FitchRatings

RATING ACTION COMMENTARY

# Fitch Affirms UniCredit Bank GmbH's at 'BBB+', Outlook Stable

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Fitch Ratings - Milan - 19 Jan 2024: Fitch Ratings has affirmed UniCredit Bank GmbH's (HVB; previously Unicredit Bank AG) Long-Term Issuer Default Rating (IDR) at 'BBB+' with a Stable Outlook. Its Viability Rating (VR) is affirmed at 'bbb+'.

A full list of rating actions is below.

## KEY RATING DRIVERS

**Intrinsic Profile Drives Rating:** HVB's Long-Term IDR is driven by the bank's standalone credit strength, as expressed by its VR. The ratings reflect a mostly wholesale business model that has an operational focus on Germany's economy, satisfactory asset quality, improved profitability, and a sound funding and liquidity profile. We expect HVB's capital ratios will remain sound but that they could decline from the current high levels if excess common equity Tier 1 (CET1) capital is channeled to the parent under the group's preferred single point-of-entry resolution strategy.

Fitch believes that HVB's business activity is closely linked to its parent, UniCredit S.p.A.'s (UniCredit; BBB/Stable/F2/bbb), which means that HVB's VR will not be rated more than one notch above its parent's Long-Term IDR.

**Links with UniCredit:** HVB's business model is primarily based on its well-established domestic corporate and investment banking franchise and is deeply integrated within the UniCredit group. HVB and UniCredit share the same brand, and HVB's reputation and franchise could suffer if UniCredit's credit profile materially deteriorates.

**Integrated Risk Framework**: HVB's risk profile reflects its corporate-centric business model, including investment banking and mainly client-induced trading activities, which make it vulnerable to economic swings. Risk controls and limits are closely monitored and deeply integrated into the parent's risk framework.

**Some Lending Concentration**: HVB's impaired loans ratio of 2.2% at end-1H23 was stable over the prior 12 months but is higher than that of German peers. Its corporate-banking business entails high single-borrower concentrations, similar to domestic peers. We expect asset quality to moderately weaken due to weak economic growth and the impaired loans ratio to reach close to 3% by end-2025.

HVB is exposed to industries with vulnerable growth or sensitive to interest rates including automotive, manufacturing and commercial real estate, for which it has built a large buffer of provisions.

**Reasonable Profitability**: HVB generated strong profits in 2022 and 1H23 due to rising interest rates, high trading volumes and reduced operating costs. We expect HVB's operating profit/ risk-weighted assets (RWAs) to decline moderately from current levels (1H23: 3.7 %) due to higher loan impairment charges (LICs) and interest rates moderating from their peaks, in turn reducing net interest margins in 2024.

However, we believe HVB can achieve operating profits above 1.5% of RWAs on a sustained basis, which is well above the average of the past four years (1.2%) and underpins our positive profitability outlook.

**Capital Ratios Above Peers'**: HVB's CET1 ratio of 21.3% at end-1H23 is strong compared with most European peers', supported by a decline in RWAs. We expect the bank's CET1 ratio to remain strong and well above its regulatory requirements. We do not expect material channeling of capital to the parent that will reduce capital ratios to below sound levels of around 14%-15%.

**Funding and Liquidity Strengths**: HVB has well-established deposit franchises in retail and commercial banking, which accounted for 58% of total funding at end-1H23. The bank's issuance of covered bonds with long average debt maturities (about 11% of total funding) lowers its reliance on market funding, which we believe could become confidence-sensitive with respect to its parent.

HVB's liquidity benefits from a large pool of liquid assets, well above its total wholesale funding maturing within 12 months. HVB's Short-Term IDR is the lower of the two ratings that map to a 'BBB+' Long-Term IDR. This reflects its funding and liquidity score of 'a-'.

## RATING SENSITIVITIES

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

We could downgrade HVB's ratings if UniCredit's ratings are downgraded. The ratings could also be downgraded and aligned with UniCredit's if fungibility of capital within the UniCredit group increases, and if this indicates a change in the group's capital management.

The ratings could also be downgraded if HVB's CET1 ratio falls below 12.5%, which in the absence of sizeable capital-channeling to the parent, would imply significant losses, combined with operating profit at below 0.5% of RWAs and an impaired loans ratio at above 3%, all on a sustained basis.

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

An upgrade of HVB's ratings would require an upgrade of UniCredit's ratings as we currently believe that links between HVB and its parent limit HVB's rating to one notch above its parent's. An upgrade would also be contingent on the bank maintaining a CET1 ratio above 14%, and operating with a sound risk profile and healthy asset quality.

An upgrade of the Short-Term IDR would require an upgrade of the funding and liquidity score to 'a'.

## OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

HVB's Derivative Counterparty Rating (DCR), long-term senior preferred debt and long-term deposit ratings are one notch above the bank's Long-Term IDR to reflect the protection that could accrue to these creditors from the build-up of junior resolution debt and equity buffers. This is because we expect HVB to meet its resolution buffer requirement with senior non-preferred and more junior instruments only. HVB's senior non-preferred debt rating is aligned with its Long-Term IDR.

HVB's short-term senior preferred and deposit ratings are the lower of two ratings mapping to a 'A-' long-term rating because HVB's funding and liquidity score is not sufficient to achieve a higher short-term rating.

The bank's subordinated Tier 2 debt rating is notched down twice from its VR to reflect this debt class's higher loss severity.

Fitch has upgraded HVB's Shareholder Support Rating (SSR) to 'bb+' from 'bb' to reflect Unicredit's less constrained ability to provide extraordinary support following the parent's improved profitability. HVB's 'bb+' SSR also reflects UniCredit's strong propensity to support HVB but its limited capacity results in a moderate likelihood of extraordinary support.

The SSR is two notches below UniCredit's Long-Term IDR because, while the group's preferred resolution strategy is a single-point-of entry approach, the solvency support that HVB would likely require is high relative to the capital available in the rest of the group. This is because a large share of UniCredit's consolidated equity is in HVB.

UniCredit's strong propensity to support primarily reflects HVB's role as the group's investment-banking hub and sizeable corporate-banking operations in Europe's largest economy.

## OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

We would downgrade HVB's DCR, long-term deposit and senior debt ratings if HVB's Long-Term IDR is downgraded or if HVB's senior non-preferred and more junior debt buffers are insufficient to restore viability and protect preferred creditors after a failure. This could be the case if HVB forms an own resolution group and includes senior preferred debt in its resolution buffers.

We would downgrade HVB's subordinated debt ratings if the bank's VR is downgraded.

An upgrade of HVB's DCR, long-term senior preferred debt and long-term deposit ratings would require an upgrade of the Long-Term IDR. An upgrade of the short-term senior preferred and deposit ratings would require an upward revision of the funding and liquidity score to 'a' or higher. An upgrade of HVB's subordinated Tier 2 debt rating is contingent on an upgrade of the VR.

The SSR is sensitive to significant changes in UniCredit's ability to support HVB, which could be indicated by a change to UniCredit's ratings. The rating is also sensitive to negative changes in our view of UniCredit's propensity to provide support, which we currently do not expect.

## VR ADJUSTMENTS

The business profile score of 'bbb+' is below the 'a' implied category score due to the following adjustment reason: group benefits and risks (negative).

The asset quality score of 'bbb+' is below the 'a' implied category score due to the following adjustment reason: concentrations (negative).

The capitalisation and leverage score of 'a-' is below the 'aa' implied category score due to the following adjustment reason: internal capital generation and growth (negative).

## 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

HVB's ratings are sensitive to changes in Unicredit's ratings.

## ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores

## RATING ACTIONS

| ENTITY / DEBT | RATING | | | PRIOR |
|---|---|---|---|---|
| UniCredit Bank GmbH | LT IDR | BBB+ Rating Outlook Stable | Affirmed | BBB+ Rating Outlook Stable |
| | ST IDR | F2 | Affirmed | F2 |
| | Viability | bbb+ | Affirmed | bbb+ |
| | DCR | A-(dcr) | Affirmed | A-(dcr) |
| | Shareholder Support | bb+ | Upgrade | bb |
| long-term deposits | LT | A- | Affirmed | A- |

| | | | | |
|---|---|---|---|---|
| Senior non-preferred | LT | BBB+ | Affirmed | BBB+ |
| subordinated | LT | BBB- | Affirmed | BBB- |
| Senior preferred | LT | A- | Affirmed | A- |
| short-term deposits | ST | F2 | Affirmed | F2 |

VIEW ADDITIONAL RATING DETAILS

## FITCH RATINGS ANALYSTS

**Gianluca Romeo**
Director
Primary Rating Analyst
+39 02 9475 6214
gianluca.romeo@fitchratings.com
Fitch Ratings Ireland Limited Sede Secondaria Italiana
Via Morigi, 6 Ingresso Via Privata Maria Teresa, 8 Milan 20123

**Roger Schneider**
Director
Secondary Rating Analyst
+49 69 768076 242
roger.schneider@fitchratings.com

**Olivia Perney**
Managing Director
Committee Chairperson
+33 1 44 29 91 74
olivia.perney@fitchratings.com

## MEDIA CONTACTS

**Peter Fitzpatrick**
London
+44 20 3530 1103
peter.fitzpatrick@thefitchgroup.com

**Stefano Bravi**
Milan
+39 02 9475 8030
stefano.bravi@fitchratings.com

Additional information is available on www.fitchratings.com

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## APPLICABLE CRITERIA

Bank Rating Criteria (pub. 01 Sep 2023) (including rating assumption sensitivity)

## ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

## ENDORSEMENT STATUS

| | |
|---|---|
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