

Research Update:

UniCredit Bank Austria Outlook Revised To Stable From Negative On Resilient Operating Performance; 'BBB+/A-2' Affirmed

February 24, 2023

Overview

- Austrian banks' operating conditions have improved thanks to the changed interest rate environment and proven resiliency throughout the pandemic, and we think structural profitability pressure has reduced, but continue to see risks from the challenging economic environment.
- UniCredit Bank Austria AG (Bank Austria) recently announced better-than-expected financials for 2022 despite elevated risks amid the Russia-Ukraine war and inflationary pressure across the eurozone.
- That said, we project that the bank's risk-adjusted capital ratio will remain close to 10% over the next 12-24 months because of the group's recently announced larger-than-expected capital distribution that could also affect the dividend payout from the Austrian subsidiary to Italy-based parent bank UniCredit SpA (BBB/Stable/A-2).
- We therefore revised our outlook on Bank Austria to stable from negative and affirmed our 'BBB+/A-2' issuer credit ratings.
- The stable outlook reflects our view that Bank Austria will benefit from rising interest rates and continue to contain costs as part of the group-wide strategy over the next 12-24 months.

Rating Action

On Feb. 24, 2023, S&P Global Ratings revised its outlook on UniCredit Bank Austria AG (Bank Austria) to stable from negative and affirmed the 'BBB+/A-2' long- and short-term issuer credit ratings.

In addition, we affirmed our issue ratings on all outstanding debt instruments.

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Rationale

The outlook revision and rating affirmation follow our risk review of the Austrian banking

sector. The sharp rise in interest rates in the eurozone, including Austria, and banks' successful cost-optimization programs are positive drivers for the financial performance of the Austrian banking sector. In our view, structural profitability pressure on Austrian banks has reduced. Although we forecast this trend will be sustainable, we expect only a marginal positive effect on banks' profits in the medium term, reflecting a weakening economy, elevated inflation rates, and increasing risk costs (see "Various Rating Actions Taken On Austrian Banks On Stabilization Of Operating Performance," published Feb. 24, 2023, on RatingsDirect).

Bank Austria has steadily improved capitalization, but the dividend payout to its parent could be higher than historical levels.

The bank recently released key financials for full-year 2022 showing strong growth in net interest income (up 34% year-on-year) along with a further reduction in operating costs (down 7%), and substantially lower loan loss provisions (down 86%). Although no detailed data have been published on asset quality, we understand that nonperforming loans (NPLs) and the bank's NPL coverage ratio remained stable despite a challenging economic environment. Based on these financials, and management guidance from the broader UniCredit group for 2023, we have updated our financial forecasts for Bank Austria over the next 12-24 months. Although the strong boost to revenue from higher interest rates and what we view as solid cost-containment management will likely help the bank to improve profitability, we project the risk-adjusted capital (RAC) ratio will remain close to 10.0% over the next 12-24 months. The group recently guided a larger-than-expected capital distribution of about €5.25 billion for fiscal year 2022, comprising a €1.9 billion cash dividend and €3.3 billion share buyback. We believe this will also affect future dividend payouts from Bank Austria to its parent, pressuring the RAC ratio.

Insulation from parent UniCredit SpA reflects limited operational and financial dependency, but disruption to the larger group would hurt Bank Austria.

We continue to believe that Bank Austria is likely to show greater resilience than its parent 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, in our view, the subsidiary has a stronger intrinsic creditworthiness than that of the broader group. We assess Bank Austria's standalone credit profile at 'bbb+', compared with the 'BBB' issuer credit rating on UniCredit SpA. We keep the rating on Bank Austria at 'BBB+'--a maximum one notch differential from the current 'bbb' group credit profile (GCP) on UniCredit--because we think there are relevant operational and strategic dependencies on the parent that limit further rating uplift. What's more, we think the unified single point of entry resolution approach with its parent creates additional complexities for Bank Austria that could negatively affect its creditworthiness in the unlikely event of the group's nonviability.

Outlook

The stable outlook on Bank Austria reflects our view that within the next 12-24 months it will continue to show sound financial performance, despite the somewhat weakening economic environment in Austria, and that its capitalization will remain strong. We expect that the parent, UniCredit SpA (BBB/Stable/A-2), will continue to downstream substantial subordinated bail-in-able capacity, and that business and financial dependencies on affiliates will not increase.

Downside scenario

We could lower the rating on the bank if we were to lower our long-term rating on UniCredit SpA. We could also lower the rating if we saw 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 take a positive rating action on Bank Austria if we were to take a similar rating action on UniCredit SpA. A precondition for an upgrade of Bank Austria is our RAC ratio improving sustainably above 10%, on the back of robust financial performance, including cost containment, and sound asset quality as part of the "UniCredit Unlocked" strategy.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	BBB+/Stable/A-2	BBB+/Negative/A-2
SACP	bbb+	bbb+
Anchor	a-	a-
Business position	Adequate (0)	Adequate (0)
Capital and earnings	Adequate (0)	Adequate (0)
Risk position	Adequate (0)	Adequate (0)
Funding	Adequate	Adequate
Liquidity	Adequate (0)	Adequate (0)
Comparable ratings analysis	-1	-1
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.

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

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: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Various Rating Actions Taken On Austrian Banks On Stabilization Of Operating Performance, Feb. 24, 2023
- UniCredit SpA's 2022 Results Point To Strong Benefits Of Rising Interest Rates And Cost-Containment Measures, Feb. 1, 2023
- Global Credit Conditions Downside Scenario: Recession Risks Deepen, Oct. 12, 2022
- Rating Actions On UniCredit's German and Austrian Banks On Insulation From Parent After Review Of Resolution Approach, Aug. 10, 2022
- Banking Industry Country Risk Assessment: Austria, July 13, 2022

Ratings List

Ratings Affirmed

UniCredit Bank Austria AG

Resolution Counterparty Rating A/--/A-2

UniCredit Bank Austria AG

Senior Unsecured BBB+

Subordinated BBB-

Ratings Affirmed; Outlook Action

	To	From
UniCredit Bank Austria AG	BBB+/Stable/A-2	BBB+/Negative/A-2

UniCredit Bank Austria AG

Issuer Credit Rating BBB+/Stable/A-2 BBB+/Negative/A-2

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