Rating Actions On UniCredit's German and Austrian Banks On Insulation From Parent After Review Of Resolution Approach

August 10, 2022

Overview

- In our view, the UniCredit group now operates a de facto single-point-of-entry resolution strategy under which Germany-based UniCredit Bank AG (better known as HypoVereinsbank; HVB) and UniCredit Bank Austria AG (Bank Austria) have deeper funding linkage with ultimate parent UniCredit SpA than in the past.
- Nevertheless, given the banks' intrinsic strength and other supportive features, we still see HVB and Bank Austria as likely to withstand parental stress, and continue to rate them above UniCredit's group credit profile.
- For HVB, we expect resilient financial performance in the current economic environment and therefore revised our outlook on the bank to stable from negative.
- We affirmed our 'BBB+/A-2' issuer credit and 'A-/A-2' resolution counterparty ratings on HVB and Bank Austria, reflecting insulation from the parent. We also affirmed our ratings on all outstanding debt instruments of both banks.
- The outlook on Bank Austria remains negative, given our view that industry risks could increase for the Austrian banking sector over the next 12-24 months.

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FRANKFURT (S&P Global Ratings) Aug. 10, 2022--S&P Global Ratings today revised its outlook on UniCredit Bank AG (better known under its brand name HypoVereinsbank; HVB) to stable from negative, and affirmed its 'BBB+/A-2' issuer credit ratings on HVB and UniCredit Bank Austria AG (Bank Austria). The outlook on Bank Austria remains negative.

At the same time, we affirmed our 'A-/A-2' resolution counterparty ratings on both banks. In addition, we affirmed our issue ratings on both entities' outstanding debt instruments.

Rationale

The affirmation follows our review of HVB's and Bank Austria's financial and operational reliance in the context of UniCredit's group's single-point-of-entry (SPE) resolution approach. The UniCredit group now operates under an effective SPE resolution plan, under which Italy-based ultimate parent UniCredit SpA (BBB/Stable/A-2) is the group's single point of entry for resolution purposes and the sole issuer of bail-in-able debt that is eligible for the group's minimum requirement for own funds and eligible liabilities (MREL). In 2020, UniCredit SpA started to downstream internal MREL (iMREL) to HVB and Bank Austria to fulfill local MREL requirements. Both subsidiaries still have sizable external MREL buffers, but because these will gradually mature, the share of iMREL will outpace legacy MREL-eligible instruments over the next year.

It remains rare that we rate bank subsidiaries above their bank parents, particularly in integrated SPE groups. The failure of a banking parent would not necessarily lead to the failure of its subsidiaries. Nevertheless, we rarely rate subsidiaries above their parent while a parental stress scenario remains a remote prospect. This is particularly true for SPE groups, since this resolution approach can allow for substantial financial and operational integration of a banking group's operating entities. To rate above the parent, we look for the subsidiary to have a strong stand-alone creditworthiness as well as features that suggest that it would remain resilient, even if the parent came under sustained stress.

We believe HVB and Bank Austria are likely to show greater resilience than UniCredit SpA under sustained stress, aided by relatively limited funding and financial dependency on affiliates and substantial pre-positioned resources. Although this is unusual among banking groups globally, we consider HVB and Bank Austria to have stronger intrinsic creditworthiness than that of the broader group. We assess their SACPs at 'bbb+', compared with the 'BBB' issuer credit rating on UniCredit SpA. We consider HVB's and Bank Austria's good domestic franchises and financial performance in Germany and Austria, respectively; these banking markets are more stable than UniCredit group's main market, Italy, in our opinion. We also factor in the subsidiaries' strong capital buffers, substantially above regulatory requirements, which we expect will be maintained. We also note the subsidiaries' day-to-day funding and customer franchises, among other ongoing features and services, that have limited or no reliance on the wider group. Furthermore, we expect that the subsidiaries will sustain their franchise in the wholesale debt market.

HVB's and Bank Austria's issuance of iMREL creates a funding link, but not a dependency, in our view. The subsidiaries issuance of iMREL creates a funding linkage to the parent, but this feature does not critically undermine the expectation of resilience to parental stress. First, the subsidiaries continue to have no structural dependence on the parent for funding their commercial assets. Second, we anticipate that the downstreamed iMREL will have a well-spread maturity profile, and we expect that, in the remote scenario of UniCredit SpA's non-viability, both subsidiaries could replace iMREL by tapping capital markets thanks to their historic external franchises with investors. Finally, we see the iMREL as substantial pre-positioned recapitalization capacity that will be available irrespective of the fortunes of the parent.

We still see UniCredit SpA as committed to maintaining the credit strength of HVB and Bank Austria. Although UniCredit SpA has periodically taken substantial dividends, particularly from HVB beyond their annual earnings, it has ensured that they operate with regulatory capitalization far above the requirements. We anticipate no change to this stance, not least because these subsidiaries compete against highly creditworthy peers in their domestic markets.

We remain mindful of HVB's and Bank Austria's operational dependence on the parent. We observe increasing integration of HVB and Bank Austria into the parent group. UniCredit seeks to raise synergies and improve efficiencies as an European banking group, and this initiative is consistent with the SPE resolution approach that seeks to keep the group's key operations functioning as a cohesive whole. For example, the group's unified IT platform will now be integrated into UniCredit SpA, from a separate service entity previously, to further reduce IT-related costs and leverage common and uniform platforms. We expect the group to further integrate systems over the coming years, making the subsidiaries more dependent on services from the parent. What's more, we note that HVB, Bank Austria, and UniCredit SpA have shared regulatory oversight under the single supervisory mechanism of the European banking union.

While this creates greater operational dependence on the parent, we remain mindful of the role of resolution. If UniCredit SpA were to fail, we expect that regulators would bail-in subordinated and senior debt to recapitalize it. This implies a potential default on UniCredit SpA's senior debt. However, in our view the bail-in, combined with preparations to ensure operational continuity of the group's critical functions in resolution, could credibly help to avoid default on senior preferred obligations of HVB and Bank Austria.

Given also the limited business and financial dependence, we see both subsidiaries as somewhat insulated from potential group stress, and potentially resilient even if the parent were subject to a resolution process. We therefore rate them up to one notch above the UniCredit group credit profile.

We continue to see tail risks from the strategic connections with the lower-rated group, and view a 'bbb+' SACP as a fair reflection of the subsidiaries' credit strength in the European peer context. Despite the structural features described above, we remain mindful of the potential reputational risks from being part of a weaker-rated parent that could negatively impact the franchises of their domestic operations. Although it is a hypothetical scenario, if UniCredit SpA came under stress, we think that this could have negative but limited knock-on effects for the two subsidiaries. In such a scenario, we could envision some capital upstreaming, though not to an extent that would reduce the subsidiaries' capital ratios close to their regulatory requirements.

Separately, we believe that both subsidiaries have weaker profitability and somewhat lower cost efficiency than European peer banks with an 'a-' SACP, such as Austria-based Oberbank or Czech Republic-based Ceskoslovenska Obchodni Banka and Komercni Banka. Over time, we expect the cost-to-income ratio of both HVB and Bank Austria will gradually improve under the "UniCredit Unlocked" strategy. Taking these factors together, we apply a negative comparative rating adjustment when we assess HVB's and Bank Austria's SACPs.

UniCredit Bank AG (HVB)

Primary credit analyst: Heiko Verhaag

Outlook

The stable outlook on HVB reflects our view that within the next 24 months it will continue to post satisfactory financial performance, despite the deteriorated economic environment, and that its capitalization will remain strong. We expect the UniCredit group will downstream substantial subordinated bail-in-able capacity, and that business and financial dependencies on affiliates will not increase.

Downside scenario: We could downgrade HVB under any of three scenarios:

- First, if we were to see HVB as potentially less resilient to parental stress. This could arise, for example, if there is deeper franchise or financial integration into the UniCredit group, or the parent decides to maintain materially smaller-than-expected buffers of capital and subordinated bail-in-able instruments in HVB.

- Second, if we were to lower our long-term rating on UniCredit SpA.
- Finally, a downgrade could follow a negative revision in our view of HVB's intrinsic credit strength, expressed in the SACP. This could arise, for example, if we saw deteriorating risk-adjusted capitalization (RAC) that drove the ratio substantially below 10%.

Upside scenario: An upgrade is unlikely at this point because it would require two positive developments: that we upgrade UniCredit SpA, and that we revise upward our assessment of HVB's SACP. The SACP would be better supported if HVB's ongoing strategic development under its "UniCredit Unlocked" strategy substantially improves its profitability and efficiency, and we see strengthened characteristics of the parent that imply a reduction in the risk of substantial capital distributions.

UniCredit Bank Austria AG (Bank Austria)

Primary credit analyst: Cihan Duran

Outlook

The negative outlook on Bank Austria reflects our view that over the next 12-24 months industry risks could increase for the Austrian banking sector because of structural profitability strains and relatively low cost efficiency. We expect the UniCredit group to preserve Bank Austria's credit strength by downstreaming sufficient bail-in-able capacity, and that business and financial dependencies on affiliates will not increase.

Downside scenario: We could lower our long-term rating on Bank Austria by one notch if we concluded that industry risks had increased in Austria, implying a weaker operating environment for the bank. We remain mindful, though, that stronger-than-expected capitalization, for example a RAC ratio remaining above 10%, could somewhat mitigate weaker earnings prospects.

Although a lesser risk at this time, we could also lower the rating if we were to lower our long-term rating on UniCredit SpA, or if we see Bank Austria as potentially less resilient to parental stress. This could arise, for example, if there is deeper franchise or financial integration into the UniCredit group, or the parent decides to maintain materially smaller-than-expected buffers of capital and subordinated bail-in-able instruments in Bank Austria.

Upside scenario: We could revise the outlook to stable if we saw a stabilizing industry risk trend for the Austrian banking industry, implying not only cyclical, but also structural, improvement in bank profitability. We could also take a positive rating action if Bank Austria's RAC ratio remains above 10% over the next two years, while the bank maintains asset-quality metrics at solid levels and improves cost efficiency toward its management target.

Ratings Score Snapshot

UniCredit Bank AG

	To	From
Issuer Credit Rating	BBB+/Stable/A-2	BBB+/Negative/A-2
SACP	bbb+	bbb+
Anchor	bbb+	bbb+
Business position	Adequate (0)	Adequate (0)
Capital and earnings	Strong (+1)	Adequate (0)
Risk position	Adequate (0)	Adequate (0)
Funding	Adequate	Adequate
Liquidity	Adequate (0)	Adequate (0)
Comparable ratings analysis	(1)	0
Support	0	0
ALAC support	0	0
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

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

ESG credit indicators: E-2, S-2, G-2

UniCredit Bank Austria AG

	To	From
Issuer Credit Rating	BBB+/Negative/A-2	BBB+/Negative/A-2
SACP	bbb+	bbb+
Anchor	a-	a-
Business position	Adequate (0)	Adequate (0)
Capital and earnings	Adequate (0)	Moderate (-1)
Risk position	Adequate (0)	Adequate (0)
Funding	Adequate	Adequate
Liquidity	Adequate (0)	Adequate (0)
Comparable ratings analysis	(1)	0
Support	0	0
ALAC support	0	0
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

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

UniCredit Bank Austria AG (cont.)

	To	From
ESG credit indicators: E-2, S-2, G-2		

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, 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: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Austrian Bank Ratings Affirmed Under Revised FI Criteria, Feb. 7, 2022
- German Bank Ratings Affirmed Under Revised Financial Institutions Criteria, Jan. 28, 2022
- UniCredit's German And Austrian Subsidiaries Affirmed At 'BBB+' After Outlook Revision On Parent; Both Outlooks Negative, Nov. 25, 2021

Ratings List

Outlook Action; Ratings Affirmed

	To	From
UniCredit Bank AG		
Issuer Credit Rating	BBB+/Stable/A-2	BBB+/Negative/A-2
Ratings Affirmed		
UniCredit Bank Austria AG		
Issuer Credit Rating	BBB+/Negative/A-2	
UniCredit Bank AG		
UniCredit Bank Austria AG		
Resolution Counterparty Rating	A-/--/A-2	

UniCredit Bank AG	
Senior Unsecured	BBB+
Senior Subordinated	BBB
UniCredit Bank Austria AG	
Senior Unsecured	BBB+
Subordinated	BBB-