

Rating Action: Moody's changes UniCredit's outlook to positive from stable

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London, 08 January 2018 -- Moody's Investors Service, ("Moody's") today affirmed the ba1 standalone baseline credit assessment (BCA) and all ratings of UniCredit S.p.A. (UniCredit), including the Baa1 deposit and senior unsecured ratings, and changed the outlook on the bank's long-term deposit and senior unsecured ratings to positive from stable. The rating agency also assigned Baa1(cr)/Prime-2(cr) long- and short-term Counterparty Risk Assessments (CR Assessments) to UniCredit's London branch. A full list of affected ratings can be found at the end of this press release.

The affirmation reflects UniCredit's progress in reducing asset risk, in line with Moody's expectations and consistent with the current ratings. The positive outlook indicates the rating agency's increased confidence that the bank will ultimately reach its 2019 targets, which will establish a more solid solvency profile.

RATINGS RATIONALE

Moody's said it affirmed UniCredit's ba1 standalone baseline credit assessment (BCA) to reflect the bank's still large stock of problem loans in the European context, and limited track record of profitability.

UniCredit's asset risks remain high in the European context; in September 2017 the bank's problem loans were 10.6% of the bank's gross loans, more than double the average for the European Union of 4.5%, according to data for June 2017 from the European Banking Authority. This is significantly higher than UniCredit's baa3-rated peers, but is now well below the bank's peak problem loan ratio of 16.3% in Q1 2015, showing significant progress in improving asset quality. This is due in particular to the bank's 2017 securitisation and majority-sale of EUR17.7 billion of bad loans.

In 2017 UniCredit significantly improved its capital ratios, through a EUR13 billion rights issue and other capital measures, including sale of Polish subsidiary Bank Polska Kasa Opieki S.A. (Pekao) and asset management unit Pioneer. These led to a Common Equity Tier 1 (CET1) ratio of 13.8% in September 2017, up from levels below 11% in 2016. Moody's said that UniCredit's capital buffer is sound, taking into account the bank's 9.2% CET1 prudential regulatory requirement for 2018.

Profitability has been one of UniCredit's main challenges; in 2011, 2013, and 2016 UniCredit reported large losses due to very high loan loss charges. In the first nine months of 2017 UniCredit reported a net profit of EUR4.7 billion, including a EUR2.1 billion capital gain resulting from the sale of Pioneer. The result, excluding the gain from Pioneer, represents a 70% improvement from the same period of 2016, reflecting a substantial reduction in loan loss charges, and cost-cutting in line with the bank's plans.

Moody's said it affirmed UniCredit's Baa1 deposit and senior unsecured ratings reflecting the affirmation of the ba1 standalone BCA; extremely low loss-given-failure under the rating agency's advanced Loss Given Failure (LGF) analysis, which results in a three-notch uplift; and Moody's assessment of a moderate probability of government support, which does not result in any uplift.

-- POSITIVE OUTLOOK REFLECTS HIGHER LIKELIHOOD OF FURTHER SOLVENCY IMPROVEMENTS

Moody's changed the outlook on UniCredit's long-term deposit and senior unsecured debt ratings to positive, indicating the increased likelihood that the improvements made by the bank in 2017 will continue in 2018 and 2019; these improvements, if confirmed, will lead to lower expected loss for depositors and bondholders. At the same time, Moody's believes that the bank still faces considerable challenges in the current environment of moderate growth, margin erosion and regulatory pressure.

UniCredit is targeting a further reduction in problem loans, which should reach a level equivalent to 7.8% of gross loans in 2019, through further disposals and internal work-outs. This will be facilitated by provisioning coverage of problem loans of 56.5%. However, Moody's said that the bank's plan to reduce problem loans remains ambitious, and partly dependent on continued benign economic environment and market conditions.

UniCredit recently confirmed that it plans to maintain a CET1 ratio above 12.5% in 2019, taking into account

the bank's estimates of the impact of regulatory and accounting changes; this will leave UniCredit with adequate headroom over the bank's anticipated 10.1% minimum prudential requirement in 2019. Meeting this target will be credit positive for UniCredit's depositors and bondholders.

Moody's said that UniCredit's cost cutting efforts in 2017 have been positive, but execution of the remainder of the plan in the current environment to reach a net profit of EUR4.7 billion in 2019 will be challenging. The bank's target depends upon slightly improving revenues (additional EUR200 million compared with 2015) in a context of moderate growth, low interest rate environment and high competition; continued cost reductions, while investing in digitalisation; and maintaining a benign cost of risk in a stricter regulatory environment.

-- CR ASSESSMENT OF LONDON BRANCH IS IN LINE WITH UNICREDIT'S

Moody's said it assigned a Baa1(cr)/Prime-2(cr) Counterparty Risk Assessment (CR Assessment) to UniCredit's London branch, consistently with the CR Assessment of UniCredit and other rated branches.

FACTORS THAT COULD LEAD TO AN UPGRADE

UniCredit's ba1 standalone BCA could be upgraded if Moody's judges that, based on further progress in the bank's restructuring, it will meet its 2019 targets in terms of problem loans reduction, capitalisation and profitability. The bank's Baa1 deposit and senior debt ratings would be upgraded following an upgrade of the standalone BCA, provided that maturing senior bonds are replaced with new bail-in-able debt.

FACTORS THAT COULD LEAD TO A DOWNGRADE

Downward pressure on UniCredit's ratings is limited as indicated by the current positive outlook.

UniCredit's outlook could be stabilised if the bank appeared unlikely to fully achieve its 2019 plans. More specifically, Moody's could affirm the outlook if problem loans were likely to remain above the bank's target of 7.8% of gross loans; capital ratios were to fall short of Unicredit's stated expectations; or if the bank's likely net profit in 2019 were to be substantially below its EUR4.7 billion target. A deterioration of the operating environment in the countries where UniCredit operates could also lead to a stabilisation of the outlook.

UniCredit's deposit, senior unsecured, and subordinated debt ratings could be downgraded if the bank reduced the cushion of bail-in-able debt issued by itself or its guaranteed funding vehicles.

LIST OF AFFECTED RATINGS

Issuer: UniCredit S.p.A.

..Affirmations:

....Long-term Counterparty Risk Assessment, affirmed Baa1(cr)

....Short-term Counterparty Risk Assessment, affirmed P-2(cr)

....Long-term Bank Deposits, affirmed Baa1, outlook changed to Positive from Stable

....Short-term Bank Deposits, affirmed P-2

....Senior Unsecured Regular Bond/Debenture, affirmed Baa1, outlook changed to Positive from Stable

....Senior Unsecured Medium-Term Note Program, affirmed (P)Baa1

....Subordinate Regular Bond/Debenture, affirmed Ba1

....Subordinate Medium-Term Note Program, affirmed (P)Ba1

....Junior Subordinated Regular Bond/Debenture, affirmed Ba3(hyb)

....Preferred Stock Non-cumulative, affirmed B1(hyb)

....Other Short Term, affirmed (P)P-2

....Adjusted Baseline Credit Assessment, affirmed ba1

...Baseline Credit Assessment, affirmed ba1

..Outlook Action:

....Outlook changed to Positive from Stable

Issuer: UniCredit Bank Ireland p.l.c.

..Affirmations:

...Backed Senior Unsecured Regular Bond/Debenture, affirmed Baa1, outlook changed to Positive from Stable

...Backed Senior Unsecured Medium-Term Note Program, affirmed (P)Baa1

...Backed Subordinate Medium-Term Note Program, affirmed (P)Ba1

...Backed Other Short Term, affirmed (P)P-2

...Backed Commercial Paper, affirmed P-2

..Outlook Action:

....Outlook changed to Positive from Stable

Issuer: UniCredit Delaware Inc.

..Affirmation:

...Backed Commercial Paper, affirmed P-2

..No Outlook assigned

Issuer: UniCredit Int'l Bank (Luxembourg) S.A.

..Affirmations:

...Backed Senior Unsecured Regular Bond/Debenture, affirmed Baa1, outlook changed to Positive from Stable

...Backed Senior Unsecured Medium-Term Note Program, affirmed (P)Baa1

...Backed Preferred Stock Non-cumulative, affirmed B1(hyb)

...Backed Other Short Term, affirmed (P)P-2

..Outlook Action:

....Outlook changed to Positive from Stable

Issuer: UniCredit S.p.A., London Branch

..Assignments:

...Long-term Counterparty Risk Assessment, assigned Baa1(cr)

...Short-term Counterparty Risk Assessment, assigned P-2(cr)

..Affirmations:

...Short-term Deposit Note/CD Program, affirmed P-2

...Commercial Paper, affirmed P-2

..No Outlook assigned

Issuer: UniCredit S.p.A., New York Branch

..Affirmations:

...Long-term Counterparty Risk Assessment, affirmed Baa1(cr)

...Short-term Counterparty Risk Assessment, affirmed P-2(cr)

...Long-term Bank Deposit, affirmed Baa1, outlook changed to Positive from Stable

..Outlook Action:

....Outlook changed to Positive from Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in September 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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