Rating Report

Banco Santander SA

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DBRS

Insight beyond the rating.

Ratings

Issuer	Debt	Rating	Rating Action	Trend
Banco Santander SA	Senior Unsecured Long-Term Debt & Deposit	A	Confirmed	Stable
Banco Santander SA	Short-Term Debt & Deposit	R-1 (low)	Confirmed	Stable

See page 11 for full list of ratings

Rating Considerations

Franchise Strength: Santander's well-positioned, geographically diverse international franchise is a key strength underpinning its rating. With an extensive international retail banking franchise, Santander continues to have success in advancing its position through its deepening of existing subsidiaries and expansion through acquisitions.

Earnings Power: Santander has developed a very powerful international retail banking franchise. DBRS views this level of diversity as adding significant resiliency to the Group's earnings.

Risk Profile: Santander has a strong, conservative risk management culture that permeates the organization, with its low risk profile benefiting from its focus on retail and commercial banking.

Funding and Liquidity: Santander's funding profile benefits from being predominantly a retail banking organisation with substantial customer deposits.

Capitalisation: Supported by a diversified and generally low risk profile, combined with its solid ability to generate capital organically, Santander's capitalization levels are satisfactory in the current environment.

Rating Drivers

Factors with Positive Rating Implications

- Positive rating pressure would likely be linked to continued improvement in the position of the Spanish sovereign and the operating environment in Spain.

Factors with Negative Rating Implications

- While less likely, negative ratings pressure could arise if there is any indication of an increased risk profile, particularly within Santander's consumer finance or wholesale banking businesses, without the appropriate increase in capitalization.
- Additionally, lower earnings prospects in its international subsidiaries would likely put negative pressure on Santander's ratings, as this would reduce the benefit of the Group's international diversification.

Financial Information

EUR Millions	30/09/2016	31/12/2015	31/12/2014	31/12/2013	31/12/2012
Total Assets	1,329,538	1,340,262	1,266,296	1,115,761	1,269,643
Equity	101,122	98,754	89,714	79,639	81,211
Pre-provision operating income (IBPT)	5,454	21,229	22,650	19,442	23,403
Net Income	1,695	5,966	5,816	4,175	2,282
Net Interest Income / Risk Weighted Assets (%)	5.37%	5.60%	5.04%	5.30%	5.37%
Risk-Weighted Earning Capacity (%)	3.74%	3.54%	4.12%	3.67%	4.15%
Post-provision Risk-Weighted Earning Capacity (%)	2.03%	1.76%	2.17%	1.55%	0.80%
Efficiency Ratio (%)	49.05%	53.90%	50.59%	53.41%	47.83%
Impaired Loans % Gross Loans	4.21%	4.42%	5.30%	5.81%	4.74%
Core Tier 1 (As-reported)	12.44%	12.55%	10.97%	11.71%	10.33%

Issuer Description

With over EUR 1,300 billion of assets, Banco Santander ranks in the top 10 European banks. As a global bank, Banco Santander has strong presence in Europe and in the Americas. Employing more than 190,000 staff with a worldwide presence, the bank is engaged in broadly diversified activities in retail and corporate banking, consumer finance and asset management.

Rating Rationale

DBRS, Inc. (DBRS) rates Banco Santander SA's (Santander or the Group) Senior Unsecured Long-Term Debt & Deposits at "A" and Short-Term Debt & Deposits at R-1 (low). All ratings have a Stable trend. Santander has an intrinsic assessment (IA) of "A".

Santander's ratings reflect the strength of the Group's globally diversified retail banking franchise which contributes to resilient earnings and a sustained ability to generate capital through retained earnings. With a good balance between developed and emerging economies, where the Group maintains strong market shares, Santander generates significant earnings from outside its home market of Spain. The current rating level also considers the continued headwinds facing the Group, including a still challenging operating environment and the evolving and more onerous regulatory environment. While Santander maintains a predominantly low risk profile given its mix of business, the Group is exposed to potentially higher risk business activity through its consumer finance or wholesale banking businesses, as well as through its exposure to emerging market economies.

DBRS considers Santander's significant geographic diversification with its international franchises outside Spain as an important underpinning of the current rating level. By maintaining the Group's rating at "A", which is positioned one-notch above DBRS's rating of the Spanish sovereign, DBRS reiterates its view that Santander benefits from the geographic diversification and resilient performances across the Group's businesses. As the Group benefits from the regular upstreaming of dividends from each of its subsidiaries to the parent, DBRS will continue to assess Santander's ability to upstream these dividends given the increasing scrutiny of regulators in certain jurisdictions.

DBRS considers Santander's earnings as solid and improving. While profitability continues to be pressured due to various factors, including the low interest rate environment and elevated provisioning levels, the Group continues to generate a solid level of resilient earnings. Attributable profit to the Group of EUR 6.0 billion on gross income of EUR 45.3 billion in 2015 remains substantial and returns are at the mid- to upper-end of the global peer group. Underlying attributable profit of EUR 5.0 billion in 9M16 is tracking consistently with 2015, despite the continued challenging operating environment.

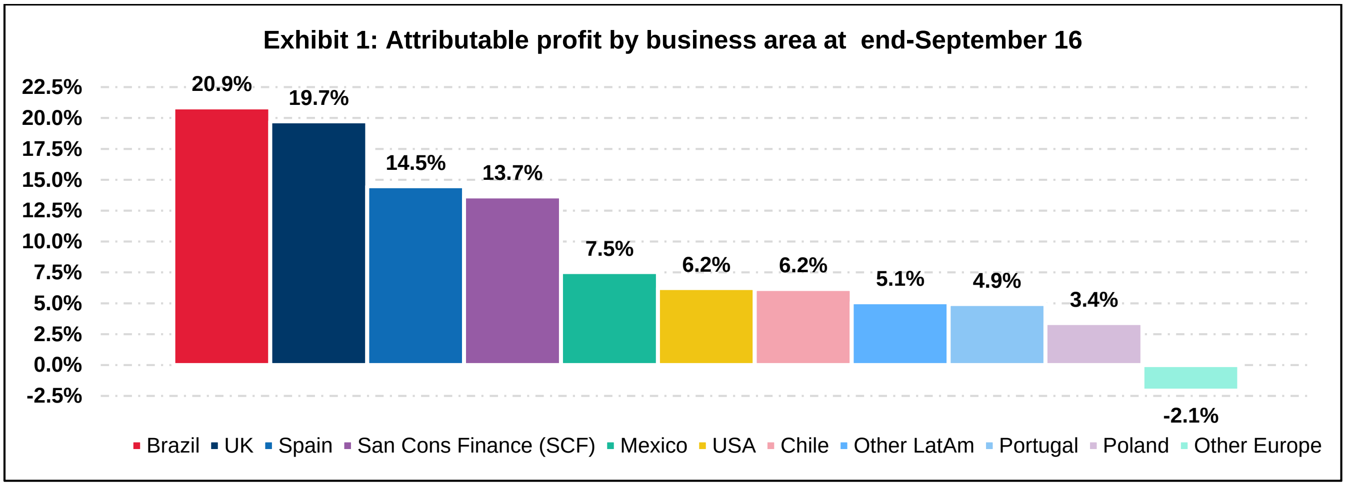
DBRS views the Group as having a sound management team with a conservative risk culture that permeates the organization, contributing to a generally low risk profile and very strong operational capabilities with a successful history of managing operational risks. Santander has a track record of successfully integrating sizable acquisitions, with systems integration typically being an important first step for Santander when acquiring an entity, contributing to highly effective front and back end systems when completed.

Despite this, the Group is facing headwinds in the U.S., where its U.S. holding company is subject to the Federal Reserve's stress testing exercises (CCAR). The U.S. holding company has been included within the CCAR process for the past three years, and in all years has received an objection to its capital plans from the regulators. This objection limits Santander's ability to upstream dividends without the prior receipt of a written non-objection from the U.S. regulators. DBRS is aware that the Group is devoting significant time and resources to improving its CCAR planning processes, which is a costly effort. From a ratings perspective, DBRS is concerned that the significant challenge related to the regulatory burden in the U.S. has the potential to hinder business opportunities and growth in an important market for Santander (see DBRS: Santander Faces Headwinds in the U.S and DBRS: DFAST and CCAR – A Few Takeaways).

Further supporting its fundamental credit profile, Santander maintains solid capital levels and a conservative funding and liquidity profile. The Group reported a fully loaded Common Equity Tier 1 (CET1) capital ratio of 10.47% at 9M16, up 42 bps since end-2015. While still at the low end of the global peer group, DBRS notes that Santander's strong ability to generate capital internally, while continuing to manage risk-weighted assets, is contributing to steady improvement. The Group's funding and liquidity profile that benefits from its position as a relevant player in local markets with each subsidiary responsible for its own funding needs.

Franchise Strength

Santander's well-positioned, geographically diverse international franchise is a key strength underpinning its rating. With an extensive international retail banking franchise, Santander continues to have success in advancing its position through its deepening of existing subsidiaries and expansion through acquisitions. Santander aims to have critical mass in the markets where it operates with a goal of having a minimum market share of 10% in core markets, which include Brazil, Mexico, Spain, United Kingdom (U.K.), Poland, Portugal, Chile and Argentina. In the United States (U.S.), the Group is focused on its regional presence in the northeast, as well as consumer finance. In Germany, the Group's strength is in consumer finance (see Exhibit 1).



Source: Company reports, DBRS. Note: Excludes Corporate Centre.

Across its franchise, Santander has shown its ability to seize opportunities through acquisitions to build market positions that enable it to be a strong competitor across its expanding international franchise. While the Group has generally been successful with acquisitions and integrations, the challenge for Santander is to continue to successfully generate organic growth post-acquisition. DBRS views Santander's success in highly competitive banking markets as being mixed, with the Group having considerable success with its franchise in the U.K. while its positioning in the U.S. remains challenged.

Santander follows a strategy of universal, transactional banking with a focus on consumers and small- and medium-sized businesses (SMEs), contributing to the resiliency of its earnings. Retail banking is the largest contributor to attributable profit given the breadth of Santander's franchise. Santander Global Corporate Banking (SGCB) provides complementary businesses, including transaction banking, financing solutions & advisory, and global markets. These activities are important elements for the Group's franchise which complement and enhance the value that Santander can provide and help to cement customer relationships.

The Group generally has a high level of competency in operating systems and technology skills. These have been critical for Santander's franchise by providing essential operating platforms, facilitating consolidation and easing the integration of acquisitions. The Group has invested considerable resources in consolidating its operating systems. It generally uses two major operating systems for transactions, one in Europe (Partenon) and one in Latin America (Altair), and one management system (Alhambra), supporting the Group's efficiency. When acquiring an entity, Santander seeks to harmonise and centralise processes, where possible, to achieve efficiency gains and consistency across businesses, while safeguarding best local practices and knowledge.

Despite these strengths, Santander continues to be challenged in the U.S., where it has received an objection to its capital plan for the past three years. The U.S. regulators have cited "widespread and substantial weaknesses across their capital planning processes. Specific deficiencies were identified in a number of key areas, including governance, internal controls, risk identification and risk management, management information systems (MIS), and assumptions and analysis that support the BHC's capital planning processes." DBRS views the extent of these issues as an indication that Santander's systems and technology in the U.S. require further developments, which is surprising given the strength of Santander's systems throughout Europe and Latin America.

Earnings Power

Santander has developed a very powerful international retail banking franchise with 86% of its underlying attributable profit in 9M16 coming from its franchises outside of Spain. DBRS views this level of diversity as adding significant resiliency to the Group's earnings. Santander benefits from divergent trends in the economies and markets across its franchise with a strategy of maintaining a balance between mature markets and emerging markets. Specifically, earnings from Santander Consumer Finance (SCF), Poland, the U.K. and Latin America (LatAm), excluding Brazil, have been stable or growing, helping to offset the challenging operating environment in Spain, Portugal and Brazil. An improving environment in Spain is contributing to earnings growth, while also offsetting any potential weakness in emerging market countries. This resiliency of earnings is an important underpinning of Santander's sound financial profile.

Exhibit 2: Attributable profit to the Group

(EUR millions)	9M16	2015	2014	2013	2012	2011	2010
Spain (Retail Banking)	568	557	175	466	803	790	1,266
Santander Consumer Finance	824	938	795	794	727	666	811
Portugal	293	300	184	114	124	174	456
Poland	208	300	355	334	330	232	—
Subtotal: Large Subsidiaries	1,893	2,095	1,509	1,708	1,983	1,863	2,532
Other	211	123	139	(593)	321	424	823
Continental Europe	**2,104**	**2,218**	**1,648**	**1,115**	**2,305**	**2,287**	**3,355**
United Kingdom	**1,207**	**1,971**	**1,556**	**1,149**	**1,094**	**1,223**	**1,965**
Brazil	1,276	1,631	1,437	1,577	2,212	2,610	2,814
Mexico	460	629	606	713	1,015	936	664
Chile	377	455	498	435	498	611	671
Other	311	478	361	456	579	507	579
Latin America	**2,424**	**3,193**	**2,902**	**3,181**	**4,305**	**4,664**	**4,728**
U.S.	**381**	**678**	**861**	**801**	**811**	**1,010**	**424**
Operating areas	**6,116**	**8,060**	**6,967**	**6,246**	**8,515**	**9,184**	**10,472**
Corporate Activities	(1,140)	(1,493)	(1,151)	(2,071)	(3,263)	(2,163)	(2,291)
Subtotal Group	**4,976**	**6,567**	**5,816**	**4,175**	**5,251**	**7,021**	**8,181**
Extraordinary Gains					1,064	1,513	
Extraordinary Provisions/Losses					(4,110)	(3,183)	
Net Extraordinary Allowances	(368)	(600)	—	—	(3,046)	(1,670)	—
Group Restatement Adjustment					90	(21)	31
Total Group	**4,608**	**5,967**	**5,816**	**4,175**	**2,295**	**5,330**	**8,212**

2014-9M16 - Spain (Retail Banking) is net of losses assicated with Spain Real Estate.

2013, 2014 - Other Continental Europe includes run-off real estate portfolio in Spain

2012 - Gross extraordinary gains of EUR 1.1 billion related to Iberia reinsurance transaction, sale of subsidiary in Colombia, sale of property; Extraordinary provisions of EUR 4.1 billion related to real estate in Spain

2011 - Gross extraordinary gains of EUR 1.5 billion related to sale of LatAm insurance business and SCF USA transaction; Extraordinary provisions mainly related to real estate in Spain, goodwill writedown in Portugal, portfolio writedowns, and amortiazation of intangibles, pension funds, etc.

Source: DBRS & Company reports

The Group reported net attributable profit (net income) of EUR 5.9 billion in 2015, largely consistent with 2014 net income and demonstrating improving trends since 2012 (see Exhibit 2). Net income in 2012 was negatively impacted by significant net provisions of EUR 18.9 billion, or 83% of income before provisions and taxes (IBPT), largely related to elevated provisioning requirements in Spain. Improving trends have been evident in the following years with generally declining provisioning levels, particularly within Spain. Following the peak of loan loss provisions/asset impairments in 2012, provisioning levels have since declined to EUR 10.6 billion in 2015 (49% of IBPT) and EUR 7.2 billion in 9M16 (45% of IBPT). While provisioning levels remain relatively high, DBRS views the improving trend positively from a credit perspective.

Santander maintains an advantage in its relatively high level of efficiency for a large, global bank, which allows more of its revenue to flow through to its bottom line. Consistency in its approach to retail banking in each franchise has enabled the Group to leverage product, delivery and marketing capabilities to generate strong growth. Santander operates through a subsidiary model, where each subsidiary maintains financial autonomy, but operational capabilities are integrated across the Group. This model and approach have afforded Santander considerable success in maintaining a low efficiency ratio of 48% in 9M16.

In Santander's home market of Spain, revenues remain resilient with net revenues of EUR 6.1 billion in 2015 (see Exhibit 3.1) and EUR 4.4 billion in 9M16. However, profitability in Spain remains pressured with provisioning and costs associated with restructuring. Net profits of EUR 557 million in 2015 remain well below more normalized pre-crisis net profits which were in excess of EUR 2 billion annually. DBRS notes that profitability is slowly improving with lower provisioning and expense reduction efforts.

Santander reports its Spain Real Estate (RE) Activity separately, as these assets are considered noncore and are in the process of being rundown. As of 30 Sept 2016, Santander reported total RE Activity assets of EUR 15.6 billion, down marginally from EUR 15.8 billion at the end of 2015. Losses associated with these noncore assets are manageable, with the RE Activity unit reporting a net loss of EUR 420 million in 2015 and EUR 217 million in 9M16.

Santander continues to advance its position throughout Europe in consumer finance, which is highly diversified geographically but also very efficient given the Group's shared resources. Revenues within Santander Consumer Finance (SCF) continue to grow as the Group increases its perimeter through joint ventures (JV) and acquisitions, most recently executing on the agreement with Banque PSA Finance. SCF net revenues of EUR 4.0 billion in 2015 were up from EUR 3.2 billion in 2014. Net revenues of EUR 3.2 billion in 9M16 are on track to continue the upward momentum.

With Brazil being a significant earnings driver, Santander's exposure to countries in LatAm is a sizable driver of overall results. In LatAm, the Group generated significant net revenues of EUR 18.8 billion in 2015 (largely flat to 2014) and EUR 13.6 billion in 9M16. Comprising approximately 40% of consolidated net revenues, LatAm is an important contributor to overall earnings. Generally, Santander's businesses in LatAm are high margin, which drives a wider spread on loans to compensate for the typically higher cost of credit. DBRS notes that elevated credit costs of EUR 5.8 billion, or 54% of IBPT in 2015, and notable minority interests (EUR 596 million in 2015) are weighing on net attributable profit in LatAm.

Exhibit 3.1: Gross operating income (by business area)

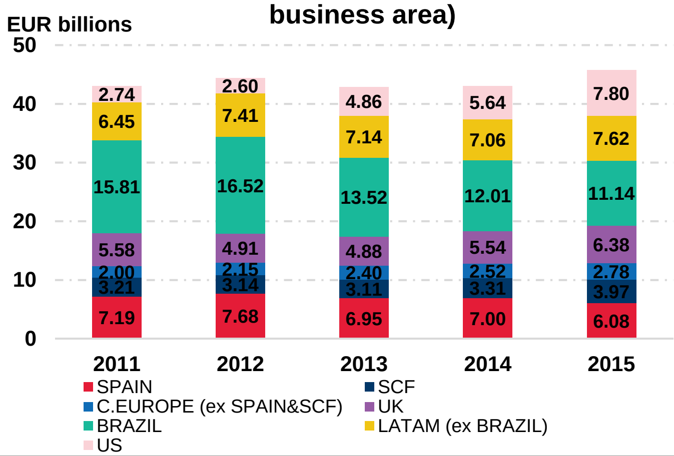
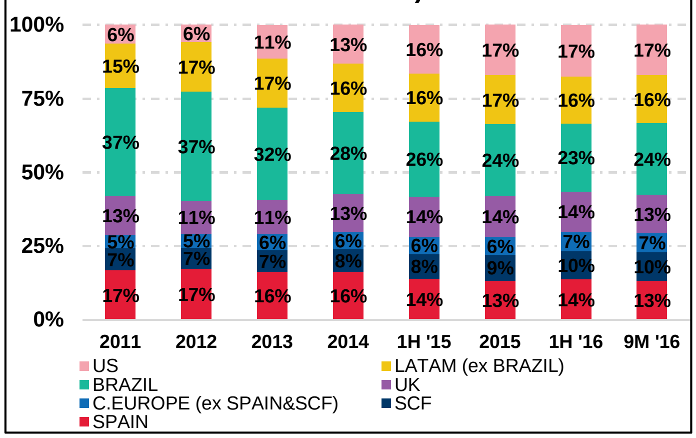


Exhibit 3.2: Gross operating income (by business area) % of total



Source: DBRS & Company reports

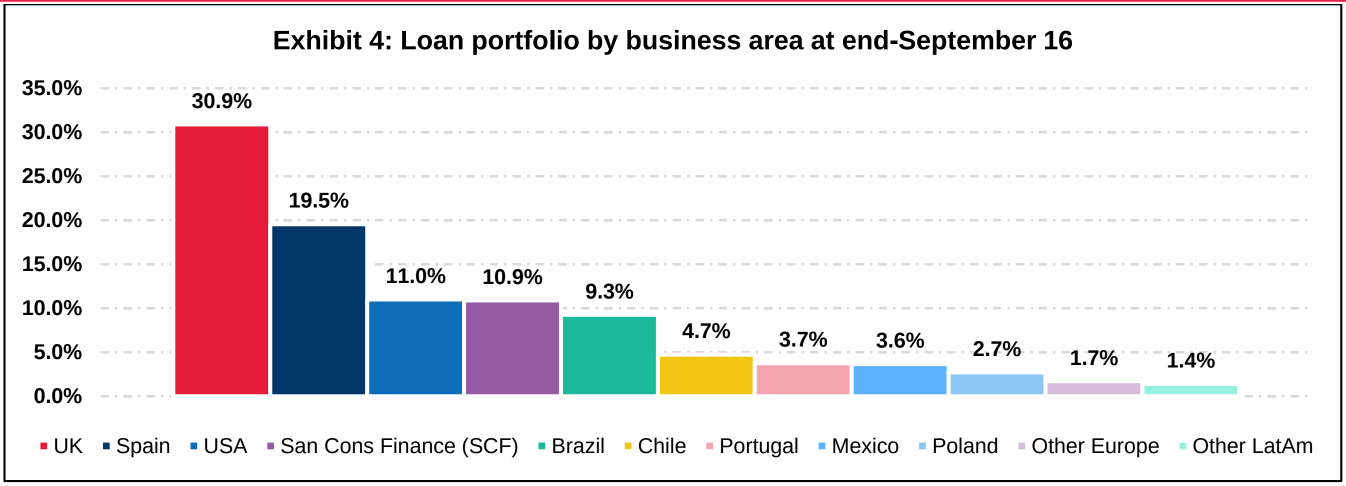
Brazil is the largest contributor to LatAm's profitability. The Group generated net revenues of EUR 8.1 billion and net profits of EUR 1.3 billion in Brazil in 9M16. Santander Brazil is the 3rd largest private bank and the largest international bank in Brazil, with approximately EUR 164 billion in total assets. Given the challenging operating environment in Brazil, the Group has been conservatively managing its positioning, reducing riskier lending and growing its deposit funding. NPLs over 90 days (based on local criteria) have ticked up slightly to 3.5% at 30 Sept 2016, up from 3.2% at the end of 2015, but this remains well below the average for national private sector banks of 5%.

Risk Profile

Santander has a strong, conservative risk management culture that permeates the organization, with its low risk profile benefiting from its focus on retail and commercial banking. Risk management is a strategic priority at Santander with the principal objective of having a predictable, low volatility cost of risk. The Group's focus on investment in technology supports not only expense management, but also facilitates consistent financial, operating and risk controls. It is also critical in enabling the Group to build and deliver a consistent broad range of products across its markets, but have sufficient flexibility to tailor the product mix to local market needs. Systems integration is an important objective for acquisitions, which results in high effectiveness of both front and back end systems when completed.

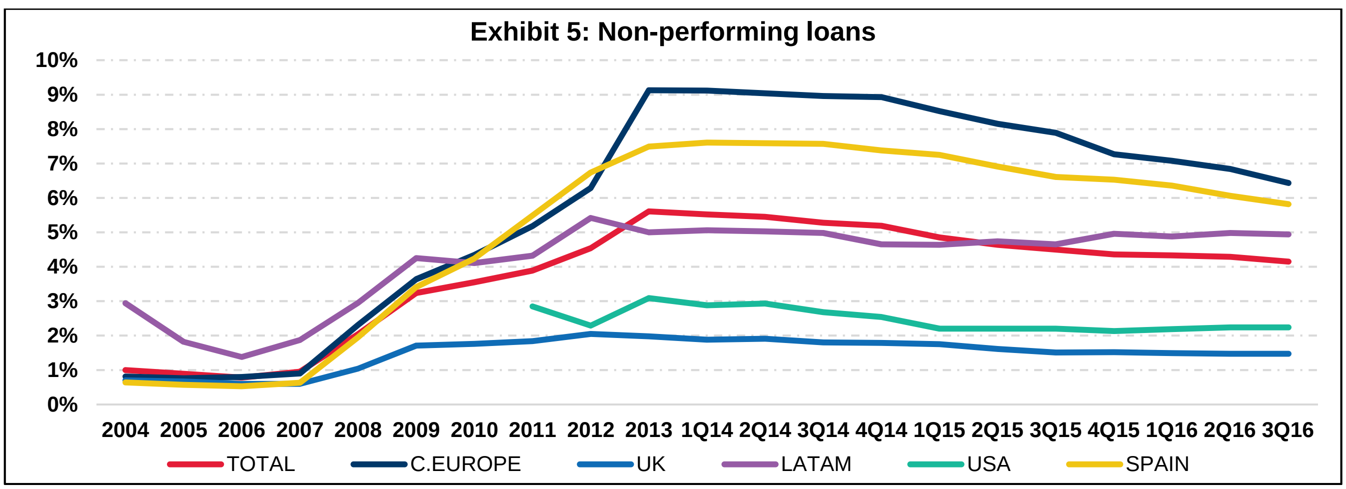
Credit Risk

Santander's credit risk profile is highly diversified with no specific risk concentration by geography or industry. As of 2015, Santander had gross exposure to credit risk of EUR 1,310 billion, including loans, commitments, fixed income, derivatives and repos. Credit risk is diversified across regions, mainly Continental Europe (41%), U.K. (29%), LatAm (19%) and the U.S. (11%). Its most significant exposure is through lending with total customer loans, which stood at EUR 773 billion as of 9M16 and is highly diversified by geography (see Exhibit 4). The Group's loan portfolio is largely to individuals (58%), and 42% of its loan portfolio is residential mortgages. Expected loss remains low at 0.79% for total Group credit exposure. Relating to mortgage lending, specifically, loan-to-value ratios (LTV) are generally low (for example, average weighted LTV, of 41.1% in the U.K. and, in Spain, 69% of the portfolio has an LTV of less than 80%).



Source: DBRS & Company reports

Asset quality continues to improve with the Group reporting a consistently lower non-performing loan (NPL) ratio since the end of 2014, now down to 4.15% supported by a better cost of risk across most geographies (see Exhibit 5). DBRS continues to observe asset quality trends in the US, where the NPL ratio remains relatively low at 2.2%, but is trending upward with growth in the consumer finance portfolio and exposure to oil & gas in the bank portfolio. NPL ratios remain high in Portugal at 9.4% due to adjustments made to the portfolio from Banif, though this ratio has been declining and is expected to decline further by year-end with nonperforming loan sales. NPL ratios also remain high in Brazil at 6.1% where the operating environment remains difficult, though DBRS views Santander as managing its exposure to nonperformers well.



*Spain and run-off real estate portfolio in Spain are included in Continental Europe.

Source: DBRS & Company reports

A notable contributor to the Group's asset quality weakness is its run-off real estate portfolio, which includes loans, foreclosed assets and certain equity stakes totalling EUR 15.6 billion at 3Q16, down 3.4% versus a year earlier, but has grown from EUR 12 billion in 2014. At just 1% of total assets, the exposure is manageable, despite adding notable risk. These exposures are excluded from the business unit data in Spain. While the Group is working to reduce this exposure, the NPL ratio in this portfolio remains very high, driving up the NPL ratio in continental Europe to 6.4% at 3Q16, while the additional exposure to foreclosed assets adds to this risk.

Santander has exposure to sovereign risk (including trading positions, available for sale, loan and held to maturity portfolios) in the geographies where it operates, with more sizable positions in Spain (EUR 49 billion), Brazil (EUR 24 billion), Portugal (10 billion), Mexico (EUR 11 billion), as well as the U.K., Poland, U.S, and Chile (approximately 5 billion each). DBRS notes that values of sovereign debt in peripheral European and emerging market countries can be volatile. With its sizable equity base of EUR 101 billion at 3Q16, DBRS views Santander as having the capacity to absorb any losses related to this exposure.

Market and Interest Rate Risk

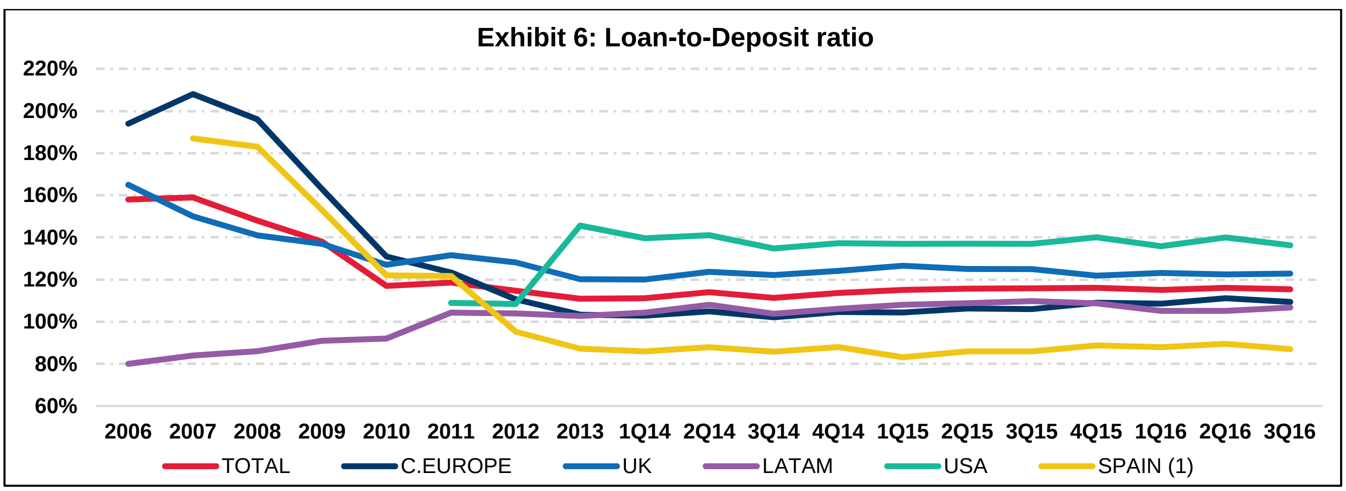
Market risk for the Group is primarily interest rate risk with very modest trading risk, given Santander's limited involvement in capital markets activities. This risk is monitored through the Treasury area. One measure of this risk is Value-at-Risk (VaR), which the Group reports based on a 99% confidence level, 1 day time period. Santander reported average VaR of EUR 15.6 million in 2015, which is in line with previous years (2014: EUR 16.9 million, 2013: 17.4 million) demonstrating the Group's consistent approach to conservatively managing market risk.

Santander reports stressed VaR for its two main portfolios, Spain-G10 and Brazil. The average VaR in 2015 for Spain-G10 was EUR 8.9 million, and is projected to increase to EUR 19.4 million under the stress scenario, or just 0.02% of total equity. The average VaR in 2015 for Brazil was EUR 9.5 million, and is projected to increase to EUR 16.6 million under the stress scenario. DBRS views VaR as one summary measure of the Group's exposure to market risk. While not necessarily comparable across institutions, it does provide a perspective on market risk across products and over time.

Funding and Liquidity

Santander's funding profile benefits from the Group being predominantly a retail banking organisation with substantial customer deposits providing the principal source of funding for most of its businesses. Within Santander, the subsidiaries are largely autonomous in managing its own funding and liquidity, including raising wholesale funding from its own local market. This approach diversifies the Group's wholesale funding sources and leverages the strength of its subsidiaries in their local markets. The businesses coordinate their issuances and securitisations with the Group Treasury, which monitors Santander's overall liquidity position. Thus, while the Group as a whole utilises considerable amounts of wholesale funding, a significant proportion is raised locally, which reduces the exposure to changing investor perceptions of its creditworthiness and its position as a Spanish bank.

Following a period of deleveraging, the Group's loan-to-deposit ratio has generally been stabilized, standing at 115% as of 3Q16 (see Exhibit 6). On a consolidated basis, loans have increased slightly YoY (+3%), while deposits have grown 5%, excluding any exchange rate impact. Loan growth is being driven by SCF and LatAm, as well as Portugal with the acquisition of Banif, partially offset by lower loan balances in Spain and the UK. Deposit growth is being driven by the Banif acquisition in Portugal, as well as Brazil and Chile.



(1) Spain ratio is also included in Continental Europe.

Source: DBRS & Company reports

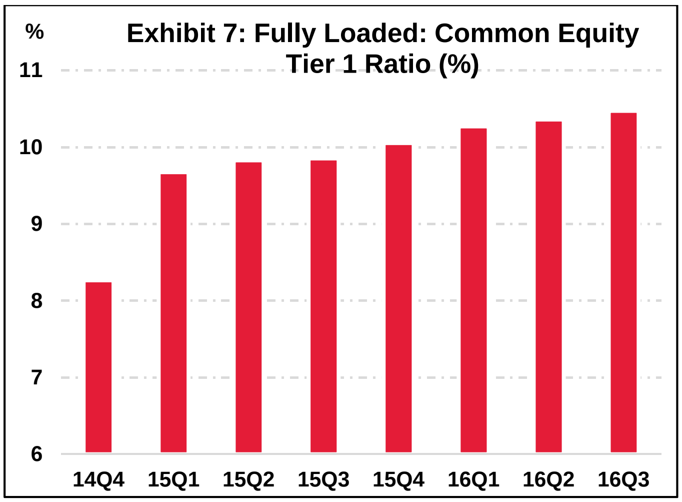
DBRS views Santander's debt maturity profile as manageable, and the Group maintains diversified access to the markets. The weighted average maturity of medium- and long-term debt issued by the Group in 2015 was around 4 years as of December 2015 and is diversified by maturity. Santander has maturities of approximately EUR 30 billion in 2017, EUR 17 billion in 2018, and EUR 19 billion in 2019. As a comparison, the Group issued EUR 60 billion of medium- and long-term debt in 2015.

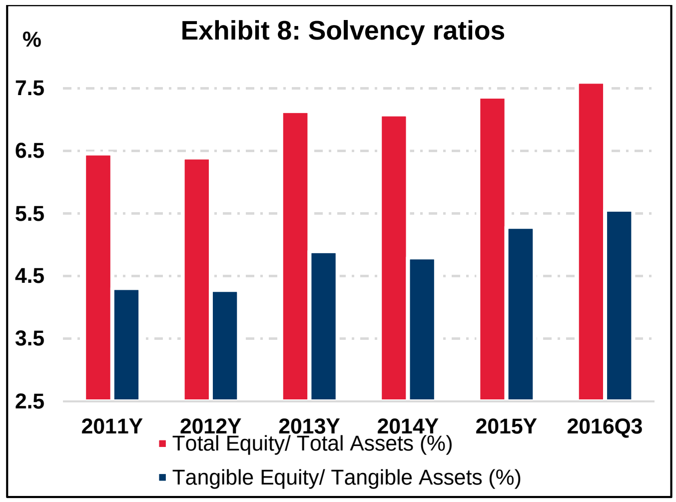
The Company estimates that it may need to issue between EUR 20 billion to EUR 35 billion of Total Loss Absorbing Capacity (TLAC) eligible debt prior to the 2019 deadline based on its interpretation of current regulation which has not yet been finalized. Santander's resolution strategy is that of a multiple point of entry (MPE) approach, meaning the TLAC requirement is established at each resolution entity. The Group plans to meet the estimated TLAC requirements over three years through expected organic capital generation of EUR 2.4 billion annually, AT1 issuance of EUR 1 billion to EUR 1.5 billion annually (from Parent Bank and Santander UK), and tier 2 issuance of approximately EUR 2 billion annually. In addition, Santander estimates the need to issue approximately EUR 1 billion to EUR 3 billion per year of TLAC-eligible debt in a base case scenario and EUR 4 billion to EUR 6 billion per year in a worst case scenario. DBRS will continue to monitor the Group's progress with meeting these targets based on its current interpretation of the rules, and will look for further disclosure clarifying the details of the final rules.

Capitalisation

DBRS considers Santander's capital levels as sound, particularly given its exposure to generally low-risk banking activities. The Group reported a fully-loaded CET1 capital ratio of 10.5% at the end of Sept-2016, improving 42 bps since year-end 2015. While Santander's fully-loaded CET1 capital ratio remains at the low end of the global peer group, DBRS views these levels as satisfactory given the relatively low-risk profile of its business activities, as well as its ability to generate capital through retained earnings. In this context, Santander continues to improve its capital levels with total regulatory capital (fully-loaded) of EUR 79.6 billion up EUR 5 billion YoY. Santander has increased its CET1 capital through organic capital generation, while growing its Tier 2 capital through issuance of EUR 1.5 billion in April.

Santander's leverage ratios are relatively strong, with a fully-loaded leverage ratio of 5.0% as of 3Q16, up from 4.7% a year earlier. Tangible Equity/Tangible Assets has improved notably over the past 5 years, reaching 5.6% in 3Q16, up from 4.3% at the end of 2011. In terms of capital quality**,** at the end of September-2016, 76.4% of the capital was CET1, 7.1% AT1 and 16.5% Tier 2 instruments. The Bank had EUR 8.4 billion of Deferred Tax Assets (DTAs[1]) that are guaranteed by the Spanish Government at end-2014. Guaranteed DTAs represent 10% of total fully-loaded capital, lower than its peers. The cost of the guarantee is 1.5% of total DTAs.





Regarding capital analysis carried by regulators, in the 2016 EBA Stress test[2] Santander achieved a satisfactory fully loaded CET1 ratio under the baseline (13.2%) and adverse scenarios (8.2%), above the minimum 5.5% threshold used in the EBA's previous stress test in 2014. However the adverse scenario ratio is below the average of the 51 participant banks (9.2%), in part because the starting point of CET1 ratio of Santander is lower. DBRS notes that the bps impact from the actual 2015 fully-loaded CET1 ratio to the resultant ratio in the adverse scenario was lesser for Santander than the average (200bps for Santander versus an average of 340bps).

Santander Holdings USA, Inc. (SHUSA) has been included in CCAR process carried out by the U.S. regulators for the past three years, and, in all years, SHUSA has received qualitative objections to its capital plans. In the 2016 CCAR exercise, the regulators objected on qualitative grounds to SHUSA's capital plan for continuing "to have material unresolved supervisory issues that critically undermine its capital planning process". On a quantitative basis, SHUSA's CET1 ratio under the severely adverse scenario in the CCAR exercise fell to a projected 11.9% during the forecast horizon, which remains well above the 4.5% required minimum.

[1] According to the Spanish regulation, tax credits related to loans and FAs impairments are not deducted from the calculation of CET1 capital but are added up to the level of risk weighted assets.
[2] This time there was no pass-fail threshold. Nevertheless, a CET1 hurdle rate of 5.5% (plus G-SIB buffer) will be used by European and national supervisors as an input to determine the Pillar 2 Guidance within the overall Supervisory Review and Evaluation Process (SREP) for 2016.

Banco Santander, SA	30/09/2016	31/12/2015	31/12/2014	31/12/2013	31/12/2012
	EUR	EUR	EUR	EUR	EUR
EUR Millions	IFRS	IFRS	IFRS	IFRS	IFRS
Balance Sheet					
Cash and deposits with central banks	63,717	77,751	69,428	77,103	118,488
Lending to/deposits with credit institutions	95,992	82,531	81,713	74,964	73,901
Financial Securities*	199,696	203,835	195,166	142,233	152,066
- Trading portfolio	55,997	62,190	67,294	45,807	48,593
- At fair value	4,080	4,347	5,111	4,741	4,147
- Available for sale	113,947	122,036	115,251	83,799	92,267
- Held-to-maturity	12,276	4,355	0	0	0
- Other	13,396	10,907	7,510	7,886	7,059
Financial derivatives instruments	83,756	85,830	85,987	68,827	120,528
- Fair Value Hedging Derivatives	NA	9,106	9,128	9,928	10,210
- Mark to Market Derivatives	83,756	76,724	76,858	58,899	110,319
Gross lending to customers	797,892	817,365	761,928	693,759	744,534
- Loan loss provisions	24,602	26,517	27,217	24,903	25,422
Insurance assets	NA	331	340	356	424
Investments in associates/subsidiaries	3,481	3,250	3,471	5,536	4,453
Fixed assets	25,979	25,320	23,256	13,654	13,860
Goodwill and other intangible assets	28,748	29,430	30,401	26,241	28,062
Other assets	54,879	41,135	41,824	37,992	38,748
Total assets	**1,329,538**	**1,340,262**	**1,266,296**	**1,115,761**	**1,269,643**
Total assets (USD)	1,494,535	1,455,699	1,532,860	1,537,285	1,674,328
Loans and deposits from credit institutions	156,701	175,373	155,369	109,397	152,966
Repo Agreements in Deposits from Customers	NA	NA	41,418	41,787	47,755
Deposits from customers	667,439	683,142	606,210	566,049	578,884
- Demand	425,396	421,585	378,903	335,513	315,137
- Time and savings	177,110	193,614	227,306	230,537	262,778
Issued debt securities	208,948	205,007	196,890	175,477	205,969
Financial derivatives instruments	85,407	85,525	86,333	64,257	116,785
- Fair Value Hedging Derivatives	NA	9,111	7,286	5,370	7,043
- Other	85,407	76,414	79,048	58,887	109,743
Insurance liabilities	665	627	713	1,430	1,425
Other liabilities	89,530	70,680	72,518	61,586	66,409
- Financial liabilities at fair value through P/L	47,149	54,768	62,318	42,311	45,418
Subordinated debt	19,726	21,153	10,154	12,086	13,498
Hybrid Capital	NA	NA	6,978	4,053	4,740
Equity	101,122	98,754	89,714	79,639	81,211
Total liabilities and equity funds	**1,329,538**	**1,340,262**	**1,266,296**	**1,115,761**	**1,269,642**
Income Statement					
Interest income	NA	57,198	54,656	51,447	58,791
Interest expenses	NA	24,386	25,108	25,512	28,867
Net interest income and credit commissions	7,798	32,812	29,548	25,935	29,923
Net fees and commissions	2,597	10,033	9,696	9,761	10,259
Trading / FX Income	NA	-2,312	2,377	1,733	1,460
Net realised results on investment securities (available for sale)	NA	891	1,416	1,490	915
Net results from other financial instruments at fair value	NA	325	239	-6	159
Net income from insurance operations	NA	99	137	117	593
Results from associates/subsidiaries accounted by the equity method	119	375	243	500	427
Other operating income (incl. dividends)	191	3,833	2,190	2,201	1,122
Total operating income	10,704	46,055	45,845	41,731	44,858
Staff costs	2,726	11,107	10,242	10,069	10,307
Other operating costs	1,966	11,300	10,666	9,828	8,967
Depreciation/amortisation	558	2,419	2,287	2,392	2,182
Total operating expenses	5,250	24,826	23,195	22,289	21,455
Pre-provision operating income	**5,454**	**21,229**	**22,650**	**19,442**	**23,403**
Loan loss provisions**	2,499	10,652	10,710	11,227	18,880
Post-provision operating income	2,955	10,578	11,940	8,215	4,522
Impairment on tangible assets	16	613	576	797	806
Impairment on intangible assets	0	701	701	41	151
Other non-operating items***	0	283	17	0	0
Pre-tax income	2,940	9,547	10,680	7,378	3,565
(-)Taxes	904	2,213	3,718	2,034	584
(-)Other After-tax Items (Reported)	0	0	0	0	0
(+)Discontinued Operations (Reported)	0	0	-26	-15	70
(-)Minority interest	341	1,368	1,119	1,154	768
Net income	**1,695**	**5,966**	**5,816**	**4,175**	**2,282**
Net income (USD)	1,892	6,622	7,727	5,545	2,934

*Includes derivatives when breakdown unavailable, **LLP includes Impairments on financial assets, ***Incl. Other Provisions

Banco Santander, SA	30/09/2016	31/12/2015	31/12/2014	31/12/2013	31/12/2012
	EUR	EUR	EUR	EUR	EUR
EUR Millions	IFRS	IFRS	IFRS	IFRS	IFRS
Off-balance sheet and other items					
Asset under management	NA	140,741	141,369	125,170	118,141
Derivatives (notional amount)	NA	4,591,036	4,599,520	4,132,716	4,140,912
BIS Risk-w eighted assets (RWA)	580,823	585,633	585,829	489,736	557,030
No. of employees (end-period)	189,675	193,863	185,405	186,540	186,763
Earnings and Expenses					
Earnings					
Net interest margin [1]	2.55%	2.70%	2.71%	2.31%	2.54%
Yield on average earning assets	0.01%	4.68%	4.98%	4.55%	4.96%
Cost of interest bearing liabilities	NA	2.29%	2.57%	2.94%	3.02%
Pre-provision earning capacity (total assets basis) [2]	1.63%	1.58%	1.88%	1.60%	1.82%
Pre-provision earning capacity (risk-w eighted basis) [3]	3.74%	3.54%	4.12%	3.67%	4.15%
Net Interest Income / Risk Weighted Assets	5.37%	5.60%	5.04%	5.30%	5.37%
Non-Interest Income / Total Revenues	27.15%	28.75%	35.55%	37.85%	33.29%
Post-provision earning capacity (risk-w eighted basis)	2.03%	1.76%	2.17%	1.55%	0.80%
Expenses					
Efficiency ratio (operating expenses / operating income)	49.05%	53.90%	50.59%	53.41%	47.83%
All inclusive costs to revenues [4]	49.20%	54.90%	51.83%	55.32%	49.63%
Operating expenses by employee	110,716	128,058	125,103	119,486	114,880
Loan loss provision / pre-provision operating income	45.82%	50.18%	47.28%	57.75%	80.68%
Provision coverage by net interest income	312.04%	308.04%	275.90%	231.01%	158.49%
Profitability Returns					
Pre-tax return on Tier 1 (excl. hybrids)	15.81%	12.22%	16.31%	10.85%	4.86%
Return on equity	7.63%	6.78%	7.20%	5.94%	3.18%
Return on average total assets	0.51%	0.44%	0.48%	0.34%	0.18%
Return on average risk-w eighted assets	1.16%	0.99%	1.06%	0.79%	0.40%
Dividend payout ratio [5]	46.67%	95.78%	130.67%	163.40%	234.94%
Internal capital generation [6]	0.92%	0.30%	-2.36%	-3.46%	-3.83%
Growth					
Loans	-5.19%	7.64%	9.85%	-6.99%	-3.93%
Deposits	-2.66%	5.48%	6.55%	-3.00%	-0.93%
Net interest income	-2.31%	11.05%	13.93%	-13.33%	-2.19%
Fees and commissions	4.97%	3.47%	-0.66%	-4.86%	-1.43%
Expenses	-11.96%	7.03%	4.06%	3.89%	-4.04%
Pre-provision earning capacity	1.01%	-6.27%	16.50%	-16.92%	10.55%
Loan-loss provisions	-2.09%	-0.54%	-4.61%	-40.54%	60.09%
Net income	0.90%	2.58%	39.31%	82.93%	-57.18%
Risks					
RWA% total assets	43.69%	43.70%	46.26%	43.89%	43.87%
Credit Risks					
Impaired loans % gross loans	4.21%	4.42%	5.30%	5.81%	4.74%
Loss loan provisions % impaired loans	73.24%	73.39%	67.42%	61.76%	72.01%
Impaired loans (net of LLPs) % pre-provision operating income [7]	41.21%	88.14%	92.83%	110.81%	42.21%
Impaired loans (net of LLPs) % equity	8.89%	18.95%	25.41%	28.50%	12.92%
Liquidity and Funding					
Customer deposits % total funding	63.40%	62.98%	62.58%	65.59%	60.85%
Total w holesale funding % total funding [8]	36.60%	37.02%	37.42%	34.41%	39.15%
- Interbank % total funding	14.88%	16.17%	16.04%	12.68%	16.08%
- Debt securities % total funding	19.85%	18.90%	20.33%	20.33%	21.65%
- Subordinated debt % total funding	1.87%	1.95%	1.05%	1.40%	1.42%
Short-term w holesale funding % total w holesale funding	40.66%	43.68%	62.15%	55.02%	61.12%
Liquid assets % total assets	27.03%	27.17%	27.35%	26.38%	27.13%
Net short-term w holesale funding reliance [9]	-20.89%	-19.34%	-13.16%	-15.94%	-12.63%
Adjusted net short-term w holesale funding reliance [10]	-20.89%	-37.01%	-30.26%	-35.13%	-29.82%
Customer deposits % gross loans	83.65%	83.58%	79.56%	81.59%	77.75%
Capital [11]					
Tier 1	12.44%	12.55%	10.97%	12.60%	11.17%
Tier 1 excl. All Hybrids	12.44%	11.42%	10.01%	11.71%	10.33%
Core Tier 1 (As-reported)	12.44%	12.55%	10.97%	11.71%	10.33%
Tangible Common Equity / Tangible Assets	NA	4.46%	4.06%	4.03%	3.50%
Total Capital	14.50%	14.40%	12.03%	14.59%	13.09%
Retained earnings % Tier 1	NA	68.29%	72.38%	67.76%	62.24%

[1] (Net interest income + dividends)% average interest earning assets.
[2] Pre-provision operating income % average total assets.
[3] Pre-provision operating income % average total risk-w eighted assets.
[4] (Operating & non-op. costs) % (op. & non-op. revenues)
[5] Paid dividend % net income.
[6] (Net income - dividends) % shareholders' equity at t-1.
[7] We take into account the stock of LLPs in this ratio.
[8] Whole funding excludes corporate deposits.
[9] (Short-term w holesale funding - liquid assets) % illiquid assets
[10] (Short-term w holesale funding - liquid assets- loans maturing w ithin 1 year) % illiquid assets
[11] Capital ratios of Interim results exclude profits for the year
* Interim information is annualised w here needed.

Methodologies

The applicable methodologies are the Global Methodology for Rating Banks and Banking Organisations (July 2016), DBRS Criteria – Support Assessments for Banks and Banking Organisations (March 2016), DBRS Criteria - Rating Bank Capital Securities – Subordinated, Hybrid, Preferred & Contingent Capital Securities (February 2016), and Critical Obligations Criteria (February 2016), which can be found on our website under Methodologies.

Ratings

Issuer	Debt	Rating	Rating	Trend
Banco Santander S.A.	Senior Unsecured Long-Term Debt & Deposit	Confirm	A	Stable
Banco Santander S.A.	Subordinated Debt	Confirm	A (low)	Stable
Banco Santander S.A.	Short-Term Debt & Deposit	Confirm	R-1 (low)	Stable
Banco Santander S.A.	Long-Term Critical Obligations Rating	Confirm	A (high)	Stable
Banco Santander S.A.	Short-Term Critical Obligations Rating	Confirm	R-1 (middle)	Stable
Santander Central Hispano Finance (Delaware) Inc.	Short-Term Debt	Confirm	R-1 (low)	Stable
Santander Central Hispano Financial Services, Ltd.	Subordinated Debt	Confirm	A (low)	Stable
Santander Central Hispano Issuances, Ltd.	Subordinated Debt	Confirm	A (low)	Stable
Santander Finance Capital S.A. Unipersonal	Preferred Securities	Confirm	BBB	Stable
Santander Finance Preferred S.A. Unipersonal	Preferred Securities	Confirm	BBB	Stable
Santander Financial Issuances Limited	Subordinated Debt	Confirm	A (low)	Stable
Santander International Debt, S.A. Unipersonal	Senior Unsecured Long-Term Debt	Confirm	A	Stable
Santander Issuances, S.A. Unipersonal	Subordinated Debt	Confirm	A (low)	Stable
Santander Perpetual S.A.	Subordinated Debt	Confirm	A (low)	Stable
Santander US Debt, S.A.U.	Senior Debt	Confirm	A	Stable
Banco Santander Totta S.A.	Senior Unsecured Long-Term Debt & Deposit	Confirm	BBB (high)	Stable
Banco Santander Totta S.A.	Short-Term Debt & Deposit	Confirm	R-1 (low)	Stable
Totta (Ireland) p.l.c.	Guaranteed Senior Notes	Confirm	BBB (high)	Stable
Totta (Ireland) p.l.c.	Guaranteed Short-Term Instruments	Confirm	R-1 (low)	Stable
Santander Totta London Branch	Long-Term Instruments	Confirm	BBB (high)	Stable
Santander Totta London Branch	Short-Term Instruments	Confirm	R-1 (low)	Stable

Rating History

Issuer	Debt	Current	2015	2014	2013	2012
Banco Santander S.A.	Senior Unsecured Long-Term Debt & Deposit	A	A	A	A	A
Banco Santander S.A.	Subordinated Debt	A (low)	A (low)	A (low)	A (low)	A (low)
Banco Santander S.A.	Short-Term Debt & Deposit	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Banco Santander S.A.	Long-Term Critical Obligations	A (high)	-	-	-	-
Banco Santander S.A.	Short-Term Critical Obligations	R-1 (middle)	-	-	-	-
Santander Central Hispano Finance (Delaware) Inc.	Short-Term Debt	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Santander Central Hispano Financial Services, Ltd.	Subordinated Debt	A (low)	A (low)	A (low)	A (low)	A (low)
Santander Central Hispano Issuances, Ltd.	Subordinated Debt	A (low)	A (low)	A (low)	A (low)	A (low)
Santander Finance Capital S.A. Unipersonal	Preferred Securities	BBB	BBB	BBB	BBB (low)	BBB (low)
Santander Finance Preferred S.A. Unipersonal	Preferred Securities	BBB	BBB	BBB	BBB (low)	BBB (low)
Santander Financial Issuances Limited	Subordinated Debt	A (low)	A (low)	A (low)	A (low)	A (low)
Santander International Debt, S.A. Unipersonal	Senior Unsecured Long-Term Debt	A	A	A	A	A
Santander Issuances, S.A. Unipersonal	Subordinated Debt	A (low)	A (low)	A (low)	A (low)	A (low)
Santander Perpetual S.A.	Subordinated Debt	A (low)	A (low)	A (low)	A (low)	A (low)
Santander US Debt, S.A.U.	Senior Debt	A	A	A	A	A
Banco Santander Totta S.A.	Senior Unsecured Long-Term Debt & Deposit	BBB (high)	BBB (high)	BBB (high)	BBB (high)	BBB (high)
Banco Santander Totta S.A.	Short-Term Debt & Deposit	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Totta (Ireland) p.l.c.	Guaranteed Senior Notes	BBB (high)	BBB (high)	BBB (high)	BBB (high)	BBB (high)
Totta (Ireland) p.l.c.	Guaranteed Short-Term	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Santander Totta London Branch	Long-Term Instruments	BBB (high)	BBB (high)	BBB (high)	BBB (high)	BBB (high)
Santander Totta London Branch	Short-Term Instruments	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Previous Action(s)

- July 9, 2015: DBRS Confirms Ratings of Santander – Senior at A, Stable Trend

Related Research

- August 17, 2016: DBRS Publishes 1H16 Spanish Banks Earnings Round-Up
- July 29, 2016: DBRS Releases Commentary: Developments in European Resolution Frameworks and their Impact on Bank Creditors
- July 28, 2016: DBRS: Santander 1H16 Results Impacted by One-Offs; Underlying Profits Up
- June 10, 2016: DBRS Releases a Commentary on New Provisioning Standards for Spanish Banks
- April 28, 2016: DBRS: SAN Results Mixed Across Geographies Highlighting Benefits of Diversity

Previous Report

- Banco Santander SA, Rating Report, July 14, 2015

Notes:
All figures are in Euros (EUR) unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on www.dbrs.com.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.