

# Rating Report

## Banco Santander, S.A.

DBRS Morningstar  
21 December 2021

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### Ratings

Debt	Rating	Rating Action	Trend
Long-Term Issuer Rating	A (high)	Confirmed October '21	Stable
Short-Term Issuer Rating	R-1 (middle)	Confirmed October '21	Stable
Intrinsic Assessment	A (high)	Maintained October '21	--

### Rating Drivers

#### Factors with Positive Rating Implications

- An upgrade of the Long-Term Issuer Rating is unlikely in the near term, given the existing rating level of the Kingdom of Spain, and without improvements in the Group's capital and earnings metrics.

#### Factors with Negative Rating Implications

- The ratings could be downgraded if there is a substantial deterioration in asset quality, potentially as a result of the economic fallout from COVID-19, or if capital levels materially reduce. A downgrade of Spain's sovereign rating would also have negative rating implications.

### Rating Considerations

#### Franchise Strength (Strong)

- Santander's geographically diverse global retail Banking franchise is a key strength underpinning its rating. Santander continued to demonstrate the benefits of the diversification model during the COVID-19 outbreak.

#### Earnings Power (Good/Moderate)

- Santander has developed a very powerful international retail banking franchise which contributes to resilient earnings. COVID-19 significantly impacted Santander's profit in 2020Y. However, net attributable profit was close to pre-COVID levels at 9M 2021.

#### Risk Profile (Good)

- The Group maintains a predominantly low risk profile given its mix of businesses. The ratings consider risks associated with Santander's consumer finance activities and its exposure to emerging market economies. The Group still posted a high, although reducing NPL ratio in some regions, mainly in Spain. COVID-19's impact on Santander's asset quality has been limited as of end-September 2021.

#### Funding and Liquidity (Strong/Good)

- Santander benefits from a large deposit base that funds its lending activities, together with a broad range of wholesale funding. Significant issuances of TLAC eligible debt during recent years.

#### Capitalisation (Good/Moderate)

- Capital is satisfactory, though at the low end of the global peer group. Strong ability to generate capital organically and sound access to capital markets in each of its core geographies.

2021H1	Scorecard Building Block (BB) Assessment	Grids BB Assessment	Combined BB Assessment
Franchise	S/G	VS/S	S
Earnings	M/W	S/G	G/M
Risk	G/M	S/G	G
Funding & Liquidity	G/M	VS/S	S/G
Capitalisation	G/M	G/M	G/M
<b>Overall Assessment</b>	<b>Intrinsic Assessment Range (IAR)</b>		<b>Assigned IA</b>
<b>G</b>	<b>[AL-AH]</b>		<b>A (high)</b>

### Financial Information

Banco Santander, S.A.	2021H1	2020Y	2019Y	2018Y	2017Y
EUR Millions					
Total Assets	1,568,636	1,508,249	1,522,696	1,459,270	1,444,305
Equity Attributable to Parent	85,371	81,476	100,072	96,473	94,489
Income Before Provisions and Taxes (IBPT)	10,848	20,930	23,664	23,587	22,502
Net Attributable Income	3,675	(8,771)	6,515	7,810	6,619
IBPT over Avg RWAs (%)	3.80	3.64	3.90	3.96	3.68
Cost / Income ratio (%)	52.24	52.90	53.08	51.46	53.66
Return on Avg Equity (ROAE) (%)	8.86	-9.99	6.62	8.23	7.16
Gross NPLs over Gross Loans (%)	3.40	3.38	3.50	3.94	4.31
CET1 Ratio (Fully-Loaded) (%)	11.70	11.89	11.41	11.21	10.84

Source: DBRS Morningstar Analysis, Copyright © 2021, S&P Global Market Intelligence.

### Issuer Description

[Banco Santander SA](#) is one of the largest European banks in terms of asset size. As a global bank, it has a strong presence in Europe and the Americas. The Bank is engaged in broadly diversified activities in retail and corporate banking, consumer finance and asset management.

### Rating Rationale

Santander's ratings reflect the strength of its globally diversified banking franchise, which contributes to resilient underlying earnings and a sustained ability to generate capital. The ratings also take into account the Group's strong market shares in its core geographies, which are well-balanced between developed and emerging economies. Santander benefits from its significant scale and technology, resulting in good efficiency levels. The ratings also incorporate Santander's solid funding and liquidity profile, as well as satisfactory capital levels, although DBRS Morningstar notes that capital ratios remain at the lower end of its global peer group.

DBRS Morningstar recognises that the COVID-19 economic shutdown led to a significant deterioration in Santander's operating environment in 2020 and despite the economic rebound in 2021, risks are still present. DBRS Morningstar's Baseline Macroeconomic Scenarios still anticipate that in many regions in which Santander has core operations the unemployment rates in 2022 will be higher than in 2019. Nevertheless, DBRS Morningstar views the economic disruption resulting from COVID-19 as starting to fade with Santander's quarterly net attributable profit closer to pre-COVID levels at 2Q 2021. Moreover, as of end-June 2021, the COVID-19 impact on Santander's asset quality has been limited. However, following the full removal of government support

measures, DBRS Morningstar also expects that Santander's asset quality profile will suffer a manageable deterioration during 2022-23 mainly coming from expired loans under state guarantee schemes.

Santander's IA is positioned one-notch above DBRS Morningstar's rating of the Kingdom of Spain, reflecting the Group's strong franchise with a high degree of international diversification and ability to generate solid and consistent earnings.

### Franchise Strength

Scorecard BB Assessment	Grids BB Assessment	Combined BB Assessment
Strong / Good	Very Strong / Strong	Strong

With around 152 million customers worldwide, and around EUR 1.6 trillion of assets at end-September 2021, Santander is the largest Spanish banking group. Retail banking is the largest contributor to attributable profit given the breadth of Santander's franchise. Santander follows a strategy of universal, transactional banking in several jurisdictions with a focus on consumers and small and medium-sized businesses (SMEs), contributing to the resiliency of its earnings.

Santander's geographically diverse global retail banking franchise is a key strength underpinning its rating. Santander is well positioned in its core markets, with an aim to have a minimum market share of 10% (Exhibit 1) in those markets. Core markets include Brazil, Spain, the United Kingdom (U.K.), Mexico, Poland, Portugal, Chile and Argentina. Another core market for Santander is USA, although its market shares there are more modest. In the United States (USA), the Group is focused on its regional presence in the northeast, as well as consumer finance. Reflecting the geographically international franchise, profitability is well diversified.

The Group generally has a high level of competency in operating systems and technology skills. These have been critical for Santander's franchise in facilitating the integration of acquisitions. Recent material acquisitions include Banco Popular SA in 2017 and the retail business and private banking of Deutsche Bank in Poland in 2018. Another corporate transaction includes Santander Holdings USA, Inc (SHUSA). This comes following the announcement of an acquisition of shares of Santander Consumer USA from minority interests. SHUSA currently owns approximately 80% of SC USA's outstanding shares. Recent acquisitions also include Amherst Pierpont Securities, a fixed-income broker dealer based in the US by SHUSA, for a total consideration of around USD 600 million. The transaction is expected to close by the end of the first quarter of 2022.

Santander follows an approach in which its subsidiaries are largely autonomous in managing their own funding and liquidity, including raising wholesale funding from their local markets. Reflecting the autonomous management of liquidity, Santander follows a multiple point of entry (MPE) approach for resolution purposes. As a result, each main subsidiary is a Resolution Group with individual requirements (excluding SCF which is part of Santander SA). Nevertheless, we still assess Santander SA on a consolidated basis as the equity stake in each subsidiary is very sizable and we expect parental support would be available should any subsidiary need further capital.

### *COVID-19 Impact*

The COVID-19 economic shutdown led to a significant deterioration in Santander's operating environment. Global macroeconomic conditions shifted dramatically amidst the rapid spread of COVID-19, despite associated responses from governments. DBRS Morningstar's Baseline Macroeconomic Scenarios (latest set published 9<sup>th</sup> December 2021) still anticipate that in many regions in which Santander has core operations like the UK and Spain, the unemployment rates in 2022 will be still higher than in 2019.

DBRS Morningstar notes that although economic recovery appears underway, uncertainty remains high, particularly with regard to the potential for new vaccine-resistant variants and on the potential economic effects following the full removal of government support measures.

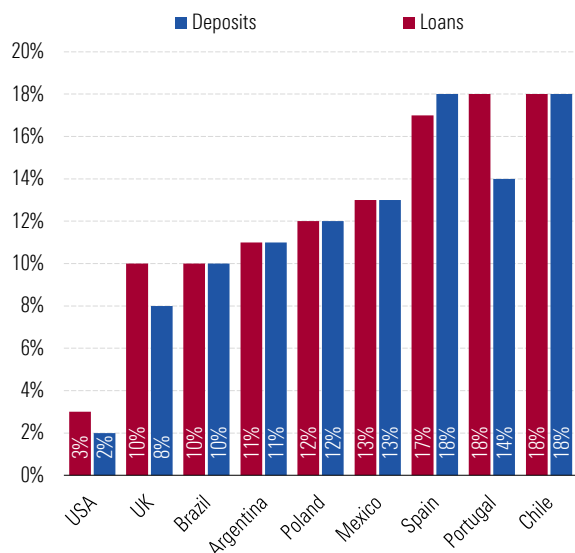
As of end-June 2021, Santander's COVID-19 financial impact has been felt mainly in the P&L; as in 2020 the Bank booked a substantial loss driven by high loan loss provisions as well as goodwill and DTA impairments on some of its international subsidiaries. This reflected lower expectations for performance over the coming years. However, the quick economic recovery recorded across regions during 2021 has supported the recovery of the underlying attributable profit in Santander's core markets (Exhibit 2). At end-June 2021, 6 core regions recorded semimanual attributable profits which were above 70% of their highest recorded profit during the period of H1 2016 to H1 2021. Moreover, banking activity during H1 2021 seems to have normalised, and lending volumes and transactions are back to pre-COVID levels, even reaching higher levels of activity in some segments. The Bank's loans increased in most jurisdictions during 2021. New loans to households have driven credit growth in Europe, in the US Auto activity has been particularly strong, whilst in South America, credit growth was broad-based.

As of end-June 2021, the COVID-19 impact on Santander's asset quality has been limited. DBRS Morningstar considers that the state guarantee loan schemes are limiting past-due situations, and preventing the deterioration of Santander loan book.

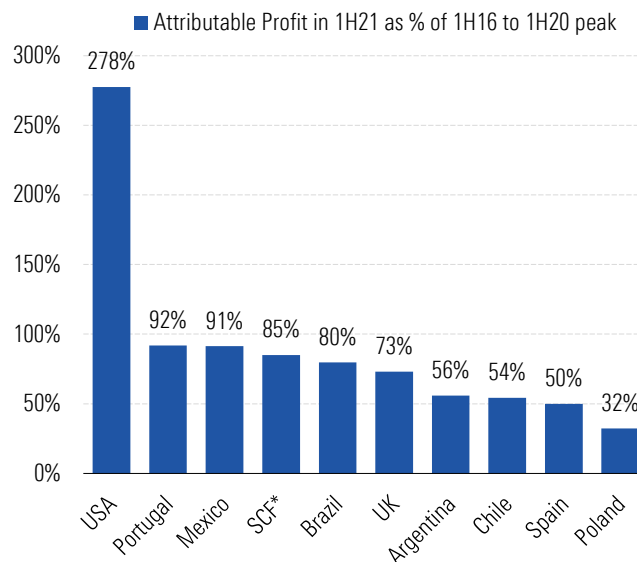
Santander's state guaranteed loans amounted to EUR 41.5 billion as of end-June 2021, or around 4.4% of the total loan book, up from 2.7% at end-June 2020. The majority were granted in Spain to SMEs. The Spanish government approved a scheme of up to EUR 100 billion for SMEs and Corporates. For SMEs, this instrument will cover up to 80% of the credit losses at the banks. DBRS Morningstar understands that this scheme has minimised Santander's credit risk related to this crisis in Spain.

Along with the rest of the banking sector in Europe and North America, Santander granted loan moratoria using both public and private initiatives in most of its core markets. Total moratoria loans granted amounted to EUR 104 billion as of end-June 2021 or around 11% of its loan portfolio, of which around EUR 67 billion related to public moratoria and EUR 37 billion to private initiatives. As of end-June 2021 around 92% of the moratoria had expired, with only EUR 8.7 billion of moratoria remaining, equivalent to around 1% of the loan book and mainly concentrated in Portugal and Spain. Most of the remaining Moratoria will expire in 2021.

**Exhibit 1** Market Shares at end-June 2021



**Exhibit 2** Profit by Business Area



Source: Company reports, DBRS Morningstar.

Source: Company reports, DBRS Morningstar.

**Earnings Power**

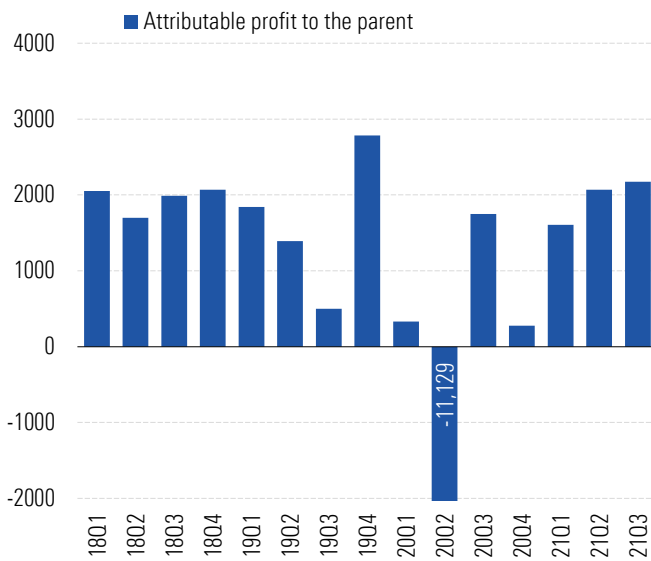
Scorecard BB Assessment	Grids BB Assessment	Combined BB Assessment
Moderate / Weak	Strong / Good	Good / Moderate

DBRS Morningstar views the economic and market disruption resulting from COVID-19 as starting to fade with quarterly net attributable profit closer to pre-COVID levels (Exhibit 3). However, the Bank’s revenues, and loan loss provisions were significantly impacted during 2020, when the Bank’s bottom line was affected by large loan loss provisions, as well as goodwill and DTAs impairments on some of its international subsidiaries, reflecting lower expectations for performance over the coming years, principally as a result of the COVID-19 crisis.

Santander reported a EUR 5.9 billion net attributable profit in 9M 2021 compared to a EUR 9 billion loss in 9M 2020. Excluding the one-offs items and at constant exchange rates, Santander’s underlying net attributable income in 9M 2021 was EUR 6.4 billion, up from EUR 3.7 billion a year ago. This largely reflects higher net interest income and net fees (both reporting close to 8% growth YoY) coupled with lower loan loss provisions, down 35% YoY. As a result, the Bank’s annualised Cost of Risk (CoR) during 9M 2021 declined to around 90 bps compared to around 127 bps in 9M 2020 and lower than the 2017Y-2020Y average.

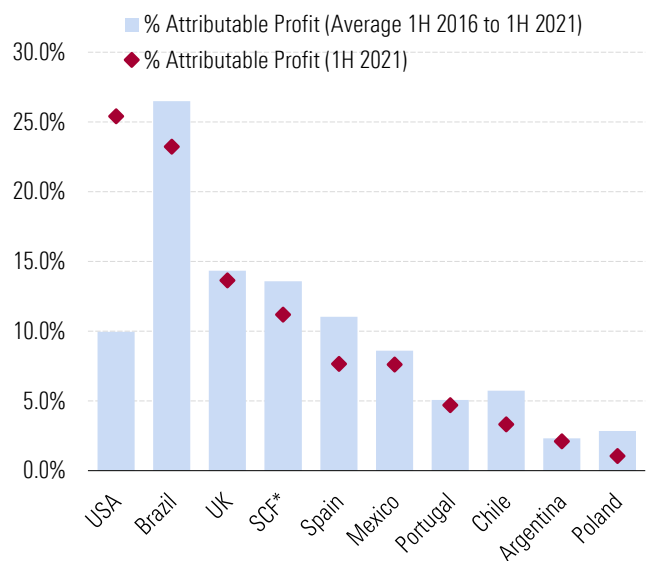
Santander’s extraordinary one-off items in 9M 2021 amounted to EUR 530 million (net of taxes), compared to EUR 12.7 billion in 9M 2020. Out of the EUR 530 million, the majority related to restructuring costs, with EUR 293 million booked in the UK and EUR 165 million in Portugal.

**Exhibit 3** Group Attributable Profit



Source: Company reports, DBRS Morningstar.

**Exhibit 4** Profit by Business Area



Source: Company reports, DBRS Morningstar.

DBRS Morningstar considers Santander’s profitability as supported by its geographical diversification, something which was reflected in their 2021 results. Notably, the Group recorded a significant recovery across most of its core markets, with net fees up in 9 out of 10 markets with all core regions except Poland and Mexico recording an increase in underlying attributable profits in H1 2021 YoY. Notably in H1 2021, US operations were the main contributor to profitability with around 25% of total underlying profits (excluding the Corporate Centre). This contrasts with an average contribution during H1 2016 to H1 2021 of around 10% (Exhibit 4). This reflects the US’s strong economic recovery from the COVID-19 crisis, which triggered a significant reduction of loan loss provisions, and supported strong business volumes in the auto sector, in which Santander is a significant player in the US. Going forward, DBRS Morningstar expects the contribution of its US operations to be more in line with recent historical averages. In H1 2021 Brazil accounted for 23% of total underlying profit, the UK business for around 14%, whilst its Spanish business accounted for 8%.

### Risk Profile

Scorecard BB Assessment	Grids BB Assessment	Combined BB Assessment
Good /Moderate	Strong / Good	Good

DBRS Morningstar believes that Santander benefits from its geographically diverse global retail banking franchise, and has a sound management team with a conservative risk culture that permeates the organisation. These factors contribute to very strong operational capabilities with a successful history of managing operational risks. Nevertheless, DBRS Morningstar considers the run rate of the Group's cost of risk as higher than other international peers, given its exposure to non-developed markets, as well as operating in riskier segments including consumer and auto lending compared to other retail banks.

As of end-June 2021, the COVID-19 impact on Santander's asset quality has been limited. The Bank was able to reduce its Non-Performing Asset (NPA) ratio (as calculated by DBRS Morningstar) during the COVID-19 outbreak. At end-June 2021 the NPA ratio stood at 4.2% compared to 4.5% pre-COVID (at end-2019). Santander's non-performing assets (NPAs) totalled around EUR 41.7 billion at end-June 2021. DBRS Morningstar considers that the loans under state guarantee schemes are limiting past-due situations, and preventing the deterioration of Santander loan book. Nevertheless, DBRS Morningstar expects that Santander's asset quality profile will suffer a manageable deterioration during 2022/23. DBRS Morningstar notes that although an economic recovery appears to be underway, uncertainty remains high, particularly with regard to the potential for new vaccine resistant variants and on the potential economic effects of the full removal of government support measures.

#### *Credit Risk*

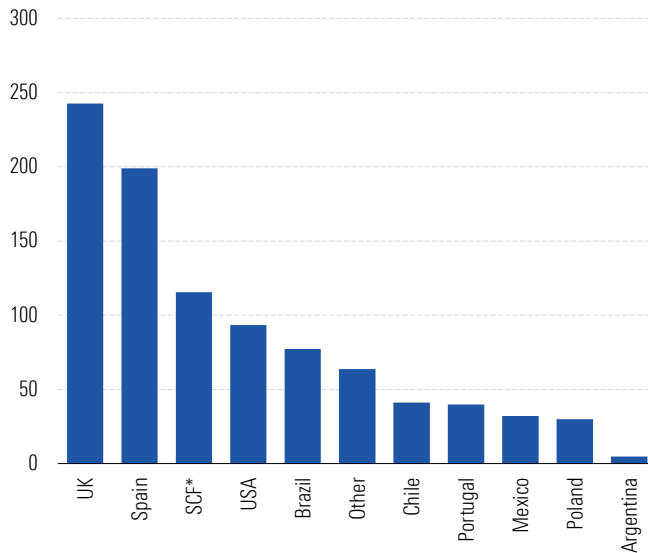
Santander's credit risk profile is highly diversified with no specific risk concentration by geography or industry. As of end-June 2021, Santander had EUR 940 billion of gross loans to customers (excluding reverse repos), up 3.4% YoY. Santander loan book is diversified across regions, mainly concentrated in the UK (26%), Spain (21%), SDB (12.3%), U.S. (10%) and Brazil (8.2%) (Exhibit 5). The Group's loan portfolio is primarily to individuals (60%), of which 35% were residential mortgages at end-June 2021. The balance of the portfolio is split across loans to Corporates (13%), SMEs (11%) and its Corporate and Investment Bank (13%).

The Group is reporting lower Stage 3 exposures, down 3% in 9M 2021, compared to pre-COVID. DBRS Morningstar considers the evolution of Stage 2 loans (exposures whose credit risk has significantly increased) as a key indicator to assess whether banks are quickly identifying credit risk. Santander increased the portion of Stage 2 loans significantly in the last quarter of 2020 (Exhibit 7) and at end-September 2021 these exposures represented around 6.6% of its portfolio compared to 5.4% pre-COVID. Despite this increase, Santander, in line with most Spanish banks, has experienced a limited increase in Stage 2 loans YoY compared to other countries.

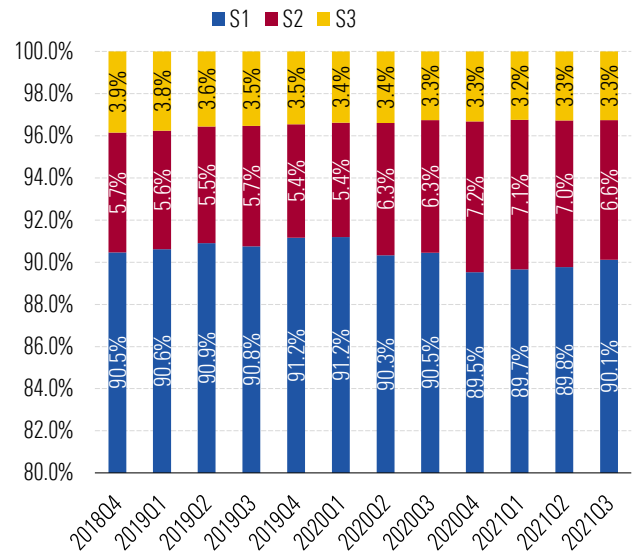
At end-September 2021, 6 core markets reported an increase in NPL ratios (SDB, Poland, UK, Mexico, US and Argentina), whereas the rest of its core markets registered a decrease in NPL ratios compared to pre-COVID. Only 1 core region (Spain) had an NPL ratio above 5%. Moreover, including foreclosed assets (FAS), the NPA ratio of the Spanish business is close to 10% (as calculated by

DBRS Morningstar). In terms of Cost of Risk (CoR) only 4 jurisdictions still report a higher CoR compared to 2019 levels, with Spain (+58 bps), Portugal (+37 bps), Mexico (+20 bps) and Poland (+10 bps) at end-September 2021.

**Exhibit 5** Gross Loans by Business Area (EUR billion) end-June 2021



**Exhibit 6** Stage 1/2/3 Exposures Evolution



Source: Company reports, DBRS Morningstar.

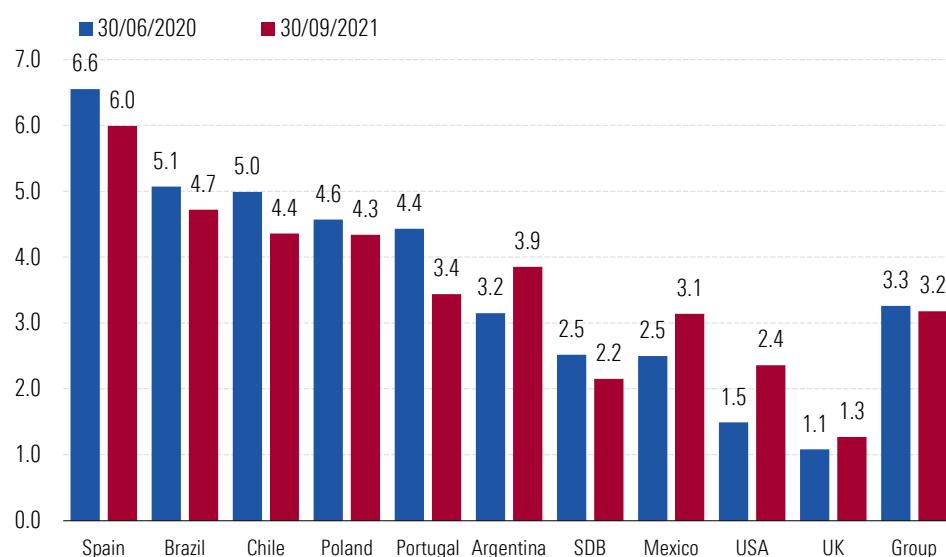
Source: Company reports, DBRS Morningstar.

*Sovereign, Market and Interest Rate Risk*

Santander has a sizable fixed income portfolio, totalling around EUR 170 billion or around 11% of total assets at end-June 2021. Regarding its ALCO portfolio, at end-June 2021 the Bank reported a portfolio amounting to EUR 85 billion of which 6% were exposures related to Spain (compared to 32% at end-September 2018), 19% to Brazil, 17% to Poland, 7% to the UK or 17% to the US. With sizable CET1 of EUR 70.8 billion at Q2 2021, we view Santander as having the capacity to absorb market risk losses related to this exposure.

Market risk for the Group is primarily interest rate risk with very modest trading risk, given Santander’s limited involvement in capital market 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 an average VaR of EUR 9.1 million in Q2 2021 up from EUR 15.4 million in Q2 2020.



**Exhibit 7** NPL Ratios

Source: Company reports, DBRS Morningstar.

### Funding and Liquidity

Scorecard BB Assessment	Grids BB Assessment	Combined BB Assessment
Good / Moderate	Very Strong / Strong	Strong / Good

DBRS Morningstar considers Santander's funding and liquidity profile remains strong despite the COVID-19 crisis. Santander's funding and liquidity reflects the large deposit base that funds its lending activities, together with a broad range of wholesale funding. Santander follows an approach in which its subsidiaries are largely autonomous in managing their own funding and liquidity, including raising wholesale funding from their own local markets. Thus, while the Group employs considerable amounts of wholesale funding, a significant proportion is raised locally through its subsidiaries.

The Group has a large customer base, which is the Bank's main source of funding, representing around 61% of total funding at end-June 2021. Santander's total Central Bank funding stood at around EUR 84.5 billion at end-June 2021 (or around 5% of total funding, as calculated by DBRS Morningstar), up from EUR 72 billion at end-2020. DBRS Morningstar considers that the new ECB and BoE funding schemes with long-term maturities are being used by the Bank as a means of improving profitability due to the low funding costs they offer. Santander's wholesale funding (including capital instruments), which represented around 20% of total funding as of end-June 2020, is well diversified by instruments and maturities. Longer term instruments mostly include covered bonds (EUR 42.1 billion), securitisations (EUR 47 billion), senior debt (EUR 54 billion) and senior non-preferred (EUR 48.8 billion). In our view, Santander's debt maturity profile is manageable. As of end-September 2021 Santander face maturities of approximately EUR 25.8 billion up to end-2022. As a comparison, the Group issued EUR 21.8 billion of debt in 2021 up to end-September 2021.

We see Santander as well positioned to meet its Total Loss-Absorbing Capacity (TLAC) and Minimum Requirement for own funds and Eligible Liabilities (MREL) requirements. Santander's resolution strategy is that of a multiple point of entry (MPE) approach, meaning the TLAC and MREL requirement is established at each resolution entity. From 1 January 2019 and using the Group's requirements as a proxy for the aggregate TLAC requirement, Santander has a requirement of 16% plus applicable capital buffers, leading to a total requirement of 19.5%. As of end-September 2021, Santander SA had a TLAC ratio of 25.5%

**Exhibit 8** MPE Resolution Strategy (End-2020, EUR billion)

Banking Union		European Union		3rd Countries			
Spain + SCF	727	UK	403	Brazil	156	USA	139
Portugal	55	Poland	50	Mexico	79	Chile	65
				Argentina	10		

Resolution Group  
 Size of Resolution Groups (Total Assets)

Source: Company reports, DBRS Morningstar.

In December 2021, Santander announced its MREL requirement for the resolution group headed by Banco Santander (Spain + SCF in Exhibit 8). The requirement was based on balance sheet exposures at end-2019 for the resolution entity and was to be met by 1 January 2022. Santander's total MREL requirement was set at 29.85% over TREA (Total Risk Exposure Amount). As of September 2021, Santander met its MREL requirement with a total ratio of 34.59% of TREAs.

The Group's loan-to-deposit ratio was 112% (as calculated by DBRS Morningstar) as of Q2 2021, down compared to Q2 2020 (116%). Santander maintains high levels of liquidity, with a reported Liquidity Coverage Ratio (LCR) of 164% at the Group level as of September 2021. The Group also has a sizable amount of liquidity within its subsidiaries, evidenced by solid LCRs in key subsidiaries such as the U.K. (147%), Brazil (140%) and Spain (165%). The Group also reported a strong Net Stable Funding Ratio (NSFR) of 124% as of Q2 2021 as well as NSFRs above 100% in key subsidiaries.

### Capitalisation

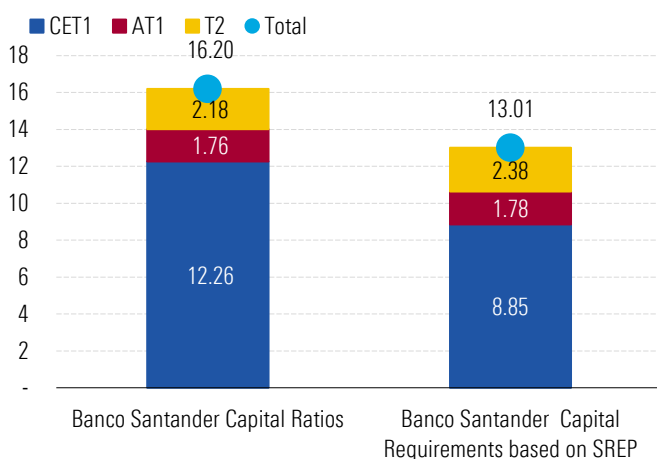
Scorecard BB Assessment	Grids BB Assessment	Combined BB Assessment
Good /Moderate	Good /Moderate	Good /Moderate

While Santander’s CET1 capital ratio remains at the low end of the global peer group, DBRS Morningstar views these levels as satisfactory given the Banks’ solid risk profile. In addition, its capital position is also supported by its highly diversified franchise and its capacity to absorb adverse economic shocks, as reflected in the Santander’s results in the 2021 EBA EU-wide stress.

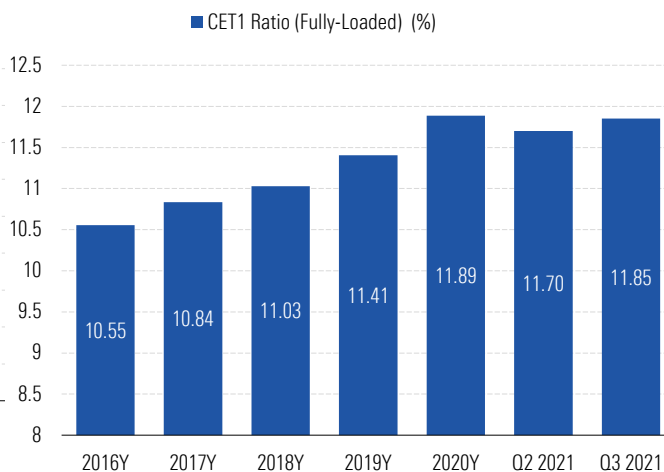
The Group reported a CET1 capital ratio of 12.26% at end-September 2021 down from 12.34% at end-2020. Santander’s capital ratios benefit from the new IFRS 9 transitional arrangements, which accounted for 41 bps in its CET1 ratio. As a result, Santander’s fully-loaded CET1 capital ratio stood at 11.85% at end-September 2021 (including the full impact from IFRS-9 accounting standards), declining from 12.34% end-2020 but up from 11.70% at end-June 2021. The Group has a CET1 ratio internal target ranging from 11% to 12%.

Santander’s P2R for 2020 was set at 1.5%, which would imply capital requirements of 8.85% for CET1, 13.01% for Total Capital. As a result of this, Santander’s capital cushion has increased at end-June 2020. As of end-September 2021, the capital cushion over regulatory requirements stood at 319 bps, compared to the pre-COVID buffer of 189 bps.

**Exhibit 9** Capital Requirements



**Exhibit 10** CET1 Ratio (Fully-Loaded, Excluding Full Impact from IFRS-9)



Source: Company reports, DBRS Morningstar.

Source: Company reports, DBRS Morningstar.

## Banco Santander SA

### ESG Checklist

ESG Factor	ESG Credit Consideration Applicable to the Credit Analysis:	Y/N	Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
<b>Environmental</b>		<b>Overall:</b>	<b>N N</b>
<b>Emissions, Effluents, and Waste</b>	Do we consider the costs or risks result, or could result in changes to an issuer's financial, operational, and/or reputational standing?	N	N
<b>Carbon and GHG Costs</b>	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs?	N	N
<b>Climate and Weather Risks</b>	Will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact?	N	N
<b>Social</b>		<b>Overall:</b>	<b>N N</b>
<b>Social Impact of Products and Services</b>	Do we consider that the social impact of the issuer's products and services could pose a financial or regulatory risk to the issuer?	N	N
<b>Human Capital and Human Rights</b>	Is the issuer exposed to staffing risks, such as the scarcity of skilled labour, uncompetitive wages, or frequent labour relations conflicts that could result in a material financial or	N	N
	Do violations of rights create a potential liability that could negatively affect the issuer's financial wellbeing or reputation?	N	N
<b>Human Capital and Human Rights:</b>		<b>N</b>	<b>N</b>
<b>Product Governance</b>	Does failure in delivering quality products and services cause damage to customers and expose the issuer to financial and legal liability?	N	N
<b>Data Privacy and Security</b>	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could result, in financial penalties or client attrition to the issuer?	N	N
<b>Community Relations</b>	Does engagement, or lack of engagement, with local communities pose a financial or reputational risk to the issuer?	N	N
<b>Access to Basic Services</b>	Does a failure to provide or protect with respect to essential products or services have the potential to result in any significant negative financial impact on the issuer?	N	N
<b>Governance</b>		<b>Overall:</b>	<b>N N</b>
<b>Bribery, Corruption, and Political Risks</b>	Do alleged or actual illicit payments pose a financial or reputational risk to the issuer?	N	N
	Are there any political risks that could impact the issuer's financial position or its reputation?	N	N
<b>Bribery, Corruption, and Political Risks:</b>		<b>N</b>	<b>N</b>
<b>Business Ethics</b>	Do general professional ethics pose a financial or reputational risk to the issuer?	N	N
<b>Corporate / Transaction Governance</b>	Does the issuer's corporate structure limit appropriate board and audit independence?	N	N
	Have there been significant governance failures that could negatively affect the issuer's financial wellbeing or reputation?	N	N
<b>Corporate / Transaction Governance:</b>		<b>N</b>	<b>N</b>
<b>Consolidated ESG Criteria Output:</b>		<b>N</b>	<b>N</b>

\* A **Relevant Effect** means that the impact of the applicable ESG risk factor has not changed the rating or rating trend on the issuer.

A **Significant Effect** means that the impact of the applicable ESG risk factor has changed the rating or trend on the issuer.

**Environmental**

The Environmental factor is not seen as impacting the ratings or trends assigned to Banco Santander. Since 2011, the Bank has reported on its group-wide carbon footprint, and it is committed to implementing the recommendations of the Task Force for Climate-related Financial Disclosures (TCFD). This is done with the aim of aligning with the agreements of the 2015 Paris Agreement. The Bank's aim is to achieve net zero CO<sub>2</sub> emissions by 2050. In addition, it has issued three green bonds, of EUR 1 billion each, have financed EUR 51.2 billion in green finance since 2018, and has committed to a goal of EUR 220 billion of green finance by 2030. Separately, Spain have has been mentioned by the ECB's climate stress tests as potentially facing higher loan losses due to increased physical risks associated with climate change. These risks include wildfires and flood risks, with the ECB's report highlighting that over 60% of Spanish firms are exposed to high physical risk, and c. 30% are exposed to high transition risk.

**Social**

The Social factor does not affect the ratings or trends assigned to Banco Santander SA. In 2019, the Bank disclosed 11 public commitments, where some of these commitments aligned with the social ESG factor. This included various targets focused on the improvements of diversity, inclusiveness and social responsibility. The Bank also makes disclosures of progress on these aims thus far against targets. This included the reduction of the gender pay gap to 0% by 2025 (1.5% as of 2020), and increasing female participation in senior management roles to 30% by 2025 (23.7% as of 2020).

**Governance**

The Governance factor does not affect the ratings or trend assigned to Banco Santander SA. DBRS Morningstar considers Santander's as sound and stable, whilst also having a conservative risk culture which permeates throughout the organisation. These factors have contributed to a generally low risk profile and very strong operational capabilities with a successful history of managing operational risks. As of FY 2020, the Bank's outstanding shares were circa 2/3 owned by the public, with the majority of the rest held by private institutions, and the largest shareholder being Blackrock Inc. which holds 5.5% of outstanding shares.

## Banco Santander S.A.

		1	2	3	4	5	
2021H1	Scorecard Indicator	Scorecard Indicator Data	Scorecard Indicator Assessment	Scorecard Building Block (BB) Assessment	Grids BB Assessment	Combined BB Assessment	
<b>Franchise</b>	Adjusted Assets	1462.55	VS	S/G	VS/S	S	
	Sovereign Rating	15	G				
<b>Earnings</b>	Return on Equity	1.02%	W/VW	M/W	S/G	G/M	
	Return on Assets	0.15%	M/W				
	IBPT/Avg.Assets	1.59%	S/G				
<b>Risk</b>	Net NPLs/Net Loans	1.07%	G	G/M	S/G	G	
	Provisions/IBPT	43.46%	G/M				
<b>Funding &amp; Liquidity</b>	Sovereign-Adjusted Funding Ratio	136.6%	G/M	G/M	VS/S	S/G	
	Sovereign-Adjusted Capital Ratio	9.02%	G/M				
<b>Capitalisation</b>	NPL/Equity + Loan Loss Reserves	29.89%	G/M	G/M	G/M	G/M	
	5-Year Accumulated Net Income/Total Assets	1.16%	G/M				
			<b>6</b>	<b>7</b>		<b>8</b>	
			<b>Overall Assessment</b>	<b>Intrinsic Assessment Range (IAR)</b>		<b>Assigned IA</b>	
			G	A (high)	A	A (low)	<b>A (high)</b>

Notes: (1) based on financial data as of H1 2021. (2) For more information see Global Methodology for Rating Banks and Banking Organisations published on 19 July 2021.

	<b>Banco Santander, S.A.</b>	<b>Banco Santander, S.A.</b>	<b>Banco Santander, S.A.</b>	<b>Banco Santander, S.A.</b>	<b>Banco Santander, S.A.</b>
EUR Millions	2021H1	2020Y	2019Y	2018Y	2017Y
	30/06/2021	31/12/2020	31/12/2019	31/12/2018	31/12/2017
Balance Sheet					
Cash and Deposits with Central Banks	183,091	153,839	101,067	113,663	110,995
Lending to/Deposits with Credit Institutions	82,475	71,957	87,539	83,406	77,431
Financial Securities	190,177	192,188	203,246	205,994	226,426
Financial Derivatives Instruments	61,732	77,442	72,315	65,633	67,066
Net Lending to Customers	954,518	916,199	942,218	882,920	848,914
- Gross Lending to Customers	978,095	939,794	964,460	906,227	872,848
- Loan Loss Reserves	23,577	23,595	22,242	23,307	23,934
Investment in Associates or Subsidiaries	7,562	7,623	8,772	7,589	6,184
Total Intangible Assets	16,454	15,908	27,687	28,560	28,683
Fixed Assets	32,678	32,735	35,234	26,156	22,975
Insurance Assets	276	261	292	324	341
Other Assets (including DTAs)	39,673	40,097	44,327	45,025	55,290
Assets	1,568,636	1,508,249	1,522,696	1,459,270	1,444,305
Deposits from Banks	193,405	184,679	175,163	187,908	190,314
Deposits from Central Banks	NA	115,294	75,322	87,339	80,556
Deposits from Credit Institutions	NA	69,385	99,841	100,570	109,758
Deposits from Customers	854,577	814,836	785,455	747,736	724,721
Issued Debt Securities	NA	216,439	246,023	222,799	196,456
Issued Subordinated Debt	NA	21,880	21,062	23,820	21,510
Financial Derivatives Instruments	59,440	71,623	69,333	62,008	66,266
Insurance Liabilities	1,014	910	739	765	1,117
Other Liabilities	364,455	106,561	114,261	106,873	137,088
Equity Attributable to Parent	85,371	81,476	100,072	96,473	94,489
Minority Interests	10,374	9,846	10,588	10,888	12,344
Liabilities & Equity	1,568,636	1,508,249	1,522,696	1,459,270	1,444,305

	<b>Banco Santander, S.A.</b>	<b>Banco Santander, S.A.</b>	<b>Banco Santander, S.A.</b>	<b>Banco Santander, S.A.</b>	<b>Banco Santander, S.A.</b>
EUR Millions	2021H1	2020Y	2019Y	2018Y	2017Y
	30/06/2021	31/12/2020	31/12/2019	31/12/2018	31/12/2017
Income Statement					
Interest Income	21,933	45,741	56,785	54,325	56,041
Interest Expenses	5,737	13,747	21,502	19,984	21,746
Net Interest Income	16,196	31,994	35,283	34,341	34,296
Net Fees and Commissions	5,169	10,015	11,779	11,485	11,597
Results from Financial Operations	894	2,187	1,531	1,797	1,664
Equity Method Results	163	-96	324	737	704
Net Income from Insurance Operations	86	209	120	51	57
Other Operating Income	207	128	1,396	178	235
Total Operating Income	22,715	44,437	50,433	48,589	48,553
Staff Costs	5,438	10,783	12,142	11,865	12,047
Other Operating Costs	5,048	9,915	11,627	10,712	11,411
Depreciation/Amortisation	1,381	2,810	3,000	2,425	2,593
Total Operating Expenses	11,867	23,507	26,769	25,002	26,052
Income Before Provisions and Taxes (IBF)	10,848	20,930	23,664	23,587	22,502
Loan Loss Provisions	3,785	12,363	9,340	8,985	9,241
Securities & Other Financial Assets Impairments	19	19	12	1	18
Other Impairments	130	10,632	1,769	467	1,579
Other Non-Operating Income (Net)	0	8	0	67	425
Income Before Taxes (IBT)	6,914	-2,076	12,543	14,200	12,089
Tax on Profit	2,474	5,632	4,427	4,886	3,883
Discontinued Operations	0	0	0	0	0
Other After-tax Items	0	0	0	0	0
Minority Interest	765	1,063	1,600	1,504	1,586
Net Attributable Income	3,675	-8,771	6,515	7,810	6,619

Source: DBRS Morningstar Analysis, Copyright © 2021, S&P Global Market Intelligence.

	Banco Santander, S.A. 2021H1	Banco Santander, S.A. 2020Y	Banco Santander, S.A. 2019Y	Banco Santander, S.A. 2018Y	Banco Santander, S.A. 2017Y
<b>Earnings Power</b>					
Earnings					
Net Interest Margin (%)	2.27	2.27	2.57	2.60	2.66
Yield on Average Earning Assets (%)	3.06	3.23	4.12	4.10	4.32
Cost of Interest Bearing Liabilities (%)	0.80	0.98	1.58	1.54	1.71
IBPT over Avg Assets (%)	1.41	1.36	1.57	1.63	1.60
IBPT over Avg RWAs (%)	3.80	3.64	3.90	3.96	3.68
Expenses					
Cost / Income ratio (%)	52.24	52.90	53.08	51.46	53.66
Operating Expenses by Employee	124,424	122,954	136,287	123,335	128,809
LLP / IBPT (%)	34.89	59.07	39.47	38.09	41.07
Profitability Returns					
Return on Avg Equity (ROAE) (%)	8.86	-9.99	6.62	8.23	7.16
Return on Avg Assets (ROAA) (%)	0.58	-0.50	0.54	0.65	0.58
Return on Avg RWAs (%)	1.56	-1.34	1.34	1.56	1.34
Dividend Payout Ratio (%)	6.47	-19.73	41.37	44.79	51.17
Internal Capital Generation (%)	8.21	-8.55	2.86	4.48	3.45
<b>Risk Profile</b>					
Gross NPLs over Gross Loans (%)	3.40	3.38	3.50	3.94	4.31
Net NPLs over Net Loans (%)	1.02	0.89	1.23	1.40	1.61
NPL Coverage Ratio (%)	70.87	74.28	65.81	65.30	63.66
Net NPLs over IBPT (%)	44.66	39.04	48.84	52.51	60.72
Net NPLs over CET1 (%)	13.67	11.78	16.39	18.22	18.42
Texas Ratio (%)	27.88	27.64	25.43	27.31	28.75
Cost of Risk (%)	0.83	1.31	1.06	1.06	1.17
Level 2 Assets/ Total Assets (%)	8.79	9.71	9.83	9.64	8.60
Level 3 Assets/ Total Assets (%)	0.54	0.57	0.44	0.31	0.09
<b>Funding and Liquidity</b>					
Bank Deposits over Funding (%)	NA	17.12	16.79	18.01	20.37
- Interbank over Funding (%)	NA	8.11	10.89	10.88	13.62
- Central Bank over Funding (%)	NA	9.01	5.91	7.13	6.74
Customer Deposits over Funding (%)	NA	63.66	61.62	61.04	60.66
Wholesale Funding over Funding (%)	NA	19.22	21.58	20.95	18.98
- Debt Securities over Funding (%)	NA	16.91	19.30	18.19	16.44
- Subordinated Debt over Funding (%)	NA	2.30	2.28	2.77	2.53
Liquid Assets over Assets (%)	29.05	27.71	25.73	27.62	28.72
Non-Deposit Funding Ratio (%)	41.98	42.49	44.37	44.69	45.81
Net Loan to Deposit Ratio (%)	111.69	112.44	119.96	118.08	117.14
LCR (Phased-in) (%)	167.66	161.99	151.68	147.25	141.94
NSFR (%)	124.00	120.00	112.00	114.00	NA
<b>Capitalisation</b>					
CET1 Ratio (Phased-In) (%)	12.11	12.34	11.65	11.47	12.26
CET1 Ratio (Fully-Loaded) (%)	11.70	11.89	11.41	11.21	10.84
Tier 1 Capital Ratio (Phased-In) (%)	13.67	13.95	13.14	13.12	12.77
Total Capital Ratio (Phased-In) (%)	15.82	16.18	15.05	14.98	14.99
Tang. Equity / Tang. Assets (%)	5.11	5.05	5.55	5.51	5.52
Leverage Ratio (DBRS) (%)	4.75	4.88	4.94	4.97	5.50
<b>Growth</b>					
Net Attributable Income YoY (%)	81.3	NA	-16.6	18.0	6.7
Net Fees and Commissions YoY (%)	5.9	-15.0	2.6	-1.0	13.9
Total Operating Expenses YoY (%)	-2.6	-12.2	7.1	-4.0	10.3
IBPT YoY (%)	7.7	-11.6	0.3	4.8	8.6
Assets YoY (%)	4.0	-0.9	4.3	1.0	7.9
Gross Lending to Customers YoY (%)	4.1	-2.6	6.4	3.8	7.1
Net Lending to Customers YoY (%)	8.4	-2.8	6.7	4.0	7.4
Loan Loss Provisions YoY (%)	-29.1	32.4	3.9	-2.8	-3.3
Deposits from Customers YoY (%)	10.6	3.0	5.6	0.4	12.5

Source: DBRS Morningstar Analysis, Copyright © 2021, S&amp;P Global Market Intelligence.



### Rating Methodology

The applicable methodology is the Global Methodology for Rating Banks and Banking Organisations (July 19, 2021), DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (February 3, 2021), and DBRS Criteria: Guarantees and Other Forms of Support (May 31, 2021), which can be found on our website under Methodologies.

### Ratings

Issuer	Obligation	Rating	Rating Action	Trend
Banco Santander S.A.	Long-Term Issuer Rating	A (high)	Confirmed	Stable
Banco Santander S.A.	Long-Term Deposits	A (high)	Confirmed	Stable
Banco Santander S.A.	Long-Term Senior Debt	A (high)	Confirmed	Stable
Banco Santander S.A.	Senior Non-Preferred Debt	A	Confirmed	Stable
Banco Santander S.A.	Subordinated Debt	A (low)	Confirmed	Stable
Banco Santander S.A.	Short-Term Issuer Rating	R-1 (middle)	Confirmed	Stable
Banco Santander S.A.	Short-Term Deposits	R-1 (middle)	Confirmed	Stable
Banco Santander S.A.	Short-Term Debt	R-1 (middle)	Confirmed	Stable
Banco Santander S.A.	Short Term Critical Obligations Rating	R-1 (middle)	Confirmed	Stable
Banco Santander S.A.	Long Term Critical Obligations Rating	AA (low)	Confirmed	Stable

### Ratings History

Issuer	Obligation	Current	2019	2018	2017
Banco Santander S.A.	Long-Term Issuer Rating	A (high)	A (high)	A (high)	A
Banco Santander S.A.	Long-Term Senior Debt	A (high)	A (high)	A (high)	A
Banco Santander S.A.	Long-Term Deposits	A (high)	A (high)	A (high)	A
Banco Santander S.A.	Short-Term Issuer Rating	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (low)
Banco Santander S.A.	Short-Term Debt	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (low)
Banco Santander S.A.	Short-Term Deposits	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (low)
Banco Santander S.A.	Senior Non-Preferred Debt	A	A	A	A (low)
Banco Santander S.A.	Subordinated Debt	A (low)	A (low)	A (low)	BBB (high)
Banco Santander S.A.	Long-Term Critical Obligations Rating	AA (low)	AA (low)	AA (low)	A (high)
Banco Santander S.A.	Short-Term Critical Obligations Rating	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)

### Previous Actions

- [DBRS Morningstar Confirms Banco Santander SA's Long-Term Issuer Rating at A \(high\), Stable Trend, October 4, 2021.](#)
- [DBRS Morningstar Confirms Banco Santander SA's Long-Term Issuer Rating at A \(high\), Stable Trend, October 1, 2020.](#)
- [DBRS Morningstar Revises Trend on Santander's COR Ratings to Stable after Sovereign Rating Action, June 5, 2020.](#)
- [DBRS Morningstar Confirms Banco Santander SA's Long-Term Issuer Rating at A \(high\), Stable Trend, November 29, 2019.](#)
- [DBRS Confirms Banco Santander SA's Issuer Ratings at A \(high\), Stable Trend, December 3, 2018.](#)
- [DBRS Upgrades Santander's Senior Ratings to A \(high\), Stable Trend, April 12, 2018.](#)
- [DBRS Confirms Ratings of Santander – Senior at A, Stable Trend, December 7, 2017.](#)

**Related Research**

- [Spanish Banks: 9M 2021 Earnings Close to Pre-COVID Levels as NPLs Remained Solid](#), December 15, 2021.
- [European Banks' Cost of Risk Supported by Loan Loss Releases in Q3](#), November 29, 2021.
- [Most European Banks' Moratoria Are Coming To An End; Asset Quality Impact Yet to be Seen](#), November 9, 2021.
- [European Banks Report Significantly Lower Cost of Risk in H1 2021 Supported by Loan Loss Releases](#), September 15, 2021.
- [European Banks' Q1 Cost of Risk Almost Back To Pre-Pandemic Levels, But Unlikely to be Sustained](#), May 27, 2021.
- [ESG Factors for Financial Institutions, Part One: Environmental Factors](#), April 27, 2021.
- [European Banks Report High FY20 Cost of Risk, but Little Impact on Asset Quality To Date](#), March 30, 2021.
- [Gender Diversity at European Banking Boards: Still a Long Way to Go](#), February 22, 2021.
- [Spanish Banks: FY20 Earnings Significantly Down, but Credit Risk Still to Fully Materialise](#), February 18, 2021.
- [European Banks' Outlook Remains Challenging in 2021](#), January 14, 2021.

**Previous Report**

- [Banco Santander SA: Rating Report](#), October 23, 2020.
- [Banco Santander SA: Rating Report](#), January 21, 2020.
- [Banco Santander SA: Rating Report](#), December 20, 2018
- [Banco Santander SA - Rating Report](#), December 12, 2017
- [Banco Santander SA](#), November 3, 2016

**European Bank Ratios & Definitions**

- [DBRS European Bank Ratios & Definitions](#), June 11, 2019.

### About DBRS Morningstar

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