



ATTACHMENT

Rationale

On May 21, 2007, Standard & Poor's Ratings Services affirmed its 'A+' long-term and 'A-1' short-term counterparty credit ratings on Italy-based bank UniCredito Italiano SpA and its subsidiaries (see list below). The outlook on UniCredito is stable.

The rating actions follow the announcement that the boards of UniCredito and Capitalia SpA (A/Watch Pos/A-1) have approved the merger of the two entities, involving the incorporation of Capitalia into UniCredito.

The ratings affirmations reflect the transaction's sound strategic rationale, and our expectation that Capitalia will be strongly integrated into UniCredito. The incorporation would significantly strengthen UniCredito's presence in the profitable Italian market, where it would become the second-largest bank, after Intesa Sanpaolo SpA (AA-/Stable/A-1+). Capitalia's financial profile has significantly strengthened during the past few years, and this excludes any meaningful dilution of Unicredito's current profitability. The all-share nature of the deal would prevent a weakening of post-merger capital ratios. Some synergies could be extracted from the integration, especially cost synergies, although Capitalia's structural inefficiencies were already tackled by last year's turnaround.

A point that would need to be monitored would be the workout of the sizable stock of nonperforming assets, a legacy from both Bayerische Hypo- und Vereinsbank AG (HVB) and Capitalia. Any reasonable need to strengthen coverage ratios could be absorbed by the current credit ratings. The integration of Capitalia into Unicredito would be facilitated by UniCredito's strong integration track record, the friendly nature of the deal, and the sharing of clear integration guidelines. The ratings on UniCredito continue to reflect its strong business and geographic diversification in its core markets of Italy, Germany, and Austria; strategic presence in fast-growing economies in Central and Eastern Europe (CEE); strong management and clear strategy; and satisfactory profitability from the Italian and CEE businesses. On the other hand, the ratings are constrained by structurally weaker asset quality than peers'; still low profitability of the German and Austrian operations; only adequate capital ratios; and the operational complexity in creating a European banking group operating in a variety of regulatory and economic contexts.

Outlook

The stable outlook reflects Standard & Poor's expectation that UniCredito will be able to maintain solid business and financial profiles. Operational integration of the HVB group is on track so far, but Capitalia will represent a further managerial burden that will stretch management in achieving its financial and organizational targets. A material increase in core profitability and capitalization, together with a reinforcement of current asset quality, would position UniCredito for an upgrade.

Standard & Poor's expects credit charges to remain structurally higher than peers'. A material deterioration in credit risk, any need to undertake disproportionately high credit charges linked to legacy problems, or an inability to turn around the currently unprofitable businesses would put pressure on the current ratings.