

FITCH AFFIRMS THREE LEADING POLISH BANKS

Fitch Ratings-Warsaw/London-12 October 2018: Fitch Ratings has affirmed the Long-Term IDRs of Santander Bank Polska S.A. (BBB+), Bank Handlowy w Warszawie (A-) and ING Bank Slaski (A). The Outlooks on the Long-Term IDRs are Stable. At the same time we have affirmed the banks' Viability Ratings (VR) at 'a-' (Handlowy) and 'bbb+' (ING Bank Slaski and Santander Polska).

The affirmation of the VRs and the IDRs of Santander Polska and Handlowy reflect no major changes to their financial metrics over the past 12 months. The affirmation of ING Bank Slaski's IDRs reflects Fitch's opinion that there is an extremely high probability that the bank would be supported by its parent, if needed.

KEY RATING DRIVERS

IDRS, NATIONAL RATINGS AND SENIOR DEBT

The IDRs of Santander Polska (and its senior debt rating) and Handlowy are driven by the banks' intrinsic strength, as reflected in their VRs. The IDRs of Santander Polska and Handlowy are also underpinned by potential shareholder support. ING Bank Slaski's IDRs are driven by potential support from ING Bank N.V.. Handlowy, ING Bank Slaski and Santander Polska are owned by Citigroup Inc. (75% stake, A/Stable/a), ING Bank N.V. (75%, A+/Positive/a+) and Banco Santander, S.A. (68%, A-/Stable/a-), respectively.

The Stable Outlooks on the banks' Long-Term IDRs reflect their own (Handlowy and Santander Polska) and their respective parents' stable intrinsic creditworthiness.

We use ING Bank N.V.'s VR as the anchor rating in assessing ING Bank Slaski. This reflects uncertainty over whether the combined buffer of qualifying junior and senior debt issued by ING Bank and its holding company would flow through to ING Bank Slaski's senior creditors in the event that the Polish bank failed.

Handlowy's Short-Term IDR of 'F1' is the higher of the two possibilities corresponding to its Long-Term IDR of 'A-'. This reflects its strong coverage of short-term liabilities by liquid assets, stable funding base and potential ordinary support from Citigroup.

SUPPORT RATINGS

The Support Ratings (SR) of '1' for Handlowy and ING Bank Slaski and '2' for Santander Polska reflect Fitch's view of an extremely high and high, respectively, probability of support from the banks' shareholders.

In our opinion, Poland is a strategically important market for Citigroup, ING Bank N.V. and Santander. The banks' synergies with their parents are strong and underpinned by long track records in supporting their parents' objectives, which is likely to continue, and a high level of management and operational integration. In our opinion, any required support for the three banks would be immaterial relative to their parents' ability to provide it. Our opinion reflects the owners' solid credit profiles and the small size of their Polish subsidiaries relative to their respective parents.

VRs

The three banks' common rating strengths include well-established domestic market franchises, stable business models, conservative risk appetites, strong capitalisation, sound asset quality, solid

profitability and robust funding and liquidity. The one-notch higher VR of Handlowy reflects its higher capital buffer and a particularly low-risk business model.

The Polish authorities classify the three banks as systemically important institutions. At end-1H18, Santander Polska was the third-largest bank by total assets with about 9% market share, followed by ING Bank Slaski (fifth, about 7%). Handlowy is a far smaller bank with about 2.5% market share (ranked 11th). However, the strength of Handlowy's customer relationships supports its franchise, in our view. The banks' stable and seasoned traditional business models are evidenced in limited variability in their performance through the cycle.

The banks' underwriting standards are reasonable and commensurate with their business models and country risks. Default rates are low and loan impairment charges (LICs) in new disbursements are modest. This reflects a relatively cautious approach to lending, but is also a function of a supportive economic environment.

Handlowy's risk appetite is lower than peers' because its borrowers (mainly affluent individuals, multinationals and large domestic blue chips) are less vulnerable to the Polish operating environment. Moreover, at end-1H18 low risk assets (such as cash, interbank placements and highly rated bonds) equalled about 45% of Handlowy's assets.

The three banks' strong capitalisation mainly reflects their high Fitch core capital (FCC)/risk-weighted assets ratios, solid capital buffers over regulatory minimums, modest unreserved impaired loans, solid recurring profitability and conservative risk profiles. We view capitalisation at Handlowy as moderately stronger due to its lower risk appetite and business model. At end-1H18 the banks' FCC ratios were 18.4% (Handlowy), 15.6% (ING Bank Slaski) and 16.7% (Santander Polska).

Fitch does not expect Santander Polska's capital position to weaken significantly as a result of the planned acquisition (in November 2018) of core parts of Deutsche Bank's Polish subsidiary (DBPL). Santander Polska will finance 80% of the purchase price through issuance of new shares to Deutsche Bank AG with the 20% balance settled in cash.

The banks' solid asset quality reflects their moderate-risk business models (low at Handlowy), well-diversified credit risk (by industries and single name), adequate coverage of bad debts by loan loss allowances and prudent underwriting. The risks for Santander Polska from the planned acquisition of DBPL are modest due to the target's stronger asset quality metrics. At end-1H18, impaired loan ratios (comprising Stage 3 loans) were 3.0% (ING Bank Slaski), 3.5% (Handlowy) and 5.7% at Santander Polska.

We believe asset quality should remain broadly stable in 2019 and beyond, due to conservative origination of new loans and the supportive economic environment, which contains the inflow of new bad debts.

The banks' profitability is commensurate with their business models and the Polish operating environment. Profitability is sufficiently strong to support near-term growth and provide material loss-absorption capacity. In 1H18, the ratios of operating profit/risk-weighted assets was 3.3% at Handlowy, and about 3.0% at ING Bank Slaski and Santander Polska.

The three banks' robust funding and liquidity reflects their high self-financing capacity (based on stable customer deposits), strong coverage of short-term liabilities by liquid assets and potential ordinary parental support. Handlowy's funding and liquidity profile is stronger due to its particularly ample liquidity. We believe that the three banks' stable deposit franchises are sufficient to withstand even a severe market stress.

Gross loans/deposits ratios were about 90% at ING Bank Slaski and 98% at Santander Polska. Handlowy's low ratio of 66% is volatile due to seasonal material inflows/outflows from large companies and the public sector, but has remained at about 60% over the past five years. At ING Bank Slaski the ratio has been gradually growing and reached an all-time high at end-1H18, while it has remained stable at the remaining banks.

Liquidity at the three banks is strong and will sufficiently cover their refinancing needs in 2019. At end-1H18, the share of highly liquid assets in total assets equalled 22% at ING Bank Slaski, about 40% at Handlowy and 21% at Santander Polska. Liquidity buffers comprised predominantly cash, short-term interbank deposits and unencumbered Polish sovereign debt.

RATING SENSITIVITIES

IDRS, NATIONAL RATINGS AND SENIOR DEBT

The IDRs of ING Bank Slaski are sensitive to changes in potential support from its majority owner. An upgrade of ING Bank Slaski's Long-Term IDR would require an upgrade of ING Bank N.V.'s VR. Santander Polska's and Handlowy's IDRs could be upgraded if their VRs are upgraded or if their parents' IDRs are upgraded. A downgrade of both banks would require a downgrade of both their VRs and their parents' IDRs.

VRs

The three banks' VRs are likely to be resilient to a moderate deterioration in the operating environment. However, a marked and prolonged weakening in the Polish economy (not Fitch's base scenario) that materially affects the banks' asset quality, capitalisation and profitability could lead to the VRs being downgraded.

Upside potential for Handlowy's VR is limited, given that it is already one notch above the bank's operating environment. A downgrade of Poland's sovereign rating would likely result in the downgrade of Handlowy's VR.

Upgrades of the VRs of Santander Polska and ING Bank Slaski are unlikely in the foreseeable future given their high levels relative to the operating environment.

SUPPORT RATINGS

The Support Ratings of Handlowy, Santander Polska and ING Bank Slaski are sensitive to changes in the parent banks' Long-Term IDRs (VR in case of ING Bank Slaski), or in Fitch's view of the parents' propensity or ability to support their subsidiaries. We do not expect the strategic roles played by the three banks in their respective groups to diminish in the medium term.

The rating actions are as follows:

Handlowy

Long-Term IDR: affirmed at 'A-'; Outlook Stable

Short-Term IDR: affirmed at 'F1'

Viability Rating: affirmed at 'a-'

Support Rating: affirmed at '1'

National Long-Term Rating: affirmed at 'AA+(pol)'; Outlook Stable

National Short-Term Rating: affirmed at 'F1+(pol)'

Santander Bank Polska

Long-Term IDR: affirmed at 'BBB+', Outlook Stable

Short-Term IDR: affirmed at 'F2'

Viability Rating: affirmed at 'bbb+'

Support Rating: affirmed at '2'

National Long-Term Rating: affirmed at 'AA(pol)', Outlook Stable

Long-term senior unsecured debt rating: affirmed at 'BBB+'
Short-term senior unsecured rating for eurobonds: affirmed at 'F2'
Long-term senior unsecured rating for eurobonds: affirmed at 'BBB+'

ING Bank Slaski

Long-Term IDR: affirmed at 'A'; Outlook Stable
Short-Term IDR: affirmed at 'F1'
Viability Rating: affirmed at 'bbb+'
Support Rating: affirmed at '1'
National Long-Term Rating: affirmed at 'AAA(pol)'; Outlook Stable
National Short-Term Rating: affirmed at 'F1+(pol)'

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Applicable Criteria

Bank Rating Criteria (pub. 22 Jun 2018)

<https://www.fitchratings.com/site/re/10034713>

National Scale Ratings Criteria (pub. 18 Jul 2018)

<https://www.fitchratings.com/site/re/10038626>

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