

UniCredit S.p.A.

Key Rating Drivers

Risk Correlated with Italy: UniCredit S.p.A.'s ratings reflect the influence of its large operations in Italy and sovereign risk exposure on the group's overall risk profile, despite its well-diversified business profile across a number of countries, including more stable countries than Italy.

Improved Financial Performance: The ratings factor in the bank's progress in reducing impaired loans, in line with stated objectives, a gradual recovery in operating profitability, and satisfactory capital buffers over regulatory minimum requirements. They also consider the completion of the bank's total loss absorbing capacity/minimum requirements for own funds and eligible liabilities (TLAC/MREL) funding plan.

Satisfactory Capital Buffers: Capitalisation (15.2% regulatory common equity Tier 1, CET1, ratio at end-September 2020, calculated including 2019 suspended dividend but excluding accrued dividend of 30% of underlying profit) is a rating strength, given satisfactory buffers over regulatory requirements. The exposure of the bank's CET1 to unreserved impaired loans is limited, at nearly 10% at end-September 2020, down from 17% at end-2019, and compares well internationally.

De-Risking On Track: During 9M20, UniCredit's impaired loans fell to 5.4% of total loans following impaired loan disposals, in line with the bank's target to complete the non-core asset rundown by end-2021. Asset quality remains weaker than at many of its large European peers but this gap should materially decrease once legacy impaired loan disposals are completed. Fitch Ratings sees downside risks to the positive asset quality trend as the agency expects inflows of new impaired loans to increase due to the economic downturn.

Pandemic Affects Performance: Fitch expects UniCredit's operating profitability, which is below average relative to industry averages in comparable markets, to remain under pressure in 2021 as the continuation of the health crisis will likely result in subdued business volumes and high loan impairment charges (LICs). Over the medium term, we expect Unicredit's operating profit to be above 1% of risk-weighted assets (RWAs).

Sound, Diversified Funding: UniCredit's pan-European deposit franchise in retail and commercial banking provides the group with a sound proportion of customer deposits, and its access to institutional debt market is diversified by instrument and geography.

Rating Sensitivities

Sovereign Rating: For UniCredit's ratings to be upgraded, Italy needs to be upgraded. UniCredit's ratings are likely to be downgraded if Italy's sovereign rating is downgraded.

Easing Pressure: An upgrade would require the operating environment to stabilise and pressures on earnings, asset quality and risk appetite that have arisen from the economic downturn to ease.

Capitalisation: The ratings could be downgraded if UniCredit's CET1 ratio falls below 13% without the prospect of recovery in the short term. This weakening of capitalisation could be caused by a delay to the recovery of Italy's economy.

Ratings

Foreign Currency

Long-Term IDR	BBB-
Short-Term IDR	F3
Derivative Counterparty Rating	BBB-(dcr)

Viability Rating bbb-

Support Rating	5
Support Rating Floor	NF

Sovereign Risk

Long-Term Foreign-Currency IDR	BBB-
Country Ceiling	AA-

Outlooks

Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable

Applicable Criteria

[Bank Rating Criteria \(February 2020\)](#)

Related Research

[Large European Banks Quarterly Credit Tracker - 3Q20 \(December 2020\)](#)

[Fitch Ratings 2021 Outlook: Western European Banks \(December 2020\)](#)

[Fitch Affirms Unicredit at 'BBB-'; Outlook Stable \(November 2020\)](#)

[Fitch Ratings: European Banks Face Slow Revenue Recovery After Pandemic Shock \(September 2020\)](#)

[Fitch Downgrades Four Italian Banks Following Sovereign Downgrade \(May 2020\)](#)

Analysts

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Related Issuer Ratings

Rating level	UniCredit Bank AG	UniCredit Bulbank AD	Zagrebacka Banka dd	UniCredit Bank SA
Long-Term IDR	BBB/Negative	BB+/Stable	BB+/Stable	BB+/Stable
Short-Term IDR	F2	B	B	B
Viability Rating	bbb	bb+	bb+	bb

Source: Fitch Ratings

The Long and Short-Term Issuer Default Ratings (IDRs) of UniCredit Bank AG are driven by its standalone credit strength, as expressed by its Viability Rating (VR), which is highly influenced by Unicredit Bank AG's strong capitalisation.

UniCredit Bulbank AD's, Zagrebacka Banka dd's and UniCredit Bank SA's ratings reflect a moderate probability of support from their parent Unicredit, if needed. These subsidiaries are based in central and eastern Europe (CEE), which is a strategically important region for UniCredit.

Debt Ratings

The long-term deposit rating is one-notch above UniCredit's Long-Term Issuer Default Rating (IDR) because we believe the bank has sufficient combined buffers of junior and senior debt that result in a lower probability of default on deposits relative to its Long-Term IDR. The one-notch uplift also reflects our expectation that the bank will maintain sufficient buffers, especially given its status as a globally systemically important bank and the need to comply with the minimum requirement for TLAC and MREL.

The ratings of senior debt issued by UniCredit's funding vehicles, UniCredit Bank (Ireland) p.l.c, and UniCredit International Bank Luxembourg SA, are equalised with those of the parent. This is because the debt is unconditionally and irrevocably guaranteed by UniCredit, and Fitch expects the parent to honour this guarantee.

UniCredit's senior non-preferred notes (SNP) are rated one notch below the bank's Long-Term IDR. This is to reflect the risk of below average recoveries arising from the use of more senior debt to meet resolution buffer requirements, and the combined buffer of additional Tier 1, Tier 2 and SNP debt being unlikely to exceed 10% of RWAs. For the same reasons, the senior preferred notes are rated in line with the Long-Term IDR.

The Tier 2 subordinated debt is rated two notches below the VR to reflect the prospects of poor recoveries in resolution given the notes' subordination.

Additional Tier 1 notes are rated four notches below the VR, comprising two notches for loss severity relative to senior unsecured creditors and two notches for incremental non-performance risk. The latter reflects the instruments' fully discretionary interest payment.

Debt Rating Classes

Debt level	Rating
Unicredit S.p.A.	
Deposits	BBB/F3
Senior preferred debt	BBB-/F3
Senior non-preferred debt	BB+
Tier 2 subordinated debt	BB
Additional Tier 1 notes	B+
UniCredit Bank (Ireland) p.l.c	
Senior preferred debt	BBB ^a
UniCredit International Bank Luxembourg SA	
Senior preferred debt	BBB ^a

^a Guaranteed by Unicredit S.p.A.
 Source: Fitch Ratings

Ratings Navigator

UniCredit S.p.A.



Banks
Ratings Navigator

	Peer Ratings	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity	Viability Rating	Support Rating Floor	Issuer Default Rating
aaa										aaa	AAA	AAA
aa+										aa+	AA+	AA+
aa										aa	AA	AA
aa-										aa-	AA-	AA-
a+										a+	A+	A+
a										a	A	A
a-										a-	A-	A-
bbb+		↓	↓	↓	↓				↓	bbb+	BBB+	BBB+
bbb		↓	↓	↓	↓				↓	bbb	BBB	BBB
bbb-		↓	↓	↓	↓				↓	bbb-	BBB-	BBB- Stable
bb+										bb+	BB+	BB+
bb										bb	BB	BB
bb-										bb-	BB-	BB-
b+										b+	B+	B+
b										b	B	B
b-										b-	B-	B-
ccc+										ccc+	CCC+	CCC+
ccc										ccc	CCC	CCC
ccc-										ccc-	CCC-	CCC-
cc										cc	CC	CC
c										c	C	C
f										f	NF	D or RD

Significant Changes

Operating Environment Still Negative

We expect the operating environment for the Italian banking sector to remain challenging and broadly unchanged from 2020. Fitch forecasts a 9.1% GDP contraction in 2020, which will be only partially offset by a 4.5% recovery in 2021.

The negative outlook on the operating environment for the banking sector reflects potential downside risks since the economic fallout from the pandemic will amplify credit risks and pressure earnings and profitability, particularly if a recovery is delayed. The prospect of a vaccine being deployed successfully means, however that we should be in a position to revise the negative outlook in the coming quarters.

Revenue prospects for 2021 will be similar to 2020, but a recovery in the low-growth, yet deep and diversified, presents business opportunities for the banks. We expect net interest income (NII) to be muted and overall fees unlikely to contract further. Inflows of new impaired loans are likely to resume as payment suspension schemes come to an end. We expect banks to continue adjust provisioning to reflect actual impaired loan flows and continued de-risking.

Corporate Governance, Management Changes

The terms of office of UniCredit's board of directors will expire in April 2021. In October 2020, the board appointed Pier Carlo Padoan, Italy's Minister of Economy and Finance between 2014 and 2018, as a board member and prospective chairman.

The CEO Jean-Pierre Mustier will leave the bank as scheduled in April 2021 and will be replaced by Andrea Orcel.

Bar Chart Legend	
Vertical bars – VR range of Rating Factor	
Bar Colors – Influence on final VR	
	Higher influence
	Moderate influence
	Lower influence
Bar Arrows – Rating Factor Outlook	
	Positive
	Negative
	Evolving
	Stable

Navigator Peer Comparison

Peer Group Summary	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity	Viability Rating
UniCredit S.p.A.	bbb ▼	bbb ■	bbb+ ▼	bbb ▼	bb ■	bb+ ▼	bbb- ■	bbb ■	bbb-
Intesa Sanpaolo S.p.A.	bbb- ▼	bbb ■	bbb ■	bbb- ▼	bb ▼	bbb- ▼	bbb ■	bbb ■	bbb-
Bank of Ireland Group Public Limited Company	a- ■	bbb+ ■	bbb+ ■	bbb ■	bb+ ▲	bbb- ■	bbb- ▲	bbb ■	bbb
ALB Group Public Limited Company	bbb+ ▼	bbb ■	bbb+ ▼	bbb ■	bb+ ▼	bbb ▼	bbb ■	bbb+ ■	bbb
CaixaBank, S.A.	bbb+ ▼	a- ■	a- ▼	bbb+ ▼	bbb- ▼	bbb+ ▼	bbb+ ▼	bbb+ ■	bbb+
Bankia S.A. ^a	bbb+ ▼	bbb+ ▲	bbb+ ▲	bbb ▲	bb+ ▲	bbb- ▲	bbb ▲	bbb+ ■	bbb RWP

^a The Rating Watch Positive (RWP) on Bankia reflects the expected merger with CaixaBank
Source: Fitch Ratings

Company Summary and Key Qualitative Assessment Factors

Risk Correlated to Italy, despite Pan-European Franchise

UniCredit deploys its activities in 29 countries worldwide, 13 of which are qualified as core markets and covered through subsidiaries. The group's strategy is committed to generating sustainable returns by leveraging on its pan-European client franchise and optimising its cost base. UniCredit ranks among the leading companies in its core markets by total assets (ranked first in Austria and CEE; second in Italy, and third in Germany, according to the bank), making it one of the most geographically diversified banks in Europe.

Despite the well-diversified business profile across a number of countries, the Italian operations are significant as they accounted for more than 40% of group revenue and about one-third of RWAs and non-performing exposures over the last few years, in addition to Italian government bonds held.

UniCredit's business model builds on providing its customer base with commercial banking services (CB) and corporate and investment banking (CIB) products in the various geographies, with its CIB hub based in Germany. The group also operates a transaction banking "factory" to provide its corporate client base with cash and liquidity management services as well as trade finance. Asset management leverages on a strategic partnership with Amundi in Italy, Germany, Austria and Eastern Europe under an agreement that lasts until 2026.

Appetite for External Growth Could Change

The bank's strategy focuses on growing and strengthening its client franchise across Europe, while maintaining strong risk and cost discipline. We expect the disposal of non-strategic assets intended to optimise capital allocation to decrease compared to the past three years as the bank has completed most its planned sales.

Since 2016, business expansion has been pursued organically while cross-border mergers have been deemed too complex because they require costly restructuring processes resulting in value disruption for the shareholders. Similarly, appetite for domestic mergers has been low but in Fitch's opinion the bank's stance could change given the accelerated consolidation in its domestic market.

Improved Risk Governance Framework

Since 2016, the bank reassessed its risk appetite, accelerating its balance sheet clean-up, focusing the new business towards better rating classes and capital light transactions, and reducing exposure to Italian sovereign debt. These measures have resulted in slower new non-performing loans (NPL) inflow and decreasing LICs, while the rundown of legacy NPLs by 2021 will bring the impaired loans ratio almost in line with the European banks' average as published by the European Banking Authority (EBA).

Credit risk monitoring, centralised at the parent, is tight, to ensure reaching the strategic plan targets on asset quality ratios as well as quality of new origination.

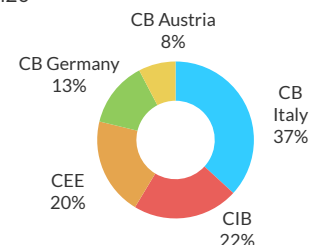
Average Market Risk, High Sovereign Exposure

Market risk appetite at UniCredit, largely concentrated in its CIB trading activities, is average for a commercial bank.

Appetite for sovereign exposure risk (EUR91 billion at end-September 2020) is elevated but the bank is gradually reducing this exposure, notably the Italian government bonds. At end-September 2020, sovereign bond holdings were at around 180% of CET1 (235% at end-2018) which narrows to 83% when considering only holdings of Italian sovereign bonds (129% at end-2018).

Operating Income by Business Line

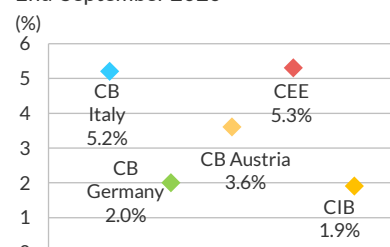
9M20



Source: Fitch Ratings, Unicredit

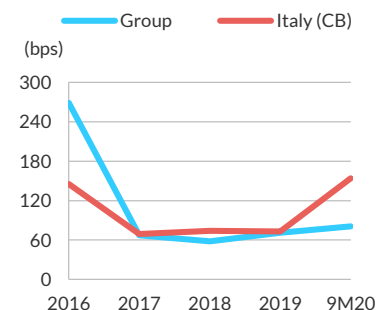
Gross Non-Performing Exposures Ratio by Division

End-September 2020



Source: Fitch Ratings, Unicredit

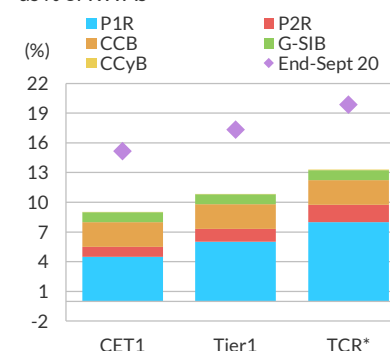
LICs/Gross Loans



Source: Fitch Ratings, Unicredit

SREP Capital Requirements

as % of RWAs



*TCR: tangible common equity/tangible assets
Source: Fitch Ratings, Unicredit

Summary Financials and Key Ratios

	30 Sep 20		31 Dec 19	31 Dec 18	31 Dec 17
	9 months - 3rd quarter	9 months - 3rd quarter	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
	Unaudited	Unaudited	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	8,759	7,481.0	10,563.0	11,260.7	11,096.0
Net fees and commissions	5,233	4,470.0	6,318.0	6,870.1	6,392.4
Other operating income	1,153	985.0	1,577.0	1,713.2	1,722.7
Total operating income	15,145	12,936.0	18,458.0	19,844.0	19,211.1
Operating costs	8,669	7,404.0	12,399.0	13,342.7	13,049.5
Pre-impairment operating profit	6,477	5,532.0	6,059.0	6,501.3	6,161.6
Loan and other impairment charges	3,440	2,938.0	3,489.0	2,681.0	2,901.5
Operating profit	3,037	2,594.0	2,570.0	3,820.3	3,260.1
Other non-operating items (net)	-4,537	-3,875.0	1,783.0	-213.4	3,121.1
Tax	363	310.0	862.0	-501.7	595.6
Net income	-1,863	-1,591.0	3,491.0	4,108.6	5,785.6
Other comprehensive income	n.a.	n.a.	1,368.0	-2,798.9	-98.8
Fitch comprehensive income	-1,863	-1,591.0	4,859.0	1,309.7	5,686.8
Summary balance sheet					
Assets					
Gross loans	493,576	421,573.0	442,493.0	458,313.3	452,153.9
- Of which impaired	26,582	22,704.0	28,135.0	40,241.9	50,254.1
Loan loss allowances	20,745	17,719.0	21,014.0	27,212.2	30,307.5
Net loans	472,831	403,854.0	421,479.0	431,101.1	421,846.4
Interbank	151,197	129,140.0	30,212.0	28,315.9	30,300.0
Derivatives	9,649	8,241.0	43,581.0	39,274.3	40,445.1
Other securities and earning assets	338,938	289,494.0	269,751.0	258,299.8	231,776.5
Total earning assets	972,614	830,729.0	765,023.0	756,991.1	724,368.0
Cash and due from banks	44,373	37,900.0	54,668.0	41,868.3	79,992.4
Other assets	40,655	34,724.0	35,956.0	32,609.3	32,429.3
Total assets	1,057,642	903,353.0	855,647.0	831,468.7	836,789.7
Liabilities					
Customer deposits	521,106	445,087.0	422,845.0	422,024.1	413,791.1
Interbank and other short-term funding	226,523	193,478.0	185,694.0	187,788.7	172,348.3
Other long-term funding	118,939	101,588.0	90,489.0	84,862.5	100,262.0
Trading liabilities and derivatives	70,673	60,363.0	63,311.0	52,373.1	62,393.5
Total funding	937,241	800,516.0	762,339.0	747,048.4	748,794.9
Other liabilities	48,880	41,749.0	25,711.0	26,620.5	26,478.1
Preference shares and hybrid capital	n.a.	n.a.	5,812.0	5,642.1	5,902.1
Total equity	71,522	61,088.0	61,785.0	52,157.7	55,614.6
Total liabilities and equity	1,057,642	903,353.0	855,647.0	831,468.7	836,789.7
Exchange rate		USD1 = EURO.85,412	USD1 = EURO.89,015	USD1 = EURO.873,057	USD1 = EURO.83,382

Source: Fitch Ratings, Fitch Solutions, UniCredit

Summary Financials and Key Ratios

	30 Sep 20	31 Dec 19	31 Dec 18	31 Dec 17
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.0	0.7	1.0	0.9
Net interest income/average earning assets	1.3	1.4	1.5	1.5
Non-interest expense/gross revenue	57.2	68.4	69.6	70.1
Net income/average equity	-3.5	6.1	7.7	11.1
Asset quality				
Impaired loans ratio	5.4	6.4	8.8	11.1
Growth in gross loans	-4.7	-3.5	1.4	-3.5
Loan loss allowances/impaired loans	78.0	74.7	67.6	60.3
Loan impairment charges/average gross loans	0.9	0.8	0.6	0.6
Capitalisation				
Common equity Tier 1 ratio	15.2	13.2	12.1	13.7
Fully loaded common equity Tier 1 ratio	14.4	13.2	12.1	13.6
Tangible common equity/tangible assets	6.5	5.7	5.8	6.2
Basel leverage ratio	5.7	5.5	5.1	5.7
Net impaired loans/common equity Tier 1	9.8	16.5	29.0	40.8
Funding and liquidity				
Loans/customer deposits	94.7	104.7	108.6	109.3
Liquidity coverage ratio	159.0	143.0	151.0	185.3
Customer deposits/funding	56.5	58.1	59.0	57.8
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, UniCredit

Key Financial Metrics – Latest Developments

Diversified Loan Book, Italy Weighs on Group Asset Quality

UniCredit's loan book is well diversified by geography, industry and borrower. Diversification also results from a large part of loans in its commercial banking activities being granted to retail clients and from CIB loans being well diversified by industry. At end-June 2020, the largest exposures were sufficiently fragmented, with the largest 20 exposures at default accounting for about 6% of gross loans and 57% of CET1.

The quality of the loan book is influenced by the large operations in Italy where the operating environment is weaker than in other core countries in which the group operates (e.g. Germany and Austria). At end-September 2020, Italy (Commercial Banking activities) accounted for nearly one-third of group gross loans and group NPLs, while Germany (second largest by geography) accounted for nearly 20% and 8% respectively.

Weaker Performance in 2020, Recovery Expected from 2021

In 9M20, the bank's profitability was pressured by lower business volumes and revenue and high LICs due to the pandemic crisis, in addition to the low interest rates.

For 2020, guidance for LICs is in the region of 100bp-120bp of gross loans (71bp in 2019). This falls to 50bp-60bp when excluding the IFRS macro-related provisioning which incorporates the deterioration of the operating environment due to the economic downturn. In 2021, the bank expects credit risk charges at the bottom end of the 70bp-90bp range, with underlying LICs (excluding regulatory headwinds) close to 60bp of gross loans.

Revenue prospects for 2021 will continue to be challenging, although the economic recovery in UniCredit's main economies will present business opportunities.

Suspended Dividend, RWAs Reduction Underpin Capitalisation

At end-September 2020, the group's fully loaded CET1 ratio improved to 14.4%, from 13.2% at end-2019, mainly owing to lower RWAs, the suspension of the dividend for 2019, which accounted for nearly 40bp, and to underlying profit. The combination of these factors resulted in the CET1 Maximum Distributable Amount buffer growing to 538bp, which is well above UniCredit's 200bp-250bp target.

From 2021, the bank plans to resume capital distributions, which, however, might be constrained by the ECB's recently published guidance. Fitch expects the bank to maintain sufficient capital, irrespective of a reduction in profitability, to absorb higher credit quality risks that will materialise in 2021.

Overall sovereign risk remains fairly large in relation to CET1. The bank is pursuing a visible strategy of sovereign risk-deleveraging regarding its Italian government bonds which, coupled with the run-off of Italian non-core assets, aims to reduce the downside risks linked to the creditworthiness of Italy.

Diversified Funding, Increased TLTRO Utilisation

In 9M20, the bank completed its 2020 TLAC funding plan and started pre-funding for 2021. The issuance of over EUR10 billion of TLAC eligible instruments in 2020 confirmed UniCredit's proven ability to access the capital markets.

The group taps the capital markets in different formats across the liability structure and from different legal entities. The parent is the largest issuer of senior and subordinated debt, while the German and Austrian subsidiaries are frequent issuer of covered bonds (Pfandbrief) both in euros and US dollars.

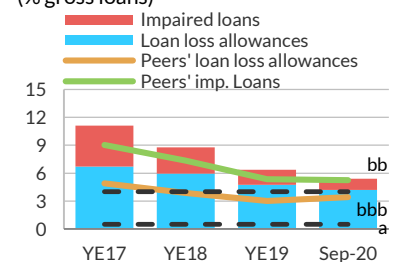
In June 2020, UniCredit borrowed its maximum EUR94.3 billion TLTRO3 allowance from the ECB. Funding from the latter increased to nearly 13% of total funding from an average 8% over the past three years (EUR52 billion at end-2019). The decision to draw the maximum allowance is common to other Italian peers given attractive conditions and does not signal a change in the bank's ability to tap the debt markets.

Notes on Charts

Peer average includes Intesa Sanpaolo S.p.A. (VR: bbb-), Bank of Ireland (bbb), Allied Irish Banks, plc (bbb), CaixaBank, S.A. (bbb+) and Bankia S.A. (bbb).

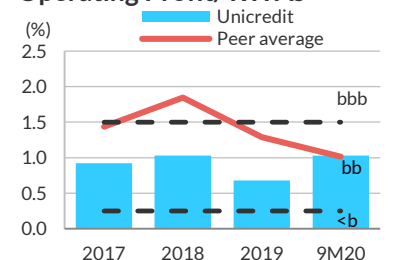
Black dashed lines in the charts represent indicative quantitative ranges and corresponding implied scores for Fitch's core financial metrics for banks operating in environments that Fitch scores in the 'bbb' category

Asset Quality (% gross loans)



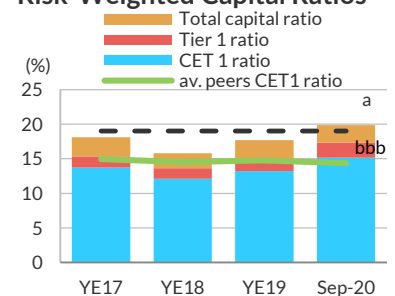
Source: Fitch Ratings, Unicredit

Operating Profit/ RWAs



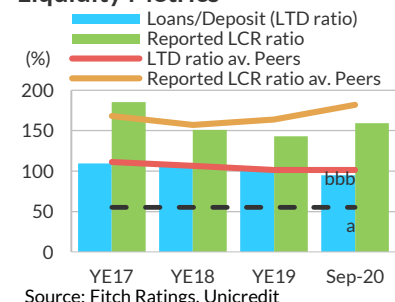
Source: Fitch Ratings, Unicredit

Risk-Weighted Capital Ratios



Source: Fitch Ratings, Unicredit

Liquidity Metrics



Source: Fitch Ratings, Unicredit

Sovereign Support Assessment

Support Rating Floor		Value	
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)		BBB- to BB	
Actual country D-SIB SRF		NF	
Support Rating Floor:		NF	
Support Factors	Positive	Neutral	Negative
Sovereign ability to support system			
Size of banking system relative to economy		✓	
Size of potential problem		✓	
Structure of banking system		✓	
Liability structure of banking system		✓	
Sovereign financial flexibility (for rating level)		✓	
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in			✓
Track record of banking sector support		✓	
Government statements of support		✓	
Sovereign propensity to support bank			
Systemic importance		✓	
Liability structure of bank		✓	
Ownership		✓	
Specifics of bank failure		✓	

No Reliance on Sovereign Support

The Support Rating of '5' and Support Rating Floor of 'No Floor', in line with other rated eurozone commercial banks, reflect that senior creditors can no longer rely on receiving full extraordinary support from the sovereign in the event that a bank becomes non-viable.

The EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism for eurozone banks provide a framework for resolving banks that require senior creditors participating in losses, if necessary, instead of, or ahead of, a bank receiving sovereign support.

Environmental, Social and Governance Considerations

FitchRatings UniCredit S.p.A.

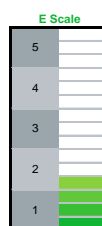
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Credit-Relevant ESG Derivation

UniCredit S.p.A. has 5 ESG potential rating drivers			Overall ESG Scale	
<ul style="list-style-type: none"> UniCredit S.p.A. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating. Governance is minimally relevant to the rating and is not currently a driver. 	key driver	0	issues	5
	driver	0	issues	4
	potential driver	5	issues	3
		4	issues	2
	not a rating driver	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	1	n.a.	n.a.
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality



How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

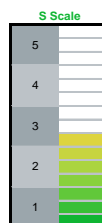
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

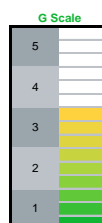
Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities; SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy
Employee Wellbeing	1	n.a.	n.a.
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile



Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Management & Strategy
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal/compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy



CREDIT-RELEVANT ESG SCALE	
How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance for UniCredit is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

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