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-
Support Rating	5
Support Rating Floor	NF

Sovereign Risk

Long-Term Foreign- and Local-Currency IDRs	A-
Country Ceiling	AAA

Outlooks

Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Foreign- and Local-Currency IDRs	Stable

Key Rating Drivers

Geographic and Business Diversification: Banco Santander, S.A.'s ratings are underpinned by its broad, balanced geographic and business diversification, with solid retail banking franchises in several European and Latin American countries. The ratings also reflect a modest risk appetite and sound earnings generation through economic cycles, which offset lower than peers' capital ratios. Asset quality remains a relative weakness compared with some European peers.

Earnings Resilience at Risk: Santander's franchise and diversified business model result in resilient profitability structurally, a key rating strength, and have allowed the bank to generate capital consistently and provided an important first line of defence against periods of economic crisis. However, the coronavirus crisis will challenge the bank's earnings resilience as the impact of the crisis unfolds over time.

Asset Quality to Deteriorate: The impaired loans ratio was adequate at 3.5% at end-June 2020 with a strengthened coverage by loan loss allowances of 72% after booking EUR1.6 billion loan impairment charges (LICs) related to the pandemic. We expect asset quality to deteriorate and be particularly sensitive to the performance of the cyclical unsecured consumer finance business and core markets worse hit by the pandemic (Spain) or where government support measures have been more limited (Brazil, Mexico).

Adequate Capital Buffers: Santander's decision not to pay 2019 dividends following the ECB's recommendation and easing of regulatory capital requirements has helped the regulatory common equity Tier 1 (CET1) ratio (11.84% at end-June 2020 with IFRS 9 transitional adjustments). The ratio should remain in the high range of 11%-12%, a target the bank has confirmed despite plans to pay cash dividends in 2020 subject to market conditions and regulatory approval.

Diversified Funding; Good Liquidity: Santander has a stable funding profile that benefits from solid core deposit franchises in its main markets. The group's approach requires foreign subsidiaries to be locally funded. Santander benefits from established access to the local and international wholesale debt markets. Liquidity management is conservative and high-quality liquid assets amply cover wholesale funding maturing within a year.

Rating Sensitivities

Medium-Term Risks from Coronavirus: Triggers for a downgrade would be a CET1 ratio below 11% with no prospect to restore it above this level combined with material and structural deterioration in profitability, which could stem from a further pronounced deterioration in the group's operating environment or asset quality. Santander's ratings are sensitive to a downgrade of Spain (A-/Stable) or a lower group operating environment score.

Stable Operating Environment: The Outlook could be revised to Stable if the operating environment for Santander stabilises and if the bank manages the challenges arising from the economic downturn successfully, limiting a negative impact on its asset quality and profitability, while maintaining current capital levels.

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

Large European Banks Quarterly Credit Track 2Q20 (September 2020)

Global Economic Outlook: September 2020 - Recovery Underway (September 2020)

Analysts

Cristina Torrella Fajas
+34 93 323 8405
cristina.torrella@fitchratings.com

Pau Labró Vila, CFA
+34 93 494 3464
pau.labrovila@fitchratings.com

Debt Rating Classes

Rating Level	Rating
Deposits	A/F1
Senior preferred debt	A/F1
Senior non-preferred debt	A-
Tier 2 debt	BBB
Legacy hybrid preferred notes	CCC
Additional Tier 1 notes	BB+

Source: Fitch Ratings

Santander's long-term senior preferred debt and that of its issuing vehicle (Santander International Products PLC), and deposit ratings and the Derivative Counterparty Rating (DCR) are rated one notch above Santander's Long-Term IDR. This is to reflect the protection that accrues from buffers of junior and senior non-preferred debt, which exceed 10% of risk-weighted assets (RWAs) at the resolution perimeter (i.e. after deconsolidating subsidiaries that are in different resolution groups, as Santander has a clear multiple point of entry (MPE) resolution strategy) on a sustained basis. The combination of these buffers was 12.5% of RWAs at end-2019. We expect Santander to continue issuing a significant volume of senior non-preferred and junior debt, to meet the group's minimum requirement for own funds and eligible liabilities (MREL) and subordination requirement.

The short-term senior preferred debt and deposit ratings of 'F1' benefit from the fact that equivalent long-term senior debt and deposit ratings have been notched up to reflect lower credit risks.

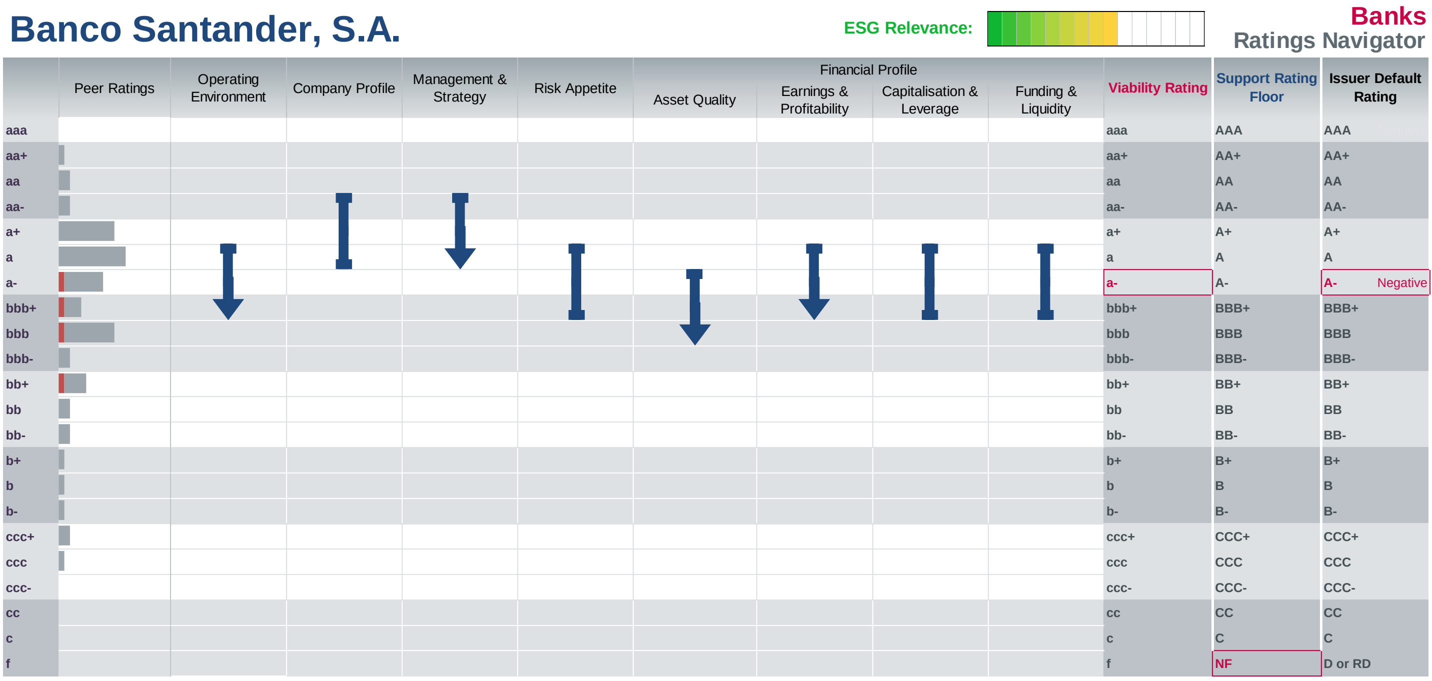
Subordinated debt issued by Santander is notched down from its Viability Rating (VR) in accordance with our assessment of each instrument's non-performance and relative loss severity risk profiles. We rate the instruments two notches below the group's VR for loss severity as we expect recoveries to be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

We rate full discretionary coupon payment additional Tier 1 (AT1) debt four notches from 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-impairment earnings generation through the cycle and sound leverage ratio.

The legacy hybrid preferred notes' ratings reflect Fitch Ratings' view that there is a heightened risk that these hybrid securities will become non-performing in 2021 as reported distributable profit, which excludes reserves under the original terms of the notes, is a distribution trigger. Therefore, a net loss reported in the unconsolidated accounts of the parent bank would prevent Santander from paying coupons on these securities under the terms and conditions of the notes.

We expect that Santander to report a net loss in unconsolidated accounts of the parent bank for 2020 as the result of sizeable impairments on investments in some of its foreign subsidiaries recorded in 1H20. Santander will not generate sufficient profit in 2H20 to offset these one-offs and will not be able to make coupon payments on these legacy hybrid preferred securities. The ratings on the securities reflect our expectation that the economic losses to investors in these securities in case of non-performance will be very low (below 10%) as the coupon payments should resume in 2022, if the bank returns to profit in 2021 as we expect.

Ratings Navigator



Significant Changes

Deterioration in Operating Environments

In our assessment of Santander's operating environment, we factor in the proportion of its business and risk exposures in markets other than its home country of Spain. The operating environment score for Santander ('a-') is one notch above the mid-point operating environment score assigned to Spanish domestic banks. This reflects the benefits of Santander's international diversification, including into stronger economies than its home Spanish market.

The most significant markets for the group are Spain, the UK, Brazil, Mexico and the US. However, Spain has a proportionately higher influence given the fact that the group's credit profile is correlated with that of Spanish sovereign, as reflected in the sensitivity of the group's overall performance to the operating environment in Spain.

All economies where Santander operates will be negatively impacted by the coronavirus crisis, albeit to different degrees. We revised the outlook of the Spanish operating environment to negative from stable in March 2020 on material downward revision in our GDP forecasts for Spain, which has been among the most severely affected countries within the eurozone. Spain's economy has been particularly vulnerable to virus containment measures given its dependence on tourism and a high share of employees in sectors that are vulnerable to social distancing restrictions. Under Fitch's forecasts, Spain's GDP is expected to contract by 13.2% in 2020 before seeing a recovery of 6.2% in 2021. This forecast does not include the approval of the EU's recovery fund, which could result in a material boost to growth from 2021.

The resurgence of COVID-19 cases since July could lead to new restrictions although a second national lockdown seems unlikely. Consumer and business confidence remain subdued despite recent improvements.

Substantial fiscal support measures, including direct fiscal easing and guarantees have been announced by governments in all of the developed markets where Santander operates. Germany, Italy and the UK have announced more than 20% of GDP overall fiscal support, followed closely by France at 17.5% according to our estimates. In Spain, overall fiscal support measures accounted for about 15% of total GDP and included the introduction of a sector-wide

Bar Chart Legend

Vertical bars – VR range of Rating Factor
Bar Colors – Influence on final VR
- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook
- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ▫ Stable

debt moratorium suspending interest and principal repayment for at least three months for residential mortgage and consumer loans, and the provision of up to EUR100 billion of state loan guarantees (of which around EUR74 billion had already been disbursed at mid-August 2020) for the self-employed, SMEs and corporates facing difficulties as a result of the crisis.

Central banks are offering support through sovereign and corporate bond-buying and liquidity facilities to inject liquidity into the markets and economy. Financial and regulatory measures have also been put in place to increase liquidity for banks and provide them with incentives to extend credit to households and businesses through the crisis. In particular, the ECB's response to the coronavirus pandemic includes capital-relief measures and extensive monetary-policy support facilities that intended to alleviate economic difficulties for European banks.

For large emerging economies such as Brazil and Mexico, Fitch expects deteriorating operating conditions to pressure group asset quality and weigh on earnings due to lower loan growth, decreasing interest rates and higher LICs over the medium term. In particular, the relatively limited fiscal actions from governments to prevent SMEs and commercial borrowers' losses under stress will likely pose structural asset quality challenges for local banks in the medium term, and ultimately for the group.

Capital Target Confirmed

Santander reiterated its CET1 ratio target at the higher end of the 11%-12% range, supported by an expected 10bp quarterly organic capital generation. While the Board of Directors' decision to cancel the 2019 complementary dividend has been capital-supportive, Santander has announced it accrued 6bp of capital in 2Q20 and will continue in following quarters to allow the flexibility to pay a cash dividend on 2020 results, subject to the normalisation of market conditions and regulatory approvals. Nevertheless, we expect the capital ratios to remain in the upper range of the target for 2020.

Fitch GDP Growth Projections (%) –

Country/OES[a]	2019	2020f	2021f
Spain (bbb+/Negative)	2.0	-13.2	6.2
UK (aa-/Negative)	1.5	-11.5	4.0
Germany (aa-/Negative)	0.6	-6.3	5.4
Portugal (bbb-/Negative)	2.2	-6.6	3.7
Poland (bbb+/Negative)	4.1	-3.5	4.5
Brazil (b+/Negative)	1.1	-5.8	3.2
Mexico (bb+/Negative)	-0.3	-10.8	4.4
Chile (a-/Negative)	1.1	-6.7	4.8
US (aa/Negative)	2.2	-4.6	4.0

[a] OES: Operating Environment Score
Source: Fitch Ratings, Fitch Solutions

Company Summary

Geographically Diversified Business Model

Santander is Spain's largest banking group by assets with an internationally diversified retail banking franchise built through the acquisitions of controlling stakes in foreign subsidiaries. The group has a good balance between developed and emerging economies. Most international subsidiaries have critical mass in their home markets (market shares above 10%) and in many cases are systemically important. This provides them with some degree of pricing power and ability to access the domestic capital markets. Santander also has a robust consumer finance business in continental Europe through Santander Consumer Finance, S.A. (SCF), ranking among the top-three players in most of its markets.

Despite the significant weight of mature markets in Santander's loan book, their contribution to the group's underlying attributable profit (excluding the corporate centre) stood only at around 42% in 1H20. This is due not only to inherently higher profitability levels in emerging markets, but also to the negative impact of low interest rates and business growth in mature markets. Retail and commercial banking accounts for about three-quarters of the group's underlying attributable profit, which provides a high degree of recurrence and stability to group earnings.

The group's organisational structure consists of a parent bank based in Spain that also acts as the holding company of the stakes in international bank subsidiaries. This structure is commensurate with its business model and multiple-point-of-entry resolution strategy.

Strategic Execution Challenges

Despite the coronavirus crisis, Santander remains committed to the three pillars of its medium-term strategic plan. These are to improve operating performance in all the regions by increasing market shares, loyal/digital clients and customer satisfaction; to accelerate digitalisation which should help in attaining further cost savings; and to optimise capital allocation to regions and businesses with the highest returns.

We believe Santander has good execution skills to manage its wide geographic footprint, but the bank will be particularly challenged by the symmetric though different in degree economic downturn in all of its core markets caused by the pandemic. We believe that Santander will be challenged to achieve business growth and profitability improvement targets, at least in the short term, and will find it difficult to maintain asset quality at current sound levels given the expected increase in impaired loans across all geographies.

Moderate Risk Appetite

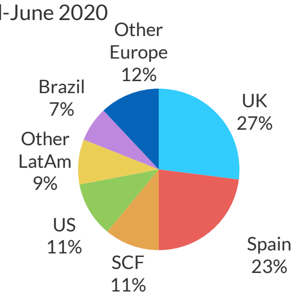
Santander's risk exposure is largely credit-related with gross loans accounting for about 58% of total assets at end-June 2020. About 84% of this is in mature markets with Spain and UK accounting for the largest shares and largely to retail/commercial segments.

The group's retail focus, balanced geographic diversification and centralised risk management, with conservative underwriting standards and close monitoring of group-wide risks, result in a modest risk appetite that underpins the resilience of the group's asset quality in periods of stress. Early key performance indicators have been set up to address heightened risks from the pandemic with special focus in the collection and recovery process and loan origination. Santander has identified as high priorities: Spain given it is among the European countries mostly hit by the crisis, unsecured consumer business and emerging markets.

Santander's exposure to market risk is moderate and mostly structural. The main balance sheets in developed markets with low interest rates show generally positive sensitivities to interest rates in terms of economic value and net interest income (NII). At end-2019, risk on NII over one year, measured as sensitivity to parallel changes in the worst-case scenario of ±100 basis points, was concentrated in the parent bank, UK and US. FX risk, largely from financial investments in subsidiaries financed in euros and from earnings, is managed centrally. The group's policy is to fully hedge potential FX effects on consolidated fully loaded CET1. Earnings are generally highly hedged but still moderately sensitive to FX moves, as reflected in the relatively limited impact of currency moves in 1H20 results.

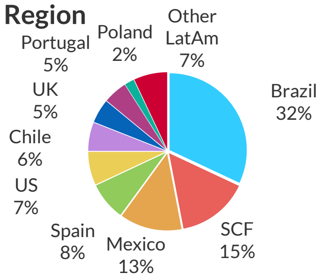
Group Loans by Geography

End-June 2020



Source: Fitch Ratings, Santander

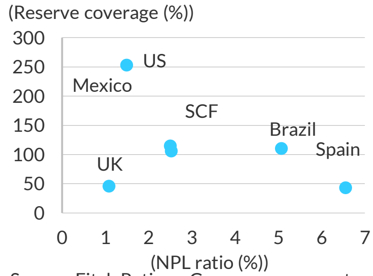
Underlying Attributable Profit by Region



Source: Fitch Ratings, Santander, excluding the corporate centre and Santander Global Platform

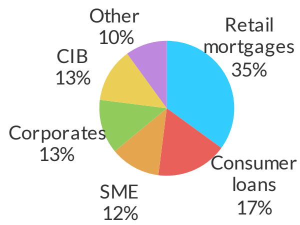
Asset Quality

End-June 2020



Source: Fitch Ratings, Group management accounts

Group Loans by Product



Source: Fitch Ratings, Santander

Summary Financials and Key Ratios

	30 Jun 20	31 Dec 19	31 Dec 18	31 Dec 17
	6 Months - interim	Year end	Year end	Year end
	(EURm)	(EURm)	(EURm)	(EURm)
	Unaudited	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement				
Net interest and dividend income	16,467.0	35,816.0	34,711.0	34,680.0
Net fees and commissions	5,136.0	11,779.0	11,485.0	11,597.0
Other operating income	665.0	1,634.0	4,228.0	2,078.0
Total operating income	22,268.0	49,229.0	50,424.0	48,355.0
Operating costs	10,707.0	23,280.0	24,779.0	22,993.0
Pre-impairment operating profit	11,561.0	25,949.0	25,645.0	25,362.0
Loan and other impairment charges	7,030.0	9,352.0	8,986.0	9,259.0
Operating profit	4,531.0	16,597.0	16,659.0	16,103.0
Other non-operating items (net)	-10,941.0	-4,054.0	-2,391.0	-4,012.0
Tax	3,928.0	4,427.0	4,886.0	3,884.0
Net income	-10,338.0	8,116.0	9,382.0	8,207.0
Other comprehensive income	-7,184.0	n.a.	-1,899.0	-7,320.0
Fitch comprehensive income	-17,522.0	8,116.0	7,483.0	887.0
Summary balance sheet				
Assets				
Gross loans	909,098.0	918,757.0	873,918.0	824,695.0
- Of which impaired	31,754.0	32,559.0	34,218.0	36,280.0
Loan loss allowances	22,983.0	22,242.0	23,307.0	23,934.0
Net loans	886,115.0	896,515.0	850,611.0	800,761.0
Interbank	28,856.0	23,475.0	40,633.0	44,080.0
Derivatives	98,392.0	72,315.0	65,634.0	67,067.0
Other securities and earning assets	331,393.0	323,242.0	290,853.0	320,733.0
Total earning assets	1,344,756.0	1,315,547.0	1,247,731.0	1,232,641.0
Cash and due from banks	138,266.0	101,067.0	113,663.0	110,995.0
Other assets	89,859.0	106,081.0	97,877.0	100,669.0
Total assets	1,572,881.0	1,522,695.0	1,459,271.0	1,444,305.0
Liabilities				
Customer deposits	806,350.0	785,454.0	747,736.0	724,721.0
Interbank and other short-term funding	248,583.0	200,517.0	175,368.0	186,539.0
Other long-term funding	254,398.0	263,746.0	279,553.0	268,262.0
Trading liabilities and derivatives	108,924.0	87,340.0	79,763.0	87,245.0
Total funding	1,418,255.0	1,337,057.0	1,282,420.0	1,266,767.0
Other liabilities	62,767.0	66,949.0	59,428.0	61,932.0
Preference shares and hybrid capital	172.0	8,176.0	10,296.0	8,989.0
Total equity	91,687.0	110,513.0	107,127.0	106,617.0
Total liabilities and equity	1,572,881.0	1,522,695.0	1,459,271.0	1,444,305.0

Source: Fitch Ratings, Fitch Solutions, Santander

Summary Financials and Key Ratios

	30 Jun 20	31 Dec 19	31 Dec 18	31 Dec 17
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.6	2.7	2.8	2.7
Net interest income/average earning assets	2.5	2.8	2.8	2.9
Non-interest expense/gross revenue	47.8	47.6	49.9	48.3
Net income/average equity	-20.2	7.4	8.9	7.8
Asset quality				
Impaired loans ratio	3.5	3.5	3.9	4.4
Growth in gross loans	-1.1	5.1	6.0	6.9
Loan loss allowances/impaired loans	72.4	68.3	68.1	66.0
Loan impairment charges/average gross loans	1.6	1.1	1.1	1.2
Capitalisation				
Common equity Tier 1 ratio	11.8	11.7	11.5	12.3
Fully loaded common equity Tier 1 ratio	11.8	11.7	11.3	10.8
Tangible common equity/tangible assets	3.2	5.5	5.2	5.2
Basel leverage ratio	4.8	5.1	5.2	5.3
Net impaired loans/common equity Tier 1	13.1	14.6	16.1	16.6
Funding and liquidity				
Loans/customer deposits	112.7	117.0	116.9	113.8
Liquidity coverage ratio	175.0	147.0	158.0	133.0
Customer deposits/funding	60.8	61.6	60.8	59.9
Net stable funding ratio	n.a.	112.0	114.0	n.a.

Source: Fitch Ratings, Fitch Solutions, Santander

Key Financial Metrics – Latest Developments

Asset Quality to Deteriorate

The impaired loan ratio has varied only moderately over economic and interest rate cycles as the group benefits from its internationally diversified footprint, having ranged between 6% at the peak of the real estate crisis in Spain in 2013 (6.6% including foreclosed assets) and around 1% at end-2007 before the global financial crisis in 2008. The group's exposure to emerging economies inherently results in an above average impaired loan ratio but also in an above-average net interest margin and recurrent LICs/gross loans ratio (on average 100bp-120 bp). The group has consistently reported an above European peers' impaired loan coverage ratio above 65%, a sound level considering the significant proportion of residential mortgage lending in Santander's loan book.

The group's impaired loan ratio remained stable in 1H20 (3.5% at end-June 2020), but we expect asset quality pressures to arise towards year-end as loan moratoria expire, testing borrowers' payment capacity in a weak operating environment. Santander has the financial flexibility to increase LICs, without eroding operating profit, to maintain current sound impaired loan coverage levels.

At end-June 2020, about 3% of the group's loan book benefited from state guarantees, with a significant amount of loans guaranteed by the Spanish government. In addition, about 13% of total loans benefit from payment holidays and moratoria (from public and private initiatives). The moratoria have been mostly extended to secured retail lending (around 60% relate to residential mortgage loans, mainly in the UK) and are mostly short-term (around 90% will expire in 2020). About 25% of moratoria had already expired at end-June 2020 and the bulk returned to performing status.

Other earning assets mostly relate to fixed-income securities and interbank loans, with the latter placed primarily with international banks at short-term maturities (largely within one year). Fixed-income securities are largely Spanish sovereign bonds or local government bonds held at the foreign subsidiaries.

Downside Earnings Pressure

Santander's core profitability metrics are sound and compare well with European peers. From 2008 to 2019 the group's average operating profit/RWAs ratio was a solid 2.1%. With a cost/income ratio of consistently below 50%, Santander averages about EUR25 billion in pre-impairment operating profit annually, which provides a good buffer against adverse asset-quality shocks, before hitting capital. However, the pandemic will test Santander's capacity to manage economic fallout in all its core markets. Profitability in the next two years will be pressured by lower business growth prospects affecting revenue and most notably higher LICs on asset quality deterioration.

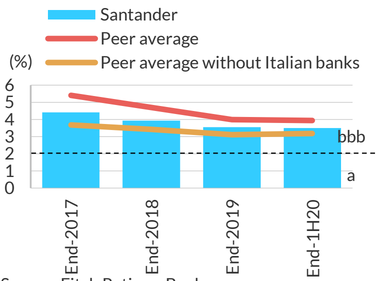
Santander plans to deliver higher cost savings than originally planned of EUR1.2 billion nominal cost reductions in Europe in 2020, particularly in those franchises that are experiencing subdued revenue, notably Spain and the UK. Like most European banks, cost management is key to offset revenue pressures and maintain Santander's rating strength which is its sustainably good pre-impairment operating profitability levels.

Santander's sizeable goodwill impairment in 1H20 recognised lower-than-expected results estimates on lower interest rates prospects, the impact of the pandemic and a one percentage point increase in the discount rate. Excluding the extraordinary charges, Santander's pre-impairment operating profit proved resilient. In constant euros, core operating revenue (NII and net fee income) was down 4% yoy, mostly driven by lower fees on reduced business activity due to lockdown measures.

Costs were down 2%, supported by the attainment of cost synergies in Europe (EUR300 million in 1H20). LICs weighted on profits in 1H20 with the largest allocations in Spain, US and Mexico. Santander reiterated its guidance for a LIC/gross loans ratio at between 140bp and 150bp by end-2020 (annualised 147bp in 1H20).We expect operating profitability to remain resilient in 2H20, but for the bank to record a net loss for the year due to the goodwill impairments in 2Q20.

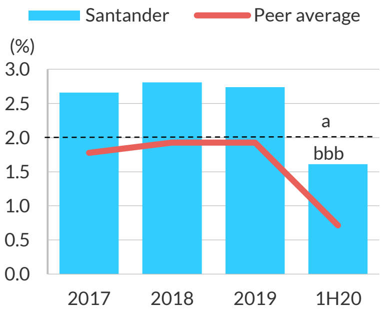
Notes on Charts: Black dashed lines represent indicative quantitative ranges for core financial metrics given an operating environment score of 'a'. Peers include: Santander (VR: a-), Banco Bilbao Vizcaya Argentaria, S.A. (bbb+); Intesa Sanpaolo S.p.A. (bbb-); UniCredit S.p.A. (bbb-); Barclays Bank plc (a/RWN); Lloyds Banking Group plc (a); BNP Paribas (a+/RWN); Societe Generale S.A. (a-); Credit Agricole (a+).

Impaired Loans



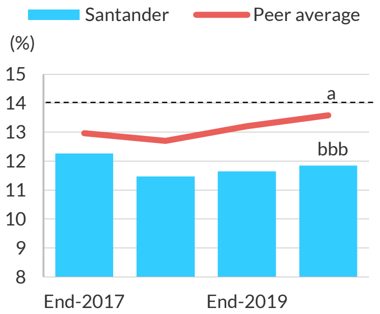
Source: Fitch Ratings, Banks

Operating Profit/RWAs Ratio



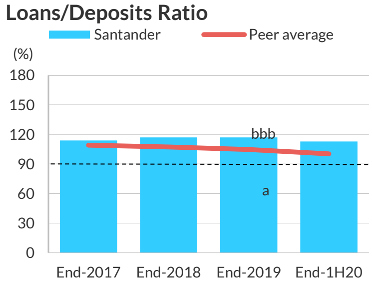
Source: Fitch Ratings, Banks

Common Equity Tier 1 Ratio



Source: Fitch Ratings, Banks

Loans/Deposits Ratio



Source: Fitch Ratings, Banks

Adequate Buffers over Solvency Requirements

Santander's capital ratios are well above regulatory minimums but structurally lagging behind those of international peers. The 2020 Supervisory Review and Evaluation Process (SREP) requirements were revised down to 8.86% for the CET1 ratio and 13.02% for the total capital ratio following the ECB's relief measures that allow banks to partially use additional Tier 1 or Tier 2 instruments to meet Pillar 2 Requirements. The group's regulatory leverage ratio of 4.8% at end-June 2020 is in line with that of international peers.

The organic generation and capital requirement relief measures led to an increase of 52bp in the CET1 ratio in 1H20, partially offset by corporate operations and market-related valuations. The group's internal capital generation is good and the foreign subsidiaries are well-capitalised. Also, Santander's capital ratios should be but in the context that at end-2019, around 63% of group credit exposures are measured under the standardised models, which compares with the 33% on average for its European peers.

Diversified Funding Profile, Good Liquidity

Santander has maintained its loans/deposits ratio at a satisfactory level over the past four years, between 115% and 120% and we expect it to remain in the same range. Access to the wholesale funding markets is well established and diversified by tenor, currency and instrument. Short-term wholesale funding has been modest. Santander had anticipated more than half of its annual wholesale unsecured funding programme by end-June 2020. Funding and liquidity are monitored at group level, but Santander requires all units to be funded independently in their local markets, particularly through customer deposits. Santander's funding and liquidity indicators are adequate, with a reported liquidity coverage ratio (LCR) of 175% on a group basis at end-June 2020. The group's net stable funding ratio was 111% at end-March 2020.

The adoption of a MPE resolution strategy implies that each material foreign subsidiary is required to hold its own required recapitalisation buffers following the requirements in their jurisdiction. The resolution group mostly consists of the parent bank and SCF. At end-November 2019, the SRB communicated that the revised MREL at the resolution group level based on end-2017 RWAs would be 28.6% of RWAs (equivalent to EUR114 billion). At end-2019, the resolution group already complied with the MREL and subordination requirement.

As a G-SIIB, Santander had to meet TLAC requirements by January 2019 with a transition period from 2019 (16% of RWAs) to January 2022 (18%) plus applicable capital buffers (2.5% capital conservation buffer and a 1% G-SIB buffer). Given its MPE approach, TLAC requirements are expected to be requested at each resolution entity. At end-2019, Santander complied with regulatory TLAC requirements.

Sovereign Support Assessment

Support Rating Floor			Value
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)			BBB+ or BBB
Actual country D-SIB SRF			NF
Support Rating Floor:			**NF**
Support Factors	**Positive**	**Neutral**	**Negative**
Sovereign ability to support system			
Size of banking system relative to economy			✓
Size of potential problem		✓	
Structure of banking system		✓	
Liability structure of banking system		✓	
Sovereign financial flexibility (for rating level)		✓	
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in			✓
Track record of banking sector support		✓	
Government statements of support		✓	
Sovereign propensity to support bank			
Systemic importance		✓	
Liability structure of bank		✓	
Ownership		✓	
Specifics of bank failure		✓	
Policy banks			
Policy role			
Funding guarantees and legal status			
Government ownership			

Sovereign Support not Reliable

Santander's Support Rating of '5' and Support Rating Floor of 'No Floor' reflect Fitch's belief that senior creditors of the banks can no longer rely on receiving full extraordinary support from the sovereign in the event that Santander becomes non-viable. The EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism for eurozone banks provide a framework for resolving banks that is likely to require senior creditors participating in losses, instead of, or ahead of, a bank receiving sovereign support.

Environmental, Social and Governance Considerations

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

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

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

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

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

Environmental (E)

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

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

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

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

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

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

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite	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; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	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	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	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	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				1

CREDIT-RELEVANT ESG SCALE

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

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

Santander's highest level of ESG credit relevance 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 the way in which they are being managed by the entity. For more information on our 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.