Fitch Downgrades UniCredit's IDR to 'A-'; Maintains RWN

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Fitch Ratings-London-20 December 2011: Fitch Ratings has downgraded UniCredit S.p.A.'s (UniCredit) Long-term Issuer Default Rating (IDR) to 'A-' from 'A', Short-term IDR to 'F2' from 'F1' and Viability Rating (VR) to 'a-' from 'a'. All the ratings were maintained on Rating Watch Negative (RWN).

The rating actions follow the rating action on Italy's sovereign (see 'Fitch Places Belgium, Spain, Slovenia, Italy, Ireland and Cyprus on Rating Watch Negative', dated 16 December 2011 at www.fitchratings.com) and in line with other Italian banks currently rated in the 'A' range (see 'Fitch Places Seven Italian Banks on RWN Following Sovereign Action', dated 20 December 2011 at www.fitchratings.com). A full list of rating actions is at the end of this commentary.

The downgrade reflects the material market and fundamental challenges facing many banks globally, particularly in Europe (as highlighted in 'European Banks and Market Turmoil' dated 20 September 2011 at www.fitchratings.com). The rating actions have been taken in the context of a broader review of the larger and relatively highly rated European banks in Fitch's rating portfolio (see 'Fitch Downgrades Five Major European Commercial Banks and Banking Groups', dated 14 December 2011 at www.fitchratings.com.).

UniCredit's IDRs and VRs reflect its franchise in a number of core markets, a geographically diverse presence, which is beneficial to revenue diversification and access to funding, and its strengthened core capital base, after the completion of the announced EUR7.5bn capital increase. They also reflect a high level of impaired loans and its weak profitability, particularly in Italy, combined with the risks inherent in executing part of its recently presented strategic plan in the current operating environment.

The RWN on the IDRs and VR are driven by the same concerns as those driving the RWN on the sovereign, namely the profoundly adverse effect the eurozone crisis is having on economic and financial stability. There is a link between sovereign and bank creditworthiness in any country, which strengthens as sovereign ratings weaken. Rating linkages occur through bank holdings of sovereign bonds, exposure to monetary policy as well as the impact of market sentiment on funding access and cost. In addition, fiscal austerity measures put pressure on banks' customers, causing asset quality and earnings deterioration. Fitch recently revised its GDP growth forecast for Italy and now expects a 0.5% GDP contraction in 2012.

UniCredit announced a EUR7.5bn capital increase via a new rights issue, to be finalised in Q112. This would be equal to a 9.1% common equity Tier 1 ratio at end-2012, assuming the full impact of Basel 3 at that date, thus ensuring early compliance with Basel 3 requirements.

9M11 results were dominated by goodwill and other impairments, which will cause the group to post a net loss for 2011.

UniCredit entered the global financial crisis with an already high level of impaired loans on its books, largely legacy impaired loans from past acquisitions. At end-9M11, gross impaired loans were equal to 10% of total gross loans, which are nonetheless well reserved. At end-9M11, reserve coverage of impaired loans was equal to 59%. Fitch acknowledges the bank's effort to try to maintain a stable level of loan impairment allowance relative to the gross amount of impaired loans.

The group's geographic diversification allows it to access the markets through its various legal entities, with benefits in terms of funding prices. Funding activity during 2011 largely focussed on issuing covered bonds in Italy and internationally and retail bonds in Italy. Its funding strategy for the coming years will continue to focus on these founding sources. The bank maintains a large pool of collateral to have a strong counterbalancing capacity. UniCredit has a portfolio of eligible securities available for repo transactions with the ECB that is around EUR100bn. ECB utilisation has increased since end-June 2011.

The rating actions are as follows:

Long-term IDR downgraded to 'A-' from 'A'; maintained on Rating Watch Negative
Short-term IDR downgraded to 'F2' from 'F1'; maintained on Rating Watch Negative
Viability Rating downgraded to 'a-' from 'a'; maintained on Rating Watch Negative
Individual Rating: 'B/C' on Rating Watch Negative
Support Rating affirmed at '2'
Support Rating Floor: 'BBB+' on Rating Watch Negative
EUR60bn EMTN programme senior unsecured debt downgraded to 'A-' from 'A' maintained on Rating Watch Negative
Subordinated debt downgraded to 'BBB+' from 'A-' maintained on Rating Watch Negative
Market Linked Securities downgraded to 'A-'(emr) from 'A'(emr) maintained on Rating Watch Negative
Upper Tier 2 Instruments downgraded to 'BBB' from 'BBB+' maintained on Rating Watch Negative
Preferred Stock downgraded to 'BBB' from 'BBB+' maintained on Rating Watch Negative

This rating action has no impact on the ratings of the covered bonds of this issuer. According to the programme documentation, the downgrade below 'A'/'F1' triggers certain remedial actions to be put in place.