

**Rating Action: Moody's changes outlook on Bank Zachodni WBK S.A.'s ratings to positive**

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London, 29 January 2018 -- Moody's Investors Service has today changed the outlook to positive from stable on Bank Zachodni WBK S.A. (BZ WBK) A3 long-term local and foreign-currency deposit ratings. Concurrently, the rating agency has affirmed the bank's long-term and short-term local and foreign-currency deposit ratings of A3/Prime-2 respectively; its long-term and short-term Counterparty Risk Assessment (CRA) of A2(cr)/Prime-1(cr) respectively, its baseline credit assessment (BCA) of baa3 and adjusted BCA of baa2.

Today's rating action reflects Moody's assessment of the anticipated positive impact on BZ WBK's credit strength from a combination of factors including the bank's continued strong operating performance, the likely franchise enhancing acquisition of key businesses from Deutsche Bank's Polish subsidiary announced on 14 December 2017 as well as the resilience of BZ WBK's credit profile in light of greater clarity on the legislative proposal regarding foreign currency mortgages at Polish banks.

The full list of the affected ratings can be found at the end of this press release.

**RATINGS RATIONALE**

The change of the outlook to positive from stable on BZ WBK's A3 long-term deposit ratings reflects upward pressure on the bank's standalone baa3 BCA due to its improving asset quality, resilient capitalisation and strong profitability. The rating action also factors in (1) Moody's assessment of credit implications of BZ WBK's upcoming acquisition of Deutsche Bank's retail, SME and securities business in Poland; and (2) greater clarity on the legislative proposal regarding foreign currency mortgages at Polish banks, and Moody's assessment that the costs associated with the draft legislation will be manageable for the banks, including BZ WBK.

BZ WBK's deposit ratings continue to receive a one-notch uplift from Moody's assumption of moderate parental support from Banco Santander S.A. (Spain) (LT Deposits A3 stable; BCA baa1) and a two-notch rating uplift from Moody's Advanced Loss-Given-Failure (LGF) analysis.

The bank's reported non-performing loans (NPL) ratio declined to 6.0% in September 2017, from 6.6% at year-end 2016. This level is largely in line with the average for the Polish banking sector and also similar to those of its main competitors. At the same time, the rating agency estimates that the NPL coverage ratio increased to 73.3% as of September 2017, from 68.7% at year-end 2016. Moody's expects the NPL ratio to decline further supported by the favorable economic environment as well as comparatively lower NPL ratios of the yet to be acquired businesses from Deutsche Bank Poland.

BZ WBK reported a consolidated Common Equity Tier 1 (CET1) ratio of 15.9% and Total Capital ratio (TCR) of 16.9% as of September 2017, an increase compared to 14.6% and 15.1%, respectively, as of year-end 2016. The improvement was driven by retained earnings and inclusion of a subordinated loan in the amount of €120 million into Tier 2 capital. The acquisition and consolidation of the aforementioned Polish operations of Deutsche Bank will have only a modest negative effect on BZ WBK's capital ratios given (1) the limited increase in risk-weighted assets as the acquired loans account for less than 20% of BZ WBK's gross loans, (2) exclusion of foreign currency mortgages carrying high risk-weighting from the purchased loans; and (3) expected capital increase of BZ WBK as 80% of the purchase price will be paid by BZ WBK's newly issued shares.

Importantly, the bank's resilient capitalisation will be supported by BZ WBK's strong profitability with a return on assets (ROA) of 1.7% in the first nine months of 2017 (1.6% in 2016), driven by improving revenues and lower credit costs. However, the bank's profitability will likely experience moderate pressure from the planned legislation on foreign currency mortgages, that mandates quarterly contributions from the banks with exposures to such loans to a special fund for converting these loans into local currency. BZ WBK's foreign currency mortgages accounted for 12.5% of the bank's total loans in September 2017 and will continue to decline through amortization and conversion into local currency.

-- WHAT COULD MOVE THE RATINGS UP/DOWN

An upgrade of BZ WBK's deposit ratings could be prompted by (1) an upgrade of its BCA, or (2) a combination of higher parental support assumption and a significantly higher BCA of the parent, leading to a higher notching uplift, or (3) an increase in uplift resulting from Moody's Advanced LGF analysis. Upward pressure on the bank's standalone BCA would be largely conditional on continuous improvement in asset quality, while maintaining or improving its regulatory capital, profitability and funding.

A downgrade of BZ WBK's deposit ratings could be triggered by (1) a downgrade of its BCA, and/or (b) a decrease in the uplift from Moody's Advanced LGF analysis. The bank's BCA could be downgraded in case of a (1) significant deterioration in asset quality, profitability and/or capital levels; and (2) a substantial increase in market funding reliance.

#### LIST OF AFFECTED RATINGS

Issuer: Bank Zachodni WBK S.A.

Affirmations:

...LT Bank Deposits, Affirmed A3, Outlook changed To Positive From Stable

...ST Bank Deposits, Affirmed P-2

...Adjusted Baseline Credit Assessment, Affirmed baa2

...Baseline Credit Assessment, Affirmed baa3

...LT Counterparty Risk Assessment, Affirmed A2(cr)

...ST Counterparty Risk Assessment, Affirmed P-1(cr)

Outlook Actions:

...Outlook, Changed To Positive From Stable

#### PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in September 2017. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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