



## PRESS RELEASE

### Rating Moody's

Bologna, 19 July 2012 – On 18 July 2012 Moody's Investors Service ("Moody's") downgraded Unipol Banca's long-term deposit rating to "Ba2" from "Baa2", the bank's standalone bank financial strength rating (BFSR) to "D-/ba3" from "D+/baa3", and the short-term deposit rating to "Not Prime" from "Prime-2".

Moody's assigned a negative outlook on the BFSR and kept Unipol Banca's long-term deposit rating on review, in line with the continuing review of the ratings of Unipol Assicurazioni and Unipol Gruppo Finanziario.

This press release follows the release published on 18 July 2012, the day after the ratings of Unipol Assicurazioni and Unipol Gruppo Finanziario were downgraded in line with the downgrading of the Italian sovereign debt and a more general revision of the ratings assigned to several Italian banks and insurance companies.

A copy of the full report published by Moody's is attached below.

Unipol Gruppo Finanziario S.p.A.  
[www.unipol.it](http://www.unipol.it)

#### Contacts

##### **Institutional and Media Relations**

Stefano Genovese  
Unipol Gruppo Finanziario  
Tel +39 06 47771207/335 5889763  
[stefano.genovese@unipol.it](mailto:stefano.genovese@unipol.it)  
[press@unipol.it](mailto:press@unipol.it)

Carla Chiari  
Unipol Gruppo Finanziario  
Tel +39 02 51815021/338 7207314  
[carla.chiari@unipol.it](mailto:carla.chiari@unipol.it)

##### **Barabino & Partners**

Massimiliano Parboni  
[m.parboni@barabino.it](mailto:m.parboni@barabino.it)  
Tel +39 06 6792929/335 8304078  
Giovanni Vantaggi  
[g.vantaggi@barabino.it](mailto:g.vantaggi@barabino.it)  
Tel +39 02 72023535/328 8317379

##### **Investor Relations**

Adriano Donati  
Unipol Gruppo Finanziario  
Tel +39 051 5077933  
[investor.relations@unipol.it](mailto:investor.relations@unipol.it)

Unipol Gruppo Finanziario S.p.A.

Sede Legale: via Stalingrado, 45 - 40128 Bologna (Italia) - tel. +39 051 5076111 - fax +39 051 5076666  
Capitale sociale i.v. Euro 2.699.066.917,47 - Registro delle Imprese di Bologna, C.F. e P. IVA 00284160371 - R.E.A. 160304  
Capogruppo del Gruppo Assicurativo Unipol iscritto all'Albo dei gruppi assicurativi al n. 046  
[www.unipol.it](http://www.unipol.it)

## **Rating Action: Moody's downgrades Unipol Banca to Ba2/D-**

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Global Credit Research - 18 Jul 2012

### **Deposit ratings remain on review for downgrade**

Milan, July 18, 2012 -- Moody's Investors Service has today downgraded Unipol Banca's long-term deposit rating to Ba2 from Baa2, and the bank's standalone bank financial strength rating (BFSR) to D-, equivalent to a ba3 standalone credit assessment, from D+/baa3. The short-term deposit rating was downgraded to Not Prime from Prime-2. The downgrade of the standalone rating reflect the bank's weakened credit fundamentals, particularly its profitability and asset quality. The downgrade of the deposit ratings reflects the lower standalone rating, as well as the lower ratings of the bank's parent Unipol Gruppo Finanziario (UGF, rated Ba2 on review for downgrade on its senior unsecured debt, three notches below the Baa2 Insurance Financial Strength Rating of the main insurance operating entity Unipol Assicurazioni).

The outlook on the BFSR is negative, and this rating action concludes the review for downgrade on Unipol Banca's ratings initiated on 2 February 2012. Unipol Banca's long-term deposit rating remains on review for downgrade, in line with the continuing review of the ratings of its parent UGF.

For additional information on bank ratings, please refer to the webpage containing Moody's related announcements <http://www.moody's.com/eusovereign>.

### **RATINGS RATIONALE**

The downgrade of the standalone rating reflects (i) Unipol Banca's weakened credit fundamentals, and the expectation that improvement in this respect will be difficult to achieve for the foreseeable future as well as (ii) the weaker credit profile of the group, from which Unipol Banca receives significant ongoing liquidity, capital and business support, which also underpins the ba3 standalone credit assessment. Recurring profitability is low, non-performing loans are very high with a low coverage ratio, and liquidity depends strongly on the parent, and Moody's believes there is a high likelihood that the bank will find it difficult to improve this in the current difficult operating environment, with the Italian economy in recession. Following losses recorded in 2008-09, the bank returned to breakeven in 2010 and 2011, (for 2011, this excludes the EUR300 [1]million goodwill impairment on branches acquired between 2001-04).

Asset quality has been significantly weaker than the average for the Italian banking system, with problem loans accounting for almost 13% on average in the last three years, and more than 15% at year-end 2011 according to the issuer's annual reports. As disclosed by the bank, coverage of non-performing loans stood at 28% as of December 2011, which is also significantly lower than the Italian average, and this is only partially compensated by a EUR550 million guarantee from the parent, on a portfolio of loans to the real-estate sector, which was announced by the Group in 2011.

Unipol Banca reported a Tier 1 ratio of 8.2% in December 2011, up from 6.8% for 2010, as a result of a EUR100 million capital injection from the parent; in Moody's view, Unipol Banca's capitalisation remains weak, providing a limited cushion to absorb potential losses, given the bank's weak asset quality, high although declining loan concentration, and very modest internal capital generation.

With regard to liquidity, Moody's notes that whilst the bank has a substantial retail funding base, it continues to rely on parental funding for significant parts of its loan portfolio, although the extent of this has been reducing in recent years.

The negative outlook on the standalone rating is in line with other Italian banks, and reflects Moody's expectation that the current difficult operating environment in Italy may result in further deterioration in the bank's credit fundamentals.

With regard to the downgrade of the bank's long and short-term deposit ratings to Ba2/NP from Baa2/P-2, Moody's said that this was driven by the lower standalone rating of Unipol Banca, and by the lower rating on the bank's

parent. UGF's ratings were downgraded to their current level on 17 July 2012. At this level, Unipol Banca's long-term deposit rating continues to benefit from one notch of parental support, given Moody's assumption of a very high likelihood of support from UGF in case of need. However, the long-term deposit rating remains on review for downgrade, in line with the ongoing review for downgrade on UGF's ratings.

#### WHAT COULD MOVE THE RATINGS UP/DOWN

An upgrade of the banks' ratings is unlikely at present, given the current negative outlook on the BFSR and review for downgrade on the long-term deposit rating.

A downgrade of the BFSR could be triggered by a failure to either (i) prevent further deterioration in the bank's asset quality; or (ii) restore the bank to profitability in the near term, or (iii) a gradual or sudden reduction of operational ties between the bank and its parent which would reduce the ongoing support factored into the standalone rating of Unipol Banca.

A downgrade of the long-term local-currency deposit rating could be triggered by a downgrade of the bank's standalone rating, or by a downgrade of UGF's ratings.

#### LIST OF AFFECTED RATINGS

The following ratings of Unipol Banca were affected:

- BFSR downgraded to D-/ba3, with negative outlook, from D+/baa3
- Long-term deposit rating downgraded to Ba2, on review for downgrade, from Baa2
- Short-term deposit rating downgraded to Not Prime from Prime-2

#### PRINCIPAL METHODOLOGY USED

The methodology used in this rating was Moody's Consolidated Global Bank Rating Methodology published in June 2012. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

#### REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on [www.moody.com](http://www.moody.com).

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Henry MacNevin  
Senior Vice President  
Financial Institutions Group  
Moody's Italia S.r.l  
Corso di Porta Romana 68  
Milan 20122  
Italy  
Telephone: +39-02-9148-1100

Johannes Wassenberg  
MD - Banking  
Financial Institutions Group  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:  
Moody's Italia S.r.l  
Corso di Porta Romana 68  
Milan 20122  
Italy  
Telephone: +39-02-9148-1100



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