Rating Report
Banco Santander, S.A.

DBRS Morningstar
23 October 2020

Contents

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Ratings

Debt	Rating	Rating Action	Trend
Long-Term Issuer Rating	A (high)	Confirmed October '20	Stable
Short-Term Issuer Rating	R-1 (middle)	Confirmed October '20	Stable
Intrinsic Assessment	A (high)	Maintained October '20	--

Rating Drivers

Factors with Positive Rating Implications

- An upgrade of the Long-Term Issuer Rating is unlikely in the near term, given the challenging economic outlook, and the current rating level of the Kingdom of Spain.

Factors with Positive Rating Implications

- The ratings could be downgraded if there is a substantial deterioration in asset quality, potentially as a result of the economic fallout from COVID-19, or if capital levels reduce. A downgrade of Spain's sovereign rating would also have negative rating implications.

Rating Considerations

Franchise Strength (Very Strong/Strong)

- Santander's geographically diverse global retail banking franchise is a key strength underpinning its rating. Santander continues to demonstrate momentum in its core markets through organic growth and strategic acquisitions.

Earnings Power (Strong/Good)

- Santander has developed a very powerful international retail banking franchise which contributes to resilient earnings. Underlying profitability continues to improve, but statutory net income has been affected by significant negatives one-offs.

Risk Profile (Strong/Good)

- The Group maintains a predominantly low risk profile given its mix of businesses. The ratings consider risks associated with Santander's consumer finance activities and its exposure to emerging market economies. The Group still posted a high NPL ratio in some regions, mainly in Spain.

Funding and Liquidity (Strong)

- Santander benefits from a large deposit base that funds its lending activities, together with a broad range of wholesale funding. Significant issuances of TLAC eligible debt during recent years

Capitalisation (Strong)

- Capital is satisfactory, though at the low end of the global peer group. Strong ability to generate capital organically and sound access to capital markets in each of its core geographies

Financial Information

Banco Santander, SA	2020H1	2019Y	2018Y	2017Y	2016Y
EUR Millions					
Total Assets	1,572,882	1,522,696	1,459,270	1,444,305	1,339,125
Equity Attributable to Parent	82,263	100,072	96,473	94,489	90,939
Income Before Provisions and Taxes (IBPT)	10,855	23,664	23,587	22,502	20,722
Net Attributable Income	(10,798)	6,515	7,810	6,619	6,204
IBPT over Avg RWAs (%)	3.69	3.90	3.96	3.68	3.56
Cost / Income ratio (%)	51.05	53.08	51.46	53.66	53.26
Return on Avg Equity (ROAE) (%)	-23.03	6.62	8.23	7.16	7.00
Gross NPLs over Gross Loans (%)	3.32	3.37	3.78	4.16	4.00
CET1 Ratio (Fully-Loaded) (%)	11.84	11.41	11.21	10.84	10.55

Issuer Description

Banco Santander SA is one of the largest European banks in terms of asset size. As a global bank, it has a strong presence in Europe and the Americas. The bank is engaged in broadly diversified activities in retail and corporate banking, consumer finance and asset management.

Rating Rationale

Santander's ratings reflect the strength of its globally diversified banking franchise, which contributes to resilient underlying earnings and a sustained ability to generate capital. The ratings also take into account the Group's strong market shares in its core geographies, which are well-balanced between developed and emerging economies. Santander benefits from its significant scale and technology, resulting in good efficiency levels. The ratings also incorporate Santander's solid funding and liquidity profile, as well as satisfactory capital levels, although DBRS Morningstar views that capital ratios remain at the lower end of its global peer group.

Nevertheless, DBRS Morningstar also notes that in FY 2020 Santander's profitability will reduce and its risk profile is likely to deteriorate due to the major economic slowdown in the Group's core markets, due to the Coronavirus Disease (COVID-19). However, we expect the effects of the economic downturn to be partly offset by the fiscal and monetary support measures introduced in response to COVID-19. DBRS Morningstar considers that the impact of the COVID-19 outbreak on the Santander in the medium to long-term will depend on the depth of the economic crisis. We will continue to monitor the developing situation and in particular the asset quality evolution of its large loan book under moratoria.

Santander's IA is positioned one-notch above DBRS Morningstar's rating of the Kingdom of Spain, reflecting the Group's strong franchise with a high degree of international diversification and ability to generate solid and consistent earnings.

Franchise Strength

Grid Grade: Very Strong/Strong

With around 146 million customers worldwide and around EUR 1.6 trillion of assets at end-June 2020, Santander is the largest Spanish banking group. Retail banking is the largest contributor to attributable profit given the breadth of Santander's franchise. Santander follows a strategy of universal, transactional banking in several jurisdictions with a focus on consumers and small- and medium-sized businesses (SMEs), contributing to the resiliency of its earnings.

Santander’s geographically diverse global retail banking franchise is a key strength underpinning its rating. Santander is well positioned in its core markets, with an aim to have a minimum market share of 10% (Exhibit 1). Core markets include Brazil, Spain, the United Kingdom (U.K.), Mexico, Poland, Portugal, Chile and Argentina. In the United States (USA), the Group is focused on its regional presence in the northeast, as well as consumer finance. Reflecting the geographically international franchise, profitability is well diversified. Santander presented a new strategic plan in April 2019, which aims to boost profitability mainly by increasing the weight of its banking business in Latin America, investing in IT to increase efficiency, and creating a new Payment related business.

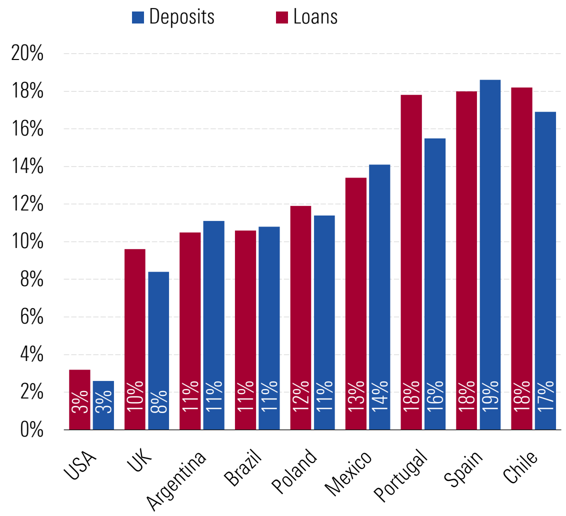
The Group generally has a high level of competency in operating systems and technology skills. These have been critical for Santander’s franchise by facilitating the integration of acquisitions. Recent material acquisitions include Banco Popular SA in 2017 and the retail business and private banking of Deutsche Bank in Poland in 2018. Another recent corporate transaction includes the acquisition of shares of Santander Mexico from minority interests in September 2019 and SC USA in 2020. In addition, in April 2019, Santander communicated it will establish a Joint-Venture with Crédit Agricole S.A. to create a global depositary and custody company. This transaction was completed in Q4 2019 and resulted in a capital gain of around EUR 700 million.

Santander follows an approach in which its subsidiaries are largely autonomous in managing their own funding and liquidity, including raising wholesale funding from their local markets. Reflecting the autonomous management of liquidity, Santander follows a multiple point of entry (MPE) approach for resolution purposes. As a result, each main subsidiary is a Resolution Group with individual requirements (excluding SCF which is part of Santander SA). Nevertheless, we still assess Santander SA on a consolidated basis as the equity stake in each subsidiary is very sizable and we expect parental support would be available should any subsidiary need further capital. Notably, during Q2 2020 the group reviewed the goodwill in some of its core subsidiaries and approved an accounting impairment of EUR 10.1 billion following the outbreak the Coronavirus Disease (COVID-19). The impairment had no impact on capital ratios as the goodwill was already deducted from regulatory capital figures.

COVID-19 Impact

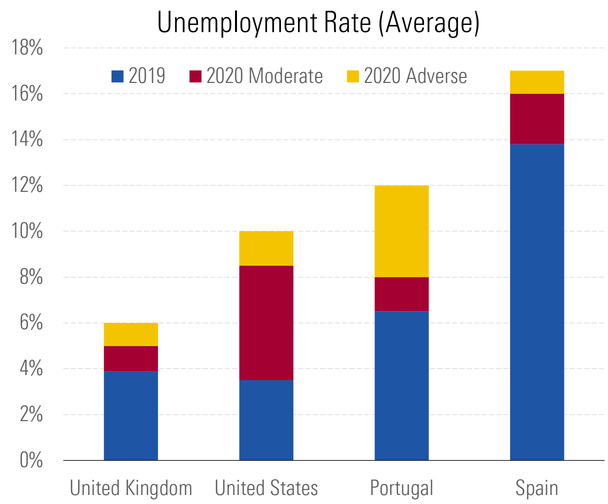
The COVID-19 economic shutdown has led to a significant deterioration in Santander´s operating environment. DBRS Morningstar's macroeconomic scenarios (latest set published in September) anticipate a very significant recession in Santander's main operating countries (Exhibit 2). The full impact of the COVID-19 crisis will likely emerge in the coming quarters, although the Bank reported data during its Q1 and Q2 2020 results that helps to see the initial impact during the first months of the crisis.

Exhibit 1 Market Shares



Source: Company reports, DBRS Morningstar

Exhibit 2 DBRS Morningstar Macroeconomic Scenarios



Source: Company reports, DBRS Morningstar

New activity during H1 2020 increased compared to end-2019 and H1 2019 figures. The Bank's loans increased in most jurisdictions as a result of COVID-19. Loans to households have been subdued although they recovered during the summer, but this was more than compensated for by strong lending volumes in the corporate sector; positively driven by the usage of credit lines (especially at the start of the crisis) and the use of state guaranteed loans. Santander´s state guaranteed loans amounted to EUR 25.9 billion as of end-June 2020, or around 2.7% of the total loan book. The majority were granted in Spain (EUR 23.9 billion) to SME exposures. The Spanish government approved a scheme of up to EUR 100 billion for SMEs and Corporates. For SMEs, this instrument will cover up to 80% of the credit losses at the banks. The scheme had been rolling out in tranches of EUR 20 billion. DBRS Morningstar understands that this scheme has minimised Santander's credit risk related to this crisis in Spain.

Along with the rest of the Banking sector in Europe and North America, Santander granted loan moratoria using both public and private initiatives in most of its core markets. Total moratoria loans granted amounted to EUR 116 billion as of end-June 2020 or around 12% of its loan portfolio, of which around EUR 72 billion related to public moratoria and EUR 44 billion to private initiatives. Most of the moratoria, around 90%, will expire in 2020 and around 25% of the initial moratoria have already expired. As a result, at end-June 2020 around 7.5% of the total loan book was under moratoria. Of note are the figures at Santander UK, where as of end-June 2020 around 12% of the total book was under moratoria.

Earnings Power

Grid Grade: Strong/Good

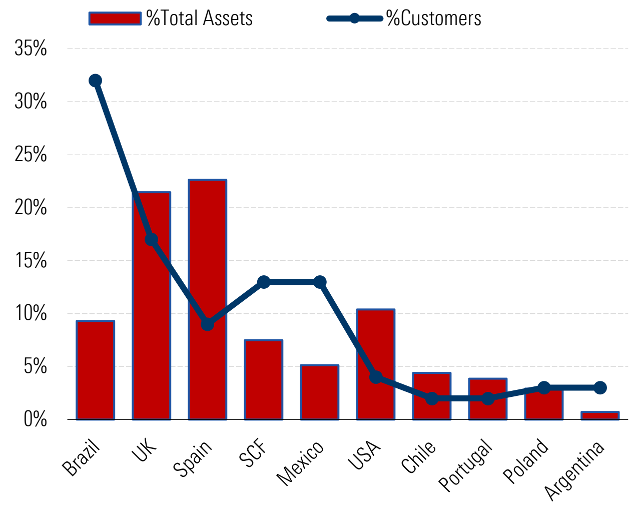
DBRS Morningstar views the wide and growing scale of economic and market disruption resulting from COVID-19 as posing significant challenges and expects pressure on Santander's revenues. DBRS Morningstar considers Santander's profitability is supported by its geographical diversification. DBRS Morningstar considers that over time the economic trends in different areas will become less correlated, giving Santander's geographical diversification a more beneficial impact than in the first quarters of the crisis.

In H1 2020, Santander reported a EUR 10.8 billion loss after the Bank reported goodwill impairments on some of its international subsidiaries, reflecting lower expectations for performance over the coming years, principally as a result of the COVID-19 crisis. As regulatory capital ratios do not include goodwill, these impairments did not affect the capital ratios of Santander. Nevertheless, this is another piece of data which points to the COVID-19 crisis affecting banks' financials for a long period of time. Goodwill impairments amounted to EUR 10.1 billion including EUR 6.1 billion in the UK, EUR 2.3 billion in the US and EUR 1.2 billion in Poland. As of end-June 2020 the total goodwill amount recognised in Santander´s balance sheet amounted to EUR 12 billion, with Brazil as the largest contributor at around EUR 3 billion. In addition, in H1 2020 the Bank reported EUR 2.5 billion of Deferred Tax Asset (DTA) impairments.

Excluding one-off items and at constant exchange rates, Santander's underlying net attributable income in H1 2020 was EUR 1.9 billion, down 47.5% YoY. This largely reflects lower net fees (down 2% YoY) coupled with higher loan loss provisions, up 78% YoY. As a result, the Bank's annualised Cost of Risk (CoR) for 2020 was around 150bps, which compares to around 99bps in 2019. The Bank´s CoR for 2020 is expected to be in the 140-150bps range.

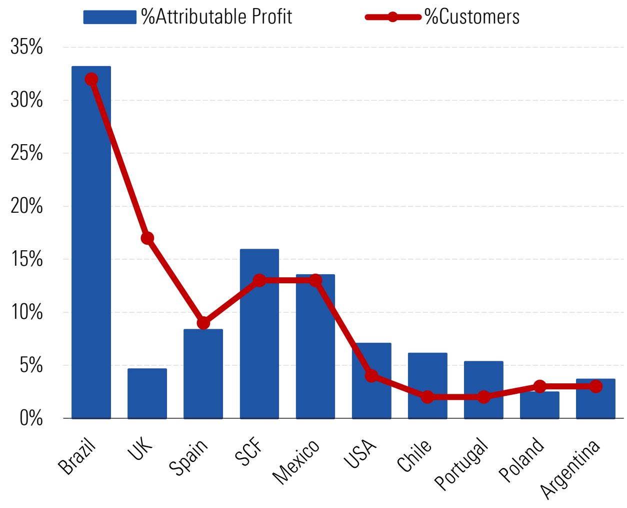
Notably, the Group is recording a significant financial impact across all of its core markets, with net fees down in 9 out of 10 markets and with only Mexico and Argentina recording an increase in underlying attributable profits in H1 2020 YoY. The other 8 core markets recorded lower profits in H1 2020, ranging from a reduction of 76% YoY in UK to 17.4% YoY in Brazil. These results reflect the impact of the COVID-19 crisis as well as idiosyncratic trends, like higher NII and loan growth in its business in North America and South America, whereas its business in Europe is pressured by the low interest environment. In Europe, the Bank is now focused on increasing its profitability by improving efficiency. As of H1 2020, Brazil continues to be the main contributor to profitability with around 33% of total underlying profits (excluding the Corporate Centre) followed by SCF and Mexico (Exhibit 4). Notably, in H1 2020 its UK business now accounts for around 5% of total underlying profits, whilst its Spanish business accounts for 8%. Last year both business accounted for more than 10% of Santander´s total underlying profits.

Exhibit 3 Total Assets by Business Area



Source: Company reports, DBRS Morningstar

Exhibit 4 Profit by Business Area



Source: Company reports, DBRS Morningstar

Risk Profile

Grid Grade: Strong/Good

DBRS Morningstar believes that Santander benefits from its geographically diverse global retail banking franchise, and has a sound management team with a conservative risk culture that permeates the organization. These factors contribute to very strong operational capabilities with a successful history of managing operational risks. However DBRS Morningstar expects COVID-19 to have a negative impact on the Bank's asset quality, and in coming quarters we expect to see an increase in Santander's NPLs. The current slow pace of deterioration in credit quality, despite the significant economic shock, can largely be explained by the extraordinary measures applied by governments and banks to support the economy. Santander's non-performing assets (NPAs) totalled around EUR 42 billion and the NPA ratio (as calculated by DBRS Morningstar) stood at 4.3% at end-June 2020, down from around 4.7% at end-June 2019.

Credit Risk

Santander's credit risk profile is highly diversified with no specific risk concentration by geography or industry. As of end-June 2020, Santander had EUR 958 billion of gross loans to customers, up 3% YoY. Santander loan book is diversified across regions, mainly concentrated in the UK (25%), Spain (21%), other European countries (17.8%), U.S. (10.5%) and Brazil (6.8%) (Exhibit 5). The Group's loan portfolio is primarily to individuals (53.6%), of which 34.6% were residential mortgages at end-June 2020. The balance of the portfolio is split across loans to Corporates (19.4%), SMEs (14.3%) and other financial institutions (8%).

DBRS Morningstar considers Santander's risk profile as well equipped to manage the impact of the COVID-19 economic shock, thanks to a long track record of conservative provisioning levels and good admission criteria. Nevertheless we consider asset quality will deteriorate in coming quarters, especially as loan moratoria and supporting public measures expire. The Group is reporting lower non-performing loans (NPLs), down 3% in H1 2020, compared to end-2019 data. Nevertheless the first signs of credit deterioration are starting to appear in the form of Stage 2 loans increases. At end-June 2020, Stage 2 loans increased by 15% compared to end-2019. As a result, Santander´s NPL ratio stood at 3.4% (as calculated by DBRS Morningstar) at end-June 2020.

By country, 5 core markets reported an increase in NPL ratios (SCF, Poland UK, Mexico and Chile), whereas the rest of core markets registered a decreased in NPL ratios compared to end-2019 figures. Only 2 countries (Spain and Brazil) have an NPL ratio above 5%. Moreover, including foreclosed assets (FAS), the NPA ratio of the Spanish business is above 10% (as calculated by DBRS Morningstar). In terms of Cost of Risk (CoR) all jurisdictions reported a higher CoR compared to 2019 levels, ranging from an increase of 74 bps in Brazil to 13bps in the UK.

Exhibit 5 Gross Loans (EUR billion)

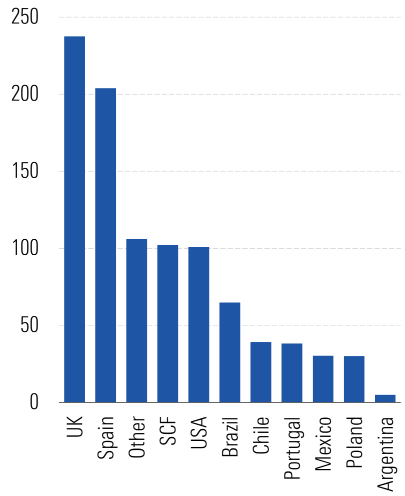


Exhibit 6 Loans Breakdown

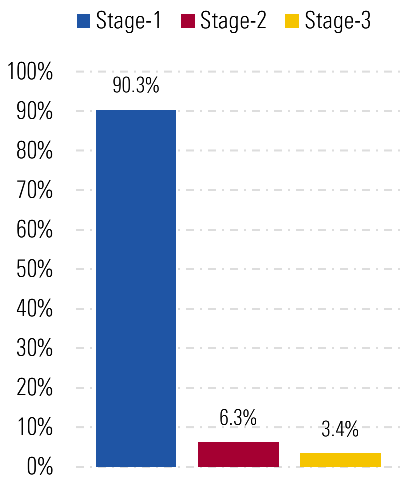
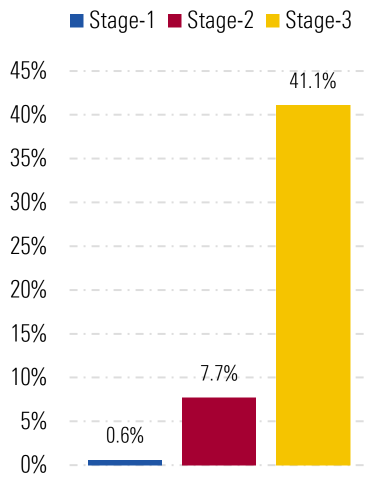


Exhibit 7 Coverage Ratios



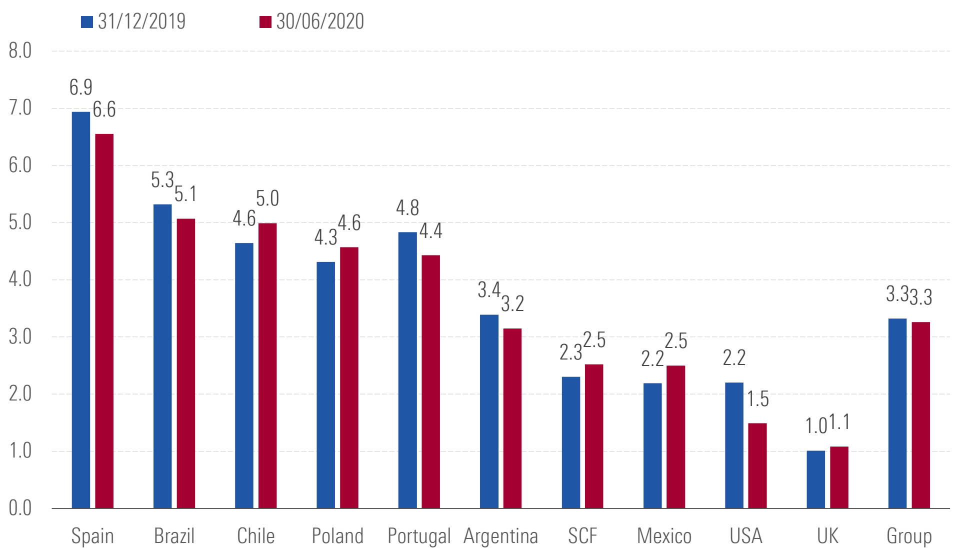
Source: Company reports, DBRS Morningstar

Sovereign, Market and Interest Rate Risk

Santander has a sizable fixed income portfolio, totalling around EUR 175 billion or around 11% of total assets at end-June 2020. Regarding its ALCO portfolio, at end-June 2020 the bank reported a portfolio amounting to EUR 87 billion of which 10% were exposures related to Spain (compared to 32% at end-September 2018), 18% to Brazil, 14% to the UK or 15% to the US. With sizable CET1 of EUR 67 billion at Q2 2020, we view Santander as having the capacity to absorb market risk losses related to this exposure.

Market risk for the Group is primarily interest rate risk with very modest trading risk, given Santander's limited involvement in capital market 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 15.4 million in Q2 2020 up from EUR 12.1 million in 2019. The figures are low given the high volatility registered in financial markets as a result of the COVID-19 crisis, demonstrating the Group's consistent approach to conservatively managing market risk.

Exhibit 8 NPL Ratios



Source: Company reports, DBRS Morningstar.

Funding and Liquidity

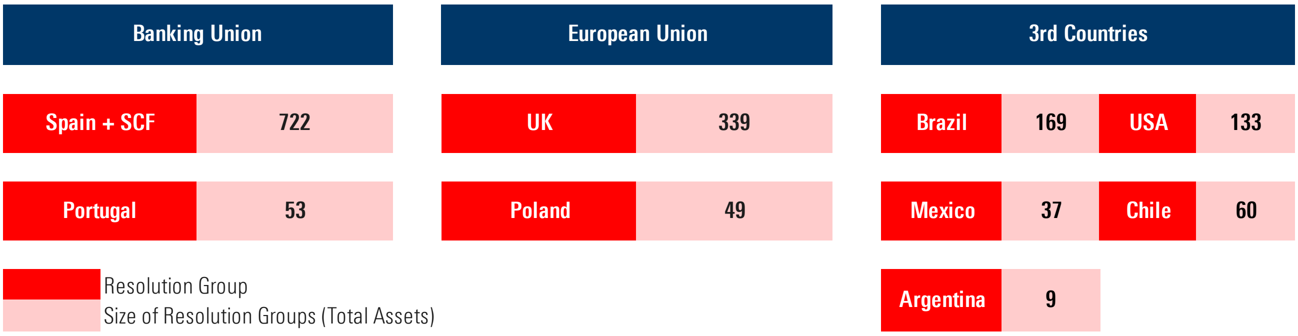
Grid Grade: Strong

DBRS Morningstar considers Santander's funding and liquidity profile remains strong despite the COVID-19 crisis. Santander's funding and liquidity reflects the large deposit base that funds its lending activities, together with a broad range of wholesale funding. Santander follows an approach in which its subsidiaries are largely autonomous in managing their own funding and liquidity, including raising wholesale funding from their own local markets. Thus, while the Group employs considerable amounts of wholesale funding, a significant proportion is raised locally through its subsidiaries.

The Group has a large customer base, which is the Bank's main source of funding, representing around 61% of total funding at end-June 2020. Santander's total central bank funding stood at around EUR 113 billion at end-June 2020 (or around 7% of total funding, as calculated by DBRS Morningstar), up from EUR 75 billion at end-2019. DBRS Morningstar considers that the new ECB and BoE funding schemes with a long-term maturity are being used by the Bank as a means of improving profitability due to the low funding costs they offer. Santander´s wholesale funding (including capital instruments), which represents around 20% of total funding as of end-June 2020, is well diversified by instruments and maturities. Longer term instruments mostly include covered bonds (EUR 52.5 billion), securitisations (EUR 50 billion), senior debt (EUR 62.4 billion) and Senior non-preferred (EUR 43.6 billion). In our view, Santander's debt maturity profile is manageable. Santander main operating markets (Spain, UK, Brazil, US and SCF) face maturities of approximately EUR 22 billion in 2021. As a comparison, the Group issued EUR 26 billion of debt in 2020 up to end-June 2020.

We see Santander as well positioned to meet its Total Loss-Absorbing Capacity (TLAC) and Minimum Requirement for own funds and Eligible Liabilities (MREL) requirements. Santander's resolution strategy is that of a multiple point of entry (MPE) approach, meaning the TLAC and MREL requirement is established at each resolution entity. From 1 January 2019 and using the Group's requirements as a proxy for the aggregate TLAC requirement, Santander has a requirement of 16% plus applicable capital buffers, leading to a total requirement of 19.5%. As of end-June 2020, Santander SA had a TLAC ratio of 19.71%

Exhibit 9 MPE Resolution Strategy (End-2019, EUR billion)



Source: Company reports, DBRS Morningstar

In November 2019, Santander announced its MREL requirement for Banco Santander S.A at a subconsolidated level of 28.60% over RWAs. The requirement was based on the balance sheet exposures at end-2017 of the resolution entity and was to be met by 1 January 2020. In addition, Santander´s subordinated MREL requirement was set at 19.53% over RWAs. Further, the resolution authority also established that Santander´s subordination requirement could be covered by non-subordinated liabilities in an amount equivalent to 2.5% of RWAs, after considering the absence of material adverse impact on resolvability. As of June 2020, Santander met its MREL requirement.

The Group's loan-to-deposit ratio stands at 116% (as calculated by DBRS Morningstar) as of Q2 2020, down compared to end-2019 (120%). Santander maintains high levels of liquidity, with a reported Liquidity Coverage Ratio (LCR) of 175% at the Group level as of June 2020. The Group also has a sizable amount of liquidity within its subsidiaries, evidenced by robust LCRs in key subsidiaries such as the U.K. (149%), Brazil (169%) and Spain (193%). The Group also reported a strong Net Stable Funding Ratio (NSFR) of 111% as of Q1 2020 as well as NSFRs above 100% in key subsidiaries.

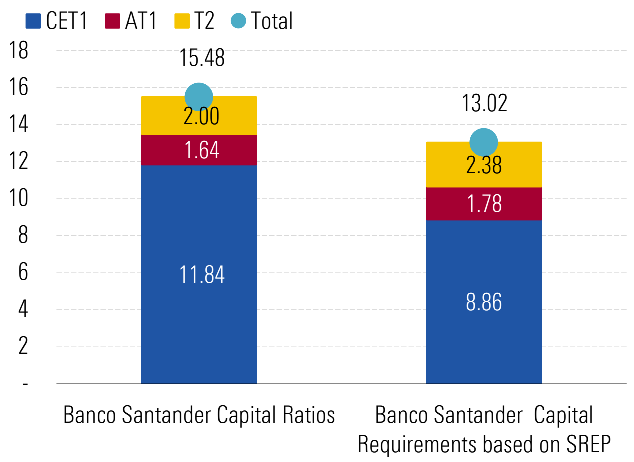
Capitalisation

Grid Grade: Strong

DBRS Morningstar considers Santander's capital levels as satisfactory, particularly given the Bank´s solid risk profile. The Group reported a CET1 capital ratio of 11.84% at end-June 2020 up 19bps from end-2019. The net positive impact on capital ratios is due to the cancelation of the 2019 complementary dividend (+29 bps), organic capital generation (+35bps) and net regulatory impact (+9bps). These items more than compensated for the negative impact of mark to market impact (-28bps) and corporate transactions (-26bps). Santander´s capital ratios benefit from the new IFRS 9 transitional arrangements, which accounts for 38 bps on its CET1 ratio. As a result, Santander's fully-loaded CET1 capital ratio stood at 11.46% at end-June 2020 (including the full impact from IFRS-9 accounting standards), improving around 5bps since end-2019. The Group has a CET1 ratio internal target ranging from 11% to 12%.

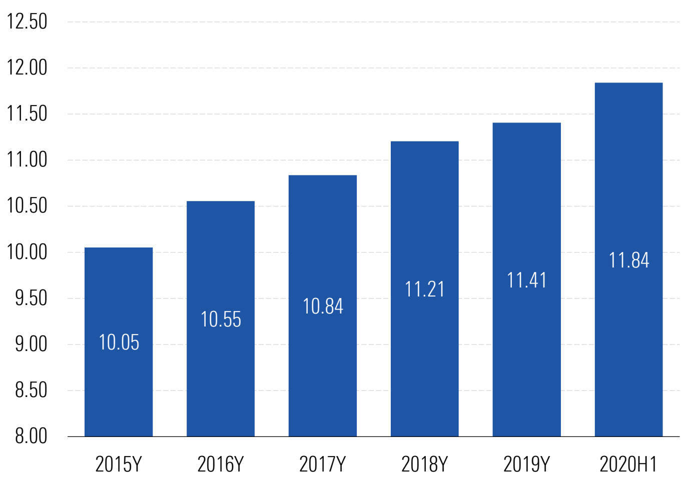
Santander's capital position benefited from measures announced by European authorities, which improved the bank's cushion over regulatory requirements. Of these measures we highlight the reduction of Santander's Counter Cyclical Buffer (CCyB) by 16bps and a new Pillar 2 Requirement (P2R) mix, which follows the same composition of the Pillar 1 Requirement (P1R). Banks will be allowed to meet P2R with all capital buckets (CET1, AT1 and Tier 2) instead of only CET1 instruments. This means that P2R will need to be filled with at least 56.25% of CET1, and at least 75% with Tier 1 capital. Given that Santander's P2R for 2020 was set at 1.5%, the bank can fill the requirement with 84.4 bps of CET1 (or 56.25% of the P2R), 28.1 bps of AT1 instruments (or 18.75% of the P2R requirement) and 0.375 bps of Tier 2 instruments (or 25% of the total P2R). This brings forward a measure that was initially scheduled to come into effect in January 2021, as part of the latest revision of the Capital Requirements Directive (CRD V). As a result of this, Santander's capital cushion has increased at end-June 2020. As of end-June 2020, the capital cushion over their regulatory requirements stood at 246bps, compared to 187bps at end-2019.

Exhibit 10 Capital Requirements



Source: Company reports, DBRS Morningstar

Exhibit 11 CET1 Ratio (Fully-Loaded, Excluding Full Impact from IFRS-9)



Source: Company reports, DBRS Morningstar

	Banco Santander, SA	Banco Santander, SA	Banco Santander, SA	Banco Santander, SA	Banco Santander, SA
EUR Millions	2020H1	2019Y	2018Y	2017Y	2016Y
Balance Sheet	30/06/2020	31/12/2019	31/12/2018	31/12/2017	31/12/2016
Cash and Deposits with Central Banks	138,266	101,067	113,663	110,995	76,454
Lending to/Deposits with Credit Institutic	113,157	87,539	83,406	77,431	76,686
Financial Securities	188,313	203,246	205,994	226,426	211,842
Financial Derivatives Instruments	98,392	72,315	65,633	67,066	83,901
Net Lending to Customers	934,797	942,218	882,920	848,914	790,470
- Gross Lending to Customers	957,780	964,460	906,226	872,848	814,863
- Loan Loss Reserves	22,983	22,242	23,306	23,934	24,393
Investment in Associates or Subsidiaries	8,668	8,772	7,589	6,184	4,836
Total Intangible Assets	15,945	27,687	28,560	28,683	29,420
Fixed Assets	33,271	35,234	26,156	22,975	23,286
Insurance Assets	307	292	324	341	331
Other Assets (including DTAs)	41,766	44,327	45,025	55,290	41,897
Assets	1,572,882	1,522,696	1,459,270	1,444,305	1,339,125
Deposits from Banks	208,101	175,163	187,908	190,314	149,398
Deposits from Central Banks	113,147	75,322	87,339	80,556	54,574
Deposits from Credit Institutions	94,954	99,841	100,570	109,758	94,823
Deposits from Customers	806,350	785,455	747,736	724,721	648,351
Issued Debt Securities	238,131	246,023	222,799	196,456	208,967
Issued Subordinated Debt	20,653	21,062	23,820	21,510	19,902
Financial Derivatives Instruments	91,041	69,333	62,008	66,266	82,973
Insurance Liabilities	2,246	739	765	1,117	652
Other Liabilities	114,500	114,261	106,873	137,088	126,182
Equity Attributable to Parent	82,263	100,072	96,473	94,489	90,939
Minority Interests	9,597	10,588	10,888	12,344	11,761
Liabilities & Equity	1,572,882	1,522,696	1,459,270	1,444,305	1,339,125

	Banco Santander, SA	Banco Santander, SA	Banco Santander, SA	Banco Santander, SA	Banco Santander, SA
EUR Millions	2020H1	2019Y	2018Y	2017Y	2016Y
Income Statement	30/06/2020	31/12/2019	31/12/2018	31/12/2017	31/12/2016
Interest Income	24,499	56,785	54,325	56,041	55,156
Interest Expenses	8,297	21,502	19,984	21,746	24,067
Net Interest Income	16,202	35,283	34,341	34,296	31,089
Net Fees and Commissions	5,136	11,779	11,485	11,597	10,180
Results from Financial Operations	1,072	1,531	1,797	1,664	2,101
Equity Method Results	-135	324	737	704	444
Net Income from Insurance Operations	84	120	51	57	63
Other Operating Income	-184	1,396	178	235	455
Total Operating Income	22,175	50,433	48,589	48,553	44,332
Staff Costs	5,470	12,142	11,865	12,047	11,004
Other Operating Costs	4,432	11,627	10,712	11,411	10,241
Depreciation/Amortisation	1,419	3,000	2,425	2,593	2,364
Total Operating Expenses	11,321	26,769	25,002	26,052	23,609
Income Before Provisions and Taxes (IBF	10,855	23,664	23,587	22,502	20,722
Loan Loss Provisions	7,027	9,340	8,985	9,241	9,557
Securities & Other Financial Assets Impa	3	12	1	18	69
Other Impairments	10,241	1,769	467	1,579	352
Other Non-Operating Income (Net)	6	0	67	425	22
Income Before Taxes (IBT)	-6,410	12,543	14,200	12,089	10,768
Tax on Profit	3,928	4,427	4,886	3,883	3,282
Discontinued Operations	0	0	0	0	0
Other After-tax Items	0	0	0	0	0
Minority Interest	460	1,600	1,504	1,586	1,282
Net Attributable Income	-10,798	6,515	7,810	6,619	6,204

	Banco Santander, SA	Banco Santander, SA	Banco Santander, SA	Banco Santander, SA	Banco Santander, SA
	2020H1	2019Y	2018Y	2017Y	2016Y
Earnings Power					
Earnings					
Net Interest Margin (%)	2.30	2.57	2.60	2.66	2.55
Yield on Average Earning Assets (%)	3.46	4.12	4.10	4.32	4.50
Cost of Interest Bearing Liabilities (%)	1.18	1.58	1.54	1.71	2.01
IBPT over Avg Assets (%)	1.40	1.57	1.63	1.60	1.55
IBPT over Avg RWAs (%)	3.69	3.90	3.96	3.68	3.56
Expenses					
Cost / Income ratio (%)	51.05	53.08	51.46	53.66	53.26
Operating Expenses by Employee	116,537	136,287	123,335	128,809	125,254
LLP / IBPT (%)	64.74	39.47	38.09	41.07	46.12
Profitability Returns					
Return on Avg Equity (ROAE) (%)	-23.03	6.62	8.23	7.16	7.00
Return on Avg Assets (ROAA) (%)	-1.33	0.54	0.65	0.58	0.56
Return on Avg RWAs (%)	-3.51	1.34	1.56	1.34	1.29
Dividend Payout Ratio (%)	NA	NA	NA	NA	NA
Internal Capital Generation (%)	NA	NA	NA	NA	NA
Risk Profile					
Gross NPLs over Gross Loans (%)	3.32	3.37	3.78	4.16	4.00
Net NPLs over Net Loans (%)	0.94	1.09	1.24	1.45	1.03
NPL Coverage Ratio (%)	72.38	68.35	68.11	65.97	74.89
Net NPLs over IBPT (%)	40.40	43.53	46.26	54.87	39.47
Net NPLs over CET1 (%)	13.05	14.61	16.06	16.64	11.10
Texas Ratio (%)	27.65	24.49	26.19	27.74	25.63
Cost of Risk (%)	1.49	1.06	1.06	1.17	1.21
Level 2 Assets/ Total Assets (%)	13.22	9.83	9.64	8.60	10.98
Level 3 Assets/ Total Assets (%)	0.57	0.44	0.31	0.09	0.10
Funding and Liquidity					
Bank Deposits over Funding (%)	23.70	16.79	18.01	20.37	17.85
- Interbank over Funding (%)	16.60	10.89	10.88	13.62	12.78
- Central Bank over Funding (%)	7.10	5.91	7.13	6.74	5.07
Customer Deposits over Funding (%)	76.30	61.62	61.04	60.66	60.22
Wholesale Funding over Funding (%)	19.70	21.58	20.95	18.98	21.94
- Debt Securities over Funding (%)	18.13	19.30	18.19	16.44	19.41
- Subordinated Debt over Funding (%)	1.57	2.28	2.77	2.53	2.53
Liquid Assets over Assets (%)	27.96	25.73	27.62	28.72	27.26
Non-Deposit Funding Ratio (%)	45.55	44.37	44.69	45.81	47.56
Net Loan to Deposit Ratio (%)	115.93	119.96	118.08	117.14	121.92
LCR (Phased-in) (%)	NA	151.68	147.25	141.94	146.00
NSFR (%)	NA	112.00	114.00	NA	NA
Capitalisation					
CET1 Ratio (Phased-In) (%)	11.84	11.65	11.47	12.26	12.53
CET1 Ratio (Fully-Loaded) (%)	11.84	11.41	11.21	10.84	10.55
Tier 1 Capital Ratio (Phased-In) (%)	13.48	13.14	13.12	12.77	12.53
Total Capital Ratio (Phased-In) (%)	15.48	15.05	14.98	14.99	14.68
Tang. Equity / Tang. Assets (%)	9.30	5.55	5.51	5.52	5.60
Leverage Ratio (DBRS) (%)	4.94	4.94	4.97	5.50	6.01
Growth					
Net Attributable Income YoY (%)	NA	-16.6	18.0	6.7	4.0
Net Fees and Commissions YoY (%)	NA	2.6	-1.0	13.9	1.5
Total Operating Expenses YoY (%)	NA	7.1	-4.0	10.3	-4.9
IBPT YoY (%)	NA	0.3	4.8	8.6	-2.4
Assets YoY (%)	NA	4.3	1.0	7.9	-0.1
Gross Lending to Customers YoY (%)	NA	6.4	3.8	7.1	-0.3
Net Lending to Customers YoY (%)	NA	6.7	4.0	7.4	0.0
Loan Loss Provisions YoY (%)	NA	3.9	-2.8	-3.3	-6.3
Deposits from Customers YoY (%)	NA	5.6	0.4	12.5	1.2

Rating Methodology

The applicable methodology is the Global Methodology for Rating Banks and Banking Organisations (June 2020), which can be found on our website under Methodologies.

Ratings

Issuer	Obligation	Rating	Rating Action	Trend
Banco Santander S.A.	Long-Term Issuer Rating	A (high)	Confirmed	Stable
Banco Santander S.A.	Long-Term Deposits	A (high)	Confirmed	Stable
Banco Santander S.A.	Long-Term Senior Debt	A (high)	Confirmed	Stable
Banco Santander S.A.	Senior Non-Preferred Debt	A	Confirmed	Stable
Banco Santander S.A.	Subordinated Debt	A (low)	Confirmed	Stable
Banco Santander S.A.	Short-Term Issuer Rating	R-1 (middle)	Confirmed	Stable
Banco Santander S.A.	Short-Term Deposits	R-1 (middle)	Confirmed	Stable
Banco Santander S.A.	Short-Term Debt	R-1 (middle)	Confirmed	Stable
Banco Santander S.A.	Short Term Critical Obligations Rating	R-1 (middle)	Confirmed	Stable
Banco Santander S.A.	Long Term Critical Obligations Rating	AA (low)	Confirmed	Stable

Ratings History

Issuer	Obligation	Current	2019	2018	2017
Banco Santander S.A.	Long-Term Issuer Rating	A (high)	A (high)	A (high)	A
Banco Santander S.A.	Long-Term Senior Debt	A (high)	A (high)	A (high)	A
Banco Santander S.A.	Long-Term Deposits	A (high)	A (high)	A (high)	A
Banco Santander S.A.	Short-Term Issuer Rating	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (low)
Banco Santander S.A.	Short-Term Debt	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (low)
Banco Santander S.A.	Short-Term Deposits	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (low)
Banco Santander S.A.	Senior Non-Preferred Debt	A	A	A	A (low)
Banco Santander S.A.	Subordinated Debt	A (low)	A (low)	A (low)	BBB (high)
Banco Santander S.A.	Long-Term Critical Obligations Rating	AA (low)	AA (low)	AA (low)	A (high)
Banco Santander S.A.	Short-Term Critical Obligations Rating	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)

Previous Actions

- DBRS Morningstar Confirms Banco Santander SA's Long-Term Issuer Rating at A (high), Stable Trend, October 1, 2020
- DBRS Morningstar Revises Trend on Santander's COR Ratings to Stable after Sovereign Rating Action, June 5, 2020
- DBRS Morningstar Confirms Banco Santander SA's Long-Term Issuer Rating at A (high), Stable Trend, November 29, 2019
- DBRS Confirms Banco Santander SA's Issuer Ratings at A (high), Stable Trend, December 3, 2018
- DBRS Upgrades Santander's Senior Ratings to A (high), Stable Trend, April 12, 2018
- DBRS Confirms Ratings of Santander – Senior at A, Stable Trend, December 7, 2017

Related Research

- European Bank Moratoria: Short-Term Relief Only, October 15, 2020
- Domestic Bank Mergers Likely in Europe; Cross Border Consolidation Still Difficult, October 1, 2020
- European Banks' Cost of Risk Increases in Q2; Provisioning Approach Still Varies, September 10, 2020

- European Banks' Internal Controls Under Scrutiny: 2020 Actions, September 8, 2020
- Spanish Banks: COVID-19 Crisis Starts to Impact H1 2020 Asset Quality; Earnings Under Pressure, August 4, 2020
- Higher Cost of Risk at European Banks in Q1: Trend to Continue, June 8, 2020
- DBRS Morningstar Takes Actions on 5 Spanish Banks Amidst Heightened Uncertainty Around COVID-19, April 15, 2020
- Spanish Banks' 2019 Profits Hit by Fierce Competition and Higher Provisions, February 27, 2020
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- Large Spanish Banks' RoE in 1H19 Improves, but Limited Upside in Domestic Activities, August 1, 2019

Previous Report

- Banco Santander SA: Rating Report, January 21, 2020
- Banco Santander SA: Rating Report, December 20, 2018
- Banco Santander SA - Rating Report, December 12, 2017
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European Bank Ratios & Definitions

- DBRS European Bank Ratios & Definitions, June 11, 2019.

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