FitchRatings

Banks
Universal Commercial Banks
Spain

Banco Santander, S.A.

Key Rating Drivers

Geographic Diversification A Key Strength: Banco Santander, S.A.'s ratings reflect Fitch Ratings' view that the bank's international footprint is a key strength, featuring material exposures in stronger economies than its home Spanish market, such as the UK and the US, as well as towards emerging markets. Risks are well managed, and the resolution approach, based on a multiple-point-of-entry principle, supports an adequate and independent management of the subsidiaries' capitalisation and funding.

Strong Retail Franchises: Santander's broad and balanced geographic and business diversification is underpinned by solid retail-banking franchises in several European and Latin American countries and, to a lesser extent, in the consumer finance sector in the US. This results in good pricing power and access to large, stable deposit bases. Combined with Santander's experience over several economic and interest-rate cycles in its various markets, this has enabled it to manage periods of stress relatively well.

Resilient Asset Quality: The good loan performance in most of Santander's geographies, underlying loan growth, and the sales of impaired loans have underpinned the stability of the bank's impaired loans ratio over the past 18 months. We expect a mild deterioration in asset quality in 2H23 and 2024, with the gross impaired loans ratio remaining below 4% (end-June 2023: 3.3%).

The economic slowdown, higher inflation and interest rates weigh on borrowers, although better-quality portfolios, especially in certain riskier markets, such as Brazil and US consumer finance, and proactive impaired loans management should mitigate the risk of large inflows of impaired loans.

Sound Structural Profitability: Santander's balanced exposure to developed and emerging markets and dominant retail business underpin the stability of its revenue generation throughout economic and interest-rate cycles. Profitability improved on higher interest rates in 2023 and should continue to benefit from asset repricing throughout 2H23 and 2024. However, subdued loan growth and rising funding costs will constrain further improvements in operating profitability, which we expect to stabilise at about 3% of risk-weighted assets (RWAs).

Santander's cost control-oriented culture provides an important buffer against cost-management challenges created by inflationary pressures. The group's progress in simplifying and digitalising the bank should help to meet its medium-term cost/income ratio target of about 42% by 2025 (about 2% below the figure calculated by the bank for 1H23).

Adequate Capitalisation: Santander's capitalisation benefits from established internal capital generation and proven access to equity markets. Regulatory ratios are low compared with other large European banks, but have a record of stability throughout the cycle and are maintained with solid buffers over regulatory minimums. Capital is managed by the group on a 'need–cost optimisation' basis, which reduces capital volatility.

We expect Santander will continue to operate with a common equity Tier 1 (CET1) ratio above 12% over 2023–2024, despite expected higher capital distribution, and in line with the group's medium-term guidance.

Stable and Diversified Funding: Santander's global retail deposit franchise has been resilient throughout the interest rate hiking with modest pass-through of higher rates, especially in continental Europe. We expect the group to face higher costs of customer funding in the coming quarters, but for these higher costs to be manageable. Established access to wholesale funding in its core markets, adequate liquidity buffers and reduced utilisation of central bank funding also underpin the bank's strong funding and liquidity profile.

Ratings

Foreign Currency	
Long-Term IDR	A-
Short-Term IDR	F2
Derivative Counterparty Rating	A(dcr)
Viability Rating	a-
Government Support Rating	ns
Sovereign Risk (Spain)	
Long-Term Foreign-Currency IDR	A-
Long-Term Local-Currency IDR	A-
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (September 2023)

Related Research

Large European Banks Quarterly Credit Tracker - October 2023 (October 2023)

Global Economic Outlook – September 2023

Large Spanish Banks: Domestic Margins Close to the Ceiling (September 2023)

What Investors Want to Know: Southern European Banks (June 2023)

Analysts

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

Santander's ratings would come under pressure if its CET1 ratio declined sustainably below 12% without a credible plan to rebuild it in the short term. A meaningful erosion of the bank's profitability with an operating profit/RWAs below 2% on a sustained basis would also put pressure on the ratings.

Santander's ratings remain sensitive to a downgrade of Spain (A-/Stable) or to the group's current operating environment score (a-), the latter being particularly sensitive to the economic and banking prospects of Santander's core markets.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade would be contingent on an upgrade of Spain's sovereign rating, resulting in a better assessment of the group's operating environment.

An upgrade would also likely require an improvement in Santander's financial profile by means of a structurally stronger CET1 ratio and lower impaired loans ratio, while preserving the group's earnings resilience, which means maintaining the sound earnings performance at the main international subsidiaries.

Other Debt and Issuer Ratings

Rating level	Rating
Deposits	A/F1
Senior preferred	A/F1
Senior non-preferred	A-
Subordinated debt	BBB
Additional Tier 1 notes	BB+
Legacy preferred shares	BB

Source: Fitch Ratings

Santander's senior non-preferred notes are rated at the same level as the bank's Long-Term IDR, reflecting Fitch's view that the default risk of the notes is equivalent to that of the IDR and that senior non-preferred obligations have average recovery prospects.

Santander's long-term senior preferred debt, deposit ratings and the DCR are rated one notch above Santander's Long-Term IDR to reflect the protection that accrues from buffers of junior and senior non-preferred debt, which exceed 10% of RWAs (after deconsolidating subsidiaries that are in different resolution groups, as Santander has a clear multiple-point-of-entry resolution strategy) on a sustained basis. We expect Santander to continue to issue a significant volume of senior non-preferred and junior debt to maintain the group's minimum requirement for own funds and eligible liabilities (MREL) and subordination requirements.

The short-term senior preferred debt and deposit ratings of 'F1' benefit from their equivalent long-term senior debt and deposit ratings being notched up from the Long-Term IDR to reflect lower credit risks.

Subordinated debt issued by Santander is notched down from its VR in accordance with our assessment of each instrument's non-performance and relative loss severity risk profiles. We rate the instruments two notches below the group's VR for loss severity as we expect recoveries to be poor for this type of debt in case of default or non-performance of the bank.

We rate additional Basel III Tier 1 debt with fully discretionary coupon payment four notches below the group's VR. This corresponds to two notches for loss-severity and two notches for non-performance risk. Our assessment is based on the bank operating with a CET1 ratio above maximum distributable amount thresholds, and our expectation that this will continue. Our assessment is also underpinned by the group's record of strong pre-provision earnings generation throughout the cycle and by a sound leverage ratio.

Legacy preferred shares are rated five notches below the bank's VR. This corresponds to two notches for loss-severity and three notches for non-performance risk given the presence of a profit test in the notes' terms and conditions.

Issuer Ratings (Main Subsidiaries)

Rating Level	Santander Consumer Finance, S.A.	Santander Totta, SGPS, S.A	Santander UK Group Holdings plc	Santander Holdings USA, Inc.	Banco Santander Mexico, S.A., Institucion de Banca Multiple, Grupo Financiero Santander Mexico
Long-Term IDR	A-/Stable	A-/Stable	A/Stable	BBB+/Stable	BBB+/Stable
Short-Term IDR	F2	F2	F1	F2	F2
Viability Rating	a-	bbb	a	bb+	bbb-
Shareholder Support Rating	a-	a-	bbb+	bbb+	bbb+

Source: Fitch Ratings

The Long- and Short-Term IDRs of Santander Totta SGPS, S.A. (Totta), Santander Holdings USA, Inc. (SAN US) and Banco Santander Mexico, S.A., Institucion de Banca Multiple, Grupo Financiero Santander Mexico (SAN Mexico) are based on shareholder support from Santander. The Long-Term IDRs of Santander UK Group Holdings plc (SGH) and Santander Consumer Finance, S.A. (SCF) are driven by their standalone credit profiles, which is reflected in their VRs.

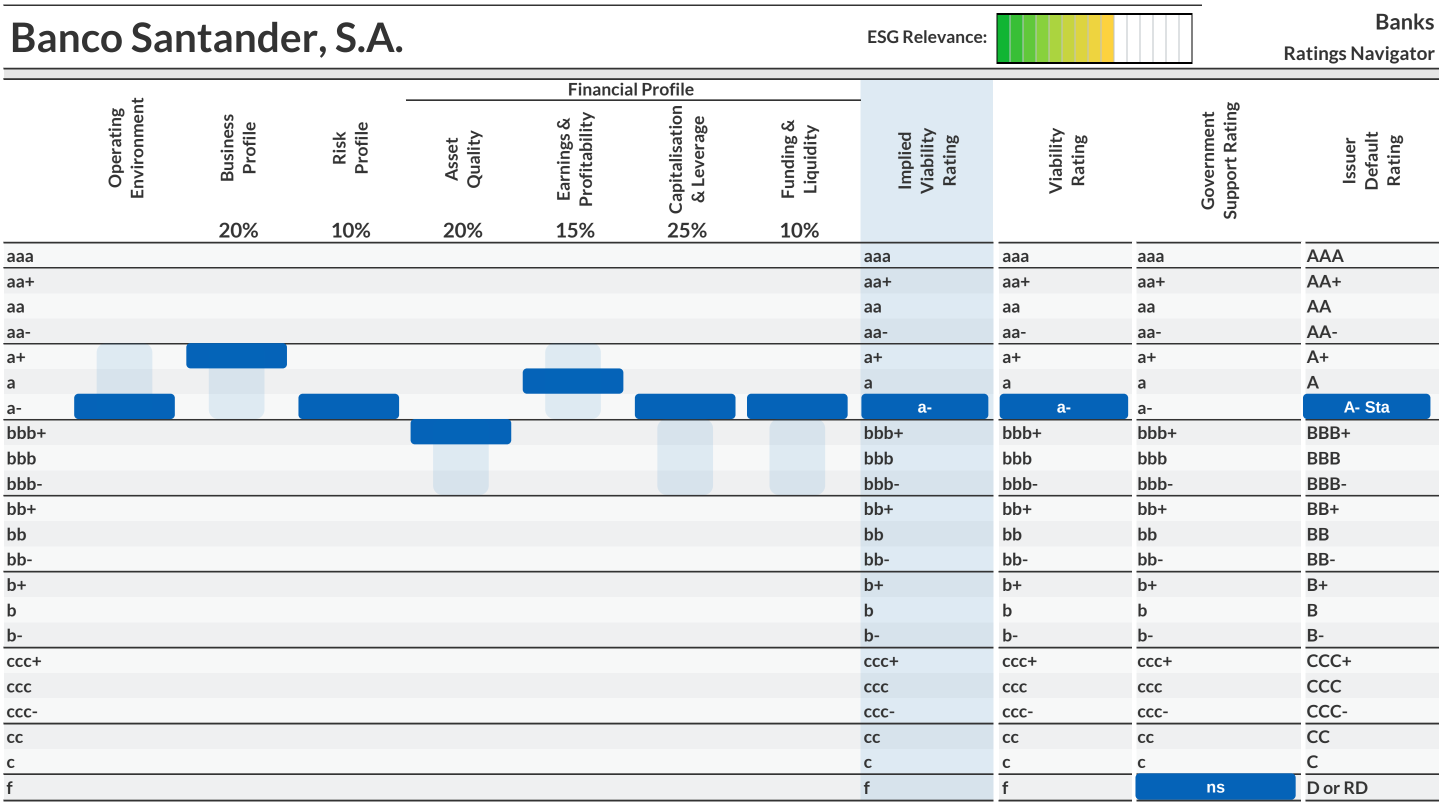
SCF's IDRs are further underpinned by potential shareholder support. We believe Santander has strong incentives to provide support to the fully owned SCF, as we consider it a core and integral part of the group, given that it manages most of Santander's consumer finance operations in Europe. SCF is also part of Santander's resolution group.

The Long-Term IDRs of Totta is in line with Santander's. This reflects our expectation of a very strong propensity of Santander to provide support, given the recent inclusion of Totta into the resolution group headed by the parent, and the consequent reputational risks that a default of the Portuguese subsidiaries would represent for Santander.

The Long-Term IDRs of SAN US and SAN Mexico are notched down once from Santander's to reflect Fitch's view that their activities are strategically important to the group. We also consider the strong ability (given the relative size to the group is unlikely to represent a constraint) and strong propensity of parent support. The banks' performances are supported by strong synergies and integration with the parent, and a wide range of shared risk management and operational practices.

SGH's ratings are assessed on a consolidated basis. SGH acts as the holding company for the Santander group's UK entities, and its VR is equalised with that of the main operating subsidiary, reflecting SGH's role in the group and low holding company double leverage. The VR is based on the group's conservative risk appetite, adequate capitalisation and stable funding and liquidity profile as well as a less diversified business mix than larger UK peers, which weakens the group's profitability.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The operating environment score of 'a-' is in line with the 'a' category implied score but above the 'bbb+' score typically assigned to domestic Spanish banks because of the following adjustment reason: international operations (positive).

The capitalisation & leverage score of 'a-' has been assigned above the 'bbb' category implied score because of the following adjustment reasons: internal capital generation and growth (positive) and capital flexibility and ordinary support (positive).

The funding and liquidity score of 'a-' has been assigned above the 'bbb' category implied score because of the following adjustment reasons: deposit structure (positive) and non-deposit funding (positive).

Company Summary and Key Qualitative Factors

Business Profile

Santander is Spain's largest banking group, with an internationally diversified retail banking franchise through majority-owned foreign subsidiaries. The group has a good balance between developed and emerging economies in terms of risk distribution. Most international subsidiaries have a critical mass in their home markets (market shares above 10%), and in many cases are systemically important to their respective jurisdictions. This provides them with some degree of pricing power and ability to access domestic capital markets. Santander also has a robust consumer finance business in continental Europe through its Digital Consumer Bank (DCB), including Santander Consumer Finance (SCF), which ranks among the top three competitors in most of its markets.

Retail banking accounts for almost 60% of the group's operating profit, which provides a high degree of recurrence and stability to Santander's earnings, while the contribution from capital market activities are small compared to other GSIB's. Despite the predominance of mature markets, which benefitted the most from the higher interest rates, the group's established operations in emerging markets are supportive of Santander's earnings due to growing business volumes, both in lending and fee-based activities, and balance different interest rate cycle dynamics across geographies. The group is aiming to simplify its product offering, enhancing operating efficiency and commercial effectiveness in businesses in which Santander has stronger appetite and competitive advantage.

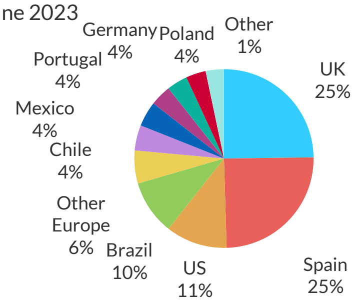
In consistency with this strategy, Santander announced in September the reorganisation of the group business segments to consolidate its retail & commercial banking and digital consumer bank across all markets under two new global businesses. In line with this, the group plans to align its financial results reporting to this new model from January 2024, with five global businesses (Retail & Commercial, Digital Consumer Bank, Payments and Wealth Management & Insurance) becoming the new primary segments for the group. We cannot assess the full operational impact of this reorganisation yet, but we believe this will eventually further enhance cohesion and integration within the group.

Following the reorganisation, the 2023–2025 financial strategic targets remain unchanged and coherent with the current macroeconomic scenario, including achieving a return on tangible equity of 15%–17% in 2023–2025, and a cost efficiency ratio of around 42% by 2025, and maintaining a fully-loaded CET1 above 12%. We consider the strategic objectives broadly achievable and the group has already made some tangible progress, such as through reducing the number of products offered and cost savings from digitalisation to support cost-efficiency gains.

Multiple Point of Entry Approach

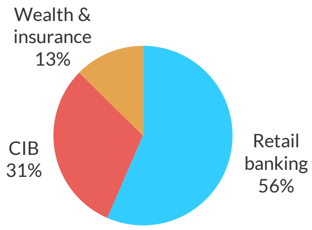
The group's organisational structure consists of a parent bank based in Spain, holding majority stakes in international banking subsidiaries. The group follows a multiple-point-of-entry resolution strategy, which implies that each material foreign subsidiary is required to hold its own recapitalisation buffers following the regulatory requirements in their jurisdiction and is self-funded. EU's MREL applies to the resolution group that includes the parent bank, SCF, and, since May 2023, the Portuguese subsidiary (Santander Totta). At end-June 2023, the resolution group complied with its MREL (33.6% of RWAs, including combined buffer requirements) with a buffer of 260bp. As a GSIB, Santander has to meet total loss absorbing capacity requirements, and it had a buffer of 280bp at end-June 2023.

Group Loans by Geography
End-June 2023



Source: Fitch Ratings, Santander

Operating Profit by Business
1H23



Excludes: Corporate centre (-EUR620m) and PagoNext (-EUR105m)
Source: Fitch Ratings, Santander

Risk Profile

Santander's moderate risk appetite is supported by good central oversight, which mitigates the complexity of the group's presence in a large number of jurisdictions. This, combined with its retail focus and geographic diversification, underpins the resilience of the group's asset quality in periods of stress. Since the pandemic, the group has tightened its underwriting standards and reduced certain risk limits that have not yet returned to pre-pandemic levels in view of remaining uncertainties from the operating environment. Moreover, over the past 12 months, it also completely revised its underwriting strategy in US and Brazil, shifting towards less-risky lending. The energy crisis and the US banks' failures were catalysts for further enhancements in the group's credit risk monitoring. The combination of these elements and Santander's proactive approach to manage credit risk by means of collections, recoveries and impaired loans sales represent a sound line of defence to mitigate the impact of the economic slowdown and inflationary pressures in the coming quarters.

Modest Market Risk

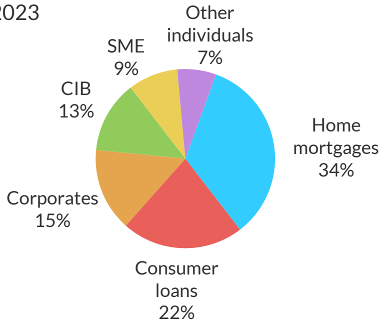
Santander adequately manages its market risks, which mainly relate to interest rate risk from its commercial banking businesses and foreign-exchange (FX) risk, which mostly relates to equity investment in subsidiaries financed in euros and their earnings. The group's policy is to keep the structural FX exposure fully hedged in the most relevant currencies. Potential FX effects on consolidated fully loaded CET1 from exchange rate movements are hedged and yearly expected profits are consistently largely hedged to ensure earnings stability. Interest rate risk is adequately managed at country level largely through strategies on the ALCO portfolio and hedges. The group has positive sensitivity to interest rates, mainly stemming from its Spanish business given the significant share of floating-rate loans.

As of end-July 2023 Santander estimated that a 100bp parallel shift upwards of the interest rate curve would generate an increase in net interest income (NII) of about EUR1.2 billion in continental Europe, equal to about 12% of its 1H23 annualised NII. In the UK, NII would instead increase by about EUR250 million, equal to about 5% of its annualised 1H23 NII. South America remains positioned to benefit from rate cuts. NII in Brazil, which is the main contributor to the segment's interest rate sensitivity, would reduce by EUR100 million (approximately 1% of its 1H23 annualised NII). In the US, the sensitivity is slightly negative.

Santander started to increase its ALCO portfolio this year, mainly through investments in government bonds and other fixed-rate securities, mainly in Spain, Mexico, Brazil and Poland, to take to take advantage of higher rates and be prepared for interest rate cuts. In US, instead the bank has been de-risking to mitigate convexity risk through sales of fixed-rate bonds and interest rate risk hedges.

Group Loans by Product

End-June 2023

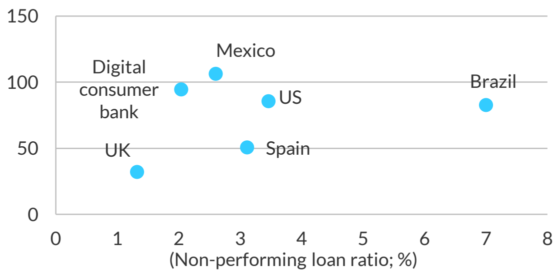


Source: Fitch Ratings, Santander

Asset Quality

End-June 2023

(Reserve coverage; %)



Source: Fitch Ratings, Santander

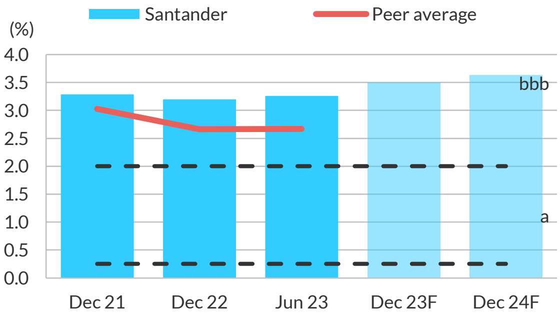
Financial Profile

Asset Quality

Asset quality benefitted from benign default rates across the regions, write-offs, and portfolio sales in Spain that largely offset new inflows. In Europe, resilient loan performance also reflects Santander's underwriting with better affordability rates and lower loan-to-values for residential mortgages over the past few years, and increasing use of state guarantees on SME and corporate loans since the pandemic. In US, default rates are normalising from the low levels during the pandemic, albeit still below the bank's expectations, and should, over time, benefit from the group's repositioning from non-prime to prime segment in auto loans. In Brazil, excluding the large corporate default in 2022, asset quality metrics have been improving given the group's tightened underwriting and increased focus on secured lending. There are still pockets of risks from these businesses, given their cyclicality, but overall asset risks should be manageable, given the group's better-quality portfolios.

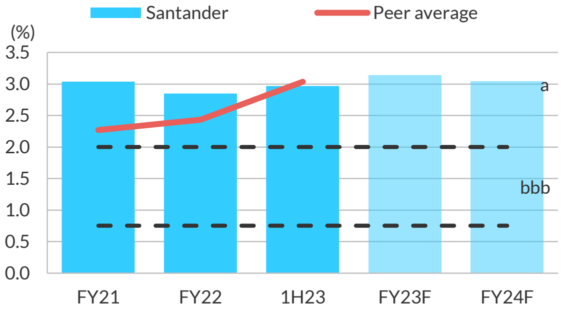
The group's impaired loan coverage ratio slightly decreased yoy to almost 70% at end-June 2023, broadly in line with its European peers'. LICs remain adequate in the context of the large Santander's collateralised mortgage loan portfolio. The LICs/average gross loans ratio increased to 124bp in 1H23 (108bp as per bank's calculation) from 83bp in 1H22. This mainly reflects normalisation in US, charges in Poland for Swiss franc mortgages and higher provisions in Brazil for business growth. We expect LICs to marginally increase in 2H23 but these should remain within the bank's guidance for the year at about 120bp.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

Santander's core profitability metrics are sound and compare well with European peers. Its 1H23 operating profit/RWAs was close to our expectation for 2023 just above 3%, due to revenue growth, operating costs managed efficiently against inflationary pressures, and LICs remaining under control.

NII contribution remained strong, although is increasing more slowly than that of large European peers, reflecting mixed dynamics across the various geographies. NII in Europe was supported by continuing asset repricing and modest pass-through rates to deposits, despite lower-than-expected loan growth. Conversely, increasing lending volumes in the Americas offset higher funding costs. We still expect some NII improvement in 2H23 from asset repricing and a gradual reversal of negative sensitivity to interest rates in Latin America as interest rates normalise. Fee income should continue to benefit from ongoing strategic initiatives to enhance the product offering, increasing the contribution from CIB, and payment and transaction services across all the geographies.

Operating profitability should be largely supported by increasing revenue on higher interest rates and selected business volume growth from its diversified business model, despite the pressure on costs if inflation becomes structurally high. LICs should remain above pre-pandemic levels, reflecting further normalisation in US, business growth and slight deterioration in asset quality.

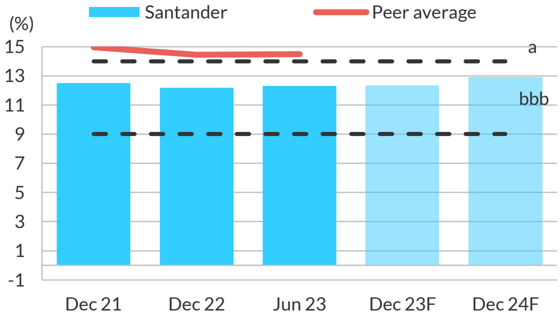
Capital and Leverage

Santander's fully loaded CET1 capital ratio remained broadly stable yoy at 12.3% at end-June 2023, despite the impact of the two buyback programmes that totalled EUR1.9 billion, completed in 1Q23. This stability was due to continued good internal capital generation, typically well above 100bp of RWAs each year before capital distributions (1H23: 45bp; 2022: 138bp), and limited market valuation effects and regulatory and internal model adjustments impacts. Santander launched a new buyback programme for a maximum of EUR1.31 billion in September 2023 given improved profitability prospects. The latter should allow the group to return excess capital and eventually fund business growth, while maintaining a CET1 ratio above 12% in the medium term, in line with its guidance.

Santander's regulatory leverage ratio (4.8% fully-loaded at end-June 2023) is in line with that of European peers and well above the minimum requirement (3.5% from 1 January 2023).

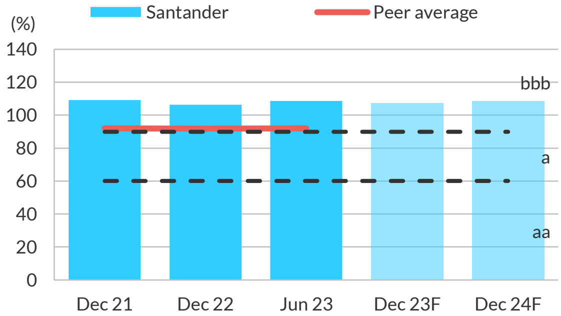
Risks from unrealised losses on securities held at amortised cost is negligible (about 2% of its fully loaded CET1 capital at end-June 2023), also reflecting the balanced composition of the portfolio between fair-valued and held-at-amortised-cost securities.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

Santander's loans/deposits ratio remained below its four-year average of 111% (end-June 2023: 109%), but has slightly increased due to customers' increased usage of savings accumulated since the pandemic. We expect the ratio to further increase over 2H23 and 2024 but to remain below pre-pandemic levels, with slowing loan growth likely offsetting continuing subdued deposit inflows and expected migration from deposits to investment products to seek higher yields. The group is increasing its deposit franchise in US, where it also benefitted from flight-to-quality after the crisis of the US regional banks, and has launched different commercial campaigns to increase the deposit base at its DCB. This will gradually replace wholesale funding and smoothen increases in funding costs.

Refinancing of medium-term maturities of wholesale debt, including central bank facilities, will also be manageable considering Santander has largely prepaid its ECB's TLTRO financing (about EUR72 billion of its EUR89 billion drawn), its sound liquidity buffers and the bank's resilient access to debt capital markets, which allowed it to execute already over 60% of its 2023 funding plan in 1H23. Cash and high-quality liquid asset securities (end-June 2023: EUR317 billion; 18% of total assets) are in excess of the bank's short-term commitments. Santander's liquidity coverage ratio recovered in 2Q23 (end-June 2023: 158%) after a mild deterioration (end-2022: 152%) due to TLTRO repayments.

Additional Notes on Charts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics per Fitch's Bank Rating Criteria. They are based on a combination of Fitch's macro-economic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market.

To the extent Fitch is aware of material non-public information with respect to future events, such as planned recapitalisations or merger and acquisition activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

Black dashed lines represent indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'a' category. Light-blue columns represent Fitch's forecasts.

Peer average includes Banco Bilbao Vizcaya Argentaria, S.A. (VR: bbb+), Societe Generale S.A. (a-), Lloyds Banking Group plc (a), Credit Agricole (a+), BNP Paribas S.A. (a+), Barclays plc (a), UniCredit S.p.A. (bbb), Intesa Sanpaolo S.p.A. (bbb).

Financials

Financial Statement

	30 Jun 23		31 Dec 22	31 Dec 21	31 Dec 20
	6 months - interim (USDm) Unaudited	6 months - interim (EURm) Unaudited	Year end (EURm) Audited - unqualified	Year end (EURm) Audited - unqualified	Year end (EURm) Audited - unqualified
Summary income statement					
Net interest and dividend income	23,147	21,302	39,107	33,883	32,385
Net fees and commissions	6,632	6,103	11,790	10,502	10,015
Other operating income	657	605	1,220	2,019	1,879
Total operating income	30,436	28,010	52,117	46,404	44,279
Operating costs	13,560	12,479	23,903	21,415	21,130
Pre-impairment operating profit	16,876	15,531	28,214	24,989	23,149
Loan and other impairment charges	6,777	6,237	10,863	7,407	12,382
Operating profit	10,099	9,294	17,351	17,582	10,767
Other non-operating items (net)	-1,308	-1,204	-2,101	-3,035	-12,843
Tax	2,479	2,281	4,486	4,894	5,632
Net income	6,312	5,809	10,764	9,653	-7,708
Other comprehensive income	n.a.	n.a.	-2,660	-220	-9,794
Fitch comprehensive income	6,312	5,809	8,104	9,653	-7,708
Summary balance sheet					
Assets					
Gross loans	1,110,713	1,022,191	1,019,188	962,382	904,092
- Of which impaired	36,178	33,295	32,617	31,645	30,815
Loan loss allowances	25,150	23,146	22,684	22,964	23,595
Net loans	1,085,562	999,045	996,504	939,418	880,497
Interbank	116,455	107,174	51,552	71,983	16,101
Derivatives	76,534	70,434	71,322	59,463	77,442
Other securities and earning assets	327,676	301,561	297,101	227,625	292,764
Total earning assets	1,606,227	1,478,214	1,416,479	1,298,489	1,266,804
Cash and due from banks	225,519	207,546	223,073	210,689	153,839
Other assets	102,937	94,733	95,107	86,657	87,607
Total assets	1,934,683	1,780,493	1,734,659	1,595,835	1,508,250
Liabilities					
Customer deposits	1,022,181	940,715	958,568	881,987	814,836
Interbank and other short-term funding	278,176	256,006	228,114	237,546	219,153
Other long-term funding	316,801	291,553	280,547	246,163	223,208
Trading liabilities and derivatives	102,781	94,590	96,517	71,513	92,762
Total funding and derivatives	1,719,940	1,582,864	1,563,746	1,437,209	1,349,959
Other liabilities	103,863	95,585	70,032	61,573	59,348
Preference shares and hybrid capital	n.a.	n.a.	3,296	152	7,784
Total equity	110,881	102,044	97,585	96,901	91,159
Total liabilities and equity	1,934,683	1,780,493	1,734,659	1,595,835	1,508,250
Exchange rate		USD1 = EUR0.920302	USD1 = EUR0.937559	USD1 = EUR0.884173	USD1 = EUR0.821963

Source: Fitch Ratings, Fitch Solutions, Santander

Key Ratios

	30 Jun 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	3.0	2.9	3.0	1.9
Net interest income/average earning assets	3.0	2.8	2.6	2.5
Non-interest expense/gross revenue	45.0	46.5	46.6	47.6
Net income/average equity	11.8	11.0	10.2	-7.9
Asset quality				
Impaired loans ratio	3.3	3.2	3.3	3.4
Growth in gross loans	0.3	5.9	6.5	-1.6
Loan loss allowances/impaired loans	69.5	69.6	72.6	76.6
Loan impairment charges/average gross loans	1.2	1.1	0.8	1.4
Capitalisation				
Common equity Tier 1 ratio	12.3	12.2	12.5	12.3
Fully loaded common equity Tier 1 ratio	12.2	12.0	12.5	11.9
Basel leverage ratio	4.8	4.7	5.2	5.3
Net impaired loans/common equity Tier 1	13.1	13.4	12.0	10.4
Funding and liquidity				
Gross loans/customer deposits	108.7	106.3	109.1	111.0
Liquidity coverage ratio	158.0	152.0	164.0	165.0
Customer deposits/total non-equity funding	62.3	64.2	64.0	63.4
Net stable funding ratio	122.0	121.0	126.0	120.0

Source: Fitch Ratings, Fitch Solutions, Santander

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	bbb+ or bbb
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	A-/ Stable
Size of banking system	Negative
Structure of banking system	Neutral
Sovereign financial flexibility (for rating level)	Neutral
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

No Government Support into Ratings

We believe that Santander's senior creditors cannot expect to receive full extraordinary support from the sovereign if the bank becomes non-viable. This is because the EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism for eurozone banks provide a framework for the resolution of banks that requires senior creditors to participate in losses, if necessary, instead of, or ahead of, a bank receiving government support.

Environmental, Social and Governance Considerations

FitchRatings **Banco Santander, S.A.**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Banco Santander, S.A. has 5 ESG potential rating drivers

- Banco Santander, S.A. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

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