FitchRatings

Banks
Universal Commercial Banks
Spain

Banco Santander, S.A.

Update

Key Rating Drivers

Geographic Diversification Is a Key Strength: Banco Santander, S.A.'s ratings reflect Fitch Ratings' view that the bank's international footprint is a key strength, featuring material exposures in stronger economies than its home Spanish market, such as the UK and the US, as well as towards emerging markets. Risks are well-managed, and the resolution approach, based on a multiple-point-of-entry principle, supports an adequate and independent management of the subsidiaries' capitalisation and funding.

Strong Retail Franchises: Santander's broad and balanced geographic and business diversification is underpinned by solid retail-banking franchises in several European and Latin American countries and, to a lesser extent, in the consumer finance sector in the US. This results in good pricing power and access to large, stable deposit bases. Combined with Santander's experience over several economic and interest-rate cycles in its various markets, this has enabled it to manage periods of stress well.

Resilient Asset Quality: The good loan performance in most of Santander's geographies, underlying loan growth, and the sales of impaired loans have underpinned the stability of the bank's impaired loans ratio over the past 18 months. We expect a mild deterioration in asset quality in 2024, with the gross impaired loans ratio remaining below 4% (end-2023: 3.3%).

The economic slowdown, higher inflation and interest rates weigh on borrowers, although better-quality portfolios, especially in certain riskier markets, such as Brazil and US consumer finance, and proactive impaired loan management should prevent large inflows of impaired loans.

Sound Structural Profitability: Santander's balanced exposure to developed and emerging markets and dominant retail business underpin the stability of its revenue generation throughout economic and interest-rate cycles. Profitability improved on higher interest rates in 2023, and should continue to benefit from asset repricing throughout 2024. However, low loan growth in developed markets and rising funding costs will constrain further improvements in operating profitability, which we expect to stabilise at about 3% of risk-weighted assets (RWAs).

The bank's cost control-oriented culture provides an important buffer against cost-management challenges created by inflationary pressures. The group's progress in simplifying and digitalising the bank should help to meet its medium-term cost/income ratio target of about 42% by 2025 (about 2% below the figure calculated by the bank for 2023).

Adequate Capitalisation: Santander's capitalisation benefits from established internal capital generation and proven access to equity markets. Regulatory ratios are low compared with other large European banks, but have a record of stability throughout the cycle and are maintained with solid buffers over regulatory minimums. Capital is managed by the group on a 'need–cost optimisation' 'basis, which reduces capital volatility.

We expect Santander to continue operating with a common equity Tier 1 (CET1) ratio above 12% in 2024, despite expected higher capital distribution, and in line with the group's medium-term guidance.

Stable and Diversified Funding: Santander's global retail deposit franchise has been resilient throughout the interest rate increases, with low pass-through of higher rates, especially in continental Europe. We expect the group to face higher costs of customer funding in the coming quarters, but for these higher costs to be manageable. Established access to wholesale funding in its core markets, adequate liquidity buffers and reduced utilisation of central bank funding also underpin the bank's strong funding and liquidity profile.

Ratings

Foreign Currency	
Long-Term IDR	A-
Short-Term IDR	F2
Derivative Counterparty Rating	A(dcr)
Viability Rating	a-
Government Support Rating	ns

Sovereign Risk (Spain)	
Long-Term Foreign-Currency IDR	A-
Long-Term Local-Currency IDR	A-
Country Ceiling	AAA

Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (March 2024)

Related Research

Global Economic Outlook – March 2024

Large Spanish Banks: Sustained High Profitability for 2024 (February 2024)

Large Spanish Banks – Peer Review (December 2023)

Large European Banks Quarterly Credit Tracker – December 2023

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Rating Sensitivities

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

Santander's ratings would come under pressure if its CET1 ratio declined sustainably below 12% without a credible plan to rebuild it in the short term. A meaningful erosion of the bank's profitability, with an operating profit/RWAs ratio below 2% on a sustained basis, would also put pressure on the ratings.

Santander's ratings remain sensitive to a downgrade of Spain (A-/Stable) or to the group's current operating environment score (a-), the latter being particularly sensitive to the economic and banking prospects of Santander's core markets.

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

An upgrade would be contingent on an upgrade of Spain's sovereign rating, resulting in a better assessment of the group's operating environment.

An upgrade would also likely require an improvement in Santander's financial profile by means of a structurally stronger CET1 ratio and lower impaired loans ratio, while preserving the group's earnings resilience, which means maintaining the sound earnings performance at the main international subsidiaries.

Other Debt and Issuer Ratings

Rating level	Rating
Deposits	A/F1
Senior preferred debt	A/F1
Senior non-preferred debt	A-
Subordinated Tier 2 debt	BBB
Legacy preferred shares	BB

Source: Fitch Ratings

Santander's senior non-preferred notes are rated at the same level as the bank's Long-Term IDR, reflecting Fitch's view that the default risk of the notes is equivalent to that of the IDR and that senior non-preferred obligations have average recovery prospects.

Santander's long-term senior preferred debt, deposit ratings and DCR are rated one notch above Santander's Long-Term IDR to reflect the protection that accrues from buffers of junior and senior non-preferred debt, which exceed 10% of RWAs (after deconsolidating subsidiaries that are in different resolution groups, as Santander has a clear multiple-point-of-entry resolution strategy) on a sustained basis. We expect Santander to continue to issue a significant volume of senior non-preferred and junior debt to maintain the group's minimum requirement for own funds and eligible liabilities (MREL) and subordination requirements.

The short-term senior preferred debt and deposit ratings of 'F1' benefit from their equivalent long-term senior debt and deposit ratings being notched up from the Long-Term IDR to reflect lower credit risks.

Subordinated debt issued by Santander is notched down from its VR in accordance with our assessment of each instrument's non-performance and relative loss severity risk profiles.

We rate the instruments two notches below the group's VR for loss severity as we expect recoveries to be poor for this type of debt in case of default or non-performance of the bank.

Legacy preferred shares are rated five notches below the bank's VR. This corresponds to two notches for loss-severity and three notches for non-performance risk given the presence of a profit test in the notes' terms and conditions.

Issuer Ratings (Main Subsidiaries)

Rating Level	Santander Consumer Finance, S.A.	Santander Totta, SGPS, S.A	Santander UK Group Holdings plc	Santander Holdings USA, Inc.	Banco Santander Mexico, S.A., Institucion de Banca Multiple, Grupo Financiero Santander Mexico
Long-Term IDR	A-/Stable	A-/Stable	A/Stable	BBB+/Stable	BBB+/Stable
Short-Term IDR	F2	F2	F1	F2	F2
Viability Rating	a-	bbb	a	bb+	bbb-
Shareholder Support Rating	a-	a-	bbb+	bbb+	bbb+

Source: Fitch Ratings

The Long- and Short-Term IDRs of Santander Totta SGPS, S.A. (Totta), Santander Holdings USA, Inc. (SAN US) and Banco Santander Mexico, S.A., Institucion de Banca Multiple, Grupo Financiero Santander Mexico (SAN Mexico) are based on shareholder support from Santander. The Long-Term IDRs of Santander UK Group Holdings plc (SGH) and Santander Consumer Finance, S.A. (SCF) are driven by their standalone credit profiles, which is reflected in their VRs.

SCF's IDRs are further underpinned by potential shareholder support. We believe Santander has strong incentives to provide support to the fully owned SCF, as we consider it a core and integral part of the group, given that it manages most of Santander's consumer finance operations in Europe. SCF is also part of Santander's resolution group.

Totta's Long-Term IDRs are in line with Santander's. This reflects our expectation of a very strong propensity of Santander to provide support, given the recent inclusion of Totta into the resolution group headed by the parent, and the consequent reputational risks that a default of the Portuguese subsidiaries would represent for Santander.

The Long-Term IDRs of SAN US and SAN Mexico are notched down once from Santander's to reflect Fitch's view that their activities are strategically important to the group. We also consider the strong ability (given the relative size to the group is unlikely to represent a constraint) and strong propensity of parent support. The banks' performances are supported by strong synergies and integration with the parent, and a wide range of shared risk-management and operational practices.

SGH's ratings are assessed on a consolidated basis. SGH acts as the holding company for the Santander group's UK entities, and its VR is equalised with that of the main operating subsidiary, reflecting SGH's role in the group and low holding company double leverage. The VR is based on the group's conservative risk appetite, adequate capitalisation, and stable funding and liquidity profile, as well as a less diversified business mix than larger UK peers, which weakens the group's profitability.

Significant Changes from Last Review

Entering 2024 on a Solid Base

Santander's 2023 operating profit/RWAs ratio, of just over 3%, was in line with our forecast. The group continued benefitting from its positive sensitivity to interest rates in Europe in 4Q23, despite loan volumes contracting. Growth in Mexico also contributed to higher revenue generation in the quarter and in 2023, and we expect this business to remain an important driver of earnings generation in 2024. Santander should also benefit from improving performance in South America in the coming quarters, especially in Brazil, stemming from easing monetary policies translating into reduced pressure on funding costs and increasing lending volumes. This was already visible in 2H23.

In the US, Santander still faces a very competitive environment but remains highly committed to this market. The group increased its US deposit franchise in 2023, and further growth should come from its consumer finance business, leveraging on a wider network of commercial partners and synergies from the migration to the group's global platform. These positives, some revenue upside in Europe, and control over operating costs and LICs should support stability in Santander's operating profitability in 2024.

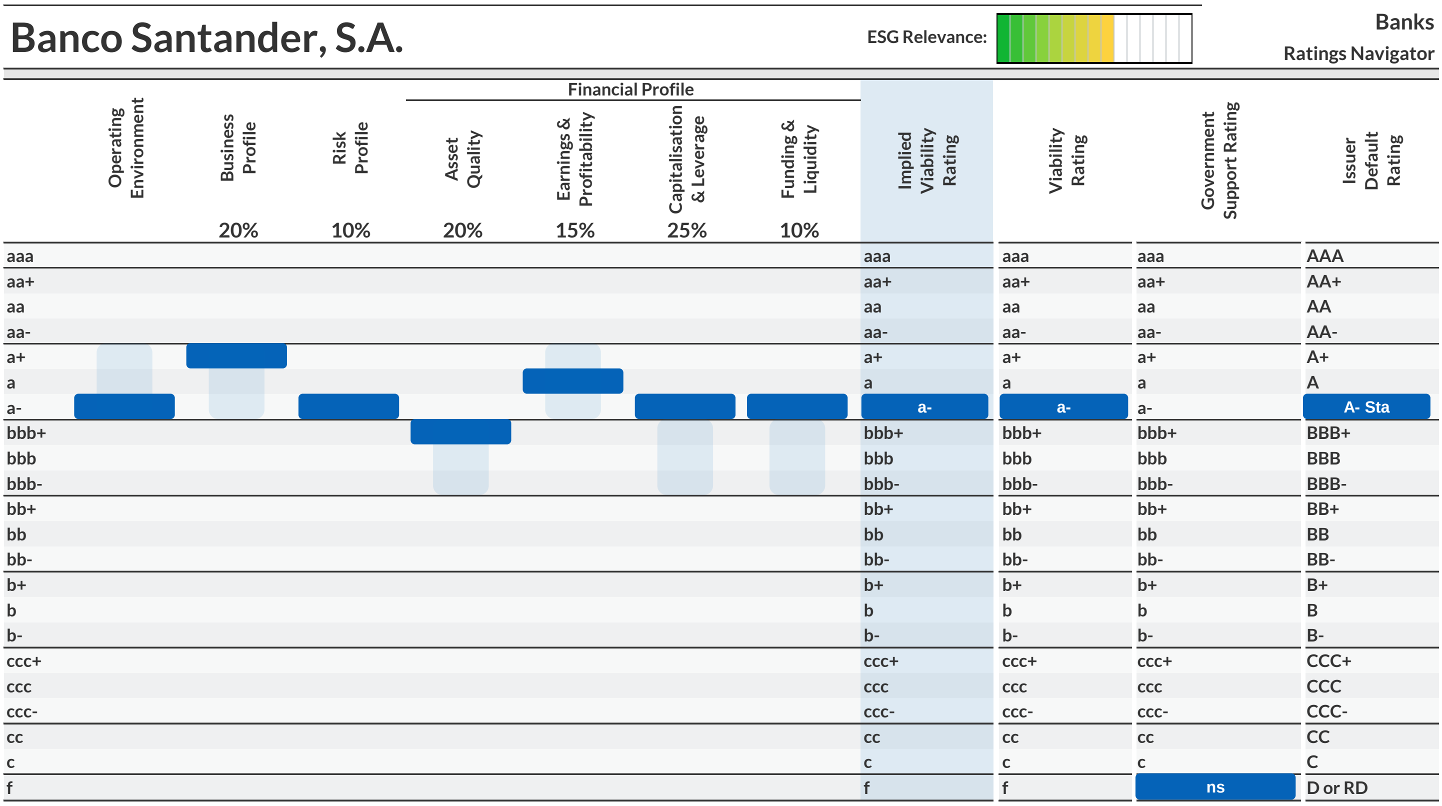
Santander's asset quality was again resilient in 2023, but we still expect a mild deterioration in 2024. This should result from the combined effect of increasing defaults from the low levels during the pandemic in certain geographies, such as the US, and segments (i.e. digital consumer finance), but also slight pick-up in default rates in Europe on debt affordability strains and higher cost of living. As a result, we expect Santander's LICs to pick up in 1H24, but thereafter revert to lower levels, resulting in broadly stable LICs for 2024 (2023: 118bp of gross loans; as per the bank's calculation). Also, the expected monetary easing should mitigate affordability pressures in 2H24, especially in South America.

Exposure to commercial real estate (CRE) accounted for about 50% (EUR38 billion) of the group's CET1 ratio at end-2023. Risks from US CRE (about EUR8 billion at end-September 2023) are manageable given Santander's limited exposure to the riskier office sector (about USD2 billion).

Resilient internal capital generation and modest asset quality generation will be supportive of Santander's strong capitalisation, despite a reduction in its regulatory capital ratios. The new EUR1.5 billion share buyback launched in February 2024 is coherent with the group's strategy and will have a small impact on its capital ratios. We estimate an erosion of 20bp–30bp, which will add to the 30bp from Basel III end-game that the bank plans to frontload in 2024.

The group accelerated on execution of its 2024 funding plan with multiple issuances across various debt classes since the beginning of the year. Issuances are primarily for regulatory purposes, as the group aims at maintaining sound buffers (4.1% at end-2023) over its MREL (33.7%).

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The operating environment score of 'a-' is in line with the 'a' category implied score but above the 'bbb+' score typically assigned to domestic Spanish banks because of the following adjustment reason: international operations (positive).

The capitalisation & leverage score of 'a-' has been assigned above the 'bbb' category implied score because of the following adjustment reasons: internal capital generation and growth (positive) and capital flexibility and ordinary support (positive).

The funding and liquidity score of 'a-' has been assigned above the 'bbb' category implied score because of the following adjustment reasons: deposit structure (positive) and non-deposit funding (positive).

Financials

Financial Statements

	31 Dec 23		31 Dec 22	31 Dec 21	31 Dec 20
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	48,022	43,832	39,107	33,883	32,385
Net fees and commissions	13,210	12,057	11,790	10,502	10,015
Other operating income	1,681	1,534	1,220	2,019	1,879
Total operating income	62,913	57,423	52,117	46,404	44,279
Operating costs	27,856	25,425	23,903	21,415	21,130
Pre-impairment operating profit	35,057	31,998	28,214	24,989	23,149
Loan and other impairment charges	14,195	12,956	10,863	7,407	12,382
Operating profit	20,862	19,042	17,351	17,582	10,767
Other non-operating items (net)	-2,830	-2,583	-2,101	-3,035	-12,843
Tax	4,685	4,276	4,486	4,894	5,632
Net income	13,348	12,183	10,764	9,653	-7,708
Other comprehensive income	673	614	-2,660	-220	-9,794
Fitch comprehensive income	14,020	12,797	8,104	9,433	-17,502
Summary balance sheet					
Assets					
Gross loans	1,111,982	1,014,953	1,019,188	962,382	904,092
- Of which impaired	37,054	33,821	32,617	31,287	30,815
Loan loss allowances	24,967	22,788	22,684	22,964	23,595
Net loans	1,087,016	992,165	996,504	939,418	880,497
Interbank	59,876	54,651	51,552	47,140	16,101
Derivatives	66,653	60,837	71,322	59,463	77,442
Other securities and earning assets	408,772	373,103	297,101	252,468	292,764
Total earning assets	1,622,316	1,480,756	1,416,479	1,298,489	1,266,804
Cash and due from banks	241,407	220,342	223,073	210,689	153,839
Other assets	105,138	95,964	95,107	86,657	87,607
Total assets	1,968,861	1,797,062	1,734,659	1,595,835	1,508,250
Liabilities					
Customer deposits	1,060,812	968,248	946,185	881,847	814,836
Interbank and other short-term funding	247,164	225,597	194,578	148,534	219,153
Other long-term funding	351,189	320,545	314,083	335,315	223,208
Trading liabilities and derivatives	92,550	84,474	96,517	71,513	92,762
Total funding and derivatives	1,751,715	1,598,864	1,551,363	1,437,209	1,349,959
Other liabilities	102,939	93,957	85,711	61,573	59,348
Preference shares and hybrid capital	789	720	688	658	7,784
Total equity	113,418	103,521	96,897	96,395	91,159
Total liabilities and equity	1,968,861	1,797,062	1,734,659	1,595,835	1,508,250
Exchange rate		USD1 = EUR0.912742	USD1 = EUR0.937559	USD1 = EUR0.884173	USD1 = EUR0.821963

Source: Fitch Ratings, Fitch Solutions, Santander

Key Ratios

	31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	3.1	2.9	3.0	1.9
Net interest income/average earning assets	3.0	2.8	2.6	2.5
Non-interest expense/gross revenue	44.8	46.5	46.6	47.6
Net income/average equity	12.1	11.0	10.2	-7.9
Asset quality				
Impaired loans ratio	3.3	3.2	3.3	3.4
Growth in gross loans	-0.4	5.9	6.5	-1.6
Loan loss allowances/impaired loans	67.4	69.6	73.4	76.6
Loan impairment charges/average gross loans	1.3	1.1	0.8	1.4
Capitalisation				
Common equity Tier 1 ratio	12.3	12.2	12.5	12.3
Fully loaded common equity Tier 1 ratio	12.3	12.0	12.1	11.9
Basel leverage ratio	4.7	4.7	5.4	5.3
Net impaired loans/common equity Tier 1	14.4	13.4	11.5	10.4
Funding and liquidity				
Gross loans/customer deposits	104.8	107.7	109.1	111.0
Liquidity coverage ratio	166.0	152.0	163.0	165.0
Customer deposits/total non-equity funding	62.8	64.0	64.0	63.4
Net stable funding ratio	123.0	121.0	126.0	120.0

Source: Fitch Ratings, Fitch Solutions, Santander

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	bbb+ or bbb
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	A-/ Stable
Size of banking system	Negative
Structure of banking system	Neutral
Sovereign financial flexibility (for rating level)	Neutral
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

No Government Support into Ratings

We believe that Santander's senior creditors cannot expect to receive full extraordinary support from the sovereign if the bank becomes non-viable. This is because the EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism for eurozone banks provide a framework for the resolution of banks that requires senior creditors to participate in losses, if necessary, instead of, or ahead of, a bank receiving government support.

Environmental, Social and Governance Considerations

FitchRatings **Banco Santander, S.A.**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Banco Santander, S.A. has 5 ESG potential rating drivers

- Banco Santander, S.A. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

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.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

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