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Research Update:

Polish Bank Pekao Outlook Revised To Stable And 'BBB+/A-2' Ratings Affirmed On Announced Disposal By UniCredit

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Overview

- UniCredit has announced its agreement to dispose of Bank Pekao, with a 32.8% stake going to Powszechny Zaklad Ubezpieczen S.A. (PZU) and the Polish Development Fund S.A. (PFR) and the remaining 7.3% stake to be sold in a market transaction.
- We continue to base our ratings on Pekao solely on our assessment of the bank's stand-alone credit profile.
- We are therefore affirming our long- and short-term ratings on Pekao at 'BBB+/A-2'.
- We are revising the outlook on Pekao to stable from negative, reflecting our outlook on Poland and clarity about Pekao's links with the UniCredit group, especially in terms of resolution strategy, which previously constrained the ratings.

Rating Action

On Dec. 12, 2016, S&P Global Ratings revised its outlook on Bank Polska Kasa Opieki S.A. (Pekao) to stable from negative. At the same time, we affirmed our 'BBB+/A-2' long- and short-term counterparty credit ratings on Pekao.

Rationale

The rating affirmation follows UniCredit's announcement on Dec. 8, 2016, that it has entered into an agreement for the disposal of a 32.8% stake in Pekao to Polish state-controlled insurance company Powszechny Zaklad Ubezpieczen S.A. (PZU) and the Polish State Development Fund S.A. (PFR) for a consideration of about Polish zloty (PLN)10.6 billion (about €2.4 billion). The transaction is set to be completed around mid-2017, following necessary regulatory and antitrust approvals. In order to complete the disposal of its entire 40.1% stake, UniCredit successfully placed the remaining 7.3% of Pekao's share capital on the market on the same day, in the form of equity-linked certificates. These certificates will be mandatorily settled in ordinary shares on or before Dec. 15, 2019.

Following the divestment, Pekao no longer plays a strategic role for the UniCredit group, in our view. We are therefore removing its group status within the UniCredit group. However, this change does not affect the ratings on Pekao because they continue to be based solely on our assessment of its

stand-alone credit profile (SACP) at 'bbb+', without any uplift based on the group support. This reflects the 'bbb-' anchor for commercial banks operating in Poland and our view of Pekao's strong business position, strong capital and earnings, adequate risk position, average funding, and strong liquidity.

The outlook revision to stable from negative reflects our views that the ratings are no longer constrained by the 'bbb-' group credit profile of the UniCredit group. The remaining uncertainty about the resolution strategy applied to Pekao is removed, as the bank will no longer be part of a European cross-border banking group. We consider the bank to be subject to national resolution under Polish law.

We believe that the sale of Pekao is part of the strategic actions UniCredit has been taking since July 2016 to strengthen the group's capitalization, following the appointment of new CEO Jean Pierre Mustier.

Outlook

The stable outlook on Pekao reflects our view that the bank's SACP, especially its strong capitalization, will remain intact in the next two years. Despite the change in its shareholder structure, we believe Pekao will maintain its conservative growth strategy and will continue to hold sufficient capital buffers to withstand any adverse developments in its operating environment. Furthermore, its exposure to Swiss franc-denominated mortgage loans is comparatively low.

We will review the potential for group support from new owners once we have more clarity about their strategy with regard to Pekao and their level of control over the bank.

We could revise the outlook to negative if we took a similar rating action on the sovereign. A downgrade could occur if we noticed any disadvantageous influence on the bank from its new strategic owners that could weaken its strong capital position or negatively influence its business and underwriting standards.

A positive rating action is remote at this stage, even in the context of potential group support, as we are unlikely to rate Pekao above our foreign currency rating on Poland (BBB+/Stable/A-2), considering the bank's sizable sovereign exposure and high dependence on economic conditions in Poland.

Ratings Score Snapshot

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 Strong (0)
Support	0
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0
Additional Factors	0

Related Criteria

- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 09, 2011
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 09, 2011
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions, Dec. 06, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Banking Industry Country Risk Assessment Update: December 2016, Dec. 9, 2016
- Poland Outlook Revised To Stable On Reduced Concerns Over Central Bank Independence; 'BBB+' FC Rating Affirmed, Dec. 2, 2016
- Ratings On Polish Banks Pekao And mBank Affirmed After Review Of Government Support, October 18, 2016
- Bank Polska Kasa Opieki S.A., July 29, 2016
- Banking Industry Country Risk Assessment: Poland, July 4, 2016

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Bank Polska Kasa Opieki S.A. Counterparty Credit Rating	BBB+/Stable/A-2	BBB+/Negative/A-2

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