

**Rated entity:**

Public Sector Covered Bond Program issued by UniCredit Bank Austria AG

**Rating:**

AA+

**Rating outlook / watch:**

Outlook stable

**Rating summary:**

This monitoring report covers our update of the public sector covered bond program issued under Austrian law by UniCredit Bank Austria AG („UniCredit Austria“). Our rating of UniCredit Austria is reflected by our rating opinion of UniCredit S.p.A. (Group) due to its group structure. On 03 December 2021, Creditreform Rating affirmed the unsolicited long-term issuer rating of UniCredit S.p.A. (Group) at BBB-/stable. The affirmation of the credit rating was a result of the Group’s considerable improvement with regard to its asset quality despite the negative impact of the Corona pandemic. However, UniCredit faces a significant dependency on the Italian market and the wellbeing of the Italian State (CRA Rating: BBB-/negative), which is a significant burden for the Group’s credit rating. Notwithstanding the above, UniCredit benefits from its strong domestic position with a satisfying intrinsic profitability but suffers under significant negative one-offs. The capitalization increased to a satisfying level.

During our covered bonds monitoring, we did not come to any new findings that could have an impact on the final rating outcome of the program with regard to legal and regulatory framework, the liquidity and refinancing risk and the credit and portfolio risk. However, it can be noted that, the new Covered Bonds Act (“PfandBG”) was passed on November 19, 2021 in Austria to create a modern and uniform legal basis for covered bonds by harmonizing the content of the three existing national laws. The new “PfandBG” will enter into force as of 08 July 2022; at the same time the currently existing three legal bases will expire as of 07 July 2022. As this change currently has no impact on our existing rating, we maintain a rating uplift of 4 notches for the legal and regulatory framework and a rating uplift of 1 notch for the liquidity and refinancing risk for this covered bond program. Furthermore, the credit metrics from the last rating of 25 October 2021 are valid. The cover pool and cash flow analysis resulted in AAA, which ensures a secondary uplift of three (+3) notches and the final covered bond program rating of AA+.

Taking into consideration the updated issuer rating, our analysis of the regulatory framework, liquidity and refinancing risks, as well as our cover pool assessment and results of the cash flow analysis with credit metrics as of 25 October 2021, CRA affirms the covered bond program rating at AA+. The outlook of the covered bond program was set at stable. The AA+ rating represents a very high level of credit quality and a very low investment risk.

Risk Factor	Result
Issuer rating	BBB- (rating as of 03 December 2021)
+ Legal and regulatory framework	+4 Notches
+ Liquidity and refinancing risk	+1 Notch
= Rating after 1 <sup>st</sup> uplift	A+
Cover pool & cash flow analysis	AAA (credit metrics as of 25 October 2021)
+ 2 <sup>nd</sup> rating uplift	+3 Notches <sup>1</sup>
= Rating covered bond program	<b>AA+</b>

**Primary key rating driver:**

- + Covered Bonds are subject to strict Austrian legal framework for covered bonds (HypoBG)
- + Covered bondholders have full recourse to the issuer
- + High overcollateralization (OC) of 92.46% as of 30.06.2021
- + Stable cover pool characteristics

<sup>1</sup> Maximum possible uplifts attainable based on CRA’s cover-pool analysis methodology

- +/- Covid-19 can lead to sustained impacts on cover assets and the issuer rating
- The covered bond program final rating is limited to the issuer rating

## **Rating sensitivities:**

Best-case scenario: In this scenario, the base case assumptions remained stable, resulting in a cover pool rating of AAA.

Worst-case scenario: In this scenario, we (ceteris paribus) reduced recoveries by 50% and increased credit risk by 50%, resulting in a cover pool rating of AAA. This would not affect the 2nd rating uplift, still resulting in a rating of AA+ for the covered bond program.

## **ESG-criteria:**

CRA generally takes ESG-relevant factors (environmental, social and governance) into account when assessing Covered Bond ratings. Overall, ESG factors have a significant impact on the current rating of this Covered Bond program. CRA identifies governance factors, in particular, to have a highly significant impact on Covered Bond ratings. Since Covered Bonds are subject to strict legal requirements, regulatory risk plays an important role in assessing the credit rating.

The HypoBG legislation provides clear rules to mitigate risks in particular regarding insolvency remoteness, asset segregation, investor's special claim vis-à-vis other creditors, the roll and appointment of a special administrator, among other provisions. Additionally, Risk management and internal controls as well as the macroeconomic factors such as hedging strategies, interest rates and yield curve are considered to have a highly significant impact on the assessment of the credit rating. Other individual factors with a potential key rating influence were not identified, and therefore did not affect the final rating.

On the subject of ESG (environment, social and governance), Creditreform Rating AG has published the basic document ("The Impact of ESG Factors on Credit Ratings"), which is available on the homepage under the following link:

<https://creditreform-rating.de/en/about-us/regulatory-requirements.html>

## **Rating Date / disclosure to rated entity / maximum validity:**

December 17, 2021 / December 17, 2021 / January 1, 2050

Between the disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

## **Initial rating date / rating:**

December 21, 2018 / AA+ - Outlook stable

## **Lead-analyst – position / Person approving (PAC):**

Aaron Kamruzzaman (Lead) – Analyst

Artur Kapica (PAC) – Senior Analyst

## **Name & address of legal entity:**

Creditreform Rating AG, Europadamm 2-6, 41460 Neuss, Germany

## **Status of solicitation:**

The rating is an unsolicited rating. The degree of participation was as follows:

With Rated Entity or Related Third Party Participation: No

With Access to Internal Documents: No

With Access to Management: No

## **Rating methodology / Version / Date of application / Link:**

[Rating Criteria and Definitions, Version 1.3, January 2018](#)

[Technical Documentation Portfolio Loss Distributions, Version 1.4, July 2018](#)

[Rating Methodology Covered Bonds, Version 1.0, July 2017](#)

Information on the meaning of a rating category, definition of default and sensitivity analysis of relevant key rating assumptions can be found at "Creditreform Rating AG, Rating Criteria and Definitions".

<https://creditreform-rating.de/en/about-us/regulatory-requirements.html>

## **Endorsement:**

Creditreform Rating did not endorse the rating according Article 4 (3), CRA-Regulation.

## **Regulatory requirements:**

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

## **Conflict of Interests**

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks. In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

## **Rules on the Presentation of Credit Ratings and Rating Outlooks**

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our policy "Rating Committee," all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity. To prepare this credit rating, CRA has used following substantially material sources:

1. Transaction structure and participants
2. Transaction documents
3. Issuing documents
4. Other rating relevant documentation

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRA website. Furthermore, CRA considers the quality and extent of information available on the rated entity as satisfactory. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.