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**Research Update:**

# Italy-Based UniCredit 'A/A-1' Ratings Affirmed Following News Of Capital Raising; Outlook Stable

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## Table Of Contents

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Overview

Rating Action

Rationale

Outlook

Related Research

Ratings List

## Research Update:

# Italy-Based UniCredit 'A/A-1' Ratings Affirmed Following News Of Capital Raising; Outlook Stable

## Overview

- The Italian banking group UniCredit will launch a €4 billion capital increase for early 2010 to strengthen its capital position.
- We are affirming our 'A/A-1' ratings on UniCredit.
- The stable outlook generally reflects our opinion that UniCredit's diversified earnings stream and strengthened capital would cushion possible further deterioration of its balance sheet.

## Rating Action

On Oct. 1, 2009, Standard & Poor's Ratings Services affirmed its 'A/A-1' long- and short-term counterparty credit ratings on Italy-based UniCredit SpA. The outlook is stable.

## Rationale

The affirmation follows UniCredit's announcement that it will launch a €4 billion capital increase in early 2010 to strengthen its capital. We take a positive view of UniCredit's more prudent stance toward capital, which the bank adopted at end-2008 when it decided to not proceed with a cash dividend distribution for the year. The capital raising would lift UniCredit's Tier 1 and core Tier 1 regulatory ratios to about 8.5% and 7.7%, respectively, from 7.7% and 6.9% at mid-2009.

We estimate that our risk-adjusted capital (RAC) ratio would stand at about 6.5%, up from about 5.8% at mid-2009. In our view, this would offer the bank an adequate cushion, consistent with the current ratings, to absorb unexpected losses.

The ratings on UniCredit balance our expectation of a weaker credit and financial performance with our view of the bank's adequate capital; high business and earnings diversification; and its strong franchise in Italy, the German State of Bavaria, Austria, and countries in Central and Eastern Europe (CEE).

In our opinion, UniCredit's balance sheet is still vulnerable to the current difficult economic and operating environment. The deteriorated economic conditions and the prospects for a feeble recovery in 2010 are weakening UniCredit's asset quality through materially high inflows of problem loans. This was evident in first-half 2009, when cost of risk reached a high 149 basis points; we expect this trend to continue in the coming quarters.

UniCredit's profitability has significantly weakened in the past few

years; previously, it was among the key strengths for the ratings. Nevertheless, it still provides a good cushion to absorb losses, thanks to adequate and diversified revenue generation and good cost control. We confirm our expectation of significant earnings pressure in 2009 and 2010 because of much higher credit provisions associated with increased nonperforming loans. But we expect UniCredit to remain profitable on an underlying basis in both years. In our view, the benefit of geographic diversification, which partly explained the positive revenue trend from 2004 to 2007, will be limited this year and next.

UniCredit's liquidity profile is overall adequate, in the context of still-tighter access to funding. The bank benefits from a large pool of customer deposits. Recourse to short-term sources is still significant, but is counterbalanced by a good amount of assets eligible for repurchase agreements.

## Outlook

The stable outlook reflects our opinion that UniCredit's diversified earnings stream and strengthened capital cushion a possible further deterioration of its balance sheet.

Worsening economic conditions that have negative implications for UniCredit's earnings and asset quality could result in a weaker stand-alone credit profile. However, we expect that the impact on the ratings would be mitigated by potential extraordinary government support that we believe UniCredit could likely receive as an institution that in our eyes has high systemic importance.

Conversely, a positive rating action would occur if prospects for UniCredit's earnings and asset quality significantly and enduringly strengthen.

## Related Research

Principles Of Corporate And Government Ratings, June 26, 2007

FI Criteria: Bank Rating Analysis Methodology Profile, March 18, 2004

## Ratings List

Ratings Affirmed

UniCredit SpA

Counterparty Credit Rating	A/Stable/A-1
Certificate Of Deposit	A/A-1
Senior Unsecured	A
Subordinated	A-
Junior Subordinated	BBB

UniCredit Bank Ireland PLC	
Senior Unsecured*	A
Commercial Paper*	A-1
UniCredito Italiano Capital Trust III	
Preferred Stock*	BBB
UniCredito Italiano Capital Trust IV	
Preferred Stock*	BBB
Unicredit Delaware Inc.	
Commercial Paper*	A-1
Unicredit International Bank (Luxembourg) S.A.	
Junior Subordinated*	BBB
Commercial Paper*	A-1
Unicredit Luxembourg Finance S.A.	
Subordinated*	A-

\*Guarantor: UniCredit SpA.

NB: This list does not include all ratings affected.

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