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CREDIT OPINION
26 September 2023

Update

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RATINGS

Santander Bank Polska S.A.

Domicile	Warsaw, Poland
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	(P)A3
Type	Senior Unsecured MTN - Fgn Curr
Outlook	Not Assigned
Long Term Deposit	A2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Santander Bank Polska S.A.

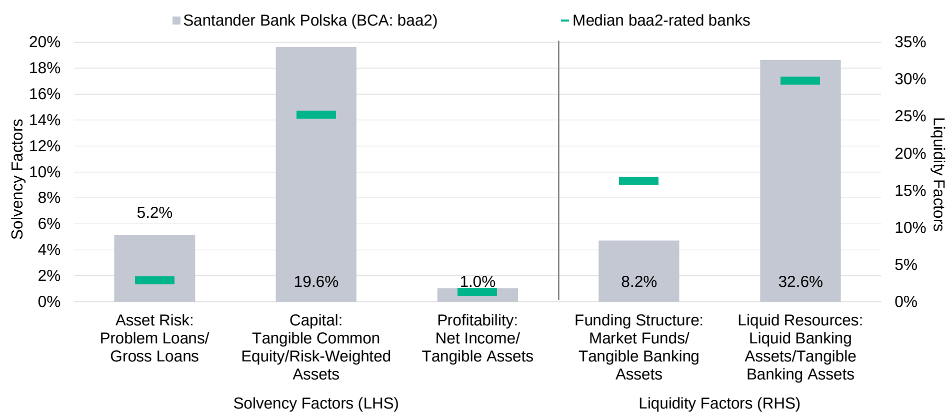
Update to credit analysis

Summary

Santander Bank Polska S.A.'s (SBP) A2/Prime-1 deposit and A3 senior unsecured debt ratings incorporate the bank's standalone Baseline Credit Assessment (BCA) of baa2; our assumption of moderate parental support from Banco Santander S.A. (Spain) (Banco Santander, A2 stable, baa1)[1], which results in one notch of uplift from the bank's BCA to a baa1 Adjusted BCA; the results of our Advanced Loss Given Failure (LGF) analysis, which takes into account the severity of loss faced by different liability classes in resolution and leads to two notches of uplift for SBP's deposit rating and one notch of uplift for the bank's senior unsecured debt rating; and our assumption of a moderate likelihood of support from the Government of Poland (A2 stable) if necessary, which does not result in any additional rating uplift.

SBP's baa2 BCA captures the bank's good capitalisation; moderate asset risk; and good profitability, despite rising cost pressure and legal risks. The bank's BCA also reflects its good liquidity and moderate market funding, with some dependence on corporate deposits and derivative exposure.

Exhibit 1
Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

» Sound capitalisation

» Good earnings generation capacity

» Good liquidity buffer

Credit challenges

» Moderate asset risk, which is likely to modestly deteriorate

» Moderate, although gradually declining, exposure to Swiss franc mortgages, which exposes the bank to legal risks

» Some dependence on corporate deposits and derivatives, with derivatives funding legacy mortgages

Outlook

The stable outlook on SBP's long-term deposit rating reflects our view that the bank's credit profile will remain broadly unchanged over the next 12-18 months, despite the difficult operating conditions. The stable outlook is also in line with that of its parent.

Factors that could lead to an upgrade

» SBP's A2 deposit ratings could be upgraded if the bank's Adjusted BCA is being upgraded; or in the event of an upgrade of the Polish sovereign rating, which would result in one notch of government support uplift for SBP's deposit ratings from our Advanced LGF analysis.

» The bank's A3 senior unsecured debt rating could be upgraded because of an upgrade of its Adjusted BCA or an additional one-notch uplift from the Advanced LGF analysis because of additional volumes of subordinated instruments. This 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 maintaining the currently high levels of profitability and further improvement in its asset quality and capitalisation. A one-notch upgrade of the BCA will result in the compression of the currently applicable one-notch affiliate support uplift from Banco Santander and no changes to the Adjusted BCA of baa1.

Factors that could lead to a downgrade

» A downgrade of SBP's deposit and senior debt ratings could be triggered by a downgrade of its Adjusted BCA; or a decrease in the uplift from our Advanced LGF analysis; or both. The strain on the rating from a lower Adjusted BCA, or a reduced uplift from the LGF analysis could be offset by a one-notch uplift from government support, based on our moderate systemic support assumptions.

» The bank's BCA could be downgraded in case of a decline in its capitalisation, a higher-than-expected deterioration in its asset quality, or a weakening in its funding profile and liquidity. A downgrade of the bank's Adjusted BCA could additionally be triggered by a downgrade of Banco Santander's BCA.

Key indicators

Exhibit 2
Santander Bank Polska S.A. (Consolidated Financials) [1]

	06-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total Assets (PLN Billion)	257.7	253.0	237.8	224.9	209.5	6.1[4]
Total Assets (USD Million)	63,418.3	57,683.2	58,662.0	60,349.5	55,305.8	4.0[4]
Tangible Common Equity (PLN Billion)	29.4	27.0	24.5	22.8	21.7	9.1[4]
Tangible Common Equity (USD Million)	7,241.4	6,161.6	6,046.5	6,108.3	5,718.6	7.0[4]
Problem Loans / Gross Loans (%)	4.9	5.0	5.0	5.8	5.2	5.2[5]
Tangible Common Equity / Risk Weighted Assets (%)	19.6	18.7	16.7	15.6	14.3	17.0[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	22.0	23.4	24.7	29.1	28.3	25.5[5]
Net Interest Margin (%)	4.9	4.0	2.6	2.7	3.2	3.5[5]
PPI / Average RWA (%)	6.7	4.8	3.2	2.4	2.9	4.0[6]
Net Income / Tangible Assets (%)	1.9	1.2	0.5	0.6	1.2	1.1[5]
Cost / Income Ratio (%)	35.5	44.1	49.7	58.3	54.2	48.4[5]
Market Funds / Tangible Banking Assets (%)	7.0	8.2	8.0	8.1	9.4	8.2[5]
Liquid Banking Assets / Tangible Banking Assets (%)	31.9	32.6	36.5	34.9	27.7	32.7[5]
Gross Loans / Due to Customers (%)	79.8	79.1	80.9	85.0	93.6	83.7[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Investors Service and company filings

Profile

Santander Bank Polska S.A. (SBP) is a universal commercial bank in Poland, with a reported 11.2% market share in customer deposits and 12.1% share in loans as of the end of June 2023. The bank provides retail and corporate clients with banking and other financial services, including securities trading, leasing, factoring, insurance and asset management.

SBP was established in 2001, following the merger of Bank Zachodni S.A. with Wielkopolski Bank Kredytowy S.A. In September 2018, the bank rebranded itself as Santander Bank Polska S.A. from Bank Zachodni WBK S.A. It has been listed on the Warsaw Stock Exchange since 2001. As of June 2023, Banco Santander held a 67.4% stake in SBP.

In 2018, SBP acquired the retail, and small and medium-sized enterprise (SME) businesses of Deutsche Bank Polska S.A. from Deutsche Bank AG (A1/A1 stable, baa2), excluding foreign-currency mortgages and the corporate and investment banking business. The acquired assets (retail and SME loans) accounted for 14% of SBP's 2018 gross loans.

Detailed credit considerations

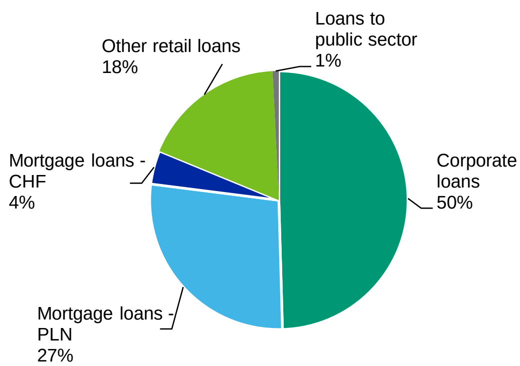
Moderate asset risk, which is likely to deteriorate modestly

We assign SBP an Asset Risk score of ba3, one notch below the Macro-Adjusted score, reflecting our expectation of some downward pressure on loan performances because of the weakened operating environment and the high share of both corporate and unsecured consumer lending.

SBP's nonperforming loan ratio was 4.9% as of June 2023, down from 5.0% as of year-end 2022 and lower than the 5.6% Polish banking sector average. Loan loss reserve coverage remained almost unchanged at 77% as of June 2023, below the 90% weighted average for the Polish banks we rate.

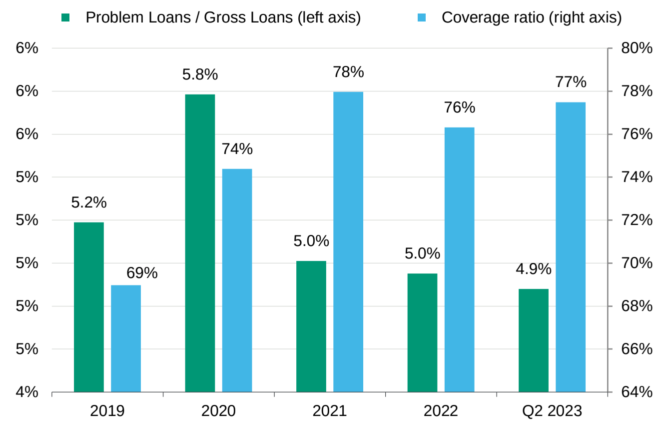
The bank continued to grow loans moderately, with gross loans at PLN163 billion as of June 2023, up 3% from a year earlier, while the Polish banking sector as a whole stagnated. Almost a fifth of SBP's loan book, well above the 13% peer average, comprises unsecured consumer loans, which typically entail higher credit risk. SBP's consumer loan book equals almost 1.1 times its Tier 1 capital. The share of corporate financing was also particularly high, representing 50% of total lending as of June 2023, slightly up from 49% six months earlier.

Exhibit 3
SBP displays high exposure in the relatively riskier corporate and retail unsecured segments
As a percentage of gross loans as of June 2023



Source: Company

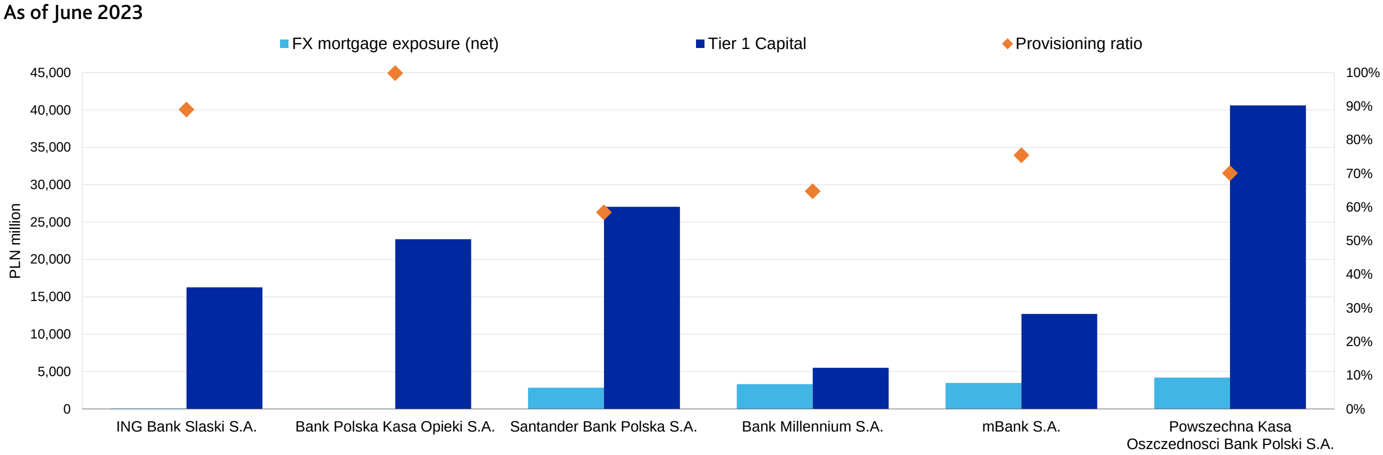
Exhibit 4
Problem loans well below the system average; moderately covered by loan loss reserves



Coverage ratio = loan loss reserves/problem loans.
Sources: The bank and Moody's Investors Service

SBP's Swiss franc mortgages (net of provisions) represented roughly 1.8% of the loan book as of June 2023, down from 3.5% as of year-end 2022, broadly in line with the sector average. In Swiss franc terms, the bank reduced this legacy exposure further by 15% in the first semester of 2023. During the same time, SBP substantially improved its legal risk coverage, provisioning 58% of its Swiss franc mortgages, up from 42% as of year-end 2022; however it ranks among the banks with the lowest coverage rate in the Polish system, averaging 76%.

Exhibit 5
Foreign-exchange mortgage exposure of Polish banks we rate
As of June 2023



Sources: Banks' financial statements and Moody's Investors Service

Stronger-than-peer capital buffers provide safety net against legal risks

Our assigned Capital score of a3, two notches below the Macro-Adjusted score, reflects the bank's good capitalisation, but also the legal risks stemming from Swiss franc mortgages and our expectation of large dividend distributions.

As of June 2023, SBP's tangible common equity (TCE)/risk-weighted assets (RWA), our preferred capital measure, was the highest among domestic peers at 19.6%, up from 18.7% as of year-end 2022, due to internal capital generation. SBP's Tier 1 capital was 19.2% as of June 2023, well above the bank's 9.5% minimum capital requirement, and its total capital ratio was 20.8%.

In December 2022, the Polish Financial Supervision Authority (Komisja Nadzoru Finansowego, KNF) imposed an add-on capital buffer (Pillar 2) of 0.23% on SBP, which it has advised the bank to maintain to cover potential losses arising from stress conditions. The bank's surcharge is one of the lowest among peers.

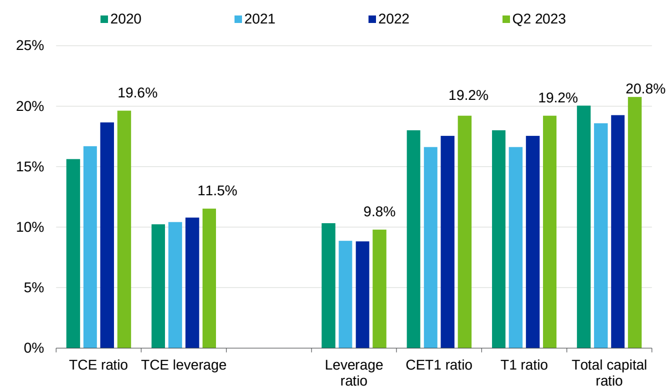
Tail risks for Polish banks have increased significantly in light of the European Court of Justice's (ECJ) verdict, announced in June 2023, which is in line with the opinion provided by the Advocate General earlier in the year. The verdict will be subject to interpretation by Poland's domestic courts, which will ultimately deal with individual cases. However, because of the relatively low ratio of Swiss franc mortgages to regulatory capital, SBP is only moderately exposed to such tail risks, given its substantial cushion of excess capital. Swiss franc mortgages — not yet covered against potential legal risks — accounted for a moderate 11% of the bank's Tier 1 capital as of June 2023, below the 18% average for the sector.

In March 2023, SBP disclosed that the Polish Financial Supervision Authority (KNF) has provided confirmation of the bank's general eligibility to distribute up to 100% of its 2022 earnings as dividends. The regulator, however, has stressed that any actions potentially impacting the bank's own funds must be subject to prior consultation with the KNF. Santander has indicated its intention to proceed with a significant dividend distribution, contingent on a positive assessment from the KNF.

Exhibit 6

Regulatory capital growth due to no recent dividend distributions

As a percentage of RWA

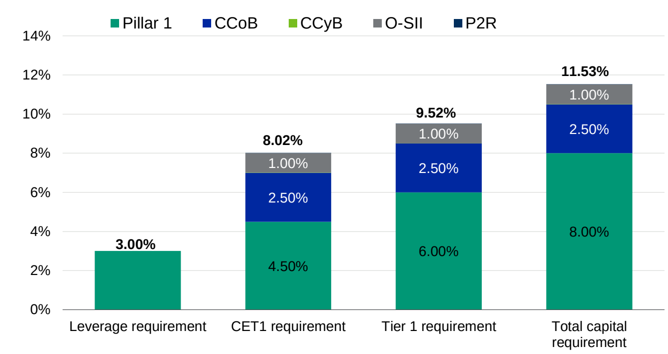


TCE ratio: Tangible common equity calculation according to our methodologies.
Sources: The bank and Moody's Investors Service

Exhibit 7

SBP´s capital requirements

As of June 2023



CCoB = Capital conservation buffer; O-SII = Other systemically important institutions buffer; P2G = Pillar 2 requirement; CCyB = Countercyclical Capital Buffer
Sources: The bank and Moody's Investors Service

Rising profitability, which will be constrained by rising credit and operating costs

The assigned baa3 Profitability score is one notch below the Macro-Adjusted score. While our assessment considers the improvements in the bank's profitability during the first half of 2023, we anticipate adverse impacts from the falling policy rates in Poland going forward, and pressure on operational and credit costs.

SBP reported a PLN2.4 billion profit as of June 2023, which is about 36% higher than the result in the first half of 2022. This was mainly because of a 22% increase in net interest income and a concurrent decrease in operating expenses, partially offset by higher provisions for expected credit losses at over 70 bps of gross loans, about 1.5 times higher than that in the same period last year. SBP's cumulative net interest margin for the first half of 2023 increased, reaching 4.9% from 4.3% a year earlier, supported by higher corporate loan growth while retail lending slowed significantly.

Our Moody's-adjusted net income/tangible asset ratio improved to 1.9% (annualised) in the first six months of 2023, from 1.5% in the same period of 2022. This was also higher than the 1.2% as of year-end 2022, which was strained by significant regulatory and legal costs.

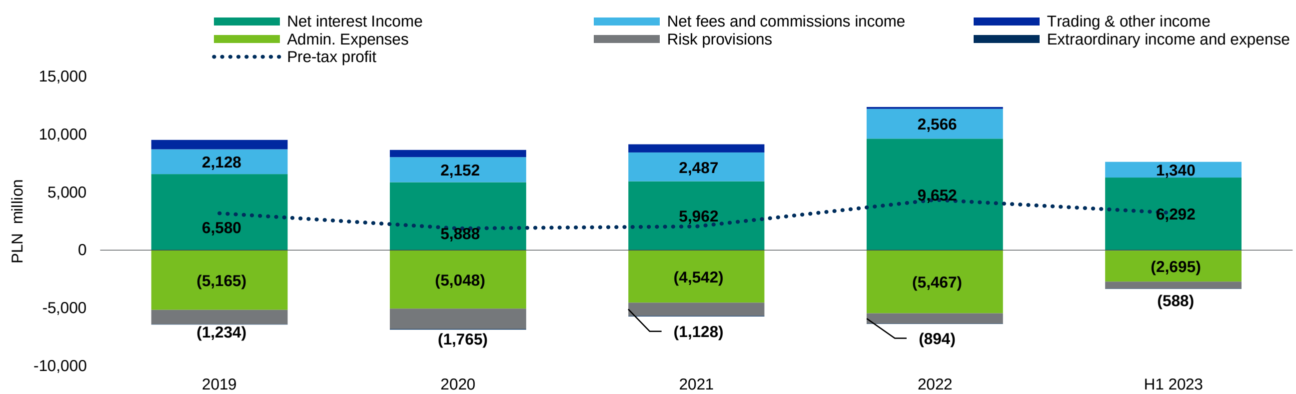
On 7 September, the National Bank of Poland (NBP) lowered the reference rate by 75 basis points (bp) to 6%. The larger-than-expected rate cut is credit negative for Polish banks because it will reduce their net interest income (NII). SBP anticipates that this decision will result in an adverse impact estimated between PLN390 million and PLN545 million over the subsequent 12-month period, equivalent to up to 10% of its H1 2023 NII.

In the first half of 2023, SBP set aside provisions amounting to PLN1.1 billion for its legacy Swiss franc mortgage loans, an increase from the PLN0.9 billion recorded in the same period the previous year. As of June 2023, the pressure from regulatory costs has lessened due to a reduction in contributions to the borrower protection scheme, which fell to PLN175 million from PLN268 million a year earlier. Additionally, the absence of the PLN446 million contribution to the institutional protection scheme for participation in the Getin Noble resolution,[2] which the bank had to expense in the first half of 2022, also contributed to the year-on-year decrease in regulatory costs.

The bank's cost-to-income ratio significantly improved to 35.5% in the first half of 2023, from 44.4% in the same period the previous year, mainly due to reduced regulatory costs, and was better than the peer-weighted average of 38.7%.

Exhibit 8

Operating efficiency and high interest rates support earnings



Sources: The bank and Moody's Investors Service

Good funding and liquidity profile, but some dependence on corporate deposits

We assign a baa1 score for Funding Structure, one notch lower than the Macro-Adjusted score, acknowledging the bank's robust deposit-based funding structure but also its dependence on external funding to adhere to its Minimum Requirement for Own Funds and Eligible Liabilities (MREL). Furthermore, the score reflects the bank's significant proportion of corporate deposits, which are more sensitive to confidence shifts.

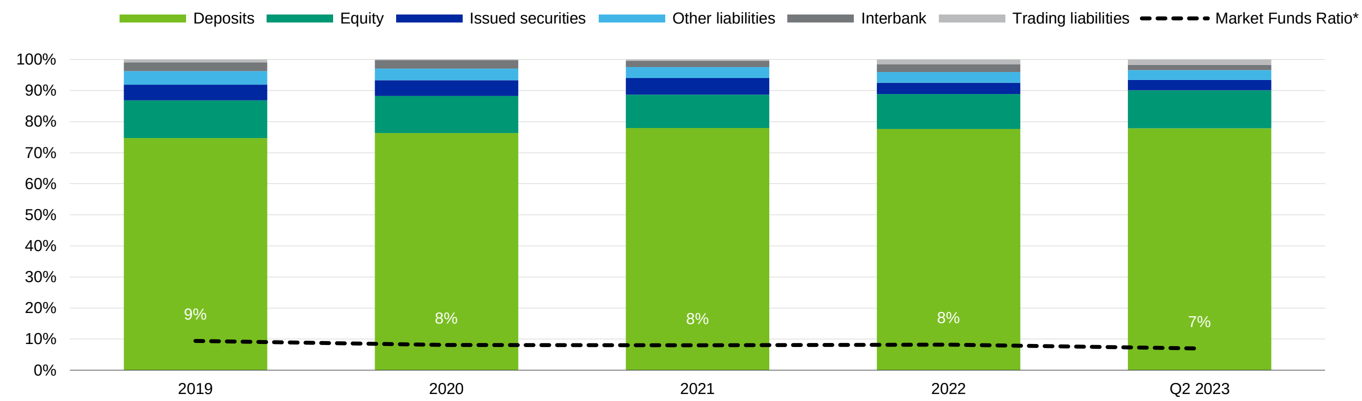
SBP, as a subsidiary of Banco Santander, is subject to a multiple-point-of-entry resolution approach and has to issue its own MREL liabilities placed externally. In May 2023, SBP received its updated MREL requirements set by the Bank Guarantee Fund (BGF), Poland's resolution authority, at 15.39% of the total risk exposure amount (TREA)[3]. The MREL requirement was defined at the consolidated level and should be met by 31 December 2023. As of June 2023, SBP´s MREL ratio was 24.9%, well above the regulatory minimum. As a member of the Banco Santander Group, SBP must also comply with total loss-absorbing capital (TLAC) requirements. For SBP, the TLAC requirement was 18.0% of TREA as of the end of June 2023.

As of June 2023, customer deposits, accounting for 89% of total liabilities, serve as the primary funding source for SBP. Notably, less than half of these are sight deposits, thus reducing the risk of bank runs. However, deposits from corporate customers, which are more sensitive to confidence levels, make up 44% of the total. The bank's loan-to-deposit ratio was a sound 80% in June 2023, broadly unchanged from year-end 2022, but above the 74.3% peer average.

SBP has a currency funding gap because of the Swiss franc mortgage portfolio, most of which is covered through medium-term swaps. This exposes the bank to the fluctuations of the derivatives market during periods of heightened market volatility.

Exhibit 9

Predominantly deposit-based funding structure



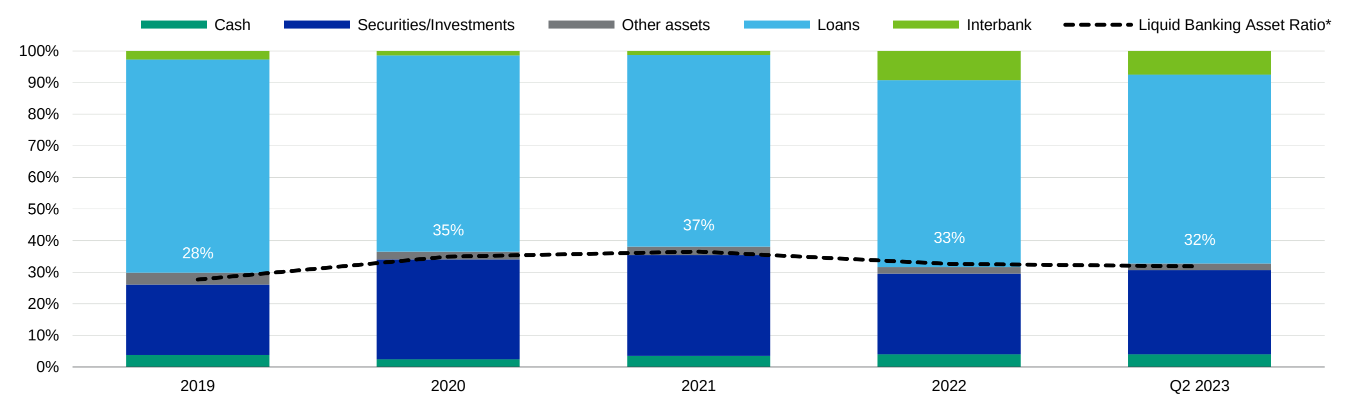
*Market funds ratio: Market funds/tangible banking assets

Sources: The bank and Moody's Investors Service

We assign a score of baa2 for Liquid Resources to SBP, one notch below the Macro-Adjusted score, corresponding to the bank's long-term average of liquid resources over the past years. As of June 2023, SBP held liquid assets amounting to 31.9% of its tangible banking assets, a slight decrease from 32.6% in 2022, consisting mainly of Polish government bonds, mostly measured at fair value. Associated unrealised mark-to-market losses have been taken into consideration in our assessment of the bank's capital position; and are likewise reflected in its liquidity coverage ratio (LCR) of 179%, well above the regulatory required minimum of 100%.

Exhibit 10

SBP has ample liquid resources, primarily consisting of Polish government bonds



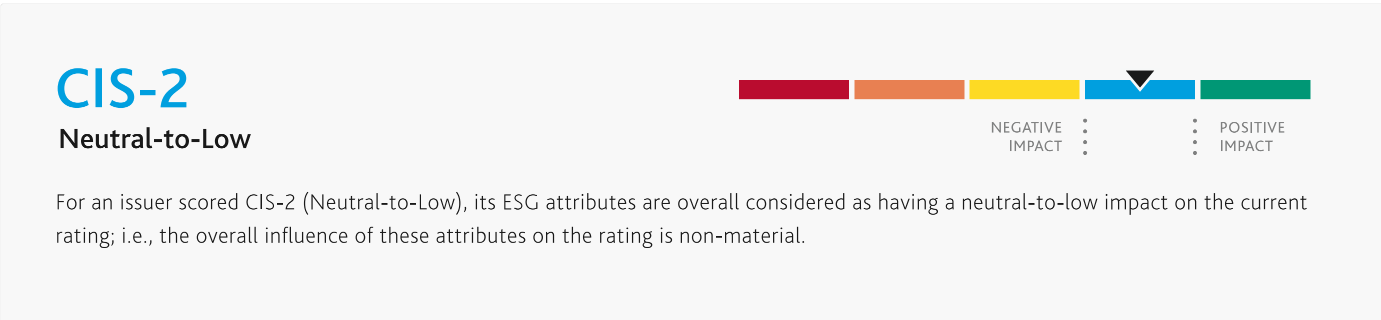
*Liquid banking assets ratio: Liquid assets/tangible banking assets

Sources: The bank and Moody's Investors Service

ESG considerations

Santander Bank Polska S.A.'s ESG Credit Impact Score CIS-2 is Low

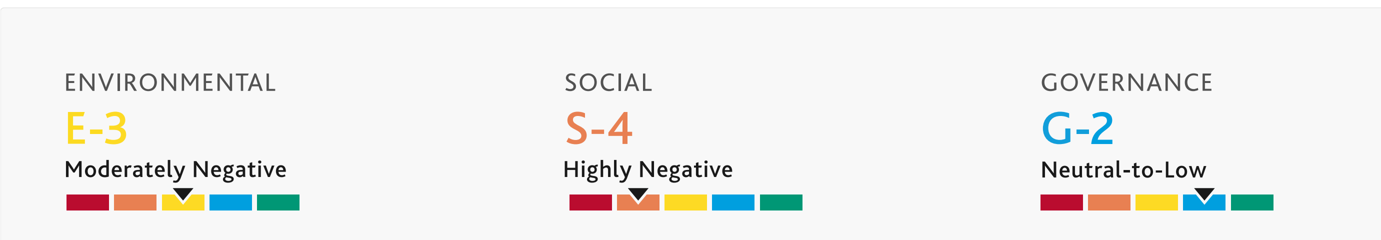
Exhibit 11
ESG Credit Impact Score



Source: Moody's Investors Service

SBP's ESG **CIS-2** reflects the limited credit impact of environmental and social factors on the ratings to date and low governance risk.

Exhibit 12
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

SBP faces moderate exposure to environmental risks, primarily because of its portfolio exposure to carbon transition risk as a diversified bank. In line with peers, SBP is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, SBP is actively engaging in further developing its comprehensive risk management and climate risk reporting frameworks and transitioning its lending and investment portfolios to achieve carbon neutrality targets.

Social

SBP faces high industrywide social risks related to customer relations and associated regulatory risks, litigation exposure, and high compliance standards in its diversified operations. These risks are mitigated by the bank's developed policies and procedures. SBP's high cyber and personal data risks are mitigated by the bank's sound IT framework. On societal trends, banks in Poland have been exposed to the government's interventionist policies, which demonstrate its predisposition towards supporting social policy at the detriment of banks' financial performance.

Governance

SBP faces low governance risks, and its risk management framework, policies and procedures are in line with industry practices. The bank has a strong and long-standing track record of prudent financial policies and strategies as well as steady "through the cycle" performance. SBP is effectively controlled by Banco Santander S. A. through its 67.4% ownership. The bank is however run with relative independence from the group, with little parent representation in the board and a majority of independent directors.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Affiliate support

We assess a moderate probability of parental support for SBP from its parent Banco Santander because of its 67.4% ownership stake in SBP and Banco Santander's commitment to its Polish business. Our assessment results in one notch of uplift from SBP's baa2 BCA to an Adjusted BCA of baa1.

Loss Given Failure (LGF) analysis

SBP is subject to the EU Bank Recovery and Resolution Directive (BRRD), which is an operational resolution regime. We assume residual TCE of 3% and post-failure losses of 8% of tangible banking assets, a 25% runoff in junior wholesale deposits, a 5% runoff in preferred deposits and a 26% proportion of junior deposits (EU average), and assign a 25% probability to deposits being preferred to senior unsecured debt. These assumptions are in line with our standard assumptions.

This results in a Preliminary Rating (PR) Assessment of a2 for the deposit rating, two notches above the Adjusted BCA, reflecting a very low loss given failure.

The PR Assessment for the senior unsecured debt rating is a3, which reflects a low loss given failure.

Government support considerations

We incorporate a moderate likelihood of government support for SBP's deposits and senior unsecured debt in the event of its failure, given the bank's importance to the Polish banking system. However, this does not provide any rating uplift at the current sovereign rating level.

Counterparty Risk Ratings (CRRs)

SBP's CRRs are A1/P-1

The bank's CRRs are positioned three notches above the Adjusted BCA of baa1, reflecting an extremely low loss given failure from a high volume of subordinated instruments. In addition, the moderate probability of government support does not result in any uplift.

Counterparty Risk (CR) Assessment

SBP's CR Assessment is A1(cr)/P-1(cr)

The CR Assessment of SBP is positioned at A1(cr), three notches above the Adjusted BCA of baa1, based on the buffer against default provided to the senior obligations. In addition, the moderate probability of government support does not result in any uplift.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 13
Santander Bank Polska S.A.

Macro Factors							
Weighted Macro Profile	**Moderate +**	**100%**					
Factor		**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency							
Asset Risk							
Problem Loans / Gross Loans		5.2%	ba2	↔	ba3	Quality of assets	Expected trend
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)		19.6%	a1	↔	a3	Stress capital resilience	Capital retention
Profitability							
Net Income / Tangible Assets		1.0%	baa2	↔	baa3	Return on assets	Expected trend
Combined Solvency Score			baa2		baa3		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		8.2%	a3	↔	baa1	Extent of market funding reliance	Deposit quality
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		32.6%	baa1	↔	baa2	Stock of liquid assets	Expected trend
Combined Liquidity Score			a3		baa1		
Financial Profile					baa2		
Qualitative Adjustments					Adjustment		
Business Diversification					0		
Opacity and Complexity					0		
Corporate Behavior					0		
Total Qualitative Adjustments					0		
Sovereign or Affiliate constraint					A2		
BCA Scorecard-indicated Outcome - Range					baa1 - baa3		
Assigned BCA					baa2		
Affiliate Support notching					1		
Adjusted BCA					baa1		

Balance Sheet	in-scope (PLN Million)	% in-scope	at-failure (PLN Million)	% at-failure
Other liabilities	39,951	15.7%	60,298	23.6%
Deposits	199,483	78.2%	179,136	70.2%
Preferred deposits	147,617	57.8%	140,237	55.0%
Junior deposits	51,866	20.3%	38,899	15.2%
Senior unsecured bank debt	3,625	1.4%	3,625	1.4%
Junior senior unsecured bank debt	1,900	0.7%	1,900	0.7%
Dated subordinated bank debt	2,583	1.0%	2,583	1.0%
Equity	7,656	3.0%	7,656	3.0%
Total Tangible Banking Assets	255,197	100.0%	255,197	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	21.4%	21.4%	21.4%	21.4%	3	3	3	3	0	a1
Counterparty Risk Assessment	21.4%	21.4%	21.4%	21.4%	3	3	3	3	0	a1 (cr)
Deposits	21.4%	4.8%	21.4%	6.2%	2	2	2	2	0	a2
Senior unsecured bank debt	21.4%	4.8%	6.2%	4.8%	2	0	1	1	0	a3

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a1	0	A1	A1
Counterparty Risk Assessment	3	0	a1 (cr)	0	A1(cr)	
Deposits	2	0	a2	0	A2	A2
Senior unsecured bank debt	1	0	a3	0	(P)A3	(P)A3

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 14

Category	Moody's Rating
SANTANDER BANK POLSKA S.A.	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Senior Unsecured MTN	(P)A3

Source: Moody's Investors Service

Endnotes

1 The bank ratings shown in this report are the bank's deposit rating and BCA.

2 A voluntary support fund was established by the eight largest Polish banks and is currently the owner of a 49% shareholding in Velobank (former Getin Noble).

3 The bank is also subject to a subordination requirement of 14.24%.

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