



## RATING ACTION COMMENTARY

# Fitch Upgrades Romanian UniCredit Bank to 'BBB'; Outlook Stable

Tue 21 Dec, 2021 - 9:16 AM ET

Fitch Ratings - Warsaw - 21 Dec 2021: Fitch Ratings has upgraded UniCredit Bank S.A.'s (UCBRO) Long-Term Issuer Default Rating (IDR) to 'BBB' from 'BB+' with a Stable Outlook and Short-Term IDR to 'F2' from 'B'. The Viability Rating (VR) has been affirmed at 'bb'. A full list of rating actions is below.

Fitch has withdrawn UCBRO's Support Rating as it is no longer relevant to the agency's coverage following the publication of its updated Bank Rating Criteria on 12 November 2021. In line with the updated criteria, we have assigned UCBRO a Shareholder Support Rating (SSR) of 'bbb'.

## KEY RATING DRIVERS

### IDRS AND SSR

The two-notch upgrade of UCBRO's IDRs reflects (i) the upgrade of its parent UniCredit S.p.A (UC; see 'Fitch Upgrades Unicredit to 'BBB' on Sovereign Upgrade; Outlook Stable' dated 17 December 2021 at [www.fitchratings.com](http://www.fitchratings.com)); and (ii) Fitch's decision to equalise the ratings of the Romanian subsidiary with those of the parent.

UCBRO's IDRs and SSR reflect Fitch's view of a high probability of support from its parent, UC (BBB/Stable). The equalisation of UCBRO's and UC's ratings reflects the expected very strong propensity of UC to provide support, given the inclusion of UCBRO in UC's single-point-of-entry (SPE) resolution group and considerable reputational risk for UC from a default at UCBRO. Any required support for UCBRO would be immaterial relative to the parent's ability to provide it. The Stable Outlook on UCBRO's IDRs reflects that on the parent.

## VR

UCBRO's standalone credit profile has improved since the last review, but remains slightly weaker than larger domestic peers, in particular due to a still higher impaired loan ratio, weaker profitability and moderately weaker overall franchise, with the latter impacting our assessment of the bank's business profile. UCBRO is a mid-sized (fifth-largest by assets) Romanian bank, accounting for around 8.0% of sector assets, 7.5% deposits and 8.6% loans at end-1H21.

We have revised our outlook on the operating environment for Romanian banks to stable from negative. We believe that the impact of the pandemic on Romanian banks' credit profiles has been broadly contained and any residual risks are mitigated by the country's near-term economic recovery prospects. Fitch scores the operating environment for Romania at 'bb+', which is below the 'bbb' implied score, reflecting risks to macroeconomic stability over the medium term.

We score UCBRO's asset quality at 'bb-', which is above the 'b & below' implied score as we believe that residual risks related to non-performing loans are small given solid coverage by loan loss allowances. Our assessment also reflects that a large part of UCBRO's balance sheet (around 38% of total assets at end-1H21) is in cash or represents 'BBB-' or better risk.

The deterioration in UCBRO's reported asset quality metrics in 2020 was only marginal and driven by the corporate loan book, while asset quality improved in retail. In 1H21, the improving asset quality trend in retail continued and the negative

trend in corporate reversed, resulting in a decrease in the Stage 3 ratio for the overall loan book to 6.7% from 7.3% at end-2020. Specific reserve coverage of Stage 3 loans was solid at around 70% and broadly in line with peers.

Margins stabilised in 1H21 after considerable pressure in 2020, and recovering customer activity resulted in brisk recovery of fees and commissions, which were heavily depressed in 2020. Impairment charges reduced to an annualised 32bp of average gross loans (2020: 168bp). The ratio of operating profit to risk-weighted assets (RWAs) improved strongly to 3.6%, supported by low loan impairment charges (LICs) and lower average RWAs. We expect revenue to benefit from continued growth and stable margins, but profitability to be affected by inflationary pressures on operating expenses and LICs returning to a more normalised level.

The common equity Tier 1 (CET1) ratio improved significantly over 2020 to 20.7%, as solid profit for the period was entirely included in end-2020 regulatory capital and RWAs reduced by around 6% due to the easing of capital requirement regulation. Growth in 1H21 diluted the CET1 ratio to a still strong 19.3%, given 6% RWA growth over the period and no interim profits inclusion in CET1 capital. CET1 encumbrance by uncovered Stage 3 loans has been stable and low over recent years, while the leverage ratio was solid at around 10% and compared well with peers at end-1H21.

UCBRO's loans/deposits ratio of 94% at end-1H21 has been broadly stable. It remains higher than rated peers, reflecting the bank's weaker retail deposit funding franchise and reliance on wholesale and parental funding of its non-bank subsidiaries. Customer deposits accounted for around 80% of total funding excluding derivatives at end-1H21, with the remainder sourced from the parent, IFIs or the local bond market. Funding from the parent has been decreasing in recent years and represented around 12% of the total funding for the UCBRO consolidated group at end 1H21. UCBRO also places sizeable amounts of liquidity at the parent. The net funding position against the parent was therefore much smaller (about 3% of total funding; end: 1H20: 5%).

As part of the SPE parent resolution group, UCBRO will meet its MREL requirement by placing eligible instruments internally. The first tranche of senior non-preferred debt will be issued by end-2021.

## **RATING SENSITIVITIES**

**Factors that could, individually or collectively, lead to negative rating action/downgrade:**

## IDR AND SSR

- UCBRO's IDRs and SSR could be downgraded if UC's Long-Term IDRs are downgraded or if UCBRO becomes less strategically important to its parent.

## VR

- The VR would be downgraded if UCBRO experienced a simultaneous and sharp deterioration in asset-quality and operating profitability metrics accompanied by a significant reduction in capitalisation.

### **Factors that could, individually or collectively, lead to positive rating action/upgrade:**

## IDR AND SSR

-An upgrade of UCBRO's IDR and SSR would require an upgrade of the parent's IDRs and Fitch's view that UCBRO's strategic importance to the parent has not diminished.

## VR

- An upgrade of UCBRO's would require a combination of: i) strengthening of the bank's overall business profile, including further diversification of its loan exposure across customer segments; and ii) further improvement in asset quality and profitability metrics without a material reduction in capitalisation.

## VR ADJUSTMENTS

The Operating Environment score of 'bb+' has been assigned below the 'bbb' category implied score for Romania due to the following adjustment reasons: Macroeconomic Stability (negative).

The Asset Quality score of 'bb' has been assigned above the 'b & below' category implied score due to the following adjustment reasons: Collateral and Reserves (positive) and Non-loan Exposures (positive)

## BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

## 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 IDR.

## 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. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

## RATING ACTIONS

ENTITY / DEBT ⇅	RATING ⇅			PRIOR ⇅
UniCredit Bank S.A.	LT IDR	BBB Rating Outlook Stable	Upgrade	BB+ Rating Outlook Stable

ST IDR	F2	Upgrade	B
Viability	bb	Affirmed	bb
Support	WD	Withdrawn	3
Shareholder Support	bbb	New Rating	

[VIEW ADDITIONAL RATING DETAILS](#)

## FITCH RATINGS ANALYSTS

### Artur Szeski

Senior Director

Primary Rating Analyst

+48 22 338 6292

artur.szeski@fitchratings.com

Fitch Ratings Ireland Limited spolka z ograniczona odpowiedzialnoscia oddzial w Polsce

Krolewska 16, 00-103 Warsaw

### Jakub Kopiec, CFA

Director

Secondary Rating Analyst

+48 22 330 6702

jakub.kopiec@fitchratings.com

**James Watson**

Managing Director

Committee Chairperson

+7 495 956 6657

james.watson@fitchratings.com

**MEDIA CONTACTS**

**Louisa Williams**

London

+44 20 3530 2452

louisa.williams@thefitchgroup.com

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

**PARTICIPATION STATUS**

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

**APPLICABLE CRITERIA**

[Bank Rating Criteria \(pub. 12 Nov 2021\) \(including rating assumption sensitivity\)](#)

**ADDITIONAL DISCLOSURES**

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

## ENDORSEMENT STATUS

UniCredit Bank S.A.

EU Issued, UK Endorsed

## DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, THE FOLLOWING [HTTPS://WWW.FITCHRATINGS.COM/RATING-DEFINITIONS-DOCUMENT](https://www.fitchratings.com/rating-definitions-document) DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE OR ANCILLARY SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF PERMISSIBLE SERVICE(S) FOR WHICH THE LEAD ANALYST IS BASED IN AN ESMA- OR FCA-REGISTERED FITCH RATINGS COMPANY (OR BRANCH OF SUCH A COMPANY) OR ANCILLARY SERVICE(S) CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

[READ LESS](#)

## COPYRIGHT

Copyright © 2021 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent



such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to

any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

[READ LESS](#)

## **SOLICITATION STATUS**

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

## **ENDORSEMENT POLICY**

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the

UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

---

Banks Europe Romania

---