FitchRatings

RATING ACTION COMMENTARY

Fitch Upgrades Santander Bank Polska's VR to 'bbb+'; Maintains IDR on Rating Watch Negative

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Fitch Ratings - Paris - 27 Jun 2025: Fitch Ratings has upgraded Santander Bank Polska S.A.'s (SBP) Viability Rating (VR) to 'bbb+' from 'bbb'. Fitch has maintained SBP's 'A-' Long-Term Issuer Default Rating (IDR), 'a-' Shareholder Support Rating (SSR) and 'AA+ (pol)' Long-Term National Rating on Rating Watch Negative (RWN). A full list of rating actions is below.

The VR upgrade primarily reflects Fitch's improved assessment of the Polish operating environment to 'bbb+' from 'bbb' as it was constraining SBP's ratings. The improvement mainly results from diminishing legal and government intervention risks, which we expect will no longer materially affect Polish banks' good business prospects, and better earnings generation than the European average. It also considers the bank's stronger business profile, underpinned by improved structural profitability as well as sound capitalisation and improving asset quality and stable funding.

The RWN on the IDR reflects the potential negative impact of Erste Group Bank AG's (A/Stable) agreement with Banco Santander, S.A. (A/Stable) to acquire a controlling 49% stake in SBP on the ability and propensity of support for SBP. We expect SBP to be fully consolidated in Erste's group accounts. The transaction is likely to close in 4Q25, subject to regulatory approvals. We would resolve the RWN on completion of transaction, which may take longer than six months.

KEY RATING DRIVERS

Ratings on Watch Negative: The RWN reflects that if the acquisition is completed, Fitch will assess the support available to SBP from its new largest owner, including Erste's ability to provide support in light of the relatively large size of SBP. We will also assess its propensity to support the Polish bank, based on its importance for the group and its central and eastern European franchise.

Support Drives Ratings: SBP's Long-Term IDRs and SSR are one notch below Banco Santander, S.A.'s Long-Term IDR to reflect a very high probability of support. We continue to assess support from Banco Santander as very highly likely until the completion of the transaction, as an SBP default would be damaging to Banco Santander's reputation.

Integrated Subsidiary; MPE Resolution Strategy: SBP's synergies with its parent and integration within the broader group are strong, reflected in its product offering and risk management, common branding and underpinned by a solid record of supporting the group's objectives. Nonetheless, local management retains operational independence. The SSR also considers Banco Santander's multiple-point-of-entry (MPE) resolution strategy, with SBP being its own resolution group, separate from the parent resolution group, with the parent and Polish subsidiary operating in different jurisdictions, albeit both within EU.

Established Franchise, Adequate Capitalisation: SBP's VR primarily reflects its leading position as a retail bank in Poland. The rating also factors in good capitalisation and satisfactory profitability. We view asset quality as resilient supported by adequate underwriting standards. SBP's National Long-Term Rating reflects its creditworthiness relative to Polish peers.

Improved Operating Environment: The operating environment for banks in Poland captures a resilient, sizeable and diversified EU-based economy with good opportunities to generate very profitable banking business. Diminishing systemic legal risks and moderated government intervention risk coupled with strong underlying profitability improve banks' capacity for execution of medium-term strategic planning.

Strong Franchise, Diversified Business Profile: SBP has a leading franchise in Poland, where it ranks third in terms of market shares (slightly above 10% in loans and deposits) and has a diversified business mix. SBP's client base is well balanced between retail and corporate customers, including larger Polish companies. The bank owns a significant consumer finance subsidiary, which is under a sale process.

Adequate Risk Profile: The bank's risk profile balances operating environment risks, with a business profile geared towards traditional retail and commercial banking, with higher appetite than peers for higher-risk segments, such as mass-market consumer lending. We believe risks in this segment are well managed and will diminish after the potential carve out of specialised consumer lender Santander Consumer Bank (SCB) from the sale to Erste. The residual risks from the Swiss franc loans portfolio have significantly decreased.

Improving Asset Quality: Asset quality metrics have improved and are closer to the average of large Polish banks as the bank's impaired loans ratio decreased to 3.9% at end-March 2025. We expect asset quality to improve, supported by the resilient Polish economy and decreasing interest rates and lower exposure to consumer lending. Nevertheless, higher interest costs will continue to weigh on weaker borrowers' repayment capacity and some corporate sectors could suffer from current geopolitical tensions.

Strong Underlying Profitability: We forecast profitability to remain solid in 2025-2026, in line with Polish peers. Revenue has strongly benefited from higher interest rates and the operating profit/risk-weighted assets (RWAs) ratio reached a high 4.9% in 2024, despite still-high legal costs. We expect net interest income to remain healthy in 2025-2026, despite lower interest rates. Legal risk charges related to Swiss franc mortgage loans will continue to decrease, and increased use of interest-rates swap should limit the impact of lower rates on profitability.

Adequate Capitalisation: We expect the common equity Tier 1 (CET1) ratio to remain sound in 2025-2026 and above 16%, supported by good internal capital generation and moderate RWA growth. Our assessment considers the CET1 ratio of 17.3% at end-March 2025, which remained high despite restarted dividend payments. The CET1 ratio will increase following the potential sale of SCB.

Stable Funding and Liquidity: The bank's funding and liquidity are underpinned by its strong domestic franchise, providing it with a stable and granular deposit base. Liquidity buffers are adequate and our assessment benefits from potential ordinary parent support. The gross loans/customer deposits ratio is healthy and was slightly below 80% at end-2024.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

We will likely remove the RWN and downgrade SBP's IDR, National Rating and SSR on completion of the transaction if we see a lower likelihood to support from the new parent. SBP's Long-Term IDR and SSR would be downgraded if Banco Santander's Long-Term IDR was downgraded or if Fitch expects a weakening of Banco Santander's propensity to support the Polish subsidiary.

The VR would be downgraded if we lowered our assessment of Poland's operating environment. The VR would also be downgraded if material asset quality and earnings pressure erode the bank's financial profile. This could be evidenced by the impaired loans ratio rising towards 5% on a sustained basis, sustained weaker profitability with operating profit/RWAs going sustainably below 3%. A substantial weakening of the CET1 ratio to near 13% on a sustained basis could also be negative for the VR.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

We could remove the RWN and affirm SBP's IDR, National Rating and SSR if the transaction does not proceed or if we see a very high likelihood of support from the new parent.

VR upside is limited as it is constrained by the current Polish operating environment score. An upgrade would require a higher operating environment assessment as well as an impaired loans ratio durably around 3% or lower, while maintaining operating profit/RWAs at about 3% and a CET1 ratio at about 14%.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

SBP's 'F1' Short-Term IDR is the higher of the two options mapping to a 'A-' Long-Term IDR on Fitch's rating scale, considering that the Long-Term IDR is support-driven and parent support is typically more certain in the near term. SBP's Short-Term IDR is in line with Banco Santander's Short-Term IDR.

The RWN on senior preferred and senior non-preferred debt ratings mirror that on SBP's Long-Term IDR. Senior preferred debt and senior non-preferred debt are respectively rated in line with, and one notch below the bank's Long-Term IDR of 'A-'. This reflects SBP's potential use of senior preferred debt to meet its resolution requirements in a context where we expect regulatory requirements to increase. We also expect the level of senior non-preferred and more junior debt to remain below 10% of SBP's RWAs on a sustained basis. This is based on the bank's high CET1 capital relative to its resolution requirements, as well as its sizeable allowance to meet resolution requirements with senior preferred debt.

SBP must comply with resolution buffer requirements set under both total loss-absorbing capacity (TLAC) and minimum requirements for own funds and eligible liabilities (MREL) regulations. The bank's binding TLAC requirement is at 21.5%, including its combined buffer requirement (3.5% of RWAs), and out of that, 3.5% can be met with senior preferred debt. The bank's fully loaded MREL for 2025 was lower than the TLAC requirement at 18.9%, including the combined buffer requirement. At end-March 2025, the bank's TLAC/MREL ratio was 23.5%, including senior preferred debt.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

The senior preferred and senior non-preferred debt ratings are primarily sensitive to changes to the bank's IDRs.

In addition, if we expect SBP to meet its resolution requirements with only senior non-preferred and more junior instruments, or if we expect SBP's senior non-preferred and more junior debt buffers to exceed 10% of RWAs on a sustained basis, we would likely upgrade the bank's senior preferred and senior non-preferred debt ratings to one notch above and in line with the bank's Long-Term IDR, respectively.

VR ADJUSTMENTS

The asset quality score of 'bbb-' is above the implied category score of 'bb' due to the following adjustment reason: underwriting standards and growth (positive).

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

SBP's IDRs, National Ratings, SSR and debt ratings are linked to the Long-Term IDR of its parent, Banco Santander.

ESG CONSIDERATIONS

We have revised SBP's ESG relevance score for management strategy to '3' from '4' reflecting our view that the moderation in government intervention risk coupled with improved profit generation prospects will allow Polish banks to define and execute on their strategies.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT ⬍	RATING ⬍	PRIOR ⬍

Santander Bank Polska S.A.	LT IDR A- Rating Watch Maintained	A-
	ST IDR F1 Affirmed	F1
	LC LT IDR A- Rating Watch Maintained	A-
	Natl LT AA+(pol) Rating Watch Maintained	AA+(pol)
	Natl ST F1+(pol) Affirmed	F1+(pol)
	Viability bbb+ Upgrade	bbb
	Shareholder Support a- Rating Watch Maintained	a-
Senior preferred	LT A- Rating Watch Maintained	A-
Senior non-preferred	LT BBB+ Rating Watch Maintained	BBB+
Senior preferred	ST F1 Affirmed	F1

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VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 22 Dec 2020)

Bank Rating Criteria (pub. 21 Mar 2025) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Santander Bank Polska S.A.	EU Issued, UK Endorsed

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