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Insight beyond the rating.

## Ratings

Issuer	Debt	Rating	Rating Action	Trend
Banco Santander SA	Long-Term Issuer Rating	A	Confirmed	Stable
Banco Santander SA	Short-Term Issuer Rating	R-1 (low)	Confirmed	Stable
Banco Santander SA	Intrinsic Assessment	A	-	-

See page 11 for full list of ratings

## Rating Considerations

**Franchise Strength:** Santander's well-positioned, geographically diverse global franchise is a key strength underpinning its rating. With an extensive international retail banking franchise, Santander continues demonstrate momentum in its core markets through organic growth.

**Grid Grade: Very Strong/Strong**

<p><b>Earnings Power:</b> Santander has developed a very powerful international retail banking franchise which contributes to resilient earnings.</p> <p><b>Grid Grade: Strong</b></p>	<p><b>Risk Profile:</b> The Group maintains a predominantly low risk profile given its mix of businesses. The ratings consider some elevated risk associated with Santander's consumer finance activities and its exposure to emerging market economies.</p> <p><b>Grid Grade: Strong/Good</b></p>	<p><b>Funding and Liquidity:</b> Santander benefits from a large deposit base that funds its lending activities, together with a broad range of wholesale funding.</p> <p><b>Grid Grade: Strong</b></p>	<p><b>Capitalisation:</b> Capital is solid, though at the low end of the global peer group. Santander has a strong ability to generate capital organically, and also has access to capital markets in each of its core geographies.</p> <p><b>Grid Grade: Strong</b></p>
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## Rating Drivers

### Factors with Positive Rating Implications

- Positive rating pressure would likely be linked to improvement in the Spanish sovereign rating.

### Factors with Negative Rating Implications

- While less likely, negative ratings pressure could arise if there is any indication of an increased risk profile, particularly within Santander's consumer finance or wholesale banking businesses, without the appropriate increase in capitalisation.
- Additionally, lower earnings prospects in its international subsidiaries would likely put negative pressure on Santander's ratings, as this would reduce the benefit of the Group's international diversification.

## Financial Information

### Banco Santander, SA

#### EUR Millions

	9M2017	2016Y	2015Y	2014Y
Total Assets	1,468,030	1,339,125	1,340,262	1,266,296
Equity	108,723	102,700	98,754	89,714
Pre-provision operating income (IBPT)*	16,366	20,258	20,596	19,506
Net Income	5,077	6,204	5,966	5,816
Net Interest Income / Risk Weighted Assets (%)	5.50%	5.29%	5.60%	5.04%
Risk-Weighted Earning Capacity (%)*	1.74%	3.45%	3.52%	3.63%
Post-provision Risk-Weighted Earning Capacity (%)*	1.98%	1.78%	1.70%	1.64%
Efficiency Ratio (%)*	54.95%	53.81%	54.51%	54.22%
Impaired Loans % Gross Loans	5.65%	4.01%	4.42%	5.30%
Core Tier 1 (As-reported)**	12.18%	12.53%	12.55%	10.97%

All figures are in EUR unless otherwise noted.

\* Includes pension and contingent risks provisions

\*\* Refers to Basel III CET1 ratio (phase-in);

Source: SNL, Company Financials, DBRS

## Issuer Description

With an excess of EUR 1,450 billion of assets, Banco Santander ranks in the top 10 European banks. Banco Santander has strong market shares across its ten core geographies, located throughout Europe and the Americas. Employing more than 200,000 staff with a worldwide presence, the bank is engaged in broadly diversified activities in retail and corporate banking, consumer finance and asset management.

## Rating Rationale

DBRS, Inc.'s (DBRS) ratings for Banco Santander SA (Santander or the Group) include a Long-Term Issuer Rating of A and Short-Term Issuer rating of R-1 (low). The trend on all the ratings is Stable. The Group's Intrinsic Assessment (IA) is A and Support Assessment is SA3.

Santander's ratings reflect the strength of its globally diversified banking franchise which contributes to resilient earnings and a sustained ability to generate capital through retained earnings. The Group maintains strong market shares in its core geographies, which are well-balanced between developed and emerging economies. The proportion of Santander's international earnings is very significant, with 85% of attributable profit in 9M17 generated outside of Spain. DBRS notes that earnings generated through Santander Consumer Finance (SCF) in Spain are included within this international contribution, as SCF does not disclose a country breakdown. DBRS also sees Santander as benefitting from its significant scale, which benefits the Group's efficiency, and will likely contribute to more cost savings as Santander further leverages its technology to cater to digital and mobile banking customers.

DBRS sees Santander's ratings as constrained by Spain's sovereign ratings due to its still substantial links with Spain in terms of total risk exposures and market perception. Following the recent acquisition of Banco Popular Español SA (BPE), the proportion of loans to Spanish borrowers has increased to 30% of the total loan book, up from about 20% prior to the acquisition. The Group also maintains a sizeable portfolio of Spanish government bonds at approximately 61% of total equity at end-June 2017. However, DBRS sees the Group as less constrained by the sovereign than most peers due to its high degree of geographical diversification, resulting in a rating that is one-notch above DBRS's rating of the Spanish sovereign. The ratings also consider the Group's exposure to potentially higher risk business activity through its consumer finance businesses, particularly its subprime auto lending business in the U.S., as well as its sizeable presence in emerging market economies.

DBRS considers Santander's significant geographic diversification with its international franchises outside Spain as an important underpinning of the current rating level. Santander also benefits from the resilient performances across the Group's businesses. The Group regularly upstreams dividends from each of its subsidiaries to the parent, contributing to diversity of earning streams at the Spanish-based parent bank. Positively, Santander's U.S.-based subsidiary received a non-objection to its capital plan in its most recent DFAST/CCAR exercise, which allowed for upstreaming of dividends to the parent after a prolonged period where this was prevented by the regulators.

DBRS considers Santander's earnings as strong and improving. Pressure on profitability is receding as various environmental factors are showing improvement, including higher interest rate margins (especially in Brazil) and improving economic conditions, and this is contributing to revenue growth and lower provisioning levels. Net attributable profit to the Group of EUR 5.1 billion on gross income of EUR 36.3 billion in 9M17 remains substantial and returns are at the mid- to upper-end of the global peer group.

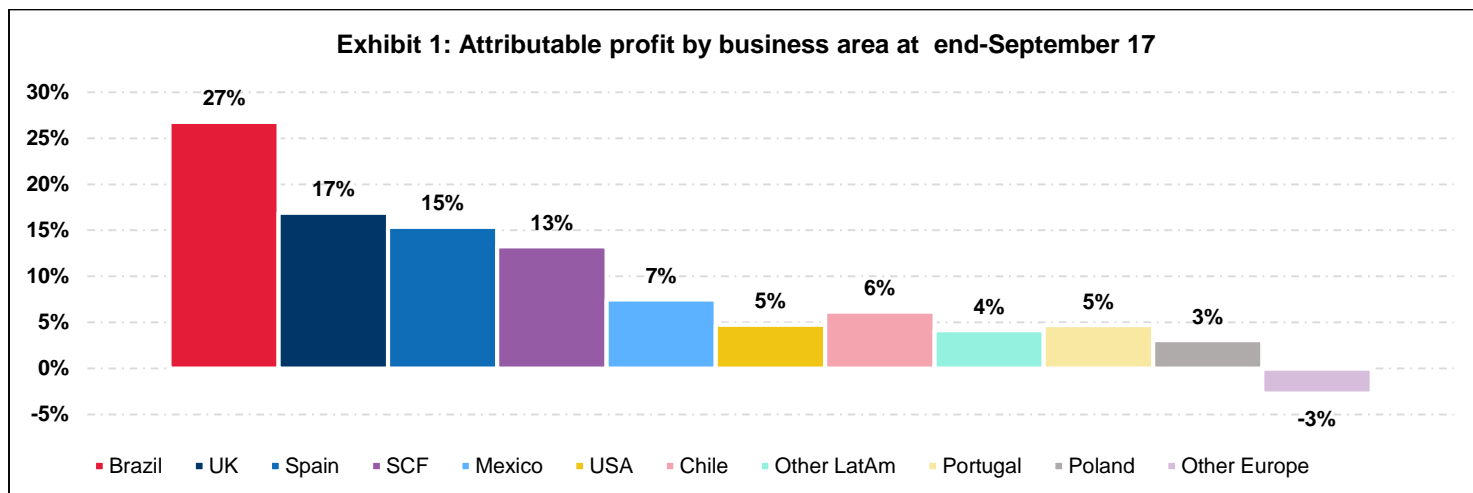
DBRS views the Group as having a sound management team with a conservative risk culture that permeates the organization, contributing to a generally low risk profile and very strong operational capabilities with a successful history of managing operational risks. Santander has a track record of successfully integrating sizeable acquisitions, with systems integration typically being an important priority for Santander when acquiring an entity, contributing to highly effective front and back end systems when completed.

Funding and liquidity is strong and benefits from a large deposit base that funds its lending activities, together with a broad range of wholesale funding. Santander also benefits from its position as a relevant player in local markets with each subsidiary responsible for its own funding needs. Following a period of deleveraging, the Group's loan-to-deposit ratio has improved, standing at 109% as of 3Q17. At the start of the year, the Group provided an estimate for its TLAC needs of approximately EUR 33 billion to EUR 40 billion prior to the 2019 deadline. DBRS sees Santander as being well on track to achieving this target given its issuance of approximately EUR 16 billion through September 2017.

Further supporting its strong credit profile, Santander maintains solid capital levels. The Group reported a fully loaded CET1 capital ratio of 10.8% at 3Q17, up 24 bps since end-2016. While still at the low end of the global peer group, DBRS notes that Santander's strong ability to generate capital internally, while continuing to manage RWAs, is contributing to steady improvement.

## Franchise Strength (Grid Grade: Very Strong/Strong)

Santander's well-positioned, geographically diverse international franchise is a key strength underpinning its rating. With an extensive international retail banking franchise, Santander continues to have success in advancing its position through its deepening of customer relationships across its core markets. Santander aims to have critical mass in the markets where it operates with a goal of having a minimum market share of 10% in core markets, which include Brazil, Mexico, Spain, United Kingdom (U.K.), Poland, Portugal, Chile and Argentina. In the United States (U.S.), the Group is focused on its regional presence in the northeast, as well as consumer finance. In Germany, the Group's strength is in consumer finance (see Exhibit 1).



Source: Company reports, DBRS. Note: Excludes Corporate Centre.

Santander follows a strategy of universal, transactional banking with a focus on consumers and small- and medium-sized businesses (SMEs), contributing to the resiliency of its earnings. Retail banking is the largest contributor to attributable profit given the breadth of Santander's franchise. The Group generally has a high level of competency in operating systems and technology skills. These have been critical for Santander's franchise by providing essential operating platforms, facilitating consolidation and easing the integration of acquisitions.

Across its franchise, Santander has shown its ability to seize opportunities through acquisitions, building market positions that enable it to be a strong competitor across its expanding international franchise. During 2017, Santander continued to expand its franchise with the acquisition of BPE after the Single Resolution Board (SRB) took the decision to transfer all shares and capital instruments of BPE to Santander for the price of 1 EUR on June 7, 2017. DBRS views BPE as adding significant value to Santander's franchise in Spain, as well as in Portugal, given BPE's competitive strength in catering to small- and medium-sized enterprises (SMEs). After the acquisition Santander's exposure to its home market of Spain increased to about 30%, from 20% of the Group's total loans. The acquisition therefore notably bolstered Santander's position in its home market with its lending market shares in Spain growing to 19% from 13%. Along with the purchase, Santander completed a capital increase through a rights offering of around EUR 7 billion. This additional capital was used to offset additional provisions related to BPE's non-performing assets (NPAs).

The acquisition of BPE comes with some challenges, namely restoring the confidence of BPE customers and reducing BPE's high exposure to the Spanish real estate sector, which DBRS sees Santander as managing well. Indeed after experiencing strong deposits outflows prior to its resolution, BPE recorded significant deposits inflows of around EUR 10 billion (as of 30 September 2017) once it was acquired by Santander. Furthermore, the group tackled BPE's high exposures to real estate sector by selling a majority stake in a sizeable portfolio to Blackstone. The portfolio comprises loans to real estate developers (REDs), foreclosed assets (FAs) and tax credits of around EUR 30 billion gross value (EUR 10 billion net value), that Santander inherited through its acquisition of Popular. Blackstone will acquire 51% of the portfolio. The deal is subject to regulatory approvals and it is expected to be completed in the following quarters.

Moreover, during 2017, Santander's main challenges in the U.S. were positively addressed. For the past three years, Santander had received an objection to its capital plan by the U.S. regulators due to "widespread and substantial weaknesses across their capital planning processes". However, in 2017 Santander presented its capital plan without objections as the U.S. regulators granted an exemption from the qualitative assessment, the most burdensome part of the review process, given the non-complex nature of their business models. In connection with this, Santander's U.S. subsidiary is now allowed by the U.S. regulators to pay dividends back to the parent entity.

## Earnings Power (Grid Grade: Strong)

Santander has developed a very powerful international retail banking franchise with 85% of its underlying attributable profit in 9M17 coming from its franchises outside of Spain. DBRS views this level of diversity as adding significant resiliency to the Group's earnings. Santander benefits from divergent trends in the economies and markets across its franchise with a strategy of maintaining a balance between mature markets and emerging markets. Specifically, earnings from Santander Consumer Finance (SCF), Poland, the U.K. and Latin America (LatAm) have been stable or growing during recent years (see Exhibit 2). Notably, profitability in 9M17 has improved significantly in Brazil, as well as in Spain and Portugal. Santander's attributable profit in Brazil increased by 34% YoY (in constant EUR) driven by higher net interest income, with Brazil representing at end-September 2017 27% of total underlying attributable profit (excluding the Corporate Center).

### Exhibit 2: Attributable profit to the Group

(EUR millions)	9M17	2016	2015	2014	2013	2012	2011	2010
Spain (Retail Banking)	872	651	557	175	466	803	790	1,266
Santander Consumer Finance	943	1,093	938	795	794	727	666	811
Portugal	336	399	300	184	114	124	174	456
Poland	219	272	300	355	334	330	232	—
<b>Subtotal: Large Subsidiaries</b>	<b>2,370</b>	<b>2,415</b>	<b>2,095</b>	<b>1,509</b>	<b>1,708</b>	<b>1,983</b>	<b>1,863</b>	<b>2,532</b>
Other	26	184	123	139	(593)	321	424	823
<b>Continental Europe</b>	<b>2,396</b>	<b>2,599</b>	<b>2,218</b>	<b>1,648</b>	<b>1,115</b>	<b>2,305</b>	<b>2,287</b>	<b>3,355</b>
<b>United Kingdom</b>	<b>1,201</b>	<b>1,681</b>	<b>1,971</b>	<b>1,556</b>	<b>1,149</b>	<b>1,094</b>	<b>1,223</b>	<b>1,965</b>
Brazil	1,902	1,786	1,631	1,437	1,577	2,212	2,610	2,814
Mexico	532	629	629	606	713	1,015	936	664
Chile	440	513	455	498	435	498	611	671
Other	295	458	478	361	456	579	507	579
<b>Latin America</b>	<b>3,169</b>	<b>3,386</b>	<b>3,193</b>	<b>2,902</b>	<b>3,181</b>	<b>4,305</b>	<b>4,664</b>	<b>4,728</b>
<b>U.S.</b>	<b>337</b>	<b>395</b>	<b>678</b>	<b>861</b>	<b>801</b>	<b>811</b>	<b>1,010</b>	<b>424</b>
<b>Operating areas</b>	<b>7,103</b>	<b>8,061</b>	<b>8,060</b>	<b>6,967</b>	<b>6,246</b>	<b>8,515</b>	<b>9,184</b>	<b>10,472</b>
Corporate Activities	(1,511)	(1,439)	(1,493)	(1,151)	(2,071)	(3,263)	(2,163)	(2,291)
<b>Subtotal Group</b>	<b>5,592</b>	<b>6,622</b>	<b>6,567</b>	<b>5,816</b>	<b>4,175</b>	<b>5,251</b>	<b>7,021</b>	<b>8,181</b>
Extraordinary Gains						1,064	1,513	
Extraordinary Provisions/Losses						(4,110)	(3,183)	
Net Extraordinary Allowances	(515)	(417)	(600)	—	—	(3,046)	(1,670)	—
Group Restatement Adjustment						90	(21)	31
<b>Total Group</b>	<b>5,077</b>	<b>6,205</b>	<b>5,967</b>	<b>5,816</b>	<b>4,175</b>	<b>2,295</b>	<b>5,330</b>	<b>8,212</b>

2014-9M17 - Spain (Retail Banking) is net of losses associated with Spain Real Estate.

2013, 2014 - Other Continental Europe includes run-off real estate portfolio in Spain

2012 - Gross extraordinary gains of EUR 1.1 billion related to Iberia reinsurance transaction, sale of subsidiary in Colombia, sale of property; Extraordinary provisions of EUR 4.1 billion related to real estate in Spain

2011 - Gross extraordinary gains of EUR 1.5 billion related to sale of LatAm insurance business and SCF USA transaction; Extraordinary provisions mainly related to real estate in Spain, goodwill written down in Portugal, portfolio written down, and amortization of intangibles, pension funds, etc.

Source: DBRS & Company reports

For 9M17, Santander reported net attributable profit of EUR 5.1 billion, up 10% YoY, with most of Santander's core markets booking double digit growth (in constant EUR), and more modest growth in the UK (+8% YoY) and Poland (3% YoY). In the US (-12% YoY), profit declined mainly due to the change of business mix to a lower risk profile within Santander Consumer USA (SCUSA), as well as investments in SCUSA. During 3Q17, Santander reported EUR 1.5 billion net attributable income down 14% YoY affected by Popular's restructuring costs. Cost were affected during 3Q17 by extraordinary after-tax integration costs of EUR 85 million in Germany and EUR

300 million related to Banco Popular. Santander benefited during 3Q17 from a low cost of risk of 1%, which is lower than the average of 1.22% since 1Q15.

Notably, recent quarterly profitability trends in Brazil are showing significant improvement, with Brazil now being the largest contributor to Santander’s net income. The Group generated gross operating income of EUR 10.6 billion and net profits of EUR 1.9 billion in Brazil in 9M17 up 50% YoY or 34% YoY in constant EUR. Santander Brazil’s improvement was driven by higher net interest income (+17% YoY) and net fees (+18.3 YoY) couple with lower loan loss provisions (down 4.6% YoY). Santander Brazil has a market share in loans of around 10% in Brazil and approximately EUR 170 billion in total assets. Given the challenging operating environment in Brazil, the Group has been conservatively managing its positioning, reducing riskier lending and growing its deposit funding.

**FY16 Results**

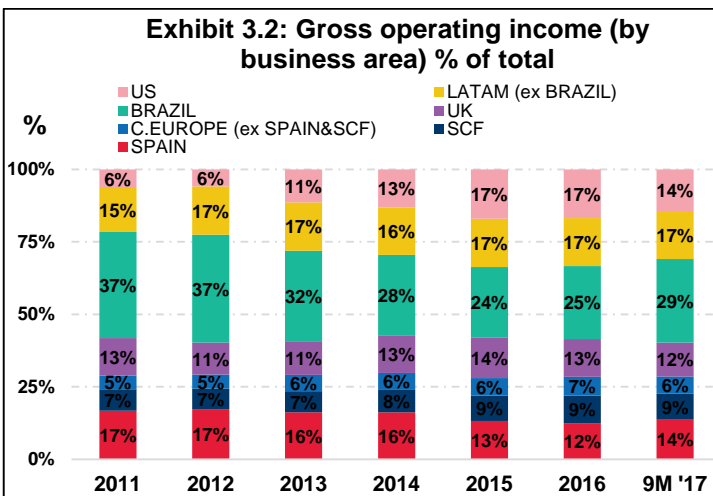
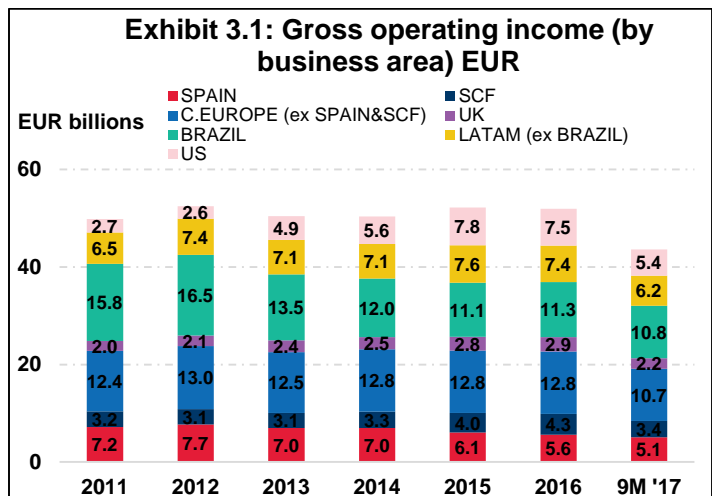
For FY16 results Santander reported a EUR 6.2 billion net attributable profit (profit), up 4% YoY, despite difficult economic conditions in Brazil and lower profits from Santander UK due to GBP depreciation. International operations performed well excluding Santander US which experienced a significant drop in profits. In Spain, Santander also reported increased profits, up 25% YoY in 2016, largely driven by fee income growth, continued cost control and lower provisions.

Santander’s profitability has demonstrated improving trends since 2012 (see Exhibit 2). Net income in 2012 was negatively impacted by significant net provisions of EUR 18.9 billion, or 83% of income before provisions and taxes (IBPT), largely related to elevated provisioning requirements in Spain. Improving trends have been evident in the following years with generally declining provisioning levels, particularly within Spain and improving profitability in Brazil since 2014. Following the peak of loan loss provisions/asset impairments in 2012, provisioning levels have since declined to EUR 9.8 billion in 2016 (49% of IBPT) and EUR 5.1 billion in 9M17 (43% of IBPT). While provisioning levels remain relatively high, DBRS views the improving trend positively from a credit perspective.

Santander maintains an advantage in its relatively high level of efficiency for a large, global bank, which allows more of its revenue to flow through to its bottom line. Consistency in its approach to retail banking in each franchise has enabled the Group to leverage product, delivery and marketing capabilities to generate strong growth. Santander operates through a subsidiary model, where each subsidiary maintains financial autonomy, but operational capabilities are integrated across the Group. This model and approach have afforded Santander considerable success in maintaining a low efficiency ratio of 45% in 9M17.

In Santander’s home market of Spain, revenues remain under pressure with gross operating income of EUR 5.6 billion in 2016 down 9% YoY affected by lower net interest income and capital gains from the sale of its fixed income sovereign portfolio. However, during 2017 profitability in Spain has been improving. The commercial banking activity during 9M17 recorded an increase in gross revenues of 1% YoY as commissions offset the ongoing pressures on net interest income. Net profits of EUR 651 million in 2016 were up 16% YoY, but remain well below more normalized pre-crisis net profits which were in excess of EUR 2 billion annually. DBRS notes that profitability is slowly improving with lower provisioning and expense reduction efforts. While losses associated with real estate activity in Spain are declining, with the RE Activity unit reporting a net loss of EUR 326 million in 2016 as compared to EUR 420 million in 2015, this unit still remains a drag on overall profitability.

After the acquisition of Banco Popular, the Group is planning restructuring measures related to the Popular and Santander group headquarters. The Group expects to book around EUR 1.3 billion of gross provisions as a result of the restructuring process, which will be booked over the period 2017-2020 (around EUR 300 million per year).



Source: DBRS & Company reports

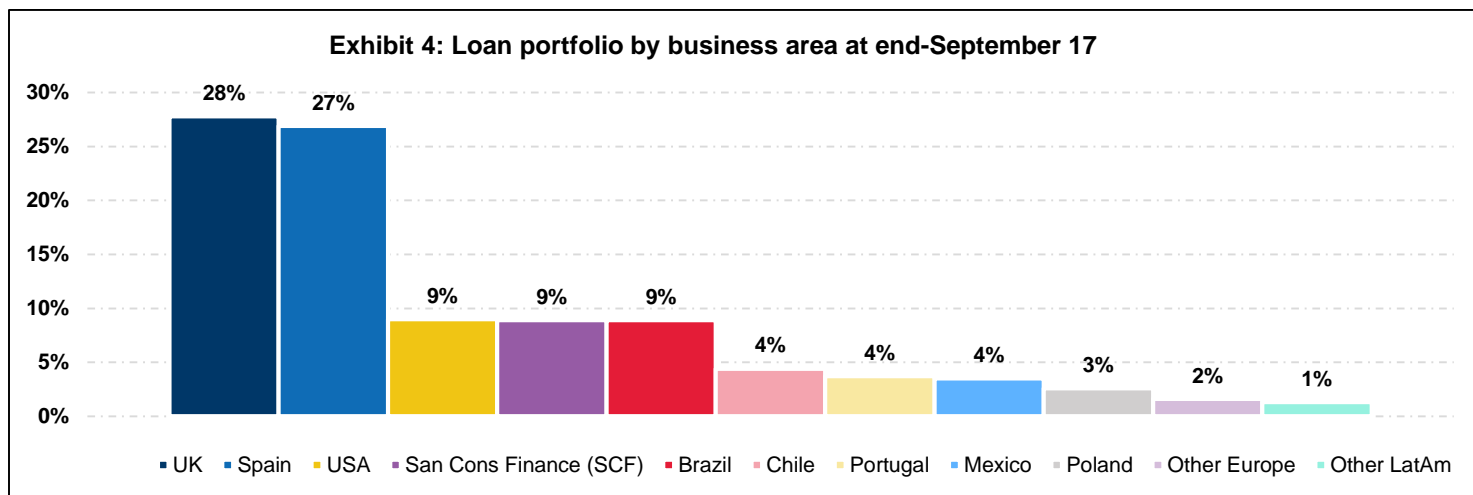


## Risk Profile (Grid Grade: Strong/Good)

Santander has a strong, conservative risk management culture that permeates the organization, with the low risk profile benefiting from the focus on retail and commercial banking. Risk management is a strategic priority at Santander with a principal objective being to report a predictable, low volatility cost of risk. The Group’s focus on investment in technology supports not only expense management, but also facilitates consistent financial, operating and risk controls. It is also critical in enabling the Group to build and deliver a consistent broad range of products across its markets, but have sufficient flexibility to tailor the product mix to local market needs. Systems integration is an important objective for acquisitions, which results in high effectiveness of both front and back end systems when completed.

### Credit Risk

Santander’s credit risk profile is highly diversified with no specific risk concentration by geography or industry. As of 2016, Santander had gross exposure to credit risk of EUR 1,278 billion, including loans, commitments, fixed income, derivatives and repos. Credit risk is diversified across regions, mainly in Spain (20%), other European Union countries (42%), America (35%). However, after the BPE acquisition during 1H17, Spain now accounts for a higher proportion of credit risk. For the entire Group, the most significant exposure is through lending, with total customer loans of EUR 857 billion as of 9M17 and highly diversified by geography (see Exhibit 4). The Group’s loan portfolio (excluding Popular) is primarily to individuals (64%), of which 36% were residential mortgages at end-September 2017. With regards to the mortgage lending risk profile, loan-to-value ratios (LTV) are generally low (for example, average weighted LTV, of 38.9% in the U.K. and, in Spain, 74% of the portfolio has an LTV of less than 80%).

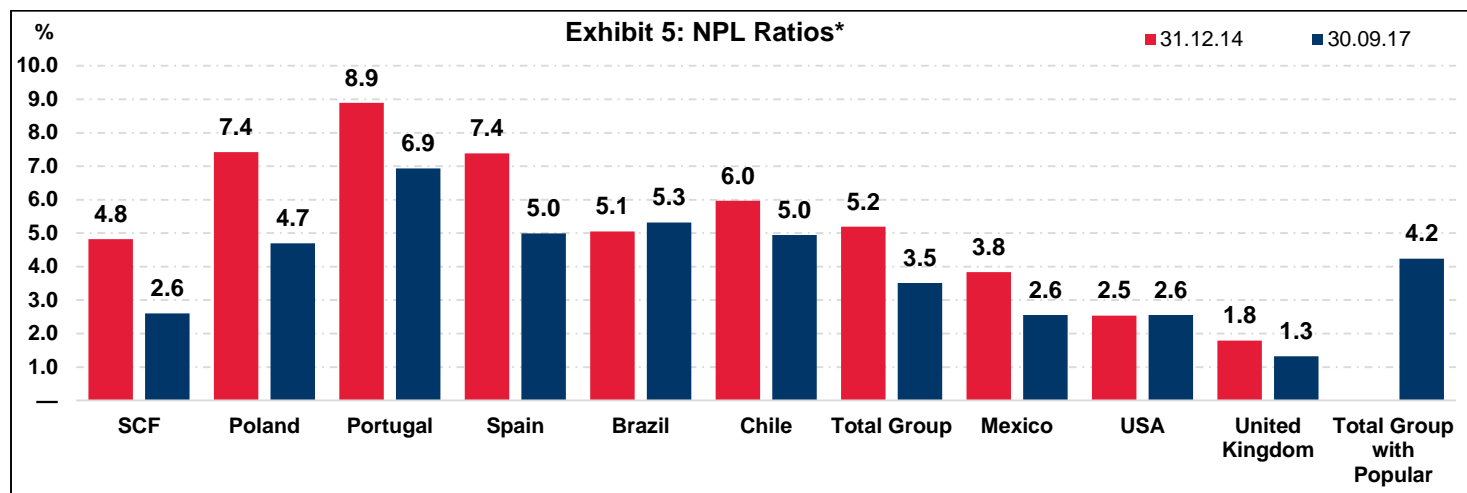


Source: DBRS & Company reports

Asset quality continues to improve with the Group (excluding Popular acquisition) reporting a consistently lower non-performing loan (NPL) ratio since the end of 2014, now down to 3.5% at end-September 2017 supported by most geographies (see Exhibit 5). NPL ratios remain high in Portugal at 6.9% but are declining with nonperforming loan sales. Asset quality also improved in Brazil with an NPL ratio of 5.3% at end-September 2017 compared with 6.12% at end-September 2016. The operating environment remains difficult in Brazil, though DBRS views Santander as managing its exposure to nonperformers well. For low NPL regions, such as the US, DBRS continues to observe asset quality trends in the US as sound, where the NPL ratio remains relatively low at 2.6%, but is trending upward with growth in the consumer finance portfolio and exposure to oil & gas in the bank portfolio. In the UK, Santander’s asset quality continues to be very strong with an NPL ratio of 1.3% down from 1.5% at end-September 2016. Good asset quality trends are also reflected in the reported cost of risk of 1.12% during 9M17 for the overall Group, the lowest ratio since 2008.

The acquisition of Popular with around EUR 150 billion in assets, significantly increased Santander’s exposure to the real estate sector (loans to REDs and FAs) in Spain to EUR 47 billion at end-June 2017, up from around EUR 16 billion at end-2016. As a result, the NPL ratio for the Group increased from 3.55% to 5.37% at end-June 2017. However, following the acquisition of Popular, Santander also added significant levels of provisioning for the real estate portfolio, providing Santander the opportunity to sell these assets at a highly discounted price. In order to reduce these exposures, the group announced in August the sale of a majority stake in a sizable real estate portfolio to Blackstone. The portfolio comprises loans to real estate developers (REDs), foreclosed assets (FAs) and tax credits of around EUR 30 billion gross value (EUR 10 billion net value), that Santander inherited through its acquisition of Popular. Blackstone will acquire 51% of the portfolio. After the deal’s expected completion by 1H 2018, Santander’s NPLs ratio will improve by more than 100 bps. Including this transaction, the Pro-Forma NPL ratio at end-September 2017 was 4.24%.

Santander has exposure to sovereign risk (including trading positions, available for sale, loan and held to maturity portfolios) in the geographies where it operates totalling EUR 180 billion or 12% of total assets at end-June 2017, with more sizable positions in Spain (EUR 66.3 billion), LatinAmerica (EUR 52 billion), United Kingdom (EUR 20 billion) Portugal (10 billion) and Italy (EUR 9 billion). The bulk of the exposures (80%) are fixed income securities. DBRS notes that the values of sovereign debt in peripheral European and emerging market countries can be volatile. With its sizable equity base of EUR 108 billion at 3Q17, DBRS views Santander as having the capacity to absorb any losses related to this exposure.



\*Excluding Popular. Total Group with Popular refers to Santander's NPL ratios post-Blackstone deal.

Source: DBRS & Company reports

### Market and Interest Rate Risk

Market risk for the Group is primarily interest rate risk with very modest trading risk, given Santander's limited involvement in capital markets activities. This risk is monitored through the Treasury area. One measure of this risk is Value-at-Risk (VaR), which the Group reports based on a 99% confidence level, 1 day time period. Santander reported average VaR of EUR 18.3 million in 2016, which is in line with previous years (2015: EUR 15.6 million and 2014: EUR 16.9 million) demonstrating the Group's consistent approach to conservatively managing market risk.

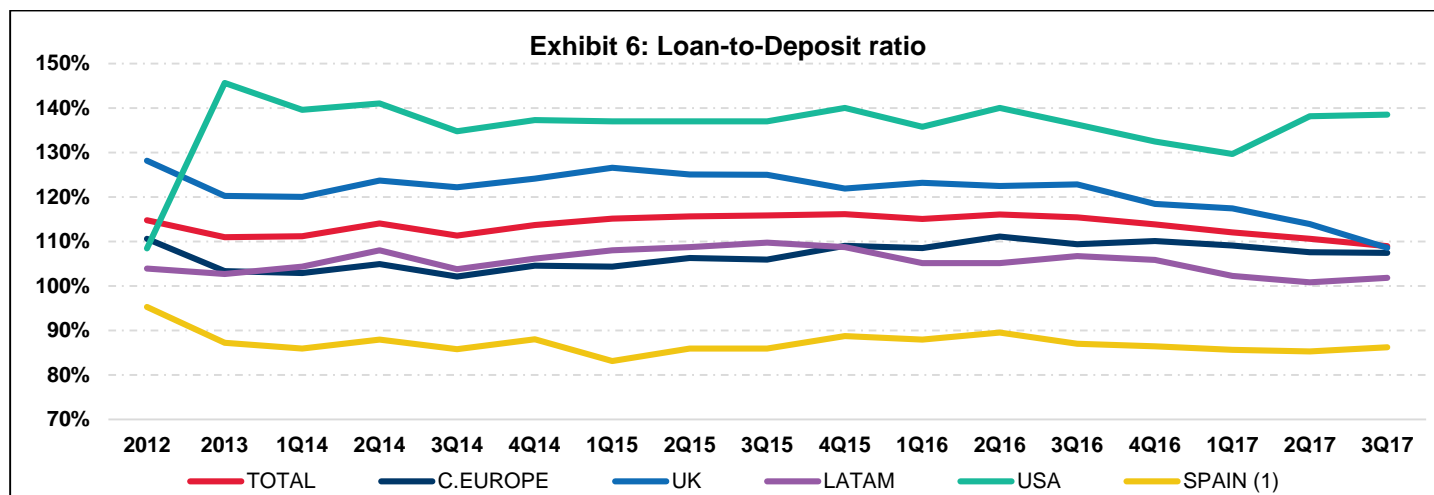
Santander reports stressed VaR for its two main portfolios, Spain-G10 and Brazil. The average VaR in 2016 for Spain-G10 was EUR 5.7 million, and is projected to increase to EUR 14.9 million under the stress scenario, or just 0.01% of total equity. The average VaR in 2016 for Brazil was EUR 12 million, and is projected to increase to EUR 22.2 million under the stress scenario. DBRS views VaR as one summary measure of the Group's exposure to market risk. While not necessarily comparable across institutions, it does provide a perspective on market risk across products and over time.

## Funding and Liquidity (Grid Grade: Strong)

Santander's funding and liquidity is strong and benefits from a large deposit base that funds its lending activities, together with a broad range of wholesale funding. Within Santander, the subsidiaries are largely autonomous in managing their own funding and liquidity, including raising wholesale funding from their own local markets. This approach diversifies the Group's wholesale funding sources and leverages the strength of its subsidiaries in their local markets. The businesses coordinate their issuances and securitisations with Group Treasury, which monitors Santander's overall liquidity position. Thus, while the Group as a whole utilises considerable amounts of wholesale funding, a significant proportion is raised locally, which reduces the exposure to changing investor perceptions of its creditworthiness and its position as a Spanish bank.

The Group has a large customer base, which is the Bank's main source of funding, representing 65% of total funding at end-June 2017. Following a period of deleveraging, the Group's loan-to-deposit ratio continued to improve, standing at 109% as of 3Q17 (see Exhibit 6). On a consolidated basis, at end-September 2017 loans have increased YoY (+15%), affected by the Popular acquisition. Excluding Banco Popular, Santander's loan portfolio (in constant EUR) displayed two trends at end-September 2017. Loan volumes have been growing on an annual basis in all emerging markets, whereas loan dynamics for developed markets such as the UK, Spain and the US remained subdued. Notably, Portugal loan volumes increased by 7% YoY.

DBRS views Santander's debt maturity profile as manageable, and the Group maintains diversified access to the markets. Santander has maturities of approximately EUR 19 billion in 2018, EUR 16 billion in 2019, and EUR 19 billion in 2020. As a comparison, the Group issued EUR 24 billion of debt in 2017 up until September 30th.



(1) Spain is also included in Continental Europe.

Source: DBRS & Company reports

Santander maintains high levels of liquidity, with a reported Liquidity Coverage Ratio (LCR) of 142% at the Group-level as of 3Q17. The Group also has a sizable amount of liquidity within its subsidiaries, evidenced by robust LCRs in key subsidiaries such as the U.K. (122%), Brazil (116%) and Spain (153%). The Group also reported a strong Net Stable Funding Ratio (NSFR) of 113% as of 3Q17, as well as NSFRs above 100% in key subsidiaries.

In January 2017, Santander estimated that it may need to issue between EUR 33 billion to EUR 40 billion of Total Loss Absorbing Capacity (TLAC) eligible debt prior to the 2019 deadline based on its interpretation of current regulation which has not yet been finalized. Santander's resolution strategy is that of a multiple point of entry (MPE) approach, meaning the TLAC requirement is established at each resolution entity. During 2017 (as of September 30) the Group has already issued around EUR 16 billion of TLAC eligible debt. DBRS will continue to monitor the Group's progress with meeting these targets based on its current interpretation of the rules, and will look for further disclosure clarifying the details of the final European resolution rules (MREL regulations).

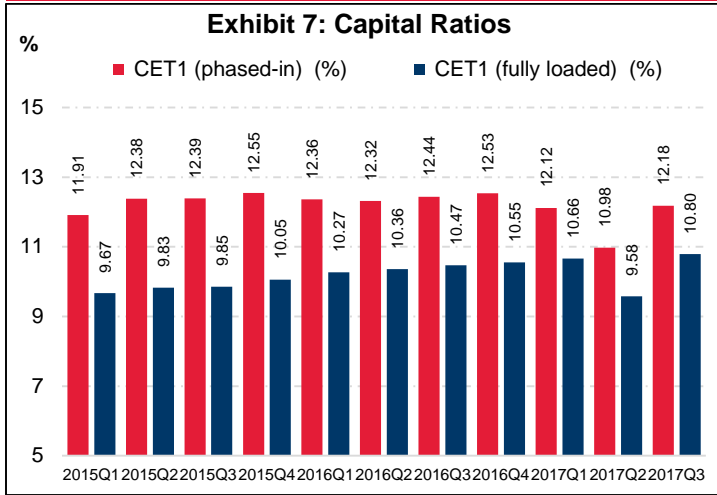
## Capitalisation (Grid Grade: Strong)

DBRS considers Santander's capital levels as sound, particularly given its exposure to generally low-risk banking activities. The Group reported a fully-loaded CET1 capital ratio of 10.80% at the end of September-2017, improving 24 bps since year-end 2016, and nearing its internal target of >11%. While Santander's fully-loaded CET1 capital ratio remains at the low end of the global peer group, DBRS views these levels as satisfactory given the relatively low-risk profile of its business activities, as well as its ability to generate capital through retained earnings. In this context, Santander continues to improve its capital levels with total regulatory capital (phased-in) of EUR 75.6 billion up EUR 1.9 billion since end-2016. This equates to a phase-in CET1 ratio of 12.53% as compared to a 2017 requirement of 7.75%. Santander has increased its CET1 capital through a rights offering and organic generation, while growing its Additional Tier 1 and Tier 2.

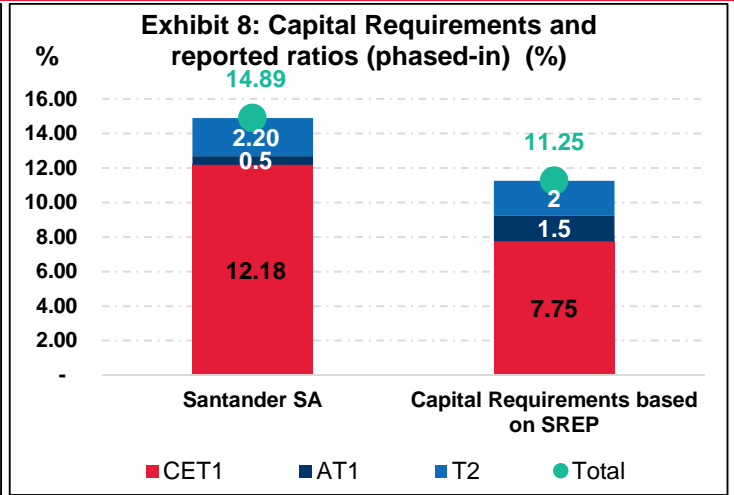
Santander capital position was affected by the Popular acquisition as its fully-loaded CET1 capital ratio decreased 114 bps. However, a few weeks after the purchase, Santander increased capital through a rights offering of EUR 7 billion. This additional capital offset the negative capital impact of the acquisition. Moreover, Santander's capital levels are expected to increase by around 12 bps in the fully loaded CET1 ratio, after the Blackstone deal is completed during 1H18.

Santander's leverage ratios are relatively strong, with a fully-loaded leverage ratio of 5.0% as of 4Q16, stable from a year earlier. Tangible Common Equity/Tangible Assets reached 4.61% in 3Q17. In terms of capital quality, at the end of September-2017, 82% of the capital was CET1, 3% AT1 and 15% Tier 2.





Source: DBRS & Company reports



Source: DBRS & Company reports

**Banco Santander, SA****EUR Millions**

<b>Balance Sheet</b>	<b>9M2017</b>	<b>2016Y</b>	<b>2015Y</b>	<b>2014Y</b>
Cash and deposits with central banks	122,055	76,454	77,751	69,853
Lending to/deposits with credit institutions	81,008	76,686	82,531	81,288
Financial Securities*	229,067	211,842	203,835	195,166
- Trading portfolio	56,396	63,419	62,190	67,294
- At fair value	4,423	3,944	4,347	5,111
- Available for sale	139,461	116,774	122,036	115,251
- Held-to-maturity	13,553	14,468	4,355	0
- Other	15,234	13,237	10,907	7,510
Financial derivatives instruments	66,702	83,901	85,830	85,987
- Fair Value Hedging Derivatives	9,789	11,858	9,106	9,128
- Mark to Market Derivatives	56,913	72,043	76,724	76,858
Gross lending to customers	888,989	814,863	817,365	761,928
- Loan loss provisions	34,303	24,393	26,517	27,217
Insurance assets	350	331	331	340
Investments in associates/subsidiaries	6,832	4,836	3,250	3,471
Fixed assets	22,708	23,286	25,320	23,256
Goodwill and other intangible assets	28,538	29,420	29,430	30,401
Other assets	56,084	41,897	41,135	41,824
<b>Total assets</b>	<b>1,468,030</b>	<b>1,339,125</b>	<b>1,340,262</b>	<b>1,266,296</b>

Loans and deposits from credit institutions	205,114	149,398	175,373	155,617
Repo Agreements in Deposits from Customers	52,450	42,761	0	0
Deposits from customers	726,402	648,351	683,142	647,706
- Demand	480,781	467,261	421,585	362,201
- Time and savings	175,780	181,089	193,614	218,608
Issued debt securities	196,773	208,967	205,007	196,563
Financial derivatives instruments	65,674	82,973	85,525	86,333
- Fair Value Hedging Derivatives	7,908	8,604	9,111	7,286
- Other	57,766	74,369	76,414	79,048
Insurance liabilities	1,673	652	627	713
Other liabilities	111,221	83,421	70,680	72,518
- Financial liabilities at fair value through P/L	55,049	40,264	54,768	62,318
Subordinated debt	0	12,573	13,955	10,154
Hybrid Capital	0	7,329	7,198	6,978
Equity	108,723	102,700	98,754	89,714
<b>Total liabilities and equity funds</b>	<b>1,468,030</b>	<b>1,339,125</b>	<b>1,340,262</b>	<b>1,266,296</b>

**Income Statement**

Interest income	42,488	55,156	57,198	54,656
Interest expenses	16,799	24,067	24,386	25,108
Net interest income and credit commissions	25,689	31,089	32,812	29,548
Net fees and commissions	8,648	10,180	10,033	9,696
Trading / FX Income	1,036	2,456	-2,312	2,377
Net realised results on investment securities (available for sale)	0	861	891	1,416
Net results from other financial instruments at fair value	-85	426	325	239
Net income from insurance operations	49	63	99	137
Results from associates/subsidiaries accounted by the equity	480	444	375	243
Other operating income (incl. dividends)	512	-1,665	3,050	-1,043
<b>Total operating income</b>	<b>36,330</b>	<b>43,853</b>	<b>45,272</b>	<b>42,612</b>
Staff costs	9,241	10,997	11,107	10,242
Other operating costs	8,825	10,235	11,151	10,577
Depreciation/amortisation	1,899	2,364	2,419	2,287
<b>Total operating expenses</b>	<b>19,964</b>	<b>23,596</b>	<b>24,676</b>	<b>23,106</b>
<b>Pre-provision operating income</b>	<b>16,366</b>	<b>20,258</b>	<b>20,596</b>	<b>19,506</b>
Loan loss provisions**	7,114	9,833	10,652	10,710
<b>Post-provision operating income</b>	<b>9,251</b>	<b>10,424</b>	<b>9,944</b>	<b>8,797</b>
Impairment on tangible assets	100	79	613	576
Impairment on intangible assets	41	61	701	701
Other non-operating items***	-550	-1,004	-917	-3,161
Pre-tax income	9,660	11,288	9,547	10,680
(-)Taxes	3,497	3,282	2,213	3,718
(-)Other After-tax Items (Reported)	0	0	0	0
(+)Discontinued Operations (Reported)	0	0	0	-26
(-)Minority interest	1,085	1,282	1,368	1,119
<b>Net income</b>	<b>5,077</b>	<b>6,204</b>	<b>5,966</b>	<b>5,816</b>

\*Includes derivatives when breakdown unavailable, \*\*LLP includes Impairments on financial assets, \*\*\*Incl. Other Provisions

**Banco Santander, SA**

**EUR Millions**

Off-balance sheet and other items	9M2017	2016Y	2015Y	2014Y
Asset under management	0	159,260	140,741	141,369
Derivatives (notional amount)	NA	NA	NA	NA
BIS Risk-weighted assets (RWA)	622,548	588,088	585,633	585,829
No. of employees (end-period)	200,949	188,492	193,863	185,405

**Earnings and Expenses**

<b>Earnings</b>				
Net interest margin [1]	2.63%	2.51%	2.72%	2.69%
Yield on average earning assets	4.36%	4.45%	4.75%	4.97%
Cost of interest bearing liabilities	1.86%	2.24%	2.23%	2.45%
Pre-provision earning capacity (total assets basis) [2]*	0.75%	1.51%	1.58%	1.64%
Pre-provision earning capacity (risk-weighted basis) [3]*	1.74%	3.45%	3.52%	3.63%
Net Interest Income / Risk Weighted Assets	5.50%	5.29%	5.60%	5.04%
Non-Interest Income / Total Revenues	29.29%	29.11%	27.52%	30.66%
Post-provision earning capacity (risk-weighted basis)	1.98%	1.78%	1.70%	1.64%
<b>Expenses</b>				
Efficiency ratio (operating expenses / operating income)*	54.95%	53.81%	54.51%	54.22%
All inclusive costs to revenues [4]*	56.08%	55.25%	57.01%	60.03%
Operating expenses by employee	132,466	125,181	127,287	124,623
Loan loss provision** / pre-provision operating income	43.47%	48.54%	51.72%	54.90%
Provision coverage by net interest income	376.81%	316.15%	308.04%	275.90%
<b>Profitability Returns</b>				
Pre-tax return on Tier 1 (excl. hybrids)	14.47%	14.96%	12.24%	16.33%
Return on equity	6.23%	6.04%	6.04%	6.48%
Return on average total assets	0.46%	0.46%	0.46%	0.49%
Return on average risk-weighted assets	1.09%	1.06%	1.02%	1.08%
Dividend payout ratio [5]	0.00%	0.00%	0.01%	0.01%
Internal capital generation [6]	6.23%	6.04%	6.04%	6.48%

**Growth**

Loans	14.19%	-0.05%	7.64%	9.85%
Deposits	16.69%	1.17%	5.47%	6.56%
Net interest income	11.73%	-5.25%	11.05%	13.93%
Fees and commissions	14.65%	1.47%	3.47%	-0.66%
Expenses	10.69%	-4.38%	6.80%	3.20%
Pre-provision earning capacity*	10.90%	-1.64%	5.59%	-0.13%
Loan-loss provisions	-1.19%	-7.68%	-0.54%	-4.61%
Net income	10.22%	3.99%	2.58%	39.31%

**Risks**

RWA % total assets	42.4%	43.9%	43.7%	46.3%
<b>Credit Risks</b>				
Impaired loans % gross loans	5.65%	4.01%	4.42%	5.30%
Loss loan provisions % impaired loans	68.25%	74.63%	73.39%	67.42%
Impaired loans (net of LLPs) % pre-provision operating income [7]	328.73%	40.94%	46.69%	67.44%
Impaired loans (net of LLPs) % equity	14.68%	8.08%	9.74%	14.66%
<b>Liquidity and Funding</b>				
Customer deposits % total funding	60.40%	60.63%	62.98%	63.69%
Repos % total funding	4.36%	4.00%	0.00%	0.00%
Total wholesale funding % total funding [8]	35.24%	35.37%	37.02%	36.31%
- Interbank % total funding	17.06%	13.97%	16.17%	15.30%
- Debt securities % total funding	16.36%	19.54%	18.90%	19.33%
- Subordinated debt % total funding	1.82%	1.86%	1.95%	1.68%
Short-term wholesale funding % total wholesale funding	NA	NA	NA	NA
Liquid assets % total assets	29.44%	27.26%	27.17%	27.35%
Net short-term wholesale funding reliance [9]	NA	NA	NA	NA
Adjusted net short-term wholesale funding reliance [10]	NA	NA	NA	NA
Customer deposits % gross loans	87.61%	84.81%	83.58%	85.01%

**Capital [11]**

Tier 1	12.69%	12.53%	12.55%	10.97%
Tier 1 excl. All Hybrids	12.69%	11.37%	11.41%	9.99%
Core Tier 1 (As-reported)	12.18%	12.53%	12.55%	10.97%
Tangible Common Equity / Tangible Assets	4.67%	4.68%	4.46%	4.06%
Total Capital	14.89%	14.68%	14.40%	12.03%
Retained earnings % Tier 1	71.46%	72.64%	68.29%	72.38%

[1] (Net interest income + dividends) % average interest earning assets.

[2] Pre-provision operating income % average total assets.

[3] Pre-provision operating income % average total risk-weighted assets.

[4] (Operating & non-op. costs) % (op. & non-op. revenues)

[5] Paid dividend % net income.

[6] (Net income - dividends) % shareholders' equity at t-1.

[7] We take into account the stock of LLPs in this ratio.

[8] Whole funding excludes corporate deposits.

[9] (Short-term wholesale funding - liquid assets) % illiquid assets

[10] (Short-term wholesale funding - liquid assets - loans maturing within 1 year) % illiquid assets

[11] Capital ratios of Interim results exclude profits for the year

Note: \* Operating expenses include pension and contingent risks provisions.

Source: SNL, Company Financials, DBRS

## Summary Grid Grades

Building Block	Banco Santander SA
Franchise Strength	Very Strong/Strong
Earnings Power	Strong
Risk Profile	Strong/Good
Funding and Liquidity	Strong
Capitalisation	Strong
<b>Intrinsic Assessment</b>	<b>A</b>

## Methodologies

Global Methodology for Rating Banks and Banking Organisations (May 2017).

## Ratings

Issuer	Debt	Action	Rating	Trend
Banco Santander SA	Long-Term Issuer Rating	Confirmed	A	Stable
Banco Santander SA	Long-Term Deposits	Confirmed	A	Stable
Banco Santander SA	Long-Term Senior Debt	Confirmed	A	Stable
Banco Santander SA	Senior Non-Preferred Debt	Confirmed	A (low)	Stable
Banco Santander SA	Subordinated Debt	Confirmed	BBB (high)	Stable
Banco Santander SA	Short-Term Issuer Rating	Confirmed	R-1 (low)	Stable
Banco Santander SA	Short-Term Deposits	Confirmed	R-1 (low)	Stable
Banco Santander SA	Short-Term Debt	Confirmed	R-1 (low)	Stable
Banco Santander SA	Short Term Critical Obligations Rating	Confirmed	R-1 (middle)	Stable
Banco Santander SA	Long Term Critical Obligations Rating	Confirmed	A (high)	Stable
Santander International Debt, S.A. Unipersonal	Long-Term Senior Debt	Confirmed	A	Stable
Santander Central Hispano Financial Services, Ltd.	Subordinated Debt	Confirmed	BBB (high)	Stable
Santander Central Hispano Issuances, Ltd.	Subordinated Debt	Confirmed	BBB (high)	Stable
Santander Financial Issuances Limited	Subordinated Debt	Confirmed	BBB (high)	Stable
Santander Issuances, S.A. Unipersonal	Subordinated Debt	Confirmed	BBB (high)	Stable
Santander Perpetual S.A.	Subordinated Debt	Confirmed	BBB (high)	Stable
Santander Finance Capital S.A. Unipersonal	Preferred Securities	Confirmed	BBB	Stable
Santander Finance Preferred S.A. Unipersonal	Preferred Securities	Confirmed	BBB	Stable
Santander Central Hispano Finance (Delaware) Inc.	Short-Term Debt	Confirmed	R-1 (low)	Stable
Santander US Debt, S.A.U.	Long-Term Senior Debt	Confirmed	A	Stable

Issuer	Debt	Action	Rating	Trend
Banco Popular Español S.A.	Long-Term Issuer Rating	New Rating	A	Stable
Banco Popular Español S.A.	Long-Term Senior Debt	Confirmed	A	Stable
Banco Popular Español S.A.	Short-Term Issuer Rating	New Rating	R-1 (low)	Stable
Banco Popular Español S.A.	Short-Term Debt	Confirmed	R-1 (low)	Stable
Banco Popular Español S.A.	Short-Term Deposits	Confirmed	R-1 (low)	Stable
Banco Popular Español S.A.	Long Term Critical Obligations Rating	Confirmed	A (high)	Stable
Banco Popular Español S.A.	Short Term Critical Obligations Rating	Confirmed	R-1 (middle)	Stable
Banco Popular Portugal S.A.	Long-Term Deposits	Upgraded	A (low)	Stable
Banco Popular Portugal S.A.	Long-Term Senior Debt	Upgraded	A (low)	Stable
Banco Popular Portugal S.A.	Short-Term Deposits	Confirmed	R-1 (low)	Stable
Banco Popular Portugal S.A.	Short-Term Debt	Confirmed	R-1 (low)	Stable
Banco Pastor, S.A.	Long-Term Issuer Rating	New Rating	A	Stable
Banco Pastor, S.A.	Long-Term Deposits	Confirmed	A	Stable
Banco Pastor, S.A.	Long-Term Senior Debt	Confirmed	A	Stable
Banco Pastor, S.A.	Short-Term Issuer Rating	New Rating	R-1 (low)	Stable
Banco Pastor, S.A.	Short-Term Deposits	Confirmed	R-1 (low)	Stable
Banco Pastor, S.A.	Short-Term Debt	Confirmed	R-1 (low)	Stable
Banco Pastor, S.A.	Long Term Critical Obligations Rating	Confirmed	A (high)	Stable
Banco Pastor, S.A.	Short Term Critical Obligations Rating	Confirmed	R-1 (middle)	Stable
BPE Financiaciones, S.A.	Long-Term Senior Debt	Confirmed	A	Stable



## Rating History

Issuer	Debt	Current	2016	2015	2014
Banco Santander S.A.	Long-Term Issuer Rating	A	A	A	A
Banco Santander S.A.	Long-Term Senior Debt	A	A	A	A
Banco Santander S.A.	Long-Term Deposits	A	-	-	-
Banco Santander S.A.	Short-Term Issuer Rating	R-1 (low)	-	-	-
Banco Santander S.A.	Short-Term Debt	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Banco Santander S.A.	Short-Term Deposits	R-1 (low)	-	-	-
Banco Santander S.A.	Senior Non-Preferred Debt	A (low)	-	-	-
Banco Santander S.A.	Subordinated Debt	BBB (high)	A (low)	A (low)	A (low)
Banco Santander S.A.	Long-Term Critical Obligations Rating	A (high)	A (high)	-	-
Banco Santander S.A.	Short-Term Critical Obligations Rating	R-1 (middle)	R-1 (middle)	-	-
Santander Central Hispano Finance (Delaware) Inc.	Short-Term Debt	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Santander Central Hispano Financial Services, Ltd.	Subordinated Debt	BBB (high)	A (low)	A (low)	A (low)
Santander Central Hispano Issuances, Ltd.	Subordinated Debt	BBB (high)	A (low)	A (low)	A (low)
Santander Finance Capital S.A. Unipersonal	Preferred Securities	BBB	BBB	BBB	BBB
Santander Finance Preferred S.A. Unipersonal	Preferred Securities	BBB	BBB	BBB	BBB
Santander Financial Issuances Limited	Subordinated Debt	BBB (high)	A (low)	A (low)	A (low)
Santander International Debt, S.A. Unipersonal	Senior Unsecured Long-Term Debt	A	A	A	A
Santander Issuances, S.A. Unipersonal	Subordinated Debt	BBB (high)	A (low)	A (low)	A (low)
Santander Perpetual S.A.	Subordinated Debt	BBB (high)	A (low)	A (low)	A (low)
Santander US Debt, S.A.U.	Senior Debt	A	A	A	A
Banco Popular Español S.A.	Long-Term Issuer Rating	A	-	-	-
Banco Popular Español S.A.	Long-Term Senior Debt	A	BBB (high)	A (low)	A (low)
Banco Popular Español S.A.	Short-Term Issuer Rating	R-1 (low)	-	-	-
Banco Popular Español S.A.	Short-Term Debt	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Banco Popular Español S.A.	Short-Term Deposits	R-1 (low)	-	-	-
Banco Popular Español S.A.	Long Term Critical Obligations Rating	A (high)	A	-	-
Banco Popular Español S.A.	Short Term Critical Obligations Rating	R-1 (middle)	R-1 (low)	-	-
Banco Popular Portugal S.A.	Long-Term Deposits	A (low)	-	-	-
Banco Popular Portugal S.A.	Long-Term Senior Debt	A (low)	BBB (low)	BBB	BBB
Banco Popular Portugal S.A.	Short-Term Deposits	R-1 (low)	-	-	-
Banco Popular Portugal S.A.	Short-Term Debt	R-1 (low)	R-2 (middle)	R-2 (high)	R-2 (high)
Banco Pastor, S.A.	Long-Term Issuer Rating	A	-	-	-
Banco Pastor, S.A.	Long-Term Deposits	A	-	-	-

Banco Pastor, S.A.	Long-Term Senior Debt	A	BBB (high)	BBB (high)	A (low)
Banco Pastor, S.A.	Short-Term Issuer Rating	R-1 (low)	-	-	-
Banco Pastor, S.A.	Short-Term Deposits	R-1 (low)	-	-	-
Banco Pastor, S.A.	Short-Term Debt	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Banco Pastor, S.A.	Long Term Critical Obligations Rating	A (high)	A	-	-
Banco Pastor, S.A.	Short Term Critical Obligations Rating	R-1 (middle)	R-1 (low)	-	-
BPE Financiaciones, S.A.	Long-Term Senior Debt	A	BBB (high)	A (low)	A (low)

## Previous Action(s)

- [DBRS Confirms Ratings of Santander – Senior at A, Stable Trend](#), December 7, 2017.
- [DBRS Confirms Santander’s Ratings at A, Stable Following Acquisition of Banco Popular Español](#), June 8, 2017

## Related Research

- [DBRS Publishes Commentary on Spanish 9M 2017 Results](#), December 4, 2017.
- [DBRS Publishes Commentary on the ECB’s New NPL Proposal](#), October 23, 2017.
- [DBRS Comments on Santander’s Deal with Blackstone](#), August 17, 2017.
- [DBRS Comments on the Recent Law on Spanish Mortgage Floors](#), January 30, 2017.

## Previous

- [Banco Santander SA, Rating Report, November 3, 2016.](#)

Notes:  
All figures are in EUR unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on [www.dbrs.com](http://www.dbrs.com).

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.