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Ratings

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UniCredit Bank AG

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Table Of Contents

UniCredit Bank AG

SACP	bbb+		+	Support	0	+	Additional Factors	0

Anchor	a-	
Business Position	Adequate	0
Capital and Earnings	Strong	+1
Risk Position	Weak	-2
Funding	Average	0
Liquidity	Adequate	

ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

Issuer Credit Rating
BBB+/Negative/A-2

Resolution Counterparty Rating
A-/--/A-2

Major Rating Factors

Strengths:	Weaknesses:
• Strong capital position. • Sound franchise in German corporate banking. • Expected to benefit from a separate resolution process from Italian parent UniCredit SpA, supporting currently a one-notch higher rating at the German UniCredit Bank AG than at the parent.	• Tail risk from strategic, financial, and operational interaction with the lower-rated UniCredit Group, which also results in downside risk to our capital projection. • Notable exposure to segments impaired by the COVID-19 pandemic and complexity in its credit market-related business. • Business-flow volatility inherent in its investment banking activity.

Outlook: Negative

S&P Global Ratings' negative outlook on Germany-based UniCredit Bank AG indicates that we could lower our ratings on the bank over the next 12-18 months once uncertainties on UniCredit Group's resolution strategy are resolved and the strategy's implementation is sufficiently advanced.

Downside scenario

If we conclude that the resolution approach for UniCredit Group meant a unified, single process involving all entities, this would alter our current view that the prospects of stronger subsidiaries would be markedly different from those of the weaker parent. As a result, we would no longer rate UniCredit Bank above the parent and lower our ratings on the bank by one notch to the level of the group credit profile (GCP), all other factors remaining equal.

We could also lower the ratings on the bank if we downgraded the group's parent, UniCredit. We currently cap our ratings on the bank at one notch above the GCP, since we believe its creditworthiness would weaken if the parent's credit quality deteriorated and still see uncertainties in the implementation of the group's resolution strategy.

In addition, if economic or industry risk increases for German banks, we would likely revise down our anchor for UniCredit Bank to 'bbb+' from 'a-'. That could lead us to lower the rating, since higher risks in Germany could materially weaken UniCredit Bank's asset quality and financial profile.

If we downgraded UniCredit Bank, we would also lower our ratings on the bank's senior preferred debt, senior subordinated debt, and junior subordinated instruments.

Upside scenario.

We would revise the outlooks to stable if:

- It was clear that the Single Resolution Board (SRB) would employ separate resolution processes for UniCredit Bank and its parent; and
- We assessed the economic and industry risk trend for the German banking industry as stable; for instance, if German banks face less risks to their financial profile from the pandemic and demonstrate better earnings resilience after risk compared with other banking systems against the currently difficult economic conditions.

Rationale

In our ratings on UniCredit Bank, we incorporate its sound position in domestic corporate banking with a weaker franchise in small and midsize enterprise (SME) and retail banking activities relative to peers. We also consider that UniCredit Bank is the hub for most markets activities within UniCredit Group. We continue to see the bank's capital and earnings as a rating strength over global peers. However, at the same time, we see material downside risk to our capital projection, mainly reflecting UniCredit Bank's track record of upstreaming regulatory excess capital to the parent that has significantly lower capital ratios. We also note further tail-risks from strong operational and reputational links with its lower-rated parent and across further group members. Both are captured in our weak assessment of UniCredit Bank AG's risk position. In our view, the bank is more reliant on short- and long-term wholesale funding than domestic peers', but we consider this to be adequately buffered by liquid assets. Overall, we assess funding and liquidity as a neutral factor to the rating.

We assess UniCredit Bank's stand-alone credit profile (SACP) at 'bbb+'. We do not factor in any further notches of uplift from the SACP into the long-term rating for extraordinary German government support or for additional loss-absorbing capacity (ALAC) support. Although we expect the SRB would, at this time, employ a separate resolution process for UniCredit Bank, we expect the ALAC ratio to remain below our 5% threshold for a one-notch uplift over the next two years. Moreover, we lack visibility and details about how the SRB will determine the resolution strategy for the internationally active, cross-border UniCredit banking group.

Anchor:'a-' for a commercial bank operating predominately in Germany

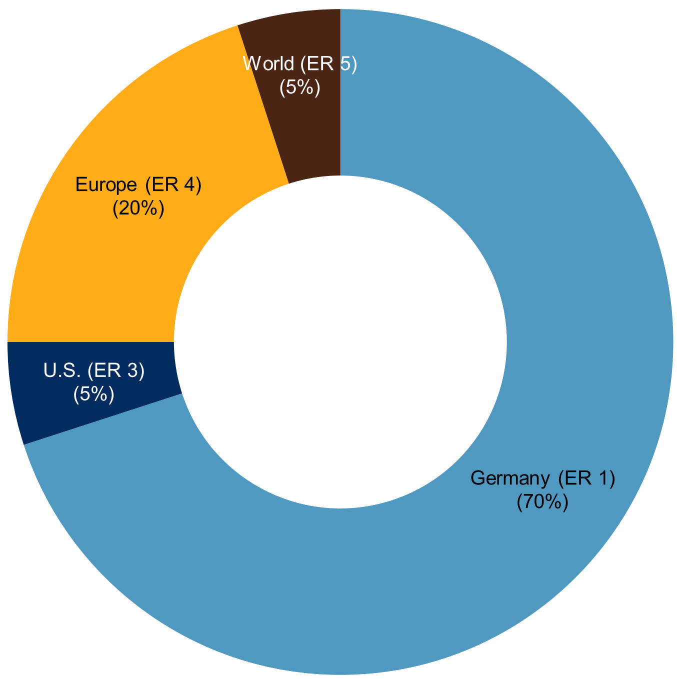
Our bank criteria use our Banking Industry Country Risk Assessment's economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating (ICR). Our anchor for banks operating mainly in Germany is 'a-'.

Our assessment of economic risk considers the strengths from Germany's highly diverse and competitive economy, with a demonstrated ability to absorb economic and financial shocks. Due to the pandemic, we expect a sharp contraction in German real GDP of 5.4% in 2020, followed by strong growth of 4.7% in 2021, and 2.4% in 2022. We see the damage to the economy, household wealth, and various corporate sectors from COVID-19, but anticipate that Germany's ample fiscal and monetary measures will mitigate the cyclical shock to the economy, the banking system, as well as retail and corporate customers, while limiting German banks' credit losses. That said, the economy's high degree of openness, with exports accounting for 50% of GDP, makes the trajectory of recovery also dependent on broad-based international developments. Reviving housing demand and sector-specific challenges, for example in the automotive industry, will also continue to represent a downside risk to growth once the pandemic abates. Our negative trend on economic risk signals that there is some risk a weaker recovery could spur credit losses higher than we currently expect.

To assess the economic risk for UniCredit Bank, we use the weighted average of its private-sector lending to nonbanks in each country in which it operates. Currently, UniCredit Bank conducts about 70% of its lending in Germany, and the rest mainly in European countries with weaker economic risk scores than Germany (see chart 1). Consequently, the weighted economic risk score for UniCredit Bank remains slightly below '2', which is weaker than that for German lending institutions with higher proportions of domestic loans, but not to the extent that it lowers the anchor. This also means the anchor is sensitive to a potential downward revision of either our economic or industry risk assessments for Germany, which we consider on a negative trend.

Chart 1

UniCredit Bank AG's Loan Portfolio Is Dominated By German Exposure



ER--Economic risk. Source: S&P Global Ratings.

Our assessment of industry risk considers the material improvements that have been made to increase transparency and harmonize banking supervision and regulation. However, we note that the German banks entered the pandemic already suffering from pressure on profitability, due to intense competition, low interest rates, and a relatively high cost base. In light of the pandemic-induced recession, challenges to profitability could intensify further, as reflected in our negative trend on industry risk. In addition to an increasing, but manageable, risk cost, we also anticipate further cost pressures given how critical it is for the German banks to significantly invest in core banking systems and digital customer services that are essential to avoid tech disruption and franchise damage from cyberattacks and customer data mismanagement.

Table 1

UniCredit Bank AG--Key Figures

	--Year ended Dec. 31--				
(Mil. €)	**2020***	**2019**	**2018**	**2017**	**2016**
Adjusted assets	318,026.0	303,583.0	286,539.0	298,615.0	301,635.0
Customer loans (gross)	147,515.0	137,777.0	131,810.0	121,906.0	122,345.0
Adjusted common equity	15,714.0	15,317.0	16,843.0	16,752.0	16,602.0
Operating revenues	1,992.0	4,647.0	4,682.0	5,349.0	5,178.0

Table 1

UniCredit Bank AG--Key Figures (cont.)					
	--Year ended Dec. 31--				
(Mil. €)	2020*	2019	2018	2017	2016
Noninterest expenses	1,566.0	3,441.0	3,068.0	3,525.0	3,702.0
Core earnings	(24.2)	888.2	529.7	1,341.9	498.0

*Data as of June 30.

Business position: Mainly a domestic corporate bank, but also the center of investment-banking activities within UniCredit Group

We see as positive that UniCredit Bank can build its banking franchise on a solid market position in domestic corporate banking and to lesser extent in SME and retail banking. The bank's revenue capacity also benefits from being the hub for most markets and investment banking activities within UniCredit Group. However, this also leads to a higher reliance on revenue that is more sensitive to market developments. We believe volatility in business flows and revenue generation will remain a less favorable component of the bank's market activities.

In sum, this brings UniCredit Bank's business position on par with an average bank in Germany, as well as other banks active in European markets with similar industry risk profiles, such as Austria, Belgium, and France.

The bank has a historically strong market presence in Germany's Bavaria and Hamburg regions and is striving to gain more relevance in other areas. However, with only about a 3% market share in customer loans on a national level, it will continue to lack regional diversification within Germany, and compared with its main domestic peers, such as Commerzbank and Deutsche Bank.

In line with the targets related to UniCredit Group's past multiyear plan "Transform 2019," we recognize UniCredit Bank's progress in improving cost efficiency in recent years, mainly by restructuring its domestic franchise through cost-reducing measures with a focus on SME and retail banking activities. In our view, the group's current strategic plan "Team 23" does not imply a material change in the German subsidiary's business model. However, it clearly reiterated the ambition to improve cost structures in an ongoing challenging external environment, particularly by accelerating the digitalization of the value chain and back office operations with a further rightsizing of the workforce (already booked €363 million of restructuring costs in 2019). On the revenue side, we expect the bank's key priority will remain stabilization rather than growth, despite growth in business volumes, since we anticipate pressure from intense competition will continue to materially drag on its core profitability.

We also expect interest rates to remain at very low levels for the foreseeable future and no relief in margins anytime soon. We anticipate our cost-income ratio according to our measures for the bank will remain at about 70% through 2022, compared with our previous forecast of about 65%. This metric becomes increasingly important, since economic headwinds have materially increased in the wake of the pandemic, resulting in a material increase in credits costs compared with previous years.

We believe that environmental, social, and governance (ESG) factors for UniCredit Bank AG are broadly in line with its industry and domestic peers and not currently a differentiation factor. With regards to its governance structure, the German Stock Corporation Act requires the subsidiary's management team to solely act in the interests of UniCredit

Bank and it foresees extensive sanctions for management in case of duty breaches. We also note that the majority of supervisory board are not related to its Italian parent that also speaks for a sufficient level of independence, in our view.

Table 2

UniCredit Bank AG--Business Position					
	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Total revenues from business line (currency in millions)	2,548.0	5,151.0	4,708.0	5,349.0	5,178.0
Commercial banking/total revenues from business line	42.9	44.1	49.2	44.0	45.5
Other revenues/total revenues from business line	32.4	18.4	8.5	12.3	10.8
Return on average common equity	3.8	4.3	1.3	6.8	0.7

*Data as of June 30. N/A--Not applicable.

Capital and earnings: Capitalization is a rating strength, but downside risk has increased

UniCredit Bank's capitalization remains a rating strength, mainly based on our projection that it will be able to move toward a risk-adjusted capital (RAC) ratio of about 10.5% over the coming two years.

However, we note that UniCredit Bank's capital base has decreased significantly since declaring it would pay a dividend to its parent totaling €3.3 billion that significantly exceeds 2019 net income of €793 million. In our base case, we do not anticipate any restrictions on intragroup dividend payouts after European central Bank (ECB) expanded its ban for dividend for the 2019 financial year.

This is the main reason for a decrease in our RAC ratio for UniCredit Bank (before adjustments) of 100 basis points (bps) to 9.7% on Dec. 31, 2019. In our capital forecast for the coming two years, we include that UniCredit Bank will likely issue internal additional Tier 1 (AT1) instruments to its Italian parent to compensate for part of the capital transfer. This will provide some additional capital buffer to help the bank through the pandemic, given that we expect its risk-weighted assets metric to increase at least moderately. UniCredit Bank used to pay out its full net income under German generally accepted accounting principles, but we consider the payout ratio could decrease going forward as buffers above regulatory minimums tighten and particularly as implementation of final Basel III rules comes closer.

The bank's regulatory core equity Tier 1 ratio under Basel III phase-in arrangements stood at a 16.3% (under International Financial Reporting Standards [IFRS] and already excluding the dividend payout) on June 30, 2019. However, we expect this ratio could fall materially in the medium term because of new rules from the Basel committee, in particular with the introduction of risk-weight floors for banks such as UniCredit Bank that apply internal ratings-based approaches.

In our base case, we expect credit costs to rise materially because of the pandemic, and consequently revised down our forecast of net income. We expect annual net income under IFRS of €500 million-€750 million until 2022, based on credit losses of €400 million-€900 million annually over that period.

Therefore, potential for future capital buildup through retained earnings remains limited. However, our forecast does not factor in any further additional sizable extraordinary dividends to other group entities. While we think the likelihood has decreased, this remains a tail-risk to our projection, since the German entity has some excess regulatory capital and limited growth prospects in the country's saturated markets compared with other group entities with exposure, for instance, to Central Eastern Europe (CEE).

Finally, we see the bank's quality of capital and earnings as neutral. Positively, even after expected AT1 issuances, we expect higher-quality adjusted common equity (ACE) will continue to represent more than 90% of TAC. However, we consider the owner UniCredit SpA as less supportive of UniCredit Bank's strong capital base, as demonstrated by extraordinary dividend payments over the past years, and also consider the bank's relatively high reliance on less stable income sources.

Table 3

UniCredit Bank AG--Capital And Earnings

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Tier 1 capital ratio	16.3	17.5	19.9	21.1	20.4
S&P Global Ratings' RAC ratio before diversification	N/A	9.7	10.7	11.2	10.1
S&P Global Ratings' RAC ratio after diversification	N/A	9.5	11.0	11.6	10.2
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	64.8	51.4	53.1	47.7	49.7
Fee income/operating revenues	26.4	20.9	21.7	20.6	20.6
Market-sensitive income/operating revenues	2.7	15.1	13.6	19.4	18.2
Cost to income ratio	78.6	74.0	65.5	65.9	71.5
Preprovision operating income/average assets	0.3	0.4	0.6	0.6	0.5
Core earnings/average managed assets	(0.0)	0.3	0.2	0.4	0.2

*Data as of June 30. RAC--Risk adjusted capital. N/A--Not applicable.

Table 4

UniCredit Bank AG--Risk Adjusted Capital Framework Detailed Results

	EAD(1)	**Basel III RWA (2)**	**Average Basel III RW (%)**	**S&P Global Ratings RWA**	**Average S&P Global Ratings RW (%)**
Government and central banks	70,992.7	2,994.1	4.2	4,265.4	6.0
Of which regional governments and local authorities	16,993.6	103.1	0.6	642.7	3.8
Institutions and CCPs	23,509.2	5,780.8	24.6	7,284.7	31.0
Corporate	124,707.4	42,521.4	34.1	87,552.3	70.2
Retail	32,731.6	6,025.1	18.4	10,309.4	31.5
Of which mortgage	22,288.3	2,661.3	11.9	4,507.1	20.2
Securitization (3)	15,116.0	2,575.0	17.0	4,619.2	30.6
Other assets(4)	5,406.7	4,428.3	81.9	7,801.5	144.3
Of which deferred tax assets	1,024.0	--	--	3,840.0	3.8
Of which amount of over (-) or under (+) capitalization of insurance subsidiaries	0.0	--	--	0.0	0.0
Total credit risk	272,463.5	64,324.7	23.6	121,832.6	44.7
Total credit valuation adjustment	--	1,350.0	--	5,272.8	--
Equity in the banking book	428.4	913.3	213.2	3,316.7	774.1
Trading book market risk	--	8,824.8	--	12,998.5	--

Table 4

UniCredit Bank AG--Risk Adjusted Capital Framework Detailed Results (cont.)					
Total market risk	--	9,738.1	--	16,315.2	--
Total operational risk	--	9,171.9	--	14,070.8	--
RWA before diversification	--	85,454.7	--	157,491.3	100.0
Single name(On Corporate Portfolio) (5)	--	--	--	5,896.7	6.7
Sector(On Corporate Portfolio)	--	--	--	(2,186.1)	(2.3)
Geographic	--	--	--	(1,656.4)	(1.3)
Business and Risk Type	--	--	--	1,136.2	0.7
Total Diversification/ Concentration Adjustments	--	--	--	3,190.5	2.0
RWA after diversification	--	85,454.7	--	160,681.8	102.0
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio before adjustments		14,987.0	17.5	15,317.0	9.7
Capital ratio after adjustments (6)		14,987.0	20.1	15,317.0	9.5

Footnotes: (1) EAD: Exposure At Default (2) RWA: Risk-Weighted Assets (3) Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework (4) Other assets inlcudes Deferred Tax Assets (DTAs) not deducted from ACE (5) For Public-Sector Funding Agencies, the single name adjustment is calculated on the regional government and local authorities portfolio (6) For Tier 1 ratio, adjustments are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons)

Risk position: Tail risk from remaining strategic, financial, and operational interactions with the lower-rated UniCredit Group

We assess UniCredit Bank's risk position as a weakness relative to peers, predominately because it is part of a cross-border banking group with material exposure to weaker economic regions, such as Italy and CEE. On a consolidated basis, we assess UniCredit Group's credit profile to be at 'bbb', which is weaker than the German subsidiary's SACP.

We particularly consider tail risk from strategic, financial, and operational connections with the lower-rated group as a negative factor for UniCredit Bank's SACP. We also see the risk that our RAC ratio does not fully cover operational links across the group, particularly in corporate and investment banking. The bank also still bears intragroup credit exposure to the parent, although this has markedly reduced since 2011.

This also implies that our strong assessment of its capital and earnings to some extent overstates UniCredit Bank's capital position, given that the German subsidiary's capitalization remains above the consolidated group level. We consider the possibility that UniCredit Group might further optimize capitalization across the group, to the extent possible. This could imply further extraordinary dividends beyond the sizeable payments made in 2020 and the €3 billion payment made in 2017.

Additionally, our assessment also reflects the bank's risk concentrations in its corporate credit portfolio and the complexity of its credit market-related business. We expect UniCredit Bank's credit losses to increase sharply compared with previous years. We note that UniCredit has notable exposure to sectors that we expect will suffer among the most from pandemic-induced economic stress, for instance including construction (€7.6 billion), transport & travel (€5.7 billion), Tourism (€3 billion), and also shipping (€2.5 billion) as of end-June 2020.

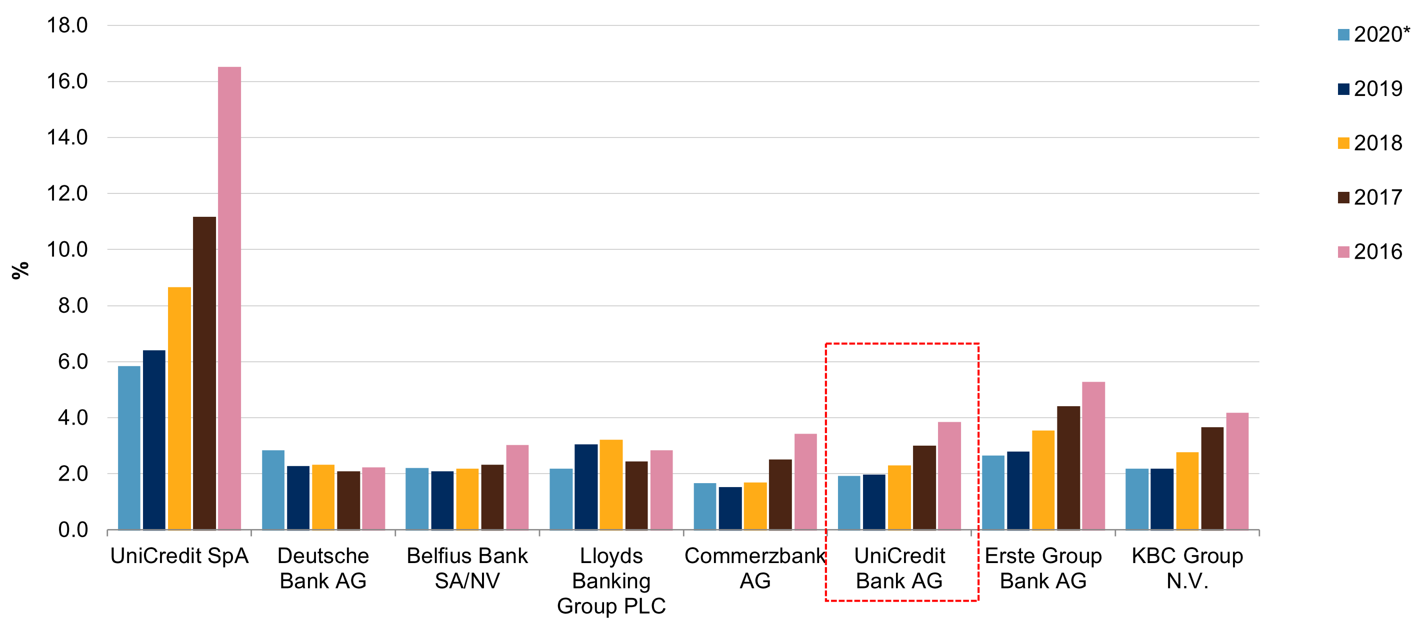
We also note UniCredit Bank's exposure to the automotive sector (€10.7 billion), where prospects were already deteriorating before the pandemic, given that the full value chain is going through a significant transformation.

UniCredit Bank AG's asset quality has been slightly better than the peer average over the past few years (see chart 2) but, in our view, the pandemic-induced stress will test the bank's resilience as the economic cycle has been favorable since the bank's past restructuring of real estate assets.

Chart 2

UniCredit Bank's NPL Ratio Has Improved In Recent Years

UniCredit Bank AG's NPLs versus UniCredit Group and some European peers



*Refers to end-of June data. NPL--Nonperforming loans. Source: S&P Global Ratings.

In the first six months of 2020, UniCredit Bank already booked credit losses under IFRS 9 of €467 million (up from €80 million over the first six months in 2019), mainly reflecting a worsening economic outlook and some stage migration under IFRS 9. The ratio of nonperforming loans remained at a low 1.9%, also because the regulator allowed banks to apply some flexibility under IFRS 9 and not to classify loans that fall under moratoriums, however, we expect the ratio to increase over the next 12 to 18 months.

Table 5

UniCredit Bank AG--Risk Position					
	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Growth in customer loans	14.1	4.5	8.1	(0.4)	5.6
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	2.0	(2.2)	(2.9)	(0.6)

Table 5

UniCredit Bank AG--Risk Position (cont.)

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Total managed assets/adjusted common equity (x)	20.2	19.8	17.0	17.9	18.2
New loan loss provisions/average customer loans	0.6	(0.1)	0.7	0.2	0.4
Net charge-offs/average customer loans	(0.0)	(0.0)	(0.0)	0.4	0.4
Gross nonperforming assets/customer loans + other real estate owned	1.9	1.9	2.3	3.0	3.8
Loan loss reserves/gross nonperforming assets	76.8	68.6	65.2	59.5	53.7

*Data as of June 30. RWA--Risk weighted assets. N/A--Not applicable.

Funding and liquidity: Significant recourse to wholesale funding, but with prudent liquidity management

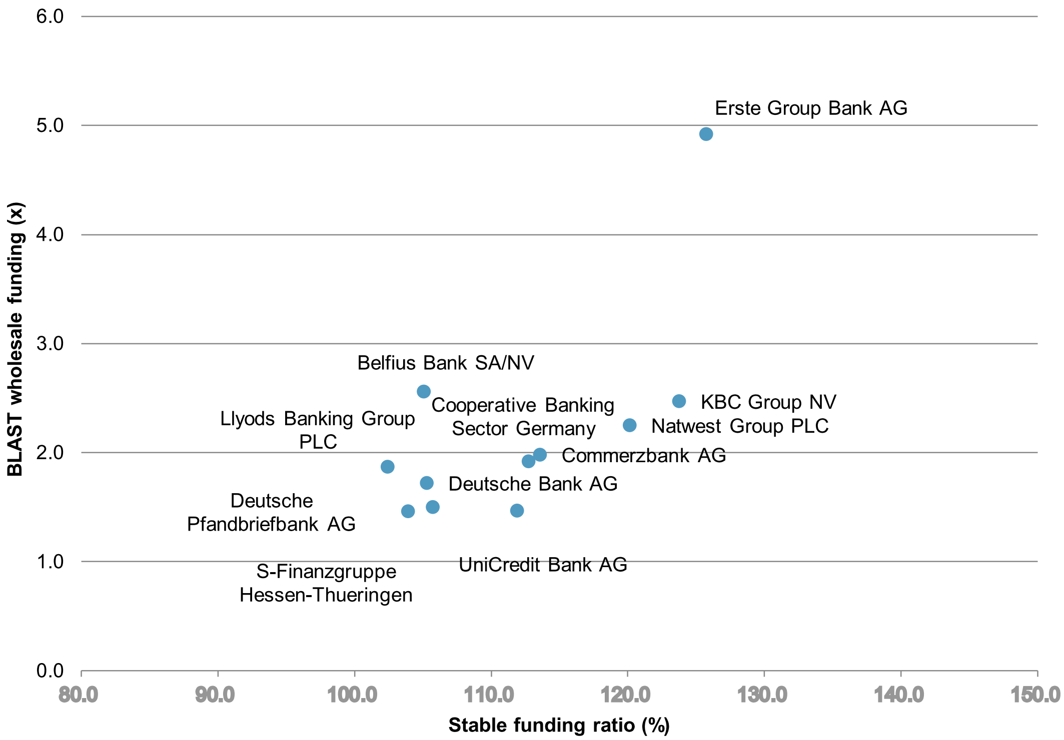
UniCredit Bank's funding and liquidity remains a neutral factor for the rating. We consider the bank's funding profile to be in line with large domestic or European bank peers', however, weaker than the strong German savings and cooperative banking groups that dominate the domestic retail business.

UniCredit Bank recently took advantage of the ECB's pandemic-related renewed TLTRO III program, drawing down €25.7 billion, part of which we believe it used to repay the remaining amounts drawn under TLTRO II. In line with peers, we consider the increased drawdowns not as a sign of a funding weakness but as purely opportunistic action to support the bank's net interest income, reflecting the very favorable conditions if lending targets are reached.

Customer deposits represent about half of UniCredit Bank's funding base, which results in a loan-to-deposit ratio of 113% as of June 30, 2019. German Pfandbriefe (covered bonds) remain another important and reliable source of funding and liquidity, in particular during more stressful times. Overall, UniCredit Bank has made continuous improvements in its stable funding ratio that reached about 110% in recent years, materially higher than a few years back, which we now consider comfortable compared with its main peers (see chart 3).

Chart 3

Key Funding And Liquidity Metric Remain In Line With Main Peers', Year-End 2019



BLAST--Broad liquid assets/short-term. Source: S&P Global Ratings.

However, UniCredit Bank does not disclose information about its upstream exposures to its parent, which have materially reduced in recent years but in our view remain substantial. The majority of this exposure arises from the strategic orientation of UniCredit Bank as the group-wide center of competence for the financial markets, the investment-banking business of UniCredit, and other business activities (such as export finance and guarantees). This partly constraints our funding assessment.

Liquidity remains adequate, in our view. Long- and short-term wholesale funding accounts for each about 24% of total funding. Wholesale funding activities including stable covered bonds therefore continue to represent roughly half of the bank's total funding, based on June 30, 2020, data.

On the positive side, we expect liquidity management to remain prudent, and acknowledge that the relatively high share of short-term wholesale funding is also mitigated by a adequately-sized liquid asset pool. In detail, we calculate sound coverage of short-term wholesale funding by broad liquid assets of about 1.5x. In contrast, placements of excess liquidity with UniCredit are limited. We expect UniCredit Bank could operate for more than six months without access to market funding in an adverse scenario.

Table 6

UniCredit Bank AG--Funding And Liquidity

	--Year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Core deposits/funding base	52.4	51.9	51.2	49.6	49.9
Customer loans (net)/customer deposits	113.3	111.4	113.1	103.5	110.6
Long-term funding ratio	80.5	77.6	76.4	70.6	66.6
Stable funding ratio	113.1	111.9	109.4	108.8	91.5
Short-term wholesale funding/funding base	20.8	24.2	25.4	31.8	36.5
Broad liquid assets/short-term wholesale funding (x)	1.5	1.5	1.4	1.3	0.9
Net broad liquid assets/short-term customer deposits	20.5	21.2	18.0	17.5	(4.6)
Short-term wholesale funding/total wholesale funding	43.7	50.2	52.0	63.0	73.0
Narrow liquid assets/3-month wholesale funding (x)	2.0	1.9	1.6	1.5	1.1

*Data as of June 30.

Support: No additional uplift despite high systemic importance in Germany

We continue to believe that UniCredit Bank has high systemic importance in Germany. However, in our view, the prospect of extraordinary government support for the German banking sector is uncertain following the full implementation of the EU's bank recovery and resolution directive, including bail-in power.

We consider UniCredit Bank a prudently regulated subsidiary and we expect the SRB today would, at this time, most likely employ a separate resolution process for the bank, which supports a higher rating on the subsidiary relative to the parent. Accordingly, we base our rating on UniCredit Bank on its 'bbb+' SACP, which is higher than our 'bbb' GCP for UniCredit Group.

On Dec. 3, 2019, UniCredit confirmed in its multiyear plan "Team 23" that it prefers a single-point-of-entry (SPE) approach, under which it will gradually become the group's sole resolution entity and eventually the issuer of bail-inable debt. We see this development as potentially negative for UniCredit Bank AG's credit profiles because it implies the subsidiary's and parent's prospects in a resolution would not be markedly different.

While we may do so in future, we have not immediately aligned our ratings on UniCredit Bank with those on UniCredit, for two reasons:

First, UniCredit Bank remains widely financially and operationally self-reliant. It also benefits from a material buffer of externally issued bail-in instruments, which could over time fully replaced with intragroup issuance. Until then, the SRB could employ separate resolution processes for UniCredit and its large German subsidiary. This supports higher ratings than on the parent.

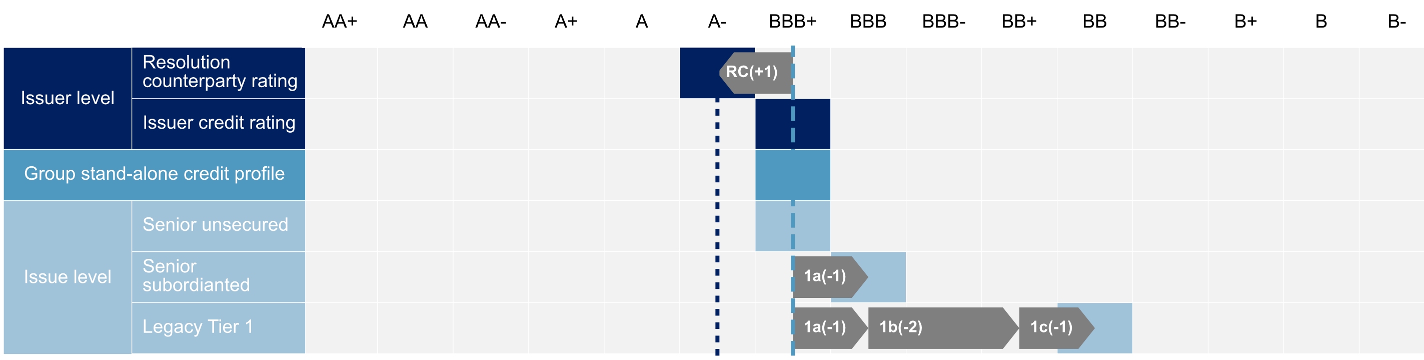
Second, we await further clarifications beyond the outline that UniCredit has announced. The strategic plan clarifies UniCredit's timeline to meet its external total loss-absorbing capacity requirements. However, we have no information on how the SPE strategy will operate, including the timeframe for replacing maturing external bail-in instruments with intragroup instruments. We expect to receive more information including final individual MREL requirements for the German subsidiary over the next 12-18 months.

However, once we are satisfied that UniCredit, UniCredit Bank, and other subsidiaries would be subject to a single unified resolution process, we would no longer rate any of these subsidiaries above the parent. This is because they would depend on UniCredit's issuance for their bail-in buffers, thereby linking their prospects to the effectiveness of a resolution process at the parent level.

Hybrids

Chart 4

UniCredit Bank AG: Notching



Key to notching

Group stand-alone credit profile

Issuer credit rating

RC Resolution counterpartyliabilities (senior secured debt)

1a Contractual subordination

1b Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital

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 3 of our “Hybrid Capital: Methodology And Assumptions” criteria, published on July 1, 2019.

Senior subordinated debt

The 'BBB' issue rating on UniCredit Bank's senior subordinated debt is one notch below our 'bbb+' SACP. We notch down due to the debt's contractual subordination to senior obligations, in line with our hybrid capital criteria.

Junior subordinated debt

We deduct four notches in our 'BB' issue ratings on legacy junior subordinated instruments issued by funding vehicles. They are still included in Tier 1 capital at the group level according to transitional regulatory rules.

Resolution counterparty ratings (RCRs)

We set the RCR on UniCredit Bank at 'A-', one notch above the 'BBB+' long-term ICR.

For European entities, the RCRs are one notch above the long-term ICR, reflecting our jurisdiction assessments for these countries. An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institutions. RCRs apply to issuers in jurisdictions where we assess the resolution regime to be effective and we consider the issuer likely to be subject to a resolution that entails a bail-in if it reaches nonviability.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- 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
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles of Credit Ratings, February 16, 2011

Related Research

- UniCredit SpA, Oct. 20, 2020
- Negative Rating Actions Taken On Multiple German Banks On Deepening COVID-19 Downside Risks, April 23, 2020
- Banking Industry Country Risk Assessment: Germany, Oct. 1, 2019
- Outlooks On Various German Banks Revised To Negative On Rising Banking Sector Risks; Ratings Affirmed, Sept. 18, 2019
- Tech Disruption In Retail Banking: German Banks Have Little Time For Digital Catch-Up, May 14, 2019

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	**3**	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	**a-**	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of November 6, 2020)*

UniCredit Bank AG	
Issuer Credit Rating	BBB+/Negative/A-2
Resolution Counterparty Rating	A-/--/A-2
Senior Subordinated	BBB
Senior Unsecured	BBB+
Issuer Credit Ratings History	
06-Nov-2018	BBB+/Negative/A-2
03-Nov-2017	BBB+/Developing/A-2
28-Mar-2017	BBB/Developing/A-2
15-Dec-2016	BBB/Watch Pos/A-2
Sovereign Rating	
Germany	AAA/Stable/A-1+
Related Entities	
BA-CA Finance (Cayman) (2) Ltd.	
Issuer Credit Rating	BBB+/Negative/A-2
Junior Subordinated	BB
BA-CA Finance (Cayman) Ltd.	
Issuer Credit Rating	BBB+/Negative/A-2
Junior Subordinated	BB
HVB Capital LLC I	
Junior Subordinated	BB
HVB Capital LLC II	
Junior Subordinated	BB
HVB Capital LLC III	
Junior Subordinated	BB
HVB Funding Trust I	
Junior Subordinated	BB

Ratings Detail (As Of November 6, 2020)*(cont.)	
HVB Funding Trust II	
Junior Subordinated	BB
HVB Funding Trust III	
Junior Subordinated	BB
UniCredit Bank AO	
Issuer Credit Rating	BBB-/Negative/A-3
UniCredit Bank Austria AG	
Issuer Credit Rating	BBB+/Negative/A-2
Resolution Counterparty Rating	A-/--/A-2
Senior Unsecured	BBB+
Short-Term Debt	A-2
Subordinated	BBB-
UniCredit SpA	
Issuer Credit Rating	BBB/Negative/A-2
Resolution Counterparty Rating	BBB+/--/A-2
Certificate Of Deposit	
Foreign Currency	A-2
Commercial Paper	
Local Currency	A-2
Junior Subordinated	BB-
Senior Secured	AA-/Stable
Senior Subordinated	BBB-
Senior Unsecured	BBB
Subordinated	BB+
Zagrebacka banka dd	
Issuer Credit Rating	BBB-/Negative/--
Resolution Counterparty Rating	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.

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