

DBRS Morningstar Confirms Banco Santander SA's Long-Term Issuer Rating at A (high), Stable Trend

BANKING ORGANIZATIONS

DBRS Ratings GmbH (DBRS Morningstar) confirmed the ratings of Banco Santander SA (Santander or the Group), including the Long-Term Issuer Rating of A (high), and the Short-Term Issuer Rating of R-1 (middle). The trend on all ratings remains Stable. DBRS Morningstar also confirmed the Group's Intrinsic Assessment (IA) at A (high) and the Support Assessment at SA3. A full list of rating actions is included at the end of this press release.

KEY RATING CONSIDERATIONS

The confirmation of Santander's ratings reflects 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 notes that capital ratios remain at the lower end of its global peer group.

DBRS Morningstar recognises that the COVID-19 economic shutdown led to a significant deterioration in Santander's operating environment in 2020 and despite the economic rebound in 2021, risks are still present. DBRS Morningstar's Baseline Macroeconomic Scenarios (latest set published 8th September 2021) still anticipate that in many regions in which Santander has core operations the unemployment rates in 2022 will be higher than in 2019. Nevertheless, DBRS Morningstar views the economic disruption resulting from COVID-19 as starting to fade with Santander's quarterly net attributable profit closer to pre-covid levels at 2Q 2021. Moreover, as of end-June 2021, the COVID-19 impact on Santander's asset quality has been limited. However, following the full removal of government support measures, DBRS Morningstar also expects that Santander's asset quality profile will suffer a manageable deterioration during 2021-22 mainly coming from expired loans under state guarantee schemes.

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.

RATING DRIVERS

An upgrade of the Long-Term Issuer Rating is unlikely in the near term, given the existing rating level of the Kingdom of Spain, and without improvements in the Group's capital and earnings metrics.

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 materially reduce. A downgrade of Spain's sovereign rating would also have negative rating implications.

Franchise Combined Building Block (BB) Assessment: Strong

Santander's geographically diverse global retail banking franchise is a key strength underpinning its ratings. Santander follows a strategy of universal, transactional banking with a focus on consumers and small- and medium-sized businesses (SMEs). With around 150 million customers worldwide and around EUR 1.6 trillion of assets as of end-June 2021, Santander is the largest Spanish banking group by consolidated assets. The Group is well positioned in its core markets, where it has an aim to have a minimum market share of 10%, including Brazil, Spain, the United Kingdom (UK), Mexico, Poland, Portugal, Chile and Argentina. Another core market for Santander is US, although its market shares there are more modest. The COVID-19 economic shutdown led to a significant deterioration in Santander's operating environment in 2020 and despite the economic rebound in 2021, risks are still present. DBRS Morningstar's Baseline Macroeconomic Scenarios (latest set published 8th September 2021) still anticipate that in many regions in which Santander has core operations the unemployment rates in 2022 will be higher than in 2019.

Earnings Combined Building Block (BB) Assessment: Good/Moderate

As of end-June 2021, Santander's COVID-19 financial impact has been felt mainly on the P&L; as the Bank posted in 2020Y a substantial loss driven by high loan loss provisions as well as goodwill and DTA impairments. However, DBRS Morningstar views the economic and market disruption resulting from COVID-19 as starting to fade with Santander's quarterly net attributable profit closer to pre-covid levels at 2Q 2021. Excluding one-offs items, Santander's underlying net attributable income in H1 2021 was EUR 4.2 billion, up from EUR 1.9 billion a year ago. This largely reflects higher net interest income and net fees coupled with significantly lower loan loss provisions. DBRS Morningstar considers Santander's profitability is supported by its geographical diversification. Notably, in H1 2021 results were positively affected by the good performance of its US operations, reflecting the US strong economy recovery from the COVID-19 crisis. Santander's US operations were the main contributor to its profitability in 1H 2021 accounting for around 25% of total underlying profits (excluding the Corporate Centre). This contrasts with an average contribution during H1 2016 to H1 2021 of around 10%. Going forward, DBRS Morningstar expects the contribution of the US operations to be more in line with recent historical averages.

Risk Combined Building Block (BB) Assessment: 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. Nevertheless, DBRS Morningstar considers the run rate of the Group's cost of risk is higher than other international peers, given its exposure to non-developed markets as well as operating in riskier segments including consumer and auto lending. As of end-June 2021, the COVID-19 impact on Santander's asset quality has been limited. The Bank was able to reduce its Non-Performing Asset (NPA) ratio (as calculated by DBRS Morningstar) during the COVID-19 outbreak. At end-June 2021 the NPA ratio stood at 4.2% compared to 4.5% at end-2019. Santander's NPL ratio stood at 3.4% at end-June 2021 (as calculated by DBRS Morningstar). DBRS Morningstar considers that the state guarantee loans scheme (with EUR 41.5 billion or 4.4% of its total loan book) and loan moratoria are limiting past-due situations, and preventing the deterioration of Santander loan book. As of end-June 2021, around 92% of the loans under moratoria have expired, with existing moratoria accounting to EUR 8.7 billion or around 1% of its loan book. DBRS Morningstar expects that Santander's asset quality profile will suffer a manageable deterioration during 2021-22 mainly coming from expired loans under state guarantee schemes.

Funding and Liquidity Combined Building Block (BB) Assessment: Strong/Good

DBRS Morningstar considers Santander's funding and liquidity profile remains solid 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.

Capitalisation Combined Building Block (BB) Assessment: Good/Moderate

The Group reported a CET1 capital ratio of 12.11% at end-June 2021, up from 11.84% YoY, which provides a cushion of 281 bps over the minimum supervisory capital requirements. Santander's fully-loaded CET1 capital ratio stood at 11.7% at end-June 2021 (including the full impact from IFRS-9 accounting standards), improving around 29bps since end-2019. The Group has a CET1 ratio internal target ranging from 11% to 12%. While Santander's CET1 capital ratio remains at the low end of the global peer group, DBRS Morningstar views these levels as satisfactory given the Banks' solid risk managing profile. In addition, its capital position is also supported by its highly diversified franchise and its capacity to absorb adverse economic shocks, as reflected in the Santander's results in the 2021 EBA EU-wide stress. DBRS Morningstar sees 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 requirements are established at each resolution entity.

Further details on the Scorecard Indicators and Building Block Assessments can be found at <https://www.dbrsmorningstar.com/research/385360>

ESG CONSIDERATIONS

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at <https://www.dbrsmorningstar.com/research/373262>.

Notes:

All figures are in Euros unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (July 19, 2021) <https://www.dbrsmorningstar.com/research/381742/global-methodology-for-rating-banks-and-banking-organisations>.

Other applicable methodologies include the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (February 3, 2021) <https://www.dbrsmorningstar.com/research/373262/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings>

and the DBRS Morningstar Criteria: Guarantees and Other Forms of Support (May 31, 2021) <https://www.dbrsmorningstar.com/research/379424/dbrs-morningstar-criteria-guarantees-and-other-forms-of-support>

For more information regarding rating methodologies and Coronavirus Disease (COVID-19), please see the following DBRS Morningstar press release: <https://www.dbrsmorningstar.com/research/357883>

The sources of information used for this rating include Company Documents, Santander 2020 & H1 2021 Presentations, Santander 2020 & H1 2021 Press Releases, Santander 4Q 2020 & 2Q 2021 Report, Santander 2020 Annual Accounts, European Banking Authority Risk Dashboard, Bank of Spain and S&P Global Market Intelligence. DBRS Morningstar considers the information available to it for the purposes of providing this rating to be of satisfactory quality.

With respect to FCA and ESMA regulations in the United Kingdom and European Union, respectively, this is an unsolicited credit rating. This credit rating was not initiated at the request of the issuer.

With Rated Entity or Related Third-Party Participation: [YES]

With Access to Internal Documents: [NO]

With Access to Management: [NO]

DBRS Morningstar does not audit the information it receives in connection with the rating process, and it does not and cannot independently verify that information in every instance.

Generally, the conditions that lead to the assignment of a Negative or Positive trend are resolved within a 12-month period. DBRS Morningstar's outlooks and ratings are under regular surveillance.

For further information on DBRS Morningstar historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: <http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>. DBRS Morningstar understands further information on DBRS Morningstar historical default rates may be published by the Financial Conduct Authority (FCA) on its webpage: <https://www.fca.org.uk/firms/credit-rating-agencies>.

The sensitivity analysis of the relevant key rating assumptions can be found at: <https://www.dbrsmorningstar.com/research/385362>

This rating is endorsed by DBRS Ratings Limited for use in the United Kingdom.

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Initial Rating Date: October 11, 2006

Last Rating Date: October 1, 2020

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For more information on this credit or on this industry, visit www.dbrsmorningstar.com.

Ratings

Banco Santander SA

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
04-Oct-21	Long-Term Issuer Rating	Confirmed	A (high)	Stb	EU U

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
04-Oct-21	Short-Term Issuer Rating	Confirmed	R-1 (middle)	Stb	EU U
04-Oct-21	Long-Term Senior Debt	Confirmed	A (high)	Stb	EU U
04-Oct-21	Senior Non-Preferred Debt	Confirmed	A	Stb	EU U
04-Oct-21	Short-Term Debt	Confirmed	R-1 (middle)	Stb	EU U
04-Oct-21	Short-Term Deposits	Confirmed	R-1 (middle)	Stb	EU U
04-Oct-21	Long Term Critical Obligations Rating	Confirmed	AA (low)	Stb	EU U
04-Oct-21	Short Term Critical Obligations Rating	Confirmed	R-1 (middle)	Stb	EU U
04-Oct-21	Subordinated Debt	Confirmed	A (low)	Stb	EU U
04-Oct-21	Long-Term Deposits	Confirmed	A (high)	Stb	EU U

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