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CREDIT OPINION
15 February 2023

Update

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Santander Bank Polska S.A.

Update following rating affirmation

Summary

On 20 December, we affirmed Santander Bank Polska S.A.'s (SBP) A2/P-1 deposit and A3 senior unsecured debt ratings, as well as the bank's baa2 Baseline Credit Assessment (BCA).

SBP's A2/Prime-1 deposit and A3 senior unsecured debt ratings incorporate the bank's standalone 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, although softening, profitability after adverse government measures and rising legal risks. The bank's BCA also reflects its good liquidity and moderate market funding with some dependence on corporate deposits and derivative exposure.

RATINGS

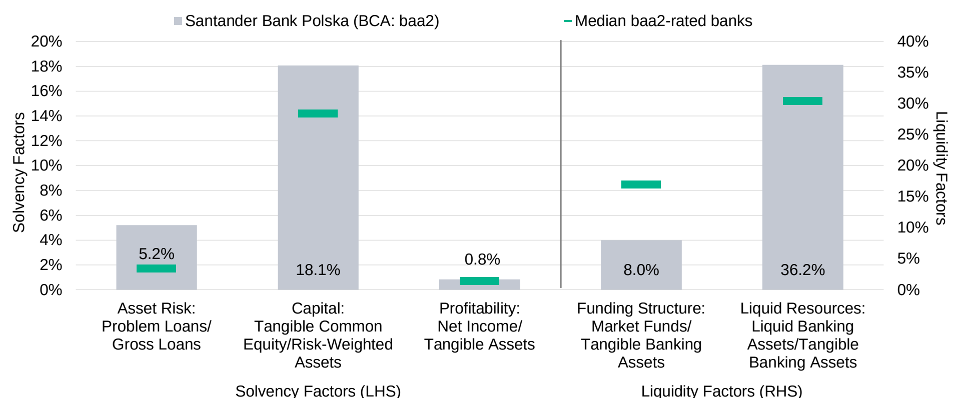
Santander Bank Polska S.A.

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.

Exhibit 1

Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

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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 risk exposure

» Some dependence on corporate deposits and derivatives, the latter 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 rating is at the level of the Polish government's rating and could be upgraded in the event of a higher notching uplift from our Advanced LGF analysis; or 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 an upgrade of its Adjusted BCA or an additional one-notch 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 a sustained recovery of its 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 BCA, Adjusted BCA or a decrease in the uplift from our Advanced LGF analysis, or both. The negative effect on the debt rating from a lower BCA, 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 position. 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]

	09-22[2]	12-21[2]	12-20[2]	12-19[2]	12-18[2]	CAGR/Avg.[3]
Total Assets (PLN Billion)	251.7	239.7	224.9	209.5	206.6	5.4[4]
Total Assets (USD Million)	50,969.3	59,120.6	60,349.5	55,305.8	55,004.9	(2.0)[4]
Tangible Common Equity (PLN Billion)	26.2	24.5	22.8	21.7	21.5	5.4[4]
Tangible Common Equity (USD Million)	5,304.5	6,046.5	6,108.3	5,718.6	5,724.9	(2.0)[4]
Problem Loans / Gross Loans (%)	4.9	5.0	5.8	5.2	4.6	5.1[5]
Tangible Common Equity / Risk Weighted Assets (%)	18.1	16.7	15.6	14.3	14.3	15.8[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	23.9	24.9	29.1	28.3	25.0	26.2[5]
Net Interest Margin (%)	3.8	2.6	2.7	3.2	3.4	3.1[5]
PPI / Average RWA (%)	3.2	2.2	2.4	2.9	3.0	2.7[6]
Net Income / Tangible Assets (%)	1.1	0.5	0.6	1.2	1.2	0.9[5]
Cost / Income Ratio (%)	60.3	65.6	58.3	54.2	51.3	57.9[5]
Market Funds / Tangible Banking Assets (%)	11.2	8.0	8.1	9.4	12.0	9.7[5]
Liquid Banking Assets / Tangible Banking Assets (%)	29.6	36.2	34.9	27.7	29.8	31.7[5]
Gross Loans / Due to Customers (%)	82.6	81.9	85.0	93.6	93.6	87.4[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 11.1% market share in customer deposits and 11.6% share in loans as of the end of September 2022. 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. On 7 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 (stock code: SPL). As of 30 September 2022, Banco Santander held a 67.4% stake in SBP.

In its latest corporate transaction, which was completed in the fourth quarter of 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

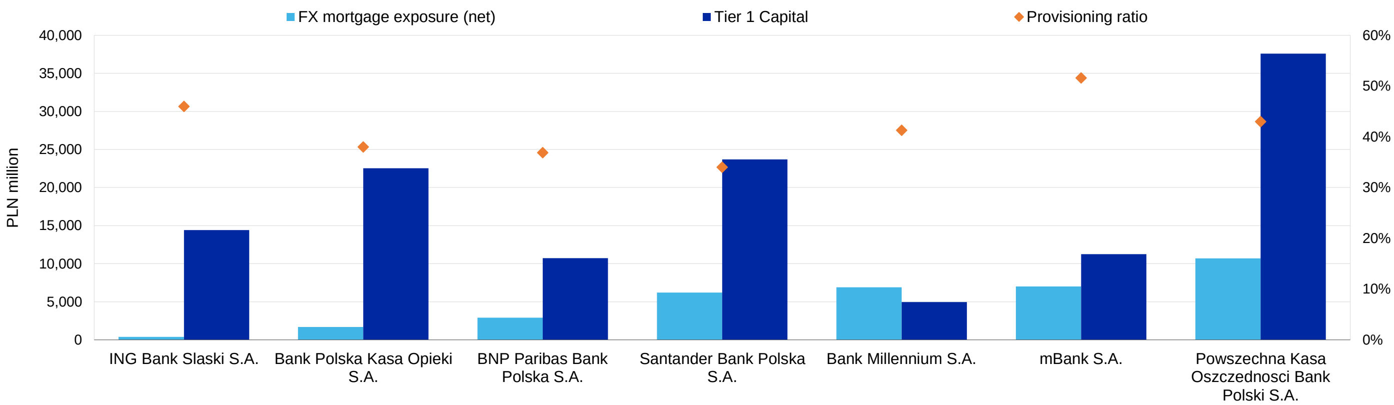
We assign SBP an Asset Risk score of ba3, one notch below the Macro-Adjusted score, reflecting our expectation of some downward pressure on loan performance because of the difficult macroeconomic situation and the high share of corporate lending.

SBP's nonperforming loan ratio was 4.9% as of September 2022, down from 5.0% as of year-end 2021[2] and still below the Polish banking sector average of 5.7%[3]. Loan loss reserve coverage was 78% as of September 2022, broadly in line with the 77% as of year-end 2021 and below the 88% weighted average for the Polish banks we rate.

The bank continued to grow loans moderately, with gross loans at PLN160 billion as of September 2022, up 6% year over year, below the 10% sector average. Almost one fifth of the loan book (equivalent to almost 1.2x SBP's Tier 1 capital) comprises unsecured consumer loans, which typically entail higher credit risk. The share of corporate financings is also particularly high, representing 48% of total lending as of September 2022, up from 45% a year earlier.

SBP's Swiss franc mortgages (gross) accounted for 5.9% of the loan book as of the end of September 2022 (versus the 6.5% sector average). In Swiss franc terms, the bank managed to reduce this legacy exposure further by 15% year-to-date. SBP substantially improved its legal risk coverage throughout 2022, provisioning 34% of its Swiss franc mortgages, up from 16% a year earlier, but slightly below the 42% sector average. SBP has booked an additional PLN632 million as reserves for legal costs in Q4 2022, increasing its coverage ratio of its Swiss franc mortgage exposure to 40.7%.

Exhibit 3
Rated Polish banks' exposure to foreign-currency mortgages



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

Sound capital buffers

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 upcoming dividend distributions.

As of September 2022, SBP's tangible common equity (TCE)/risk-weighted assets (RWA) — our preferred capital measure — was 18.1%, the highest among peers.

SBP's Tier 1 capital was 17.2% as of September 2022, well above the bank's 9.74% minimum capital requirement. The latter includes the Pillar 1 requirements; the other systemically important institutions (O-SII) buffer of 1.0%[4], a capital conservation buffer of 2.5% and an additional buffer for foreign-currency mortgage loans of 0.02%[5]. SBP's total capital ratio was 18.9% as of September 2022.

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.

In March 2022, SBP's supervisory board approved to pay out a dividend equivalent to 30% of its 2021 net profit (PLN274 million). We expect the bank to distribute more substantial dividends in 2023 because of its capital buffers largely exceeding regulatory requirements.

Profitability to benefit from lower regulatory costs but legal risks prevail

The assigned baa3 Profitability score is in line with the Macro-Adjusted score. Our assessment balances the potential impact of legal risks stemming from Swiss franc mortgages and our expectation of lower regulatory costs in the next 12-18 months.

Despite being hit by significant regulatory and legal costs in the first nine months of 2022, SBP reported a PLN1.9 billion profit, more than doubling the result in the year-earlier period, mainly because of a 61% increase in net interest income.

In September 2022, the National Bank of Poland increased the policy rates to 6.75%, reflecting a considerable 665-basis-point (bp) increase in several steps from the historical low of 0.10% during the pandemic. Consequently, SBP's cumulative net interest margin (NIM) for the first nine months of 2022 increased significantly, reaching 4.10% from 2.61% a year earlier. Excluding the impact of the government imposed moratorium, the NIM would have been 4.95%, marking a 90% increase over last year.

SBP booked a total of PLN1.1 billion in provisions related to its legacy Swiss franc mortgage loans in the first three quarters of 2022, up from the previous year's level of PLN945 million. The bank also had to incur the PLN1.4 billion cost related to the moratorium and the PLN446 million contribution to the newly established private institutional protection scheme following a voluntary initiative of the eight largest Polish banks to participate in the Getin Noble resolution[6].

The bank's cost-to-income ratio improved to 60.3% as of the end of September 2022, from 63.4% as of the end of September 2021. The reported cost of risk fell to 0.49% of gross loans for the first three quarter of 2022, from 0.77% in the previous year.

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, to reflect our expectation that the share of market funding will gradually increase because of the medium-term need for new debt issuances, driven by the minimum requirement for own funds and eligible liabilities (MREL).

SBP's market funding will increase gradually over the next two years as the bank fills its MREL requirement. 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 2022, SBP received its MREL requirements set by the Bank Guarantee Fund (BGF), Poland's resolution authority, at 15.41% of the total risk exposure amount (TREA) and 5.91% of the total exposure measure (TEM). The MREL requirement was defined at the consolidated level and should be met by 31 December 2023. 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 and 6.75% of TEM as of the end of September 2022.

SBP is predominantly deposit funded, with deposits from more confidence-sensitive corporate customers accounting for 45% of the total deposits as of September 2022, up from 42% a year earlier. The bank's loan-to-deposit ratio was a sound 83%, broadly in line with the 84% as of Q3 2021. 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 volatile nature of the derivatives market in times of increased market volatility.

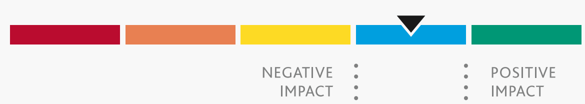
SBP's assigned baa2 Liquidity score is two notches below the Macro-Adjusted score and reflects the decline of the bank's stock of liquid assets during 2022. As of September, the latter came down to 29.7% of tangible banking assets, from 36.2% at year-end 2022. This was in line with our expectation as the long-term average of liquid assets held by the bank over the past years was below 30%, a still comfortable level. Its Net Stable Funding Ratio of 146% as of the same date, and Liquidity coverage ratio of 163% remain well above the regulatory required minimum of 100%.

ESG considerations

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

Exhibit 4
ESG Credit Impact Score

CIS-2
Neutral-to-Low



For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

SBP's ESG Credit Impact Score is neutral-to-low (**CIS-2**), reflecting the limited credit impact of environmental and social factors on the rating to date, as well as neutral-to-low governance risks.

Exhibit 5
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-4	G-2
Moderately Negative	Highly Negative	Neutral-to-Low

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 6

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	Expected trend		
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	18.1%	a1	↓↓	a3	Expected trend		
Profitability							
Net Income / Tangible Assets	0.8%	baa3	↑	baa3	Expected trend		
Combined Solvency Score		baa2		baa3			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	8.0%	a3	↔	baa1	Extent of market funding reliance	Deposit quality	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	36.2%	a3	↔	baa2	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	36,014	15.3%	54,682	23.2%
Deposits	183,020	77.7%	164,352	69.8%
Preferred deposits	135,435	57.5%	128,663	54.6%
Junior deposits	47,585	20.2%	35,689	15.2%
Senior unsecured bank debt	6,767	2.9%	6,767	2.9%
Dated subordinated bank debt	2,678	1.1%	2,678	1.1%
Equity	7,066	3.0%	7,066	3.0%
Total Tangible Banking Assets	235,545	100.0%	235,545	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	22.2%	22.2%	22.2%	22.2%	3	3	3	3	0	a1
Counterparty Risk Assessment	22.2%	22.2%	22.2%	22.2%	3	3	3	3	0	a1 (cr)
Deposits	22.2%	4.1%	22.2%	7.0%	2	2	2	2	0	a2
Senior unsecured bank debt	22.2%	4.1%	7.0%	4.1%	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 7

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 According to our definition.

3 Including the public sector and nonfinancial sector, excluding the financial sector.

4 In December 2021, the KNF increased SBP's O-SII buffer to its current level from 0.75% previously.

5 Lowered by the KNF in December 2021, from 0.03% previously.

6 A voluntary support fund, was established by the eight largest Polish banks and is currently the owner of a 49% shareholding in Velobank (former GetinNoble)

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454