

Rating Object	Rating Information
<p><b>UniCredit S.p.A. (Group)</b></p> <p>Creditreform ID: 400980975                      Management: Andrea Orcel (CEO)                      Stefano Porro (CFO)</p> <p>Rating Date: <b>03 December 2021</b>                      Monitoring until: withdrawal of the rating                      Rating Methodology: CRA "Bank Ratings v.3.0"                      CRA "Rating of Bank Capital and Unsecured Debt Instruments v.2.0"                      CRA "Environmental, Social and Governance Score for Banks v.1.0"                      CRA "Rating Criteria and Definitions v.1.3"</p> <p>Rating History: <a href="http://www.creditreform-rating.de">www.creditreform-rating.de</a></p>	<p>Long Term Issuer Rating / Outlook: <b>BBB- / stable</b></p> <p>Short Term: <b>L3</b></p> <p>Type: Update / Unsolicited</p> <p>Rating of Bank Capital and Unsecured Debt Instruments:</p> <p>Preferred Senior Unsecured: <b>BBB-</b>                      Non-Preferred Senior Unsecured: <b>BB+</b>                      Tier 2: <b>BB-</b>                      Additional Tier 1: <b>B</b></p>

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**Key Rating Driver**

- + Second largest retail and commercial banking franchise in Italy with a diversified business model by geography and by income sources and considerable business activities in the economically strong countries Germany and Austria
- + Improving competitiveness through the strategy "Team 2023" – Cost Management leads to significant reduction of the operating expense
- + Successful downsizing of the non-performing loan portfolio over the recent years – thereby catching up to its competitors with regard to its NPL ratio. In addition, relatively high coverage ratio shows a prudent approach
- + Sound regulatory capital ratios due to the significant RWA reduction – large capital buffer to the regulatory requirements
- + Continuous digitalization and innovation processes
- Significant volume of Italian government bonds tightens the connection to the well-being of the Italian market in addition to large business volumes in Italy (CRA Sovereign rating: BBB-/negative as of 02.03.21)
- Very high level of stage 2 loans indicates potential risk upcoming
- Low-interest policy of the ECB puts significant pressure on profitability. Decreasing operating income, whereby fee and commission income is not able to counteract the negative development of the net interest income
- Relatively large branch network in connection with a correspondingly relatively high number of employees

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**Executive Summary**

Creditreform Rating affirms the unsolicited long-term issuer rating of UniCredit S.p.A. (Group) at BBB-/stable. The affirmation of the credit rating is a result of the Group's considerable improvement with regard to its asset quality even 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.

## Company Overview

UniCredit S.p.A. (hereafter UniCredit) is headquartered in Milan and is the second largest bank in terms of total assets in Italy. In addition, UniCredit belongs to the list of global systemically important banks and must therefore fulfill special regulatory requirements. The historical origin of the bank goes back to the year 1870. With 80,879 employees (full time equivalent as of 30.06.2021) and 3,364 branches (63% located in Italy), the Group serves approximately 16 million customers and had total assets of €950 billion as of June 2021.

As a commercial bank, UniCredit operates primarily in 13 countries in Central and Eastern Europe as well as in 15 other countries worldwide. Previously, UniCredit was divided into the following 7 business segments, which are representative for the fiscal year 2020 annual report: Commercial Banking Italy, Commercial Banking Germany, Commercial Banking Austria, Central Eastern Europe, Corporate & Investment Banking, Group Corporate Center and Non-Core. See Chart 1 in the chapter profitability for the contribution of each business segment (excl. Non-Core and Group Corporate Centre) to the Group's operating income in 2020.

However, in May 2021 UniCredit announced a new organizational structure, which will become fully operational during the second half of 2021. According to the new set-up, the business segments Italy and Germany will prospective include beside the commercial banking business the corporate and investment banking business in each country. The new segment of Central Europe will include all business activities in Austria (CB and CIB) in addition to Czech Republic & Slovakia, Hungary, Slovenia as well as the Profit Centre Central Europe. The new segment of Eastern Europe will include the bank's business activities in Bosnia, Bulgaria, Croatia, Romania, Russia, Serbia as well as the Profit Centre Eastern Europe. By contrast, the segments of Group Corporate Centre and Non-Core will basically remain unchanged. However, a part of the Group Corporate Centre will be allocated to respective geographies. The Group Corporate Center is the management segment of UniCredit, which is charged with the management, support, optimization and control of the Group as a whole. The Non-Core business segment includes assets with a poor risk profile and assets that are no longer consistent with UniCredit's strategic focus. The two latter segments posted an operating loss in the fiscal year 2020 due to the nature of its business purpose.

UniCredit is currently pursuing its *Team 23* strategy, which is based on the following four strategic pillars: *Grow and strengthen client franchise, Transform and maximize productivity, Disciplined risk management & controls, and Capital and balance sheet management*. As a result of its strategy, UniCredit expects among others to reach a better customer satisfaction and service quality, reduced costs and operating risk, the run-down of its Non Core portfolio by end of 2021 as well as an overall €16 billion value creation for shareholders over the planned horizon until 2023. However, due the impact of the Corona pandemic, UniCredit considers the financial objectives of *Team 23*

as no longer valid anymore referring up to 2021. Instead, UniCredit announced to present its new strategic plan in December 2021, which therefore was not available during the preparation of this report.

Considering the major developments in 2020 and the first half-year 2021 affecting the Group structure, UniCredit performed the following transactions:

In 2020, UniCredit reduced its stake in Yapi Kredi Bank (YKB) from an initial 40.95% to 20% and generated, through this sale, a loss of about €1.57 billion, mostly due to the revaluation of foreign exchange reserves. As a result of the transaction, UniCredit applies with regard to the participation of YKB the equity method starting from the first quarter 2020. Moreover, in November 2021 UniCredit announced the disposal of the remaining stake in YKB for a total consideration of €300 million (expected to occur in the Q1-22), which will have an overall small positive impact on the Group's CET1 ratio. In addition, UniCredit expects for the financial year 2021 a negative consolidated P&L impact of approximately €1.6 billion (based on 3Q data), mostly deriving from the FX revaluation reserve related to the YKB stake.

In January 2021, UniCredit completed the disposal of SIA UniCredit Leasing and its subsidiary SIA UniCredit Insurance Broker to AS Citadele Banka, which was classified held for sale as at 31 December 2020, in line with the previous year. The intragroup funding has been fully reimbursed at closing.

Furthermore, in 2019 already, UniCredit sold its whole stake of about 35% of Finco-Bank S.p.A. and generated thereby a profit of about €1.3 billion after taxes. In addition, UniCredit sold its total stake held in Mediobanca S.p.A. equal to 8.4% and recorded a loss on disposal of about €16 million. Moreover, UniCredit sold the Ocean Breeze Energy GmbH (German Wind Farm) with an overall loss of -€339 million.

Notwithstanding the above, UniCredit sold non-performing loans with a total legal claim value, gross of write-downs and write-offs mainly, of more than €2.5 billion in 2020 (€7 billion in 2019) and was thereby able to further reduce its non-performing loan portfolio significantly.

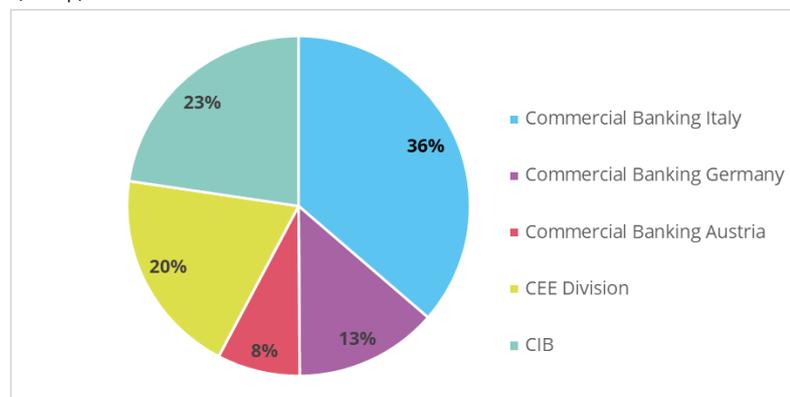
UniCredit is a public listed company with a free float of 100% of the shares outstanding and there are no controlling shareholders or shareholders' agreements. The most significant shareholders of UniCredit with each about 5% of the shares are the BlackRock Group and the Capital Research and Management Company.

## Business Development

### Profitability

UniCredit's operating income amounted to €18.7 billion in 2020, and decreased thereby significantly year-over-year. See Chart 1 for the contribution of each business segment (excl. Non-Core and Group Corporate Centre) to the Group's operating income.

Chart 1: Contribution of each business segment to UniCredit's operating income in 2020 | Source: Annual Report of UniCredit S.p.A. (Group)



Net interest income is one of the two major sources of income of UniCredit, decreasing significantly year-over-year. As other banks in the Eurozone, UniCredit suffers under lower loan demand, the drop in interest rates following government guarantees (CEE and CIB division) and in particular the low interest rate environment in general. The positive impact of lower refinancing expense and the benefit from TLTRO III refinancing program with €498 million in 2020 could only partially offset the negative development. Major contributor to the bank's net interest income by business segments are Commercial Banking Italy with about €2.9bn (2019: €3.3bn) and Central Eastern Europe with about €2.3bn (2019; €2.6bn). As of June 2021, UniCredit reports a further strong decline of its net interest income (-10.3% in comparison to H1-20) due to ongoing pressure on the interest rates, which are influenced by state guaranteed loans that results in lower customer rates.

Fees and commissions as the second major source of income dropped YOY by 5.7%, which is in contrast to most other large European banks. The background of the negative development is according to UniCredit mainly related to the various lockdown periods following the Corona pandemic. The pandemic resulted at UniCredit in diminishing fee income of assets under management, lower credit protection insurance commissions, lower transaction fees as well as lower debt and credit card fees. Major contributor to the bank's net fee and commission income by business segments is UniCredit's Commercial Banking Italy segment with about €3.3bn in 2020 (2019: €3.6bn). However, as of June 2021, a rebound at least to the previous level of fee and commission income is expected due to the recovery of the economy. In general, UniCredit would do well to increase its fee and commission income, which represents

a more stable source of income in times of low rates and which depend to a lesser extent on the wellbeing of the economy.

Net trading income contributed the lowest share of the typical three main drivers of operating income and remained, as in the previous years, at a relatively low level. The drop in this position is related to lower clients activities on stock markets, however, in 2021 UniCredit is about to achieve a significant better result in this position and achieved as of June 2021 already about the double income in comparison to H1-2020. Most of UniCredit's earnings in this regard are related to its Corporate & Investment Banking division. Considering the line item of Equity Accounted Results, UniCredit reported a significant loss of about €1.57 billion following the disposal of the 20.95% stake in YKB in 2020. However, to better represent the banks intrinsic profitability, we shifted this loss to the line item of non-recurring expense. The remaining stake in YKB will be sold in Q1-2022, which will result in an additional loss of about €1.6bn affecting the fiscal year 2021.

Operating expense amounted to €12.7 billion in 2020, decreasing year-over-year mainly due to lower personnel expense, which lowered following the continuous staff reduction (H1-21: 80,879 FTE, 2020: 81,107 FTE, 2019: 84,245 FTE) of the bank. By following its strategy, UniCredit is on track to improve its intrinsic profitability. In contrast to the presentation of the bank, we shifted the bank's charges for leaving incentives for the Italian division of about €1.4bn in 2020 to the line item of non-recurring expense to better represent the bank's intrinsic profitability. UniCredit's item depreciation and amortization normalized after the elevated level in the previous year. 2019 was affected by a €344 million impairment loss in relation to leased assets recognition (application of 6th update of the Banca d'Italia Circular 262), a €315 million write-down on its disposed entity Ocean Breeze Energy GmbH and a write-down of €228 million related to tangible assets of Capital Dev S.p.A. due to worsened economic conditions. Other expense consists of different insignificant items, thereof indirect taxes and duties (€614 million) as well as the contribution to the resolution fund in the amount of €714 million being the most relevant. Moreover, UniCredit benefitted as a result of the Corona pandemic among other from lower travel expense, lower consulting and credit recovery expense, which however, was mitigated by extraordinary Covid-19 expenses for IT infrastructure and sanitary protection measures.

Following the Corona pandemic, UniCredit reported a strong increase of its loan impairments in 2020, which amounted to €4.36 billion (thereof only €272mn of write-offs and €808mn related to updated macroeconomic scenarios). UniCredit thereby increased its cost of risk to about 110bp (own calculation: loan loss provision over net loans to customers) from an already elevated level of 81bp in 2019. In comparison to other large banks in Europe UniCredit is clearly at the higher end with its costs of risk. As of the Q3-21 report of UniCredit, the bank reports a normalization of its cost of risk and reduced the FY21 guidance to 30bp (previously <40bp; calculation of UniCredit), by which the bank would catch up to a competitive level.

Notwithstanding the above, UniCredit reported some significant one-off effects, which had a negative impact on the net result. These effects are presented under the line items of non-recurring events, which might differ from the bank's presentation. On one hand, UniCredit recorded a goodwill impairment of about €886mn on its Commercial Banking Italy CGU (therewith fully written-down) next to the aforementioned leaving incentives of about €1.4bn and the loss of about €1.57 billion following the disposal of the stake in YKB. On the other hand, UniCredit recorded a gain of €443mn on the sale of the real estate complex in Munich. As a result of the significant one-off effects in addition to the relatively high cost of risk, UniCredit recorded a negative result in 2020.

Considering the current development in 2021, UniCredit will likely benefit from a drop of loan loss impairment and thus will likely regain its level of profitability as of 2018, however, the sale of the remaining shares of YKB will burden the banks net profit.

A detailed group income statement for the years of 2017 through 2020 can be found in Figure 1 below:

Figure 1: Group income statement | Source: eValueRate / CRA

Income Statement (EUR m)	2020	%	2019	2018	2017
<b>Income</b>					
Net Interest Income	9.497	-7,5	10.272	10.751	10.298
Net Fee & Commission Income	5.957	-5,7	6.318	6.551	6.392
Net Insurance Income	-	-	-	-	-
Net Trading Income	1.079	-14,2	1.257	978	1.141
Equity Accounted Results	276	-12,7	316	-97	576
Dividends from Equity Instruments	208	-29,5	295	413	315
Other Income	1.267	-30,2	1.814	1.630	1.779
<b>Operating Income</b>	<b>18.689</b>	<b>-7,8</b>	<b>20.272</b>	<b>20.226</b>	<b>20.502</b>
<b>Expense</b>					
Depreciation and Amortisation	1.431	-34,1	2.171	1.053	1.167
Personnel Expense	5.962	-3,0	6.145	6.350	6.930
Tech & Communications Expense	1.093	+4,8	1.043	1.201	1.335
Marketing and Promotion Expense	155	+0,0	155	190	249
Other Provisions	488	> +100	103	1.516	509
Other Expense	3.607	-5,8	3.831	4.142	4.300
<b>Operating Expense</b>	<b>12.736</b>	<b>-5,3</b>	<b>13.448</b>	<b>14.452</b>	<b>14.489</b>
<b>Operating Profit &amp; Impairment</b>					
<b>Pre-impairment Operating Profit</b>	<b>5.953</b>	<b>-12,8</b>	<b>6.824</b>	<b>5.774</b>	<b>6.012</b>
Asset Writedowns	4.656	+33,4	3.489	2.674	2.413
<b>Net Income</b>					
Non-Recurring Income	516	> +100	177	591	100
Non-Recurring Expense	3.913	> +100	491	-	-
<b>Pre-tax Profit</b>	<b>-2.100</b>	<b>&lt; -100</b>	<b>3.021</b>	<b>3.691</b>	<b>3.700</b>
Income Tax Expense	322	-62,6	862	-523	596
Discontinued Operations	49	-96,3	1.332	126	2.682
<b>Net Profit</b>	<b>-2.778</b>	<b>&lt; -100</b>	<b>3.491</b>	<b>4.340</b>	<b>5.786</b>
Attributable to minority interest (non-controlling interest)	7	-94,1	118	233	313
Attributable to owners of the parent	-2.785	< -100	3.373	4.107	5.473

UniCredit's intrinsic profitability, which is indicated by the bank's cost to income ratios (CIR and CIRex), lowered YOY to a slightly below average level. The pressure on the bank's margin in addition to the significant Corona pandemic effects has led to the

adverse development, which UniCredit was not able to fully compensate by the reduction of its workforce. However, we expect UniCredit to reach a solid level of intrinsic profitability already in 2021, following further cost reduction and the rebound of customer activities.

The values for ROA, ROE and RORWA before and after taxes dropped YOY to an unsatisfying level following the negative net profit of the year. The driver of the tremendous loss in 2020 were various one-off effects (goodwill impairment, leaving incentives and the sale of YKB), in addition to significant impairments on customer loans due to the Corona pandemic. While the increase in loan loss impairment is in line with other large European banks, UniCredit still stands out negative due to its already pre-Corona elevated level of impairments. Leaving out one-off effects, we expect UniCredit to reach sound earnings figures in 2021 already; however, the sale of the remaining stake in YKB will burden the net profit once again. UniCredit's net financial margin lowered YOY slightly to a below average level, which indicates the current pressure on margins, respectively interest rates. In the upcoming periods, the release of the bank's loan loss impairments of 2020 following the Corona pandemic might boost UniCredit's earnings figures as the Corona pandemic effects did not hit the bank as expected (supported by government measures). However, as of now UniCredit did not indicate a significant release of its loan loss provisions.

Overall, UniCredit's earnings figures of 2020 are the least favorable performers in any of the areas analyzed mainly due to the various significant one-off effects.

A detailed overview of the income ratios for the years of 2017 through 2020 can be found in Figure 2 below:

Figure 2: Group key earnings figures | Source: eValueRate / CRA

Income Ratios (%)	2020	%	2019	2018	2017
Cost Income Ratio (CIR)	68,15	+1,81	66,34	71,45	70,67
Cost Income Ratio ex. Trading (CIRex)	72,32	+1,60	70,72	75,08	74,84
Return on Assets (ROA)	-0,30	-0,71	0,41	0,52	0,69
Return on Equity (ROE)	-4,63	-10,28	5,65	7,57	9,61
Return on Assets before Taxes (ROAbT)	-0,27	-0,62	0,35	0,44	0,44
Return on Equity before Taxes (ROEbT)	-4,18	-9,07	4,89	6,44	6,14
Return on Risk-Weighted Assets (RORWA)	-0,85	-1,77	0,92	1,17	1,62
Return on Risk-Weighted Assets before Taxes (RORWAbT)	-0,77	-1,57	0,80	1,00	1,04
Net Interest Margin (NIM)	1,18	-0,23	1,42	1,48	1,44
Pre-Impairment Operating Profit / Assets	0,64	-0,16	0,80	0,69	0,72
Cost of Funds (COF)	0,44	-0,15	0,59	0,58	0,59
Change in %-Points					

## Asset Situation and Asset Quality

Net loans to customers represent UniCredit's largest financial asset, decreasing YOY mainly due to lower customer demand in the Italian division, in addition to the run-down of the non-core division. In particular, current account loans decreased significantly, UniCredit was able to increase its mortgage loans YOY, which accounted for

about €178bn in 2020. Most of the bank's loans are related Commercial Banking Italy division (€132bn; -€9bn YOY) following Corporate and Investment Banking (€87bn; +€9bn YOY) and Commercial Banking Germany (€87bn; almost unchanged YOY). About 44% of the Group's total assets are related to Italy. Moreover, UniCredit's non-performing loans amounted to €21.2bn gross (€8.5bn net) in 2020 (2019: €25.3bn gross; €8.8bn net), which shows a successful rundown in recent years. UniCredit achieved a strong reduction over the recent years following numerous sales of NPL loans. As of H1-21, UniCredit faces further pressure on customer loans, mainly at the Corporate Investment Banking division. In addition, UniCredit records a slight increase of the non-performing loans (€21.5bn gross and €9.1bn net) as of June 2021. Considering the bank's loans under moratoria measures, UniCredit reduced the amount to a low level of €8.5bn outstanding (as of Q3-21).

Total securities as the second largest asset class increased YOY slightly, mostly due to increased holding of government debt securities. Overall, UniCredit holds mostly government debt securities with about €118.4 billion as of June 2021 (€110.5 billion as of year-end 2020). Moreover, UniCredit's sovereign debt securities are primarily related to Italy (€45.5bn), Spain (€17.1bn), Germany (€13.1bn) and Japan (€9.7) as of June 2021. Following our rating of the Italian republic of BBB-/negative from 05.03.21, in particular these government debt securities bear a significant risk.

UniCredit's huge cash position is a result of additional funding through participation in the ECB's TLTRO III program with total amount of €94.3 billion (€107bn as of June 2021). Although this program enables very favorable rates if conditions are met, UniCredit's huge cash position indicates difficulties in finding appropriate investment opportunities. Following that, the bank has to be aware of negative deposit rates.

A detailed look at the development of the asset side of the balance sheet for the years of 2017 through 2020 can be taken in Figure 3 below:

Figure 3: Development of assets | Source: eValueRate / CRA

Assets (EUR m)	2020	%	2019	2018	2017
Cash and Balances with Central Banks	165.126	> +100	56.467	43.114	89.719
Net Loans to Banks	23.793	-17,0	28.661	28.243	20.573
Net Loans to Customers	420.400	-2,0	428.862	437.900	421.846
Total Securities	165.004	+1,1	163.133	168.935	172.368
Total Derivative Assets	52.850	+21,3	43.581	39.273	40.445
Other Financial Assets	66.285	-29,4	93.876	74.375	51.064
<b>Financial Assets</b>	<b>893.458</b>	<b>+9,7</b>	<b>814.580</b>	<b>791.840</b>	<b>796.016</b>
Equity Accounted Investments	4.354	-9,0	4.787	5.502	6.212
Other Investments	-	-	-	-	-
Insurance Assets	-	-	-	-	-
Non-current Assets & Discontinued Ops	2.017	-19,7	2.512	2.241	1.111
Tangible and Intangible Assets	12.056	-13,2	13.897	12.311	11.835
Tax Assets	13.098	+1,4	12.922	12.944	12.658
Total Other Assets	6.473	-6,8	6.949	7.334	8.958
<b>Total Assets</b>	<b>931.456</b>	<b>+8,9</b>	<b>855.647</b>	<b>832.172</b>	<b>836.790</b>

UniCredit's asset quality figures have been the bank's weak point for the past several years already. However, the Group achieved a considerable improvement in this regard over the past years, in particular with regard to the bank's non-performing loans

portfolio as a result of the continuous sales of non-performing loans portfolios. Although UniCredit's NPL ratio (own calculation: stage 3 loan over net loans to customers) improved considerable in the past years as well as in a year-over-year comparison, it is still at an elevated level in comparison to other large European banks. However, UniCredit accomplished a further reduction of its gross non-performing exposure by about €4 billion YOY to a year-end 2020 amount of about €21.2 billion (€21.5bn as of June 2021). The net non-performing exposure (stage 3) of UniCredit is at year-end 2020 at about €8.5 billion (€9.1bn as of June 2021), which shows a worsening of the asset quality of the bank in 2021. Nevertheless, we acknowledge and appreciate the positive development with regard to UniCredit's quality of assets, which shows the banks clear approach to reduce its non-performing loans in accordance to its strategy.

As of now, one of the most significant impact of the Corona pandemic is evident through the increased stage 2 loan exposure, which indicates potential problem loans. The Group's potential problem loans almost doubled year-over-year (2020: €83.6bn, 2019: €44.7bn) primarily as a result of the Corona pandemic. In addition, with a potential problem loan ratio of about 19.9% UniCredit records a very high level and stands out clearly negative in comparison to other large European banks, which indicates significant risk. However, the bank's half-year 2021 report as well as the Q3-21 report indicates a declining trend. Nevertheless, after the run out of all government support measures a shift from potential problem loans to non-performing loans becomes more likely. UniCredit's net write-offs / RWAs ratio as well as the bank's net-write-offs to total assets ratio dropped to an unsatisfying level. Although the development is in line with other large European banks, UniCredit recorded already pre-Corona an elevated and unsatisfying level. The background of this development are the aforementioned huge loan loss provisions primarily following the Corona pandemic. However, we expect a strong decline in these ratios, as the Corona pandemic did not materialize as previously expected.

UniCredit's NPL/RWA ratio has improved equivalent to its NPL ratio, but still underperforms other large European banks. By contrast, UniCredit's reserve/NPL ratio is at a satisfying level and shows UniCredit's prudent approach in this regard. The Group RWA's, however, dropped significantly year-over-year to a competitive level following the YKB deconsolidation (-€20bn) and as a result of "business evolution and regulatory headwinds", which UniCredit did not outline in detail. As of June 2021, UniCredit was able to maintain the competitive level of its RWA ratio.

A detailed overview of the asset quality for the years of 2017 through 2020 can be found in Figure 4 below:

Figure 4: Development of asset quality | Source: eValueRate / CRA

Asset Ratios (%)	2020	%	2019	2018	2017
Net Loans/ Assets	45,13	-4,99	50,12	52,62	50,41
Risk-weighted Assets/ Assets	34,96	-9,30	44,26	44,48	42,56
NPLs*/ Net Loans to Customers	5,03	-0,84	5,87	8,70	11,48
NPLs*/ Risk-weighted Assets	6,49	-0,15	6,64	10,29	13,60
Potential Problem Loans**/ Net Loans to Customers	19,90	+9,61	10,29	10,26	2,19
Reserves/ NPLs*	79,44	+3,97	75,47	67,71	60,40
Reserves/ Net Loans	3,99	-0,43	4,43	5,89	6,93
Net Write-offs/ Net Loans	1,11	+0,29	0,81	0,61	0,57
Net Write-offs/ Risk-weighted Assets	1,43	+0,51	0,92	0,72	0,68
Net Write-offs/ Total Assets	0,50	+0,09	0,41	0,32	0,29

Change in %-Points

\* NPLs are represented from 2017 onwards by Stage 3 Loans.

\*\* Potential Problem Loans are Stage 2 Loans where available.

## Refinancing, Capital Quality and Liquidity

Deposits from customers represents UniCredit's major source of funding. The significant increase YOY is related to current accounts and on demand deposits of all divisions, which recorded a large inflow as a result of customers excess liquidity, which in turn was reinforced by the Corona pandemic and which continues in the fiscal year 2021 as well. Overall, about 37% of UniCredit's customer deposits are related to Commercial Banking Italy division, following by 22% of the Commercial Banking Germany division and 15% of the CEE division.

Total deposits from banks as the second largest source of funding increased YOY significantly, which is a result of UniCredit's aforementioned participation in the TLTRO III refinancing operation of the ECB with about €94.3 billion at year-end 2020 (€107 billion as of H1-21). Through the refinancing via the ECB program, UniCredit benefits from very favorable funding conditions (up to -1%), if conditions are met. As of June H1-21, UniCredit was therewith able to boost its interest income by about €429 million. By contrast, total debt as the third largest item of financial liabilities increased YOY and consists primarily of "bonds other than structured bonds" (€86 billion). The Group's Total Equity decreased significantly, primarily as a result of the negative net profit of the year. Since UniCredit intends to follow its FY 2021-2023 dividend policy, which envisages a distribution of 50% of the underlying net profit (executed with a maximum 30% in cash dividend and a minimum 20% via Share Buy Back), a quick rebound is unlikely in this regard.

A detailed overview of the development of liabilities for the years of 2017 through 2020 can be found in Figure 5 below:

Figure 5: Development of refinancing and capital adequacy | Source: eValueRate / CRA

Liabilities (EUR m)	2020	%	2019	2018	2017
Total Deposits from Banks	143.088	+37,5	104.067	101.752	103.299
Total Deposits from Customers	471.128	+8,9	432.451	433.787	413.820
Total Debt	115.471	+6,5	108.380	92.722	125.389
Derivative Liabilities	47.608	+16,6	40.842	36.728	38.589
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	68.572	-16,8	82.411	82.738	69.050
<b>Total Financial Liabilities</b>	<b>845.867</b>	<b>+10,1</b>	<b>768.151</b>	<b>747.727</b>	<b>750.146</b>
Insurance Liabilities	-	-	-	-	-
Non-current Liabilities & Discontinued Ops	761	+5,0	725	540	185
Tax Liabilities	1.358	-1,5	1.378	946	1.093
Provisions	10.780	-2,5	11.059	11.659	9.568
Total Other Liabilities	12.748	+1,6	12.549	13.950	15.573
<b>Total Liabilities</b>	<b>871.514</b>	<b>+9,8</b>	<b>793.862</b>	<b>774.822</b>	<b>776.565</b>
<b>Total Equity</b>	<b>59.942</b>	<b>-3,0</b>	<b>61.785</b>	<b>57.350</b>	<b>60.225</b>
<b>Total Liabilities and Equity</b>	<b>931.456</b>	<b>+8,9</b>	<b>855.647</b>	<b>832.172</b>	<b>836.790</b>

UniCredit's regulatory capital ratios improved over the most recent years, following the strong drop of the risk weighted assets and reached a satisfying level.

The Group's increase in the CET1 ratio to 15.96% (15.1% fully loaded) at year-end 2020 (16.1% as of H1-21; fully loaded 15%) is mostly due to the aforementioned reduction of its risk weighted assets by about €53bn. UniCredit's SREP requirement regarding its CET1 ratio is at 9.03% for 2021. Thus, the bank shows a large and considerable capital buffer, which even increased during the fiscal year 2021. The bank's AT1 ratio as well as its Total Capital ratio increased both and even disproportionately to the CET1 ratio to a satisfying level as well. The bank's AT1 ratio as well as the Total Capital ratio benefited from the issue of several AT1 and Tier 2 instruments. As a result, UniCredit reached a satisfying level with both ratios; however, the improvement for the most part is related to the RWA reduction. As of the bank's half-year report 2021, UniCredit continues to improve its regulatory capital ratios.

Considering the total equity to total assets ratio, UniCredit recorded a reduction, however the bank is still at a considerable level with this ratio. In addition, the drop is mainly related to the bank's disproportional increase of its total assets following the TLTRO III participation. However, this development is more of technical nature than a risk, due to the huge cash position. The bank's leverage ratio, which benefits from some transitional adjustments, is now in line with the other regulatory capital ratios at a sound level. Overall, UniCredit developed quite well with its capital ratios in recent years and clearly meets all regulatory requirements with considerable buffer.

UniCredit has not published any exact figures for its Net Stable Funding Ratio, which entries into force starting June 2021. The Group's LCR of 171% at year-end 2020 and of 185% as of June 2021 is at a satisfying level and in line with other large European banks. The customer deposits to total funding ratio shows the Group's stable and favorable source of funding - the deposits of its customers. However, considering the negative interest rate for deposits at the ECB, UniCredit has to be aware of excess

liquidity (in particular after the significant TLTRO III participation). In addition, the declining LTD ratio shows a declining demand for the Group's loans with an accelerating declining trend.

Overall, UniCredit's liquidity situation is satisfactory. Up to now, we do not perceive any liquidity issues at UniCredit and the whole banking sector, in particular following the significant support measures of the authorities.

A detailed overview of the development of capital and liquidity ratios for the years of 2017 through 2020 can be found in Figure 6 below:

Figure 6: Development of capital and liquidity ratios | Source: eValueRate / CRA

Capital Ratios and Liquidity (%)	2020	%	2019	2018	2017
Total Equity/ Total Assets	6,44	-0,79	7,22	6,89	7,20
Leverage Ratio	6,21	+0,70	5,51	5,06	5,73
Common Equity Tier 1 Ratio (CET1)*	15,96	+2,74	13,22	12,13	13,73
Tier 1 Ratio (CET1 + AT1)*	18,22	+3,32	14,90	13,64	15,36
Total Capital Ratio (CET1 + AT1 + T2)*	20,72	+3,03	17,69	15,80	18,10
SREP Capital Requirements	9,03	-1,06	10,09	10,09	8,78
Net Loans/ Deposits (LTD)	89,23	-9,94	99,17	100,95	101,94
Interbank Ratio	16,63	-10,91	27,54	27,76	19,92
Liquidity Coverage Ratio	171,00	+28,00	143,00	151,00	185,29
Customer Deposits / Total Funding (excl. Derivates)	57,18	-0,25	57,43	58,77	56,07
Net Stable Funding Ratio (NSFR)	-	-	-	-	-
Change in %- Points					

\*Fully loaded whenever available.

Due to UniCredit's bank capital and debt structure, as well as its status as a G-SIB, the Group's Preferred Senior Unsecured Debt instruments have not been notched down in comparison to the long-term issuer rating. Due to the seniority structure, UniCredit's non-preferred senior unsecured debt has been notched down by one notch. However, UniCredit's Tier 2 capital rating is three notches below the long-term issuer rating based on the bank's capital structure and seniority in accordance with our rating methodology. Additional Tier 1 capital is rated five notches below the long-term issuer rating, reflecting a high bail-in risk in the event of resolution. However, we withdraw the rating of the Additional Tier 1 capital of the subsidiary UniCredit Bank Austria AG due to a lack of volume.

## Environmental, Social and Governance (ESG) Score Card

UniCredit SpA has one significant and two moderate ESG rating drivers

- Corporate Governance is identified as a highly significant rating driver. The relevance for the credit rating results from the impact of the corporate governance factor on all other ESG factors and the overall well-being of the bank. This sub-factor was downgraded to neutral due to the turbulences relating the bank's top management, the resulting unclear new direction of the bank as well as due to the clearly negative economic development. On the other hand, UniCredit sets ambitious goals with regard to its ESG policies.
- Corporate Behaviour and Green Financing / Promoting are identified as moderate rating driver. While Green Financing / Promoting is rated positive due to the role as a joint bookrunner for a large number of green bonds issues in addition to increasing lending to the sustainable energy sector. However, Corporate Behaviour is rated negative due the bank's misconduct in in relation with US sanctions and money laundering.

### ESG Score

3,5 / 5

ESG Score Guidance	
> 4,25	Outstanding
>3,5 - 4,25	Above-average
>2,5 - 3,5	Average
>1,75 - 2,5	Substandard
<= 1,75	Poor

Factor	Sub-Factor	Consideration	Relevance Scale 2021	Eval.
Environmental	1.1 Green Financing / Promoting	The sub-factor "Green Financing/Promoting" has a moderate relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	3	(+)
	1.2 Exposure to Environmental Factors	The sub-factor "Exposure to Environmental Factors" has a low relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	2	(+)
	1.3 Resource Efficiency	The sub-factor "Resource Efficiency" has no significant relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	1	(+)

Social	2.1 Human Capital	The sub-factor "Human Capital" has low relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	2	(+)
	2.2 Social Responsibility	The sub-factor "Social Responsibility" has no significant relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	1	(+)

Governance	3.1 Corporate Governance	The sub-factor "Corporate Governance" is highly relevant for the credit rating, and is rated neutral in terms of the CRA ESG criteria.	4	( )
	3.2 Corporate Behaviour	The sub-factor "Corporate Behaviour" has a moderate relevance for the credit rating, and is rated negative in terms of the CRA ESG criteria.	3	( - )
	3.3 Corporate Transparency	The sub-factor "Corporate Transparency" has no significant relevance for the credit rating, and is rated very positive in terms of the CRA ESG criteria.	1	(+ +)

ESG Relevance Scale	
5	Highest Relevance
4	High Relevance
3	Moderate Relevance
2	Low Relevance
1	No significant Relevance

ESG Evaluation Guidance	
(+ +)	Strong positive
(+)	Positive
( )	Neutral
( - )	Negative
( - - )	Strong negativ

The ESG Score is based on the Methodology "Environmental, Social and Governance Score of Banken (Version 1.0)" of Creditreform Rating AG, which is available on our homepage <https://creditreform-rating.de/en/about-us/regulatory-requirements.html>. In addition, we refer to CRA's position paper "Considering the Impact of ESG Factors".

## Conclusion

Overall, UniCredit S.p.A. (Group), as one of the leading financial institutions in Italy, showed a substandard year of performance in 2020 following various one-off effects, in addition to the Corona pandemic impact. The pandemic had a massive impact on the Italian market (UniCredit's home market) with a strong economic slowdown; however, a rebound of the Italian economy is ongoing. In addition, the bank has to handle its restructuring activities, which enable cost reductions in the long-run. The dependency on the Italian market constitutes a significant burden for UniCredit's rating (CRA rating of the Italian Republic: BBB-/negative as of 05.03.2021).

UniCredit's business activities are related to the Italian market, which was heavily impacted by the Corona pandemic and led to lower earnings of the bank. In addition, the low interest rate environment burdens the bank's profitability. However, the diversification of income sources in particular through asset servicing is in favor of the bank. The massive increase in loan loss provisions had a significantly negative impact on the bank's profitability in 2020. However, as the Corona impact did not materialize as expected some reversals of the loan loss provisions are likely, which might eventually boost the bank's profitability in the upcoming years. Moreover, UniCredit reports a normalization of its cost of risk (calculated as impairment on financial assets over net loans to customers) in 2021 already but will record an additional negative impact following the YKB sale. The strong franchise of the bank (in Italy, Germany and Austria) and the ongoing cost cutting/restructuring measures will likely ensure that the bank will maintain its sound intrinsic profitability.

The asset quality of UniCredit improved significantly over the last years to a moderate level. In particular, the numerous sales of non-performing loans helped UniCredit to decrease the NPL ratio to a reasonable level. We explicitly appreciate this positive development as a result of UniCredit's *Team 23* strategy. However, the Corona pandemic has led to huge stage 2 exposure (potential problem loans), which are at a very high level and indicate potential worsening of the bank's asset quality. With the run out of public guarantees and support measures, the Corona pandemic might have a negative impact on the bank's asset quality over the next years. As of Q3-21, UniCredit was able to reduce its loan volume under moratoria measures to a relatively low amount. Considering the bank's debt securities holding, the major share of these assets are Italian government bonds, which tightens the connection to the Italian Republic.

On the liabilities side, UniCredit reported increasing customer deposits and increasing cash and balances with central banks, which is in line with the development of other large European banks. The participation in ECB's TLTRO III funding program, enables UniCredit to reduce its costs of funding, however, the run out of this support measure would lead to an additional burden for the bank. UniCredit's regulatory capital ratios are at a satisfying level thanks to the significant RWA reduction. The bank meets all

regulatory requirements with sufficient buffer to the SREP requirements. The liquidity situation of UniCredit remains proper.

### **Outlook**

This reflects our view that the Corona pandemic will have a capable impact on UniCredit's business activities. In addition, we expect an ongoing cost management, which will enable UniCredit to maintain solid intrinsic profitability. However, we will observe how the final impact of the Corona pandemic on the Italian economy respective the asset quality of the bank will be. In addition, we assume no significant economic worsening due to the Corona pandemic and stable political environment in the banks markets of operations.

### **Scenario Analysis**

In a scenario analysis, the bank is able to reach a "BBB" rating in the "best case" scenario and a "BB" rating in the "worst case" scenario. The ratings of bank capital and senior unsecured debt would behave similarly based on our rating mechanism. These ratings are especially sensitive to changes in total equity and to the bank capital and debt structure in general.

We might upgrade UniCredit S.p.A. (Group) long-term issuer credit rating and its bank capital and debt instruments if see an upgrade of the rating of the Italian Republic (current CRA rating: BBB-/negative) due to the dependency on the home market and on the wellbeing of Italian economy of UniCredit.

By contrast, a downgrade of the Group's long-term issuer credit rating and its bank capital and debt instruments is likely if we see declining capital ratios as well as a declining profitability. In particular, we will observe the ongoing Corona pandemic impact on UniCredit's asset quality and its business activities in general. Moreover, we see a close economic relation to the Italian nation, which is a burden for UniCredit's rating.

Best-case scenario: BBB

Worst-case scenario: BB

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

## Appendix

### Bank ratings

The bank ratings are dependent on a host of quantitative and qualitative factors. An improvement in either sub-category may result in a higher rating score.

LT Issuer / Outlook / Short-Term **BBB- / stable / L3**

### Bank Capital and Debt Instruments Ratings

The ratings for bank capital and debt instruments are inter alia dependent on subordination and relative size of the instrument class, based on the long-term issuer rating of the bank.

Preferred Senior Unsecured Debt (PSU): **BBB-**

Non-Preferred Senior Unsecured Debt (NPS): **BB+**

Tier 2 (T2): **BB-**

Additional Tier 1 (AT1): **B**

### Rating History

Please consult our website [www.creditreform-rating.de](http://www.creditreform-rating.de) for additional information regarding the dates of publication.

Figure 7: Rating History

Bank Issuer Rating	Rating Date	Result
LT / Outlook / Short-Term (Initial)	12.01.2018	BB+ / stable / NEL
Rating Update	03.08.2018	BBB- / stable / L3
Rating Update	16.10.2019	BBB- / stable / L3
Monitoring	24.03.2020	BBB- / NEW / L3
Rating Update	01.10.2020	BBB- / stable / L3
Rating Update	03.12.2021	BBB- / stable / L3
Bank Capital and Debt Instruments	Rating Date	Result
Senior Unsecured / T2 / AT1 (Initial)	12.01.2018	BB+ / B / B-
Senior Unsecured / T2 / AT1	03.08.2018	BBB- / BB- / B
PSU / NPS / T2 / AT1	16.10.2019	BBB- / BB+ / BB- / B
PSU / NPS / T2 / AT1	24.03.2020	BBB- / BB+ / BB- / B (NEW)
PSU / NPS / T2 / AT1	01.10.2020	BBB- / BB+ / BB- / B
PSU / NPS / T2 / AT1	03.12.2021	BBB- / BB+ / BB- / B
Subsidiaries of the Bank	Rating Date	Result
UniCredit Bank Austria AG		
LT / Outlook / Short-Term (Initial)	03.08.2018	BBB- / stable / L3
Rating Update	16.10.2019	BBB- / stable / L3

Monitoring	24.03.2020	BBB- / NEW / L3
Rating Update	01.10.2020	BBB- / stable / L3
Rating Update	03.12.2021	BBB- / stable / L3
Bank Capital and Debt Instruments of UniCredit Bank Austria AG		
Senior Unsecured / T2 / AT1 (Initial)	03.08.2018	BBB- / BB- / B
PSU / NPS / T2 / AT1	16.10.2019	BBB- / BB+ / BB- /B
PSU / NPS / T2 / AT1	24.03.2020	BBB- / BB+ / BB- /B (NEW)
PSU / NPS / T2 / AT1	01.10.2020	BBB- / BB+ / BB- /B
PSU / NPS / T2 / AT1	03.12.2021	BBB- / BB+ / BB- /n.r.
UniCredit Bank AG		
LT / Outlook / Short-Term (Initial)	03.08.2018	BBB- / stable / L3
Rating Update	16.10.2019	BBB- / stable / L3
Monitoring	24.03.2020	BBB- / NEW / L3
Rating Update	01.10.2020	BBB- / stable / L3
Rating Update	03.12.2021	BBB- / stable / L3
Bank Capital and Debt Instruments of UniCredit Bank AG		
Senior Unsecured / T2 / AT1 (Initial)	03.08.2018	BBB- / BB- / B
PSU / NPS / T2 / AT1	16.10.2019	BBB- / BB+ / BB- /B
PSU / NPS / T2 / AT1	24.03.2020	BBB- / BB+ / BB- /B (NEW)
PSU / NPS / T2 / AT1	01.10.2020	BBB- / BB+ / BB- /B
PSU / NPS / T2 / AT1	03.12.2021	BBB- / BB+ / BB- /B

## Regulatory

Creditreform Rating AG was neither commissioned by the rating object nor by any other third party for the rating. The analysis took place on a voluntary basis by Creditreform Rating AG and is to be described in the regulatory sense as an unsolicited rating. The following scheme clarifies the level of participation of the rated entity (rating object):

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	No
With Access to Internal Documents	No
With Access to Management	No

The rating is based on publicly available information and internal evaluation methods for the rated bank. The quantitative analysis is based mainly on the latest annual accounts, interim reports, other investor relations information of the bank, and calculated key figures by eValueRate / CRA.

The information and documents processed met the requirements of the rating system of Creditreform Rating AG as published on the website [www.creditreform-rating.de](http://www.creditreform-rating.de). The rating was carried out on the basis of the rating methodology for [bank ratings as \(v3.0\)](#), the methodology for the [rating of bank capital and unsecured debt instruments \(v2.0\)](#) as well as the rating methodology for [Environmental, Social and Governance Score for Banks \(v1.0\)](#) in conjunction with Creditreform's basic document [Rating Criteria and Definitions \(v1.3\)](#).

The complete presentation of the rating methodologies used by Creditreform Rating AG and the basic document Rating Criteria and Definitions (v1.3) are published on our homepage:

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

On 03 December 2021, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to UniCredit S.p.A. (Group) incl. the relevant subsidiaries, and the preliminary rating report was made available to the bank. There was no change in the rating score.

The rating is valid until withdrawal and is subject to monitoring from the rating date (see cover page). The rating will be comprehensively reviewed at least once every year. Within this period, the rating can be updated.

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.

Rating Endorsement Status: The rating of UniCredit S.p.A. (Group) was not endorsed by Creditreform Rating AG from a third country as defined in Article 4 (3) 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

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For a related third party within the affiliated group default analyses have been conducted as ancillary services.

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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. Aggregated data base by eValueRate
2. Annual Report and interim reports
3. Investors relations information and other publications
4. Website of the rated bank
5. Public and internal market analyses
6. Internet research

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

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

The "Basic data" information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In case where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating and indicates how the different methodologies or these other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions, such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings as well as best-case scenario credit ratings are explained in mentioned methodologies and / or in the credit rating report.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the "Basic

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In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within „Basic data“ information card.

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