A+

LT ISSUER RATING

Banco Santander, S.A.

Outlook: Stable

First rating date: 23/11/2018

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Content

Executive Summary

Banco Santander Group (hereinafter, Santander) is the largest Spanish bank and one of the fifteenth largest European banks by asset size with a balance sheet of € 1.4 trillion at the end of September 2018 and a workforce that exceeds 200,000 employees. It is focused on the retail segment, but shows a high diversification in terms of business lines, operating in the retail, corporate, consumer finance, asset management and digital banking activities throughout its wide geographical position by market share represented by 10 principal regions divided between Europe and Latin America.

Fundamentals

- High degree of geographical diversification that provides it with a relevant position in Europe and Latin America. Business model based on commercial banking. Resilient earnings over the cycle. Depositors base as the main source of funding. Decentralized risk management model.
- Pricing power in most of the regions where it operates and European leader in the consumer business segment. The efficient integration of the acquisition of Banco Popular provides a growth lever in the SME segment in Spain and Portugal without deteriorating capital levels.
- Highly professionalized management based on a common corporate culture in all the regions where it operates. Conservative risk management within a framework of modest risk appetite.
- Favorable macroeconomic context with generalized growth in the main regions where it operates. Sovereign risk mitigated in the domestic market due to the effectiveness of the unconventional policy of the central bank and the improvement of macroeconomic indicators.
- Consolidation of the restructuring of the sector. Growth of the banking business according to the macroeconomic context. Increasing volumes of new credit granted. Reduction of non performing assets as one of the main concerns of the supervisory bodies and the main threat to profitability.
- Most of revenues comes from commercial banking, with adequate stability over the cycle that has allowed for the internal capital generation despite the impairment charges during the crisis. High operating margins in emerging markets is the main countercyclical element.
- Continuous asset quality improvement. Prudent hedging policy in line with that of its international peers despite the divergence of non performing levels by region and mortgage exposure.
- Adequate capital levels in line with its activity. Internal capital generation supported by earnings stability. Proven effectiveness in accessing the capital markets after the acquisition of Popular.
- Sound deposit base as the main source of funding. Adequate relationship between loans and deposits. Moderate refinancing risk due to deferral of maturities. Recurrent appeal to the markets to fulfil the TLAC levels.

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Sources of information

The credit rating issued in this report is unsolicited. The rated entity or a related third party have not participated in the process. The credit rating is based exclusively on public information, being the main sources the following:

1. Annual Audit Report.
2. Corporate Governance Report.
3. Corporate Website.
4. All the information published in the Official Bulletins.
5. Prudential Relevance Report.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, Axesor Rating assumes no responsibility for the accuracy of the information and the conclusions drawn from it."

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies, and in accordance with the Outlook Methodology and Banks Rating Methodology that can be consulted on rating.axesor.es/en/about-axesor/methodology and according to the Long-term Corporate Rating scale available at rating.axesor.es/en/about-axesor/rating-scale.
- Axesor publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months axesor has provided ancillary services to the rated entity and its related third parties. However, according to our Conflict of Interest Policy, it does not involve a conflict of interest, since the aggregate sale does not exceed 5% of net turnover.
- The issued credit rating has been notified to the rated entity, and has not been modified since.

Financial figures

Main financial figures (€ mn)	2016	2017	sep.18
PROFITABILITY			
Net profit	7.486	8.207	6.877
ROA (annualized sep.18)	0,56%	0,59%	0,63%
ROE (annualized sep.18)	7,43%	7,83%	8,63%
(Pre-Imp. Op. Profit) / A.T. Assets (annualized sep.18)	1,53%	1,63%	1,57%
EFFICIENCY			
Cost-to-income	47,64%	47,21%	46,72%
Cost-to-income (recurrent)	50,62%	49,69%	49,39%
ASSET QUALITY			
Cost of risk (annualized sep.18)	1,12%	1,00%	0,92%
NPL ratio	3,93%	4,08%	3,87%
Loan loss reserves/NPL	73,8%	65,2%	67,9%
LIQUIDITY			
Loan-to-Deposit	114%	109%	111%
Interbank ratio	45%	39%	35%
SOLVENCY			
CET1 *phased-in*	12,53%	12,26%	11,29%
CET1 *fully loaded*	10,55%	10,84%	11,11%
Solvency ratio *fully loaded)*	13,87%	14,48%	14,58%
RWA density	43,37%	41,98%	41,51%
Leverage	7,67%	7,40%	7,31%
MARKET VALUATION			
P/BV	0,75	0,94	0,70

Sources: Santander, Axesor.

Trend

Santander has strong capacity to meet its credit obligations. Its outlook is stable. The favorable macroeconomic context in regions such as Spain and its relationship with the sovereign leads us to consider that an upgrade of Kingdom of Spain´s sovereign rating could lead to an uprgade of Santander's rating as long as the positive evolution of the main capital and asset quality metrics continues.

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1. Company profile

1.1. Business model

High degree of geographical diversification with a relevant position in Europe and Latin America. Business model based on commercial banking. Resilient earnings over the cycle. Depositors base as the main source of funding. Decentralized risk management model.

Figure 1: Operating regions.

Source: Santander, Axesor

Santander is the main Spanish bank and the largest European bank by market capitalization. Its high internationalization with a strong presence in Europe and Latin America through majority participation in its degree of international subsidiaries where it holds controlling positions.

Despite its predominantly retail focus, it has a high degree of diversification by business lines, developing retail, corporate, consumer finance, asset management and digital banking activities (created in 2017) throughout its wide geographic positioning by market share (minimum target of 10%).

The breakdown by **regions** is as follows:

- **Continental Europe**

  Represented by all the businesses developed in the region and the unit of Actividad Inmobiliaria España. This geographical area includes Spain, Poland, Portugal, Santander Consumer Finance (Spain, Italy, Germany, the United Kingdom, Poland and the Nordic countries as the main markets) and Actividad Inmobiliaria España.

- **UK**

  Represented by all the businesses developed in the region by the different business units and branches.

- **Latin America**

  Represented by all financial activities developed through its banks and subsidiaries in the region. The main countries in this geographical area are Brazil, Mexico, Chile, Argentina, Uruguay, Peru and Colombia.

- **USA**

  With a predominant presence in the northeast and the prevalence of the consumer segment, it is made up of all the businesses developed in the region and includes the holding company Santander Holdings USA (SHUSA) and the subsidiaries Santander Bank, Banco Santander Puerto Rico, Santander Consumer USA, Banco Santander Internacional, Santander Investment Securities and the Santander branch in New York.

Figure 2: Total assets by business area. End-sep.18

Source: Santander, Axesor

Spain only represents 17% of consolidated net profit with more than 50% of the total represented by developed countries at end-9M18. Santander has a strong position in the three areas of global monetary influence (euro, pound, dollar) highlighting Brazil, UK, Spain and its consumer finance business in Europe.

The size of the Group requires the implementation of a simplified structure in the management of its geographical areas through common risk management systems. Santander maintains a decentralized liquidity, funding and capital, so that each region maintains its local committees in coordination with the global committees and in accordance with the regulatory and market requirements. Additionally, Santander has a high degree of technological development and operating systems.

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1.2. Positioning

Pricing power in most of the regions where it operates and European leader in consumer business segment. The efficient integration of the acquisition of Banco Popular provides a growth lever in the SME segment in Spain and Portugal without deteriorating capital levels.

Banco Santander is the largest bank in the Spanish banking system and one of the 15 largest European banks with € 1.4 trillion assets. It is the leader by market share in Spain with 20% of total loans and deposits, a position that has been consolidated through the acquisition of 100% of Banco Popular in June 2017 (symbolic price of one euro).

The acquisition took place within the Single Resolution Board (SRB) framework and, therefore, after having produced the relevant bail-in of all of its preferred shares and hybrid instruments (AT1) as well as the conversion into capital of the subordinated debt. The € 7,000 million capital increase of July 2018 more than compensated Popular's exposure without damaging its financial structure.

With the acquisition of Banco Popular, Santander has increased its position in the SME business in Portugal and Spain, where it is the leader by market share with 25% (12% before the operation) of loans to this market.

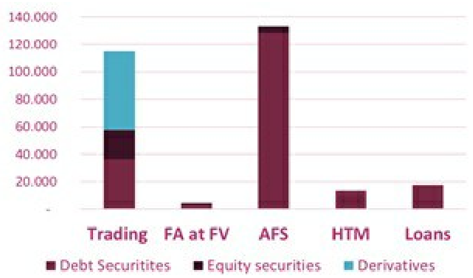
The characteristics that differentiate Banco Santander from its international and domestic peers are the same that determine its strength. First, the high degree of diversification, which gives it a high resilience and capacity to generate earnings. This, together with excellent cost efficiencies (despite the extraordinary expenses due to the technological integration of Banco Popular) lead to high internal capital generation around a percentage point on risk-weighted assets before dividends (target: CET1 fully loaded above 11% at end-2018).

However, CET1 levels remain below European peers due to the emerging market exposure. The latest sales of problem assets of both Popular and Santander have reduced the Group's risk profile, which, together with the good economic cycle (decrease in unemployment and favorable market conditions), anticipates the continued sustained expansive cycle in the sector and the improvement of capital ratios

1.3. Management and strategy

Highly professionalized management based on a common corporate culture in all the regions where it operates. Conservative risk management within a framework of modest risk appetite.

Figure 3: Breakdown by secs. (€ mn.)



Source: Santander, Axesor

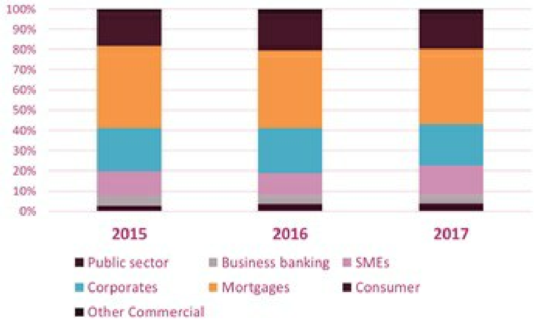
Santander has a wide-based shareholding that exceeded 4 million shareholders as of September 2018, of which 78% were European. The shareholder distribution is highly atomized. Institutional investors represent 60% of the share capital and the share of the board of directors is only 1.1%.

The Group carries out its activity under the same **brand** in most of the regions where it operates, so it maintains a strong corporate culture by harmonizing corporate values at a global level. The management quality minimizes the reputational risk to which it could be exposed

Santander has a robust **corporate governance** based on a majority of independent directors (60%) of the board of directors. The board carries out an effective supervision in accordance with the strictest international quality standards of corporate social responsibility, with a high autonomy in terms of capital and liquidity of its main subsidiaries that minimizes intra-group transactions.

Management has a very high degree of knowledge and experience and works with a common career plan for the whole Group. Management credibility is based on the successful implementation of corporate (including the acquisition of Popular) and the stability of the results over the cycle transactions in line with the strategic plans.

Figure 4: Loan breakdown by type (%).



Source: Santander, Axesor

In this regard, Santander announced an agreement in August 2017 with the **Blackstone** fund to acquire 51% of Popular's real estate business valued at € 10,000 million. The portfolio consists mostly of foreclosed assets and non-performing loans with a gross value of € 30,000 million, so the transaction was executed at a considerable discount. Santander desconsolidated the portfolio in this operation, with a stake in the holding company. The deal has made it possible to improve the asset quality and capital ratios and comply with the schedule set for 2020 to divest Popular's real estate problem assets.

The low **risk profile** is a consequence of the fact that most of the activity takes place in the retail and comercial banking segments. Risk management is conservative and responds to an integration at all levels of the Group's modest risk appetite, with robust monitoring that has allowed it to maintain adequate asset quality levels in recession phases of the cycle.

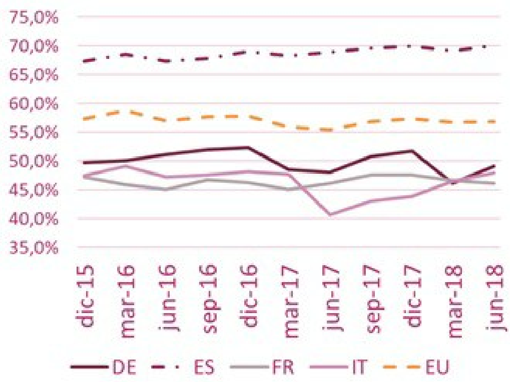
The bank has a low exposure to market risks, representing 4% (€ 24,161 million) of the total risk-weighted assets in 2017, of which the majority (57%) are located in Spain. The bulk of the market risk is represented by interest rate risk and more than 60% of the capital requirements are calculated using IRB methods (trading portfolios of Spain, Chile, Portugal, UK and Mexico).

At the end-2017, Santander reported an average VaR of € 21.5m, slightly above the one recorded in previous years (€ 18.3m in 2016 and € 15.6m in 2015) continuing at very low levels.

Foreign currency exposures are mainly represented by investments in foreign subsidiaries by the equity method and the results. This foreign-exchange risk is managed centrally through hedges and management tries to limit the impact on the capital ratio. In 2017, the coverage level of the CET1 ratio remained at around 100%.

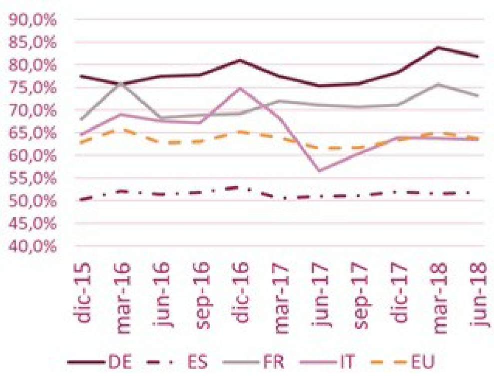
The assets and liabilities committee of each country is the body in charge of making decisions on structural risks. These local committees are coordinated with the central committee.

Figure 5: NII / Operating profits.



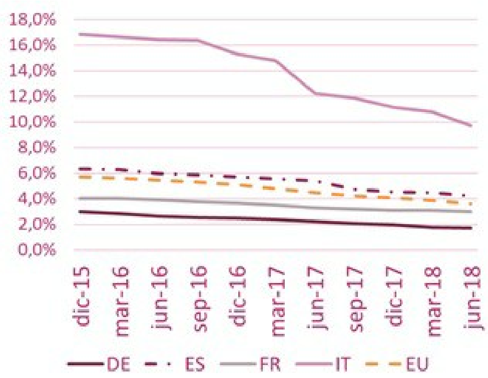
Source: EBA Risk Dashboard Q2 2018

Figure 6: Cost-to-income.



Source: EBA Risk Dashboard Q2 2018

Figure 7: NPL ratio.



Source: EBA Risk Dashboard Q2 2018

2. Macro and Sectorial environment

2.1. Sovereign risk

Favorable macroeconomic context with generalized growth in the main regions where it operates. Sovereign risk mitigated in the domestic market due to the effectiveness of the unconventional policy of the central bank and the improvement of macroeconomic indicators.

The bank is headquartered in the city of Santander (Spain). Axesor Rating, in the exercise of its activity as sovereign rating agency, in September 2018 issued an **A** rating to the **Kingdom of Spain**. However, Santander's rating is not limited by spanish sovereign risk due to the high geographical diversification that it shows across Europe and Latin America, even operating in regions that are countercyclical between them, and the prevalence of traditional banking activity in the retail segment with a stable and highly atomized deposit base as the main source of funding.

Although over the last quarters the bank exposure to public debt has been reduced in favor of credit growth and in response to the lower profitability shown, financial institutions have been the main holders of public debt until the implementation of unconventional policies in the OECD countries. In this sense, in the OECD, levels of sovereign debt showed some stabilization in the last three years (over $ 42 trillion) although the stock remains at historically high levels compared to the first years of the financial crisis (2007: $ 22 trillion).

The sovereign debt to GDP in the OECD has increased from 49.8% in 2007 to over 70% in 2017, showing some reduction from the maximum levels in the last two years thanks to the flattening of long-term rates (1 % in 2017 versus 4% in 2008). The decrease has facilitated lower interest payments mainly on refinanced debt, through the issuance of long-term debt (the average maturity of sovereign debt has increased by 1.5 years since 2007) which has increased in the OECD to represent 45% of the total in the last three years. However, this situation is threatened by the eventual withdrawal of unconventional monetary policies, a scenario to be taken into account in the coming years.

2.2. Sector and regulation

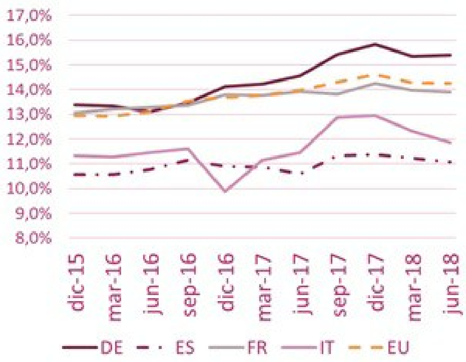
Consolidation of the restructuring of the sector. Growth of the banking business according to the macroeconomic context. Increasing volumes of new credit granted. Reduction of non performing assets as one of the main concerns of the supervisory bodies and the main threat to profitability.

Banco Santander, the only Spanish bank classified as of global systemic importance (G-SIB) by the Financial Stability Board, is under direct supervision of the European Central Bank and operates under the resolution rules of Pillar II in the Banking Union. Additionally, Santander is highly internationalized and its foreign subsidiaries are under local supervisors in each region other than the euro area.

Over the last 9 years the Spanish banking system has made many adjustments to improve their profitability and asset quality in a highly competitive environment with narrow margins and the entry of new non-banking entities (fintech, bigtech). In this regard, the number of employees has experienced a decrease of 32% while the adjustment of branches was of 37% (Source: ECB, Eurostat). The direct consequence has been an increase in bank concentration by 20%. The top 5 Spanish banks represent 62% of the total assets, the highest rate of the four main countries in the euro area (Germany 31%, France 46%, Italy 43%).

Despite this correction in the sector, the price war is still alive, with an improvement in funding conditions that in the case of Spain has showed the greatest drop in the euro area in terms of obstacles to SME funding (Source: ECB).

Figure 8: CET1 fully loaded.



Source: EBA Risk Dashboard Q2 2018

As Figure 5 shows, recurrent earnings (understood as the percentage of operating income represented by interest margin) is above the European average and well above the peer countries. For this reason, Santander has a greater exposure to interest rate volatility. It is necessary to generate earnings from off-balance sheet management in a deflationary environment.

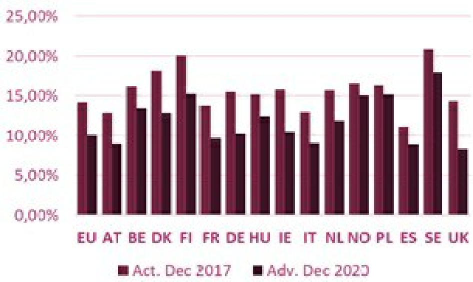
As cost-to-income ratio in figure 6 shows, Spain is positioned as one of the best countries in the Europe and the best in respect to its peer countries because of the strong adjustments in personnel and offices mentioned above.

On the contrary, the Spanish banking system has been maintaining a problem with the asset quality that has resulted in high levels of non performing assets. (The maximum balance was recorded in December 2013, reporting € 274,000 million which, after recoveries and sales, was reduced to € 113,000 million at end-1H18). In spite of the adjustment, figure 7 shows the position of Spain is still slightly above the European average and much worse than the peer countries.

As a result of the high risk profile that the Spanish banking sector has maintained over the last decade, CET1 ratio (figure 8) is positioned as the worst in the European comparison. Despite maintaining leverage levels below the peer countries, high risk-weighted assets impact on consolidated fully loaded CET1.

The Spanish banking sector, starting from an unfavorable situation in terms of falling profitability and asset quality during the crisis, has managed to make the necessary adjustments of overcapacity and restructuring for the Basel III adaptation. It is expected that the positive macroeconomic performance will continue to result in a decrease in unemployment and the loan growth, mainly in cyclical portfolios such as consumer finance and SMEs.

Figure 9: Stress test 2018. CET1 by country.



Source: EBA, Axesor

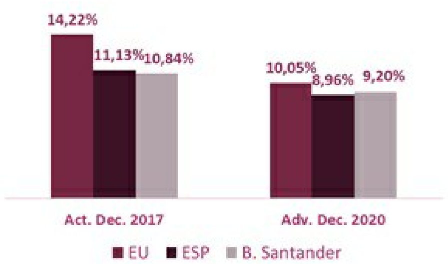
Exposure to segments with a higher risk profile and the pressure on profitability due to the high competition between entities, require the internal capital generation be maintained to increase capital ratios that, as has been analyzed, are below those of peer countries.

Stress test results of the 2018 test by the European Banking Authority (EBA) have highlighted the resistance of the analysed Spanish entities (representing 77% of the country's banking assets) in terms of solvency in adverse scenario, positioning themselves as one of the best (impact of -217bp to 2020) despite starting from lower capital levels compared to the European average (ESP: 11.13% vs. EU: 14.22%).

From the contribution by each component to capital, the same conclusions are derived from previous years, such as the greater weight of the net interest margin than the European average, with a similar contribution of commissions and a negative result of gain on financial transactions, in contrast to the positive contribution for the European average. The provisions for the set of Spanish banks studied in the year are above the European set.

In terms of leverage, the Spanish entities under analysis are considered on the same level as those of greater resistance in an adverse scenario (ESP: 4.98% vs. EU: 4.37%) and better performance among the countries in our area (ESP: -66bp vs. DE: -129bp; FR: -108pb; IT: -129bp). Additionally, the adverse 2020 levels, improve until they are ahead of the peer countries (DE: 3.51%, FR: 4.02%, IT: 4.68%).

Figure 10: Stress test 2018. CET1 comparison.



Source: EBA, Axesor

By entity, Banco Santander was the third lowest impact on CET1 in the test (SAN: -254 bp vs. EU: -419 bp). The most penalized in terms of solvency were the German, British and Dutch entities.

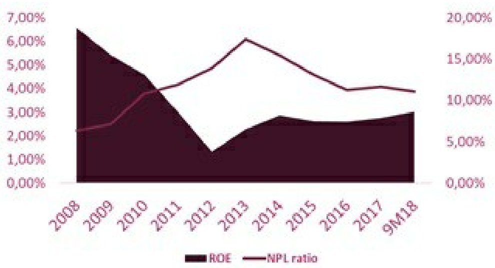
	CET1 2017 FL	IFRS 9 adj.	CET1 2020 adv.	Impact	Total impact
Santander	10,84%	23 pb	9,20%	141 pb	164 pb
EU	14,22%	20 pb	10,05%	395 pb	415 pb

Source: EBA, Axesor

Figure 11: Attributable profit by business area. End-sep.18

Source: Santander, Axesor

Figure 12: NPL ratio (LHS.) y RoE (RHS). End-sep.18.



Source: Santander, Axesor

3. Financial profile

3.1. Earnings and profitability

Most of revenues comes from commercial banking, with adequate stability over the cycle that has allowed for the internal capital generation despite the impairment charges during the crisis. High operating margins in emerging markets is the main countercyclical element.

The stability of Santander's earnings over the cycle is based on its high degree of geographic diversification (balanced earnings distribution between America 48% and Europe 52% in September 2018) and its activity mainly focused on the retail and commercial segments. The resilience of revenues, in spite of the important impairment charges during the crisis, has enabled a high internal capital generation that, together with the high returns of the business in emerging markets, has maintained adequate levels of RoE, as shown in Figure 12.

Santander obtained at end-9M18 an attributable profit of € 5,742 million (up 28.4% yoy in constant euros). Yoy growth was driven by the good performance in all regions at constant euros except for Argentina (hyperinflation) and UK (increase in costs and competitive pressure). The unfavorable performance of the exchange rates has penalized the result (brl: down 17% yoy), despite of which, they recorded a growth of + 13.1% year-on-year on a consolidated basis.

The main region by attributable profit continues to be Brazil with 26% thanks to both the increase in activity (which has resulted in higher volumes) and the increase in commissions (up 15% yoy). Spain registered good growth (up 18% yoy), extraordinary items excluded, driven by the sustained progress of the economy.

On the other hand, the results in the UK decreased by 9.2% yoy due to the fall of earnings caused by competitive pressure in these region, the increase in regulatory costs and digital transformation and a rebound of impairment charges that did not impact on loan portfoilio quality (NPL ratio of 1.10% yoy). For Santander, the improvement of operating efficiencies and the loan portfolio quality in the context of regulatory instability (Brexit) and weakening demand continues to be the main challenge in the region.

Santander Consumer Finance, the European leader in its segment, maintained the recurrence in attributable profit during 9M18 with an increase of 5% yoy due to new production (up 8% yoy) and cost restraint.

Santander is expected to close the year 2018 with sound results in line with the increase in business that it had in 9M18(up 3% yoy of loans). An improvement in profitability is expected in its main emerging market business and in the domestic market as it continues to increase the loan portfolio quality in the latter.

3.2. Solvency

Asset quality

Continuous asset quality improvement. Prudent hedging policy in line with that of its international peers despite the divergence of non performing levels by region and mortgage exposure.

Santander's asset structure is dominated by a very fragmented loan portfolio that represents 60% of the consolidated balance sheet at end-September 2018. About 62% of the customer loans were secured loans at end-2017 while approximately 68% those secured loans did not exceed a loan-to-value of 80%.

Figure 13: Asset quality. End-sep.18.

Source: Santander, Axesor

Mortgages (37%) were the most representative of customer loans. Despite maintaining a high degree of geographic diversification, by granting mortgages in local currency, 85% of mortgages maintain a loan to value below 80%, which reflects the conservative risk policy of the bank.

As can be seen in figure 12, the NPL ratio has improved over the last three years in the absence of Popular's contribution (4.08% vs. 3.38% ex. Popular at end-2017) thanks to the improvement in the asset quality and the economic conditions. In September 2018 NPL accounted for € 36,332 million (-3.4% compared to end-2017).

As can be seen in figure 13, Portugal is the region with a NPL ratio above 7% due to the integration of the Popular portfolios, however, the reduced impact of the country in the group makes it immaterial. The most pronounced increase is presented by Spain, which, similar to Portugal, integrated Popular in Spain.

Santander has a prudent hedging policy and comparable to its international peers despite the divergence in NPL levels by region and exposure to the mortgage sector. Coverage ratios in emerging markets and the US were very high. In the latter, due to the high exposure to consumer finance.

Capitalisation

Adequate capital levels in line with its activity. Internal capital generation based on earnings stability. Proven effectiveness in accessing the capital markets after the acquisition of Popular.

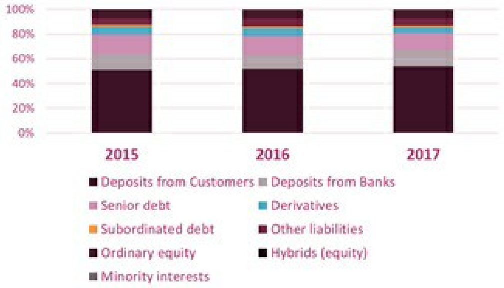
Figure 14: Capital composition.

Source: Santander, Axesor

Despite having slightly lower capitalization than its peers, the low risk profile associated with its activity promotes adequate capital levels (CET1 fully loaded of 11.11% at end-September 2018 vs. SREP requirements 2018 of 8.749%). The internal 2018 target is above 11%. The fulfillment of this target is considered reasonable thanks to the good internal capital generation.

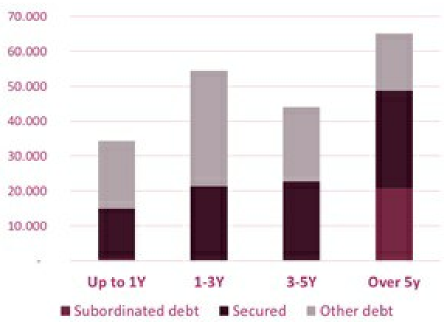
When the bank acquired Popular, Santander had to raise capital by € 7,000 million to offset the negative impact of the operation (reduction of CET1 fully loaded by 1.14%). This capital increase was completed without difficulties and favored the stability of capital ratios highlighting the bank´s ability to access market. Leverage ratio fully loaded was 5% at end-September 2018, remaining stable year-on-year.

Figure 15: Funding.



Source: Santander, Axesor

Figure 16: Debt maturities (€ mn).



Source: Santander, Axesor

3.3. Funding and liquidity

Sound deposit base as the main source of funding. Adequate relationship between loans and deposits. Moderate refinancing risk due to deferral of maturities. Recurrent appeal to the markets to fulfill the TLAC levels.

Santander has a sound deposit base (€ 731,410 million at end-September 2018). The bank registered an adequate 111% of loan-to-deposit ratio due to the good evolution of loans and deposits during the period. The bank monitors funding and liquidity levels, but requires each region to cover their own requirements. This policy provides protection against sovereign risks in issues that are limited to particular regions.

Access to capital markets is a regular activity of Santander, which maintains a moderate refinancing risk due to the well-spread of maturities where unsecured issues predominate for maturities up to five years and secured for those that exceed those term.

Santander maintains a strategy based on a multiple points of entry approach (MPE) in which each resolution entity must comply with the requirements associated with Total Loss-Absorbing Capacity - TLAC (effective in January 2019) and with Mínimum Required Eligible Liabilities (MREL). Regarding MREL, during 9M18 Santander, S.A. issued: subordinated debt (T2) for € 1,250 million, preferred shares (AT1) for € 1,500 million and senior non-preferred for € 4,571 million. At end-September 2018, the bank reported a good LCR of 154% and declared to be above 100% of NSFR, which will be required in the coming years.

4. Adjustments

Santander is under the Bank Recovery and Resolution Directive and Single Resolution Mechanism. The directive requires to participate in credit losses (bail-in) in the event of non-viability of the bank. Therefore, it is considered unlikely to receive previous support under that scenario.

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5. Annexes

5.1. Scorecard

			RATING
BANCO SANTANDER, S.A.	**sep.18**		**A+**
		Weight	**Subtotal**
MACRO&SECTORIAL ENVIRONMENT	**Strong**	**15,0%**	**0,46**
Sovereign risk		**10,0%**	
Sovereign rating	●		
Sector and regulation		**5%**	
Corruption perception index	●		
Legal System	●		
Concentration	●		
COMPANY PROFILE	**Very strong -**	**45,0%**	**1,01**
Business model		**12%**	
Business model	●		
Positioning		**15%**	
Market share	●		
Asset size	●		
Peer Analysis	●		
Management and strategy		**18%**	
Governance	●		
Management quality	●		
Execution	●		
Market risk	●		
Growth	●		
Brand and reputation	●		
FINANCIAL PROFILE	**Strong -**	**40,0%**	**1,72**
Earnings&Profitability		**10,0%**	
ROA	●		
ROE	●		
Cost to income	●		
Pre-Imp. Operating Profit / Avg. Total Assets	●		
Interest margin/Avg. Total Assets	●		
Solvency		**15%**	
Equity/total assets	●		
CET1	●		
Non performing loans/gross loans	●		
NPL/Equity + reserves	●		
Total loan loss reserves/total problem loans	●		
Off balance sheet items/total assets	●		
Funding&Liquidity		**15%**	
Loan to deposits	●		
Interbank ratio			
Liquidity Coverage Ratio	●		

5.2. Peer comparison

FINANCIALS (€ mn)	BANCO SANTANDER, S.A.		BBVA, S.A.		UNICREDIT, S.p.A		DEUTSCHE BANK, A.G.	
	2017	sep.18	2017	sep.18	2017	jun.18	2017	sep.18
PROFITABILITY								
Net profit	8.207	6.877	4.762	5.004	5.473	2.247	-735	750
ROA	0,59%	0,63%	0,67%	0,74%	0,65%	0,55%	-0,05%	0,07%
ROE	7,83%	8,63%	8,76%	12,78%	9,22%	7,83%	-1,08%	1,45%
EFFICIENCY								
Cost to income (ordinary)	47,21%	46,72%	48,0%	49,6%	57,9%	53,6%	93,4%	90,3%
ASSET QUALITY								
Cost of risk	1,00%	0,92%	0,82%	0,82%	0,58%	0,45%	0,12%	0,09%
NPL ratio	4,08%	3,87%	4,6%	4,1%	10,15%	8,74%	1,54%	1,54%
Loan loss reserves/NPL	65,24%	67,94%	65%	73%	56,2%	60,9%	63,0%	63,0%
LIQUIDITY								
Loan to Deposit	109%	111%	106%	105%	109,27%	100,59%	70,00%	77,00%
SOLVENCY								
CET1 fully loaded	10,84%	11,11%	11,1%	11,3%	13,7%	12,5%	14,0%	14,0%
Solvency ratio	14,48%	14,58%	15,30%	15,60%	18,10%	16,42%	18,40%	18,00%
RWA density	41,98%	41,51%	52,41%	51,28%	42,56%	43,78%	23,34%	24,76%
Leverage	7,40%	7,31%	7,7%	7,64%	7,09%	6,73%	4,62%	4,98%
MARKET VALUATION								
P/BV	0,94	0,70	1,02	0,70	0,58	0,45	0,53	0,26

**Annualized intermediate data*

Source: company reports, Axesor

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