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## Research Update:

# UniCredit's German And Austrian Subsidiaries Affirmed At 'BBB+' After Outlook Revision On Parent; Both Outlooks Negative

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## Research Update:

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## Overview

- We revised our outlook on Italian bank UniCredit SpA to negative on Oct. 30, 2018, following the similar revision of our sovereign credit rating on Italy.
- In our view, the likelihood that German subsidiary UniCredit Bank AG's additional loss-absorbing capacity will sustainably exceed our minimum 5% threshold for a one-notch uplift has reduced.
- We are revising our outlook on UniCredit Bank AG to negative from developing and affirming our 'BBB+/A-2' ratings on UniCredit Bank and UniCredit Bank Austria AG, as well as our ratings on all outstanding instruments.
- The negative outlooks on both entities indicate that we could lower the ratings if we downgrade the parent, and also reflects uncertainties regarding the details and timeline of the resolution strategy implementation for UniCredit group.

## Rating Action

On Nov. 6, 2018, S&P Global Ratings revised its outlook on Germany-based UniCredit Bank AG to negative from developing. The 'BBB+/A-2' long- and short-term issuer credit ratings were affirmed.

We affirmed our 'BBB+/A-2' long- and short-term issuer credit ratings on UniCredit Bank Austria AG (Bank Austria) and its funding vehicles BA-CA Finance (Cayman) Ltd. and BA-CA Finance (Cayman) (2) Ltd. The outlooks on all three entities remain negative.

At the same time, we affirmed our 'A-/A-2' resolution counterparty ratings on UniCredit Bank and Bank Austria.

We affirmed our issue ratings on all of the entities' outstanding instruments.

## Rationale

The negative outlook on the parent bank, UniCredit SpA (BBB/Negative/A-2), implies weakening credit conditions at the parent, which might weigh on the

higher-rated subsidiaries UniCredit Bank and Bank Austria. In our view, the subsidiaries' creditworthiness would be negatively affected by further pressure on UniCredit SpA amid difficult operating conditions for Italy's banks, mainly reflecting strategic, financial, operational, and reputation links between the subsidiaries and the parent. If the long-term issuer credit rating on UniCredit were lowered by one notch, we would take similar action on UniCredit Bank and Bank Austria, all other factors remaining equal.

We affirmed our ratings on UniCredit Bank and Bank Austria because we believe the Single Resolution Board (SRB) would, at this time, employ a separate resolution process for these entities. This supports higher ratings on the subsidiaries than on the parent. Therefore, our 'BBB+' ratings on UniCredit Bank and Bank Austria mirror our 'bbb+' assessments of the banks' stand-alone credit profiles (SACP), which remain higher than the 'bbb' group credit profile (GCP).

We understand that the resolution strategy for UniCredit group is intended to move toward a single point of entry (SPE) approach in the coming years. This implies that UniCredit will be the SPE and the only entity required to issue instruments to external investors to meet the minimum requirement for own funds and eligible liabilities; material subsidiaries will rely only on intragroup instruments in the future to fulfil their individual requirements.

However, in our view, the implementation of the SPE resolution strategy is not yet effective. This is because both entities still benefit from material externally issued bail-in buffers and, in our view, the mechanism that would allow for loss transfer within the group is not yet ready. Additionally, important details and the timeline regarding the implementation of the resolution strategy remain uncertain. If it were clear that UniCredit group, including both entities, would be subject to a single unified resolution process, we would no longer rate the subsidiaries above the parent.

UniCredit Bank's additional loss-absorbing capacity (ALAC) has benefited from a change of law in Germany in 2017, when certain standard long-term senior unsecured bonds turned into subordinated instruments in resolution and liquidation. However, following the alignment of German law with an EU directive in July 2018, we do not anticipate replacement of maturing subordinated instruments in the future. Our revised forecast also reflects that an effective SPE approach implies that externally issued bail-inable debt will be issued from the parent level only.

We revised our outlook on UniCredit Bank to negative from developing because we believe the bank's ALAC buffer will deteriorate to below our 5% threshold for a one-notch uplift over the next two years, from 6.1% currently. An ALAC buffer sustainably above 5% could have supported our rating on UniCredit Bank if we were satisfied that the SRB would use a separate resolution process for UniCredit Bank and not one that includes the whole group.

## Outlook

The negative outlook indicates that we could lower our ratings on UniCredit Bank and Bank Austria over the next 12-24 months, once the resolution strategy for UniCredit group, including the level and positioning of bail-in buffers, becomes clear.

### Downside scenario

If it became clear that the resolution approach for UniCredit Group meant a unified, single process involving all entities, and we considered the transition toward this to be effective, we would no longer rate UniCredit Bank or Bank Austria higher than their parent. As a result, we would lower our ratings on both banks to the level of the GCP, all other factors remaining equal. We could also lower the ratings if UniCredit were downgraded, since we believe the subsidiaries' creditworthiness would feel the weight of the parent's lower credit quality amid difficult operating conditions in Italy.

In addition, while less likely, we could lower the ratings on UniCredit Bank if we saw a change in the bank's capital policy, for example, indicated by a sharp weakening of its risk-adjusted capital ratio. Any further deterioration of the bank's liquidity and funding profile or a marked increase in transfers to UniCredit could also trigger a downgrade. Any action on UniCredit Bank would lead us to downgrade the 'BBB+' senior preferred and 'BBB' senior subordinated debt, as well as the junior subordinated instruments.

Moreover, we could also lower the ratings on Bank Austria by one notch if its earnings capacity and efficiency were materially weaker than anticipated after the restructuring of its remaining domestic franchise. This action would lead us to lower our ratings on the 'BBB+' senior unsecured and 'BBB-' subordinated debt, as well as the junior subordinated instruments.

### Upside scenario

We would revise the outlook to stable if:

- Uncertainties regarding the resolution process were clarified, and it was clear that the SRB would employ separate resolution processes for the subsidiaries and the parent; and
- The outlook on UniCredit was revised to stable.

## Ratings Score Snapshot

### UniCredit Bank AG

Issuer Credit Rating	BBB+/Negative/A-2
SACP	bbb+
Anchor	a-

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

Support	(0)
ALAC Support	(0)
GRE Support	(0)
Group Support	(0)
Sovereign Support	(0)

Additional Factors (0)

**UniCredit Bank Austria**

Issuer Credit Rating BBB+/Negative/A-2

SACP	bbb+
Anchor	a-
Business Position	Adequate(0)
Capital and Earnings	Adequate (0)
Risk Position	Moderate (-1)
Funding and Liquidity	Average and (0) Adequate

Support	(0)
ALAC Support	(0)
GRE Support	(0)
Group Support	(0)
Sovereign Support	(0)

Additional Factors (0)

**Related Criteria**

- 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: Bank Hybrid Capital And

Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

## Related Research

- Various Italian Bank Outlooks Revised To Negative After Action On Sovereign And BICRA Industry Trend; Ratings Affirmed, Oct. 30, 2018

## Ratings List

Ratings Affirmed; Outlook Action

	To	From
UniCredit Bank AG Issuer Credit Rating	BBB+/Negative/A-2	BBB+/Developing/A-2

Ratings Affirmed

UniCredit Bank Austria AG BA-CA Finance (Cayman) Ltd. BA-CA Finance (Cayman) (2) Ltd. Issuer Credit Rating	BBB+/Negative/A-2
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UniCredit Bank AG Senior Unsecured	BBB+
Senior Subordinated	BBB
Subordinated	BBB-
Short-Term Debt	A-2

UniCredit Bank Austria AG Senior Unsecured	BBB+
Subordinated	BBB-
Commercial Paper	A-2

BA-CA Finance (Cayman) (2) Ltd.

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BA-CA Finance (Cayman) Ltd.

HVB Capital LLC I

HVB Capital LLC II

HVB Capital LLC III

HVB Funding Trust I

HVB Funding Trust II

HVB Funding Trust III

Junior Subordinated BB

UniCredit Bank AG

UniCredit Bank Austria AG

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

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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