

## ACRA AFFIRMS AAA(RU) TO AO UNICREDIT BANK, OUTLOOK STABLE

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The credit rating of **AO UniCredit Bank** (hereinafter, UniCredit Bank , or the Bank) has been affirmed to reflect ACRA's expectations that in the next 12 months the Bank will maintain a sustainable level of standalone creditworthiness and the status of systemically important institution regardless the pressure of geopolitical risks and uncertainty of operating environment.

UniCredit Bank's high standalone creditworthiness assessment (SCA) is determined by strong market positions, significant loss absorption buffer, adequate risk profile, and adequate funding and liquidity position. The final rating is supported by ACRA's opinion on the moderate systemic importance of UniCredit Bank for the Russian financial sector, which is expressed in two notches added to the SCA. Given the growing uncertainty regarding the Bank's future development strategy in the Russian market, the degree of possible support from the parent entity has been downgraded and it does not affect the credit rating at the moment.

AO UniCredit Bank is a systemically important institution and subsidiary of a global financial group (hereinafter, the Group, or the Supporting Entity). The Bank is among leaders by the assets and capital in the Russian banking sector and it is a notable player in the corporate banking services market. The Bank operates a wide branch network stretched across almost all of Russia's federal districts, with a focus on Moscow.

### KEY ASSESSMENT FACTORS

**Strong business profile assessment (a+).** UniCredit Bank is widely represented in the banking services market, being a universal credit institution with a wide range of activities, firmly standing among the fifteen largest banks in the country. The globally recognized brand and many years of experience have a positive impact on customer confidence, supporting the Bank's strong competitive positions. Historically, the strategy has been focused on large businesses: the Bank's borrowers are leaders in their industries. The Agency's opinion on the strong business profile assessment is supported by high standards of corporate governance, as well as risk management and control procedures implemented and cultivated by the Russian subsidiary, taking into account the Group's global experience.

At the same time, ACRA is of the opinion that the current geopolitical tensions and restrictions imposed on operations in Russia may significantly impair the Bank's business development prospects. Accordingly, the Agency does not exclude an alternative scenario of changes in the Bank's strategy and ownership structure, and the format and volume of the Group's presence in the Russian market in the next 12 months.

**The strong capital adequacy** reflects comfortable current capital adequacy metrics and proven ability to generate profits over time. The current year's performance is likely to be under

pressure from significant impairment provisions, which were conservatively created by the Bank in Q1 2022 amid growing risks. In ACRA's opinion, they will be balanced by the management's prudent decision to suspend active operations until some clarification of the external environment, as well as the inability to pay dividends outside the Russian Federation in the current conditions.

**The adequate risk profile assessment** of UniCredit Bank is due to a high-quality risk management system, which is characterized by transparency and independence in making intra-bank decisions, as well as regular improvement of risk methodologies and stress tests of capital adequacy, liquidity and market risk indicators. ACRA's conclusions are confirmed by the downward trend of the share of potentially non-performing loans in the total portfolio over the past 12 months.

At the same time, the Agency notes that significant amounts of related liabilities of non-residents, the servicing of which may be complicated by geopolitical tensions, in particular, current and possible future restrictions on the movement of capital, may make it somehow more difficult for the Bank to overcome the current crisis.

**Adequate position on funding and liquidity.** Thanks to its strong market positions and brand, the Bank has a comfortable volume of liquid and high-liquid assets, manages liquidity prudently, and has a stable and relatively inexpensive resource base.

**Importance for the financial system.** In ACRA's opinion, in the next 12 months, UniCredit Bank will maintain its moderate systemic importance due to the still significant amount of funds held by customers with the Bank, the overall scale of its business, and the presence of branch offices in most constituent entities of the Russian Federation. The Bank is included in the Bank of Russia's list of systemically important credit institutions. ACRA's opinion on the level of systemic importance is expressed in two additional notches to the SCA.

**The assessment of support from the Group has been lowered.** ACRA understands that the SE's interest in maintaining a presence in the Russian market has decreased after the sharp escalation of economic, political, sanctions, and regulatory risks in Q1 2022. ACRA also believes that although the negative financial consequences of the Group's exit from the Russian market would be notable, they would not lead to a sustained significant deterioration in its financial position. Regardless of further steps taken by the Group in relation to its Russian business, strong reputational ties will remain as long as single brand is maintained.

In addition, the Agency emphasizes that the current support assessment continues to take into account the different jurisdictions of presence of the Bank and the Supporting Entity, which make the possibility of providing support dependent on the freedom of capital movement between the countries.

## KEY ASSUMPTIONS

- ~ Maintaining the current business model over the next 12 months;
- ~ Continued status as a systemically important financial institution;
- ~ Maintained reputational risks for the Group in case of interruptions in the Bank's operations.

## POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

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

**A negative rating action may be prompted by:**

- ~ Reduced possibility of state support due to the Bank losing its systemic importance/lower systemic importance, coupled with signs of further decline in the Group's propensity to provide support;
- ~ Substantial decline in the Bank's standalone creditworthiness, for example, due to significant credit losses on receivables from non-residents associated with current or future possible difficulties in conducting cross-border transactions;
- ~ Deterioration of the business profile assessment due to the Group's reduced interest in developing in Russia.

## RATING COMPONENTS

SCA: **aa+**.

**Individual adjustments: none.**

**Systemic importance: SCA +2 notches.**

**Support:** ACRA is of the opinion that the Supporting Entity is able to provide the Bank with extraordinary support, including capital and liquidity. As the final rating, taking into account state support due to systemic importance, is AAA(RU), the potential impact of group support on the rating has not been determined.

## 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 Rated Entities Associated with a State or a Group](#), and the [Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#).

The credit rating of AO UniCredit Bank was published by ACRA for the first time 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 was assigned based on data provided by AO UniCredit Bank, information from publicly available sources, and ACRA's own databases. The rating analysis was performed using the IFRS consolidated financial statements of UniCredit Bank Group and the financial statements of AO UniCredit Bank drawn up in compliance with Bank of Russia Ordinance No. 4927-U dated October 8, 2018. The credit rating is solicited, and AO UniCredit Bank participated in its assignment.

In assigning the credit rating, ACRA used only information, the quality and reliability of which was, in ACRA's opinion, appropriate and sufficient to apply the methodologies.

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

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