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Research Update:

Polish Bank Pekao 'BBB+ / A-2' Ratings Affirmed Despite Downgrade Of Italian Parent UniCredit SpA; Outlook Stable

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Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria And Research

Ratings List

Research Update:

Polish Bank Pekao 'BBB+/A-2' Ratings Affirmed Despite Downgrade Of Italian Parent UniCredit SpA; Outlook Stable

Overview

- The recent lowering of our ratings on Italian bank UniCredit SpA has no immediate impact on our view of the creditworthiness of Bank Polska Kasa Opieki (Pekao), its Polish subsidiary.
- We are therefore affirming our 'BBB+/A-2' ratings on Pekao.
- The stable outlook reflects our expectation that Pekao's capitalization and funding profile will not deteriorate materially over the next two years.

Rating Action

On Dec. 22, 2014, Standard & Poor's Ratings Services affirmed its 'BBB+/A-2' long- and short-term counterparty credit ratings on Bank Polska Kasa Opieki S.A. (Pekao). The outlook is stable.

Rationale

The affirmation follows our review of the potential impact on Pekao's credit profile of our lowering of the long-term rating on its Italian parent, UniCredit SpA, to 'BBB-' from 'BBB' on Dec. 18, 2014 (see "UniCredit Ratings Lowered To 'BBB-/A-3' On Increased Economic Risks In Italy; Outlook Stable," published on RatingsDirect). We consider that the recent downgrade of UniCredit SpA does not have an immediate negative impact on our view of Pekao's creditworthiness.

Pekao appears to be well capitalized and self-funded. The bank does not provide funding to its parent, and, we believe, should benefit from Polish regulations aiming to protect local banks from their foreign parents' deterioration in creditworthiness.

Our view of Pekao's stand-alone credit profile (SACP) consequently remains unchanged at 'bbb+'.

Nevertheless, we will continue to monitor any potential impact that the parent's lower creditworthiness might have on Pekao's SACP. In particular, any changes to Pekao's current dividend policy could negatively affect our projected risk-adjusted capital (RAC) ratio for Pekao. Our RAC ratio at year-end 2013 was a high 14.6%, and we project it to remain generally stable

over the next 12 to 18 months. In our projected RAC ratio, we incorporate our view that Pekao's dividend payout ratio will remain at a high 90%-95% of net income.

We have maintained our assessments of Pekao's business position as "strong," capital and earnings as "strong," risk position as "adequate," funding as "average," and liquidity as "adequate," as our criteria define these terms.

We consider that Pekao has "high" systemic importance in the Polish banking sector, based on its position as the second-largest bank with market share of about 13% in deposits. Moreover, we assess the Polish government as "supportive" toward its banking sector under our criteria. As a result, we believe there is a "moderately high" likelihood that Pekao would receive financial support from the Republic of Poland (foreign currency A-/Stable/A-2, local currency A/Stable/A-1) if needed. However, we do not include notches in the rating above the SACP to reflect potential support, in line with our criteria and given the level of our local currency sovereign credit rating on Poland.

We continue to consider Pekao to be a "core" subsidiary in the UniCredit group, for which it acts as a cornerstone of activities in the strategically key markets of Central and Eastern Europe. We currently rate Pekao two notches above our 'bbb-' assessment of UniCredit SpA's group credit profile and above our 'BBB-' long-term rating on UniCredit SpA. In accordance with our criteria, and although subsidiaries are generally not rated higher than our group credit profile for a given group, they may receive a higher rating if they meet the conditions defined in our methodology, including being a highly systemically important entity in a country that we consider to be supportive toward its banking system. In Pekao's case, we rate it two notches higher than the group credit profile for UniCredit SpA to reflect our expectation that in a severe stress scenario, the Polish regulatory authorities would intervene to protect Pekao and preserve its creditworthiness.

Outlook

The stable outlook on Pekao reflects our expectation that its business and financial profiles will remain generally unchanged over the next 24 months. We do not think Pekao's capitalization and funding profile will deteriorate materially, even taking into account the weakened creditworthiness of its parent, UniCredit SpA.

A negative rating action is possible if our projected RAC ratio for Pekao weakens to below 10%, from our current projection of 14.5%-15.0% in the next 18-24 months. An additional extraordinary dividend, which we do not currently include in our base-case scenario, could prompt us to lower our assessment of Pekao's capital.

A positive rating action on Pekao, although currently unlikely, would follow both:

- A significant improvement in UniCredit SpA's creditworthiness; and
- A positive rating action on Poland.

Ratings Score Snapshot

	To
Issuer Credit Rating	BBB+/Stable/A-2
SACP	bbb+
Anchor	bbb-
Business Position	Strong (+1)
Capital and Earnings	Strong (+1)
Risk Position	Adequate(0)
Funding and Liquidity	Average and Adequate (0)
Support	0
GRE Support	0
Group Support	0
Sovereign Support	0
Additional Factors	0

Related Criteria And Research

Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

Related Research

- UniCredit Ratings Lowered To 'BBB-/A-3' On Increased Economic Risks In Italy; Outlook Stable, Dec. 18, 2014

Ratings List

Ratings Affirmed

Bank Polska Kasa Opieki S.A.
Counterparty Credit Rating

BBB+/Stable/A-2

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