MOODY'S INVESTORS SERVICE

CREDIT OPINION
8 April 2020

Update

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RATINGS

Banco Santander S.A. (Spain)

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

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

Analyst Contacts

Maria Cabanyes +34.91.768.8214
Senior Vice President
maria.cabanyes@moodys.com

Maria Jose Mori +34.91.768.8227
VP-Sr Credit Officer
mariajose.mori@moodys.com

Carola Schuler +49.69.70730.766
MD-Banking
carola.schuler@moodys.com

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Banco Santander S.A. (Spain)

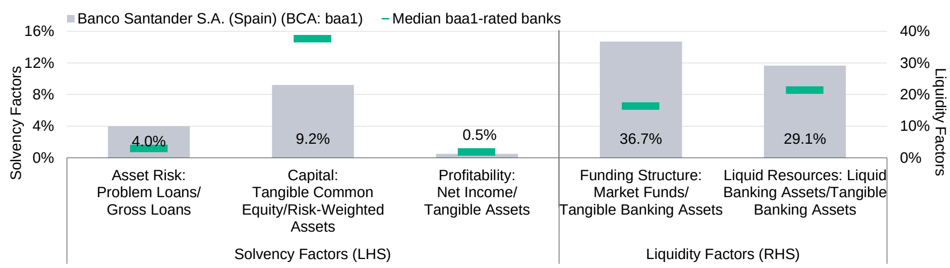
Update to credit analysis

Summary

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

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

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

This report was republished on 14 April 2020 to include the lead analyst's contact details in page 1 of the report.

Credit strengths

» Very strong geographical diversification, which underpins consistent profit generation and low earnings volatility despite the bank's high exposure to developing markets

» Expectation of an improvement in asset quality and earnings

» Proven capacity to generate capital and liquidity in times of stress

» Good liquidity and funding, with an independent model for its subsidiaries, which limits contagion risk

» Proven market access

Credit challenges

» Exposure to mature markets, which weighs on the group's profitability

» Modest asset-quality metrics

» Modest tangible common equity (TCE) ratio and regulatory solvency ratios below those of its international peers

Outlook

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

Factors that could lead to an upgrade

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

» An upgrade of the BCA is dependent on an improvement in the bank's credit fundamentals (asset risk, capital and profitability) beyond our current expectations. Given Santander's exceptional geographical diversification, its BCA could exceed the Spanish sovereign rating by one notch.

Factors that could lead to a downgrade

» Because of the current constraint on Santander's debt and deposit ratings by the Spanish sovereign, these ratings would only experience downward pressure in case of a multi-notch downgrade of the BCA or a downgrade of Spain's rating. Downward pressure on Santander's BCA could develop from a reversal in the expected positive performance trajectory currently embedded in our assessment.

» Challenges to the group's creditworthiness stem from the low interest rate environment, subdued business in mature markets and deteriorating operating conditions in the UK as the country negotiates its exit from the European Union (EU). The risks associated with the acquisition of Banco Popular Espanol, S.A. (Banco Popular), such as (but not only) those related to potential litigation costs, could also exert downward pressure on the bank's BCA. At the same time, Santander's high pre-provision profitability and unique geographical diversification are likely to continue to underpin the group's earnings generation capacity, which we expect to continue to benefit from its declining provisioning needs and strong focus on cost efficiency.

Key indicators

Exhibit 2

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

	12-19[2]	12-18[2]	12-17[2]	12-16[2]	12-15[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	1,522,695.0	1,459,271.0	1,444,305.0	1,339,125.0	1,340,260.0	3.2[4]
Total Assets (USD Million)	1,709,222.4	1,668,157.7	1,734,317.6	1,412,445.0	1,455,918.1	4.1[4]
Tangible Common Equity (EUR Million)	61,936.5	56,877.5	56,164.9	54,117.2	49,306.0	5.9[4]
Tangible Common Equity (USD Million)	69,523.6	65,019.2	67,442.7	57,080.3	53,560.9	6.7[4]
Problem Loans / Gross Loans (%)	3.7	4.0	4.4	4.2	4.6	4.2[5]
Tangible Common Equity / Risk Weighted Assets (%)	9.2	8.5	8.5	8.6	8.0	8.6[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	38.7	42.7	45.3	41.5	47.7	43.2[5]
Net Interest Margin (%)	2.5	2.5	2.6	2.5	2.6	2.5[5]
PPI / Average RWA (%)	3.8	3.7	3.8	3.6	3.8	3.7[6]
Net Income / Tangible Assets (%)	0.5	0.7	0.6	0.6	0.5	0.6[5]
Cost / Income Ratio (%)	49.8	47.8	48.3	48.4	47.7	48.4[5]
Market Funds / Tangible Banking Assets (%)	36.7	34.8	35.3	37.0	39.5	36.7[5]
Liquid Banking Assets / Tangible Banking Assets (%)	29.1	29.6	29.6	28.4	28.0	29.0[5]
Gross Loans / Due to Customers (%)	117.6	113.5	113.8	118.9	121.6	117.1[5]

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

Sources: Moody's Investors Service and company filings

Profile

With total assets of around €1.5 trillion as of year-end 2019, Banco Santander S.A. (Spain) (Santander) is Spain's largest banking group and ranks among the 15 largest banking groups in Europe. The group has ample geographical diversification, with only 15% of its net profit generated in Spain and around 50% in developing markets (excluding the corporate centre) as of year-end 2019. Retail banking accounts for 75%[1] of the group's total attributable profit. As of year-end 2019, the group had 145 million customers, with Brazil accounting for the largest share (32%), followed by the UK with 17%.

Recent developments

The rapid global spread of the coronavirus has led to a deteriorating economic outlook, sharply lower oil prices and broad financial market upheaval, generating an unprecedented credit shock across many sectors worldwide. Our baseline economic scenario assumes pandemic-driven disruption of economic activity through June, followed by some recovery in the second half of 2020. However, the potential for downside outcomes is increasing. At the same time, a number of measures have been announced by European regulators to safeguard banks' role as they cope with the short-term pressures of the coronavirus outbreak.

The greatest negative credit effects will be felt initially by banks in regions most immediately and acutely disrupted or with concentrated lending to the most affected sectors, as well as more thinly capitalised banks and non-bank lenders.

To reflect the growing strain of coronavirus disruption, in March 2020, we changed the outlook on six European banking systems to negative, including Spain, as well as for the US and Latin American banking systems. The UK has a negative rating outlook since December 2019.

Detailed credit considerations

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

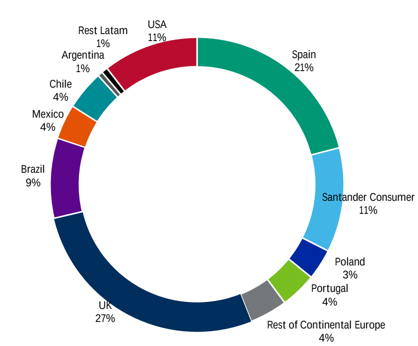
The group has leading market positions in several major markets, which results in a widely diversified balance sheet and sustained profit generation. Our assessment of Santander's exceptional geographical diversification is reflected in a one-notch positive qualitative adjustment to its Business Diversification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

As of year-end 2019, close to 80% of the group's gross customer loans were located in mature markets, with the UK and Spain accounting for the largest shares (27% and 21%, respectively). The US and Brazil account for similar shares of around 10%, followed by Chile, Mexico, Portugal and Poland, with shares ranging between 3% and 4%.

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

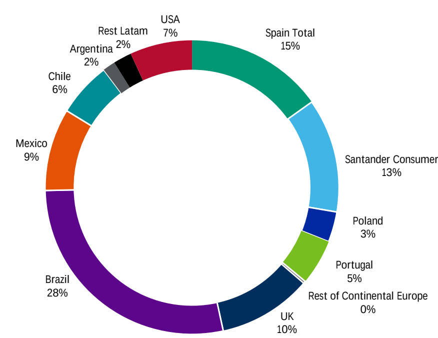
Commercial banking accounts for around three-quarters[2] of the group's attributable profit, which provides a high degree of recurrence and stability to Santander's earnings.

Exhibit 3
Loan breakdown by geography



Source: Santander 2019 annual report

Exhibit 4
Profit breakdown by geography



Source: Santander 2019 annual report

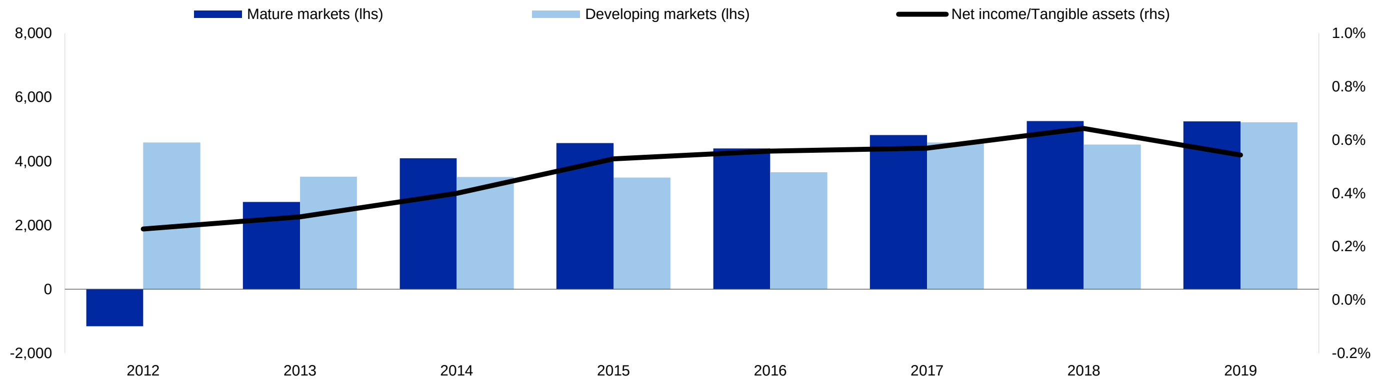
Ongoing challenges in mature markets weigh on the group's profitability

The assigned Profitability score of baa2 is higher than that suggested by more recent data, reflecting our expectation of a gradual improvement in this factor and a positive adjustment to reflect the group's high pre-provision profitability and low earnings volatility, with net interest and fee income accounting for around 95% of the group's total income. Central bank measures in reaction to a further spread of the coronavirus could, however, exacerbate further the profitability pressure that many banks are under, particularly when combined with higher credit risk spreads, reduced bond and equity issuance, and stock market falls.

Strained profitability will be buffered by targeted efficiency gains, strict cost control (particularly in those franchises that are experiencing subdued revenue), management's focus on preserving or enhancing margins, fee and commission income, active management of unprofitable portfolios, and strong focus on customer satisfaction to gradually achieve profitability levels more commensurate with the group's relatively high exposure to more profitable developing markets.

Santander reported attributable profit of €6.5 billion as of year-end 2019, a decline of 16.6% from a year earlier (-15.9% at constant rates). Excluding €1.7 billion of goodwill impairment associated to its UK franchise, restructuring costs primarily related to Spain and other nonrecurrent items, the group's net income/tangible assets would have been close to a still-modest 0.7%. Pre-provision income (PPI) increased modestly at 1.2%, underpinned by a 2.7% increase in the group's net interest income and 2.6% in fees and commissions, which were partially offset with lower trading gains because of the higher cost of foreign-currency hedging. Cost of credit remains historically low. The evolution of the PPI is explained by the weak performance in Europe, driven by an 18% decline in the UK. The remaining key markets showed positive performance.

Exhibit 5
Profit contribution by market



Bars exclude the corporate centre.
Source: Santander 2019 annual report

In Q2 2019, Santander created a new reporting unit, Santander Global Platform, which includes the group's digital services. As of year-end 2019, this new unit reported losses amounting to €120 million, compared with losses of €54 million a year earlier. Losses at the corporate centre were substantial in 2019 (€2.1 billion, +24% compared with that in 2018), largely because of the higher cost of foreign-currency hedging and issuance activities.

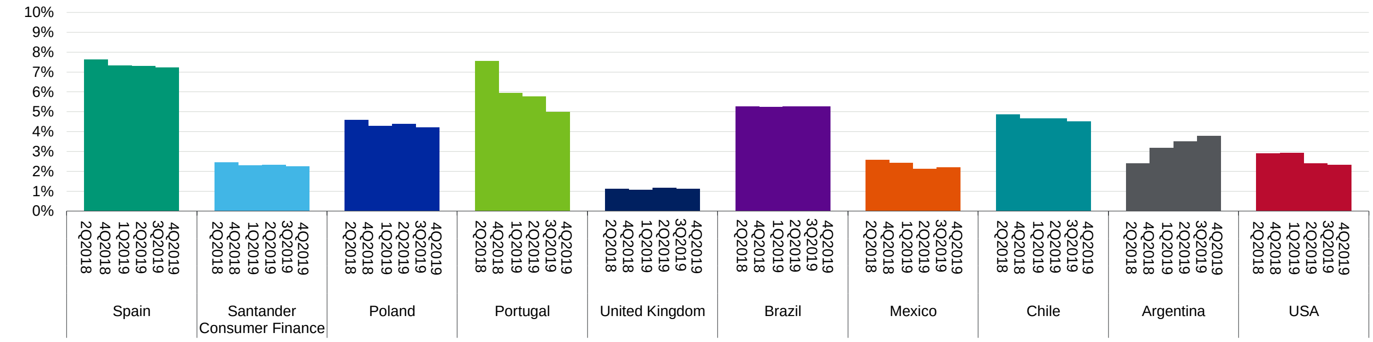
Modest but improving asset-quality metrics; high customer spreads in developing markets are a key risk-mitigating factor for structurally higher NPL ratios in the region

We have assigned an Asset Risk score of baa2 to Santander (one notch higher than the Macro-Adjusted score) to reflect more recent developments and our expectation of a further improvement. We expect, however, that the coronavirus outbreak will have a direct impact on banks' asset quality, and we could reassess our current assessment of this factor depending on the breath and severity of the shock and the broad deterioration in credit quality that it will trigger.

As of year-end 2019, the group reported a nonperforming loan (NPL) ratio of 3.69%, down from 4.03% a year earlier. The assigned baa2 score also reflects Santander's relatively high nonperforming asset (NPA) ratio (defined as NPLs plus foreclosed real estate assets, according to our definition), which we estimate at close to 5% for the same period. We note positively the significant improvement achieved in this metric, which has declined from its peak of 9.5% in June 2017 following the acquisition of Banco Popular. The sharp decline is mainly explained by the transfer of Banco Popular's real estate business to a newly created company. The reduction in risk exposures is credit positive but less significant than what the consolidated NPA suggests, given the fact that Santander holds a 49% stake in the new company (Blackstone holds the remaining 51% stake). This transaction that materialised in March 2018 allowed Santander to deconsolidate all the transferred assets.

We note positively that in 2019, most key geographies showed clear signs of improvement in their asset-risk metrics or stabilisation compared with the previous year, with the exception of Argentina (whose NPL ratio [as reported by the bank] increased to 3.39% from 3.17%) and Brazil (5.32%, up from 5.25%). Portugal posted the largest improvement (an NPL ratio of 4.83%, down from 5.94% a year earlier), backed by the active management of its stock of legacy assets.

Exhibit 6
Evolution of NPL ratio by geography



Source: Santander 2019 annual report

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

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

Our ba2 Capital score reflects the bank's TCE ratio of around 9.5% as of year-end 2019 following our adjustment for deferred taxed assets and (1) a positive adjustment to capture the bank's proven ability to generate capital in times of stress; and (2) a negative adjustment for Santander's low leverage ratio (below 5%, according to our calculation). In our capital assessment, we also factor in our expectation of some improvement, which is limited because of the increase in the bank's payout target to 40%-50% (from 30%-40%) and regulatory demands for all banks related to Basel IV, which Santander estimates to be in the range of 20-100 basis points (bps). The coronavirus outbreak will, however, delay such impacts (Santander has canceled dividend payments until there is more visibility on the full impact of this crisis and the schedule for Basel IV has been revised). The supervisory measures announced by the ECB give banks significant additional leeway to absorb asset-quality declines because capital requirements have temporarily been lowered.

Santander’s Common Equity Tier 1 (CET1) capital ratio, on a fully loaded (FL) basis, reached 11.65% as of year-end 2019, up from 11.30% a year earlier, after absorbing 62 bps of negative regulatory impact (19 bps from IFRS 16 and 36 bps from the ECB's Targeted Review on Internal Capital Models and others) and 15 bps from restructuring costs (mainly in Spain). The group has chosen to apply a progressive five-year transition period to mitigate the impact of the introduction of IFRS 9. Had the transitional arrangement not been applied, the total impact on its CET1 FL would have been negative 24 bps.

Santander's capital remains below its 12% CET1 target by year-end 2020 and the weighted average of European banks (14.4% as reported by the EBA as of the end of September 2019) and also below the levels of its peers that we rate. In addition, the group's CET1 capital headroom compared with the 2019 Supervisory Review and Evaluation Process requirements, although above the required 9.687%, is also weaker than that of its domestic peers and below the European average, reflecting a combination of a lower CET1 ratio and higher prudential requirements. These weaknesses are partially mitigated by Santander's lower vulnerability to severe scenarios, as shown in the EBA’s 2018 stress test.

The ECB also requires Santander to comply with a minimum Supervisory Review and Evaluation Process (SREP) requirement of 8.6% on an individual basis, which compares with the 17.69% CET1 ratio reported as of the end of December 2019 (both ratios using transitional arrangements).

Our more conservative capital assessment compared with regulators' capital ratios is primarily explained by (1) the fact that the regulators do not deduct convertible deferred tax assets from the capital base, while we give benefit, as a capital component, to only a share of them (56% as of year-end 2019); (2) a more conservative risk weighting that we apply to the sovereign exposures compared with the regulators' risk weighting of 0%; and (3) the exclusion of minority interests from our TCE calculation.

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

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

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

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

The group is around 67% deposit funded (as a percentage of net liabilities), which provides a stable and well-diversified funding source. As of year-end 2019, outstanding medium- and long-term debt accounted for around 15% of net liabilities. Outstanding debt has a conservative maturity profile and recourse to short-term funding is limited, and the bulk relates to certificates of deposits and commercial paper in the UK. The targeted longer-term refinancing operation funding amounted to €46.2 billion as of year-end 2019. The net borrowing position was at a much reduced amount of €22.7 billion.

In November 2019, the minimum requirement for own-funds and eligible liabilities (MREL) of the parent resolution group — formed by the parent bank and Santander Consumer Finance S.A., with overall risk-weighted assets (RWA) amounting to €380 billion (as of the end of December 2017) — was established at 109 billion (as of the end of December 2016), representing 28.60% of RWA to be met from 1 January 2020.

Santander's liquidity coverage ratio was 147% on a group basis as of year-end 2019. This ratio is largely driven by the parent bank, Santander UK and Santander Brazil. These entities are primarily deposit funded with low outflows. As of the same date, the parent bank had a liquidity coverage ratio of 143%, with all its subsidiaries above the 100% minimum requirement.

Although not yet required, Santander also complies with the net stable funding ratio at the group level and for the bulk of its subsidiaries. As of year-end 2019, the ratio was at 112% for the group, with the parent at 103%.

Global monetary easing and related initiatives triggered by the coronavirus outbreak will help relieve liquidity pressures on banks (see Recent developments section).

Environmental, social and governance considerations

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

Overall, we expect banks to face moderate social risks, which in particular applies to Santander. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which are partly mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct area further social risk. Social trends are also relevant in a number of areas, such as shifting customer preferences towards digital banking services increasing information technology cost, ageing population concerns in several countries affecting demand for financial services or socially driven policy agendas that may translate into regulations that affect banks' revenue base. In addition, the rapid and widening spread of the coronavirus outbreak with substantial implications for public health and safety and deteriorating global economic outlook, are creating a severe and extensive credit shock across many sectors, regions and markets.

Given its geographical footprint, Santander is exposed to social risks of a different nature. For Spanish banks, we have identified the potential litigation around the IRPH (Mortgage Loan Reference Index, Índice de Referencia de Préstamos Hipotecarios) index reference rate as a key social risk. On 3 March 2020, the European Union Court of Justice (ECJ) ruled that the use of the index falls within the remit of the European Union's directive on unfair terms (Directive 93/13/EEC), and therefore Spanish courts can consider it abusive. The number of borrowers who take legal action against banks and Spain's judicial stance will be the main determinant of the ECJ ruling's final effect on Spain's banks. Also, in Spain, Santander faces litigation costs from product mis-selling inherited from Banco Popular. We have not incorporated any financial impact into Santander's scorecard for these two issues. In any case, any impact should be manageable, given the bank's sheer size and ample geographical diversification. In the UK, conduct and litigation costs are primarily associated with the mis-selling of payment protection insurance; in Poland, it is associated with the litigation around mortgages in foreign currency. The impact on Polish banks will be largely determined by the number of borrowers taking legal action, which has been few so far. It will also depend on the time necessary for Polish courts to conclude these cases.

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

Support and structural considerations

Loss Given Failure (LGF) analysis

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

For Santander's deposits and senior unsecured debt, our LGF analysis takes into consideration the likely impact on LGF from the combination of its own volume and subordination.

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

The same LGF analysis for Santander indicates a moderate loss severity for junior senior creditors in the event of the bank's failure, leading to a rating of Baa1 for these securities, in line with the bank's Adjusted BCA of baa1. Santander's junior senior debt ratings do not include any additional uplift from government support, reflecting our view that there is a low probability of government support for these instruments, given their explicitly loss-absorbing nature.

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

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

Government support

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

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

Counterparty Risk Ratings (CRRs)

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

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

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

Counterparty Risk (CR) Assessment

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

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

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

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

Methodology and scorecard

About Moody's Bank Scorecard

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

Rating methodology and scorecard factors

Exhibit 7

Banco Santander S.A. (Spain)

Macro Factors							
Weighted Macro Profile	**Strong -**	**100%**					
Factor		**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency							
Asset Risk							
Problem Loans / Gross Loans		4.0%	baa3	↑	baa2	Expected trend	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)		9.2%	ba2	↑	ba2	Expected trend	Nominal leverage
Profitability							
Net Income / Tangible Assets		0.5%	ba1	↑	baa2	Earnings quality	Expected trend
Combined Solvency Score			ba1		baa3		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		36.7%	ba3	←→	baa2	Market funding quality	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		29.1%	baa2	←→	a3	Intragroup restrictions	Additional liquidity resources
Combined Liquidity Score			ba1		baa1		
Financial Profile					baa2		
Qualitative Adjustments					Adjustment		
Business Diversification					1		
Opacity and Complexity					0		
Corporate Behavior					0		
Total Qualitative Adjustments					1		
Sovereign or Affiliate constraint					Baa1		
BCA Scorecard-indicated Outcome - Range					a3 - baa2		
Assigned BCA					baa1		
Affiliate Support notching					0		
Adjusted BCA					baa1		

Balance Sheet is not applicable.

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	-	-	-	-	-	-	-	2	0	a2
Counterparty Risk Assessment	-	-	-	-	-	-	-	1	0	a3 (cr)
Deposits	-	-	-	-	-	-	-	2	0	a2
Senior unsecured bank debt	-	-	-	-	-	-	-	2	0	a2
Junior senior unsecured bank debt	-	-	-	-	-	-	-	0	0	baa1
Dated subordinated bank debt	-	-	-	-	-	-	-	-1	0	baa2
Non-cumulative bank preference shares	-	-	-	-	-	-	-	-1	-2	ba1

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

[1]Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 8

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

Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	Baa1(cr)/P-2(cr)
BANCO SANTANDER, S.A. (URUGUAY)	
Outlook	Stable
Bank Deposits	Baa3/P-3
NSR Bank Deposits	Aa2.uy/--
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	Baa2(cr)/P-2(cr)
CASA DE BOLSA SANTANDER, S.A. DE C.V.	
Outlook	Stable
Issuer Rating -Dom Curr	Baa1
NSR Issuer Rating	Aa1.mx
ST Issuer Rating -Dom Curr	P-2
NSR ST Issuer Rating	MX-1
SANTANDER BANK, N.A.	
Outlook	Stable
Counterparty Risk Rating	Baa1/P-2
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Issuer Rating	Baa1
SANTANDER FINANCE CAPITAL, S.A. UNIPERSONAL	
Pref. Stock	Ba2 (hyb)
SANTANDER FINANCIAL SERVICES PLC	
Outlook	Negative
Counterparty Risk Rating	Aa2/P-1
Bank Deposits	Aa3/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)
Issuer Rating	Aa3
ST Issuer Rating	P-1
SANTANDER INT'L DEBT, S.A. UNIPERSONAL	
Outlook	Stable
Senior Unsecured	A2
SANTANDER US DEBT, S.A. UNIPERSONAL	
Outlook	Stable
Senior Unsecured	A2
TOTTA (IRELAND) P.L.C.	
Bkd Commercial Paper -Dom Curr	P-3
SANTANDER UK PLC	
Outlook	Negative
Counterparty Risk Rating	Aa2/P-1
Bank Deposits	Aa3/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)
Issuer Rating	Aa3
Senior Unsecured	Aa3
Subordinate	Baa1
Jr Subordinate	Baa2 (hyb)
Pref. Stock -Dom Curr	Baa2 (hyb)
Pref. Stock Non-cumulative -Dom Curr	Baa3 (hyb)
Commercial Paper	P-1
Other Short Term	(P)P-1
SANTANDER UK GROUP HOLDINGS PLC	
Outlook	Negative
Baseline Credit Assessment	a3

Adjusted Baseline Credit Assessment	a3
Issuer Rating -Dom Curr	Baa1
Senior Unsecured	Baa1
Subordinate	Baa1
Pref. Stock Non-cumulative -Dom Curr	Ba1 (hyb)
Pref. Shelf Non-cumulative	(P)Ba1
Other Short Term	(P)P-2
BANCO SANTANDER, S.A., LONDON BRANCH	
Counterparty Risk Rating	A2/P-1
Deposit Note/CD Program	--/P-1
Counterparty Risk Assessment	A3(cr)/P-2(cr)
BANCO SANTANDER, S.A., NEW YORK BRANCH	
Counterparty Risk Rating	A2/P-1
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Commercial Paper	P-1
SANTANDER CONSUMER FINANCE S.A.	
Outlook	Stable
Counterparty Risk Rating	A2/P-1
Bank Deposits -Dom Curr	A2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Senior Unsecured	A2
Junior Senior Unsecured -Dom Curr	Baa1
Subordinate -Dom Curr	Baa2
Pref. Stock Non-cumulative -Dom Curr	Ba1 (hyb)
Commercial Paper -Dom Curr	P-1
BANCO SANTANDER TOTTA S.A.	
Outlook	Stable
Counterparty Risk Rating -Dom Curr	Baa1/P-2
Bank Deposits	Baa1/P-2
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	Baa1(cr)/P-2(cr)
Senior Unsecured -Dom Curr	Baa3
Commercial Paper -Dom Curr	P-3
Other Short Term -Dom Curr	(P)P-3
SANTANDER INTERNATIONAL PRODUCTS PLC	
Outlook	Stable
Bkd Senior Unsecured	A2
Bkd Commercial Paper -Dom Curr	P-1
Bkd Other Short Term -Dom Curr	(P)P-1
BANCO SANTANDER (BRASIL) S.A.	
Outlook	Stable
Counterparty Risk Rating -Fgn Curr	Ba1/NP
Counterparty Risk Rating -Dom Curr	Baa3/P-3
Bank Deposits -Fgn Curr	Ba3/NP
Bank Deposits -Dom Curr	Ba1/NP
NSR Bank Deposits	Aaa.br/BR-1
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)
Senior Unsecured MTN	(P)Ba1
Other Short Term	(P)NP
BANCO SANTANDER (BRASIL) S.A. - CAYMAN BR	
Outlook	Stable
Counterparty Risk Rating -Fgn Curr	Ba1/NP
Counterparty Risk Rating -Dom Curr	Baa3/P-3
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)
Senior Unsecured MTN	(P)Ba1

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

Counterparty Risk Assessment	A3(cr)/P-2(cr)
Senior Unsecured	A3
NSR Senior Unsecured	Aaa.mx
Subordinate	Baa3 (hyb)
SANTANDER FINANCE PREFERRED, S.A. UNIPERSONAL	
Pref. Stock Non-cumulative	Ba2 (hyb)
SANTANDER ISSUANCES S.A. UNIPERSONAL	
Subordinate	Baa2
BANCO SANTANDER PUERTO RICO	
Outlook	Rating(s) Under Review
Counterparty Risk Rating	Baa1/P-2[1]
Bank Deposits	A2/P-1[1]
Baseline Credit Assessment	ba2[2]
Adjusted Baseline Credit Assessment	baa1[2]
Counterparty Risk Assessment	A3(cr)/P-2(cr)[1]
Issuer Rating	Baa1[2]
Sr Unsec Bank Note Pgm	(P)Baa1[2]
ST Bank Note Pgm	(P)P-2[2]
GRUPO FINANCIERO SANTANDER, S.A.B. DE C.V.	
Jr Subordinate	Ba1 (hyb)
SANTANDER CONSUMER BANK AG	
Outlook	Positive
Counterparty Risk Rating	A2/P-1
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A3
BANCO SANTANDER RIO S.A.	
Outlook	Negative
Bank Deposits -Fgn Curr	Ca/NP
Bank Deposits -Dom Curr	Caa1/NP
NSR Bank Deposits	Baa3.ar/--
Baseline Credit Assessment	ca
Adjusted Baseline Credit Assessment	caa3
Counterparty Risk Assessment	Caa1(cr)/NP(cr)
Senior Unsecured -Dom Curr	Caa1
NSR Senior Unsecured	Baa3.ar
BANCO ESPANOL DE CREDITO, S.A. (BANESTO)	
Pref. Stock Non-cumulative -Dom Curr	Ba2 (hyb)
SOVEREIGN REAL ESTATE INVESTMENT TRUST	
Pref. Stock Non-cumulative	Ba1 (hyb)
BANESTO HOLDINGS, LTD.	
BACKED Pref. Stock Non-cumulative	Ba2 (hyb)

[1] Rating(s) within this class was/were placed on review on October 23 2019 [2] Placed under review for possible downgrade on October 23 2019
Source: Moody's Investors Service

Endnotes

1 Excluding the corporate centre.

2 Excluding the corporate centre.

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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