# AA-
# negative

Rating Committee: 05/25/2020

# Banco Santander, S.A.

## Rating result

### Strengths/Opportunities:

- Still high profitability and efficiency in a peer group comparison
- Sound and sustainable strategy
- Strong position in its core markets
- Broad geographical diversification
- Resilient structure of financially autonomous subsidiaries
- Balanced funding profile and comfortable liquidity position

### Weaknesses/Threats:

- Projected economic downturn across all regions worldwide
- Due to COVID-19 crisis weaker sustainable profitability and credit quality in a short to mid-term view
- CET1 ratio (fully loaded) remains on a comparatively low level
- Ongoing low interest rate environment in advanced economies

### Financial data:

| (in EUR m) | 2019 | 2018 |
|---|---|---|
| Adjusted gross profit | 45,175 | 45,966 |
| Operating result | 12,543 | 14,201 |
| Net income | 8,116 | 9,315 |
| Total assets | 1,522,695 | 1,459,271 |
| CET1 capital ratio* | 11.7% | 11.5% |
| Total capital ratio* | 15.1% | 15.0% |
| Leverage Ratio* | 5.2% | 5.2% |
| LCR | 147% | 158% |
| NSFR | 112% | 114% |


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Based on the information available, GBB-Rating continues to assess the creditworthiness of Banco Santander, S.A. (hereinafter referred to as "Santander" or "Group") as very high at the present time. However, due to the COVID-19 health crisis major short to medium term challenges to the exceptionally high credit rating are emerging. As a consequence, the rating result is set from AA-, outlook stable to AA-, outlook negative.

The negative outlook reflects our view that the global economic downturn could have an unfavorable impact on the Group’s sustainable profitability and may weaken the credit quality substantially.

As a result, Santander created an extraordinary provision of EUR 1.6 billion in March 2020 and profit before tax declined sharply by 47.5% to EUR 1.9 billion compared to Q1 2019. However, the COVID-19 health crisis hits Santander in a position of economic and financial strength. High profits in recent years provide considerable potential to manage the presumed increase of credit risk costs.

Excluding the extraordinary provision, the Group posted an underlying pre-tax profit of EUR 3.6 billion for Q1 2020, which represents a slight decrease of 3% as compared to the same period in 2019. Santander’s net interest income as the main source of earnings stood almost at prior year's quarter level (EUR 8.5 billion). At the end of March 2020, profitability ratios, calculated by the Group, like the underlying RoTE and the underlying RoRWA weakened slightly, but remained at an excellent level. Consequently, GBB-Rating considers the sustainable profit situation of Santander as still strong.

The Group has a sound capitalization both according to economic criteria and regulatory standards. CET1 capital ratio as well as Total capital ratio stand at an uncritical level and regulatory capital requirements are more than satisfied. Nonetheless, in a peer comparison, Santander's capital ratios stand at a relatively low level. At Q1 2020, the Group's CET1 capital ratio was 11.6% (phased-in and fully-loaded), well above the minimum regulatory requirement of 8.7%. Given Santander's retail-focused, low-risk business model (low earnings volatility, limited dependency on individual markets and regions) the Group's capital resources are assessed as adequate, further underpinned by the results of the "2018 EU-wide Stress Test Exercise".

**Summary:**

| | Rating |
|---|---|
| Financial profile | strong |
| - Earnings position | strong |
| - Capital position | adequate |
| Business profile | strong |
| - Strategy and market | strong |
| - Risk profile | adequate |
| - Capitalization potential | strong |

(strong > adequate > acceptable > deficient > problematic > insufficient)

**Rating history:**

| Rating | Outlook | Date |
|---|---|---|
| **AA-** | **negative** | **05/25/2020** |
| AA- | stable | 03/26/2020 |
| AA- | stable | 05/27/2019 |
| AA- | stable | 12/05/2018 |
| AA- | stable | 05/16/2018 |

**Rating scale:**

| Rating | Rating categories |
|---|---|
| AAA | highest financial standing |
| AA+ / AA / AA- | very high financial standing |
| A+ / A / A- | high financial standing |
| BBB+ / BBB / BBB- | good financial standing |
| BB+ / BB / BB- | satisfactory financial standing |
| B+ / B / B- | financial standing scarcely adequate |
| CCC+ / CCC / CCC- | financial standing no longer adequate |
| CC / C | inadequate financial standing |
| D | moratorium / insolvency proceedings |

The Group's funding plan has focused on TLAC/MREL eligible instruments in recent years. Current MREL requirements are met.

Due to its business model, credit risk is the main contributor to Santander's risk profile. Over the past few years, the credit quality improved to a significant extent as reflected in the steady decline of the NPL ratio in most markets. However, the NPL ratio remains high in some core markets (Spain, Brazil) and it must be noted that impacts of the COVID-19 pandemic have not yet been reflected and evaluated. Despite the NPL's sensitivity to the current economic downturn, the recent improvement of the quality of the loan book indicates an adequate risk management. In conjunction with modest market and operational risks and with regard to the Group's comfortable liquidity position, Santander's risk profile is assessed as adequate.

## Rating drivers

The health policy measures to reduce the spread of the COVID-19 virus are associated with strong economic effects and a high degree of uncertainty about future economic developments worldwide.

It remains to be seen to what extent the ECB's measures to provide liquidity to credit institutions, the options discussed at EU level to stabilize the financial markets and the extensive packages of measures by the governments worldwide are sufficient to limit economic upheavals. In this respect, an essential factor that could affect your rating result is an economic burden on your house due to the possible deterioration of the economic situation as a result of the pandemic crisis.

The rating result would stabilize at its very high level in case of a sustainable profitability that does not fall significantly below the current level and a credit quality remaining at an acceptable level despite the expected global recession.

## Strategy and market

### Strategy

Santander has a sound and sustainable strategy, focused on retail and commercial banking. The Group's retail banking, which accounts for 86% of total gross income in 2019, comprises a comprehensive range of lending and deposit products, including residential mortgages, vehicle financing and SME finance. Further business activities include wealth management (private banking, asset management) and corporate and investment banking (wholesale banking business), which have been established in recent years. Measured by their profit contribution, both divisions are of minor importance.

The Group's business approach is characterized by broad geographical diversification and its model of autonomous subsidiaries. Santander's core markets as measured by attributable profits and the number of customers are Brazil, Spain, the United Kingdom (UK) as well as Central and Northern Europe (Santander Consumer Finance).

With a 18% share in loans and a 19% share in savings deposits, Santander is the market leader in its home market Spain. In the UK, Santander is the largest foreign private bank and had with 4% the strongest mortgage growth in a decade in 2019. Santander UK currently represents 11% of the attributable profit to the group. The Group's subsidiary in Brazil is the only foreign bank with a significant market share (10% in loans and deposits respectively). In the emerging Mexican market, Santander is one of the country's largest bank by business volume, with market shares of 13% in loans as well as in deposits. Furthermore, Santander Consumer Finance (SCF) has a leading position in Europe’s consumer finance market, with critical mass and a Top 3 position in the markets in which it operates.

The geographical reach in both developed, generally low interest rate markets and in emerging, relatively high interest rate markets helps to reduce Santander's sensitivity to economic downturns in individual regions. However, the economic fallout in the course of the COVID-19 pandemic will hit all the Group’s key markets at a similar period and for the first time Santander has to manage tougher economic circumstances simultaneously.

Despite the COVID-19 health crisis, the three pillars “improving operating performance”, “optimizing capital allocation to the regions and businesses that generate the highest returns” and “accelerating the Group’s digital transformation” of Santander’s strategy remain unchanged. Nevertheless, as soon as the implications are more foreseeable, the Group’s strategy could be modified.

### Market

Due to the worldwide lockdowns, the IMF is forecasting the worst global economic downturn since the Great Depression in the 1920s. The economists expect the Euro Area’s economy to shrink by 7.5% this year and to grow again by 4.7% in 2021. For Spain, Santander’s home market, they project that the GDP will fall by 8.0% in 2020 and recover by 4.3% in 2021. Furthermore, Spain is one of the most affected European economies by the COVID-19 virus. The UK’s economy will be affected heavily as well, with GDP decreasing by 6.5% in 2020 and increasing by 4.0% in 2021. Latin American countries will not escape a recession in 2020 either. According to IMF projections, the GDP in

Brazil will shrink by 5.3% in the current year. The projected GDP growth of 2.9% in 2021 should be relatively low and below the Latin America and Caribbean average of 3.4%.

In response to the economic downturn, governments worldwide, particularly in the US and the EU, have issued unprecedented economic stimulus programs. This should help limiting the economic damage, but will not be capable to avoid it entirely. Furthermore, the full economic impact of the pandemic depends on the duration of the lockdowns. Therefore, current economic projections are very vague.

After continuous improvements in NPL ratios in the Group's core markets over the past few years, Santander's credit quality is expected to deteriorate in the short-to-medium-term view. Furthermore, we expect growth in business volumes to weaken as well.

## Strong long-term earnings position

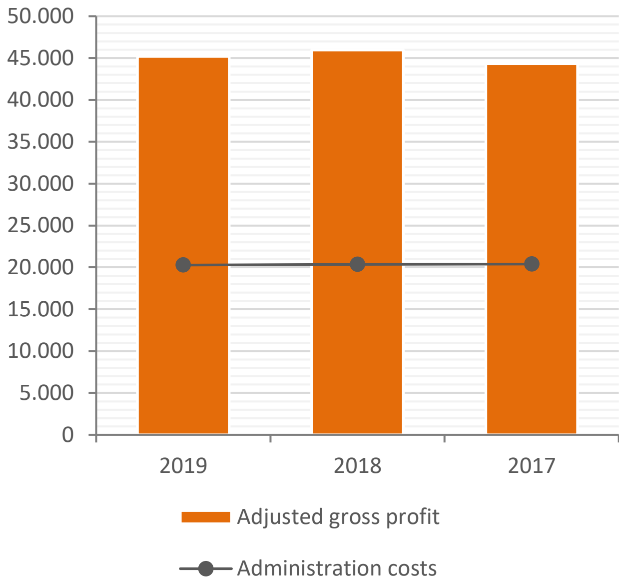
Based on the profitability and cost-income-ratios shown in the appendix of this report, the business development in the current year and the Group's short- and medium-term profit forecast, GBB-Rating continues to assess the long-term earnings position as still strong.

Nevertheless, the Group's profitability weakened slightly in 2019, but is already at a very high level. According to GBB-Rating's calculation method (see appendix), the return on equity stood at 11.5% compared to 13.3% in 2018. The cost income ratio remains at a remarkably low level in comparison to peers and was at 51.5% in 2019 (2018: 49.6%). Taking into account impairment losses ("cost-income ratio I", see appendix), the ratio improved to 64.6% from 66.4%.

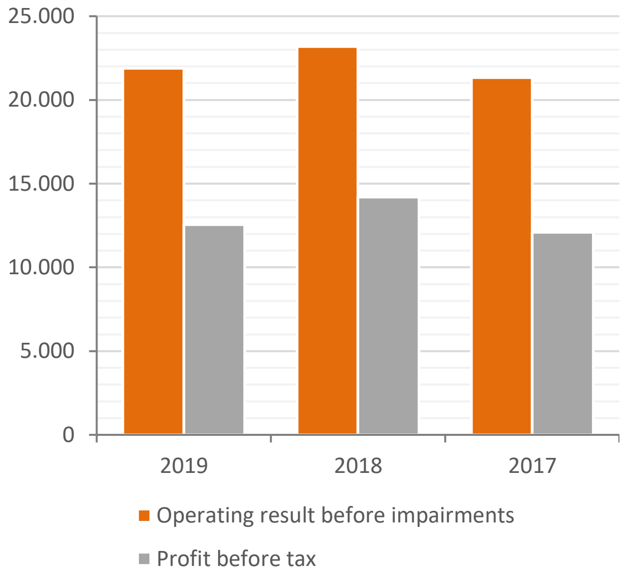
In 2019 gross profit grew 6% to EUR 50.5 billion, mainly driven by higher net interest income (+3%) and net fee and commission income (+3%) respectively. Due to the increase in impairment losses on intangible assets to EUR 1.6 billion (2018: EUR 0.1 billion) and higher provisions of EUR 3.5 billion (2018: EUR 2.2 billion), adjusted gross profit (2019: EUR 45.2 billion; 2018: EUR 46.0 billion) and operating result before impairments (2019: EUR 21.9 billion; 2018: EUR 23.2 billion) decreased marginally. Furthermore, key figures for business volume and risk-exposures grew in 2019, resulting in the profitability ratios mentioned above.

Administration costs remained almost unchanged at EUR 20.3 billion as the rise in staff costs was offset by the decrease in other administration costs. Impairment of financial assets measured at amortized costs further increased in line with volumes by around 4% to EUR 9.4 billion. As a result, profit before tax shrank by EUR 1.7 billion to EUR 12.5 billion.

**Development of adjusted gross profit and administration costs (EUR m)**




**Development of operating result and profit before tax (EUR m)**




## Interim result as of 31 March 2020

Santander looks back at a satisfactory business development in Q1 2020 with a growth in loans and advances to customers of 2.8% compared to Q1 2019. Affected by a negative impact on the year-on-year comparison of exchange rate performance, net interest income (-2.2% to EUR 8.5 billion) as well as net operating income (-1.7% to EUR 6.2 Billion) decreased. Excluding the exchange rate effect, we saw a slight increase compared to Q1 2019.

Operating expenses stayed flat in comparison to Q1 2019 and declined by 6.4% compared to Q4 2019.

By geographic area, underlying profit grew in all countries in North and South America (except Chile) and fell in Europe in a more complicated business environment.

The profitability ratios, calculated by the Group, like the underlying RoTE (Q1 2020: 11.06%; Q1 2019: 11.31%; FY 2019: 11.79%) and the underlying RoRWA (Q1 2020: 1.25%; Q1 2019: 1.54%; FY 2019: 1.33%) weakened slightly, but remained at an excellent level.

Due to the projected economic downturn across all regions, which could have substantial negative impacts on Santander's credit risks, the Group created an extraordinary provision of EUR 1.6 billion in March 2020. As a result, profit before tax declined sharply by 47.5% to EUR 1.9 billion compared to Q1 2019. However, the COVID-19 health crisis hits Santander in a position of economic and financial strength. High profits in recent years provide substantial potential to face the likely increase of credit risk costs. Nevertheless, the enormous economic downturn could have an unfavorable impact on the Group's sustainable profitability and may put downward pressure on the current assessment of the long-term earnings position.

| **Interim results*** (EUR m) | **Q1 2020** | **Q4 2019** | **Q1 2019** |
|---|---|---|---|
| Net interest income | 8,487 | 8,841 | 8,682 |
| Net fee income | 2,853 | 2,961 | 2,931 |
| **Total income** | **11,809** | **12,327** | **12,085** |
| Operating expenses | -5,589 | -5,971 | -5,758 |
| **Net operating income** | **6,220** | **6,356** | **6,327** |
| Net loan-loss provisions | -3,919** | -2,573 | -2,172 |
| **Profit before tax** | **1,891** | **3,831** | **3,602** |
| **Attributable profit to the parent** | **331** | **2,783** | **1,840** |

* Based on Santander's interim accounts without GBB-Rating adjustments
** Includes provisions overlay of EUR 1,600 million in Q1'20

| **Underlying income statement*** (EUR m) | **Q1 2020** | **Q4 2019** | **Q1 2019** |
|---|---|---|---|
| Net interest income | 8,487 | 8,841 | 8,682 |
| **Total income** | **11,814** | **12,592** | **12,085** |
| **Net operating income** | **6,237** | **6,621** | **6,327** |
| **Profit before tax** | **3,556** | **3,506** | **3,684** |
| **Attributable profit to the parent** | **1,977** | **2,072** | **1,948** |

* Based on Santander's interim accounts without GBB-Rating adjustments

## Adequate sustained capital position

In view of the regulatory ratios presented below as well as the qualitative analysis of the Group's current and future capital position, GBB-Rating considers Santander to have an adequate capital situation

As of 31 March 2020, Santander had a solid capital base with a leverage ratio of 5.0% and a CET1 ratio of 11.6%, both on a phased-in and on a fully-loaded basis. The Group targets a CET 1 capital ratio (fully-loaded) between 11% and 12% in the medium term. On a fully-loaded basis, total capital decreased slightly to EUR 89.1 billion in Q1 2020 (compared to EUR 91.0 billion as of 31 December 2019). The risk-weighted assets shrank from EUR 605 million to EUR 591 million.

In response to the COVID-19 pandemic crisis the ECB reduced the Pillar 2 requirement as well as the Countercyclical requirement. Consequently, Santander has to comply regulatory minimum requirements of 13.02% for the total capital ratio and 8.86% for the CET 1 capital ratio (as of March 2020), with a Pillar 2 requirement of 0.84% and a combined buffer requirement of 3.52%. In Q1 2020, the Group's CET1 management buffer was +272 bps and therefore quite comfortable.

| **Selected data: Capital structure** (EUR m) | **03/31/2020 Phased-in** | **03/31/2020 Fully-loaded** | **12/31/2019 Phased-in** | **12/31/2019 Fully-loaded** |
|---|---|---|---|---|
| Common equity tier 1 capital | 68,414 | 68,414 | 70,497 | 70,497 |
| Tier 1 capital | 77,741 | 77,173 | 79,536 | 78,964 |
| Total capital | 89,196 | 89,097 | 91,067 | 90,937 |
| Risk-weighted assets | 590,952 | 590,952 | 605,244 | 605,244 |
| CET1 capital ratio | 11.58% | 11,58% | 11,65% | 11.65% |
| Tier 1 capital ratio | 13.16% | 13,06% | 13,14% | 13.05% |
| Total capital ratio | 15.09% | 15,08% | 15,05% | 15.02% |

Compared to its peers, Santander's capital ratios are on a comparatively low level. This is also reflected in the results of the "2018 EU-wide Stress Test" which ranks Santander's fully-loaded CET1 capital ratio lower than those of all other 47 participants. However, the stress test indicated that the adverse scenario resulted in one of the exercise's most contained negative impacts on the fully-loaded CET1 capital ratio between 2017 and 2020, reflecting the Group's sound risk profile. Santander was also one of few participants that were able to generate a cumulative profit in a three-year adverse scenario.

### MREL/TLAC

In recent years, Santander's funding plan has focused on MREL/TLAC eligible instruments as part of the resolution strategy. Since the TLAC requirement is requested at each resolution entity, Santander's operating model of legally independent subsidiaries renders multiple points of entry. As of 31 December 2019 the Group reported a TLAC-ratio of 19.0% and thus fulfilled the TLAC requirement of 16.0%.

Santander received formal notification of the MREL requirement in November 2019 for the Banco Santander S.A. Resolution Group at a sub-consolidated level; the minimum required eligible liabilities were set at EUR 109 billion, representing 28.60% of the Resolution Group’s risk-weighted assets. These current requirements are met by Santander.

## Strong capitalization potential

The capitalization potential is evaluated as strong. The main criteria in assessing a bank’s capitalization potential are the ownership structure, its internal financing strength as well as the access to the capital markets.

In light of Santander’s strong sustained profitability, the Group has an excellent internal financing capacity and, as a leading financial institution worldwide, a proven access to capital markets. Since 2009, the Group's net operating income never fell below EUR 20 billion, illustrating the sustainability of the bank's profits and its relatively low susceptibility to earnings volatility.

By market capitalization, Banco Santander is the second largest bank in the Eurozone, although the bank's share price fell by about 4% in 2019 (market capitalization: EUR 62.0 billion as of 31 December 2019; 2018: EUR 64.5 billion).

At the end of 2019, Santander had nearly 4.0 million shareholders. Institutional investors held about 58% (2018: 59%) of the share capital; almost 41% (2018: 40%) of Santander's share capital were in the hands of retail investors. The majority of the share capital (> 75%) is located within Europe. As in previous years, no shareholder (with the exception of custodians) had an ownership interest greater than 3%. Due to the diversified ownership structure, a shareholder's support in case of need is considered unlikely.

## Risk profile

### Credit and counterparty risk

Due to its business model, credit risk is the main contributor to the Group's risk profile. Of the regulatory total risk exposure amount of around EUR 605 billion as at 31 December 2019, more than 88% was attributable to counterparty default risk. Santander has a highly diversified credit portfolio, not only geographically but also with regard to customer profiles, economic sectors and products. Single name concentrations are not evident, while the exposure to structured credit products is traditionally low. The main geographical markets in terms of total lending are Spain, the UK, Brazil and the United States. More than half of the lending volume accounts for secured loans (e. g. mortgage loans).

Over the past few years, the credit quality improved to a significant extent as reflected in the steady decline of the NPL ratio in most markets. However, it must be noted that impacts of the COVID-19 pandemic have not yet been reflected and evaluated. Therefore, we except a noticeable increase in NPL ratios in the Group’s core markets in the future.

As of Q1 2020, the overall NPL ratio amounted to 3.3% (Q1 2019: 3.6%). In the same period, the volume of non-performing loans fell by 3.1% to EUR 32,7 billion. In line with the overall trend, the NPL ratio continuously decreased in Europe in recent years (Q1 2020: 3.2%; Q1 2019: 3.6%). However, it remains elevated in Spain (Q1 2020: 6.9%; Q1 2019: 7.3%), due to the acquisition of Banco Popular in 2017 and despite the sale of Banco Popular's real estate business, in Portugal (Q1 2020: 4.6%; Q1 2019: 5.8%) and in Poland (Q1 2020: 4.3%; Q1 2019: 4.4%). In the UK, the NPL ratio remains on a considerably lower level (Q1 2020: 1.0%). Until now, negative impacts on the NPL of the impending Brexit have not been discernible. In the United States, the NPL ratio stayed on an acceptable level (Q1 2020: 2.0%; Q1 2019: 2.4%). In Brazil, which is the Group's key market in Latin America, the NPL ratio remains high (Q1 2020: 4.9%; Q1 2019: 5.3%). The same applies to the cost of credit which remains at previous year's level and stand at 3.9%.

As to the coverage ratio, there was a slight increase in Europe in the last quarter (Q1 2020: 50.7%; Q1 2019: 49.5%), whereas it decreased in Latin America (Q1 2020: 86.3%; Q1 2019: 94.1%). In the USA, the ratio remained well above 100%. In Spain and in the UK, the coverage ratio remains low (42.0% and 37.7%, respectively) as a result of the dominant mortgage portfolios.

In view of the bank's progress in credit risk mitigation, GBB-Rating evaluates the risk management and risk monitoring systems to be appropriate and effective. Nevertheless, it remains to be monitored how the economic downturn due to the COVID-19 pandemic may effect credit quality.

## Market risk

The Group faces limited interest and exchange rate risks arising from the banking book; market risks resulting from trading activities are of minor importance.

In line with the BCBS standards for Interest Rate Risks in the Banking Book (IRRBB), Santander conducts six interest rate scenarios, measuring the interest rate risk on both economic values (EVE) and earnings (NII). In 2019 the “Flatterner”-scenario would have the most severe impact on the change in economic value of equity (EUR 5.1 billion as of 31 December 2019); however, the "early warning signal" according to the IRRBB guidelines released by EBA (threshold: decline in economic value greater than 15% of Tier 1 capital) is not exceeded.

A rise in interest rates would have opposite effects in the Group's core markets: in Europe and in the USA, where interest rates are at a very low level, a rise in interest rates would positively affect net interest income and the economic value of equity; in Latin America, earnings and economic values would decrease.

Since the structural VaR was considerably higher than the trading risk VaR (EUR 511.4 million vs EUR 12.1 million as of 31 December 2019), the main drivers for market risks derive from the banking book. Regarding Santander's capital base and its profitability, market risks are deemed manageable.

## Funding and liquidity

Santander has a diversified funding structure and a comfortable liquidity position based on wide-spread access to retail deposits through the Group’s extensive branch network and a model of subsidiaries that are autonomous in terms of liquidity. Moreover, the bank has built up a structural liquidity surplus of 13 % as of end-2019.

As of 31 December 2019, the LTD was at 114% (2018: 113%), well in line with the European average[1].

The regulatory liquidity ratios indicate a comfortable liquidity position. As of end-2019, the Group's LCR stood at 163% and the NSFR was at 112%. In all legal entities, both ratios were above 100 %.

In view of the sound balance sheet structure, the diversified funding structure and the robust liquidity ratios, the Group has in place a sound and effective liquidity risk mitigation

## Operational and legal risks

Operational risks refer mainly to the categories “practices with clients, products and business” (including customer complaints for improper marketing and inaccurate information on products), which accounted 71% of net losses in 2019 (2018: 60%). In addition, external fraud, in particular the fraudulent use of debit and credit cards and incidents related to the execution, delivery and process management are of relevance.

Provisions for employment-related proceedings in Brazil amount to EUR 776 million at year-end 2019. These legal proceedings have been mainly initiated by trade unions, associations and former

[1] According to EBA, the EU average for the LTD ratio for households and non-financial corporations was 115 % (Dec. 19)

employees to claim overtime pay, retirement benefits and compensation associated with other employment rights. Such proceedings are common practice in Brazil, and provisions are similarly high as in previous years.

The deadline for the Payment Protection Insurance (PPI) complaints in the UK was 29 August 2019. Therefore, the Financial Conduct Authority (FCA) has delivered a nationwide communications campaign to raise awareness of this deadline among consumers. As a result, the volume of information requests and complaints increased significantly and the processing of these claims is still ongoing. As of 31 December 2019, the remaining provision for PPI redress and related costs amounted to EUR 222 million (2018: EUR 275 million).

Further legal risks may arise from the acquisition of Banco Popular, which had concluded a high number of transactions with floor clauses ("Clausula Suelo"). In the past years, resulting from several rulings of the EU Court of Justice and of Spanish courts, borrowers have been able to lodge complaints for overpaid amounts due to the floor clauses. Provisions used for refunds amounted to EUR 402 million in the last three years. As of end 2019, provisions amount to EUR 80 million.

As the successor entity to Banco Popular, Santander is exposed to legal risks resulting from claims of investors of Banco Popular against the EU’s Single Resolution Board (SRB) decision (resolution of Banco Popular, redemption and conversion of capital instruments). Santander estimates compensation payments to shareholders at EUR 680 million.

## Appendix

| **Assets – selected data** (EUR m) | **12/31/2019** | **12/31/2018** | **12/31/2017** |
|---|---|---|---|
| Cash and cash balances at central banks | 101,067 | 113,663 | 110,995 |
| Financial assets held for trading | 108,230 | 92,879 | 125,458 |
| Non-trading financial assets mandatorily at fair value through profit or loss | 4,911 | 10,730 | n/a |
| Financial assets at fair value through profit or loss | 62,069 | 57,460 | 34,782 |
| Financial assets at fair value through other comprehensive income | 125,708 | 121,091 | - |
| Financial assets available-for-sale | - | - | 133,271 |
| Financial assets at amortized cost | 995,482 | 946,099 | - |
| Loans and receivables | - | - | 903,013 |
| Investments held-to-maturity | - | - | 13,491 |
| Hedging derivatives | 7,216 | 8,607 | 8,537 |
| Fair value changes of the hedged items in portfolio | 1,702 | 1,088 | 1,287 |
| Investments accounted at equity / in associates | 8,772 | 7,588 | 6,184 |
| Assets under insurance or reinsurance contracts | 292 | 324 | 341 |
| Tangible assets | 35,235 | 26,157 | 22,974 |
| Intangible assets | 3,441 | 3,094 | 2,914 |
| Goodwill | 24,246 | 25,466 | 25,769 |
| Tax assets | 29,585 | 30,251 | 30,243 |
| Other assets | 10,138 | 9,348 | 9,766 |
| Non-current assets held for sale | 4,601 | 5,426 | 15,280 |
| **Total assets** | **1,522,695** | **1,459,271** | **1,444,305** |

| **Liabilities – selected data** (EUR m) | **12/31/2019** | **12/31/2018** | **12/31/2017** |
|---|---|---|---|
| Financial liabilities held for trading | 77,139 | 70,343 | 107,624 |
| Financial liabilities designated at fair value through profit or loss | 60,995 | 68,058 | 59,616 |
| Financial liabilities at amortized cost | 1,230,745 | 1,171,630 | 1,126,069 |
| Hedging derivatives | 6,048 | 6,363 | 8,044 |
| Fair value changes of the hedged items in portfolio | 269 | 303 | 330 |
| Liabilities under insurance or reinsurance contracts | 739 | 765 | 1,117 |
| Provisions | 13,987 | 13,225 | 14,489 |
| Tax liabilities | 9,322 | 8,135 | 7,592 |
| Other liabilities | 12,792 | 13,088 | 12,591 |
| Equity | 110,659 | 107,361 | 106,833 |
| **Total liabilities and equity** | **1,522,695** | **1,459,271** | **1,444,305** |

| **Income statement** (EUR m) | **2019** | **2018** | **2017** |
|---|---|---|---|
| Net interest income | 35,283 | 34,341 | 34,296 |
| Net fee and commission income | 11,779 | 11,485 | 11,597 |
| Dividend income | 533 | 370 | 384 |
| Realized gains and losses on financial assets & liabilities not measured at FVtPL, net | 1,136 | 604 | 386 |
| Gains (losses) on financial assets and liabilities held for trading, net | 1,349 | 1,515 | 1,252 |
| Gains (losses) on financial assets and liabilities at FVtPL, net | 6 | 274 | -85 |
| Gains (losses) from hedge accounting, net | -28 | 83 | -11 |
| Gains (losses) from insurance business | 120 | 51 | 57 |
| Other net operating income | -5,327 | -2,824 | -3,551 |
| Impairment on goodwill | 0 | 67 | 0 |
| **Adjusted gross profit** | **45,175** | **45,966** | **44,325** |
| Administration costs | -20,279 | -20,354 | -20,400 |
| Depreciation | -3,001 | -2,425 | -2,593 |
| Impairment | -9,352 | -8,986 | -9,241 |
| **Operating result after provisions for credit risks and valuation adjustments** | **12,543** | **14,201** | **12,091** |
| Income (expenses) related to extraordinary events | 0 | 0 | 0 |
| **Gross result at year-end** | **12,543** | **14,201** | **12,091** |
| Tax expenses related to profit or loss from continuing operations | -4,427 | -4,886 | -3,884 |
| **Net income** | **8,116** | **9,315** | **8,207** |

| Credit and Counterparty risk cluster | 2019 | 2018 | 2017 |
|---|---|---|---|
| Gross profitability 1<br>Adjusted gross profit / Average Total assets | 3.03% | 3.17% | 3.18% |
| Gross profitability 2<br>Net interest income and net credit risk provisions / Average risk-weighted exposure amounts [1)] | 4.97% | 4.98% | 4.76% |
| Net profitability 1<br>Operating result after provisions for cr and val. adjustments / Average total risk exposure amount | 1.98% | 2.39% | 1.97% |
| Net profitability 2<br>Gross annual profit / Average Adjusted total assets [2)] | 0.71% | 0.88% | 0.83% |
| Return on equity 1<br>Operating result after provisions for credit risks and valuation adjustments / Average total capital | 11.51% | 13.26% | 11.54% |
| Return on equity 2<br>Gross annual profit / Average total capital | 11.51% | 13.26% | 11.54% |
| Cost income ratio 1<br>Administration costs and provisions for credit risks / Gross profit | 64.62% | 66.39% | 67.75% |
| Cost income ratio 2<br>Administration costs / Adjusted gross profit | 51.53% | 49.56% | 51.87% |

[1)] Risk weighted exposure amount for credit, counterparty credit and dilution risks and free deliveries
[2)] Comprises on-balance sheet total assets, contingent liabilities and loan-loss allowances

| **Financial data** (EUR m) | 2019 | 2018 | 2017 |
|---|---|---|---|
| Net interest income | 35,283 | 34,341 | 34,296 |
| Net interest income and net credit risk provisions | 25,931 | 25,355 | 25,055 |
| Gross profit | 50,502 | 47,845 | 47,575 |
| Adjusted gross profit | 45,175 | 45,966 | 44,325 |
| Administration costs | -23,280 | -22,779 | -22,993 |
| Administration costs and provisions for credit risks | -32,632 | -31,765 | -32,234 |
| Operating result after provisions for credit risks and valuation adjustments | 12,543 | 14,201 | 12,091 |
| Gross annual profit | 12,543 | 14,201 | 12,091 |
| Average risk-weighted exposure amounts[1)] | 521,870 | 509,390 | 525,926 |
| Average total risk exposure amount | 633,138 | 593,822 | 613,714 |
| Average total assets | 1,490,983 | 1,451,788 | 1,391,715 |
| Average adjusted total assets[2)] | 1,757,423 | 1,616,153 | 1,463,661 |
| Average total capital | 109,010 | 107,097 | 104,766 |

[1)] Risk weighted exposure amount for credit, counterparty credit and dilution risks and free deliveries
[2)] Comprises on-balance sheet total assets, contingent liabilities and loan-loss allowances

| Indicators of sustained capital position | 12/31/2019 | 12/31/2018 | 12/31/2017 |
| --- | --- | --- | --- |
| Total capital ratio<br>Own funds / Total risk exposure amount | 15.05% | 14.98% | 14.99% |
| Tier 1 capital ratio<br>Tier 1 capital / Total risk exposure amount | 13.14% | 13.12% | 12.77% |
| Common Equity Tier 1 ratio<br>Common Equity Tier 1 capital / Total risk exposure amount | 11.65% | 11.47% | 12.26% |

| Financial data (EUR m) | 12/31/2019 | 12/31/2018 | 12/31/2017 |
| --- | --- | --- | --- |
| Own funds | 91,067 | 88,725 | 90,706 |
| Tier 1 capital | 79,536 | 77,716 | 77,283 |
| Common Equity Tier 1 capital | 70,497 | 67,962 | 74,173 |
| Total risk exposure amount | 605,244 | 592,319 | 605,064 |

# Regulatory disclosure requirements

Name and function of the analysts:

- Christopher Lehmann, Lead Rating Analyst, Head of Department, GBB-Rating, Cologne
- Angelika Komenda, Rating Analyst, Head of Department, GBB-Rating, Cologne

Company address:

- GBB-Rating Gesellschaft für Bonitätsbeurteilung mbH, Kattenbug 1, 50667 Cologne

Members of the Rating Committee:

- Harald Erven, Manager GBB-Rating, Cologne
- Klaus Foro, Manager GBB-Rating, Cologne
- Stefan Koll, Manager GBB-Rating, Cologne
- Thomas Sauter, Junior Manager GBB-Rating, Cologne

| Date | Rating Committee | Notification | Issue |
|---|---|---|---|
| ▪ First rating | 12/19/2013 | 12/20/2013 | 02/26/2014 |
| ▪ Current rating | 05/25/2020 | 05/28/2020 | |

Validity:

- Rating: 12 months
- Outlook: 24 months

Subsequent rating changes after notification to the rated entity:

-

Major sources of information for the rating:

- Annual report as at 12/31/2019
- Quarterly Report Q1 2019
- Conference calls
- Further disclosures and company specific information

Statement about the quality of information available (including potential restrictions):

- The quality and extent of information (interviews and documents) were suitable to obtain a comprehensive picture of the bank and to assign an objective, transparent and professional credit rating

Applicable rating methodology, rating type and release:

- Solicited rating
- Methodology for Rating 3.0.04 Banks – credit and counterparty credit risk (CCR)
- https://gbb-rating.eu/en/ratings/methodik/Pages/default.aspx

Meaning of the rating category:

- https://gbb-rating.eu/en/ratings/ratingskala/Pages/default.aspx

Business relationship:

- Besides the rating mandate there are further business relationships within the group

### Legal remarks

Since 28 July 2011 GBB-Rating Gesellschaft für Bonitätsbeurteilung mbH has been registered with the European Securities and Markets Authority (ESMA) as a European rating agency and therefore complies with the applicable regulatory requirements of the European supervisory authorities for a European rating agency.

GBB-Rating Gesellschaft für Bonitätsbeurteilung mbH does not make any guarantees regarding the accuracy, completeness or timeliness of the present rating or the data, values and other information presented (including ERI) or the eligibility of this information for specific purposes nor for losses arising from the use of the information or in confidence in the information. The current rating report is not an investment recommendation.

Future events are uncertain. Ratings are based on predictions of these and thus inevitably rely upon estimates. Therefore, they solely represent statements of opinion rather than statements of fact or investment advice.

Credit ratings are performed with proficiency and due professional care. Ratings are based on the data and information provided by the applicant. This information is used in reaching an opinion about the future viability as well as the strengths and weaknesses of the rated company as of the date of rating issuance.

***GBB-Rating puts focus on sustainability and is a signatory of the UN Global Compact since 2018. We support the 10 principles of the UN Global Compact relating to human rights, labor standards, the environment and anti-corruption.***

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