

## **FITCH AFFIRMS UNICREDIT TIRIAC BANK AT 'BBB'; OUTLOOK NEGATIVE**

Fitch Ratings-London/Istanbul-24 July 2009: Fitch Ratings has today affirmed Romania-based UniCredit Tiriac Bank S.A.'s (UCTB)'s ratings at Long-term foreign currency Issuer Default (IDR) 'BBB' with Negative Outlook, Short-term foreign currency IDR 'F3' and Support '2'. It has also affirmed its Individual Rating at 'D'.

The IDRs and Support rating reflect the support UCTB can expect to receive from its ultimate parent, Unicredit S.p.A (UC ('A'/Stable Outlook), through its fully owned subsidiary, UniCredit Bank Austria AG (UCBA, 'A'/Stable Outlook). A change in UC's ability and/or willingness to support UCTB could affect the latter's IDRs and Support rating. The Long-term foreign currency IDR is constrained by Romania's Country Ceiling 'BBB' and the Outlook on UCTB reflects that of the sovereign.

The Individual Rating reflects worsening asset quality due to deterioration in the economic environment and risks associated with recent rapid loan growth, a high share of foreign currency (FC) lending and a concentrated loan book. It also takes into account the bank's sound profitability and internal capital generation and comfortable liquidity.

Following a sequence of complex mergers and restructuring, UCTB started to fully focus on growth in 2008. Despite a significant increase in the cost of funding and credit impairment charges, profitability is sound, mainly due to strong contribution of non-interest income including foreign currency gains and good efficiency. Advanced risk measurement systems adapted from UC's systems and close monitoring of risks provide some comfort. Nevertheless, increasing loan impairment charges are putting pressure on profitability.

Although there have been improvements in the customer deposit franchise, reliance on related-party funding continues. As with other Romanian banks, liquidity is comfortable owing to stringent regulatory measures. Despite strong internal capital generation, the total capital ratio declined to 11.42% at end-2008 from 15.12% at end-2007 as a result of increasing risk weighted assets, and estimated to improve to 11.90% at end-H109 including net income of the period. Higher levels of capital would provide a larger buffer against growing risks in the operating environment. The UC's commitment to funding UCTB in the context of Romania's IMF Stand-by Agreement provide some comfort as long as it has the financial resources to do so.

UCTB is the sixth-largest bank in Romania by total assets with a market share of 5.5% at end-2008 and provides a wide range of banking services with a focus on corporate lending. It is 50.61%-owned by UCBA, which is 99.99%-owned by UC, and serves as UC's management holding company in central and eastern Europe. Another 45.06% is held by Redrum International Investments B.V. and Vesanio Trading Ltd., both of which are controlled by Ion Tiriac, and a further 4.33% is held by Romanian individuals and legal entities. UC is one of the Europe's largest banks and active in 22 countries.

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

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