



## Fitch Affirms Santander Bank Polska at 'BBB+'; Outlook Stable

Fitch Ratings - Warsaw - 07 October 2019:

Fitch Ratings has affirmed Santander Bank Polska S.A.'s Long-Term Issuer Default Rating (IDR) of at 'BBB+' with a Stable Outlook and Viability Rating (VR) at 'bbb+'. A full list of rating actions is at the end of this rating action commentary.

### Key Rating Drivers

#### IDRS, NATIONAL RATINGS AND SENIOR DEBT

Santander Polska's IDRs (and its senior debt rating) are driven by its intrinsic strength (as reflected by its VR) and are also underpinned by potential parental support. Banco Santander S.A. (A-/Stable/a-) controls 67.5% of Santander Polska.

National Ratings reflect the bank's creditworthiness relative to Polish peers.

The Stable Outlook reflects Santander Polska's and Banco Santander's stable intrinsic creditworthiness.

#### SUPPORT RATING

The Support Rating (SR) of '2' reflects Fitch's view of a high probability of support from Banco Santander. In our opinion, Poland is a strategically important market for Banco Santander. The subsidiary's synergies with its parent are strong and Santander Polska has a solid record of supporting its parent's objectives, which is likely to continue. There is a high level of management and operational integration between the subsidiary and its parent. In our opinion, any required support for the bank would be immaterial relative to its parent's ability to provide it. Our view reflects Banco Santander's solid credit profile and the small size of Santander Polska relative to its parent.

#### VR

The bank's VR reflects its established domestic franchise, a stable business model, a conservative risk appetite and solid financial metrics.

Santander Polska is Poland's second-largest bank, with a market share of deposit and loans of approximately 12%. The bank has a stable and seasoned traditional business model, which is not reliant on volatile business.

The bank's conservative risk appetite is demonstrated by a well-diversified loan portfolio, with little single name and industry concentration, low default rates and a robust risk control framework. The bank's growth appetite has historically been high, but we expect this to subside to levels only moderately above the sector average in the foreseeable future. In November 2018, Santander Polska acquired core business units from Deutsche Bank's Polish subsidiary (DBPL).

Santander Polska's ratio of impaired loans to gross loans remained broadly stable at about 4% in 1H19, following substantial write offs and the acquisition of DBPL, which increased total loans by about 15%. The bank's asset quality is moderately more vulnerable compared with peers due to its exposure to legacy foreign-currency (mainly Swiss franc) residential mortgages (representing about 8% of gross loans) and significant unsecured consumer lending (19% of gross loans, split almost fifty-fifty between the bank and its consumer finance subsidiary).

The ruling of the Court of Justice of the European Union (CJEU) delivered on 3 October 2019 heightens the risk that Polish banks will face losses on foreign currency mortgages. However, in our view, the impact will not be immediate as it will depend on the reaction to the verdict by Polish courts and the future inflow of legal cases against banks. This risk is not currently a key rating driver for the bank's VR because there is limited information on its potential financial impact.

We view capitalisation as strong. The bank holds solid capital buffers over minimum regulatory requirements and the Fitch Core Capital (FCC)/risk weighted assets ratio (15.2% at end-1H19) and Basel leverage ratio (10%) are broadly in line with peers. In our assessment we also take into consideration Santander Polska's modest unreserved impaired loans, solid recurring profitability and conservative risk profile.

Santander Polska's profitability metrics are some of the strongest in the Polish banking sector. This reflects its stable business model and high margins (although recently under pressure), contained credit losses and robust cost efficiency. The bank's operating profit to risk-weighted assets between 1H19 and 2016 was, on average, 2.8%, which is high relative to peers. The bank's margins will continue to suffer in the coming periods from inflated funding costs. However, the bank's profitability is sufficiently strong to support near-term growth and provide material loss-absorption capacity.

The bank's robust funding and liquidity profile is sound. Stable customer deposits meet its funding needs and the bank maintains strong liquidity coverage of its short-term liabilities. Ordinary parental support is also available, if required. At end-1H19, the bank's ratio of gross loans/customer deposits was 100%. The ratio was only modestly impacted by the acquisition of DBPL. Santander Polska's strong liquidity is demonstrated by its 161% liquidity coverage ratio.

## **RATING SENSITIVITIES**

### **IDRS, NATIONAL RATINGS AND SENIOR DEBT**

Fitch does not expect changes to the bank's IDRs in the foreseeable future, as indicated by the Stable Outlook. Santander Polska's IDRs could be upgraded if either VR or Banco Santander's Long-Term IDR are upgraded. A downgrade would require a downgrade of both its VR and its parents' Long-Term IDR which we consider unlikely.

The CJEU's recent ruling is unlikely to impact the probability of support provided by Banco Santander to its Polish subsidiary. Heightened legal risk arising out of the ruling is not therefore a sensitivity for the bank's IDRs.

The bank's National Ratings are sensitive to changes in its Long-Term IDR.

VR

An upgrade of the VR is unlikely in the foreseeable future given its high level relative to the operating environment. The bank's VR is likely to be resilient to a moderate deterioration in the operating environment. However, a marked and prolonged weakening in the Polish economy (not Fitch's base case) that materially affects the bank's asset quality, capitalisation and profitability could lead to the VR being downgraded.

A downturn in profitability may arise if foreign currency mortgage customers act 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.

**SUPPORT RATING**

Santander Polska's Support Rating is sensitive to changes in our view of Banco Santander's propensity or ability to support its Polish subsidiary. We do not expect Santander Polska's strategic importance to the group to diminish in the medium term.

**Public Ratings with Credit Linkage to other ratings**

Santander Polska's IDRs and Support Rating are linked to Banco Santander's IDRs.

**ESG Considerations**

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RATING ACTIONS		
ENTITY/DEBT	RATING	PRIOR
Santander Bank Polska S.A.	LT IDR BBB+ ● Affirmed	BBB+ ●
	ST IDR F2 Affirmed	F2
	Natl LT AA(pol) ● Affirmed	AA(pol) ●
	Natl ST	

	F1+(pol) New Rating	
	Viability bbb+ Affirmed	bbb+
	Support 2 Affirmed	2
senior unsecured	LT BBB+ Affirmed	BBB+
senior unsecured	ST F2 Affirmed	F2

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**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)

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