FitchRatings

Banks
Universal Commercial Banks
Spain

Banco Santander, S.A.

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- and Local-Currency IDRs	A-
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign- and Local-Currency IDRs	Stable

Key Rating Drivers

Geographic Diversification: Banco Santander, S.A.'s ratings reflect Fitch Ratings' view that the bank's international footprint is a key franchise and business model strength, despite exposure to higher-risk emerging markets.

They also reflect our expectation that the group's rigorous risk-control approach will mitigate asset quality pressures from the uncertain operating environment, and that Santander will maintain capital ratios, which are at the lower end of European peers' but commensurate with its ratings, helped by its resilient earnings generation capacity through economic cycles.

Diversified Retail Franchise: Santander has a broad and balanced geographic and business diversification, with 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 cycles in different markets, this has enabled it to manage periods of stress relatively well.

New Three-Year Strategic Plan: The 2023-2025 strategic plan is a continuation of the former plan, with no transformational aspirations, and coherent with the current macroeconomic scenario. Santander has revised up medium-term profitability targets, with Europe expected to be a major contributor. Also, CET1 ratio guidance has been slightly upgraded to above 12%.

Wide Margins, Good Cost Efficiency: The wide margins in its emerging markets activities and a cost control-oriented culture (with a cost-to-income ratio consistently below 50% since 2007) provides an important first line of defence against periods of stress. We believe that Santander has rating headroom to afford the effects from the economic slowdown and inflationary pressures.

Asset Quality Is a Weakness: Asset quality is weak compared with European peers. Exposure to emerging markets results in high impaired loan ratio (3.2% at end-March 2023) and loan impairment charges (LICs) by European standards, although higher net interest margins mitigate these. Resilient loan performance was largely due to the economic recovery and government support measures – particularly in Spain. We expect asset quality to modestly weaken in the outlook horizon, with further risks to borrowers from higher inflation and borrowing costs.

Earnings to Be Maintained: Earnings had strong growth in 2022, and we anticipate earnings to remain strong in 2023, despite the uncertain operating environment. Santander is well placed for interest rate rises in Europe and, to a lesser extent, in the US this year. This should offset the slower loan growth and rising funding costs. Fee income growth should continue to support revenue on higher business volumes. Inflation pressures will make cost management challenging, but it should meet its medium-term cost-to-income ratio target of around 42%.

Diversified Funding, Good Liquidity: We believe Santander is entering a period of potentially more challenging funding conditions from a position of relative strength, given its large and stable deposit franchises in its core markets, and deep global capital market access both at the parent bank and at subsidiaries, and adequate liquidity buffers. Also, its approach requires foreign subsidiaries to be locally funded.

Applicable Criteria

Bank Rating Criteria (September 2022)

Related Research

Global Economic Outlook – March 2023

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

Large Spanish Banks: Net Interest Income Growth Is Main Tailwind (February 2023)

Western European Banks Outlook 2023 (December 2022)

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Ratings Sensitivities

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

Santander's ratings would come under pressure if its CET1 ratio declines sustainably below 12% without a credible plan to rebuild it in the short term, including the impact of significant acquisitions. Also, a meaningful erosion of the bank's earnings resilience (i.e. operating profit/risk-weighted assets (RWAs) below 2% on a sustained basis) would likely result in a negative rating action. 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, stronger capital ratios (CET1 ratio sustainably above 14%) and better asset quality metrics (with an impaired loan ratio sustainably below 2%). Equally important would be the ability to preserve 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 Issuer Default Rating (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 are viewed as having average recovery prospects.

Santander's long-term senior preferred debt and that of its issuing vehicle (Santander International Products PLC), deposit ratings 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 large 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 the fact that equivalent long-term senior debt and deposit ratings are notched up from the Long-Term IDR to reflect lower credit risks.

Subordinated debt issued by Santander is notched down from its Viability Rating (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 Tier 1 (AT1) 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 that is 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 sound leverage ratio.

Legacy preferred shares are rated five notches below the bank's VR to reflect higher loss severity risk of these securities when compared with average recoveries (two notches from the VR), as well as high risk of non-performance (an additional three notches) due to a profit test.

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	BBB+/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-	bbb+	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 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, 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.

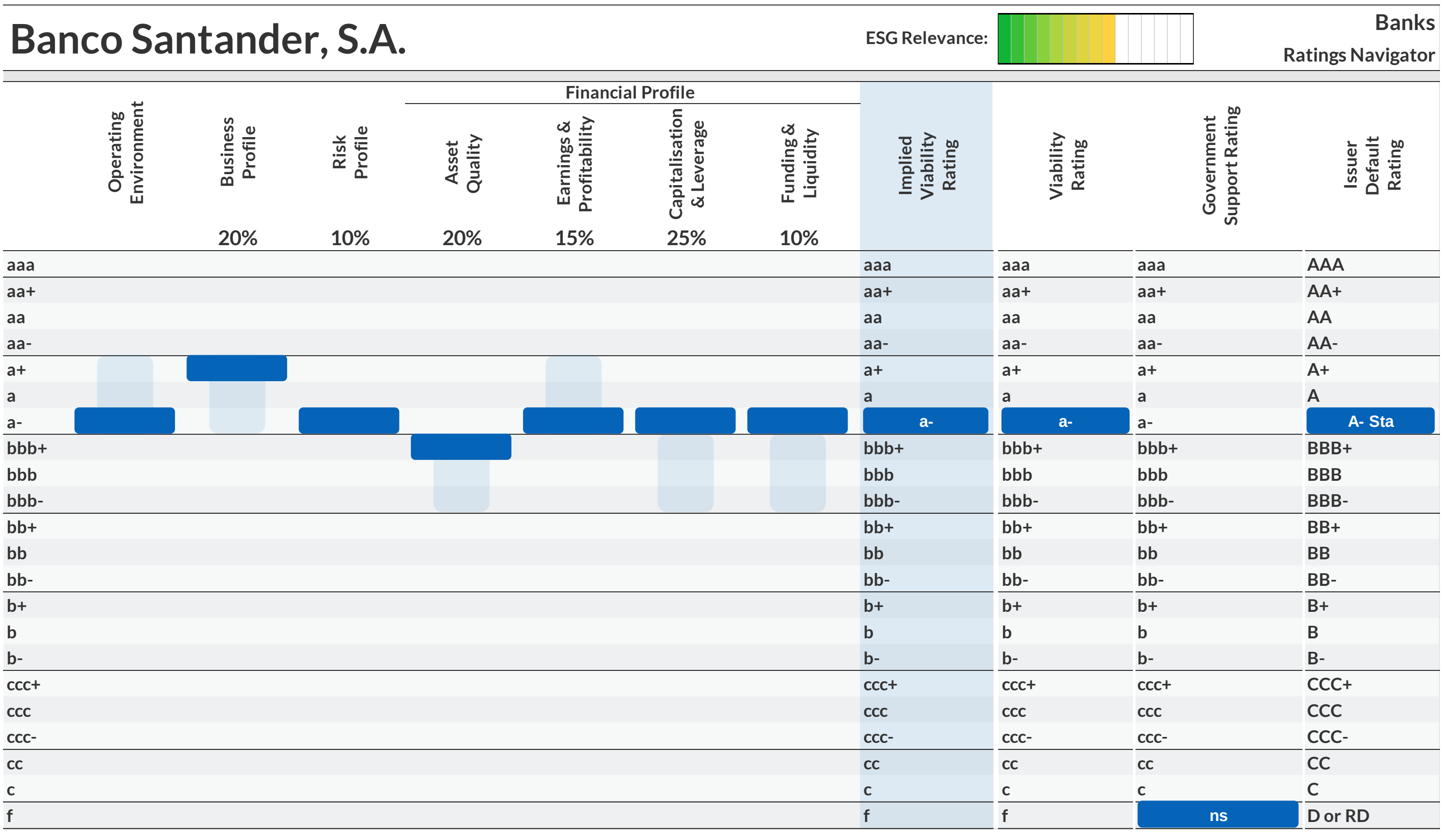
Significant Changes from Last Review

New Strategic Plan for 2023-2025

Santander's new strategic plan for 2023-2025 focuses on scaling up its corporate and investment banking (SCIB), wealth management and insurance, payments and auto businesses. Key levers for the strategy will be Santander's operating platforms and a simplified product offering to branch out across the group to harmonise the operating model.

The group's targets under its updated medium-term plan include achieving a return on tangible equity of 15%–17% (2022: 13.4%). Higher interest rates will be an important revenue driver, especially in Europe, along with an expected double digit increase in commission income, with an increasing contribution of the trade and payment services of its fintech PagoNxT. Profitability should also benefit from costs growing below aggregate inflation on operating model efficiencies and despite continuing investments for business growth, and contained LICs/ gross loans (100bp-110bp target in 2025). However, this will not necessarily translate into a higher CET1 ratio, given the upward revision of capital distribution to 50% (from a previous 40%-50%) and the bank's CET1 ratio target of over 12% (end-2022: 12%).

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 assigned to domestic Spanish banks, reflecting the group's geographic diversification.

The group's strong internal capital generation and proven access to equity markets support the Capitalisation & Leverage score of 'a-', above the implied 'bbb' category score.

The funding & liquidity score is also above the bbb' category implied score to reflect Santander's established market access and a solid deposit franchise in the bank's core markets.

Company Summary and Key Qualitative Factors

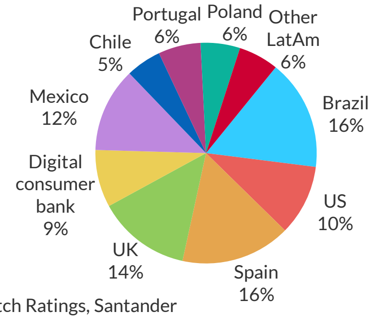
Business Profile

Geographically Diversified Business Model

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 SCF, ranking among the top three competitors in most of its markets.

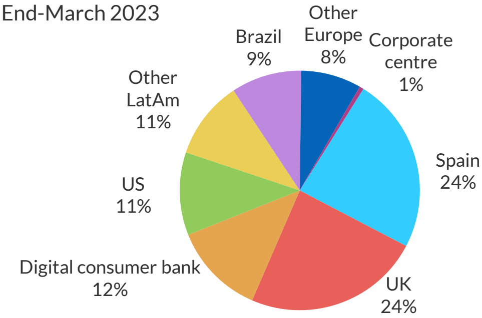
Retail and commercial banking accounts for more than three-quarters of the group's underlying attributable profit, which provides a high degree of recurrence and stability to Santander's earnings. Despite the predominance of mature markets in Santander's loan book, their contribution to the group's underlying attributable profit in the past few years (excluding the corporate centre) has generally been below 50%, undermined by the low interest rate environment and lower business growth prospects. However, this contribution increased to about 60% in 2022 and 1Q23, largely helped by higher interest rates in Europe.

Underlying Attributable Profit by Region
1Q23



Source: Fitch Ratings, Santander
Excludes: Corporate centre (EUR279 million), Other North America (EUR32 million), Other Europe (EUR19 million)

Group Loans by Geography
End-March 2023



Source: Fitch Ratings, Santander. Excludes Other North America (EUR53 million)

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 (RG) that includes the parent bank and SCF. At end-March 2023, the RG complied with the MREL (32.61% of end-2020 RWAs, including combined buffer requirements). As a global systemically important bank, Santander has to meet total loss absorbing capacity (TLAC) requirements and this is expected to be requested at each resolution entity. At end-March 2023, the RG complies with TLAC requirements.

Risk Profile

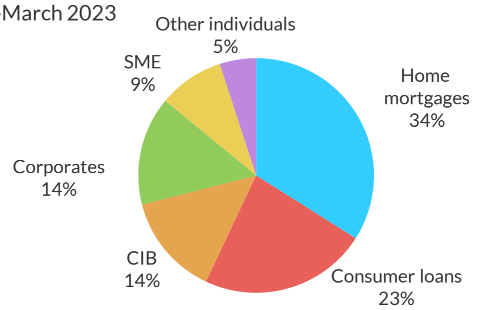
Moderate Risk Appetite; Contained Risks from Uncertain Operating Environment

Santander's risk appetite is moderate overall and 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, which should mitigate the risks of slower economic growth and inflation pressures across all markets.

A large corporate default in Brazil occurred in 4Q22, which should be considered as a one-off against which the group was made prudent provisioning against it. Santander is also placing special focus on the collection and recovery process to offset rising asset quality pressures from less benign operating environments.

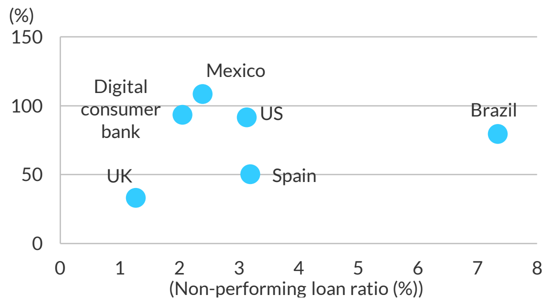
Foreign exchange (FX) risk is managed centrally and relates mostly to equity investment in subsidiaries financed in euros and from earnings. The group's policy is to keep the structural FX exposure fully hedged in the most relevant currencies. Potential FX effects on consolidated fully loaded CET1 from exchange rate movements are hedged and yearly expected profits are consistently largely hedged to ensure earnings stability.

Group Loans by Product
End-March 2023



Source: Fitch Ratings, Santander

Asset Quality
(Reserve coverage end-March 2023)



Source: Fitch Ratings, group management accounts

Financial Profile

Asset Quality

Santander's impaired loans ratio fell slightly year-on-year (yoy), to 3.2% at end-March 2023 (end-March 2022: 3.4%), reflecting a combination of benign default rates across the regions, write-offs and portfolio sales in Spain largely offsetting new inflows. Loan performance benefitted from better than expected performance in the US, although this should normalise throughout 2023, and improvements in Spain and DCB, partially due to portfolio sales, and lower delinquencies in Mexico. However, we still see pockets of risks from these businesses, given their cyclicality, but overall asset risks should be manageable, given the group's better-quality portfolios following the change in its new lending strategy over the past few years.

Overall, we expect Santander to navigate asset quality pressures reasonably well under the current environment and operate with an average four-year impaired loan ratio remaining below 4%.

The group's impaired loan coverage ratio decreased to about 69% at end-March 2023, but remains above the healthy long-term average of about 60% and broadly in line with its European peers'. This should also be seen in the context of Santander's collateralised mortgage loan portfolio (34% of total loans were retail mortgage loans, largely in Europe, at end- 2022). Twelve-month LICs rose to about 105bp of gross loans in 1Q23 (1Q22: 77bp, including provision releases), mainly due to asset performance normalisation in US, higher provisions in Brazil for business growth and on consumer lending and in Poland on Swiss franc mortgages, but remained within the bank's guidance.

Santander guided for a LICs-to-gross loans ratio of below 120bp in 2023, which is achievable given available management overlays and our expectation of a mild deterioration in asset quality, including in riskier market areas.

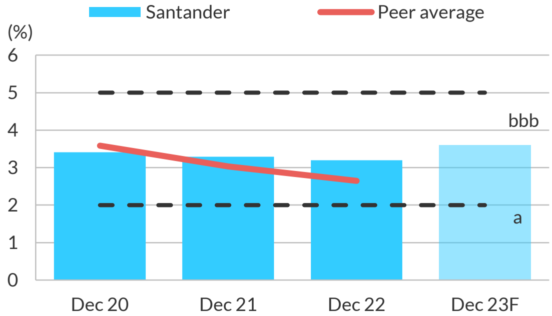
Earnings and Profitability

Santander's 1Q23 annualised operating profit-to-RWAs remained strong at 2.9%, largely thanks to strong increases in NII on higher interest rates in some of its core markets. This was achieved despite higher costs due to inflationary pressures, particularly in Latin America, and increased LICs. We expect the positive trend on NII to increase further in 2023 as asset repricing in Spain and, to a lesser extent, in the US and Portugal coupled with business growth in developed markets should more than offset increasing funding costs.

Fee income increased yoy thanks to good performance in retail banking but also growth in CIB across all the regions, and payment and transaction fees. We expect this to continue in 2023. Despite inflationary pressures, cost efficiency was under control in 1Q23 and remains a major strength compared to other large European banks. LICs rose to about 43% of pre-impairment profit in 1Q23 (2022: 40%, including non-recurring items), but remained within our expectations. .

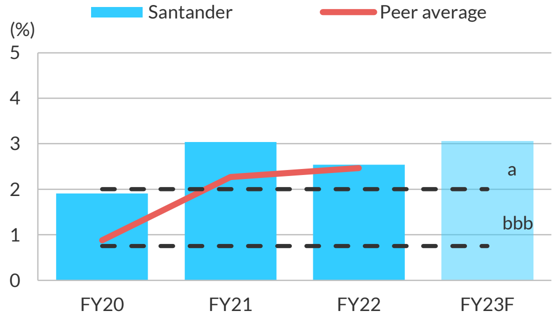
We expect Santander will operate with an average four-year operating profit-to-RWAs comfortably above 2% in 2023. Operating profitability should be largely supported by increasing revenue on higher interest rates and selected business volume growth from its diversified business model, despite we see increased pressure on costs if inflation becomes structurally high.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions

Capitalisation and Leverage

Santander's fully loaded CET1 capital ratio remained broadly stable yoy at 12.2% at end-March 2023, in contrast to the material declines of most European peers. This stability was due to good internal capital generation, typically well above 100bp of RWAs each year before capital distributions (138bp in 2022, 24bp in 1Q23), and limited market valuation effects and regulatory and internal model adjustments impacts. The capital ratio also includes the impact of the two buyback programmes, totalling EUR1.9 billion, which the bank completed in 1Q23. The CET1 ratio is just above the 12% medium-term target, which the bank is committed to maintain in the medium term.

At this level, the CET1 ratio is lower than the average of European peers but well above regulatory minimums and consistent with the bank's growth strategy and revised shareholders' remuneration policy. completed . Santander's regulatory leverage ratio (4.8% fully-loaded at end-March 2023) is in line with that of European peers and well above the upgraded minimum requirement (3.5% starting from 1 January 2023).

Risks from unrealised losses on securities held at amortised cost are modest since most of the securities portfolio is held at fair value. Santander estimates that unrealised losses accounted for about 2% of its fully loaded CET1 capital at end-March 2023.

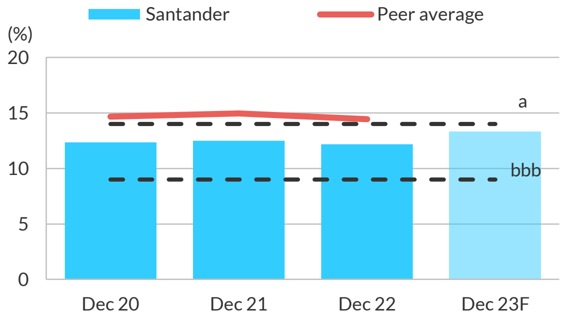
Funding and Liquidity

Santander's loans-to-deposits ratio has improved over the past three years, assisted by high levels of system liquidity and deposit inflows. We expect most of the improvement to be maintained over the medium term, with slowing loan growth likely to provide an offset to lower deposit inflows as the impact of higher inflation starts to materialise on customers' spending and given the likely higher appetite for an increase in time deposits along with interest rate rises.

In 4Q22, the bank repaid over EUR60 billion of its almost EUR94 billion outstanding ECB's TLTRO financing, following the ECB's revised conditions. Funds were opportunistically borrowed to take advantage of attractive terms, rather than for liquidity needs. Similarly, some of its subsidiaries accessed central bank facilities from host countries, though proportionately at a lower extent. We believe refinancing of medium-term maturities of wholesale debt, including central bank facilities, will be manageable in view of Santander's liquidity buffers and the bank's resilient access to debt capital markets which allowed to execute already about 60% of its 2023 funding plan in 1Q23.

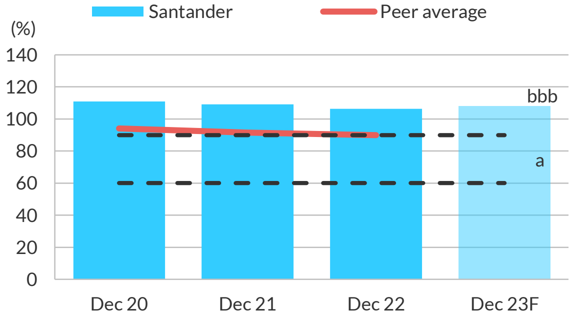
Santander's LCR remained stable in the year to date at 152% at end-March 2023 and remains comfortably above the regulatory minimum. The ratio is slightly below its four-year average as Santander repaid in anticipation a large part of TLTRO drawings coming due in 2023 and 2024. However, we do not view this as a deterioration in Santander's liquidity position, as its cash available at central banks at end-March 2023 was still over 2x end-2019 levels. Cash and high-quality liquid asset securities (EUR304 billion) alone are in excess the bank's short-term commitments.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions

About Fitch Forecasts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics under 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 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.

Notes on Charts

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+), Intesa Sanpaolo S.p.A. (bbb); UniCredit S.p.A. (bbb); Barclays Bank plc (a); Lloyds Banking Group plc (a); BNP Paribas S.A. (a+); Societe Generale S.A. (a-); Credit Agricole (a+).

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 Factored 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.

Summary Financials

	31 Dec 22		31 Dec 21	31 Dec 20	31 Dec 19
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	41,711	39,107.0	33,883.0	32,385.0	35,816.0
Net fees and commissions	12,575	11,790.0	10,502.0	10,015.0	11,779.0
Other operating income	1,301	1,220.0	2,019.0	1,879.0	1,634.0
Total operating income	55,588	52,117.0	46,404.0	44,279.0	49,229.0
Operating costs	27,457	25,743.0	21,415.0	21,130.0	23,280.0
Pre-impairment operating profit	28,130	26,374.0	24,989.0	23,149.0	25,949.0
Loan and other impairment charges	11,615	10,890.0	7,407.0	12,382.0	9,352.0
Operating profit	16,515	15,484.0	17,582.0	10,767.0	16,597.0
Other non-operating items (net)	-250	-234.0	-3,035.0	-12,843.0	-4,054.0
Tax	4,785	4,486.0	4,894.0	5,632.0	4,427.0
Net income	11,481	10,764.0	9,653.0	-7,708.0	8,116.0
Summary balance sheet					
Assets					
Gross loans	1,087,064	1,019,188.0	962,382.0	904,092.0	918,757.0
- Of which impaired	34,789	32,617.0	31,645.0	30,815.0	32,559.0
Loan loss allowances	24,195	22,684.0	22,964.0	23,595.0	22,242.0
Net loans	1,062,870	996,504.0	939,418.0	880,497.0	896,515.0
Interbank	54,985	51,552.0	71,983.0	16,101.0	23,475.0
Derivatives	76,072	71,322.0	59,463.0	77,442.0	72,315.0
Other securities and earning assets	316,887	297,101.0	227,625.0	292,764.0	323,242.0
Total earning assets	1,510,814	1,416,479.0	1,298,489.0	1,266,804.0	1,315,547.0
Cash and due from banks	237,929	223,073.0	210,689.0	153,839.0	101,067.0
Other assets	101,441	95,107.0	86,657.0	87,607.0	106,081.0
Total assets	1,850,185	1,734,659.0	1,595,835.0	1,508,250.0	1,522,695.0
Liabilities					
Customer deposits	1,022,407	958,568.0	881,987.0	814,836.0	785,454.0
Interbank and other short-term funding	243,306	228,114.0	237,546.0	219,153.0	200,517.0
Other long-term funding	299,231	280,547.0	246,163.0	223,208.0	263,746.0
Trading liabilities and derivatives	102,945	96,517.0	71,513.0	92,762.0	87,340.0
Total funding and derivatives	1,667,889	1,563,746.0	1,437,209.0	1,349,959.0	1,337,057.0
Other liabilities	74,696	70,032.0	61,573.0	59,348.0	66,949.0
Preference shares and hybrid capital	3,516	3,296.0	152.0	7,784.0	8,176.0
Total equity	104,084	97,585.0	96,901.0	91,159.0	110,513.0
Total liabilities and equity	1,850,185	1,734,659.0	1,595,835.0	1,508,250.0	1,522,695.0
Exchange rate		USD1 = EUR0.93756	USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015

Source: Fitch Ratings, Fitch Solutions, Santander

Key Ratios

	31 Dec 22	31 Dec 21	31 Dec 20	31 Dec 19
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.5	3.0	1.9	2.7
Net interest income/average earning assets	2.8	2.6	2.5	2.8
Non-interest expense/gross revenue	50.1	46.6	47.6	47.6
Net income/average equity	11.0	10.2	-7.9	7.4
Asset quality				
Impaired loans ratio	3.2	3.3	3.4	3.5
Growth in gross loans	5.9	6.5	-1.6	5.1
Loan loss allowances/impaired loans	69.6	72.6	76.6	68.3
Loan impairment charges/average gross loans	1.1	0.8	1.4	1.1
Capitalisation				
Common equity Tier 1 ratio	12.2	12.5	12.3	11.7
Fully loaded common equity Tier 1 ratio	12.0	12.5	11.9	11.7
Basel leverage ratio	4.7	5.2	5.3	5.1
Net impaired loans/common equity Tier 1	13.4	12.0	10.4	14.6
Funding and liquidity				
Gross loans/customer deposits	106.3	109.1	111.0	117.0
Liquidity coverage ratio	152.0	164.0	165.0	147.0
Customer deposits/total non-equity funding	64.2	64.0	63.4	61.6
Net stable funding ratio	121.0	126.0	120.0	112.0

Source: Fitch Ratings, Fitch Solutions, Santander

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

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

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.

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, if present, is a score of ‘3’. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on Fitch’s ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

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