

June 17, 2020

Lead analysts:

Irina Nosova, Director
+7 (495) 139-0481
irina.nosova@acra-ratings.ru

Valeriy Piven, Director
+7 (495) 139-0493
valeriy.piven@acra-ratings.ru

Key rating assessment factors

ACRA affirms AAA(RU) to AO UniCredit Bank, outlook Stable

The credit rating of [AO UniCredit Bank](#) (hereinafter, the Bank) is based on the high likelihood of receiving extraordinary support from the parent bank, which boasts moderate creditworthiness. The Bank's standalone creditworthiness assessment (SCA) is high due to a combination of strong market positions, a sound loss absorption buffer, adequate risk profile, and adequate liquidity and funding positions.

AO UniCredit Bank is a systemically important bank, which is wholly owned by UniCredit S.p.A., Italy (hereinafter, the Supporting Organization, or SO). The Bank is among the top ten banking groups in Russia. The Bank operates a wide branch network stretched across almost all of Russia's federal districts, with a focus on Moscow, as well as a representative office in the Republic of Belarus.

Very high likelihood of extraordinary support from the Supporting Organization. If necessary, UniCredit Group, acting through its parent bank structure UniCredit S.p.A., will provide the Bank with both short-term and long-term funding and capital injections in view of:

- Strategic importance of the Russian market for UniCredit Group;
- Pronounced operating integration (the Supporting Organization exercises strategic and partial operating control over the Bank, being a part of the corporate investment business platform of UniCredit Group);
- Significant operating, financial, and reputational risks arising in the event of the Bank's theoretical default.

The resulting assessment of country risk of the Group's jurisdiction of presence against Russia's country risk is defined by ACRA as generally strong, the assessment of the SO's creditworthiness as neutral (changed from moderately strong due to increased risks in the SO's operating environment), and the degree of relationships between the Bank and the SO as very strong. Consequently, the Bank's credit rating is determined by adding three notches to the SCA.

The Bank's systemic importance for the Russian financial sector is determined by the significant volume of client funds on the Bank's balance sheet and its presence in the majority of Russian regions. The Bank is on the Bank of Russia's list of systemically important credit organizations. ACRA's opinion on the level of systemic importance is expressed in the addition of two notches to the SCA.

Strong business profile (a+). Due to the rather universal nature of the Bank's activities, the diversification of its operating income is assessed as moderately high (the Herfindahl-Hirschman index is 0.24 for 2019). The Bank's strategy for 2020 is generally in line with current macroeconomic trends and is assessed by ACRA as adequate. The high assessment of the Bank's management quality is based on the successful long-term experience of its top managers, both in Russia and abroad, and control exercised by UniCredit S.p.A. over the Bank's operations.

The significant loss absorption buffer is supported by the Bank's high capital adequacy by both Russian regulatory requirements (N1.2 and N1.1 amounted to 14.5% as of May 1, 2020) and international standards (Tier-1 CAR equaled 17.2% as of January 1, 2020). This allows the Bank to withstand an increase in credit risk far exceeding 500 bps without notable regulatory consequences. Moreover, the Bank is marked by stable profitability regardless of economic cycle phases, which, coupled with a conservative dividend

strategy, has resulted in rather strong capital generation over the last five years (the Bank's averaged capital generation ratio is about 120 bps).

The adequate risk profile assessment is based on the Bank's high-quality risk management system, manifested through transparency and independence in internal decision-making, regularly streamlined risk policies, as well as stress testing of capital adequacy, liquidity, and market risk indicators. The quality of the Bank's loan portfolio (60% of assets for 2019) is defined as satisfactory due to an acceptable level of problem and potentially problem loans amounting to 4.2% of the loan portfolio (with NPL90+ at 3.9% and restructured loans at 0.2%). Loan portfolio concentration on the top ten groups of borrowers remains moderate (26% of the portfolio), while the concentration on high-risk industries is low (18.5% of Tier 1 capital for 2019).

Adequate liquidity and funding position. The Bank has a large amount of liquid and highly liquid assets, which can be used as coverage on a potential outflow of funds from the resource base (since the beginning of 2020, the short-term liquidity ratio has averaged about 140%). However, the majority of the Bank's liabilities comes from legal entities' funds (about 60% of liabilities at the end of 2019), raised mainly on a term basis. The concentration of liabilities on the ten largest groups of creditors (32% of liabilities or RUB 328 bln) continues to decrease steadily. The Bank does not attract regulatory financing.

Key assumptions

- UniCredit Group retaining its shareholder, strategic, and operational control over the Bank;
- Credit risk cost below 200 bps;
- N1.2 CAR and Tier 1 CAR higher than 11% within the 12 to 18-month horizon.

Potential outlook or rating change factors

The **Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

A negative rating action may be prompted by:

- Negative changes in UniCredit Group's propensity and ability to support the Bank;
- Material decline in the SO's creditworthiness.

Rating components

SCA: aa+.

Adjustments: none.

Support: SCA +3 notches.

Systemic importance: SCA +2 notches.

Issue ratings

No outstanding issues have been rated.

Regulatory disclosure

The credit rating has been assigned under the national scale for the Russian Federation based on the [Methodology for Credit Ratings Assignment to Banks and Bank Groups Under the National Scale for the Russian Federation](#), [Methodology for Analyzing Relationships Between Rated Entities and Supporting Organizations outside the Russian Federation](#), and the [Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#).

The credit rating assigned to AO UniCredit Bank was first published on June 26, 2017. The credit rating and its outlook are expected to be revised within one year following the publication date of this press release.

The credit rating is based on the data provided by AO UniCredit Bank, information from publicly available sources, as well as ACRA's own databases. The rating analysis was performed using IFRS consolidated statements of the Group of UniCredit Bank and statements of AO UniCredit Bank composed in compliance with the Bank of Russia

Ordinance No. 4927-U dated October 08, 2018. The credit rating is solicited, and AO UniCredit Bank participated in its assignment.

No material discrepancies between the provided data and the data officially disclosed by AO UniCredit Bank in its financial statements have been discovered.

ACRA provided additional services to AO UniCredit Bank. No conflicts of interest were discovered in the course of credit rating assignment.

(C) 2020

Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)

75, Sadovnicheskaya embankment, Moscow, Russia

www.acra-ratings.com

The Analytical Credit Rating Agency (ACRA) was founded in 2015, with its 27 shareholders representing major Russian corporate and financial institutions and its authorized capital exceeding RUB 3 bln. ACRA's main objective is to provide the Russian financial market with high-quality rating products. Methodologies and internal documents of ACRA are developed in compliance with Russian legislation and with regard to global rating industry best practices.

The provided information, including, without limitation, credit and non-credit ratings, rating assessment factors, detailed credit analysis results, methodologies, models, forecasts, analytical reviews and materials, as well as other information placed on the ACRA website (further referred to as Information), coupled with the ACRA website software and other applications, are intended for information purposes only. Information must not be modified, reproduced or distributed by any means, in any way or form, either in whole, or in part, in marketing materials, as part of public relations events, in news bulletins, in commercial materials or reports without prior written consent from, and reference to, ACRA. Any use of Information in violation of these requirements or the law is prohibited.

ACRA credit ratings reflect ACRA's opinion about the ability of a rated entity to meet its financial obligations or about the credit risk of individual financial obligations and instruments of a rated entity at the time of publication of the relevant Information.

Non-credit ratings reflect ACRA's opinion about certain non-credit risks assumed by interested parties interacting with a rated entity.

The assigned credit and non-credit ratings reflect all material information pertaining to a rated entity and known by ACRA (including the information received from third parties), the quality and reliability of which ACRA considers appropriate. ACRA shall not be responsible for the accuracy of information provided by clients or relevant third parties. ACRA does not audit or otherwise verify the provided data and shall not be held responsible for their accuracy and completeness. ACRA conducts rating analysis of information provided by customers using its own methodologies, with the texts thereof available on ACRA's website – www.acra-ratings.com/criteria.

The only source that reflects the latest Information, including the one about credit and non-credit ratings assigned by ACRA, is ACRA's official website – www.acra-ratings.com. Information is provided on an "as is" basis.

Information shall be considered by users exclusively as ACRA's statement of opinion and must not be regarded as advice, recommendation or suggestion to buy, hold or sell securities or other financial instruments of any kind, nor shall it be viewed as an offer or advertisement.

Neither ACRA, nor its employees and persons affiliated with ACRA (further referred to as the ACRA Parties) provide any direct or implied guarantee expressed in any form or by any means regarding the accuracy, timeliness, completeness or applicability of Information for making investment and other decisions. ACRA does not act as a fiduciary, auditor, investment or financial advisor. Information must be regarded solely as one of the factors affecting an investment decision or any other business decision made by any person who uses ACRA's information. It is essential that each of such persons conduct their own research and evaluation of a financial market participant, as well as an issuer and its debt obligations that may be regarded as an object of purchase, sale or possession. Users of Information shall make decisions on their own, involving their own independent advisors, if they deem it necessary.

ACRA Parties shall not be responsible for any action taken by users based on Information provided by ACRA. ACRA Parties shall under no circumstances be responsible for any direct, indirect or consequential damages or losses resulting from interpretations, conclusions, recommendations and other actions taken by third parties and directly or indirectly connected with such information.

Information provided by ACRA is valid only as of the date of preparation and publication of materials and may be amended by ACRA in the future. ACRA shall not be obliged to update, modify or supplement Information or inform anyone about such actions, unless the latter was recorded separately in a written agreement or is required by legislation of the Russian Federation.

ACRA does not provide advisory services. ACRA may provide additional services, if this does not create a conflict of interest with rating activities.

ACRA and its employees take all reasonable measures to protect all confidential and/or material non-public information in their possession from fraud, theft, unlawful use or inadvertent disclosure. ACRA provides protection of confidential information obtained in the course of its business activities as required by legislation of the Russian Federation.