger with Alpha Bank Romania S.A. (ABR). We will resolve the RWP on completion of the merger, which may extend beyond the typical six months for a Rating Watch resolution.

**Strategic UC Subsidiary:** Fitch believes UC would have a strong propensity to support UCBRO, given its inclusion in UC's single-point-of-entry resolution group and considerable reputational risk for UC from a default of its Romanian subsidiary. We also factor in the strategic importance of UCBRO to the parent. We view any support would be immaterial relative to UC's ability to provide it.

**Moderate Business Prospects:** The strength of the Romanian economic environment is converging toward CEE levels, improving Romanian banks' moderate opportunities to consistently do profitable business. The sector's reasonable financial metrics and growth prospects are balanced against potential volatility in Romania's macroeconomic variables. Banks' high exposure to the Romanian sovereign (BBB-/Stable), meaningful sector fragmentation, low financial inclusion and higher-than-peers' euroisation of the economy are key structural weaknesses.

**Moderate Market Share:** UCBRO's business profile reflects the bank's moderate franchise in a competitive Romanian banking sector and moderately lower income generation than peers. Fitch expects the potential merger with ABR to result in a stronger company profile due to an enlarged franchise and better balance between retail and business banking activities.

**Asset Quality Converges to Peers:** We expect UCBRO's impaired loans ratio (end-1H23: 3.4%) to remain broadly stable over the next two years. The bank's asset quality benefits from solid coverage by

loan loss allowances. We expect the merger with ABR could improve UCBRO's metrics, given ABR's higher share of typically better performing mortgage loans.

**Improving Structural Profitability:** UCBRO's underlying structural profitability is improving relative to recent years given a stronger net interest margin (NIM), fee income generation and better operating efficiency. Potential synergies from the merger could also support profitability. We expect UCBRO's operating profit to risk-weighted assets (RWA; end-1H23: 4.7%) to remain reasonable but moderately decrease in 2024 given the burden of the announced turnover tax, moderate NIM pressure and still high loan impairment charges.

**Adequate Capital Buffers:** Fitch views UCBRO's capitalisation as adequate and the common equity Tier 1 ratio (20.4% at end-1H23) compares well with regional peers, reflecting sound internal capital generation, and provides capacity for balance sheet growth. Negative valuation of the securities portfolio has been limited and significantly unwound in 2023.

**Generally Stable Funding:** UCBRO has a reasonably diversified funding structure with higher reliance on wholesale funding and funding from the parent relative to its peers operating in CEE. The funding mix reflects its weaker deposit franchise in the retail segment, but good access to the local debt market, also proven by recent oversubscription. The bank's loans/deposits ratio (88% at end-1H23) remains above peers and we expect it to remain stable over the rating horizon.

## Rating Sensitivities

### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

UCBRO's IDRs and SSR could be downgraded if UC's Long-Term IDR was downgraded. UCBRO's IDR and SSR could also be downgraded on an adverse change in the resolution strategy of the group with respect to UCBRO.

UCBRO's VR would likely be affirmed and removed from RWP if the merger does not proceed or if the structure of the final transaction is detrimental to Fitch's assessment of UCBRO's capitalisation.

UCBRO's VR could come under pressure if there was a sustained weakening of the bank's impaired loans ratio above 5% that was not adequately provided for, coupled with profitability deterioration leading to a decline of operating profit to below 1.25% of RWA on a sustained basis.

### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of UCBRO's IDR and SSR would require an upgrade of the parent's IDRs.

Fitch expects to resolve the RWP following the completion of a merger or if there is more certainty about the impact on UCBRO's credit profile. A VR upgrade could follow a completion of the merger with prospects for a smooth integration process and clear benefits to the bank's financial metrics. An upgrade would also be contingent on UCBRO maintaining strong capital ratios with sizeable buffers over their regulatory minimum requirements, improvements in asset quality and profitability while

maintaining healthy funding and liquidity.

## **VR ADJUSTMENTS**

The operating environment score of 'bb+' is below the 'bbb' category implied score for Romania due to the following adjustment reasons: macroeconomic stability (negative).

The asset quality score of 'bb' is above the 'b & below' category implied score due to the following adjustment reasons: collateral and reserves (positive) and non-loan exposures (positive)

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **Public Ratings with Credit Linkage to other ratings**

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

## **ESG Considerations**

Unless otherwise disclosed in this section, 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 the entity, either due to their nature or the way in which they are being managed by the entity. Fitch ESG Relevance Scores are not inputs in the rating process; they are an observation of the materiality and relevance of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
UniCredit Bank S.A.	LT IDR	BBB 	Affirmed	BBB 
	ST IDR	F2	Affirmed	F2
	Viability	bb 	Rating Watch Maintained	bb 
	Shareholder Support	bbb	Affirmed	bbb

RATINGS KEY   OUTLOOK   WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Bank Rating Criteria \(pub.01 Sep 2023\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

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