

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 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.

DBRS Morningstar sees Santander's profitability as close to the peak for the current interest rate cycle, as we expect Net Interest Income (NII) growth to slow down significantly as a result of higher deposit costs in many of Santander's jurisdictions. In addition, we anticipate higher credit losses in coming quarters given that the macroeconomic environment continues to deteriorate. In particular, DBRS Morningstar is closely monitoring the evolution of Santander's exposures to consumer lending. Nevertheless, DBRS Morningstar sees Santander as well positioned to manage this challenging scenario given its business and geographical diversification as well as Santander's risk management capacity.

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 risk adjusted capital metrics.

The ratings could be downgraded if there is a substantial deterioration in asset quality, or if capital levels materially reduce. A downgrade of Spain's sovereign rating would also have negative rating implications.

CREDIT RATING RATIONALE

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 164 million customers worldwide and around EUR 1.8 trillion of assets as of end-June 2023, Santander is the largest Spanish banking group by consolidated assets. The Group is well positioned in its core markets, where it aims 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 the US, although its market shares there are more modest.

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

Santander reported a EUR 5.2 billion net attributable profit in H1 2023 compared to a EUR 4.9 billion profit in H1 2022. Excluding exchange rate movements, Santander's underlying net attributable income in H1 2023 was up 7% YOY. This largely reflects higher net interest income up 15.2% YOY and net fees up 5.2% YOY, which compensated for higher loan loss provisions, up 69% YOY at constant exchange rates. The Bank's RoE (as calculated by DBRS Morningstar) stood at 11.5% in H1 2023, the highest level since 2010. DBRS Morningstar sees Santander's profitability during the last 12 months as performing better than anticipated given the positive NII evolution combined with lower than anticipated credit losses. However for coming quarters, DBRS Morningstar expects NII growth to slow down significantly as a result of higher deposit costs in many of Santander's jurisdictions. In addition we anticipate higher credit losses given the macroeconomic environment continues to deteriorate.

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 strong risk culture that permeates the organisation. Nevertheless, DBRS Morningstar notes that the Group operates in riskier segments than other international peers, given its exposure to non-developed markets and consumer lending. DBRS Morningstar anticipates that Santander's asset quality will deteriorate during coming quarters given the challenging economic environment, characterised by tighter financial conditions and weaker economic dynamics in most of its regions. In particular, DBRS Morningstar is closely monitoring the evolution of Santander's consumer lending. However, DBRS Morningstar considers that Santander's risk management capacity will support the Bank's asset quality during this period, helped by its geographical and sector diversification. Despite Santander's current asset quality metrics being solid, with a stable Stage 3 ratio at around 3.1% at end-June 2023, there are some early signs of credit deterioration. This is apparent in some of Santander's core markets which are experiencing a notable deterioration in terms of NPLs. In particular, the NPL ratio in Brazil and US increased by more than 50 bps YOY at end-June 2023. In addition, Stage 2 loans (exposures whose credit risk has significantly increased) for the Group increased to 6.7% at end-June 2023 up from 6.0% at end-June 2022.

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

DBRS Morningstar considers Santander's funding and liquidity profile remains solid. 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. Santander has repaid significant amounts of ECB funding in the last 12 months, and has replaced that funding with additional wholesale funding and also interbank lending.

Capitalisation Combined Building Block (BB) Assessment: Good

The Group reported a CET1 capital ratio of 12.30% at end-June 2023, up from 12.25% at end-June 2022, which provides a cushion of 270 bps over the minimum supervisory capital requirements. Santander's fully-loaded CET1 capital ratio stood at 12.24% at end-June 2023 (including the full impact from IFRS-9 accounting standards). The Group has a CET1 ratio internal target of 12%. In addition, its capital position is also supported by its flexibility to raise capital through accessing the capital markets. Nevertheless,

DBRS Morningstar considers that given its emerging market exposures further improvements in the risk adjusted capital ratios are required in order to drive positive rating pressure. During 2023 Santander has consolidated into one resolution group all its regions operating in the eurozone, by including its Portuguese subsidiary into the same the resolution group as Santander Spain. Despite the potential implications of this change in a resolution scenario, this does not have any current impact on DBRS Morningstar's credit ratings of either Santander group or Banco Santander Totta S.A.

Further details on the Scorecard Indicators and Building Block Assessments can be found at <https://www.dbrsmorningstar.com/research/421181>.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

Credit rating actions on the Kingdom of Spain are likely to have an impact on this credit rating. ESG factors that have a significant or relevant effect on the credit analysis of the Kingdom of Spain are discussed separately at <https://www.dbrsmorningstar.com/issuers/15664>.

There were no Environmental or Governance factors that had a significant or relevant effect on the credit analysis.

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/416784/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings> (4 July 2023).

Notes:

All figures are in Euros unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations <https://www.dbrsmorningstar.com/research/415978/global-methodology-for-rating-banks-and-banking-organisations> (22 June 2023). In addition DBRS Morningstar uses the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings <https://www.dbrsmorningstar.com/research/416784/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings> in its consideration of ESG factors.

The following methodologies have also been applied

- DBRS Morningstar Criteria: Guarantees and Other Forms of Support (28 March 2023) <https://www.dbrsmorningstar.com/research/411694/dbrs-morningstar-global-criteria-guarantees-and-other-forms-of-support>

The credit rating methodologies used in the analysis of this transaction can be found at: <https://www.dbrsmorningstar.com/about/methodologies>

The sources of information used for this rating include Morningstar Inc. and Company Documents, Santander 2022 & H1 2023 Presentations, Santander 2022 & H1 2023 Press Releases, Santander 4Q 2022 & 2Q 2023 Report, and Santander 2022 Annual Accounts. DBRS Morningstar considers the information available to it for the purposes of providing this rating to be of satisfactory quality.

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.

The conditions that lead to the assignment of a Negative or Positive trend are generally 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: <https://registers.esma.europa.eu/cerep-publication/>. 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/421183>.

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

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Initial Rating Date: October 11, 2006

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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
28-Sep-23	Long-Term Issuer Rating	Confirmed	A (high)	Stb	 
28-Sep-23	Short-Term Issuer Rating	Confirmed	R-1 (middle)	Stb	 
28-Sep-23	Long-Term Senior Debt	Confirmed	A (high)	Stb	 
28-Sep-23	Short-Term Debt	Confirmed	R-1 (middle)	Stb	 
28-Sep-23	Short-Term Deposits	Confirmed	R-1 (middle)	Stb	 

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
28-Sep-23	Long Term Critical Obligations Rating	Confirmed	AA (low)	Stb	EU U
28-Sep-23	Short Term Critical Obligations Rating	Confirmed	R-1 (middle)	Stb	EU U
28-Sep-23	Subordinated Debt	Confirmed	A (low)	Stb	EU U
28-Sep-23	Senior Non-Preferred Debt	Confirmed	A	Stb	EU U
28-Sep-23	Long-Term Deposits	Confirmed	A (high)	Stb	EU U

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