MOODY'S INVESTORS SERVICE

CREDIT OPINION
5 December 2023

Update

Send Your Feedback

RATINGS

UniCredit Bank AG

Domicile	Munich, Germany
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	A2
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	A2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Swen Metzler, CFA +49.69.70730.762
VP-Sr Credit Officer
swen.metzler@moodys.com

Vasil Mrachkov, FRM +49.69.70730.867
Lead Ratings Associate
vasil.mrachkov@moodys.com

Alexander Hendricks, CFA +49.69.70730.779
Associate Managing Director
alexander.hendricks@moodys.com

Carola Schuler +49.69.70730.766
MD-Banking
carola.schuler@moodys.com

UniCredit Bank AG

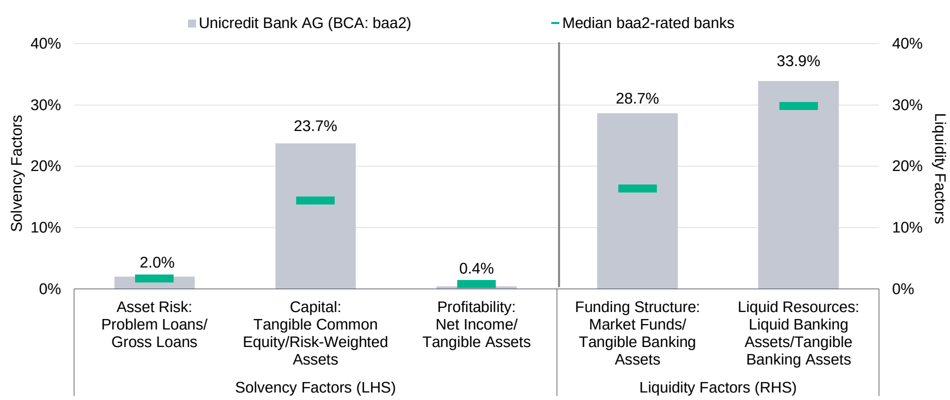
Update to credit analysis

Summary

On 23 November, we affirmed UniCredit Bank AG's (UCB) A2 deposit and senior unsecured debt ratings with stable outlook, and the bank's baa2 Baseline Credit Assessment (BCA). UCB's ratings benefit from two notches of rating uplift from our Advanced Loss Given Failure (LGF) analysis, which incorporates the relative loss severity of a liability class, as well as a one-notch rating uplift resulting from government support because we consider UCB to be of domestic relevance for financial system stability given its high interconnectedness being UniCredit S.p.A. (UniCredit, Baa1/Baa1 stable, baa3)[1] center of competence for investment banking.

UCB's baa2 BCA reflects the bank's very strong capital buffers, sound asset quality and benefits from improved profitability, supported by higher interest rates and disciplined cost management. In addition, the BCA incorporates the bank's exposure to the non-credit risks related to its role as the group's global investment banking centre, which contributes to a volatile profit generation and results in interlinkages to its group. UCB's solid funding and liquidity profiles, which has somewhat declined and exhibits moderate asset encumbrance, further underpins its standalone credit strength. UCB's BCA is one notch above the BCA of its parent UniCredit S.p.A. and the positive BCA gap is supported by UCB having sufficient restrictions in place to maintain low intragroup while it also considers some default correlation between parent and subsidiary, reflecting an expected coordinated group resolution due to a single point of entry (SPE) approach by the regulator.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Investors Service

Credit strengths

» UCB's capitalization is very strong, reflecting that equity transfers to UniCredit were accompanied by risk reductions

» Ample liquidity which benefits from capital markets activities, balanced by meaningful asset encumbrance

» Resilient asset quality and well-diversified corporate loans, balanced by moderate concentration risks as well as market and operational risks reflecting UCB's role as UniCredit's group-wide global investment banking center

Credit challenges

» Moderate business model-driven volatility and rising credit provisions mitigate UCB's sound earnings which benefit from higher interest rates and disciplined cost management

» Moderate market funding dependence, reflecting UCB's role as UniCredit's global investment banking center as well as relatively small retail banking in Germany

» High interconnectedness and linkages with its parent UniCredit, including common branding and resolution (SPE approach), partly mitigated by restrictions to keep intragroup exposures at a manageable level

Outlook

» The stable outlook on UCB's long-term deposit and senior unsecured debt ratings reflects our assessment that its parent bank UniCredit's overall credit profile will remain resilient, despite prevailing macroeconomic headwinds in the group's core markets namely in Western Europe and incorporates the limitation of UCB's BCA at one notch above that of its parent because of existing interlinkages and our joint resolution assumption.

» The stable outlook further reflects our expectation that UCB's financial profile and liability structure will remain stable over the outlook horizon of 12-18 month, including our assumption of stable volume and subordination of UCB's senior unsecured debtrelative to its balance sheet size, resulting in unchanged results under our Advanced LGF analysis.

Factors that could lead to an upgrade

» An upgrade of UCB's ratings could be driven by an upgrade of its BCA and Adjusted BCA, which is currently constrained by the BCA of UniCredit and therefore would require an upgrade of the parent's BCA. Its ratings could also be upgraded if our Advanced LGF analysis leads to a higher rating uplift.

» UCB's financial profile could improve as a result of a broad-based improvement of its solvency and liquidity profile, based on further sustainably improved profitability, as well as higher liquid assets and lower asset encumbrance. In addition, UCB's financial profile would benefit from a further shift of its funding profile towards less market-sensitive instruments.

» Our Advanced LGF analysis could result in additional notches of rating uplift for UCB if the bank issues more junior and senior loss-absorbing securities than we currently expect.

Factors that could lead to a downgrade

» UCB's BCA could be downgraded as a result of a downgrade of UniCredit's BCA, or if the financial and non-financial interlinkages between UCB and its parent were to increase, for example, if regulation allowed greater intra-group exposures, or if the bank's financial fundamentals were to deteriorate significantly, resulting in a multi-notch weaker financial profile.

» UCB's financial profile could weaken mainly in case of a significant deterioration in the bank's solvency profile, in particular if an unexpectedly sharp deterioration in asset quality weighed on the bank's profitability and capitalisation.

» UCB's ratings, in particular for its senior unsecured debt ratings, could also be downgraded, should the bank's volume of loss-absorbing liabilities shrink or in case it expands its balance sheet more than we currently expect.

Key indicators

Exhibit 2

UniCredit Bank AG (Consolidated Financials) [1]

	06-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	256.0	258.1	266.9	281.0	254.9	0.1[4]
Total Assets (USD Billion)	279.3	275.5	302.4	343.9	286.2	(0.7)[4]
Tangible Common Equity (EUR Billion)	17.8	16.9	15.8	15.7	15.6	3.9[4]
Tangible Common Equity (USD Billion)	19.4	18.0	17.9	19.2	17.5	3.1[4]
Problem Loans / Gross Loans (%)	1.9	1.8	2.1	2.3	1.9	2.0[5]
Tangible Common Equity / Risk Weighted Assets (%)	23.7	20.5	18.2	19.5	18.2	20.0[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	14.6	14.6	17.5	19.0	15.3	16.2[5]
Net Interest Margin (%)	1.1	1.0	0.9	0.9	0.9	1.0[5]
PPI / Average RWA (%)	3.7	2.6	1.8	1.5	2.4	2.4[6]
Net Income / Tangible Assets (%)	0.8	0.3	0.3	0.1	0.7	0.5[5]
Cost / Income Ratio (%)	50.0	56.9	66.0	69.5	59.4	60.3[5]
Market Funds / Tangible Banking Assets (%)	30.5	28.7	36.9	36.1	37.1	33.9[5]
Liquid Banking Assets / Tangible Banking Assets (%)	35.3	33.9	37.8	42.4	38.6	37.6[5]
Gross Loans / Due to Customers (%)	109.6	106.0	113.2	102.0	113.2	108.8[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

Profile

UniCredit Bank AG (UCB) is Germany's fifth-largest banking group[2] with total assets of €308 billion as of June 2023 (2022: €318 billion), equivalent to around 3% of Germany's total banking system. Since November 2005, UCB is wholly-owned by and a major part of UniCredit Group, one of Europe's largest financial institution.

As a universal bank, UCB provides banking and financial services primarily to German clients and operates as the global investment banking center for UniCredit Group, including its role as the central counterparty for derivatives transactions. UCB focuses on retail and public sector customers, and is one of Germany's leading commercial bank for corporates, international companies and institutional customers. Its activities include private banking, investment banking, as well as commercial real estate financing.

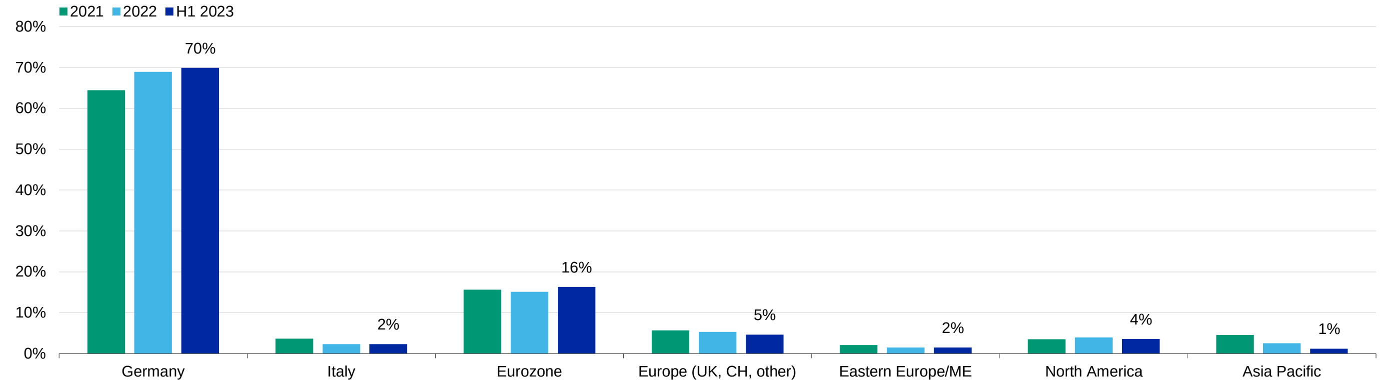
UCB's strategy is closely aligned with that of UniCredit Group. Currently, UCB is implementing the group's new three-year plan, termed UniCredit “Unlocked”, intended to simplify the operating model, grow core business activities and improve capital efficiency. For more information, please refer to Germany's Banking System Profile and Banking System Outlook.

Weighted Macro Profile of Strong+

UCB's Strong+ macro profile is in line with the Strong+ Macro Profile of Germany. Our assessment reflects its bank's primary focus on Germany, which represented around 70% of its credit risk exposure in June 2023. UCB's remaining exposure reflects its important role within UniCredit Group, including its function as central hub for group-wide capital market activities. UCB's close interconnectedness with its parent drives a moderate exposure to Italy, accounting for €6.3 billion or 2% of its total credit risk exposure as of June 2023.

Exhibit 3

UCB's credit exposure is driven by its role as a leading universal bank in Germany, as well as its important activities within UniCredit Group
Data in percent



Source: Company reports, Moody's Investors Service

Detailed credit considerations

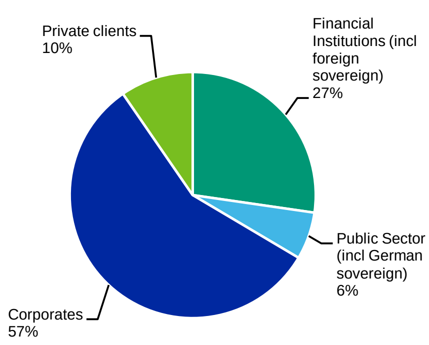
Asset quality will deteriorate, reflecting weakening economic growth

We assign an Asset Risk score of baa2 to UCB, i.e. four notches below the initial score, to reflect the bank's credit, market and operational risks which are inherent to a leading universal bank in Germany with a strong focus on pan-European capital markets activities. During the pandemic, UCB's asset quality remained stable, but we expect a moderate deterioration amid weakening economic growth in Germany. Government support measures will not fully offset rising financial challenges for companies and households, leading to deteriorating loan performance.

As a leading universal bank in Germany, UCB's corporate activities accounted for around €155 billion or 57% of its €272 billion total credit exposure (Exhibit 4) as of June 2023, followed by around €74 billion exposure to financial institutions (27%), and exposures to German private clients (10%) and the public sector (6%).

Exhibit 4

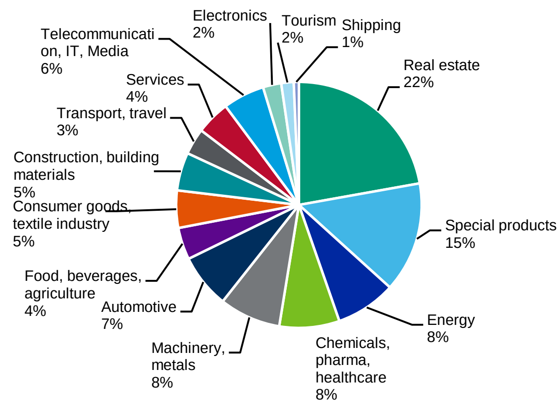
UCB's activities are geared to corporates and financial institutions
Credit exposure, as of June 2023



Source: Company report, Moody's Investors Service

Exhibit 5

UCB's corporate activities are well-diversified
Credit exposure by industry, as of June 2023



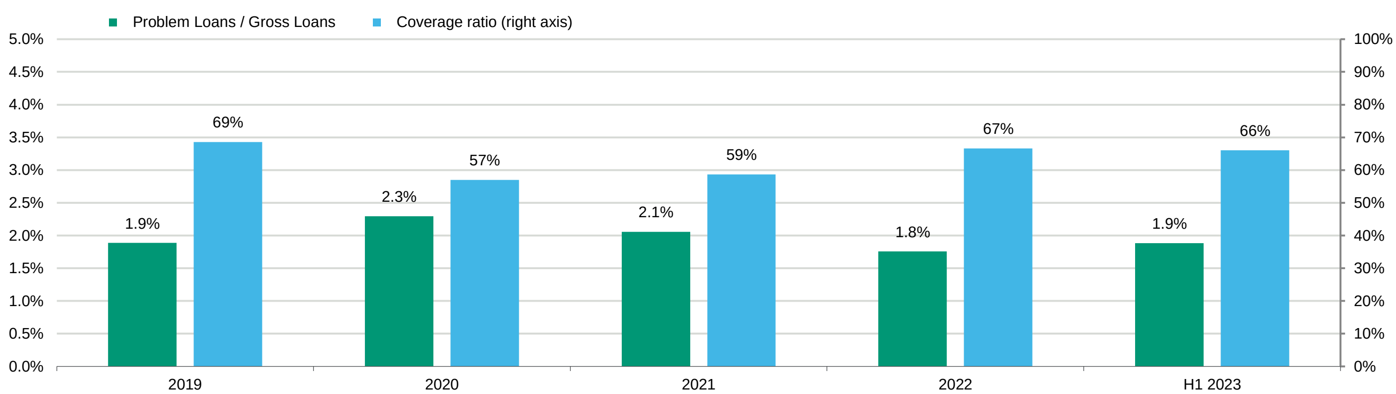
Source: Company report, Moody's Investors Service

While UCB's corporate loan book is well-diversified (Exhibit 5), we believe some meaningful sector concentrations could challenge its asset quality in an extended downturn or recession. As of end of June 2023, these concentrations included real estate lending exposure of €32.9 billion and €21.5 billion exposure to special products, which comprise securitisations, structured credit and leasing transactions, excluding project and acquisition finance transactions. UCB has meaningful exposure to sectors which are particularly vulnerable to high energy costs and inflation. These include the energy, chemicals, and automotive sector, each accounting between 59% and 66% of the bank's €17.8 billion equity[3] at the end of June 2023.

UCB's market and operational risk exposures are mostly driven by its role as UniCredit Group's competence center for capital markets and investment banking activities, which, therefore, play a much larger role for UCB than for other German universal banks. These activities are closely integrated with the group's commercial banking and, beyond UCB's markets business (interest rate, foreign exchange, commodities and equity products), also include global transaction banking (cash management and trade finance), and financing and advisory (syndication, structured finance and capital markets).

Despite the pandemic and energy crisis, UCB benefited from a broadly unchanged non-performing loan ratio, at 1.9% at the end of June 2023, compared with 1.8% in 2022. Similarly, over the same period, the bank's coverage ratios, which compares problem loans to on balance-sheet specific and generic loan-loss-reserves, also remained largely unchanged at solid level of 66% at the end of June 2023.

Exhibit 6
UCB's problem loan ratio remains broadly unchanged since 2019 and its coverage ratio is comfortably above 50%
Data in %



Note: Problem loan ratio is in accordance with our definition; the coverage ratio compares problem loans to specific and generic loan-loss-reserves.
Source: Company reports, Moody's Investors Service

UCB's capitalization is very strong, reflecting that equity transfers to UniCredit were accompanied by risk reductions

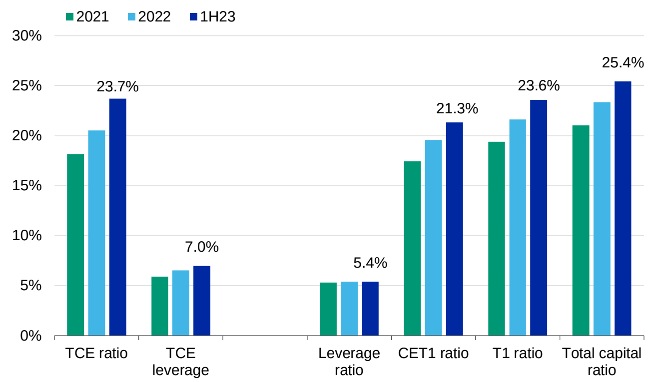
We assign a Capital score of aa2 to UCB, one notch below the initial score. The adjustment reflects our expectation of rising credit risk-weighted assets within a deteriorating global economic operating environment. UCB's capitalisation is well above its peers and is a key factor supporting its baa1 financial profile.

Our assessment of UCB's very strong capitalisation is underpinned by a Tangible Common Equity (TCE) ratio of 23.7% as of the end of June 2023, compared with 20.5% in 2022. The meaningful improvement from already strong levels reflects 8.5% lower risk-weighted assets (RWA), at €75.1 billion as of end of June 2023 (2022: €82.1 billion), driven by lower credit risk, mainly from corporate lending exposures.

Germany's implementation of a countercyclical capital buffer (CCyB) requirement of 0.75% of domestic RWA and an additional 2.0% buffer specific to RWAs from domestic loans backed by residential properties, effective 1 February 2023, means around 60 bps higher capital requirements for UCB. However, this will not weaken UCB's financial flexibility, because of the bank's sizeable capital buffers above minimum regulatory requirements (Exhibit 8) and underpinned by UCB's Common Equity Tier 1 (CET1) capital ratio of 21.3% at the end of June 2023 (December 2022: 19.6%).

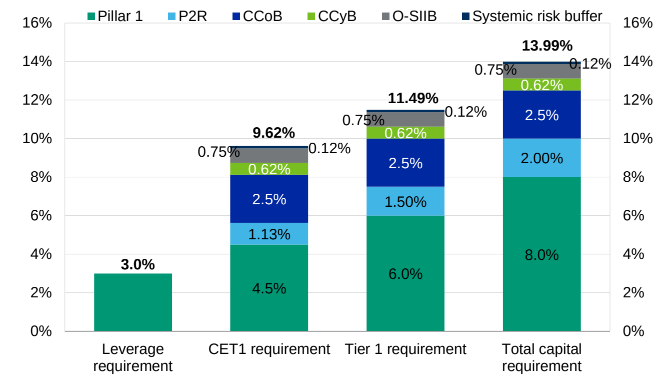
Since 2019, UCB's TCE leverage ratio[4] remained broadly unchanged at a level of round 6% and was 7.0% at the end of June 2023 (December 2022: 6.5%). Our ratio is higher than UCB's regulatory[5] Tier 1 leverage ratio of 5.4% at the end of June 2023, because the denominator also includes off-balance-sheet exposures, reflected in the exposure at default, and not just tangible banking assets. For the years 2020 and 2021, the regulatory Tier 1 leverage ratio shown in Exhibit 7 benefits from the temporary waiver to exclude central bank exposures.[6] UCB's regulatory leverage ratio of 5.4% at the end of June 2023 no longer benefits from this exception, because it was only applicable until June 2022.

Exhibit 7
UCB maintains solid capital; Moody's vs regulatory view
Data in %



Note: TCE = Tangible common equity; CET1 = Common Equity Tier 1 capital; The TCE leverage ratio compares TCE to tangible banking assets.
Source: Company reports, Moody's Investors Service

Exhibit 8
UCB's regulatory minimum requirements in detail*
Data in %



Note: *We show the Pillar 2 Requirement (P2R) for UniCredit Group because UCB's individual requirement is not disclosed; CCoB = Capital Conservation buffer; CCyB = Countercyclical Buffer; O-SIIB = Other Systemically Important Institutions Buffer.
Source: Company reports, Federal Financial Supervisory Authority (BaFin)

In addition to aggregate dividend payments of €1.8 billion for the last three fiscal years 2020-22, UCB has repeatedly upstreamed large amounts of capital which were in excess of its annual profit. For the years 2016, 2017, and 2019, UCB transferred equity of €3.0 billion, €1.3 billion, and €3.3 billion to its parent, in total €7.6 billion.

Moderate business model-driven volatility and rising credit provisions mitigate UCB's sound earnings with improved operating efficiency

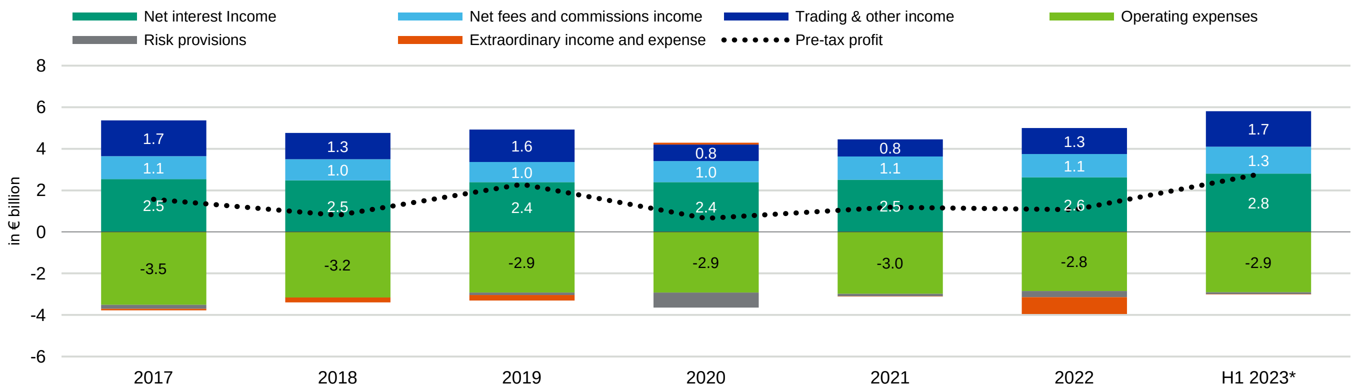
Our assigned Profitability score to UCB is ba1, inline with the initial score. Our assessment takes into account a moderate volatility of the bank's earnings reflecting its role as group-wide competence center of capital markets activities, as well as our expectation of rising credit provisions from corporate loans.

Over the last couple of years, UCB has undergone several operational streamlining. The current three-year plan, announced in 2021 and termed UniCredit “Unlocked”, focuses on digitalisation, automation and process optimisation.

UCB's average net income to asset ratio (ROA) was around 40 basis points for the five year period 2017-22, roughly double the profitability level for rated German banks over that time. We believe that UCB's client-driven capital markets activities, mainly housed in its Corporates business segment, is the main driver for the higher ratio, reflecting more meaningful contributions from fee and trading income than most domestic peers.

UCB reported revenues of €2.9 billion for the first half of 2023. Higher interest rates supported the increase of the bank's net interest income, up 8.8% to €1.4 billion from the same period previous year, while fees and commissions increased by 7% to €0.6 billion. Over the same period, UCB's personnel and administrative expenses declined by 4.1% to €1.3 billion. The bank booked €50 million credit provisions, significantly higher than €29 million release of provisions during the same period in 2022. UCB's reported net income after tax of €1,021 million for the year of 2023, compared with €751 million as of June 2022.

Exhibit 9
UCB exhibits positive but volatile pre-tax profit
Data in € billion



Note: Operating expenses include personnel and administrative expenses, depreciation and amortisation, as well as other expenses/income, including compulsory payments for deposit guarantee schemes and bank levy. *H1 2023 figures are annualised.
Source: Company reports, Moody's Investors Service

Similar to other large banks with sizeable capital markets activities, UCB repeatedly reported provisions for risks and charges associated with legal or regulatory findings. In 2022, the bank released provisions of €11 million, following the addition of €153 million in 2021, including a provision of €69 million for a penalty payment to the EU Commission for cartel law infringements in connection with government bonds, and a low-double digit million provision for the German Federal Court (BGH) decision on the bank's general terms and conditions (ABGs).

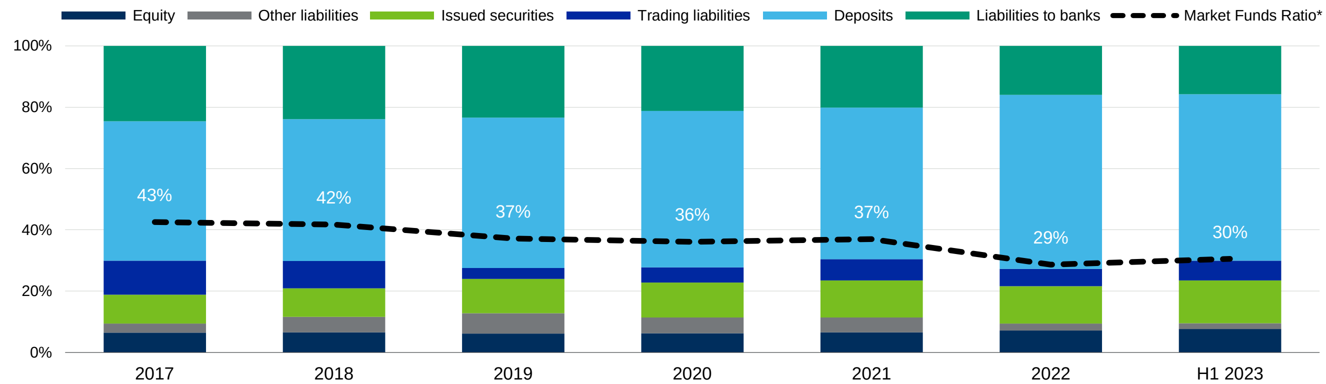
Moderate market funding dependence, reflecting UCB's role as UniCredit's global investment banking center as well as relatively small retail banking in Germany

We assign a Market Funding score of baa2, inline with the initial score. Our assessment captures the long-term structure of UCB's funding profile and the market funding increasing effect from the bank's participation in the ECB's Targeted Longer-Term Refinancing Operation (TLTRO III), which we consider temporary.

We believe UCB's moderate market funding dependence reflects its important role as UniCredit's group-wide global investment banking center and its relatively small retail banking activities in Germany. As a leading commercial bank in Germany for corporates, international companies and institutional customers, UCB's customer deposits accounted for 54% of tangible banking assets (TBA)[7] at the end of June 2023 (2022: 57%), a relatively modest level when compared to banks with a stronger focus on retail banking. However, the share of deposits has gradually increased over time as deposits only funded 46% of UCB's TBA in 2018 and 44% of TBA in 2016.

As of June 2023, UCB's Market Funds accounted for 30% of TBA, a gradual improvement from 43% in 2017 (Exhibit 10), and mainly included €45 billion liabilities to banks (2022: €51 billion), €59 billion trading liabilities, as well as €36 billion issued debt, excluding subordinated debt. Our ratio adjusts for derivatives, for which UCB's has entered into ISDA-compliant netting agreements, and issued covered bonds which were around €30.5 billion as of June 2023. We believe that UCB has financial flexibility to raise additional funds through covered bonds, reflecting that its assets cover pool was €39.6 billion as of June 2023.

Exhibit 10
UCB is moderately reliant on market funding
Liabilities in percent of tangible banking assets



Note: *Market Funds Ratio = Market funds/tangible banking assets.
Source: Company reports, Moody's Investors Service

Our assessment for UCB's market funding dependence also takes into account that the Munich-based bank participated in the ECB's TLTRO III programs with a volume €7 billion as of June 2023 (2022: €22 billion), and benefits from €21.1 billion (2021: €17.8 billion) promotional loans which are provided by development banks, including Germany's Kreditanstalt fuer Wiederaufbau (KfW, Aaa stable).[8] We consider the latter a more reliable and stable funding source which is less dependent on UCB's ability to access the capital markets at reasonable costs. These mitigating factors are included in our baa2 Funding Structure score.

As a major subsidiary of UniCredit, UCB's funding profile will also depend on the required loss-absorbing liabilities, reflecting the group's single-point-of-entry (SPE) resolution strategy. We therefore expect that UCB will receive further internal loss-absorbing instruments from its parent, in addition to the €800 million subordinated debt and €1.7 billion AT1 capital instruments already subscribed by UniCredit to meet UCB's standalone requirements.

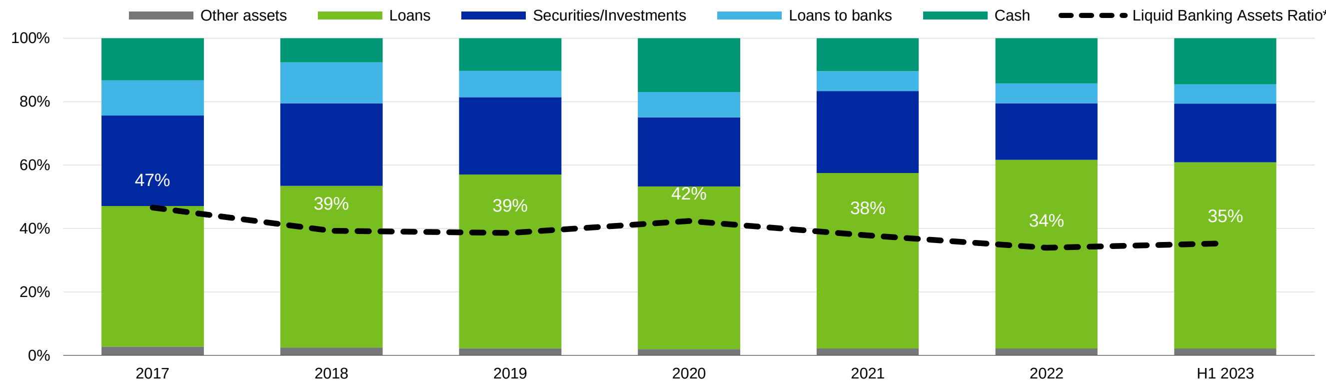
Sound liquidity which benefits from capital markets activities, balanced by meaningful asset encumbrance

We assign a Liquid Resources score of baa1, two notches below the initial score. The downward adjustment considers our assessment of UCB's asset encumbrance and our expectation that the bank's cash position is elevated because of its TLTRO III participation, which will not be sustained over the medium term.

At the end of June 2023, UCB's Liquid Resources accounted for 35% of TBA, which a moderate decline compared with levels in 2018-21 (Exhibit 11). The bank's liquidity primarily arises from €37.3 billion cash (2022: €36.8 billion), €20.6 billion claims on banks, as well as €78.9 billion trading assets. Our ratio adjusts for derivatives and encumbered liquid assets, which arise for example because of the bank's repurchase operations (repo).

Our liquidity assessment also considers that UCB has good access to the German covered bond market, which would allow the generation of liquidity against the large and high quality cover pool, and Liquidity reserves from unencumbered securities, which would be available as collateral for central bank borrowings, at €29.4 billion as of June 2023 (December 2022: €18.8 billion). Further, UCB's gross loan-to-deposit ratios is relatively balanced, at 110% as of June 2023 (2022: 106%), a level broadly consistent with an average of 107% for the years 2015-22.

Exhibit 11
UCB's balance-sheet liquidity remains high
Asset composition, in percent of tangible banking assets



Note: *Liquid Banking Assets Ratio = Liquid assets/tangible banking assets. Loans to banks includes central bank funding.
Source: Company reports, Moody's Investors Service

Because of its role as UniCredit's group-wide investment banking center, UCB's liquidity benefits from these activities which come with a significant amount of cash reserves and other liquid resources. Since 2017, the robust growth in customer lending has shifted the bank's profile somewhat towards more profitable assets with lower liquidity.

Links with UniCredit Group limit upside potential for UCB's ratings

UCB's financial metrics are strong and overall commensurate with a baa1 financial profile. However, the assigned baa2 BCA takes into account certain assumptions that imply a level of downside risk for the Munich-based bank's standalone credit strength, reflecting its strategic, financial and business-related operational links with UniCredit, its parent bank, and other group entities. Therefore, UCB's BCA is unlikely to exceed UniCredit's BCA by more than one notch.

Because UCB and its parent bank UniCredit are regulated according to a single point of entry (SPE) approach, we view it likely that European authorities would coordinate the resolution of parent and subsidiary in a coordinated manner, closely linking the default probabilities and effectively capping UCB's BCA at one notch above the parent. In capping the BCA we also consider the risks of confidence-senstivite contagion, should resolution measures be implemented on UniCredit SpA.

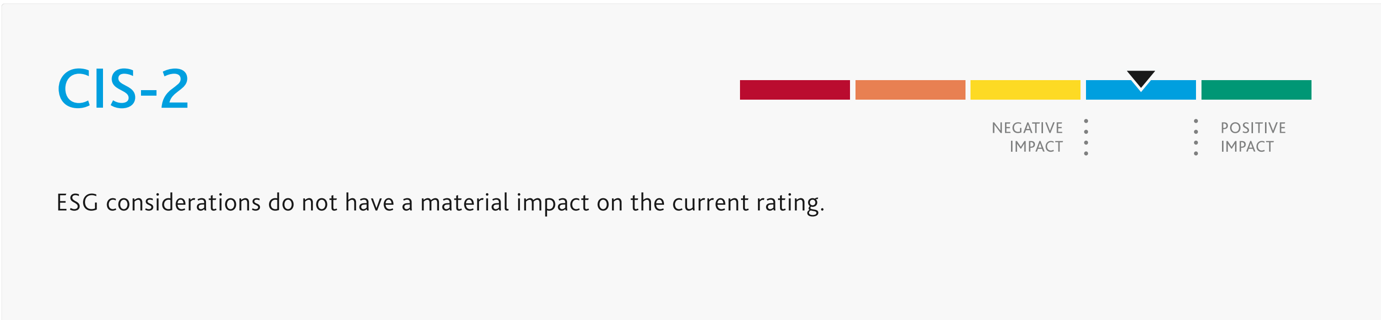
If UCB raises its direct exposures to group members, or if UniCredit were to withdraw additional core capital resources from UCB — an option that is limited by the internal total loss-absorbing capacity requirements for UCB — this could affect our assessment of the bank's standalone credit strength.

UCB tightly manages the collateral of its derivatives positions and has reduced unsecured intragroup exposures to a level considerably below the exposure level allowed by the German Banking Act, which limits these exposures at 100% of capital. We understand that the bank's internal limits for secured and unsecured intragroup exposures are also significantly below this threshold. Balancing these factors, we currently allow UCB's BCA to be above that of UniCredit.

ESG considerations

UniCredit Bank AG's ESG credit impact score is CIS-2

Exhibit 12
ESG credit impact score



Source: Moody's Investors Service

UCB's **CIS-2** indicates that ESG considerations have no material impact on the current rating. UCB faces moderate tail risks inherent to capital markets activities including intra-group exposures, however the bank's track record in managing these risks and its strong financial fundamentals are important mitigants.

Exhibit 13
ESG issuer profile scores

Source: Moody's Investors Service

Environmental

UCB faces moderate exposure to environmental risks primarily because of its portfolio exposure to carbon transition risk as a large universal bank, which acts as UniCredit's group-wide global investment banking center. In line with its peers, UCB is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, UCB is engaging in transforming its lending book towards less carbon-intensive assets and is part of group-wide initiatives to further develop its comprehensive risk management and climate risk reporting frameworks.

Social

UCB faces high industrywide social risks from customer relations, related to regulatory risk and litigation exposure, and is required to meet high compliance standards. These risks are mitigated by developed policies and procedures. High cyber and personal data risks are mitigated by technology solutions and organizational measures to prevent data breaches.

Governance

UCB faces low governance risks. In line with UniCredit Group, UCB has strengthened its risk management, policies and procedures in recent years and delivered a track record on strategic and financial targets. Client-driven intra-group exposures, which arise from UCB's group-wide center of capital markets activities, create some tail risks, mitigated however by the bank's track record in managing these risks and its strong financial fundamentals. Because UCB is effectively controlled by UniCredit Group through its 100% shareholding, we have aligned the subsidiary's board structure, policies and procedures score with that of its parent, given the bank's strategic importance and public affiliation with the group, the parent's oversight of its subsidiary board and the regulated nature of both entities.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Affiliate support

UniCredit SpA would likely support its German subsidiary in case of need. However, parental support does not result in any rating uplift because UCB's BCA is higher than that of its parent. Therefore, UCB's Adjusted BCA is baa2, in line with its BCA.

Loss Given Failure (LGF) analysis

UCB is subject to the European Union Bank Recovery and Resolution Directive, which we consider an operational resolution regime. Therefore, we apply our Advanced LGF analysis, where we consider the risks faced by the different debt and deposit classes across the liability structure should the bank enter resolution.

We assume a residual TCE of 3%, post-failure losses of 8% of tangible banking assets, a 26% proportion of junior deposits, a 25% run-off of junior deposits before failure and a 5% run-off of preferred deposits. These metrics are in line with our standard assumptions. Because we use private data provided by UCB to determine the current amounts of senior unsecured and junior senior debt, as well as our future new issuance expectations, we do not disclose the underlying volumes of the liability tranches included in our Advanced LGF analysis for UCB.

» For UCB's deposits, with an A2 rating, our LGF analysis indicates a very low loss given failure, leading to two notches of uplift from the bank's baa2 Adjusted BCA.

» For UCB's senior unsecured debt, with an A2 rating, our LGF analysis indicates a very low loss given failure, leading to two notches of rating uplift from the bank's baa2 Adjusted BCA.

» For junior senior unsecured debt issued by UCB, with a Baa2 rating, our LGF analysis indicates a moderate loss given failure, leading us to position the rating at the level of the Adjusted BCA.

» For subordinated debt issued by UCB, with a Baa3 rating, our LGF analysis indicates a high loss given failure, leading us to position the rating one notch below its Adjusted BCA.

Government support considerations

Although German banks operate in an environment of significantly weakened prospects of financial assistance from the government, we maintain one notch of rating uplift in our senior unsecured debt and deposit ratings, reflecting our expectation of a moderate probability of government support for senior debt and deposits. This support takes into account UCB's substantial size and strong national market shares in retail and corporate lending.

For junior senior unsecured debt, subordinated debt and hybrid instruments, the potential for government support is low, and these ratings, therefore, do not benefit from any government support uplift.

Counterparty Risk Ratings (CRRs)

UCB's CRRs are A1/P-1

The CRRs are four notches above the Adjusted BCA of baa2, reflecting the extremely low loss given failure from the high volume of instruments that are subordinated to CRR liabilities, reflected in the three notches of uplift, and one notch of rating uplift based on government support, in line with our support assumptions on deposits and senior unsecured debt.

Counterparty Risk (CR) Assessment

UCB's CR Assessments are A1(cr)/P-1(cr)

The bank's CR Assessment is four notches above its baa2 Adjusted BCA, based on the buffer against default provided to the senior obligations represented by the CR Assessment by more subordinated instruments, primarily senior unsecured debt; and government support uplift, assuming a moderate level of support.

Because the CR Assessment captures the probability of default on certain senior operational obligations, rather than expected loss, we focus purely on subordination and take no account of the volume of the instrument class.

Methodology and scorecard

Methodology used

The principal methodology used in rating UCB was was Banks Methodology, published in July 2021.

About Moody's Bank Scorecard

Our Bank scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 14
UniCredit Bank AG

Macro Factors							
Weighted Macro Profile	**Strong +**	**100%**					

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	2.0%	a1	↔	baa2	Market risk	Operational risk
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	23.7%	aa1	↔	aa2	Nominal leverage	Capital retention
Profitability						
Net Income / Tangible Assets	0.4%	ba1	↔	ba1	Earnings quality	Expected trend
Combined Solvency Score		a1		a3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	28.7%	baa2	↔	baa2	Expected trend	Term structure
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	33.9%	a2	↔	baa1	Asset encumbrance	Stock of liquid assets
Combined Liquidity Score		baa1		baa2		
Financial Profile				baa1		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				-		
BCA Scorecard-indicated Outcome - Range				baa1 - baa3		
Assigned BCA				baa2		
Affiliate Support notching				0		
Adjusted BCA				baa2		

Balance Sheet is not applicable.

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	-	-	-	-	-	-	-	3	0	a2
Counterparty Risk Assessment	-	-	-	-	-	-	-	3	0	a2 (cr)
Deposits	-	-	-	-	-	-	-	2	0	a3
Senior unsecured bank debt	-	-	-	-	-	-	-	2	0	a3
Junior senior unsecured bank debt	-	-	-	-	-	-	-	0	0	baa2
Dated subordinated bank debt	-	-	-	-	-	-	-	-1	0	baa3

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a2	1	A1	A1
Counterparty Risk Assessment	3	0	a2 (cr)	1	A1(cr)	
Deposits	2	0	a3	1	A2	A2
Senior unsecured bank debt	2	0	a3	1	A2	A2
Junior senior unsecured bank debt	0	0	baa2	0	Baa2	Baa2
Dated subordinated bank debt	-1	0	baa3	0	Baa3	(P)Baa3

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 15

Category	Moody's Rating
UNICREDIT BANK AG	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A2
Senior Unsecured	A2
Junior Senior Unsecured	Baa2
Junior Senior Unsecured MTN -Dom Curr	(P)Baa2
Subordinate -Dom Curr	Baa3
Other Short Term	(P)P-1
PARENT: UNICREDIT S.P.A.	
Outlook	Stable(m)
Counterparty Risk Rating	Baa1/P-2
Bank Deposits	Baa1/P-2
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	Baa2(cr)/P-2(cr)
Senior Unsecured	Baa1
Junior Senior Unsecured	Baa3
Junior Senior Unsecured MTN	(P)Baa3
Subordinate	Ba1
Pref. Stock Non-cumulative -Dom Curr	Ba3 (hyb)
Commercial Paper -Dom Curr	P-2
Other Short Term -Dom Curr	(P)P-2
UNICREDIT BANK AG, LONDON BRANCH	
Outlook	Stable
Counterparty Risk Rating	A1/P-1

Bank Deposits	A2/P-1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating -Dom Curr	A2
UNICREDIT BANK AG, NEW YORK BRANCH	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A2/P-1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A2
UNICREDIT BANK AG, PARIS BRANCH	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits -Dom Curr	A2/P-1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
UNICREDIT U.S. FINANCE INC.	
Bkd Commercial Paper	P-1
UNICREDIT BANK AG, HONG KONG BRANCH	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Senior Unsecured MTN	(P)A2
Subordinate MTN	(P)Baa3
Other Short Term	(P)P-1
UNICREDIT BANK AG, TOKYO BRANCH	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Senior Unsecured MTN	(P)A2
Subordinate MTN	(P)Baa3
Commercial Paper -Dom Curr	P-1
Other Short Term	(P)P-1
UNICREDIT BANK AG, SINGAPORE BRANCH	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Senior Unsecured MTN	(P)A2
Subordinate MTN	(P)Baa3
Other Short Term	(P)P-1

Source: Moody's Investors Service

Endnotes

1 The ratings shown are the bank's deposit rating, the senior unsecured debt rating and outlook, and the BCA.

2 Excluding development banks.

3 Including UCB's €1.7 billion low-trigger Additional Tier 1 (AT1) securities, the bank's total shareholders' equity was €19.5 billion at the end of June 2023.

4 Our TCE leverage ratio compares Tangible Common Equity to tangible banking assets.

5 The regulatory leverage ratio compares Tier 1 capital to exposure at default.

6 Excluding the waiver, UCB's regulatory leverage ratio was 4.4% and 4.9% in 2020 and 2021.

7 Tangible banking assets reflect reported assets and deduct financial derivatives for which UCB's has entered into ISDA-compliant netting agreements.

8 The rating shown is KfW's backed debt and deposit ratings and outlook.

REPORT NUMBER 1381383

Moody's
INVESTORS SERVICE