

MOODY'S

INVESTORS SERVICE

CREDIT OPINION

2 October 2019

Update

✓ Rate this Research

RATINGS

Banco Santander S.A. (Spain)

Domicile	Spain
Long Term CRR	A2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	A2
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	A2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Banco Santander S.A. (Spain)

Update to credit analysis

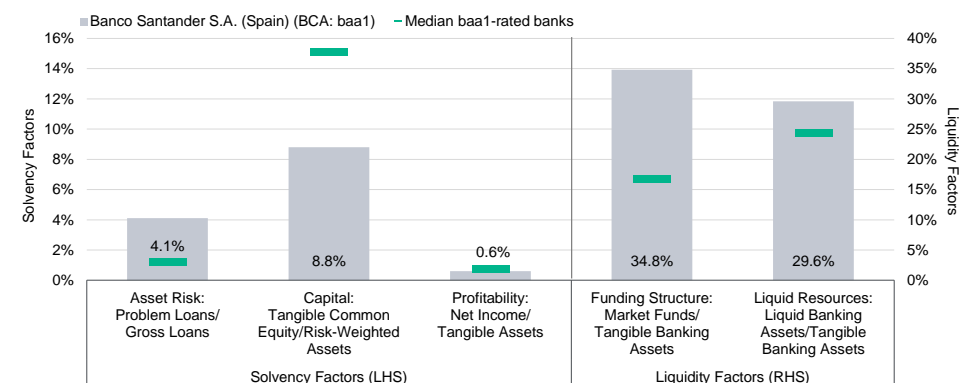
Summary

[Banco Santander S.A. \(Spain\)](#)'s (Santander) A2/Prime-1 ratings reflect (1) the bank's Baseline Credit Assessment (BCA) of baa1; (2) a very low loss given failure for long-term depositors and senior unsecured creditors based on our Advanced Loss Given Failure (LGF) analysis, resulting in a two-notch uplift; and (3) our assumption of moderate support from the [Government of Spain](#) (Baa1 stable), although this results in no further uplift, given the fact that Santander's long-term ratings (before government support) exceed the sovereign rating. The bank's long-term deposit and senior unsecured debt ratings are capped at A2 by Spain's sovereign rating of Baa1 with a stable outlook. Santander's Counterparty Risk (CR) Assessment is A3(cr)/Prime-2(cr).

Santander's BCA reflects a combination of the following factors: (1) benefits of very ample geographical diversification, which underpins sustained profit generation and low earnings volatility; (2) modest asset risk and profitability and our expectation of an improvement in both these factors; (3) overall modest capitalisation, which is mitigated by its proven capacity to generate capital in times of stress; and (4) good funding and liquidity, characterised by a global funding structure with established, self-sufficient and diversified funding channels and liquidity management at each of the group's subsidiaries. Santander's baa1 BCA is not capped by the Baa1 sovereign rating.

Exhibit 1

Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

- » Very strong geographical diversification, which underpins sustained profit generation and low earnings volatility despite the bank's high exposure to developing markets
- » Expectation of an improvement in asset quality and earnings
- » Proven capacity to generate capital and liquidity in times of stress
- » Good liquidity and funding, with an independent model for its subsidiaries, which limits contagion risk
- » Proven market access

Credit challenges

- » Exposure to mature markets, which weighs on the group's profitability
- » Modest asset-quality metrics
- » Modest tangible common equity (TCE) ratio and regulatory solvency ratios below those of its international peers

Outlook

Santander's deposit and senior unsecured debt ratings carry a stable outlook, in line with that on the Spanish government's Baa1 rating.

Factors that could lead to an upgrade

- » Upward pressure on Santander's deposit and debt ratings is primarily dependent on an upgrade of the bank's home country's (Spain) rating, given the fact that our current A2 long-term debt and deposit ratings already exceed the sovereign rating by two notches and are constrained at that level under our methodology. This reflects our view that asset loss rates would likely be higher in case of a sovereign default and that the expected loss of the bank's debt and deposits would, therefore, be unlikely to be significantly below that of the sovereign's own debt. An upgrade of the sovereign rating by one notch would lift the current constraint on the bank's ratings, leading to an upgrade of the debt and deposit ratings to A1. The ratings of junior instruments would be unaffected.
- » An upgrade of the BCA is dependent on an improvement in the bank's credit fundamentals (asset risk, capital and profitability) beyond our current expectations. Given Santander's exceptional geographical diversification, its BCA could exceed the Spanish sovereign rating by one notch.

Factors that could lead to a downgrade

- » Because of the current constraint on Santander's debt and deposit ratings by the Spanish sovereign, these ratings would only experience downward pressure in case of a multi-notch downgrade of the BCA or a downgrade of Spain's rating. Downward pressure on Santander's BCA could develop from a reversal in the expected positive performance trajectory currently embedded in our assessment.
- » Challenges to the group's creditworthiness stem from the low interest rate environment, subdued business in mature markets and deteriorating operating conditions in the UK as the country negotiates its exit from the European Union (EU). The risks associated with the acquisition of Banco Popular Espanol, S.A. (Banco Popular), such as (but not only) those related to potential litigation costs, could also exert downward pressure on the bank's BCA. At the same time, Santander's high pre-provision profitability and unique geographical diversification are likely to continue to underpin the group's earnings generation capacity, which we expect to continue to benefit from its declining provisioning needs and strong focus on cost efficiency.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

Banco Santander S.A. (Spain) (Consolidated Financials) [1]

	06-19 ²	12-18 ²	12-17 ²	12-16 ²	12-15 ²	CAGR/Avg ³
Total Assets (EUR Million)	1,512,096.0	1,459,271.0	1,444,305.0	1,339,125.0	1,340,260.0	3.5 ⁴
Total Assets (USD Million)	1,721,969.7	1,668,157.7	1,734,317.6	1,412,445.0	1,455,918.1	4.9 ⁴
Tangible Common Equity (EUR Million)	59,765.0	56,877.5	56,164.9	54,117.2	49,306.0	5.7 ⁴
Tangible Common Equity (USD Million)	68,060.1	65,019.2	67,442.7	57,080.3	53,560.9	7.1 ⁴
Problem Loans / Gross Loans (%)	3.8	4.0	4.4	4.2	4.6	4.2 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	8.8	8.5	8.5	8.6	8.0	8.5 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	39.8	42.7	45.3	41.5	47.7	43.4 ⁵
Net Interest Margin (%)	2.5	2.5	2.6	2.5	2.6	2.5 ⁵
PPI / Average RWA (%)	3.7	3.7	3.8	3.6	3.8	3.7 ⁶
Net Income / Tangible Assets (%)	0.6	0.7	0.6	0.6	0.5	0.6 ⁵
Cost / Income Ratio (%)	48.0	47.8	48.3	48.4	47.7	48.0 ⁵
Market Funds / Tangible Banking Assets (%)	34.2	34.8	35.3	37.0	39.5	36.2 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	29.8	29.6	29.6	28.4	28.0	29.1 ⁵
Gross Loans / Due to Customers (%)	111.9	113.5	113.8	118.9	121.6	115.9 ⁵

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully-loaded or transitional phase-in; IFRS. [3] May include rounding differences due to scale of reported amounts. [4] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime. [5] Simple average of periods presented for the latest accounting regime. [6] Simple average of Basel III periods presented.

Source: Moody's Investors Service; Company Filings

Profile

With total assets of around €1.5 trillion as of the end of June 2019, Banco Santander S.A. (Spain) (Santander) is Spain's largest banking group and ranks among the 15 largest banking groups in Europe. The group has ample geographical diversification, with only 13% of its net profit generated in Spain and around 50% in developing markets (excluding the corporate centre) as of the end of June 2019. Retail banking accounts for 75%¹ of the group's total attributable profit. As of the end of June 2019, the group had 142 million customers, with Brazil accounting for the largest share (31%).

Recent developments

On 24 September 2019, Santander announced a goodwill adjustment of €1.5 billion of its UK subsidiary [Santander UK plc](#) (Santander UK, Aa3/Aa3 Positive, a3²). The impairment is primarily because of a change in the outlook for Santander UK as a result of a difficult regulatory environment. The impairment also reflects the increase in the competitive pressure in the country and the impact that the ongoing uncertainty relating to Brexit has had on UK economic growth.

The impairment will be recognised in the group's consolidated results for the third quarter of 2019 and will have no impact on the group's Common Equity Tier 1 (CET1) capital ratio because goodwill is excluded from the CET1 calculation.

On 3 April 2019, Santander presented its new strategic plan for the medium term. The plan hinges on the following three pillars: (1) an acceleration of its digital transformation, which implies investments over €20 billion for the next four years and to build an open financial services platform; (2) increased efficiency gains, leading to €1.2 billion of additional annual cost savings (of which €1 billion is in Europe) and a cost-to-income ratio of 42%-45%; and (3) improved capital allocation towards more profitable geographies. Santander maintains its fully loaded CET1 target of 11%-12% for the medium term and a Return on Tangible Equity (RoTE) of 13%-15%.

Detailed credit considerations

Ample geographical diversification in low correlated markets underpins well-diversified earnings streams and low earnings volatility

The group has leading market positions in several major markets, which results in a widely diversified balance sheet and sustained profit generation. Our assessment of Santander's exceptional geographical diversification is reflected in a one-notch positive qualitative adjustment to its Business Diversification score, resulting in an overall baa1 BCA. Santander's resilience has also been proven in the 2018 European Central Bank (ECB)/European Banking Authority (EBA) stress test exercise, where the bank had one of the lowest capital depletion levels.

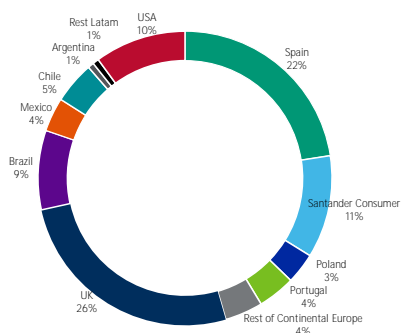
As of the end of June 2019, about 80% of the group's gross customer loans were located in mature markets, with Spain and the UK accounting for the largest shares (22% and 26%, respectively). The US and Brazil account for similar shares of 9%-10%, followed by Chile, Mexico, Portugal and Poland, with shares ranging between 3% and 5%.

Despite the significant weight of mature markets in Santander's loan book, their contribution to the group's profit was slightly above 50% as of the end of June 2019. This is not only because of the inherently higher profitability levels in developing markets but also because of depressed profitability levels in mature markets on the back of low interest rates and subdued business growth, as well as still-high loan-loss provisioning efforts and restructuring costs in some of Santander's key markets.

Commercial banking accounts for around three-quarters³ of the group's attributable profit, which provides a high degree of recurrence and stability to Santander's earnings.

Exhibit 3

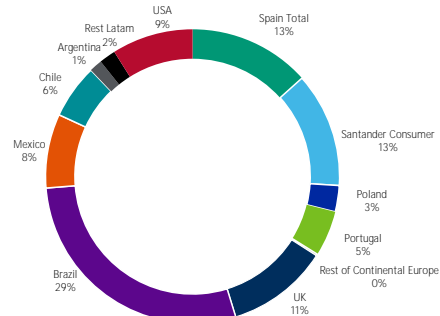
Loan book breakdown (as of the end of June 2019)



Source: Santander's 2Q19 report

Exhibit 4

Profit breakdown (as of the end of June 2019)



Source: Santander's 2Q19 report

Ongoing challenges in mature markets weigh on the group's profitability

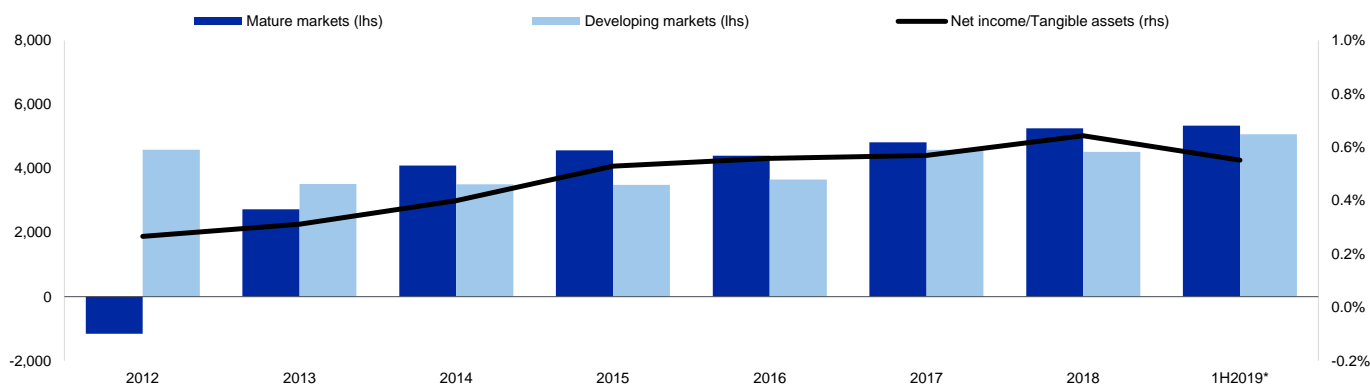
Our assigned Profitability score of baa2 is higher than that suggested by more recent data, reflecting our expectation of a gradual improvement in this factor and a positive adjustment to reflect the group's high pre-provision profitability and low earnings volatility, with net interest and fee income accounting for around 95% of the group's total income. We note negatively that our expectation of an improvement will take longer to materialise than initially expected because of the €1.5 billion goodwill impairment associated with Santander UK, which will be recognised in Q3 2019.

Despite the strained profitability, we continue to expect that targeted efficiency gains, strict cost control (particularly in those franchises that are experiencing subdued revenue), management's focus on preserving or enhancing margins, fee and commission income, an active management of unprofitable portfolios, and strong focus on customer satisfaction should gradually improve the group's profitability to levels more commensurate with the group's relatively high exposure to more profitable developing markets.

Santander reported attributable profit of €3.2 billion as of the end of June 2019, a decline of 13.9% from a year earlier (-11.7% at constant rates). Excluding restructuring costs primarily related to Spain and other nonrecurrent items, the group's net income/tangible assets would have been close to 0.7%. Excluding nonrecurring items, profit increased modestly on the back of a 1.3% rise in pre-provision income (PPI) and a historically low cost of credit. The evolution of the PPI is explained by a weak performance in Europe

(that accounts for 38% of the group's PPI⁴), primarily driven by a close to 18% decline in the UK; stable performance in South America (45%), where Argentina's and Chile's PPI declined compared with a 3.1% increase in Brazil; and strong growth in North America (26%) on the back of a 21.5% increase in the US and 14% in Mexico.

Exhibit 5

Santander's profit contribution by markets

Note: Bars exclude Corporate Center. *Annualised.

Source: Santander's financial statements

Since Q2 2019, Santander has created a new reporting unit, Santander Global Platform, which includes the group's digital services. As of the end of June 2019, this new unit reported losses amounting to €51 million, compared with €23 million a year earlier. Losses at the corporate centre were substantial in June 2019 (€1.1 billion, +25% compared with the same period a year earlier) largely because of a higher cost of foreign-currency hedging and issuance activities.

Modest but improving asset-quality metrics; high customer spreads in developing markets are a key risk-mitigating factor for structurally higher NPL ratios in the region

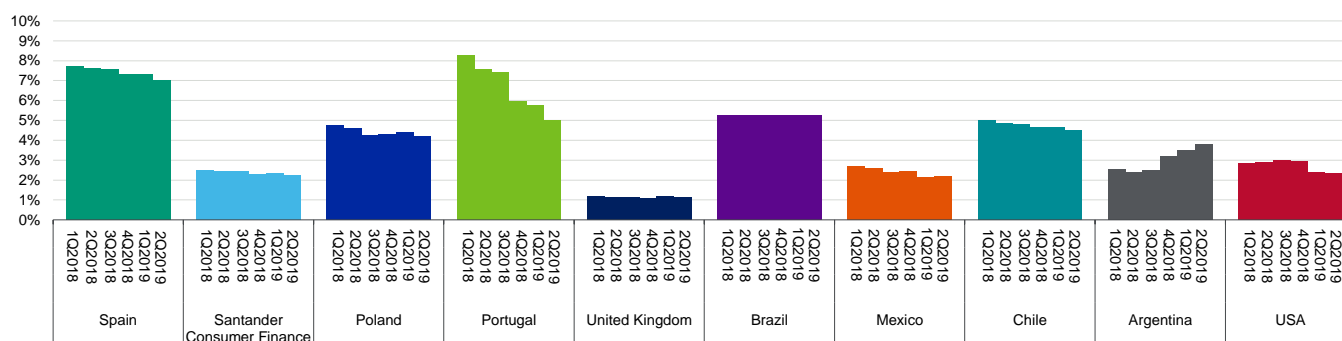
We have assigned an Asset Risk score of baa2 to Santander (one notch higher than the Macro-Adjusted score) to reflect more recent developments and our expectation of a further improvement. As of the end of June 2019, the group reported a nonperforming loan (NPL) ratio of 3.79%, down from 4.27% a year earlier and 3.9% as of year-end 2018. The assigned baa2 score also reflects Santander's relatively high nonperforming asset (NPA) ratio (defined as NPLs plus foreclosed real estate assets, according to our definition), which stood at around 5% as of the end of June 2019.

However, we note positively the significant improvement achieved in this metric, which has declined from its peak of 9.5% in June 2017 following the acquisition of Banco Popular. The sharp decline is mainly explained by the transfer of Banco Popular's real estate business to a newly created company. The reduction in risk exposures is [credit positive](#) but [less significant than what the consolidated NPA suggests](#), given the fact that Santander holds a 49% stake in the new company (Blackstone holds the remaining 51% stake). This transaction that materialised in March 2018 allowed Santander to de-consolidate all the transferred assets.

We note positively that, in H1 2019, most key geographies showed clear signs of improvement or stabilisation compared with year-end numbers, with the exception of Argentina (whose NPL ratio [as reported by the bank] increased to 3.79% from 3.17%) and the UK (1.13% up from 1.08%, although down from the 1.17% reported in Q1). Portugal posted the largest improvement (an NPL ratio of 5%, down from 5.94% a year earlier), backed by the active management of its stock of legacy assets.

Exhibit 6

Evolution of the NPL ratio by franchise (Q1 2018-Q2 2019)



Source: Bank's financial statements

We expect the bank's asset quality to continue to improve at the group level as the ongoing positive trends in continental Europe (around 46% of the group's loan book) should offset a moderate weakening in asset-risk metrics in the UK (26% of the group's loan book) in the next 12-18 months because of the expected economic slowdown as the country negotiates its exit from the EU. The bank's targeted expansion in the UK in the relatively risky corporate lending sectors will increase its vulnerability to a macroeconomic downturn. In Brazil (9% of the group's loan book), the bank's portfolio mix and high loan-loss reserves should protect future asset-quality risks stemming from a strong loan growth above that of its peers, particularly in the small and medium-sized enterprise segment. We note positively that loan growth has slowed down and the macroeconomic scenario is gradually improving. In the US (10% of the group's loan book), the bank's asset-quality metrics remain sound, but Santander Consumer USA Holdings Inc. (a largely subprime auto lender) weakens the overall credit profile of the US franchise.

Santander displays weaker asset-quality metrics than those of its international peers, reflecting not only the current high level of NPA in its domestic portfolio but also its exposure to developing countries. This more structural factor is partially mitigated by the ample spreads achieved in these countries compared with those in mature markets. When looking at NPLs as a percentage of PPI, Santander compares very favourably with its international peers.

Modest TCE and regulatory ratios, but proven capacity to generate capital in times of stress

Our ba2 Capital score reflects the bank's TCE ratio of around 9% as of year-end 2018 following our adjustment for deferred taxed assets and (1) a positive adjustment to capture the bank's proven ability to generate capital in times of stress; and (2) a negative adjustment for Santander's low leverage ratio (below 5%, according to our calculation). In our capital assessment, we also factor in our expectation of some improvement, which is limited because of the bank's increase of its payout target to 40%-50% (up from 30%-40%) and new regulatory demands for all banks related to Basel IV that Santander estimates to be in the range of 20-100 basis points (bps).

Santander's CET1 ratio, on a fully loaded (FL) basis, reached 11.30% as of the end of June 2019, standing at the same level as of year-end 2018 after absorbing 36 bps of negative regulatory impacts (19 bps from IFRS 16 and 15 bps from ECB's Targeted Review on Internal Capital Models and others) and 13 bps from restructuring costs (mainly in Spain). The group's phased-in CET1 ratio is now in line with its FL. However, the group has chosen to apply a progressive five-year transition period to mitigate the impact of the introduction of IFRS 9. Had the transitional arrangement not been applied, the total impact on its CET1 would have been negative 23 bps.

At 11.30%, Santander's capital is within its management's revised target of 11%-12%, which implies a 10 bps capital generation in the quarter, and continues to remain below the weighted average of European banks (14.5% as reported by the EBA as of the end of March 2019) and also below the levels of its rated peers. In addition, the group's CET1 capital headroom compared with the 2019 Supervisory Review and Evaluation Process requirements, although above the required 9.687%, is also [weaker than that of its domestic peers and below the European average](#), reflecting a combination of a lower CET1 ratio and higher prudential requirements. These weaknesses are partially mitigated by Santander's lower vulnerability to severe scenarios, as shown in EBA's 2018 stress test.

The ECB also requires Santander to comply with a minimum Supervisory Review and Evaluation Process requirement of 8.6% on an individual basis, which compares with the 17.55% CET1 ratio reported as of the end of June 2019 (both ratios using transitional arrangements).

Our more conservative capital assessment compared with regulators' capital ratios is primarily explained by (1) the fact that regulators do not deduct convertible deferred tax assets from the capital base, while [we give benefit, as a capital component, to only a share of them](#) (55% as of year-end 2018); (2) [a more conservative risk weighting that we apply to the sovereign exposures compared with regulators' risk weighting of 0%](#); and (3) the exclusion of minority interests from our TCE calculation.

Santander has a long-standing policy of fully hedging its foreign-exchange risk to protect its regulatory solvency ratios. As of year-end 2018, the largest exposures of permanent investments (with their potential impact on equity) were, in the following order, in the Brazilian real, US dollar, UK pound, Chilean peso, Mexican peso and Polish zloty. The group hedges some of these positions of a permanent nature with foreign-exchange rate derivatives. Hedging levels of the core capital ratio for foreign-exchange rate risk were maintained near 100% as of the end of June 2019.

Good liquidity, with an independent liquidity model for subsidiaries to limit contagion risk

Given the limitations on intragroup funding from both regulatory and internal perspectives, we analyse Santander's liquidity at the parent bank level. At baa1, our Combined Liquidity score reflects the funding structure and readily available liquid resources at the individual level (including funding vehicles), and positive adjustments to reflect the bank's capacity to generate liquidity from the issuance of covered bonds, the partial divestiture of its quoted subsidiaries and its proven market access.

Santander has a long-standing policy of ensuring that its subsidiaries are self-sufficient in terms of liquidity and they do not rely on the parent bank for funding. We view this policy positively, particularly in times of stress, because it reduces the risk of contagion across borders. Only Santander's subsidiary, [Santander Consumer Finance S.A.](#) (deposits A2 stable, BCA baa2), has been an exception to the general rule.

The group is around 67% deposit funded (as a percentage of net liabilities), which provides a stable and well-diversified funding source. As of year-end 2018, outstanding medium- and long-term debt accounted for around 15% of net liabilities. Outstanding debt has a conservative maturity profile and recourse to short-term funding is limited, and the bulk relates to certificates of deposits and commercial paper in the UK. Targeted Longer-Term Refinancing Operation (TLTRO) funding amounted to €55.4 billion as of year-end 2018. The net borrowing position stood at a much reduced amount of €11.9 billion.

For 2019, the parent bank contemplates issuances amounting to €7.5 billion–€11.5 billion, such as covered bonds and senior preferred, which is in contrast with €10.9 billion issued in 2018 (of which €8.9 were hybrid instruments), including senior non-preferred debt.

In May 2018, the Minimum Requirement for Own-Funds and Eligible Liabilities (MREL) of the parent resolution group — formed by the parent bank and Santander Consumer Finance S.A., with overall total assets amounting to €651 billion (as of the end of December 2017) — was confirmed at €114.5 billion (as of the end of December 2016), representing 24.35% of risk-weighted assets to be fulfilled by 1 January 2020.

Santander's liquidity coverage ratio was 155% on a group basis as of the end of June 2019. This ratio is largely driven by the parent bank, Santander UK and Santander Brazil. These entities are primarily deposit funded with low outflows. As of the same date, the parent bank had a liquidity coverage ratio of 156%, with all its subsidiaries above the 100% minimum requirement.

Although not yet required, Santander also complies with the net stable funding ratio at the group level and for the bulk of its subsidiaries. As of the end of March 2019, the ratio stood at 113% for the group, with the parent at 104%.

Environmental, social and governance considerations

Santander has a low exposure to environmental risks in all its key geographies, consistent with our general assessment for the banking sector. See our [environmental risk heat map](#) for further information.

Overall, we expect banks to face moderate social risks, which in particular applies to Santander. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which are partly mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct is a further social risk. Social trends are also relevant in a number of areas, such as shifting customer preferences towards digital banking services, increasing information technology cost, ageing population concerns in several countries affecting demand for financial services or socially driven policy agendas that may translate into regulations that affect banks' revenue base.

Given its geographical footprint, Santander is exposed to social risks of a different nature. For Spanish banks, we have identified the [potential litigation around the IRPH](#) (Mortgage Loan Reference Index, Índice de Referencia de Préstamos Hipotecarios) index reference rate as a key social risk. At this stage, there is high uncertainty regarding how a negative ruling by the European Court of Justice, expected by year-end 2019, could affect Spanish banks. Also, in Spain, Santander faces litigation costs from product mis-selling inherited from [Banco Popular](#). We have not incorporated any financial impact into Santander's scorecard for these two issues. In any case, any impact should be manageable, given the bank's sheer size and ample geographical diversification. In the UK, [conduct and litigation costs are primarily associated with the mis-selling of payment protection insurance](#); in Poland, [it is associated with the litigation around mortgages in foreign currency](#). The impact on Polish banks will be largely determined by the number of borrowers taking legal action, which have been few so far. It will also depend on the time necessary for Polish courts to conclude these cases.

Governance is highly relevant for Santander, as it is to all competitors in the banking industry. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. Governance risks are largely internal rather than externally driven. For Santander, we do not have any particular governance concerns in any of its key markets, with the exception of the US. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring. In the US, we reflect governance deficiencies — captured in the written agreement with the Federal Reserve (Fed) entered in March 2017 — in our scorecard with a one-notch negative qualitative adjustment for Corporate Behaviour.

Santander has been recognised as the most sustainable bank in the world following the publication of the Dow Jones Sustainability Index for 2019. The index placed Santander as the leading bank globally for the first time and leading bank in Europe for the second year running following an assessment of the bank's economic, environmental and social impact.

Support and structural considerations

Loss Given Failure (LGF) analysis

Santander is subject to the EU's Bank Recovery and Resolution Directive (BRRD), which we consider an operational resolution regime. We assume a residual TCE of 3% and post-failure losses of 8% of tangible banking assets, a 25% run-off in junior wholesale deposits and a 5% run-off in preferred deposits, and assign a 25% probability to deposits being preferred to senior unsecured debt. We apply a standard assumption for European banks that 26% of deposits are junior. These metrics are in line with our standard assumptions. We included in our balance sheet at failure our estimate of deposits and assets relating to Santander's branches, debt issued out of funding vehicles guaranteed by Santander and its Spanish subsidiaries.

For Santander's deposits and senior unsecured debt, our LGF analysis takes into consideration the likely impact on LGF from the combination of its own volume and subordination. In our Advanced LGF analysis, we have incorporated the bank's public issuance plans until 2019 (included) and our expectation that the bank will continue to issue debt to comply with Total Loss Absorbing Capacity (TLAC)/Minimum Requirement for Own-Funds and Eligible Liabilities (MREL) requirements.

Our LGF analysis indicates a very low loss given failure for long-term depositors and senior unsecured creditors. However, the bank's long-term deposit and senior unsecured debt ratings are capped at A2 by Spain's Baa1 sovereign rating with a stable outlook.

The same LGF analysis for Santander indicates a moderate loss severity for junior senior creditors in the event of the bank's failure, leading to a rating of Baa1 for these securities, in line with the bank's Adjusted BCA of baa1. Santander's junior senior debt ratings do

not include any additional uplift from government support, reflecting our view that there is a low probability of government support for these instruments, given their explicitly loss-absorbing nature.

For junior securities, our initial LGF analysis confirms a high level of loss given failure, given the small volume of debt and limited protection from more subordinated instruments and residual equity. We also incorporate additional downward notching for junior subordinated debt and preference shares instruments to reflect the coupon suspension risk ahead of a potential failure.

Please refer to the loss given failure and government support table at the bottom of the scorecard.

Government support

The implementation of the BRRD has prompted us to reconsider the potential for government support to benefit certain creditors. We now take into account the fact that there is a moderate likelihood of government support for Santander's debt and rated wholesale deposits in the event of its failure. This probability reflects the bank's share in its domestic market and its global systemically important status, which may lead the government to intervene to shield it from disruptive losses. However, this systemic support assessment does not translate into any additional notching as Santander's BCA is at the same level as the sovereign rating.

For junior senior or junior securities, we believe that the probability of government support is low and, therefore, these ratings do not include any related uplift.

Counterparty Risk Ratings (CRRs)

CRRs are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRRs are distinct from ratings assigned to senior unsecured debt instruments and from issuer ratings because they reflect that, in a resolution, CRR liabilities might benefit from preferential treatment compared with senior unsecured debt. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivatives transactions and the uncollateralised portion of liabilities under sale and repurchase agreements.

Santander's CRRs are positioned at A2/Prime-1

Santander's CRRs are positioned two notches above the Adjusted BCA of baa1, reflecting the very low loss given failure from the high volume of instruments that are subordinated to CRR liabilities, which is the maximum achievable CRR in Spain. According to our methodology, a bank's CRR will typically not exceed the sovereign rating by more than two notches.

Counterparty Risk (CR) Assessment

The CR Assessment is an opinion of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss, and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

Santander's CR Assessment is positioned at A3(cr)/Prime-2(cr)

The CR Assessment, before the government cap, is positioned three notches above the Adjusted BCA of baa1, based on the buffer against default provided to the senior obligations represented by the CR Assessment by subordinated instruments. The main difference from our Advanced LGF approach used to determine instrument ratings is that the CR Assessment captures the probability of default on certain senior obligations, rather than expected loss, thereby focusing purely on subordination and taking no account of the volume of the instrument class.

The CR Assessment is capped at A3. The CR Assessment will not typically exceed the sovereign's rating by more than one notch, or two notches, where the Adjusted BCA is already above the sovereign rating, which is not the case for Santander.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 7

Banco Santander S.A. (Spain)

Macro Factors

Weighted Macro Profile Strong - 100%

Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	4.1%	baa3	↑	baa2	Expected trend	
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	8.8%	ba3	↑	ba2	Expected trend	Nominal leverage
Profitability						
Net Income / Tangible Assets	0.6%	ba1	↑	baa2	Earnings quality	Expected trend
Combined Solvency Score		ba1		baa3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	34.8%	ba2	↔	baa2	Market funding quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	29.6%	baa2	↔	a3	Intragroup restrictions	Additional liquidity resources
Combined Liquidity Score		ba1		baa1		
Financial Profile				baa2		
Qualitative Adjustments				Adjustment		
Business Diversification				1		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				1		
Sovereign or Affiliate constraint				Baa1		
Scorecard Calculated BCA range				a3 - baa2		
Assigned BCA				baa1		
Affiliate Support notching				0		
Adjusted BCA				baa1		
Debt Class	De Jure waterfall	De Facto waterfall	Notching	LGF	Assigned	Additional Preliminary
	Instrument Sub-	Instrument Sub-	De Jure De Facto	Notching LGF	LGF	Notching Rating
	volume + ordination	volume + ordination		Guidance vs. Adjusted BCA	notching	Assessment
	subordination	subordination				
Counterparty Risk Rating	-	-	-	-	2	0 a2
Counterparty Risk Assessment	-	-	-	-	1	0 a3 (cr)
Deposits	-	-	-	-	2	0 a2
Senior unsecured bank debt	-	-	-	-	2	0 a2
Junior senior unsecured bank debt	-	-	-	-	0	0 baa1
Dated subordinated bank debt	-	-	-	-	-1	0 baa2
Non-cumulative bank preference shares	-	-	-	-	-1	-2 ba1

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	2	0	a2	0	A2	A2
Counterparty Risk Assessment	1	0	a3 (cr)	0	A3(cr)	
Deposits	2	0	a2	0	A2	A2
Senior unsecured bank debt	2	0	a2	0	A2	A2
Junior senior unsecured bank debt	0	0	baa1	0	Baa1	Baa1
Dated subordinated bank debt	-1	0	baa2	0	Baa2	Baa2
Non-cumulative bank preference shares	-1	-2	ba1	0	Ba1 (hyb)	Ba1 (hyb)

[1]Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Investors Service

Ratings

Exhibit 8

Category	Moody's Rating
BANCO SANTANDER S.A. (SPAIN)	
Outlook	Stable
Counterparty Risk Rating	A2/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Issuer Rating	A2
Senior Unsecured	A2
Junior Senior Unsecured	Baa1
Junior Senior Unsecured MTN -Dom Curr	(P)Baa1
Subordinate	Baa2
Pref. Stock Non-cumulative	Ba1 (hyb)
Commercial Paper	P-1
ABBEY NATIONAL TREASURY SERVICES PLC	
Outlook	Positive
Counterparty Risk Rating	Aa2/P-1
Bank Deposits	Aa3/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)
Issuer Rating	Aa3
ST Issuer Rating	P-1
BPE FINANCIACIONES, S.A.	
Outlook	Stable
Bkd Senior Unsecured -Dom Curr	A2
BANCO PSA FINANCE BRASIL S.A.	
Outlook	Stable
Counterparty Risk Rating	Ba1/NP
Bank Deposits -Fgn Curr	Ba3/NP
Bank Deposits -Dom Curr	Ba2/NP
NSR Bank Deposits	Aa2.br/BR-1
Baseline Credit Assessment	ba3
Adjusted Baseline Credit Assessment	ba2
Counterparty Risk Assessment	Ba1(cr)/NP(cr)
BANCO S3 MEXICO, S.A., INST DE BANCA MULTI	
Outlook	Stable
Bank Deposits	Baa2/P-2
NSR Bank Deposits	Aa2.mx/MX-1
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	Baa1(cr)/P-2(cr)

BANCO SANTANDER, S.A. (URUGUAY)

Outlook	Stable
Bank Deposits	Baa3/P-3
NSR Bank Deposits	Aa2.uy/--
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	Baa2(cr)/P-2(cr)

CASA DE BOLSA SANTANDER, S.A. DE C.V.

Outlook	Stable
Issuer Rating -Dom Curr	Baa1
NSR Issuer Rating	Aa1.mx
ST Issuer Rating -Dom Curr	P-2
NSR ST Issuer Rating	MX-1

SANTANDER BANK, N.A.

Outlook	Stable
Counterparty Risk Rating	Baa1/P-2
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Issuer Rating	Baa1

SANTANDER FINANCE CAPITAL, S.A. UNIPERSONAL

Pref. Stock	Ba2 (hyb)
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SANTANDER INT'L DEBT, S.A. UNIPERSONAL

Outlook	Stable
Senior Unsecured	A2

SANTANDER US DEBT, S.A. UNIPERSONAL

Outlook	Stable
Senior Unsecured	A2

TOTTA (IRELAND) P.L.C.

Bkd Commercial Paper -Dom Curr	P-3
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SANTANDER UK PLC

Outlook	Positive
Counterparty Risk Rating	Aa2/P-1
Bank Deposits	Aa3/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)
Issuer Rating	Aa3
Senior Unsecured	Aa3
Subordinate	Baa1
Jr Subordinate	Baa2 (hyb)
Pref. Stock -Dom Curr	Baa2 (hyb)
Pref. Stock Non-cumulative -Dom Curr	Baa3 (hyb)
Commercial Paper	P-1
Other Short Term	(P)P-1

SANTANDER UK GROUP HOLDINGS PLC

Outlook	Positive
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Issuer Rating -Dom Curr	Baa1
Senior Unsecured	Baa1
Subordinate	Baa1
Pref. Stock Non-cumulative -Dom Curr	Ba1 (hyb)
Pref. Shelf Non-cumulative	(P)Ba1
Other Short Term	(P)P-2

BANCO SANTANDER, S.A., LONDON BRANCH

Counterparty Risk Rating	A2/P-1
Deposit Note/CD Program	--/P-1
Counterparty Risk Assessment	A3(cr)/P-2(cr)

BANCO SANTANDER, S.A., NEW YORK BRANCH

Counterparty Risk Rating	A2/P-1
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Commercial Paper	P-1

SANTANDER CONSUMER FINANCE S.A.

Outlook	Stable
Counterparty Risk Rating	A2/P-1
Bank Deposits -Dom Curr	A2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Senior Unsecured	A2
Subordinate -Dom Curr	Baa2
Pref. Stock Non-cumulative -Dom Curr	Ba1 (hyb)
Commercial Paper -Dom Curr	P-1

BANCO SANTANDER TOTTA S.A.

Outlook	Stable
Counterparty Risk Rating -Dom Curr	Baa1/P-2
Bank Deposits	Baa1/P-2
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	Baa1(cr)/P-2(cr)
Senior Unsecured -Dom Curr	Baa3
Commercial Paper -Dom Curr	P-3
Other Short Term -Dom Curr	(P)P-3

SANTANDER INTERNATIONAL PRODUCTS PLC

Outlook	Stable
Bkd Senior Unsecured	A2
Bkd Commercial Paper -Dom Curr	P-1
Bkd Other Short Term -Dom Curr	(P)P-1

BANCO SANTANDER (BRASIL) S.A.

Outlook	Stable
Counterparty Risk Rating -Fgn Curr	Ba1/NP
Counterparty Risk Rating -Dom Curr	Baa3/P-3
Bank Deposits -Fgn Curr	Ba3/NP
Bank Deposits -Dom Curr	Ba1/NP
NSR Bank Deposits	Aaa.br/BR-1
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)
Senior Unsecured MTN	(P)Ba1
Other Short Term	(P)NP

BANCO SANTANDER (BRASIL) S.A. - CAYMAN BR

Counterparty Risk Rating -Fgn Curr	Ba1/NP
Counterparty Risk Rating -Dom Curr	Baa3/P-3
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)
Senior Unsecured MTN	(P)Ba1
Other Short Term	(P)NP

SANTANDER CENTRAL HISPANO ISSUANCES LTD.

Bkd Subordinate MTN	(P)Baa2
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BANCO SANTANDER-CHILE

Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Senior Unsecured	A1

SANTANDER CENTRAL HISPANO INTERNATIONAL LTD

Bkd Sr Unsec MTN	(P)A2
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Bkd Commercial Paper	P-1
Bkd Other Short Term	(P)P-1
PSA BANQUE FRANCE	
Outlook	Stable
Counterparty Risk Rating	A2/P-1
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A2(cr)/P-1(cr)
Issuer Rating	A3
Senior Unsecured -Dom Curr	A3
ST Issuer Rating	P-2
EMISORA SANTANDER ESPANA S.A.U	
Outlook	Stable
Bkd Senior Unsecured -Dom Curr	A2
SANTANDER BANK POLSKA S.A.	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Senior Unsecured	A3
SANTANDER HOLDINGS USA, INC.	
Outlook	Stable
Senior Unsecured	Baa3
Subordinate Shelf	(P)Baa3
Pref. Shelf Non-cumulative	(P)Ba2
BANCO SANTANDER MÉXICO, S.A.	
Outlook	Negative
Bank Deposits	A3/P-2
NSR Bank Deposits	Aaa.mx/MX-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Senior Unsecured	A3
NSR Senior Unsecured	Aaa.mx
Subordinate	Baa3 (hyb)
SANTANDER CONSUMER BANK AS	
Outlook	Stable
Counterparty Risk Rating	A2/P-1
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A2(cr)/P-1(cr)
Issuer Rating	A3
Senior Unsecured	A3
Junior Senior Unsecured MTN	(P)Baa3
Subordinate MTN	(P)Baa3
Pref. Stock Non-cumulative -Dom Curr	Ba2 (hyb)
ST Issuer Rating	P-2
SANTANDER FINANCE PREFERRED, S.A.	
UNIPERSONAL	
Pref. Stock Non-cumulative	Ba2 (hyb)
SANTANDER ISSUANCES S.A. UNIPERSONAL	
Subordinate	Baa2
GRUPO FINANCIERO SANTANDER, S.A.B. DE C.V.	
Jr Subordinate	Ba1 (hyb)
BANCO SANTANDER PUERTO RICO	
Outlook	Stable

Counterparty Risk Rating	Baa1/P-2
Bank Deposits	A2/P-1
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Issuer Rating	Baa1
Sr Unsec Bank Note Pgm	(P)Baa1
ST Bank Note Pgm	(P)P-2

BANCO SANTANDER RIO S.A.

Outlook	Rating(s) Under Review
Bank Deposits -Fgn Curr	Caa2/NP ¹
Bank Deposits -Dom Curr	Caa1/NP ¹
NSR Bank Deposits	Baa3.ar/-- ²
Baseline Credit Assessment	caa2 ²
Adjusted Baseline Credit Assessment	caa1 ²
Counterparty Risk Assessment	B3(cr)/NP(cr) ¹
Senior Unsecured -Dom Curr	Caa1 ²
NSR Senior Unsecured	Baa3.ar ²

BANCO ESPANOL DE CREDITO, S.A. (BANESTO)

Pref. Stock Non-cumulative -Dom Curr	Ba2 (hyb)
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SOVEREIGN REAL ESTATE INVESTMENT TRUST

Pref. Stock Non-cumulative	Ba1 (hyb)
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BANESTO HOLDINGS, LTD.

BACKED Pref. Stock Non-cumulative	Ba2 (hyb)
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[1] Rating(s) within this class was/were placed on review on September 4 2019 [2] Placed under review for possible downgrade on September 4 2019

Source: Moody's Investors Service

Endnotes

¹ Excluding Corporate Center

² The ratings shown are Santander UK's deposit rating, senior unsecured debt rating and Baseline Credit Assessment.

³ Excluding Corporate Center

⁴ Including Corporate Center

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