S&P Global Ratings

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UniCredit SpA

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UniCredit SpA

Ratings 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**

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

Support: 0	
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0

Additional factors: -1
Issuer credit rating
BBB/Stable/A-2
Resolution counterparty rating
BBB-/A-2

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

Credit Highlights

Overview	
Key strengths	**Key risks**
Wide geographic diversification and leading market positions in its main markets.	Presence in Russia exposes the group to financial, operational, and reputational risks.
Adequate capitalization and solid liquidity.	Its corporate focus makes it more exposed to potential deterioration in the small and midsize enterprise (SME) and commercial real estate (CRE) segments.
Stronger balance sheet after clean-up.	Weaker creditworthiness of the Italian sovereign.

Profit momentum will continue in 2024. Results probably peaked in 2023, but should remain resilient in 2024, with return on equity (RoE) standing at almost 16% according to our forecasts. The gradual decline of interest rates will have more of an impact on earnings generation in 2025 and 2026, but we still expect profitability to remain solid, with RoE ranging around 14.5%-15% in those two years.

The bank's hedging portfolio, some lending growth from 2025 onward, and the recovery of fees from capital-light businesses (advisory, payments, asset management, and bancassurance) that the bank is focusing on will help to partly reduce the impact on margins of the repricing down of assets. Meanwhile, cost containment measures will also contribute to sound pre-provision profits. The bank's cost-to-income ratio will slide, but will hover around a still very strong 40%-44%. Finally, the sizable €1.7 billion overlays of provisions that the bank still holds provide it with flexibility to record limited credit provisions, although at about 40 basis points (bps) we anticipate them to be higher than the less than 20bp guidance provided by the bank.

Capitalization will decline, but remain adequate. The eventual write-off of the group's investment in Russia (€2.8 billion) and the distribution of the bulk of its profits to shareholders in the form of dividends and share buy-backs (on average €7.3 billion per year over 2024-2026, according to our forecasts) will cause UniCredit's capitalization to decline over time, even if RWA growth remains contained. However, we expect our risk-adjusted capital (RAC) ratio to hover around 7.5% in 2024-2026, thus remaining consistent with our adequate capital and earnings assessment. Our forecasts do not include potential extraordinary distributions that UniCredit might decide to take up by 2027 in order to align its regulatory capital ratio to its stated target. The same is true for potential acquisitions that the bank may also consider to reinforce its presence in the countries where it operates (including Italy, where it is under-represented in some wealthy regions). Depending on their magnitude, these two factors could put meaningful downside pressure on the bank's capitalization.

UniCredit faces potential asset quality deterioration with a strong balance sheet, after completing a significant clean-up, and strengthened risk management. At end-2023, UniCredit reported the lowest stock of nonperforming exposures (NPE) in years, with its NPE ratio standing at 2.9%. It also reported comfortable coverage (84% of NPE), which places it in a good position to deal with the likely asset quality deterioration ahead. Its corporate lending profile makes it more exposed to problems arising from the SME and CRE segments, as well as single-name deterioration. Despite the likely increase in nonperforming loans this year and next, we expect deterioration to be contained. We believe that the bank should benefit from limited lending growth in its core markets in recent years and tighter underwriting, as well as the ongoing reduction of its Russian exposures.

Strong geographic diversification continues to support UniCredit's business profile. The group enjoys a solid franchise and leading positions in commercial banking in a number of European countries, including Italy, Germany, Austria, and several Central and Eastern European (CEE) countries. Its wide geographic footprint supports its resilience and revenue stability, despite the economic cycles of the different markets being somewhat correlated. Its business diversification is somewhat weaker than that of peers, however, following the disposal of important subsidiaries over the difficult years between 2016-2019, although the bank is taking steps to address it.

The successful implementation of the "UniCredit Unlocked" strategy over the past two and a half years (led by CEO Andrea Orcel) has made the 13 banks that make up the group more aligned. In addition, complexity has meaningfully reduced as processes have been redefined, and the focus has shifted to serving clients in a profitable and efficient way. This improved operating model positions the bank well for future organic growth.

UniCredit has not yet fully exited Russia, which exposes it to financial, operational, and reputational risks. The group has meaningfully reduced its cross-border exposures and the scale of its local operations in Russia. For example, AO Unicredit's loan book has more than halved since the start of the war (ending at €3.1 billion at end-2023). And, relative to the group, its current exposure looks more manageable, with the Russian balance sheet amounting to €8.6 billion or 1% of consolidated assets at end-2023, and capital investment amounting to €2.8 billion. Finding a non-sanctioned buyer interested in its subsidiary is proving difficult for the group, though. We therefore believe that UniCredit will remain exposed to financial, operational, and reputational risks while it continues operating in Russia.

The 'BBB' long-term rating on UniCredit is capped at the level of Italy's sovereign rating. In late 2023, we 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 remains 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 outlook on UniCredit mirrors that on Italy, as its ratings are capped. On a stand-alone basis, we 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 ratings on UniCredit if we were to downgrade Italy. This is because we believe that the bank would be unable to withstand a hypothetical sovereign stress scenario. If we revised 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 credit rating.

Upside scenario

We could raise the ratings 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 --				
(%)	**2022a**	**2023a**	**2024f**	**2025f**	**2026f**
Growth in operating revenue	13.2	18.0	(1.3)-(1.6)	(3.5)-(4.2)	(0.2)-(0.2)
Growth in customer loans	2.3	-5.5	0.9-1.1	2.7-3.3	2.7-3.3
Growth in total assets	-6.4	-8.5	0.0	1.1	2.0
Net interest income/average earning assets (NIM)	1.6	2.1	2.0	1.8-1.9	1.7-1.9
Cost to income ratio	47.9	40.2	40-41	41-43	42-44
Return on average common equity	12.2	17.2	15.5-16.5	14.5-15.5	14.5-15.5
Return on assets	0.7	1.2	1.0-1.2	0.9-1.1	0.9-1.1

UniCredit SpA--Key ratios and forecasts (cont.)					
	--Fiscal year-ended Dec. 31 --				
(%)	2022a	2023a	2024f	2025f	2026f
New loan loss provisions/average customer loans	0.4	0.1	0.4-0.5	0.4-0.5	0.4-0.4
Gross nonperforming assets/customer loans	3.1	2.9	3.6-4.0	3.7-4.1	3.2-3.5
Net charge-offs/average customer loans	-0.1	-0.2	0.5-0.5	0.5-0.5	0.5-0.5
Risk-adjusted capital ratio	8.2	N/A	7.2-7.6	7.4-7.8	7.4-7.7

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

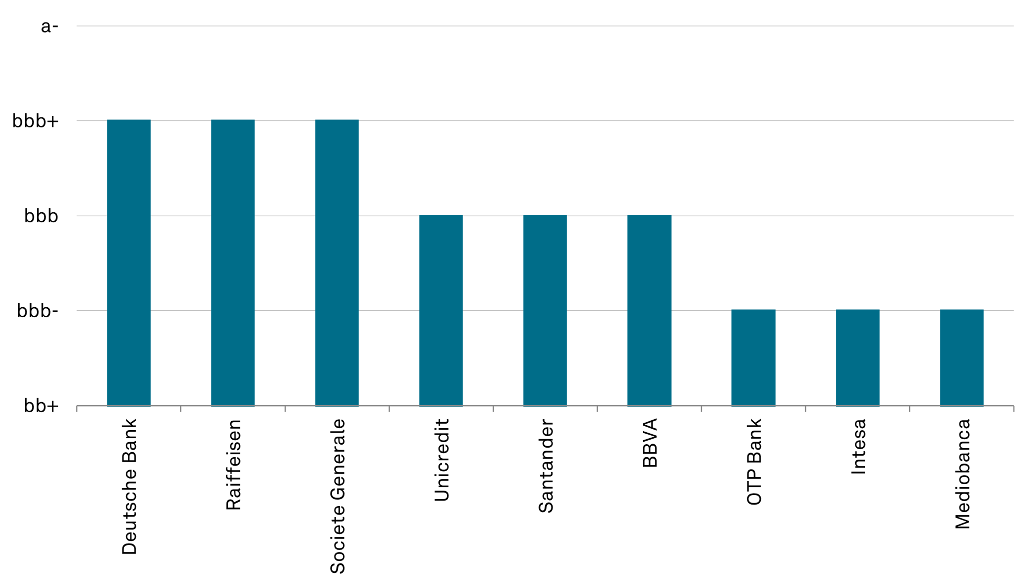
Anchor: 'bbb', One Notch Higher Than That Applied To Banks Operating Largely In Italy

The starting point for our ratings on UniCredit group is the 'bbb' anchor, which results from our view of the blended economic risks of the several countries in which the group operates and the industry risks in its home market of Italy.

It compares favorably with those of other Italian banks operating almost exclusively in Italy, for which the anchor is 'bbb-', though it is weaker than that of most of its global peers.

Chart 1

UniCredit's anchor is better than that of domestic peers



Source: S&P Global Ratings.

The weighted-average economic risk to which UniCredit SpA is exposed is '4', versus Italy's economic risk of '5'. That is thanks to the bank's operations in Germany and Austria (both with economic risk of '2'), which account for 30% and 15% of the group's lending exposures, respectively. Nevertheless, the bank's exposure to Italy (economic risk of '5'), which accounts for 40% of total exposures, and to several other countries in Central and Eastern Europe puts its anchor at a disadvantage when compared to global peers.

Additionally, industry risks in Italy ('5') are also higher than those in other Western European economies, reflecting the system's excess capacity and a comparatively lower sovereign rating, which constrains banks' funding access and pricing. Industry risks are easing, though (as signaled by our current positive trend), as banks' profitability is strengthening.

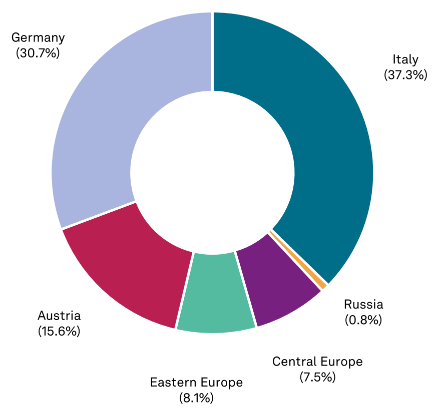
Business Position: A Large, Geographically Diversified European Player

UniCredit benefits from a strong franchise across Europe serving 15 million clients. It is the second-largest bank in Italy, its home market, with a 10% market share after Intesa Sanpaolo SpA, and has a solid domestic footprint in Germany (particularly in corporate banking), Austria (holding a 12% loan market share), and several CEE countries, particularly in the Czech Republic and Slovakia (ranking fifth, with an almost 9% loan market share), Croatia (ranking first, 24% loan market share), Bulgaria (ranking third, 20% loan market share) and Romania (number five, with a 9% loan market share to be strengthened once the acquisition of Alpha Bank Romania is completed). Its presence in other countries in the CEE region (like Hungary, Slovenia, Bosnia, or Serbia) is less relevant in the group context, and some of these markets are also quite small, but it offers UniCredit a platform to leverage the regions' trade flows and serve clients with operations across them.

UniCredit's large footprint translates into significant revenue diversification by geographies (see charts 2 and 3), but there is some economic correlation among its countries of operation, leaving the group somewhat exposed to the impact of similar economic cycles.

Chart 2

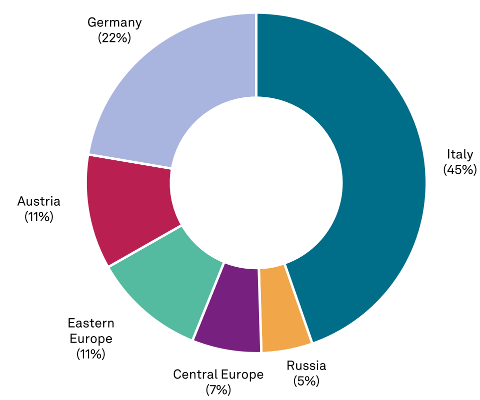
UniCredit's footprint is widely diversified across Europe
UniCredit's net loan exposure as of Dec. 31, 2023



Central Europe comprises Czech Republic, Hungary, Slovakia, and Slovenia.
Eastern Europe comprises Bosnia and Herzegovina, Bulgaria, Croatia, Romania, and Serbia.
Sources: UniCredit's divisional database, S&P Global Ratings.

Chart 3

High geographic diversification supports earnings stability
Revenue breakdown* by geography as of Dec. 31, 2023



*Excludes the corporate center. Central Europe comprises Czech Republic, Hungary, Slovakia, and Slovenia. Eastern Europe comprises Bosnia and Herzegovina, Bulgaria, Croatia, Romania, and Serbia. Sources: UniCredit's divisional database, S&P Global Ratings.

In its main geographies, UniCredit offers a wide range of products, but with a greater focus on corporates and SMEs. Compared to peers, it lags in product diversification, as it had to dispose important subsidiaries (Pioneer and Fineco for example) over the difficult years of 2016-2019. Enhancing revenue diversification is an area of focus for management, though.

Two and a half years after the start of the war in Ukraine, UniCredit has maintained its operations in Russia through AO Unicredit. It has, however, meaningfully reduced its scale, with its domestic loan book more than halving (ending at €3.1 billion at end-2023). And, relative to the group, its exposure looks more manageable now (Russian assets amounted to €8.6 billion, or 1% of the group's consolidated assets at end-2023). Regulatory pressure to further scale down operations in Russia is increasing. The bank continues to look for options to fully exit from Russia, but finding a non-sanctioned buyer and reasonable terms is proving difficult. On the positive side, though, UniCredit recently started to receive dividend payments from its Russian subsidiary from its 2022 results.

After a deep balance sheet clean up over 2016-2021, UniCredit announced at end-2021 its "UniCredit Unlocked" strategic plan, which is due to be completed this year, with the bank overdelivering on its original financial goals.

Table 1

UniCredit is well placed to exceed its targets

	UniCredit Unlocked 2024 goals	Achievements at end 2023
Net profit	> €4.5 billion	€9.5 billion
Cost-to-income	50%	39.70%
RoTE	c. 10%	16.60%
Shareholder distribution*	16 billion	17.6 billion
Organic capital generation per year	150 bp	389 bp
CET 1	12.5%-13%	15.90%

Table 1

UniCredit is well placed to exceed its targets (cont.)

	UniCredit Unlocked 2024 goals	Achievements at end 2023
Transitional leverage ratio	>5%	5.78%
Gross NPE	3.50%	2.70%
Net NPE	1.80%	1.40%
MREL ratio	>27%	31.28%

*Over 2021-2023. Source: Unicredit Financial Reporting.

Major initiatives included:

- The bank's refocus toward clients as a way to strengthen its franchise.
- More cohesiveness and alignment among the 13 banks that make up the group, including the redefinition of processes and reduction of complexity.
- Focus on profitable growth: offering value-added products to customers (centralized at the Clients' Solutions division, which serves the networks), expanding capital-light businesses (notably asset management and insurance, mostly through partnerships), and improving operating efficiency.
- Acceleration of digital transformation.
- Progress on sustainability.

While simplification efforts will continue, the next strategic plan will probably focus more on growth, with the bank leveraging its improved operating model (particularly in the CEE region, which structurally offers more potential). Inorganic growth to reinforce its presence in countries where it operates (including Italy, where it is under-represented in some wealthy regions) is also a possibility, given that the group is accumulating capital. We also expect to see the bank's focus shifting toward more profitable, but also higher risk segments (SMEs, rather than large companies, and consumer lending), which will require strong underwriting and surveillance.

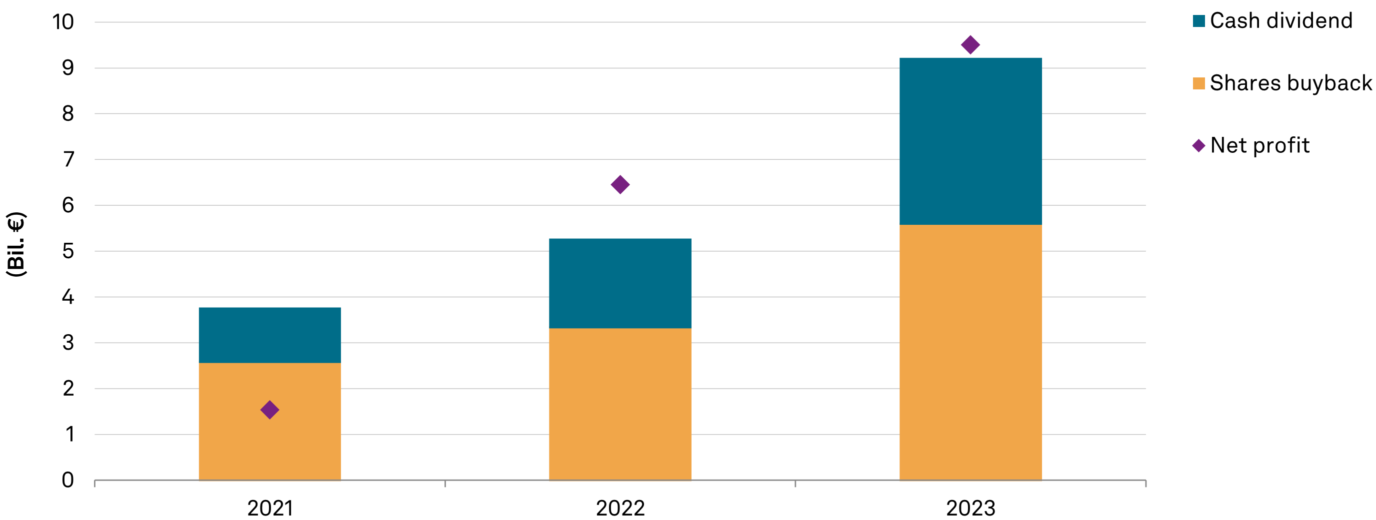
Capital And Earnings: UniCredit Will Preserve Its Adequate Capitalization Despite Large Shareholder Distributions

We expect UniCredit's capitalization to decline given its plan to continue to distribute most of the capital it generates internally. In addition, we assume it will have to undertake the write-off of its investment in Russia (€2.8 billion at end-2023). However, we expect limited asset growth expansion as the bank makes more use of securitizations to transfer risks to third parties and prioritizes the allocation of resources to capital-light activities. As a result, the bank's RAC should fall moderately from the 8.5% that we calculated at end-2022 (pro forma using Italy's revised economic risk to 5), to remain around 7.5% through 2026, which is commensurate with our adequate capital and earnings assessment.

For the past two years, the bank has been almost fully distributing its profits (distributions totaled €8.6 billion in 2023 and €6.5 billion in 2022), combining cash dividends and share buybacks (see chart 4). We expect that this will continue in the coming years. Nevertheless, UniCredit will continue to operate with a regulatory capital ratio that exceeds its target and has stated that it will deploy the excess capital by reinvesting in the business or returning it to shareholders via extraordinary distributions by no later than 2027. In the medium term, we could therefore see more downward pressure on our RAC ratio.

Chart 4

UniCredit is distributing its profits almost in full

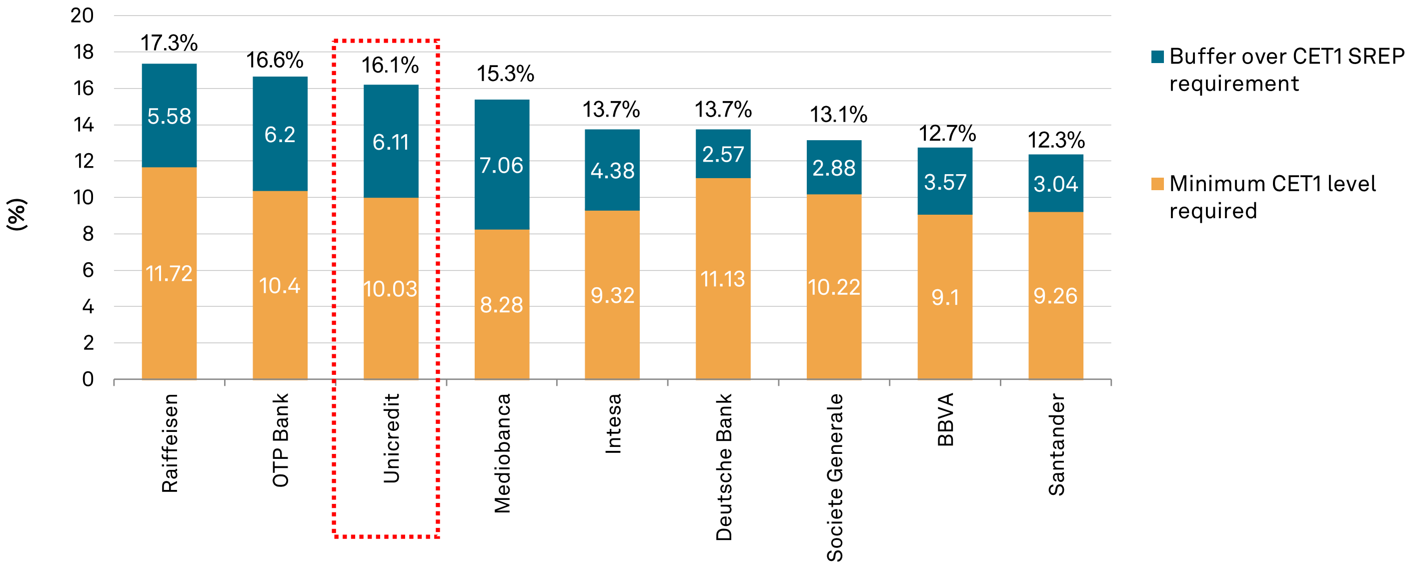


Source: UniCredit financial reporting.

At March 2024, UniCredit reported a CET1 ratio of 16.2%, which is well above the 12.5%-13% management target range, and the 10.10% regulatory requirement. It's also on the high side when compared to peers (see chart 5). The bank estimated its excess capital (already considering the impact of Basel III amendments) at €6.5 billion. Total Tier 1 capital and total capital stood at 18.09% and 21.23%, respectively (versus requirements of 11.97% and 14.47%). The Tier 1 bucket was fully filled and the bank had some excess of Tier 2 capital.

Chart 5

UniCredit's CET1 ratio stands on the high side when compared to peers and well above requirements

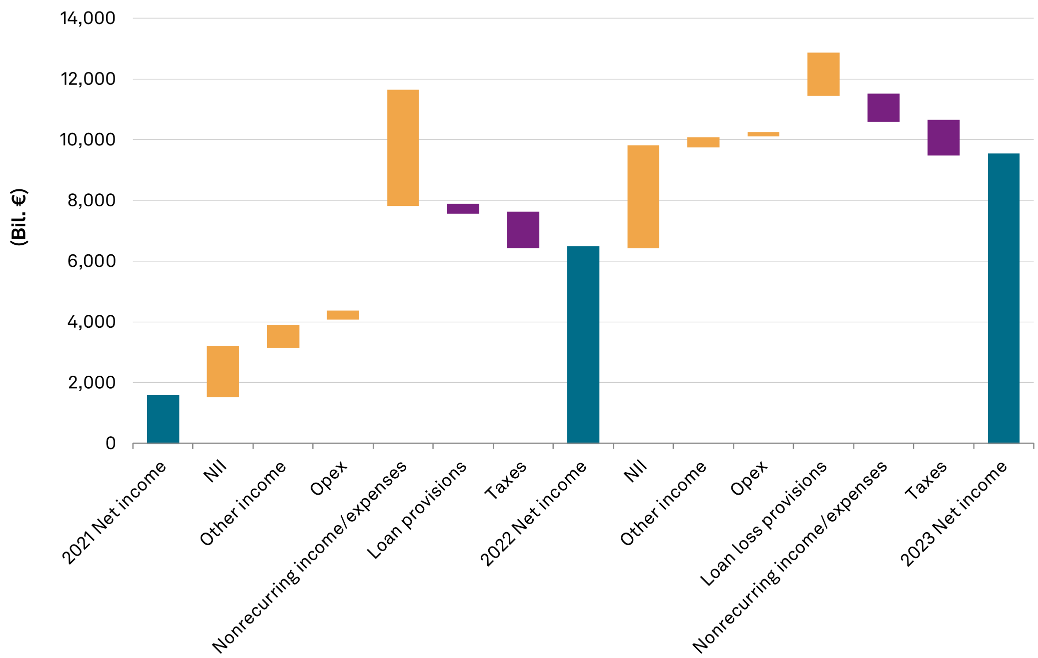


Data as of end-2023. Source: S&P Global Ratings.

The group's profitability has strengthened significantly and across all geographies, and prospects remain solid (see chart 6). In 2023, UniCredit reported a 47% increase in net profits, reaching €9.5 billion. RoE jumped to 17.2%, up from the already sound 12.1% recorded in 2022. The group's 2023 results included a positive one-off of almost €900 million related to the write-back of tax losses carried forward, but also an extraordinary charge of €1.1 billion to undertake further restructuring (mainly in central services in Italy and Germany) and write off IT assets. Robust earnings, notably of the net interest income line, which was up 31%, cost savings, and extremely low credit provisions (12 bp) explained the group's record results. In 2023, the bank managed to reduce operating costs by 1%, despite inflationary pressures in its footprint, achieving a remarkable 40% cost-to-income.

Chart 6

Higher net interest income, cost containment, and low provisioning drove up net profits in the last two years



Source: S&P Global Ratings.

Results likely peaked in 2023 but should remain fairly resilient in 2024, despite the gradual decline of interest rates, which will have more of an impact in 2025 and 2026. Nevertheless, we believe profitability will remain solid. We forecast the bank's RoE at 15.9% this year, then declining to 15% and 14.7% in 2025-2026. We see UniCredit's earnings buffer at over 1.5% in 2024-2026, which compares well to the levels forecast for large and diversified players.

The bank's hedging portfolio, some lending growth from 2025 onward, and the recovery of fees will help to partly reduce the impact on margins of the repricing down of assets, while cost-containment measures will also contribute to sound pre-provision profits. The bank's cost-to-income ratio will slide but will hover around a still very strong 40%-45%. The sizable €1.7 billion overlays of provisions that the bank holds provide it with flexibility to record limited credit provisions. That said, we see credit provisions of 40 bps as more reasonable than the less than 20 bps guided by the bank.

Our forecast assumes an overall distribution of 90% of net profits, via dividends (40%) and share buybacks (50%) and limited RWA expansion over the period.

Our RAC ratio differs substantially from the bank's Tier 1 regulatory capital ratio. This reflects our view that minority stakes in financial institutions (mostly held by the bank in Austria, including Oberbank and Bank für Tirol und

Vorarlberg) and investments in insurance subsidiaries should be fully backed by capital, the full deduction of nonconvertible DTAs arising from temporary differences, and the higher risk weight that we apply for UniCredit's exposures in Italy and higher risk countries in CEE.

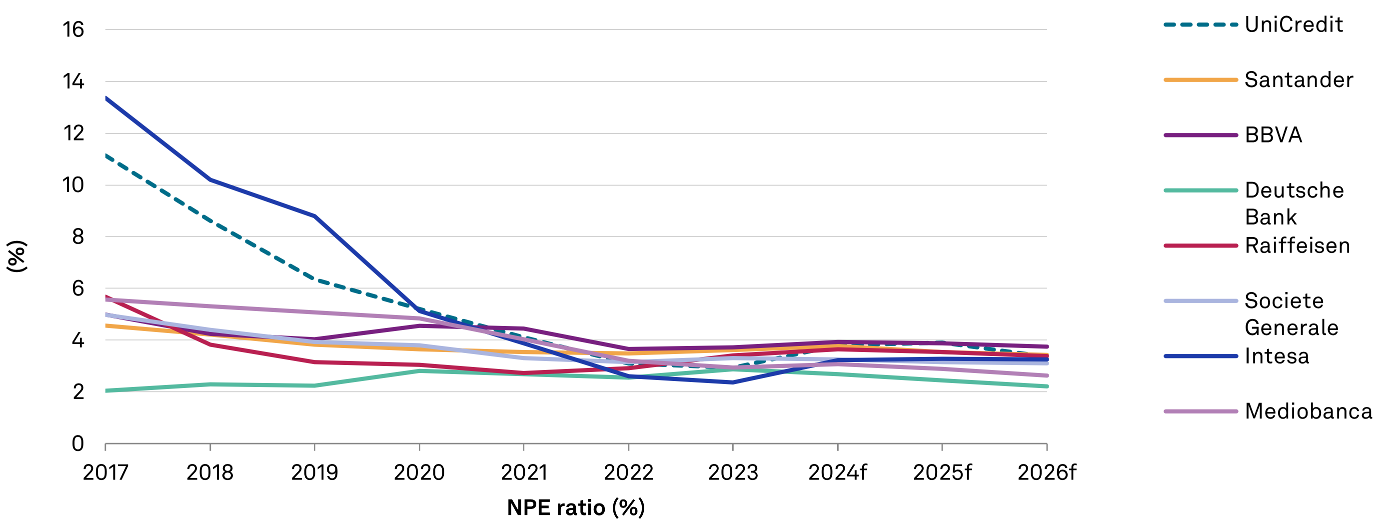
We assess UniCredit group's capitalization on a consolidated basis, thus assuming some fungibility of resources among the group's entities within regulatory limits. We also monitor the distribution of capital within the group. We note that most subsidiaries, other than the German one, had CET1 capital ratios at March 2024 that surpassed those of the group. The excess is particularly high in Czech Republic, Bosnia, and Croatia, which suggests the possibility of some extraordinary upstreaming to the parent to better align them unless it is used to finance growth.

Risk Position: Large Clean-ups In Prior Years And Sound Coverage Position The Bank Well To Deal With Likely Asset Quality Pressures

UniCredit's risk profile has improved in recent years, as the bank has cleaned up its balance sheet from legacy problematic exposures, reduced its Russian exposures, and strengthened its risk-management and underwriting, domestically and abroad.

Chart 7

UniCredit's asset quality deterioration will be more contained than in past crises

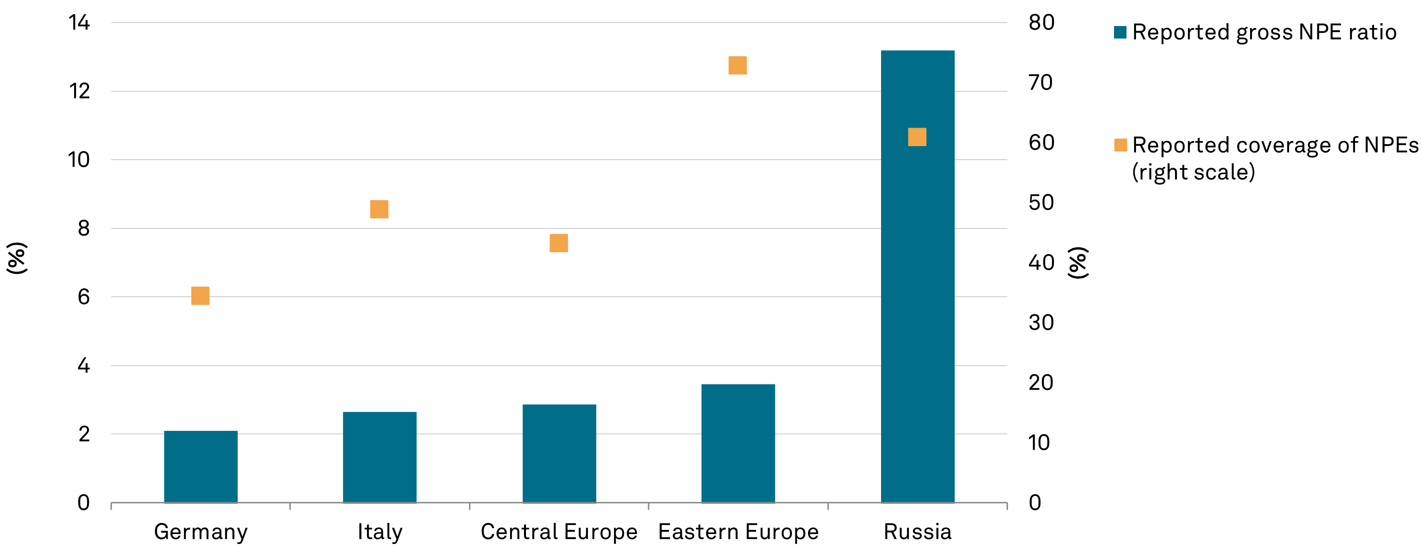


f--Forecast. Source: S&P Global Ratings.

According to our calculations, UniCredit's NPEs stood at 2.9% at end-2023 (chart 8 shows the breakdown by region), down from 16.5% six years ago. Furthermore, unlikely-to-pay loans, as opposed to purely nonperforming, account for two thirds of the NPE stock. Although we anticipate that some new problem loans could emerge this year and next, due to the weak economic growth in its core markets of Italy, Germany, and Austria, we believe that deterioration will be contained, with NPEs peaking at 3.9% in 2025, 100 bps higher than currently, and far off the peak levels achieved in the last crisis.

Chart 8

Russia and Eastern Europe report the highest delinquencies



Source: UniCredit financial reporting.

UniCredit's portfolio is well diversified geographically, by client and product, but it is biased toward corporate lending (which accounts for 74% of credit EAD), where we expect to see more pressure, particularly among SMEs and the CRE segment. Its corporate profile also makes it potentially more exposed to single-name concentrations.

Coverage, however, is quite comfortable, standing at 84% of NPEs at end-2023, as it includes €1.7 billion of overlay provisions that the bank could use to deal with asset quality deterioration ahead.

The group's pure CRE exposures amounted to €35 billion as of end-2023, or 8% of total loans, and were largely booked in Germany and Austria, markets that are under downward pressure. Projects are well collateralized, however, with the average loan to value standing at around 50%, and have a long-term profile.

While UniCredit has not yet been able to exit Russia, it has materially reduced its exposure. Its cross-border exposure has been largely addressed, amounting to just €400 million at end-2023, while its local subsidiary lending book has fallen by 70% (to €3.1 billion from €10.7 billion at March 2022). Furthermore, its local lending book was either classified as nonperforming or in Stage 2, and thus well covered by provisions.

UniCredit stage 2 loans remain higher than peers, but are gradually declining, amounting to 14% of its book as of

March 2024. This is partly explained by the classification as Stage 2 of all performing loan book of its Russian subsidiary (€3 billion), some CRE exposures, as well as a greater degree of conservatism in its modeling assumptions.

Aside from credit risk, UniCredit is exposed to foreign currency risk through its local currency equity investments in CEE subsidiaries, which it hedges to avoid capital volatility. Most of the risk is concentrated in Russia, Czech Republic, Romania, and Bulgaria.

Exposure to interest rate and market risks remains moderate and under control. The bank reported that the impact of the interest rate shock (+200 bps parallel up) on the economic value of equity (EVE) would be negative 5.2%, well below the -15% regulatory limit.

Funding And Liquidity: Excess Deposits Over Loans Support Solid Liquidity

UniCredit benefits from a well-balanced funding profile, weighted toward customer deposits, which continue to exceed the group's lending operations. UniCredit's loan-to-deposit ratio has been around 86% for the past four years, and given the modest lending growth ahead we think this is unlikely to change over our outlook horizon, even if depositors move more resources to off-balance-sheet products. About 80% of UniCredit's customer deposits are from retail clients (households and SMEs), and are largely insured.

Wholesale funding is split between interbank funding and debt placements. Debt securities issued are largely long term, with maturities well diversified across the years to minimize refinancing risks. The higher refinancing ahead is concentrated in 2026, but at €18 billion we consider it manageable (the funding plan for 2024, for example, contemplated a total issuance of €21 billion, of which about 50% was already completed as of June 2024). Covered bonds and securitizations account for about 42% of the debt issued, and senior unsecured debt (including nonpreferred) for about 46%. A share of the senior debt is placed with clients through the group's different networks, rather than with institutional clients, which is less the case for global peers. AT1 and Tier 2 instruments complete the mix. Debt is largely issued by the Italian entity, and to a lesser degree the German and Austrian subsidiaries. The three of them have maintained market access even in times of stress, when access was unavailable to peers. In particular, we think UniCredit's ability to access the market is superior to that of Italian peers.

The group's liquidity remains solid (its LCR was reported at 154% at end-2023, down from 181% at end 2021), despite the bank having fully repaid to the ECB its TLTRO borrowings. Its broad liquid assets (in the form of cash and cash equivalents and a fairly liquid investment portfolio) accounted for about 32% of assets at end-2023, covering the group's short-term wholesale funding 2.6x and 53% of customer deposits. UniCredit's securities portfolio is largely invested in government securities of different countries, with the Italian sovereign accounting for about a third of total sovereign exposures. Most of the financial assets are valued at fair value, with about 40% being accounted at amortized cost. The unrealized losses on the latter were limited, amounting to just over 3% of the bank's common equity Tier 1 at end-2023.

Support: Ratings Are Constrained By The Lower Creditworthiness Of The Italian Sovereign

Our current ratings on UniCredit stand one notch below its 'bbb+' SACP, as they are constrained by Italy's 'BBB' long-term sovereign rating. Despite UniCredit's geographically diversified profile, its operations within Italy remain sizable. We therefore do not see an appreciable likelihood that UniCredit would not default on its senior obligations in the scenario of a hypothetical default of the Italian sovereign.

In such a scenario, UniCredit would face sizable losses that would most likely trigger its resolution. However, we calculated that the bank's capital base and its existing subordinated liabilities would not be enough to cover all losses and adequately recapitalize the bank. Our calculations use the bank's existing capital, subordinated instruments, and exposures.

Our ratings on UniCredit do not incorporate any notches of uplift for ALAC (additional loss-absorbing capacity), as we estimate its buffer of bail-inable subordinated instruments will stand at around 250-280 bps over the next three years, falling short of the 300 bps minimum standard threshold that would make it eligible for a one notch ratings uplift. Given that the bank's minimum requirement for own funds and eligible liabilities (MREL) at March 2024 (32.81%) is well in excess of the 26.6% requirement, it is unlikely that the bank's ALAC would improve further. Furthermore, the bank has publicly communicated its intention to reduce that excess in the medium term.

Environmental, Social, And Governance (ESG)

ESG factors are a neutral consideration in our credit rating analysis of UniCredit.

The bank has robust control practices, a unified risk culture, adequate underwriting, and know-your-customer practices in all countries. The bank's well-balanced board composition and diversity looks to all stakeholders' interests. Nevertheless, like peers, UniCredit is exposed to a wide range of legal and nonfinancial risks, as demonstrated by UniCredit and its German and Austrian subsidiaries paying a $1.3 billion fine to the U.S. authorities related to the violation of U.S. sanctions on Iran for prohibited operations concluded in 2002-2011. We are not aware of any large-scale pending litigation or compliance-related issues, however.

Environmental factors do not affect credit quality. The group is exposed to transition risks, in particular through its exposure to the car industry (in Italy and in Germany).

Regarding social risk, UniCredit has significantly reduced staff numbers in recent years, and this is continuing as part of its efficiency enhancement plan. We believe the layoffs have been handled carefully in the bank's main countries of operations, primarily in agreement with local unions and predominantly through participation to its voluntary early retirement schemes.

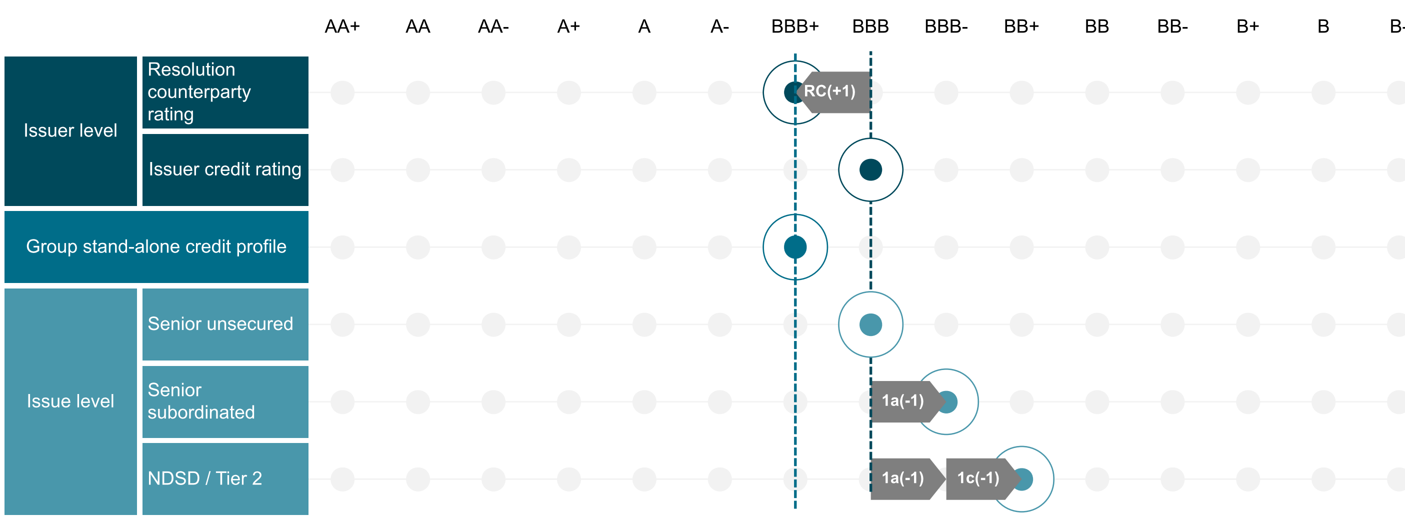
Group Structure and Rated Subsidiaries

UniCredit SpA is the operating holding company of the group. UniCredit Bank GmbH (better known as HypoVereinsbank; HVB) and UniCredit Bank Austria AG (Bank Austria) are the two largest operating entities outside Italy, and we view both as core subsidiaries. We also consider them insulated and thus rate them at 'BBB+', one notch above UniCredit's group credit profile. This is because we think that the two banks have a solid intrinsic strength (SACPs of 'bbb+' and 'a-' respectively), UniCredit is committed to maintaining their credit strength, and they have limited funding and financial dependency from the parent, which would likely enable them to withstand parental stress.

Hybrid Ratings

We rate UniCredit's hybrid instruments (senior nonpreferred and subordinated debt) by applying our standard notching from the group's ICR (which stands one notch lower than the group's SACP). We don't rate the bank's AT1 instruments.

Unicredit SpA: Notching



Key to notching

---- Issuer credit rating

----- Group stand-alone credit profile

RC Resolution counterparty liabilities (senior secured debt)

1a Contractual subordination

1c Mandatory contingent capital clause or equivalent

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 2 of our "Hybrid Capital: Methodology And Assumptions" criteria, published on March 2, 2022.
AT1--Additional Tier 1. NDSD--Non-deferrable subordinated debt. NVCC--nonviability contingent capital.

Resolution Counterparty Ratings (RCRs)

We set the RCR on UniCredit one notch above our long-term issuer credit rating on the bank, and thus one notch above the sovereign rating on Italy. In a hypothetical sovereign default scenario, we believe the bank will likely be resolved and the bail-in of its large buffer of bail-inable instruments (including senior preferred obligations) would enable it to absorb the impact that such a scenario would cause, without triggering the default of the bank's RCR liabilities (i.e., those liabilities that may be protected from default in an effective resolution process).

Key Statistics

Table 1

UniCredit SpA--Key figures

	--Year-ended Dec. 31--				
(Mil. €)	**2023**	**2022**	**2021**	**2020**	**2019**
Adjusted assets	782,702	855,423	914,458	929,339	852,847
Customer loans (gross)	418,224	442,448	432,522	430,663	442,493
Adjusted common equity	37,141	41,719	38,576	37,620	40,760
Operating revenues	23,547	19,959	17,636	16,825	17,995
Noninterest expenses	9,472	9,561	9,796	9,806	10,030
Core earnings	9,699	6,866	6,866	1,335	3,258

Table 2

UniCredit SpA--Business position

	--Year-ended Dec. 31--				
(%)	**2023**	**2022**	**2021**	**2020**	**2019**
Loan market share in country of domicile	10.5	11.4	11.4	12.5	14.0
Deposit market share in country of domicile	12.1	12.5	12.9	13.6	14.1
Total revenues from business line (currency in millions)	23,572	20,161	17,636	17,351	19,250
Commercial & retail banking/total revenues from business line	91.1	87.0	89.3	78.6	96.7
Trading and sales income/total revenues from business line	7.8	12.8	9.3	22.7	5.3
Other revenues/total revenues from business line	1.1	0.3	1.4	-1.4	-1.9
Investment banking/total revenues from business line	7.8	12.8	9.3	22.7	5.3
Return on average common equity	17.2	12.2	3.0	-5.4	6.7

Table 3

UniCredit SpA--Capital and earnings

	--Year-ended Dec. 31--				
(%)	**2023**	**2022**	**2021**	**2020**	**2019**
Tier 1 capital ratio	17.84	18.65	17.94	18.22	14.90
S&P Global Ratings’ RAC ratio before diversification	N.A.	8.15	7.41	7.43	7.13
S&P Global Ratings’ RAC ratio after diversification	N.A.	8.88	8.00	8.18	8.02
Adjusted common equity/total adjusted capital	82.57	82.13	79.66	78.42	82.33

Table 3

UniCredit SpA--Capital and earnings (cont.)

	--Year-ended Dec. 31--				
(%)	**2023**	**2022**	**2021**	**2020**	**2019**
Net interest income/operating revenues	59.48	53.57	51.37	56.11	56.70
Fee income/operating revenues	31.69	34.28	37.95	35.52	35.03
Market-sensitive income/operating revenues	7.84	12.90	9.29	8.39	8.55
Cost-to-income ratio	40.23	47.90	55.55	58.28	55.74
Preprovision operating income/average assets	1.71	1.17	0.85	0.79	0.94
Core earnings/average managed assets	1.18	0.77	0.74	0.15	0.39

N.A.--Not available.

Table 4

UniCredit SpA--Risk-adjusted capital framework data

(Mil. €)	**Exposure***	**Basel III RWA**	**Average Basel III RW(%)**	**Standard & Poor's RWA**	**Average Standard & Poor's 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	22,681.4	39.3
Corporate	296,783.7	143,163.6	48.2	287,182.3	96.8
Retail	147,116.8	48,865.2	33.2	85,052.0	57.8
Of which mortgage	91,609.5	23,126.9	25.2	34,673.9	37.8
Securitization§	35,786.5	9,083.8	25.4	13,861.8	38.7
Other assets†	29,422.6	31,018.0	105.4	44,777.0	152.2
Total credit risk	875,352.0	261,308.1	29.9	499,602.8	57.1
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	--	597,107.7	100.0
Total Diversification/ Concentration Adjustments	--	--	--	(48,944.8)	(8.2)
RWA after diversification	--	308,473.6	--	548,162.9	91.8

Table 4

UniCredit SpA--Risk-adjusted capital framework data (cont.)	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio before adjustments	57,520.7	18.6	50,797.4	8.5
Capital ratio after adjustments‡	57,520.7	18.6	50,797.4	9.3

*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 (RAC ratio calculated based on pro-forma with updated Economic risk to 5 from 6 in Oct. 2023). Sources: Company data as of 'Dec. 31 2022', S&P Global Ratings.

Table 5

UniCredit SpA--Risk position

	--Year-ended Dec. 31--				
(%)	**2023**	**2022**	**2021**	**2020**	**2019**
Growth in customer loans	-5.47	2.29	0.43	-2.67	-5.25
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N.A.	-8.19	-7.32	-9.10	-11.15
Total managed assets/adjusted common equity (x)	21.13	20.56	23.76	24.76	20.99
New loan loss provisions/average customer loans	0.13	0.43	0.38	1.14	0.74
Net charge-offs/average customer loans	-0.25	-0.14	-0.13	0.09	0.49
Gross nonperforming assets/customer loans + other real estate owned	2.93	3.08	4.11	5.19	6.36
Loan loss reserves/gross nonperforming assets	84.41	87.18	84.36	79.12	74.69

N.A.--Not available.

Table 6

UniCredit SpA--Funding and liquidity

	--Year-ended Dec. 31--				
(%)	**2023**	**2022**	**2021**	**2020**	**2019**
Core deposits/funding base	69.69	67.58	62.52	59.60	59.95
Customer loans (net)/customer deposits	85.98	85.10	85.08	86.86	96.68
Long-term funding ratio	86.94	87.98	87.31	84.61	74.63
Stable funding ratio	124.74	129.84	133.52	135.13	105.60
Short-term wholesale funding/funding base	14.25	13.00	13.66	16.51	27.43
Regulatory net stable funding ratio	130.00	130.00	134.00	N.A.	N.A.
Broad liquid assets/short-term wholesale funding (x)	2.57	2.91	3.06	2.67	1.33
Broad liquid assets/total assets	31.77	32.96	35.78	37.75	30.91
Broad liquid assets/customer deposits	52.57	55.89	66.84	73.95	60.67
Net broad liquid assets/short-term customer deposits	34.75	40.46	49.54	51.68	16.91
Regulatory liquidity coverage ratio (LCR) (%)	1.54	1.61	1.82	1.71	1.43
Short-term wholesale funding/total wholesale funding	45.29	38.65	35.28	39.60	66.50

N.A.--Not available.

UniCredit S.p.A.--Rating component scores

Issuer Credit Rating	**BBB/Stable/A-2**
SACP	bbb+

UniCredit S.p.A.--Rating component scores (cont.)	
Issuer Credit Rating	**BBB/Stable/A-2**
Anchor	bbb
Economic risk	4
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
GRE support	0
Group support	0
Sovereign support	0
Additional factors	-1

ALAC--Additional loss-absorbing capacity. 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

- Global Banks Midyear Outlook 2024, July 17, 2024
- Global Banks Country-By-Country Midyear Outlook, July 17, 2024
- Global Banks: Our Credit Loss Forecasts, July 11, 2024

- Credit Conditions Europe: Keep Calm, Carry On, June 25, 2024
- Banking Industry Country Risk Assessment Italy, June 19, 2024
- Bulletin: UniCredit SpA 2023 Year-End Results Confirm Profit Momentum, Feb. 7, 2024
- Various Rating Actions On Italian Banks On Balance Sheet's Resilience To Economic Cycles, Oct. 25, 2023

Ratings Detail (As Of August 9, 2024)*	
UniCredit SpA	
Issuer Credit Rating	BBB/Stable/A-2
Resolution Counterparty Rating	BBB+/--/A-2
Commercial Paper	
Local Currency	A-2
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
Sovereign Rating	
Italy	BBB/Stable/A-2
Related Entities	
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-
UniCredit Bank GmbH	
Issuer Credit Rating	BBB+/Stable/A-2
Resolution Counterparty Rating	A-/--/A-2
Senior Subordinated	BBB
Senior Unsecured	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.