

FITCH AFFIRMS BANK ZACHODNI WBK S.A., WITHDRAWS KREDYT BANK ON MERGER

Fitch Ratings-Warsaw/London-10 January 2013: Fitch Ratings has affirmed all Bank Zachodni WBK S.A.'s (BZ WBK) ratings including its Long-term Issuer Default Rating (IDR) at 'BBB' with a Stable Outlook. The agency has also upgraded Kredyt Bank's (KB) Viability Rating (VR) to 'bbb' and removed it from Rating Watch Positive (RWP), affirmed KB's other ratings and simultaneously withdrawn all of KB ratings. A full list of rating actions is at the end of this commentary.

The rating actions follow the completion of the legal merger between BZ WBK and KB by way of a transfer of all of the assets and liabilities of KB to BZ WBK in exchange for newly issued shares in BZ WBK, allocated to the former shareholders of KB.

RATING ACTION RATIONALE: BZ WBK

The affirmation of BZ WBK's IDRs and VR reflects Fitch's view that the merged entity's stand-alone credit profile is broadly in line with that of the pre-merger BZ WBK, albeit marginally weaker as a result of the incorporation of KB.

The affirmation of BZ WBK's '2' Support Rating reflects Fitch's view that the bank's majority shareholder, Banco Santander's (Santander, 'BBB+/-Negative) will have a high propensity to provide support to the merged entity in case of need, given the strategic importance of Polish banking operations to Santander. However, at the current rating levels, Fitch's view of potential support available from Santander does not provide any uplift for BZ WBK's IDRs. The Stable Outlook on BZ WBK's Long-term IDR is based on the bank's intrinsic strength, reflected in the VR.

RATING ACTION DRIVERS - BZ WBK IDRS, VR

BZ WBK's VR and IDRs reflect its robust performance, comfortable liquidity and capital positions and stable funding structure based on customer deposits. However, they also reflect the significant exposure to commercial real estate (CRE) and residential mortgages denominated in foreign currency (FC), mostly inherited from KB.

At end-Q312 the combined exposure to CRE equaled about 14.5% of the combined loan book, and the exposure to FC-denominated mortgages was around 20%, albeit still much lower than for local peers with VRs of 'bbb-'. In Fitch's opinion, risks arising from CRE and FC mortgage exposures are adequately cushioned by the robust capitalization of the combined entity and healthy pre-impairment profitability.

The reported impaired loans ratio for the merged bank would still be below the market average (6.9% vs. 8.8%) based on end-Q312 data. Reserve coverage of impaired exposures would be at a reasonable level with the uncovered part a moderate 17% of FCC. Capitalisation of the merged bank should also be solid, with a FCC / risk weighted assets ratio of around 14%.

The merged bank is the third-largest in Poland with a strong franchise and the potential for improved efficiency by exploiting revenue and cost synergies as well as benefits of scale. Based on the two banks' combined end-Q312 data, the merged entity would have a loan to deposit ratio of around 94% and liquidity position able to easily absorb changes in the funding structure stemming from the need to gradually replace direct funding from KBC.

The combined entity's profitability is likely to be initially weaker compared with BZ WBK pre-merger, until cost and revenue synergies are exploited. Based on 9M12, Fitch estimates that the merged entity would have an annualised return on equity of around 14% compared with 18% for BZ WBK. Apart from the merger impact, the merged entity's profitability, similarly to other Polish

banks will also be under pressure from a less supportive operating environment locally driven by a slowdown of the Polish economy and lower interest rate environment.

RATING SENSITIVITIES - BZ WBK IDRS, VR

Within Fitch's base case scenario, BZ WBK's ratings will not be impacted by any further possible downgrade of Santander's Long-term IDR, given the agency's view of only moderate contagion risk for BZ WBK from negative developments at Santander. BZ WBK's ratings would only be likely to come under negative pressure in case of a downgrade of Santander to sub-investment grade, which Fitch does not anticipate at present.

An upgrade of BZ WBK's VR and IDRs is unlikely in the short to medium term, given the challenges of integrating KB, the moderate negative impact of the merger, the weakening operating environment and pressure on Santander's credit profile. BZ WBK could be downgraded in case of further escalation of the eurozone crisis, which could result in increased impairment charges due to a less supportive operating environment locally.

RATING SENSITIVITIES - BZ WBK SUPPORT RATING

In Fitch's view Santander's propensity to support BZ WBK will remain strong. BZ WBK's Support Rating could be downgraded, however, in case of a downgrade of Santander's Long-term IDR to 'BBB-' or below, which would impact Fitch's view of Santander's ability to provide support. However, any downgrade of the Support Rating would likely be limited to one notch given the systemic importance of the bank for the Polish banking sector and the potential for support, if needed, from the Polish authorities.

RATING ACTION RATIONALE - KB

The affirmation of KB's IDRs and Support Rating and the upgrade of the VR reflect the equalisation of the ratings with BZ WBK upon the merger. The withdrawal of KB's ratings reflects the fact that upon the completion of the legal merger, KB has ceased to exist as a separate legal entity.

The rating actions are:

Bank Zachodni WBK S.A.

Long-term foreign currency IDR: affirmed at 'BBB', Outlook Stable

Short-term foreign currency IDR: affirmed at 'F3'

Viability Rating: affirmed at 'bbb'

Support Rating: affirmed at '2'

Kredyt Bank

Long-term foreign currency IDR: affirmed at 'BBB', Outlook Stable; withdrawn

Short-term foreign currency IDR: affirmed at 'F3'; withdrawn

Viability Rating: upgraded to 'bbb' from 'bb+', removed from RWP; withdrawn

Support Rating: affirmed at '2'; withdrawn

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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, 'Rating FI Subsidiaries and Holding Companies', dated 10 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

Rating FI Subsidiaries and Holding Companies

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=679209

Evaluating Corporate Governance

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=694649

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