



Moody's Investors Service

Rating Action: **Moody's lowers UniCredit's BFSR by one notch to C with negative outlook**

Global Credit Research - 06 Aug 2009

Debt and deposit ratings unaffected by this rating action

Milan, August 06, 2009 -- Moody's Investors Service has today downgraded to C from C+ the Bank Financial Strength Rating (BFSR) of UniCredit, concluding the review for possible downgrade of the BFSR, which was initiated on June 18th 2009. Moody's said that the debt and deposit ratings of UniCredit (rated Aa3 for long-term deposits and senior debt with stable outlook -- they had not been on review) were not affected by this rating action. The outlook for the BFSR is negative, while the outlook for all other ratings remains stable.

Henry MacNevin, Senior Vice President at Moody's, and lead analyst for UniCredit said: "The downgrade of the BFSR to C reflects the greater pressure UniCredit could face as a result of further deterioration in economic conditions across all of the group's markets, and the impact this would likely have on profitability and asset quality. We remain concerned that many of these markets in Central and Eastern Europe, but also in Italy, have only recently begun to show the impact of the global recession, and that pressure on the bank's asset quality and earnings may still increase significantly. The negative outlook on the BFSR reflects our further concern that the extent of this possible deterioration could, in a more severe scenario, result in a deterioration of UniCredit's financial fundamentals, beyond a level compatible with its current BFSR."

With regard to UniCredit's debt and deposit ratings, Moody's said that these were unaffected by the downgrade of the BFSR, and that they continue to have a stable outlook, given the group's position as a major European banking group, with leading or strong positions across several banking markets, and in particular in Italy and Germany. As a result the rating agency said that it sees a very high probability of systemic support for UniCredit, resulting in three notches of uplift from the bank's A3 Baseline Credit Assessment (BCA), which derives from its C BFSR, to the current Aa3 long-term deposit and senior debt ratings.

Moody's said that its downgrade of UniCredit's BFSR principally reflects concerns regarding deterioration of asset quality across all of the group's markets, including Italy, Germany, Austria and Central and Eastern Europe (CEE). The CEE region has seen many of its economies enter recession over the last 12 months, and in some cases this has been severe, leading to high expected losses on the group's loan portfolio in the region. However it is the group's two largest markets, Italy and Germany, both of which have also entered recession which are the principal source of potential losses for the group.

Moody's said that the anticipated deterioration in asset quality derived from the assumptions behind its scenario analysis, which has been carried out across all the markets in which UniCredit operates. According to the rating agency UniCredit's credit profile showed a strong resilience to its base scenario, which is the key determinant for its ratings, but that its more stressed scenario puts significant further pressure on asset quality and capital adequacy. Moody's said losses of around EUR 20 billion could be absorbed at the current rating level, but that should there be evidence that Expected Losses will exceed this amount, downward pressure would come to bear on the BFSR. While such a more stressed scenario is less likely, the rating agency said that such an outcome could not be ruled out, given that the recessions being seen in both Italy and the CEE region are still at an early stage, and that this concern underlies the negative outlook for the BFSR.

On the positive side Moody's noted that UniCredit's business profile shows a high degree of diversification both by geography and business line, which has ensured that profitability has and continues to show considerable resilience during the current difficult operating environment. UniCredit reported operating profit of EUR 6.6 billion for the first half of 2009, up by 17% on the first half of 2008, with the group's main Retail, Corporate, Markets and Investment Banking and CEE and Poland Markets divisions all making a significant contribution to this. However a sharp increase in loan loss charges to EUR 4 billion resulted in pre-tax profit falling by 57% to EUR 1.9 billion for the period.

The rating agency also noted that the capital raising initiatives completed earlier in 2009, which amounted to

around EUR 6.6 billion, combined with the plan to raise further capital instruments for around EUR 4 billion from the Italian and Austrian governments, provide a significant buffer to absorb potential credit losses, and are an important factor underpinning the BFSR at the C level. The rating agency noted that failure to complete the raising of government capital instruments, or other capital instruments for the planned amount, could have negative implications for the BFSR.

The following rating was downgraded:

UniCredit SpA: Bank Financial Strength Rating to C from C+.

The last rating action on UniCredit was on June 18th 2009 when the BFSR was placed on review for possible downgrade.

The principal methodologies used in rating the issuers mentioned in this press release are "Bank Financial Strength Ratings: Global Methodology" and "Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology", which can be found at www.moody's.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies sub-directory. Other methodologies and factors that may have been considered can also be found in the Credit Policy & Methodologies directory.

Unicredit SpA is based in Milan, Italy. At June 30th 2009 it had total assets of EUR 983 billion.

London

Johannes Wassenberg

Managing Director

Financial Institutions Group

Moody's Investors Service Ltd.

JOURNALISTS: 44 20 7772 5456

SUBSCRIBERS: 44 20 7772 5454

Milan

Henry MacNevin

Senior Vice President

Financial Institutions Group

Moody's Investors Service

Telephone: +39-02-9148-1100



Moody's Investors Service

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