FITCH: DOWNGRADE OF UNICREDIT IDR TO 'A' REFLECTS EASTERN EUROPEAN EXPOSURE

Fitch Ratings-London/Milan-16 April 2009: Fitch Ratings' downgrade of Italy-based UniCredit S.p.A.'s (UC) Long-term Issuer Default Rating (IDR) to 'A' from 'A+' and its Individual rating to 'C' from 'B/C' today reflect the bank's exposure to emerging markets in Europe, as well as performance pressure in its main markets and select operations. A full list of the rating actions, including those of UC subsidiaries, is detailed at the end of the announcement.

Fitch notes UC's increasing vulnerability to potential severe stresses in central and eastern Europe (CEE) and Commonwealth of Independent States (CIS), to which it is significantly exposed through its various bank subsidiaries based in those areas (see also Fitch Special Report published today 'Major Western European Banks' exposures to Eastern Europe and the CIS'). UC is also exposed to various on-balance sheet risks from its main investment banking arm, HVB. In Fitch's opinion the performance of these operations will remain under pressure in the coming quarters.

In addition, Fitch has particular concerns with regards to the bank's leveraged buyout exposure, which bears some concentration risk, as well as its exposure to more volatile markets including shipping and commercial real estate. Furthermore, its two main markets of export-oriented Italy and Germany are proving particularly vulnerable to the global recession which is likely to result in further loan impairment charges and deteriorating asset quality.

UC reported EUR4bn net profit for 2008, while its market and investment banking division reported EUR2.2bn pre-tax loss. Notwithstanding some material one-off positive effects, this result shows resilience in the commercial banking business. UC's ratings continue to reflect its diversified geographical presence and business, strong management and ample scope for cost reductions and efficiencies, particularly in its Italian operations.

In late 2008, UC committed to capital-strengthening initiatives for a total amount of EUR6.6bn: the distribution of a scrip dividend (rather than a cash dividend) for FY08, equal to approximately EUR3.6bn, and a new share issue of EUR3bn (convertible financial instruments largely subscribed by UC's main shareholders). UC is now looking to utilise the Austrian and the Italian government preference shares that are being organised by the respective countries for up to a combined amount of EUR4bn. According to the bank these government capital measure should help increase its core tier 1 ratio to around 7.2% (based on end-2008 numbers) from the reported 6.45% at end-2008.

In Fitch's rating criteria, a bank's standalone risk is reflected in Fitch's Individual ratings and the prospect of external support is reflected in Fitch's Support ratings. Collectively these ratings drive Fitch's Long- and Short-term IDRs. In the case of the UC group, UC's IDRs are underpinned by its Individual Rating, which is higher than its Support Rating. The IDRs of UC's Austrian and German subsidiaries, Unicredit Bank Austria AG (BA) and Bayerische Hypo- und Vereinsbank's (HVB), which were affirmed, however, are driven by their Support ratings, as these are higher. A full list of the rating actions, including those of UC subsidiaries, is detailed at the end of the announcement.

UC is one of Europe's largest banking groups, with operations in 22 countries in western Europe (Italy, Germany and Austria), CEE and CIS, and a network of more than 10,000 branches.

UC
Long-term IDR downgraded to 'A' from 'A+'; Outlook Negative.
Individual rating downgraded to 'C' from 'B/C'
Short-term IDR affirmed at 'F1'
Support Rating affirmed at '1'
Support Rating Floor affirmed at 'A-' (A minus)
Senior notes downgraded to 'A' from 'A+'
Lower tier 2 subordinated notes downgraded to 'A-' (A minus) from 'A'

Upper tier 2 subordinated notes downgraded to 'BBB+' from 'A'
Tier 3 subordinated notes downgraded to 'BBB' from 'A-' (A minus)
Preferred stock downgraded to 'BBB' from 'A'

Rating actions on UC's subsidiaries are as follows:

UniCredit Banca di Roma S.p.A.
Long-term IDR: downgraded to 'A' from 'A+'; Outlook Negative
Short-term IDR: affirmed at 'F1'
Support rating: affirmed at '1'

Banco di Sicilia S.p.A.
Long-term IDR: downgraded to 'A' from 'A+'; Outlook Negative
Short-term IDR: affirmed at 'F1'
Support rating: affirmed at '1'

UniCredit Family Financing Bank SpA.
Long-term IDR: downgraded to 'A' from 'A+'; Outlook Negative
Short-term IDR: affirmed at 'F1'
Support rating: affirmed at '1'

HVB (Germany)
Long-term IDR: affirmed at 'A+'; Outlook Stable.
Short-term IDR: affirmed at 'F1+'
Individual Rating: downgraded to 'C' from 'B/C' and placed on Rating Watch Negative (RWN)
Support rating: affirmed at '1'
Support Rating Floor: affirmed at 'A+'
Senior notes: affirmed at 'A+'
Lower Tier 2 subordinated notes affirmed at 'A'
Hybrid notes (issued through HVB Funding Trusts I, II and VIII): downgraded to 'BBB' from 'A-' (A minus) and placed on RWN.

HVB's Long-term IDR is at its Support Rating Floor and hence carries a Stable Outlook. The rating is now based on potential sovereign support from the German state (rated 'AAA'/Outlook Stable) and no longer on its Individual Rating or support from its parent (see Fitch's comment dated 9 April 2009 "Fitch Takes Rating Actions on Certain Major Banks after Review of Support").

In downgrading HVB's Individual Rating and placing it on RWN, Fitch expects the bank's profitability will remain under pressure in a deteriorating operating environment. In addition, the current market environment may weaken HVB's revenue generation capacity. At the same time, HVB's solid capitalisation still provides a comfortable buffer to absorb risks taken. Fitch expects to resolve the RWN on HVB's Individual Rating within the next few months as the agency assesses the performance of the aforementioned exposures.

BA (Austria)
Long-term IDR: affirmed at 'A' with Stable Outlook
Short-term IDR: affirmed at 'F1'
Individual Rating: downgraded to 'C/D' from 'B/C'
Support Rating: affirmed at '1'
Support Rating Floor: affirmed at 'A'

The Long-term IDR of Bank Austria is at its Support Rating Floor and hence carries a Stable Outlook (see Fitch's comment dated 9 April 2009 "Fitch Takes Rating Actions on Certain Major Banks after Review of Support"). The rating is based on potential sovereign support from the Republic of Austria (rated 'AAA') and no longer on its Individual Rating or support from its parent.

The downgrade of Bank Austria's Individual Rating reflects the bank's credit exposure to CEE/CIS markets, including to riskier countries such as Kazakhstan and Ukraine (see also related rating action commentary 'Fitch Comments on Austrian Banks' Individual Rating Downgrade'). This is, in

Fitch's view, only partially mitigated by the bank's still adequate profitability and the likely issue of preference shares, or similar instruments, to be underwritten by the Austrian state.

Bank Pekao (Poland)
Long-term IDR: downgraded to 'A-' (A minus) from 'A'; Outlook Negative
Short-term IDR: downgraded to 'F2' from 'F1'
Individual Rating: downgraded to 'C' from 'B/C'
Support Rating: affirmed at '1'

The downgrade of Pekao's IDRs and the Negative Outlook follows the downgrade of UC's IDRs, reflecting the latter's weakened ability to provide support. The downgrade of the Individual Rating reflects the deteriorating operating environment in Poland, which is likely to result in lower revenues and higher risk costs. Additionally, the rating action reflects potentially higher risk charges from Pekao's direct exposure to Ukraine (equal to around 4% of consolidated lending at end-2008) in the event of further deterioration in the domestic operating environment. Pekao's ratings continue to reflect its sound capitalisation and liquidity, strong franchise, stable and diversified funding base as well as low appetite for credit and market risk.

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