RATING ACTION COMMENTARY

Fitch Upgrades UniCredit Bank GmbH to 'A-'; Outlook Stable

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Fitch Ratings - Milan - 05 Nov 2024: Fitch Ratings has upgraded UniCredit Bank GmbH's (HVB) Long-Term Issuer Default Rating (IDR) to 'A-' from 'BBB+` and its Viability Rating (VR) to 'a-' from 'bbb+'. The Outlook on the Long-Term IDR is Stable. HVB's long-term deposit and debt ratings have also been upgraded. A full list of rating actions is below.

KEY RATING DRIVERS

Parent Upgraded: The rating action follows the upgrade of HVB's parent, UniCredit S.p.A. (UC), to 'BBB+'/Positive on 31 October 2024 (see "Fitch Upgrades UniCredit to 'BBB+'; Outlook Positive" on www.fitchratings.com). HVB's VR has been capped at one notch above its parent's Long-Term IDR, reflecting Fitch's view that HVB's business profile is linked to UC's risk profile given HVB's role as the group's investment banking and markets hub. HVB's Stable Outlook reflects that a further upgrade of UC would not immediately trigger an upgrade for HVB given its standalone financial profile, which is in line with its 'a-' VR.

VR Drives Ratings: HVB's Long-Term IDR is driven by the bank's standalone credit strength, as expressed by its VR. The ratings reflect a mostly wholesale banking business model with an operational focus on Germany, which has strengthened following the upgrade of its parent. HVB's ratings also reflect the bank's improved profitability, in line with developments at the parent, as well as its solid capitalisation, satisfactory asset quality, and a sound funding and liquidity profile.

More Resilient Business Profile: HVB contributes significantly to UC's strengthened business profile as the group's investment banking and markets hub, and has a key role in the group's business with multinational corporates. In Fitch's view, UC's improved financial profile has reduced contagion risks for HVB that could have come from a weaker performance by the parent.

Profitability Underpins Ratings: HVB's profitability has consistently risen in recent years, driven by higher revenue, declining operating expenses and low loan impairment charges, which compare favourably with that of its peers. We believe that HVB is well on track to generate sustainably sound profitability, with an operating profit/risk-weighted assets (RWAs) ratio above 2.5% in the medium term.

Adequate Asset Quality: HVB's asset quality is stable, in line with that of other German commercial banks. Its corporate-banking business entails high single-borrower concentrations, similar to domestic peers. We expect asset quality to moderately weaken due to weak economic growth in many of HVB's core markets, but for the impaired loans ratio to remain well below 3%.

Solid Capitalisation: HVB's capitalisation is strong compared with most European peers', and well above its regulatory requirements. However, our assessment factors in potential channelling of capital to the parent, which could reduce capital ratios.

Established Funding Profile: HVB is a covered bond issuer and has well-established deposit franchises in retail and commercial banking. Customer deposits accounted for about 56% of total funding at end-1H24 despite moderate outflows in the first six months of the year. The bank's issuance of covered bonds with long average debt maturities lowers its reliance on market funding. HVB's liquidity profile is solid.

RATING SENSITIVITIES

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

We could downgrade HVB's VR and Long-Term IDR, aligning them with UniCredit's, if fungibility of capital within the UniCredit group increases, resulting in a CET1 ratio below 12%, or following a downgrade of UniCredit's ratings. HVB's ratings could also be downgraded if its operating profit durably declines below 1.5% of RWAs in combination with a significant deterioration in its asset quality.

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

An upgrade of HVB's ratings would require further sustainable improvements in profitability while maintaining a strong risk profile, sound capitalisation and asset quality. This would have to be in combination with a further upgrade of UC's Long-Term IDR as HVB's VR is unlikely to be rated more than one notch above the parent's Long-Term IDR.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

HVB's Short-Term IDR is the lower of the two ratings that map to an 'A-' Long-Term IDR. This reflects its funding and liquidity score of 'a-', which is not sufficient to achieve a higher rating.

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

HVB's short-term senior preferred and deposit ratings are the lower of two ratings mapping to an 'A' long-term rating because HVB's funding and liquidity score is not sufficient to achieve a higher short-term rating. The bank's subordinated Tier 2 debt rating is notched down twice from its VR to reflect this debt class's higher loss severity.

HVB's Shareholder Support Rating (SSR) is two notches below UniCredit's Long-Term IDR because the parent's ability to provide support is constrained by HVB's large size. Under the group's preferred resolution strategy (single-point-of entry), the solvency support that HVB would likely require is high relative to the capital available in the rest of the group.

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

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

HVB's DCR, long-term deposit and senior debt ratings are primarily sensitive to changes in HVB's Long-Term IDR. These ratings could also be downgraded if HVB's SNP and more junior debt buffers are insufficient to restore viability and protect preferred creditors after a failure. This could be the case if HVB forms an own resolution group and includes senior preferred debt in its resolution buffers.

HVB's subordinated debt ratings are primarily sensitive to changes in the bank's VR. They could also be downgraded upon a widening in the securities' notching. This could arise if we change our assessment of the notes' relative non-performance risk.

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

HVB's SSR is primarily sensitive to a change in our view of UniCredit's ability to support HVB, which could be indicated by a change in UniCredit's ratings or by a material increase in HVB's size that would reduce UniCredit's ability to provide support. The rating is also sensitive to changes in our view of UniCredit's propensity to provide support.

VR ADJUSTMENTS

The asset quality score has been assigned below the implied score due to the following adjustment reason: concentration (negative).

The capitalisation and leverage score has been assigned below the implied score due to the following adjustment reason: internal capital generation and growth (negative).

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

UniCredit Bank GmbH's ratings are linked to those of its parent, UniCredit S.p.A.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
UniCredit Bank GmbH	LT IDR	A- Rating Outlook Stable	Upgrade	BBB+ Rating Outlook Stable
	ST IDR	F2	Affirmed	F2

	Viability	a-	Upgrade	bbb+
	DCR	A(dcr)	Upgrade	A-(dcr)
	Shareholder Support	bbb-	Upgrade	bb+
long-term deposits	LT	A	Upgrade	A-
Senior non-preferred	LT	A-	Upgrade	BBB+
subordinated	LT	BBB	Upgrade	BBB-
Senior preferred	LT	A	Upgrade	A-
short-term deposits	ST	F1	Upgrade	F2
Senior preferred	ST	F1	Upgrade	F2

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 15 Mar 2024) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

UniCredit Bank GmbH	EU Issued, UK Endorsed

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