









Fitch Affirms Bank Millennium at 'BBB-'/Stable; Withdraws Euro Bank Ratings

Fitch Ratings - Warsaw - 15 October 2019:

Fitch Ratings has affirmed Bank Millennium's (Millennium) Long- and Short-Term Issuer Default Ratings at 'BBB-' and 'F3' and the bank's Viability Rating at 'bbb-'. The Outlook for the Long-Term IDR is Stable. At the same time, we have affirmed Euro Bank's Long-Term IDR at 'BBB-' and withdrawn all ratings for this entity. A full list of rating actions is at the end of this rating action commentary.

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
Bank Millennium S.A.	LT IDR BBB- ● Affirmed	BBB- ●
	ST IDR F3 Affirmed	F3
	Natl LT A(pol) ● Affirmed	A(pol) ●
	Natl ST F1(pol) New Rating	
	Support 4 Affirmed	4
	Viability bbb- Affirmed	bbb-
Euro Bank S.A.	LT IDR BBB- ● Affirmed	BBB- ●
	LT IDR WD Withdrawn	BBB- ●
	ST IDR F3 Affirmed	F3
	ST IDR WD Withdrawn	F3
	Natl LT A(pol) ● Affirmed	A(pol) ●
	Natl LT WD(pol) Withdrawn	A(pol) ●
	Natl ST F1(pol) Affirmed	F1(pol)

	Natl ST WD(pol) Withdrawn	F1(pol)
	Support 2 Affirmed	2
	Support WD Withdrawn	2
	Viability bbb- Upgrade	bb+ 
	Viability WD Withdrawn	bb+ 
	LT IDR BBB-  Affirmed	BBB- 
	LT IDR BBB-  Affirmed	BBB- 

The affirmation of Euro Bank's IDRs and the upgrade of the bank's VR to the same level as Millennium's reflects the completion of the merger on 1 October 2019. Euro Bank's ratings are withdrawn because the bank no longer exists as a separate legal entity.

Key Rating Drivers

IDRS, SUPPORT RATINGS, NATIONAL RATINGS AND SENIOR DEBT

Millennium's IDRs and National Long-Term rating are driven by the bank's standalone strength, as reflected by the bank's VR. The National Ratings reflect the bank's creditworthiness relative to Polish peers'.

Millennium's '4' Support Rating (SR) reflects potential support available from the bank's 50.1% owner, Banco Comercial Portugues S.A. (BCP; BB/Stable/bb). The SR factors in Millennium's strategic importance for BCP, but also BCP's weak standalone profile and the subsidiary's large size relative to BCP. This constrains the parent's ability to provide extraordinary support to Millennium, if needed. Support available from BCP provides a floor for Millennium's Long-Term IDR at 'B', which is three notches below BCP's IDR. At end-1H19, Millennium represented about 27% of BCP's consolidated assets and was a solid contributor to the parent's consolidated profits.

The Stable Outlook on Millennium's Long-Term IDR reflects broadly balanced risks related to the bank's credit profile following the acquisition and legal merger with Euro Bank.

VR

Millennium's VR is underpinned by the bank's well-established domestic franchise, conservative business model and risk appetite, and generally solid financial metrics. However, it is negatively affected by a portfolio of Swiss franc mortgages, representing 21.6% of the bank's gross loans and about 180% of its Fitch Core Capital (FCC) at end-1H19. This weighs on Fitch's assessment of the bank's asset quality and capitalisation.

The Court of Justice of the European Union (CJEU) delivered a ruling on 3 October 2019, which heightens the risk that Polish banks will face losses on foreign currency (FC) mortgages. In our view, the impact will not be immediate as it will depend on the reaction to the Polish courts' reaction to the ruling and the future inflow of

legal cases against banks. This risk is not currently a key rating driver for Millennium's VR due to limited information on its potential financial impact.

Millennium's FC mortgage portfolio is well-seasoned, gradually amortising and has performed fairly well to date, with an impaired loans-to-gross loans ratio of around 4% at end-June 2019, excluding FC loans acquired from Euro Bank. The portfolio is a source of potential risk to the bank given the potential for additional depreciation of the Polish zloty against the Swiss franc and an increase in Swiss interest rates. Potential losses arising from FC mortgage loans acquired from Euro Bank are covered by a risk-sharing guarantee and indemnity arrangements provided by Societe Generale, which sold the bank to Millennium.

Our assessment of asset quality factors in the bank's stable and moderate impaired loans-to-gross loans ratio and solid loan loss cover ratio. Millennium's underwriting standards are reasonable, reflecting country risks and a business model that is heavily weighted towards the retail segment. The inflow of new impaired loans has been contained recently, reflecting both conservative underwriting standards and a supportive operating environment. At end-1H19, Millennium's reported Stage 3 loans accounted for 4.2% of gross loans, which compares favourably with a 6% sector average.

Millennium's business model has been stable over recent years, underpinned by strong credit risk management, self-financing capacity, strong liquidity and fairly resilient profitability. However, the bank's business model is less diversified than highly-rated peers' and more vulnerable to downturns due to the exposure to FC mortgages. Euro Bank's acquisition had a moderate negative impact on our assessment of Millennium's risk appetite, due to an increased inflow of consumer lending.

Millennium's underwriting standards are fairly conservative, risk controls are reasonable and exposure to market risk arises mainly from exposure to FC loans. Open FC positions are hedged. Millennium's non-retail loan portfolio is well-diversified, with a sizeable share of leasing exposures.

Millennium's profitability is commensurate with the bank's business model and the Polish operating environment. In 1H19 operating profit/risk weighted assets was solid at 2.5%, in line with domestic peers'. Performance metrics were negatively impacted by Euro Bank's acquisition and we expect integration costs to continue to weigh on operating profitability in the near term.

Our assessment of Millennium's capitalisation considers a solid FCC/weighted assets ratio of 17.9% at end-June 2019, modest unreserved impaired loans and solid internal capital generation. The regulatory requirement includes a Tier 1 capital buffer of 6.3% (of which 75% must comprise core instruments) to address the risk of FC mortgages, which we view as prudent. This is equivalent of about 20% of the bank's outstanding FC mortgages.

Millennium's funding and liquidity profile is robust, held up by a stable base of granular customer deposits and strong coverage of short-term liabilities by liquid assets. FC refinancing needs are substantial, albeit gradually declining, as Millennium relies largely on Swiss franc/zloty currency swaps to hedge its Swiss franc mortgages. The Euro Bank acquisition consumed a sizeable amount of liquidity, but liquidity buffers have already been largely rebuilt. At end-1H19, the bank's liquidity coverage ratio was comfortable at 172% and the net stable funding ratio was comfortably above 100%.

RATING SENSITIVITIES

IDRS, SUPPORT RATING AND NATIONAL RATING

Millennium's IDRs and National Rating are sensitive to changes in the bank's VR. The National Ratings are also sensitive to changes in the relative credit risks of rated Polish peers.

An upgrade of Millennium's Support Rating would require an upgrade of BCP's Long-Term IDR.

VR

An upgrade of Millennium's VR would require further significant strengthening of the bank's franchise and a material reduction in the bank's exposure to FC mortgages relative to capital, which is unlikely in the near term.

A marked and prolonged weakening in the Polish economy (not Fitch's base scenario), materially affecting the bank's asset quality, capitalisation and profitability, could lead to Millennium's VRs being downgraded. The VR could also suffer from a large and sustained depreciation of the Polish zloty, which could negatively impact capitalisation, quality of the FC loans and the FC liquidity position.

Profitability may be negatively impacted if FC mortgage customers take legal action against the bank following the CJEU ruling. We expect to review the impact on the bank's standalone credit profile when more information on contingent liabilities becomes available.

Public Ratings with Credit Linkage to other ratings

Euro Bank's IDRs and SR were linked to Bank Millennium's IDR.

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 to the way in which they are being managed by the entity. For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg

Additional information is available on www.fitchratings.com

FITCH RATINGS ANALYSTS

Primary Rating Analyst

Artur Szeski
Senior Director
+48 22 338 6292
Fitch Polska SA
Krolewska 16, 00-103
Warsaw

Primary Rating Analyst

Michal Bryks
Director
+48 22 338 6293
Fitch Polska SA
Krolewska 16, 00-103
Warsaw

Secondary Rating Analyst

Monika Panasiuk
Analyst
+48 22 330 6704

Committee Chairperson

Janine Dow
Senior Director
+44 20 3530 1464

MEDIA CONTACTS

Louisa Williams
London
+44 20 3530 2452
louisa.williams@thefitchgroup.com

Malgorzata Socharska
Warsaw
+48 22 338 6281
malgorzata.socharska@fitchratings.com

Applicable Criteria

National Scale Ratings Criteria (pub. 18 Jul 2018)
Bank Rating Criteria (pub. 12 Oct 2018)
Short-Term Ratings Criteria (pub. 02 May 2019)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form
Solicitation Status
Endorsement Policy

DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

COPYRIGHT

Copyright © 2019 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers,

the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers. For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

Endorsement Policy

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Fitch Updates Terms of Use & Privacy Policy

We have updated our Terms of Use and Privacy Policies which cover all of Fitch Group's websites. [Learn more.](#)