MOODY'S
INVESTORS SERVICE

Rating Action: Moody's concludes reviews on 10 Polish banks' ratings

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Actions follow conclusion of methodology-related reviews and revision of government support considerations

London, 21 May 2015 -- Moody's Investors Service has concluded its rating reviews on 10 banks in Poland. The reviews, initiated on 17 March 2015, followed the introduction of the rating agency's revised bank rating methodology published on 16 March 2015.

In light of the revised banking methodology, Moody's rating actions generally reflect the following considerations (1) the "Strong -" macro profile of Poland (A2 stable); (2) the banks' adequate core financial ratios; (3) the protection offered to senior creditors by substantial volumes of deposits, and in some cases also by the subordination of some bail-in-able securities, as captured by Moody's Advanced Loss Given Failure (LGF) liability analysis; and (4) Moody's view of a decline in the likelihood of government support for some institutions.

Among the rating actions that Moody's has taken on the Polish banks are the following:

- Seven long-term bank deposit ratings upgraded, one affirmed, one confirmed and one downgraded

- Four short-term bank deposit ratings upgraded, one affirmed and one downgraded

- One bank senior unsecured debt rating downgraded and one confirmed

- Three baseline credit assessments (BCAs) affirmed and two lowered

Moody's has assigned stable outlooks to the deposit and debt ratings of the affected banks, and changed to stable from negative the outlook on the deposit ratings of Powszechna Kasa Oszczednosci Bank Polski S.A.

Moody's has also assigned Counterparty Risk assessments (CR assessments) to 11 Polish banks, in line with its revised bank rating methodology. This includes Bank Polska Kasa Opieki S.A., whose ratings were not on review.

Please click on this http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_181308 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

Please refer to this link for the initial bank review:

https://www.moodys.com/research/Moodys-reviews-global-bank-ratings--PR_321005

Please refer to this link for the revised methodology: http://www.moodys.com/viewresearchdoc.aspx?docid=PR_320662

RATINGS RATIONALE

The new methodology includes several elements that Moody's has developed to help accurately predict bank failures and determine how each creditor class is likely to be treated when a bank fails and enters resolution. These new elements capture insights gained from the crisis and the fundamental shift in the banking industry and its regulation.

(1) THE "STRONG -" MACRO PROFILE OF POLAND

Polish banks' operations are concentrated domestically, so they benefit from Poland's supportive macroeconomic environment, characterised by very high economic and institutional strength, as well as moderate susceptibility to event risk.

(2) THE BANKS' ADEQUATE CORE FINANCIAL RATIOS

The Polish banks' BCAs (average asset-weighted BCA is baa3) reflect their adequate core financial ratios, including a moderate level of problem loans in aggregate, good capital ratios, satisfactory profitability and good liquidity metrics. However, the banks' BCAs range widely from baa1 to b1, with the differences reflecting long-term execution of each bank's business plan, which has resulted in variations in their performance volatility and financial fundamentals, and in the strength of their market presence in Poland. In addition, the banks' BCAs also reflect the different size of foreign-currency mortgage portfolios, that carry high contingent credit risk. The latter factor also forces banks to rely on their foreign parent banks and/or derivative and wholesale markets for funding (see below for the analytical considerations for the individual banks covered in this press release).

(3) PROTECTION OFFERED TO SENIOR CREDITORS, AS CAPTURED BY MOODY'S ADVANCED LGF LIABILITY ANALYSIS

Under its new methodology, Moody's applies its Advanced LGF analysis to the liability structures of banks subject to operational resolution regimes. Moody's expects that Poland, as a member of the European Union, will introduce bank resolution legislation in line with the EU Bank Recovery and Resolution Directive (BRRD). Accordingly, Moody's applies its Advanced LGF analysis to these banks' liability structures. This analysis results generally in "very low" loss given failure for long-term deposits, taking into account the banks' substantial volume of deposit funding. For senior unsecured debt, Moody's has assessed a "low" loss given failure additionally taking into account the amount of senior debt and securities more subordinated to it.

(4) DECLINE IN THE LIKELIHOOD OF GOVERNMENT SUPPORT

Deposit and senior unsecured debt ratings now range from A2 to Ba2. The lowering of Moody's government support assumptions reflects the reduced likelihood of support being forthcoming within the context of the expected implementation of the new bank recovery and resolution legislation. The negative effect on the banks' ratings from a decline in the expectation of government support has in most cases been counterbalanced by the low loss assumptions under Moody's Advanced LGF framework.

--- BANK SPECIFIC ANALYTIC FACTORS

-- Powszechna Kasa Oszczednosci Bank Polski S.A.

The affirmation of the bank's deposit ratings at A2/Prime-1, with a change in outlook to stable from negative, reflects the affirmation of the bank's BCA at baa2 and the Advanced LGF analysis that provides two notches of uplift from the bank's BCA and offsets reduced government support assumptions. Powszechna Kasa Oszczednosci Bank Polski benefits from a large volume of deposits, and limited senior and subordinated debt, resulting in very low loss given failure. However, because of the expected implementation of resolution legislation, Moody's has lowered its government support assumptions for the bank to "moderate", leading to one notch of uplift from support, from "very high" and three notches previously.

The downgrade of the bank's senior unsecured debt rating to A3 from A2 takes into account the Advanced LGF analysis and Moody's reduced assumption regarding the likelihood of government support. The Advanced LGF analysis, which also takes into account the bank's volume of senior debt and the volume of securities subordinated to it in Moody's creditor hierarchy, results in a low loss given failure and provides one notch of uplift from the bank's BCA of baa2. However, this does not fully offset the decrease in government support assumptions to one notch of uplift from three notches previously.

The affirmation of the bank's BCA at baa2 reflects the bank's improved capitalisation and asset quality, and its continued good profitability levels. The bank's problem loan ratio decreased to 6.8% at end-March 2015 from 8.1% at end-March 2014, which is below the Polish average of 7.5% at end-March 2015, and compares favorably to those of its rated peers. The bank's problem loan coverage also improved, to 62.8% at end-March 2015 from 52.5% at end-March 2014. In addition, the bank benefits from an improvement in capitalisation (Tangible Common Equity (TCE) at 12.3% of risk-weighted assets at end-2014). This capital ratio includes the expectation that the bank's shareholders will confirm in the coming weeks the full retention of the 2014 profit in line with the recommendation received from the Polish regulator for banks exposed to the risks of Swiss franc mortgage loans.

-- Bank Zachodni WBK S.A.

The upgrade of the bank's long-term deposit rating to A3 from Baa1 is due to the Advanced LGF analysis that provides two notches of uplift from the bank's adjusted BCA of baa2 (BCA is baa3) and offsets reduced government support assumptions. Bank Zachodni WBK benefits from a large volume of deposits, and limited senior and subordinated debt, resulting in very low loss given failure. However, because of the expected implementation of resolution legislation, Moody's has lowered its government support assumptions for the bank to "low", leading to no uplift from support, from "high" and one notch previously.

-- mBank S.A.

The upgrade of the bank's deposit ratings to Baa2/Prime-2 from Baa3/Prime-3 is due to the Advanced LGF analysis that provides two notches of uplift from the bank's adjusted BCA of ba1 (BCA is ba2) and offsets reduced government support assumptions. mBank benefits from a large volume of deposits, and limited senior and subordinated debt, resulting in very low loss given failure. However, because of the expected implementation of resolution legislation, Moody's has lowered its government support assumptions for the bank to "low", leading to no uplift from support, from "high" and one notch previously.

The bank's senior unsecured debt rating was confirmed at Baa3, with a stable outlook, and reflects the Advanced LGF analysis which provides one notch of uplift from the bank's adjusted BCA of ba1 and offsets the lower likelihood of government support to no uplift from one notch previously.

-- ING Bank Slaski S.A.

The upgrade of the bank's long-term deposit rating to A3 from Baa1 is due to the Advanced LGF analysis that provides two notches of uplift from the bank's adjusted BCA of baa2 (BCA is baa3) and offsets reduced government support assumptions. ING Bank Slaski benefits from a large volume of deposits, resulting in very low loss given failure. However, because of the expected implementation of resolution legislation, Moody's has lowered its government support assumptions for the bank to "low", leading to no uplift from support, from "high" and one notch previously.

-- Getin Noble Bank S.A.

The confirmation of the bank's long-term deposit rating of Ba2 incorporates the lowering of the BCA to b1 and the Advanced LGF analysis that provides two notches of uplift from the bank's BCA and offsets reduced government support assumptions. Getin Noble Bank benefits from a large volume of deposits, and limited senior and subordinated debt, resulting in very low loss given failure. However, because of the expected implementation of resolution legislation, Moody's has lowered its government support assumptions for the bank to "low", leading to no uplift from support, from "moderate" and one notch previously.

The lowering of the bank's BCA to b1 from ba3 reflects the bank ongoing asset-quality and profitability challenges. In Moody's opinion, Getin Noble Bank continues to carry significant balance-sheet risk related to the amount of problem loans relative to reserves and capital, which reached an historical high of 77.7% at year-end 2014. In addition, following a recommendation from the Polish regulator, the bank included an additional category of loans with weak evidence of impairments in its overall non-performing loan ratio, which reached 16% at end-March 2015 from 13.1% at end- 2014.

-- Bank Millennium S.A.

The upgrade to the bank's long-term deposit rating to Ba1 from Ba2 is due to the Advanced LGF analysis that provides three notches of uplift from the bank's BCA of b1 and offsets reduced government support assumptions. Bank Millennium benefits from a large volume of deposits, some senior and subordinated debt, and Moody's assumption of higher residual Tangible Common Equity (TCE) at failure owing to the failure risks associated with a significantly weaker parent, Banco Comercial Portugues S.A. (deposits B1 under review for downgrade; BCA caa2), resulting in extremely low loss given failure. However, because of the expected implementation of resolution legislation, Moody's has lowered its government support assumptions for the bank to "low", leading to no uplift from support, from "high" and two notches previously.

-- Bank Handlowy w Warszawie S.A.

The upgrade of the bank's deposit ratings to A3/Prime-2 from Baa3/Prime-3 is due to a combination of the affirmation of the BCA at baa3, the higher adjusted BCA of baa2 from baa3 reflecting affiliate support, as well as the Advanced LGF analysis that provides two notches of uplift from the bank's adjusted BCA. Bank Handlowy w Warszawie benefits from a large volume of deposits, resulting in very low loss given failure.

The higher adjusted BCA reflects Moody's view of moderate likelihood of extraordinary affiliate support from Citibank N.A. (Citi; deposits A2 under review for upgrade; BCA baa2) in case of need, given the brand association and common client base. This results in one notch of uplift for the adjusted BCA of baa2 from the BCA of baa3. With its ownership of 75% of the bank, Citi considers that Poland is a growing market with a track record of good profitability and a well-established presence in the large corporate segment, which is in line with its business strategy.

The affirmation of the bank's BCA at baa3 reflects the bank's consistently high capital ratios, strong profitability, and good liquidity base. The BCA is constrained, however, by the bank's relatively specialised corporate business profile compared to higher rated universal peers, which presents intrinsically higher volatility on profitability and funding.

-- Bank Gospodarki Zywnosciowej S.A.

The upgrade of the bank's deposit ratings to Baa2/Prime-2 from Baa3/Prime-3 is due to the affirmation of the bank's BCA of ba2 and the Advanced LGF analysis that provides one notch of uplift from the bank's adjusted BCA of baa3. Moody's estimates that the bank, after the merger with BNP Paribas Bank Polska (not rated), benefits from a moderate volume of deposits, resulting in low loss given failure.

The affirmation of the bank's BCA at ba2 follows the merger of the bank with BNP Paribas Bank Polska on the 30 April 2015. The banks have complementary operations and market presence, and Moody's says that the new combined bank (named Bank BGZ BNP Paribas S.A.) is likely to benefit in terms of a stronger competitive position in the market, increased business diversification and an expanded branch network.

The affirmation of the BCA also reflects Moody's view of the new combined bank's relatively good capital and liquidity profile, as well as its low profitability and efficiency compared to the average of the Polish banking sector. Moody's believes the expected benefits from the merger, particularly in terms of cost synergies, will become more visible between 2016 and 2017.

-- Bank BPH S.A.

The downgrade of the bank's deposit ratings to Ba2/Not-Prime from Baa3/Prime-3 is driven by the lowering of the BCA to ba3 from ba2, a lower expectation of affiliate support further lowering the adjusted BCA to ba2 from baa3, and the Advanced LGF analysis that provides no uplift from the bank's adjusted BCA. Bank BPH has a modest volume of deposits, resulting in moderate loss given failure.

The lowering of the bank's BCA to ba3 from ba2 reflects the bank's high contingent asset and capital risk deriving from its large Swiss franc-denominated mortgage portfolio (over 55% of total loans at end-March 2015), and its very weak profitability and efficiency compared to the average of the Polish banking sector. The BCA is supported, however, by the current level of long-term funding commitment - until 2021 - from its parent General Electric Capital Corporation (GECC; A1 stable).

The lower adjusted BCA of the bank reflects the bank's lower BCA and Moody's lowered assumptions of extraordinary affiliate support to "moderate", leading to one notch of uplift from support, from "high" and two notches previously. This change reflects the GECC's only shareholder (General Electric Company) announcement, in April 2015, that it plans to dispose of most of the assets of GECC over the next three years, thus reinforcing its intention to dispose of Bank BPH, which was already announced in October 2014.

-- Credit Agricole Bank Polska S.A.

The upgrade of the bank's deposit ratings to Baa1/Prime-2 from Baa3/Prime-3 is due to the Advanced LGF analysis that provides two notches of uplift from the bank's adjusted BCA of baa3 (BCA is ba2). Credit Agricole Bank Polska benefits from a large volume of deposits, and limited senior debt, resulting in very low loss given failure.

--- ASSIGNMENT OF COUNTERPARTY RISK ASSESSMENTS

Moody's has also assigned CR assessments to 11 Polish banks. CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than the likelihood of default and the expected financial loss suffered in the event of default; and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

The CR assessments for the 11 Polish banks are three notches above their adjusted BCAs, and reflect the seniority of the counterparty obligations and the volume of liabilities subordinated to them under Moody's Advanced LGF framework.

WHAT COULD CHANGE THE RATINGS UP/DOWN

Upward rating momentum on the 10 banks' ratings could develop from (1) a sustained improvement in profitability; (2) materially stronger capital positions; and (3) a significant reduction in Swiss franc mortgage loans for the banks that are more exposed to this asset class.

Downward rating pressure could emerge if (1) credit underwriting standards deteriorate noticeably; (2) current revenue and profitability pressures intensify; (3) macroeconomic environment deteriorates such that unemployment rises and the Polish real-estate market weakens; and (4) the Polish zloty materially weakens against the Swiss franc for the banks that are more exposed to Swiss franc mortgage loans.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in March 2015. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_181308 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

• Principal methodologies used

• Unsolicited ratings

• Non participating issuers

• [EU only] participation in unsolicited ratings

• Person approving the credit rating

• Releasing office

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