

Rating Action: Moody's upgraded Santander Bank Polska S.A.'s deposit and debt ratings

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Outlook changed to stable from positive

Frankfurt am Main, June 03, 2019 -- Moody's Investors Service has today upgraded Santander Bank Polska S.A.'s (SBP) long-term deposit ratings to A2 from A3 and its long-term senior unsecured debt rating to A3 from Baa1. Concurrently, the bank's baseline credit assessment (BCA) was upgraded to baa2 from baa3, its Adjusted BCA to baa1 from baa2, its long-term Counterparty Risk Assessment (CR Assessment) to A1(cr) from A2(cr), its long-term Counterparty Risk Ratings (CRRs) to A1 from A2. At the same time, Moody's upgraded SBP's short-term deposit ratings to Prime-1 from Prime-2 and affirmed the bank's Prime-1(cr) short-term CR Assessment and Prime-1 short-term CRRs. The outlook on the long-term deposit and senior unsecured debt ratings is changed to stable from positive.

A full list of affected ratings and rating inputs can be found at the end of this press release.

RATINGS RATIONALE

The upgrade of SBP's long-term deposit and senior unsecured debt ratings is driven by (1) the upgrade of the bank's BCA to baa2 from baa3; (2) maintaining one notch of uplift from the rating agency's assumption of moderate parental support from Banco Santander S.A. (Spain) (Long-term Deposits A2 stable; BCA baa1), which results in an Adjusted BCA of baa1; (3) maintaining two notches of uplift for deposit and one notch of uplift for debt ratings from Moody's Advanced Loss-Given-Failure (LGF) analysis; and (4) raising government support assumptions for SBP to moderate from low owing to the bank's increased market share and greater importance for the Polish banking system following the acquisition of the majority of Deutsche Bank AG's business in Poland as well as organic growth, which, however, provides no rating uplift at the Polish government's (Long-term Issuer Rating A2 stable) rating level.

The upgrade of SBP's BCA reflects the bank's continued strong performance that has been broadly in line with the rating agency's expectations. The bank's reported non-performing loans (NPL) ratio declined to 4.6% in December 2018, from 5.8% in December 2017. This level is close to the average for the Polish banking sector and also similar to those of its main competitors. At the same time, Moody's estimates that the NPL coverage ratio declined to a still good 68% as of December 2018, from 74% at year-end 2017. Moody's expects SBP's asset quality to remain stable driven by the favourable economic environment as well as seasoning of the loan book, which grew significantly in the past several years.

SBP's Tier 1 ratio (Moody's adjusted) was of 13.43% in December 2018, declining moderately from 14.65% a year earlier, mainly due to the acquisition of Deutsche Bank Polska S.A.'s core businesses. The rating agency expects the drop in the capital ratio to be temporary and that capitalisation will be supported by SBP's strong profitability despite significant dividend payments in 2019. The bank's return on assets (ROA) was 1.3% in 2018 (1.6% in 2017), boosted by good revenue generation but constrained by significant credit costs. However, profitability will likely experience significant pressure from rising contributions to Poland's bank guarantee fund (resolution fund) and potential 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. SBP's foreign currency mortgages accounted for a manageable 7% of the bank's total loans in December 2018 (compared to 10% as of December 2017) and will continue to decline through amortization and conversion into local currency.

The outlook on SBP's long-term deposit and senior unsecured debt ratings is stable and reflects limited upward or downwards pressure on the bank's ratings over the next 12 to 18 months.

-- WHAT COULD MOVE THE RATINGS UP/DOWN

SBP's deposit ratings are at the level of the Polish government rating and could be upgraded in the event of (1) a higher notching uplift from Moody's Advanced LGF analysis; or (2) an upgrade of the Polish sovereign rating, in combination with an upgrade of the bank's adjusted BCA. The bank's A3 senior unsecured debt rating could

be upgraded as a result of either (1) an upgrade of the adjusted BCA; or (2) an upgrade of the Polish government rating; or (3) one additional notching uplift from the Advanced LGF analysis because of additional volumes of subordinated instruments, which would imply higher protection for senior creditors and a lower loss given failure in resolution.

Upward pressure on the bank's standalone BCA would be largely conditional on improvement in asset quality and capitalisation, while maintaining strong profitability and liquidity. One notch of upgrade of the BCA will result in the compression of the one notch uplift from moderate parental support assumptions currently factored into the adjusted BCA of baa1.

A downgrade of SBP's deposit ratings could be triggered by (1) a downgrade of its BCA, and/or (2) a decrease in the uplift from Moody's Advanced LGF analysis. The negative impact on the debt rating from a lower BCA or reduced uplift from LGF analysis could be offset by a one notch uplift from government support.

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: Santander Bank Polska S.A.

..Upgrades:

....Long-term Counterparty Risk Ratings, upgraded to A1 from A2

....Long-term Bank Deposits, upgraded to A2 from A3, outlook changed to Stable from Positive

....Short-term Bank Deposits, upgraded to P-1 from P-2

....Long-term Counterparty Risk Assessment, upgraded to A1(cr) from A2(cr)

....Baseline Credit Assessment, upgraded to baa2 from baa3

....Adjusted Baseline Credit Assessment, upgraded to baa1 from baa2

....Senior Unsecured Regular Bond/Debenture, upgraded to A3 from Baa1, outlook changed to Stable from Positive

....Senior Unsecured Medium-Term Note Program, upgraded to (P)A3 from (P)Baa1

..Affirmations:

....Short-term Counterparty Risk Ratings, affirmed P-1

....Short-term Counterparty Risk Assessment, affirmed P-1(cr)

..Outlook Action:

....Outlook changed to Stable from Positive

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in August 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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