

FITCH AFFIRMS BANCA UBAE AT 'BB'; STABLE OUTLOOK

Fitch Ratings-London/Milan-27 February 2013: Fitch Ratings has affirmed Italy-based Banca UBAE's (UBAE) Long-term Issuer Default Rating (IDR) at 'BB' with a Stable Outlook, Short-term IDR at 'B', Viability Rating (VR) at 'bb' and Support Rating at '5'.

KEY RATING DRIVERS - IDRs and VR

UBAE's IDRs are driven by its intrinsic strength as reflected in its VR. The VR and IDRs reflect UBAE's operations as a niche bank concentrating on trade finance business with strong business relations in a number of emerging markets, including Libya but also other countries in the Middle East, Africa and Asia. The ratings also reflect the bank's operations in potentially more volatile countries, its relatively small absolute size, improved operating profitability, concentration in its wholesale funding base and good asset quality, albeit in a concentrated loan book.

The Stable Outlook reflects Fitch's expectation that UBAE will continue to operate with an unchanged strategy, and to benefit from ordinary support, which includes the bulk of its funding, from its majority shareholder, the Libyan Foreign Bank (LFB).

KEY RATING DRIVERS - SUPPORT RATING

The bank's Support Rating reflects Fitch's view that in case of need the bank would first look to its majority shareholder, the LFB, which has shown a high propensity to support UBAE. However, Fitch does not assess LFB's ability to provide support in the Support Rating as LFB is not rated and as Fitch believes that the situation in Libya remains potentially volatile, which means that support from LFB cannot be relied on.

RATING SENSITIVITIES - IDRs and VR

UBAE's ratings are sensitive to changes in the bank's strategic importance to its majority shareholder, which has continued to provide ordinary support in the form of funding and business relationships to the bank. The ratings would come under pressure if the situation in Libya significantly deteriorated, which could result in a reduction of business volumes or a withdrawal of funding. UBAE's ratings could benefit over the longer term if the importance of the bank to its shareholder increased, but any upgrade would likely require a material increase in the size of the bank's capital base.

UBAE's ratings are constrained by its operations in higher-risk markets. The bank is diversifying its geographic coverage, which mitigates the risk of over-reliance on a small number of counterparties or countries. The ratings could see moderate uplift if diversification resulted in lower geographic concentration, but would come under pressure if there were signs that increasing geographic expansion into new areas resulted in increased risk appetite.

UBAE's performance and asset quality has to date not been materially affected by the difficult operating environment in Italy. However, the bank is exposed to Italian counterparties, and ratings would come under pressure if the quality of its counterparties deteriorated materially, or its asset quality significantly weakened.

RATING SENSITIVITIES - SUPPORT RATING

UBAE's Support Rating is sensitive to changes in Fitch's assumptions regarding the probability that LFB would support the bank. An upgrade of the Support Rating would require Fitch to be able to assess LFB's ability to provide support.

Contact:

Primary Analyst
Christian Scarafia
Senior Director

+39 02 87 90 87 212
Fitch Italia S.p.A.
Vicolo Santa Maria alla Porta, 1
Milan 20123

Secondary Analyst
Manuela Banfi
Associate Director
+39 02 87 90 87 202

Committee Chairperson
Maria Jose Lockerbie
Managing Director
+44 20 3530 1083

Media Relations: Hannah Huntly, London, Tel: +44 20 3530 1153, Email:
hannah.huntly@fitchratings.com.

Additional information is available on www.fitchratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 15 August 2012, 'Evaluating Corporate Governance' dated 12 December 2012 are available at www.fitchratings.com.

Applicable Criteria and Related Research
Global Financial Institutions Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686181
Evaluating Corporate Governance
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=694649

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