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Research Update:

Poland-Based BRE Bank S.A. Assigned 'BBB+/A-2' Ratings; Outlook Negative

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Research Update:

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Overview

- We are assigning our 'BBB+/A-2' counterparty credit ratings to Poland-based BRE Bank S.A.
- Our ratings on BRE Bank reflect our 'bbb-' anchor, which we apply to commercial banks operating in Poland, and our view of BRE Bank's adequate business position, adequate capital and earnings, adequate risk position, average funding, and adequate liquidity, as our criteria define these terms.
- The rating benefits from two notches of uplift from the bank's stand-alone credit profile. This is for potential extraordinary support from Commerzbank AG, as we consider BRE Bank to be a "strategically important" subsidiary for its parent bank.
- The negative outlook mirrors that on Commerzbank. If we were to downgrade the parent we would likely also downgrade BRE Bank.

Rating Action

On June 6, 2013, Standard & Poor's Ratings Services assigned its 'BBB+/A-2' counterparty credit ratings to Poland-based BRE Bank S.A. The outlook is negative.

Rationale

The rating on BRE Bank reflects our 'bbb-' anchor, which we apply to commercial banks operating in Poland and our view of the bank's "adequate" business position, "adequate" capital and earnings, "adequate" risk position, "average" funding, and "adequate" liquidity, as our criteria define these terms. The stand-alone credit profile (SACP) is 'bbb-'. The rating also benefits from two notches of uplift above the bank's SACP for potential support from Commerzbank AG, as we consider BRE Bank to be a "strategically important" subsidiary of its parent bank.

We use our Banking Industry Country Risk Assessment (BICRA) economic and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our anchor for a commercial bank operating in Poland is 'bbb-'.

As the third-largest bank in Poland by total assets, BRE bank has a good local franchise and market position, in our view. Its size and overall depth of franchise, however, are smaller relative to the two top players, which leads

us to our assessment of the bank's "adequate" business position. BRE Bank has a traditional business model, with most of its revenues coming from retail and commercial banking. It had a 6.4% market share in loans and 6.1% in deposits as of March 31, 2013. Geographic diversification is limited, a common feature of Polish banks. Its presence in the Czech Republic and Slovakia represented a negligible 2% of its loan book as of end-2012.

Despite the tougher operating environment in Poland in 2013, we expect that BRE Bank's capitalization, as measured by our projected risk-adjusted capital ratio before adjustments will remain in the 9.5%-10.0% range over the next 18-24 months. In our forecasts, we assume the bank will be able to maintain its capitalization, despite lower net interest and fee income and higher loan loss provisions than in 2012 pressuring profitability--especially in 2013. We therefore consider the bank's capital and earnings to be "adequate".

Our assessment of BRE Bank's "adequate" risk position balances our view of the bank's better-than-average asset quality metrics against its higher-than-system-average share of foreign currency loans in its loan portfolio, which may make it more vulnerable to risk from Polish zloty devaluations.

The bank's ratio of gross nonperforming assets (NPAs) increased to 5.4% at end-2012, from 4.7% a year earlier, but remains well below the industry average of 9.0%. The NPA ratio stabilized in the first quarter of 2013 and we expect only a marginal deterioration throughout 2013.

The bank's credit losses have reduced significantly in recent years. Cost of credit risk improved to 76 basis points (bps) in 2012, from a peak of 216 bps in 2009, and is now below the banking system average of 100 bps. We expect the bank's loan-loss provisions to increase to 80 bps-85 bps in 2013, given the economic slowdown, but to remain around the system average and to recover gradually from 2014. Nevertheless, BRE Bank's share of foreign-currency-denominated mortgages is a high 87% (system average: 55%) as of end-2012, with Swiss-franc-denominated loans at 35% of the total loan book (system average: 10%). We view this part of the portfolio as vulnerable to the devaluation of the zloty. However, we believe this risk is currently limited due to the very low interest rate environment; Poland's sound public finances, which we believe will likely keep preventing the zloty from depreciating against the Swiss franc; and the overall strict underwriting criteria of foreign currency retail loans.

BRE Bank's funding and liquidity profiles benefit from its large retail customer deposit base and liquid securities portfolio. We therefore assess the bank's funding as "average" and liquidity as "adequate", as our criteria define these terms. We acknowledge the bank has successfully and gradually rebalancing its funding position over the past 12-18 months by increasing its retail deposit base. The share of customer deposits as a percentage of the funding base increased to 63% at March 31, 2013, from 55% at year-end 2010. We also consider that BRE Bank's liquidity benefits from a portfolio of liquid securities, which mainly comprise domestic government bonds and treasury

bills, and fully cover debt securities maturing within one year.

We consider BRE Bank to be a "strategically important" subsidiary of Commerzbank AG. As such, BRE Bank's ratings benefit from two notches of uplift above the bank's SACP for potential support from the parent. In our view, Commerzbank would provide extraordinary support to its 69.7%-owned Polish subsidiary, in case of need. This reflects our opinion that the bank has a central role in Commerzbank's growth strategy in Central and Eastern Europe, and has close financial and operational integration with its parent.

Outlook

The negative outlook mirrors that on Commerzbank. As such, if we were to downgrade the parent we would likely also downgrade BRE Bank.

Additionally, if we perceive a weakening in BRE Bank's strategic importance to its parent and a consequent weakening in the likelihood of extraordinary support from Commerzbank, we could consider downgrading BRE Bank.

A deterioration in the bank's SACP to 'bb+' would not necessarily result in a lowering of the ratings, however, due to the three notches of uplift that we could incorporate to reflect group support.

We could revise the outlook to stable if we take a similar action on the parent bank.

Related Criteria And Research

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Group Rating Methodology, May 7, 2013
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment: Poland, Oct. 17, 2012
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

Ratings List

New Rating

BRE Bank S.A.

Counterparty Credit Rating	BBB+/Negative/A-2
Med-Term Note Program*	
Senior Unsecured Long-Term	BBB+
Senior Unsecured Short-Term	A-2

*Guaranteed by BRE Bank S.A.

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