

27 APR 2021

Fitch Places Bank Handlowy's VR on Rating Watch Negative; Affirms IDRs

Fitch Ratings - Warsaw - 27 Apr 2021: Fitch Ratings has placed Bank Handlowy w Warszawie S.A.'s Viability Rating (VR) on Rating Watch Negative (RWN) following Citigroup Inc.'s (A/Negative/a) announcement of its revised strategy to exit the consumer business in 13 markets including Poland. A full list of rating actions is at the end of this rating action commentary.

The RWN reflects limited transparency over the scope and the timeframe of the transaction and uncertainty over the potential impact on the bank's standalone profile, given that following the exit of retail operations, we assume Bank Handlowy will continue to operate its institutional banking business in Poland. Fitch expects to resolve the RWN upon the release of further details on the exit plan and the new corporate structure as a consequence of the changes. Fitch expects that the resolution RWN may occur beyond six months, outside of Fitch's normal Rating Watch horizon.

The affirmation of Bank Handlowy's IDRs and National Ratings reflects Fitch's view that an exit from retail operations in Poland does not have a material impact on Citi's propensity to support Bank Handlowy. We believe that although Bank Handlowy's role in the wider Citigroup may have diminished somewhat, potential reputational risks for the group from a Bank Handlowy default mean that the parent's propensity to support its Polish subsidiary remains strong.

Key Rating Drivers

Unless noted below, the key rating drivers for Bank Handlowy are those outlined in our Rating Action Commentary published on 29 September 2020 (Fitch Affirms Bank Handlowy at 'A-'; Outlook Negative).

In Fitch's view, the sale of the part of the businesses no longer considered as core/strategic is the more likely scenario for the Polish subsidiary than a wind down, given its attractiveness for the potential buyers. At end-2020 the retail segment accounted for 33% of Bank Handlowy's loans (but only 12% of assets) and 32% of its liabilities and it was loss-making at the operating profit level last year.

The primary factors that will influence the resolution of the RWN on the VR relate to Fitch's assessment of the bank's franchise, strategy, updated credit-risk profile for the potentially quasi-monoline bank focused on serving institutional clients, capital buffers and funding and liquidity profile.

RATING SENSITIVITIES

Unless noted below the rating sensitivities for the bank are those outlined in our Rating Action

Commentary published on 29 September 2020 (Fitch Affirms Bank Handlowy at 'A-'; Outlook Negative).

Factors that could, individually or collectively, lead to negative rating action/downgrade:

The bank's Long-Term IDR will be downgraded if its VR is downgraded and our view of parental support simultaneously weakens. The latter could be triggered by a downgrade of Citigroup's Long-Term IDR or a reassessment of the propensity of the parent to support Bank Handlowy, for example if strategic importance of the Polish subsidiary further diminished (in practice if the group were to decide to sell the subsidiary) or if we conclude that reputational damage from a Bank Handlowy default would be containable for the parent.

The VR will be downgraded if Fitch concludes that the sale of the retail part of the business affects Bank Handlowy's business model, franchise and financial profile and ultimately its standalone assessment is no longer commensurate with its current level, which is high in the local context.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

Given the level of the rating and the RWN on the VR, Fitch does not foresee an upgrade in the immediate term. A resolution of the RWN and affirmation of IDRs would likely result from either or both of the following: no material changes in Fitch's view of the ability and propensity of Citigroup to support Bank Handlowy and only a modest weakening of the bank's franchise and financial profile due to the sale of the retail business. An affirmation of the VR would also likely need to coincide with an only modest impact from the spillover of the pandemic.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Public Ratings with Credit Linkage to other ratings

Bank Handlowy's IDRs and Support Rating are linked to Citigroup's IDRs.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR	
Bank Handlowy w Warszawie S.A.	LT IDR	A- 	Affirmed	A- 

ENTITY/DEBT	RATING		RECOVERY	PRIOR
	ST IDR	F1	Affirmed	F1
	Natl LT	AA+(pol) 	Affirmed	AA+(pol) 
	Natl ST	F1+(pol)	Affirmed	F1+(pol)
	Viability	a- 	Rating Watch On	a-
	Support	1	Affirmed	1

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Bank Rating Criteria \(pub.28 Feb 2020\) \(including rating assumption sensitivity\)](#)

[National Scale Rating Criteria \(pub.22 Dec 2020\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Bank Handlowy w Warszawie S.A. EU Issued, UK Endorsed

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