Moody’s
INVESTORS SERVICE

Rating Action: Moody's affirms UniCredit Bank Austria AG ratings, changes deposit rating outlook to positive

28 May 2018

Outlook for senior unsecured debt changed to developing from stable

Frankfurt am Main, May 28, 2018 -- Moody's Investors Service has today affirmed the senior unsecured debt and deposit ratings of UniCredit Bank Austria AG (UBA) at Baa1, and its backed senior unsecured ratings, guaranteed by the city of Vienna, at A2 and changed the outlooks on these ratings as follows: The outlook on the backed and unbacked senior unsecured debt ratings were changed to developing from stable, and the outlook on the deposit ratings were changed to positive from stable. Moody's also affirmed the P-2 short-term deposit ratings, the (P)Ba1 subordinated program rating, the Baa2 backed subordinated debt rating, various hybrid instrument ratings issued by supported entities, the baa3 Baseline Credit Assessment (BCA), the baa3 Adjusted BCA and the A3(cr)/P-2(cr) Counterparty Risk Assessment (CR Assessment) of UBA.

The rating action was prompted by two factors, specifically 1) Moody's assessment of UBA's improved financial strength and the resulting scope for a higher BCA which, however, remains constraint to a level one notch above the ba1 BCA of its parent bank, UniCredit S.p.A. (deposits Baa1 positive, senior unsecured debt Baa1 positive, BCA ba1); and 2) a lower result for UBAs senior debt ratings from Moody's Advanced Loss Given Failure (LGF) analysis, following changes in the bank's liability structure as of December 2017, coupled with uncertainty of the bank's future issuing activity with respect to senior unsecured and subordinated debt instruments.

For a list of all affected ratings, please refer to the end of this press release.

RATINGS RATIONALE

AFFIRMATION OF UBA's BASELINE CREDIT ASSESSMENT

The affirmation of UBA's BCA takes account of the bank's strengthened financial metrics in the areas of asset risk, capitalisation and profitability, evidencing restructuring progress made since UBA transferred its operations in Central and Eastern Europe (CEE) to its parent in 2016, leaving UBA focused on its domestic Austrian business. UBA's profits in 2017 and in the first quarter of 2018 reflect swift progress in cost reduction, streamlining and efficiency improvements, following the implementation of various structural measures. Moody's views these improvements to principally be associated with a higher BCA of baa2. However, in consideration of UBA's interconnectedness with its parent UniCredit S.p.A. and sister companies through material lending exposures, albeit reduced since 2016, Moody's maintained its approach of allowing a maximum positive BCA differential of one notch relative to the parent bank's ba1 BCA.

AFFIRMATION OF SENIOR UNSECURED DEBT RATINGS

The affirmation of UBA's Baa1 senior unsecured debt ratings takes into account that a BCA upgrade to baa2 would benefit the senior unsecured debt ratings. At the same time, it takes account of the potentially offsetting effect of a higher loss severity for senior creditors, resulting from a decline of senior debt volumes during 2017. The respective change in UBA's liability structure will lead to a weaker result from Moody's Advanced LGF analysis, if last year's debt maturities will not be replenished.

Despite UBA's limited liquidity requirements, Moody's does not rule out new issuances of senior unsecured debt, including for purposes of meeting evolving minimum requirements for own funds and eligible securities (MREL). Sufficient new debt issuances would sustain the two notches of rating uplift from Moody's Advanced LGF analysis that the rating agency currently incorporates into the bank's senior unsecured debt ratings.

POSITIVE OUTLOOK ON UBA's DEPOSIT RATINGS

With UBA's scope for a higher BCA, Moody's changed the outlook on the bank's long-term deposit ratings to positive. The positive outlook highlights that UBA's BCA would likely be upgraded if and when the BCA of UniCredit SpA is upgraded.
DEVELOPING OUTLOOK ON UBA's DEBT RATINGS

Moody's changed the outlook on UBA's backed and unbacked senior unsecured debt ratings to developing. The developing outlook takes into account both negative and positive near-term rating drivers, including 1) the positive effect of a BCA upgrade; 2) the negative impact of a sustained lower volume of senior unsecured debt in UBA's liability structure, and therefore a result from Moody's Advanced LGF analysis below the current two notches of rating uplift; and 3) the stabilising effect of a replenishment of the senior unsecured debt volume that matured in 2017.

The A2 backed senior unsecured debt ratings which benefit from a guaranty of the city of Vienna, remain positioned two notches above the unbacked senior unsecured debt ratings. Their developing outlook mirrors the outlook on the unbacked debt ratings.

WHAT COULD CHANGE THE RATING UP/DOWN

UBA's deposit ratings could be upgraded if the bank maintains its strengthened fundamentals and, at the same time, UniCredit S.p.A.’s financial strength improves. UBA's senior unsecured debt ratings could be upgraded if its BCA is upgraded and the bank replenishes senior debt volumes to earlier levels, which would indicate a lower loss severity for senior creditors. In principle, all of UBA's ratings would benefit from a change in its liability structure that results in an additional rating uplift, as assessed by Moody's Advanced LGF analysis. Additional rating uplift, however, would be subject to materially higher volumes of subordinated debt instruments.

UBA's ratings could be downgraded as a result of a lower BCA, or a downgrade of UniCredit S.p.A.’s ba1 BCA. In addition, Moody's will consider a lower rating uplift, as assessed by its Advanced LGF analysis, if UBA were to display a sustained lower volume of senior debt instruments, that is, without plans to replenish debt maturities of 2017. A downgrade of UBA's BCA could principally result from a material deterioration of its current solvency metrics, including its operational performance and/or materially higher financial or operational interlinkages with its parent which could lead Moody's to remove the current positive BCA differential.

LIST OF AFFECTED RATINGS

ISSUER: UniCredit Bank Austria AG:

....Baseline Credit Assessment, affirmed at baa3
....Adjusted Baseline Credit Assessment, affirmed at baa3
....Long Term Counterparty Risk Assessment, affirmed at A3(cr)
....Short Term Counterparty Risk Assessment, affirmed at P-2(cr)
....Long Term Bank Deposit Ratings, affirmed at Baa1, outlook changed to positive from stable
....Short Term Bank Deposit Ratings, affirmed at P-2
....Senior Unsecured Debt Rating, affirmed at Baa1, outlook changed to developing from stable
....Senior Unsecured MTN Rating, affirmed at (P)Baa1
....Short Term Deposit Note/CD Program, affirmed at P-2
....Other Short Term Ratings, affirmed at (P)P-2
....Subordinate MTN Rating, affirmed at (P)Ba1
....Backed Senior Unsecured Ratings, affirmed at A2, outlook changed to developing from stable
....Backed Subordinate Rating, affirmed at Baa2

..Outlook Action:
....Outlook changed to Positive(m) from Stable
ISSUER: Creditanstalt AG:
- Backed Subordinate Rating, affirmed at Baa2
  - No Outlook assigned

ISSUER: BA-CA Finance (Cayman Island) Ltd:
- Backed Pref. Stock Non-cumulative Rating, affirmed at Ba3(hyb)
  - No Outlook assigned

ISSUER: BA-CA Finance (Cayman Island) 2 Ltd:
- Backed Pref. Stock Non-cumulative Rating, affirmed at Ba3(hyb)
  - No Outlook assigned

PRINCIPAL METHODOLOGY
The principal methodology used in these ratings was Banks published in April 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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