



## RATING ACTION COMMENTARY

# Fitch Affirms Santander BP at 'BBB+'; Outlook Stable

Wed 06 Sep, 2023 - 4:00 AM ET

Fitch Ratings - Warsaw - 06 Sep 2023: Fitch Ratings has affirmed Santander Bank Polska S.A.'s (Santander BP) Long-Term Issuer Default Rating (IDR) at 'BBB+' with a Stable Outlook and Viability Rating (VR) at 'bbb'. A full list of rating actions is below.

## KEY RATING DRIVERS

**Shareholder Support Drives IDRs:** Santander BP's IDRs and Shareholder Support Rating (SSR) are driven by a high probability of support from its parent, Banco Santander, S.A. (A-/Stable/a-). The Stable Outlook reflects that on the parent. The bank's Short-Term IDR of 'F2' is in line with Banco Santander's Short-Term IDR.

**Established Franchise, Adequate Capitalisation:** Santander BP's VR balances the bank's adequate capital position, stable funding and liquidity profiles, robust earnings generation and reasonable asset quality against risks from the domestic operating environment, which negatively affect the bank's business and risk profiles.

**Parent Commitment:** The high probability of parent support and the one-notch difference between Santander BP's and its parent's Long-Term IDR reflect the strategic importance of the Polish market to Banco Santander, the only CEE market where it is notably present. Santander BP's synergies with its parent and integration within the broader group are strong, reflected in both product offering and risk management, and underpinned by a solid record of supporting the group's objectives. Nonetheless, local management retains operational independence.

Any required support for the bank would be immaterial relative to its parent's ability to provide it. Santander BP accounted for 3.3% of Banco Santander's consolidated assets at end-1H23.

**Intervention Risk Drives Operating Environment:** The 'bbb' operating environment score for Polish banks reflects the willingness of the authorities to intervene in the banking sector and impose large additional costs on banks. Mortgage credit holidays, which might be prolonged for another year, follow a sizeable bank tax and the substantial provisions banks have made for legal risks relating to Swiss franc-denominated mortgage loans.

**Diversified Business Profile:** Santander BP is the third-largest bank in Poland by total assets (about 10% market share) and has a diversified business mix. The bank's established market franchise and business model have allowed it to significantly benefit from rising interest rates.

**Moderate Risk Profile:** The bank's risk profile reflects primarily operating environment risks and a moderately higher appetite than peers' for higher-risk segments, such as mass-market consumer lending. However, we deem its risk appetite well-controlled.

**Reasonable Asset Quality:** We expect loan performance to modestly weaken as the Polish economy slows, and as high inflation and interest costs weigh on borrowers' payment capacity. The bank's asset quality has remained broadly resilient to date, although its impaired loan ratio (around 4.5% since 2021) has been higher than best-performing domestic peers. Nevertheless, the bank's underwriting is fairly conservative.

**Profitability in Line with Peers:** We expect profitability to be solid in 2023 and 2024, driven by high net interest margins (NIM) and reasonable loan growth. This is despite inflationary cost pressures and potential additional costs related to the extension of credit holidays and further legal risk charges related to Swiss franc mortgage loans.

**Adequate Capitalisation:** We expect the bank's regulatory capital ratios to remain resilient for 2023-2024, supported by internal capital generation and moderate risk-weighted asset (RWA) growth. Our assessment captures the bank's high common equity Tier 1 (CET1) ratio (19.2% ratio at end-1H23), low leverage and access to ordinary support from the parent.

**Stable Funding, Liquidity:** The bank's funding and liquidity are underpinned by its high self-financing capacity, granular customer deposits, robust liquidity buffers and potential ordinary parent support. We expect the gross loans/customer deposits ratio to remain around 80% in the medium term.

## **RATING SENSITIVITIES**

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

A downgrade of Banco Santander's IDRs would drive a downgrade of Santander BP's IDRs and SSR.

The VR could be downgraded if the operating environment score is revised lower or if material asset quality and earnings pressure erode the bank's financial profile. This could be manifested in the impaired loans ratio rising above 8% on a sustained basis, leading to weaker reserve coverage, an asset quality score in the 'bb' range, and sustained weaker profitability. A substantial weakening of the CET1 ratio to below 13% on a sustained basis could also be negative for the VR.

Santander BP's National Ratings are sensitive to a downgrade of the bank's IDRs.

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

An upgrade of Banco Santander's IDRs would drive an upgrade of Santander BP's IDRs and SSR.

An upgrade of the bank's VR could be triggered by an upward revision of the operating environment score for Polish banks, which would translate into an improved assessment of Santander BP's business, risk and funding and liquidity profiles. The upgrade would also require the bank to maintain its profitability and capitalisation scores, while improving its asset quality with the impaired loans ratio falling below 4% on a sustained basis.

Santander BP's National Ratings are sensitive to an upgrade of the bank's IDRs.

### **OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS**

Santander BP's senior preferred and senior non-preferred debt are respectively rated in line with and one notch below the bank's Long-Term IDR of 'BBB+'. This reflects the potential use by Santander BP of senior preferred debt to meet its resolution requirements and our expectation that the level of senior non-preferred and more junior debt will not exceed 10% of Santander BP's RWAs on a sustained basis. Our view is based on the bank's high CET1 capital relative to its resolution requirements as well as its sizable allowance to meet resolution requirements with senior preferred debt.

Santander BP must comply with resolution buffers set under both total loss-absorbing capacity (TLAC) and minimum requirements for own funds and eligible liabilities (MREL) regulations. The bank's TLAC requirement is 21.5%, including its combined buffer requirement (3.5% of RWAs), of which 3.5pp can be met with senior preferred debt. The

bank's fully loaded MREL from end-2023 will be 18.9%, including the combined buffer requirement. At end-1H23, the bank's TLAC/MREL ratio stood at 24.9%.

## **OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES**

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

If we expect Santander BP to meet its resolution requirements with only senior non-preferred and more junior instruments, or if we expect Santander BP'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, respectively, to one notch above and in line with the bank's Long-Term IDR.

## **VR ADJUSTMENTS**

The asset quality score of 'bbb-' is above the implied 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**

Santander BP's IDRs and SSR are linked to the IDRs of its parent, Banco Santander.

## **ESG CONSIDERATIONS**

Santander BP's ESG Relevance Scores for Management Strategy is '4', reflecting our view of high government intervention risk in the Polish banking sector, which affects the bank's operating environment, its business profile and ability to define and execute on its strategy. This has a negative impact on its credit profile and is relevant to ratings in combination with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entities, either due to their nature or the way in which they are being managed by the entities. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an

observation of the materiality and relevance of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

## RATING ACTIONS

ENTITY / DEBT ⇅	RATING ⇅			PRIOR ⇅
Santander Bank Polska S.A.	LT IDR	BBB+ Rating Outlook Stable		BBB+ Rating Outlook Stable
		Affirmed		
	ST IDR	F2	Affirmed	F2
	LC LT IDR	BBB+ Rating Outlook Stable		BBB+ Rating Outlook Stable
		Affirmed		
	Natl LT	AA(pol) Rating Outlook Stable		AA(pol) Rating Outlook Stable
		Affirmed		
	Natl ST	F1+(pol)	Affirmed	F1+(pol)
	Viability	bbb	Affirmed	bbb
	Shareholder Support	bbb+	Affirmed	bbb+
Senior preferred	LT	BBB+	Affirmed	BBB+
Senior non-preferred	LT	BBB	Affirmed	BBB

Senior preferred

ST F2 Affirmed

F2

[VIEW ADDITIONAL RATING DETAILS](#)**FITCH RATINGS ANALYSTS****Agata Gryglewicz**

Director

Primary Rating Analyst

+48 22 103 3013

agata.gryglewicz@fitchratings.com

Fitch Ratings Ireland Limited spolka z ograniczona odpowiedzialnoscia oddzial w Polsce

Krolewska 16, 00-103 Warsaw

**Monika Panasiuk**

Associate Director

Secondary Rating Analyst

+48 22 103 3028

monika.panasiuk@fitchratings.com

**Olivia Perney**

Managing Director

Committee Chairperson

+33 1 44 29 91 74

olivia.perney@fitchratings.com

**MEDIA CONTACTS****Peter Fitzpatrick**

London

+44 20 3530 1103

peter.fitzpatrick@thefitchgroup.com

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)**PARTICIPATION STATUS**

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

## APPLICABLE CRITERIA

[National Scale Rating Criteria \(pub. 22 Dec 2020\)](#)

[Bank Rating Criteria \(pub. 01 Sep 2023\) \(including rating assumption sensitivity\)](#)

## ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

## ENDORSEMENT STATUS

Santander Bank Polska S.A.

EU Issued, UK Endorsed

## DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers.

Please read these limitations and disclaimers by following this link:

<https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters

and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at <https://www.fitchratings.com/site/re/10238496>

The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to



the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those

subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Copyright © 2023 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

## [READ LESS](#)

### **SOLICITATION STATUS**

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

### **ENDORSEMENT POLICY**

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.