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CREDIT OPINION
18 July 2023

Update

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RATINGS

Banco Santander S.A. (Spain)

Domicile	Santander, Spain
Long Term CRR	A2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	A2
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	A2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the *ratings section* *at the end of this report* *for more information. The ratings and outlook shown reflect information as of the publication date.*

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Banco Santander S.A. (Spain)

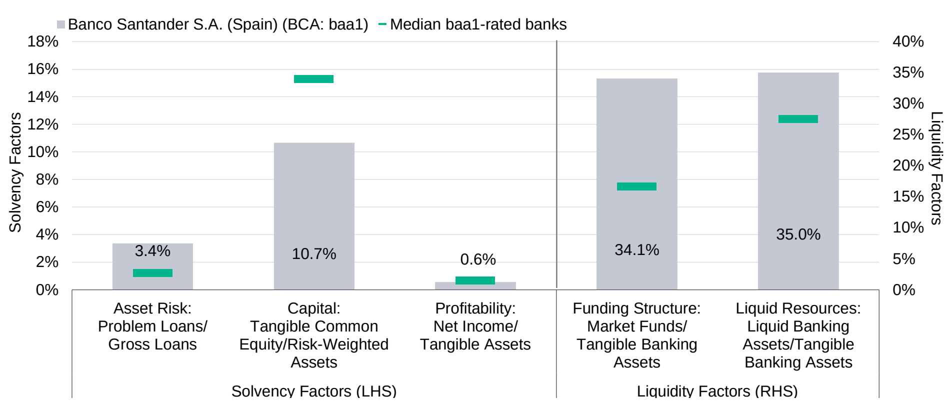
Update following rating affirmation

Summary

On 5 July 2023, we affirmed Banco Santander S.A. (Spain)'s (Santander) ratings. The outlook remains stable. Santander's A2/Prime-1 ratings reflect the bank's Baseline Credit Assessment (BCA) of baa1; very low loss given failure for junior depositors and senior unsecured creditors based on our Advanced Loss Given Failure (LGF) analysis, resulting in a three-notch uplift; and the Government of Spain's rating of Baa1 (stable), which caps Santander's deposit and senior unsecured ratings at A2, two notches above the sovereign rating. Santander's Counterparty Risk (CR) Assessment is A3(cr)/Prime-2(cr).

Santander's BCA reflects the benefits stemming from its leading market positions in several core markets with distinct credit cycles, which underpin sustained profit generation and low earnings volatility. The BCA also incorporates the bank's modest asset quality because of the group's exposure to inherently riskier, but more profitable, emerging markets, and our expectation of an improved profitability. The BCA also reflects (i) the bank's stronger but overall relatively modest capital levels and low leverage ratio and (ii) the limited erosion of its earnings capacity and capital levels under stressed conditions. Santander has a well-established de-centralised funding structure with all subsidiaries being self-sufficient ; it has diversified funding channels and ample liquidity buffer, mitigating the risks inherent to its large stock of confidence-sensitive wholesale funding. Santander's baa1 BCA is not capped by the Baa1 sovereign rating hence would not move up in case the sovereign rating were to be upgraded, other things equal.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

» Very strong geographical diversification, which drives consistent profit generation and low earnings volatility

» Above-average pre-provision profitability through the cycle compared with its European peers and well positioned to benefit from interest rate hikes

» Stress capital resilience

» Good liquidity and large market access, with an independent model for its subsidiaries, which limits contagion risk

Credit challenges

» Strained bottom-line profitability

» Modest asset-quality metrics, which we expect to deteriorate on the back of high inflation and economic slowdown across all geographies

» Modest capital, with a low leverage ratio

» Sensitivity to market sentiment because of its large stock of wholesale funding

Outlook

The stable outlook on the long-term deposit and senior unsecured debt ratings reflects our expectation that Santander's diversified business model will help tackle the macroeconomic challenges stemming from inflationary pressures and the impact of the Russia-Ukraine crisis. The stable outlook on the long-term deposit and senior unsecured debt ratings is driven by the stable outlook on Spain's sovereign rating, and it also incorporates our assumption that the bank's liability structure will remain broadly unchanged.

Factors that could lead to an upgrade

» Upward pressure on Santander's deposit and debt ratings is primarily dependent on an upgrade of Spain's sovereign rating because the bank's current A2 long-term deposit and senior unsecured debt ratings already exceed the sovereign rating by two notches and are constrained at that level under the Banks methodology. An upgrade of the sovereign rating by one notch would lift the current constraint on the bank's ratings, leading to an upgrade of the debt and deposit ratings to A1.

» An upgrade of the BCA is dependent on sustainable improvement in profitability beyond our expectations, an improvement in asset risk or sustained higher capital levels. An upgrade would also be contingent on the stability of the economic and banking environments in which the bank operates. Santander's baa1 BCA is currently not capped by the Baa1 sovereign rating hence would not move up in case the sovereign rating were to be upgraded, other things equal.

Factors that could lead to a downgrade

» Santander's ratings could be downgraded if there is a significant deterioration in the operating conditions in the bank's main markets, beyond our current expectations; or if the bank were to exhibit lower capital levels, as measured by tangible common equity (TCE). A downgrade of Spain's sovereign rating could also lead to a downgrade of Santander's BCA and its deposit and senior unsecured ratings. The bank's debt and deposit ratings are linked to the standalone BCA; therefore, a downgrade of the BCA could also affect these ratings.

Key indicators

Exhibit 2

Banco Santander S.A. (Spain) (Consolidated Financials) [1]

	12-22[2]	12-21[2]	12-20[2]	12-19[2]	12-18[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	1,734,659.0	1,595,835.0	1,508,250.0	1,522,695.0	1,459,271.0	4.4[4]
Total Assets (USD Million)	1,851,310.0	1,808,250.1	1,845,428.2	1,709,222.4	1,668,157.7	2.6[4]
Tangible Common Equity (EUR Million)	71,876.8	65,793.9	56,801.4	61,983.2	56,877.5	6.0[4]
Tangible Common Equity (USD Million)	76,710.3	74,551.5	69,499.7	69,576.0	65,019.2	4.2[4]
Problem Loans / Gross Loans (%)	3.3	3.3	3.5	3.7	4.0	3.6[5]
Tangible Common Equity / Risk Weighted Assets (%)	10.9	10.6	9.2	9.4	8.7	9.8[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	34.5	35.2	37.7	38.6	42.7	37.8[5]
Net Interest Margin (%)	2.4	2.2	2.2	2.5	2.5	2.4[5]
PPI / Average RWA (%)	4.2	3.9	3.6	3.8	3.8	3.9[6]
Net Income / Tangible Assets (%)	0.6	0.6	0.4	0.6	0.7	0.6[5]
Cost / Income Ratio (%)	48.1	48.2	49.1	48.9	47.8	48.4[5]
Market Funds / Tangible Banking Assets (%)	35.9	34.2	35.6	36.7	34.8	35.4[5]
Liquid Banking Assets / Tangible Banking Assets (%)	33.4	32.2	30.6	29.1	29.6	31.0[5]
Gross Loans / Due to Customers (%)	110.2	110.2	111.4	117.6	113.5	112.6[5]

[-] Further to the publication of our revised methodology in July 2021, only ratios from annual 2020 onwards included in this report reflect the change in analytical treatment of the "high-trigger" Additional Tier 1 instruments. [1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Investors Service and company filings

Profile

With total assets of around €1.7 trillion as of the end of March 2023, Banco Santander S.A. (Spain) (Santander) is Spain's largest banking group and ranks among the 15 largest banking groups in Europe. The group has strong geographical diversification with around 50% of the group's profit[1] generated in Europe (including Digital Consumer Bank at 9%), 9% in the US and 40% in Latin America (Brazil 16% and Mexico 13%) as of March 2023.

Detailed credit considerations

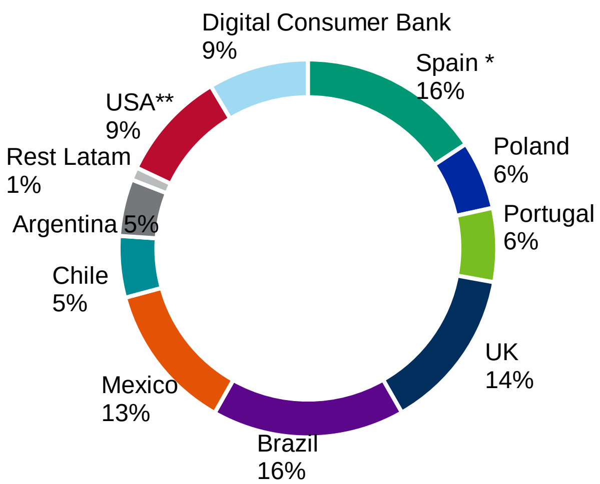
Strong geographical diversification in mature and emerging economies with distinct credit cycles underpins well-diversified earnings streams and low earnings volatility

The group has leading market positions in several core markets both in mature and emerging economies with distinct credit cycles. We expect Santander's business diversification to continue to provide sustained profit generation and low earnings volatility even during periods of macroeconomic difficulties and severe stress. We reflect this strength in a one-notch positive qualitative adjustment to its Business Diversification score.

As of the end of March 2023, close to 80% of the group's customer loans were in mature markets, contributing to close to 55% of the group's profit, while 20% of the loan book was from emerging markets, accounting for 45% of group's results as of the same date, underpinned by higher margins and stronger business growth.

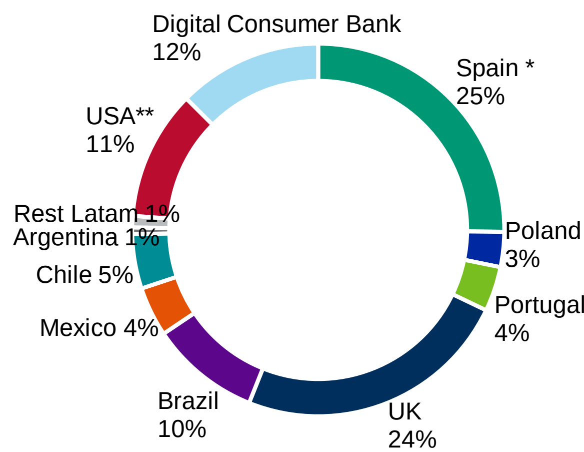
The group's retail and commercial banking model, successfully replicated across several geographies, also provides high recurrence and stability to Santander's earnings. As of the end of March 2023, net interest and fee income accounted for around 95% of the group's total operating income with limited contribution from more volatile activities.

Exhibit 3
Strong geographical diversification by profit ...
Profit contribution by key franchise as of the end of March 2023



Excluding corporate centre and nonrecurrent adjustments. * Includes rest of Continental Europe. ** Includes rest of North America.
Source: Company

Exhibit 4
... and by loan book
Loan breakdown by key franchise as of the end of March 2023



Excluding corporate centre and nonrecurrent adjustments. * Includes rest of Continental Europe. ** Includes rest of North America.
Source: Company

Above-average PPI profitability and well positioned to benefit from interest hikes

The baa2 Profitability score reflects our expectation of an improvement in the group's bottom-line profitability (measured as net income/tangible assets) from 0.7% as of year-end 2022 up to 1% over the medium term. As of the end of March 2023, the group's profitability was 0.7%. The improvement in profitability will be primarily driven by the positive impact on earnings from higher interest rates, improvement in operating performance and contained asset-quality deterioration.

With pre-provision income (PPI)/risk-weighted assets (RWA) of more than 4%, Santander ranks among the most profitable universal banking groups. High risk-adjusted profitability levels are primarily underpinned by the group's presence in more profitable emerging markets where Santander generates around 45% of its profit and where around 20% of its loan book is located. Despite its presence in inherently more volatile markets, Santander also stands out in its peer group for delivering low-volatility returns because of its commercial banking focus with limited market activity and a long-standing presence in different regions with distinct credit cycles.

With the exception of Brazil, Chile and its consumer finance franchise that overall accounted for close to 30% of the group's loan book as of the end of Q1 2023, the bulk of Santander's balance sheet is well placed to continue to benefit from higher interest rates given its strong positive sensitivity to interest rate hikes, particularly in Europe. As of the end of Q1 2023, net interest income (NII) grew year on year by 46% in Spain, 14% in the UK, 54% in Portugal and 47% in Poland[2], with customer spreads improving by more than 60 basis points (bps) in the region to 2.64% from just below 2% in the recent past. The ongoing improvement in NII should support the group's target of 7%-8% (compound annual growth rate [CAGR] over 2022-25 at constant euro) growth in revenue despite higher funding costs and possibly lower lending growth than initially expected. Fee and commission income – 22% of group's operating income at end of March 2023 -- will also contribute to revenue growth as the bank expects to leverage its global businesses, namely corporate and investment banking, wealth management and insurance, payments and auto finance. These franchises currently contribute to 30% of the group's revenue and are likely to reach 40% in 2025, with a higher contribution (50%) in the fee and commission line.

Santander remains committed to its transformation plan, One Transformation, which aims to leverage its scale and group strengths, and accelerate the simplification and automation of products and processes across the board. The bank expects efficiency gains, together with higher revenue, to lower its cost/income further to 42% in 2025. At 44% as of the end of Q1 2023, the ratio already compares favourably with that of its domestic and international peers. As of the end of Q1 2023, the group's cost base increased by 11% year on year because of inflationary pressures. In real terms, the group reported a decline of 1%, which was primarily driven by Europe (-4% in the UK, -3% in Spain, -3% in Portugal and +5% in Poland) as inflation in Latin America is more automatically passed on to costs. Overall costs are likely to grow between 4% and 5% over 2022-25.

As of the end of Q1 2023, cost of risk (CoR) stood at 1.05% (0.77% in Q1 2022 and 0.99% in 2022), which is in line with the group's target for the year. This increase was mainly driven by more normalised provisioning levels in the US (following extraordinarily low credit costs because of pandemic-related stimulus), greater coverage of the Swiss franc mortgage portfolio in Poland and increased provisioning in Brazil, primarily in the individuals portfolio. Management expects CoR to remain around 1% through the cycle and at year-end 2025.

Overall, the group aims a 15%-17% return on tangible equity in 2025, which compares with the 14.4% reported in Q1 2023 (or 15.3% without annualising the temporary levy in Spain that amounted to €224 million).

Asset quality to deteriorate moderately

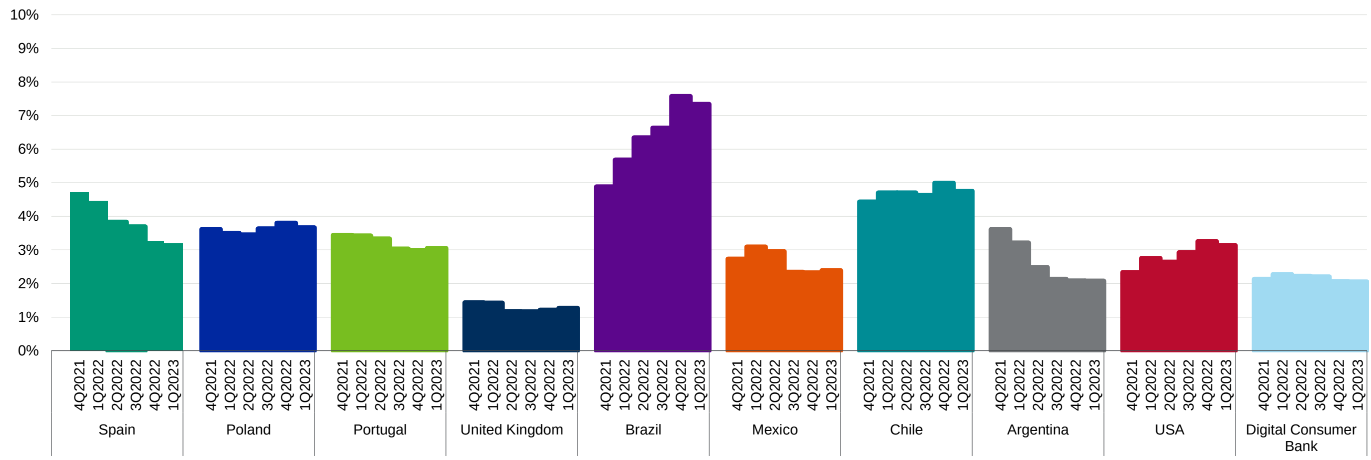
We have assigned an Asset Risk score of baa2 to Santander to reflect its recent performance and our expectation that problem loans will increase moderately because of the negative effect of increased interest rates and still-high inflation levels that will erode household finances and companies' margins. The expected deterioration has to be taken into account in conjunction with the large stock of loan loss reserves built up in 2020 and Santander's high recurring profitability. As of the end of March 2023, the coverage ratio — measured as loan loss reserves/nonperforming loans (NPLs) — was 70% and loan loss provisions accounted for 37% of the group's PPI.

According to our calculations, the group's NPL ratio was 3.3% as of the end of March 2023, broadly unchanged from that as of year-end 2022 and 2021. The nonperforming asset (NPA) ratio (defined as NPLs plus foreclosed real estate assets) was 4.0% as of the end of December 2022 (latest publicly available data), down from 4.2% as of year-end 2021 and well below its peak of 9.5% in June 2017 following the acquisition of Banco Popular.

The performance of the bank's asset-risk metrics in Q1 2023 has been mixed across geographies compared with a year earlier, with an improvement in Europe offsetting a deterioration in South America, mainly in Brazil. Asset-quality metrics in Spain have improved the most, with a reduction of 128 bps in its NPL ratio to 3.19%, followed by a reduction of 113 bps in Argentina to 2.08% and 70 bps in Mexico to 2.39%. Brazil showed the largest deterioration in its NPL ratio of around 166 bps to 7.34% (although down by 23 bps compared with the previous quarter), followed by the US (+38 bps) and Poland (+16 bps) to 3.13% and 3.66%, respectively.

With regard to Brazil, we expect asset quality to remain under pressure against a background of high interest rates and inflationary pressure, coupled with low economic growth (GDP to grow 0.9% in 2023 following a 3.0% expansion in 2022). In anticipation of a deterioration in asset quality following the rapid rate hikes (Selic rate up from 2% in early 2021 to 13.75% in Q1 2023), the bank tightened its underwriting criteria in Q4 2021. Furthermore, the mix of the loan book has been changing over the last few years, with an increase in the share of lower-risk secured lending to 37% as of year-end 2022, from 26% in 2015. Excluding one-offs, the bank expects the CoR for this franchise to be in line with the 2022 level.

Exhibit 5
Mixed performance across key franchises
NPLs/total loans (in percentage terms)



Source: Company

Santander's asset-quality metrics are weaker than those of its international peers, reflecting the still-high level of NPA in its domestic portfolio and its exposure to developing countries. This structural risk is mitigated by the higher spreads in these countries than those applied in mature markets.

Modest capital but mitigated by limited erosion of its earnings capacity under stressed conditions

Our baa3 Capital score reflects our expectation that following a period of sustained improvement, Santander's Moody's-defined TCE ratio will stay around 11% over the outlook period. Although we expect internal capital generation to be strong as the bank's earnings continue to benefit from higher interest rates and limited growth of RWA, we do not expect Santander to operate with capital well above its internal target. The assigned score also incorporates a negative adjustment to reflect Santander's low TCE leverage ratio — slightly above 4% as of year-end 2022 — and a positive adjustment driven by the limited erosion of its earnings capacity under stressed conditions as suggested by the results of the supervisory stress tests periodically undertaken by the European Central Bank (ECB).

At 12.2%[3] as of the end of March 2023, Santander's capital is above its internal target of higher than 12% at all times but below the weighted average for European banks (15.3% fully loaded as reported by the European Banking Authority [EBA] as of the end of December 2022, latest available data) and also below that of its international peers. In terms of capital buffers, however, Santander's relative positioning improves within its peer group underpinned by its relatively low Supervisory Review and Evaluation Process (SREP) requirement — which was set at 9.07% effective from January 2023[4] — resulting in a 313-bp[5] capital buffer above the minimum requirements. At 0.89%, Santander's P2R[6] is one of the lowest among its peers and is well below the 1.05% average. In addition, Santander's business model has a high resilience to stress scenarios as shown repeatedly in EBA stress tests.

Close to 60% of the growth in RWA in 2022 (+5.3%) was driven by model updates, 30% by foreign-exchange movements, mainly because of the appreciation of the Brazilian real and the US dollar, partially offset by the depreciation of the pound, and only 5% by business growth (primarily in South America and in Digital Consumer Bank) net of €13 billion securitisations.

Our more conservative capital assessment compared with regulators' capital ratios is primarily explained by the fact that regulators do not deduct convertible deferred tax assets from the capital base while we give benefit, as a capital component, to only a share of them (57% as of year-end 2022). In addition, we apply a more conservative risk weighting of 50% that we apply to the sovereign exposures compared with the regulators' risk weighting of 0%. We also exclude minority interests from our TCE calculation, which have represented more than 1% of the group's RWA over the last few years.

Santander has a long-standing policy of fully hedging its foreign-exchange risk arising from its permanent investments abroad to protect its regulatory solvency ratios. The group hedges these positions with foreign-exchange rate derivatives, resulting in a coverage close to 100% in 2022 and also in Q1 2023. The largest exposures of permanent investments (with their potential impact on equity) were in the following order: US dollar, UK pound, Brazilian real, Mexican peso, Chilean peso and Polish zloty. Santander also hedges foreign-exchange risk arising from the expected results of its subsidiaries. This hedging is more tactical.

Good liquidity, with an independent liquidity model for subsidiaries to limit contagion risk

Given the limitations on intragroup funding from both regulatory and internal policy perspectives, we analyse Santander's liquidity and funding primarily on an individual basis (i.e. Santander S.A. plus funding vehicles with debt guaranteed by the parent). At baa3, our Market Funds score reflects our expectation that the ratio will fluctuate around 30% over the next 12-18 months post-TLTRO[7] repayment. The assigned score also benefits from a one-notch positive adjustment to reflect its well-diversified funding by instrument, investor type, markets and currencies, which mitigates the inherent risks associated with its relatively large stock of confidence-sensitive wholesale funding.

Santander has a long-standing policy of requiring that its subsidiaries are self-sufficient in terms of liquidity and do not rely on the parent bank for funding. This policy is credit positive, particularly in times of stress, because it reduces the risk of contagion across borders. Santander's subsidiary Santander Consumer Finance S.A. (SCF, A2 stable/A2 stable, baa2[8]) is the only exception to the general rule but one of SCF's strategic goals is to increase its deposit base by €20 bn by 2025 (up from €62 bn at end of 2022).

The group is around 69% funded by deposits (as a percentage of net liabilities[9]), primarily retail, of which 74% are insured with no major concentrations. As of the end of March 2023, outstanding medium- and long-term debt accounted for around 13% of net liabilities. The outstanding debt has a conservative maturity profile, with maturities not exceeding €28 billion annually over the next few years[10]. Recourse to short-term funding is limited (3% of net liabilities), and the bulk relates to the group's commercial paper programmes and certificates of deposits in the UK.

In May 2023, Bank of Spain communicated the binding minimum requirement for own funds and eligible liabilities (MREL) for Santander's resolution group[11] .The requirement was set at 29.81% of the resolution group's RWA (33.53% including the applicable combined capital buffer of 3.72% as of May 2023) and 11.51% of the resolution group's leverage ratio to be met by 1 January 2024. As of the end of March 2023, Santander met both MREL requirements with reported ratios of 38.3% and 16.5%, respectively. As a global systemically important bank, Santander is also required to build up a stock of bail-in-able debt to comply with Total Loss Absorbency Capacity (TLAC) requirements. As of the end of March 2023, the TLAC of the resolution group was 23.5% of RWA and 8.6% of the leverage ratio exposure. In addition, all subsidiaries subject to TLAC also have loss-absorption instruments well above requirements.

At baa1, Santander's assigned Liquid Asset score reflects its ample liquidity buffer, which has been growing over the recent past, of high-quality assets (mostly in the form of cash) to be able to cope with stressed scenarios. The assigned score incorporates a one-notch negative adjustment to reflect the level of encumbered assets.

Santander's liquidity coverage ratio at the group level was 152% as of the end of March 2023. In the same period, the parent bank had a liquidity coverage ratio of 139%, with all its subsidiaries above the 100% minimum requirement. Santander also complies with the net stable funding ratio at the group level and so do most of its subsidiaries. As of year-end 2022 (latest available), the ratio was at 121% for the group and 116% for the parent.

ESG considerations

Banco Santander S.A. (Spain)'s ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 6
ESG Credit Impact Score

CIS-2
Neutral-to-Low

NEGATIVE IMPACT
POSITIVE IMPACT

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

Santander's **CIS-2** indicates that ESG considerations do not have a material impact on the current rating.

Exhibit 7
ESG Issuer Profile Scores

ENVIRONMENTAL
E-3
Moderately Negative

SOCIAL
S-4
Highly Negative

GOVERNANCE
G-2
Neutral-to-Low

Source: Moody's Investors Service

Environmental

Santander faces moderate environmental risks primarily because of its portfolio exposure to carbon transition risk. In line with its peers, Santander is exposed to mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, Santander is actively developing its comprehensive risk management and climate risk reporting frameworks, and transitioning its lending portfolios to achieve carbon neutrality targets.

Social

Santander faces is exposed to high industrywide social risks related to regulatory and litigation risks, requiring high compliance standards. These risks are mitigated by Santander's developed policies and procedures. Santander's high cyber and personal data risks are mitigated by the group's sound IT framework.

Governance

Santander is exposed to low/not material governance risks, and its risk management framework and corporate governance are in line with industry best practices. Like other global systemically important banks, Santander has a relatively complex legal structure, which reflects its business diversification and international footprint, and entails governance and risk management challenges. The group's subsidiary model with limited intra-group funding, whereby subsidiaries have to be independent from a liquidity and capital standpoint, mitigates these risks.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Loss Given Failure (LGF) analysis

Santander is subject to the EU's Bank Recovery and Resolution Directive (BRRD), which is an operational resolution regime. We assume a residual TCE of 3% and post-failure losses of 8% of tangible banking assets, a 25% run-off in junior wholesale deposits and a 5% run-off in preferred deposits, and assign a 25% probability to deposits being preferred to senior unsecured debt. We apply a standard assumption for European banks that 26% of deposits are junior. These metrics are in line with our standard assumptions. The balance sheet at failure used in our LGF exercise is Santander's individual balance sheet plus the balance sheets of the rest of the entities included in its resolution perimeter.

For Santander's deposits and senior unsecured debt, our LGF analysis takes into consideration the likely impact on loss given failure from the combination of its own volume and subordination. Our LGF analysis indicates a very low loss given failure for long-term depositors and senior unsecured creditors, resulting in a three-notch uplift. However, the bank's long-term deposit and senior unsecured debt ratings are capped at A2 by Spain's Baa1 sovereign rating.

The LGF analysis also indicates a moderate loss severity for junior senior creditors in the event of the bank's failure, leading to a rating of Baa1 for these securities, in line with the bank's Adjusted BCA of baa1. Santander's junior senior debt ratings do not include any additional uplift from government support, reflecting our view that there is a low probability of government support for these instruments because of their explicit loss-absorbing nature.

For junior securities, our initial LGF analysis confirms a high level of loss given failure because of the small volume of debt, and limited protection from more subordinated instruments and residual equity. We also incorporate additional downward notching for junior subordinated debt and preference share instruments to reflect the coupon suspension risk ahead of a potential failure. Although our revised notching guidance table indicates Santander's subordinated debt ratings at the level of the bank's Adjusted BCA, a sustained level of subordination at the current level would be necessary to warrant an upgrade of the current ratings.

Please refer to the loss given failure and government support table at the bottom of the scorecard.

Government support

The implementation of the BRRD has prompted us to reconsider the potential for government support to benefit certain creditors. We now take into account the fact that there is a moderate likelihood of government support for Santander's debt and rated wholesale deposits in the event of its failure. This probability reflects the bank's share in its domestic market and its global systemically important status, which may lead the government to intervene to shield it from disruptive losses. However, this assumption of moderate probability of systemic support does not translate into any additional notching as Santander's BCA is at the same level as the sovereign rating. For junior senior or junior securities, the probability of government support is low and, therefore, these ratings do not include any related uplift.

Counterparty Risk Ratings (CRRs)

Santander's CRRs are A2/Prime-1 and are positioned two notches above the Adjusted BCA of baa1, reflecting the very low loss given failure from the high volume of instruments that are subordinated to CRR liabilities, which is the maximum achievable CRR in Spain. According to our methodology, a bank's CRR will typically not exceed the sovereign rating by more than two notches.

Counterparty Risk (CR) Assessment

Santander's CR Assessment is A3(cr)/Prime-2(cr). The CR Assessment, before the sovereign rating cap, is positioned three notches above the Adjusted BCA of baa1, based on the buffer against default provided to the senior obligations represented by the CR Assessment by subordinated instruments. The main difference from our Advanced LGF approach used to determine instrument ratings is that the CR Assessment captures the probability of default on certain senior obligations, rather than expected loss, thereby focusing purely on subordination and taking no account of the volume of the instrument class.

The CR Assessment is capped at A3. The CR Assessment will not typically exceed the sovereign rating by more than one notch, or two notches, where the Adjusted BCA is already above the sovereign rating, which is not the case for Santander.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 8

Banco Santander S.A. (Spain)

MACRO FACTORS							
WEIGHTED MACRO PROFILE	STRONG -	100%					

FACTOR	HISTORIC RATIO	INITIAL SCORE	EXPECTED TREND	ASSIGNED SCORE	KEY DRIVER #1	KEY DRIVER #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	3.4%	baa2	↔	baa2	Expected trend	
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	10.9%	ba1	↑	baa3	Nominal leverage	Stress capital resilience
Profitability						
Net Income / Tangible Assets	0.6%	ba1	↑↑	baa2	Expected trend	
Combined Solvency Score		baa3		baa2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	35.9%	ba3	↑↑	baa3	Market funding quality	Expected trend
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	33.4%	a3	↔	baa1	Intragroup restrictions	Asset encumbrance
Combined Liquidity Score		baa3		baa2		
Financial Profile				baa2		
Qualitative Adjustments				Adjustment		
Business Diversification				1		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				1		
Sovereign or Affiliate constraint				Baa1		
BCA Scorecard-indicated Outcome - Range				a3 - baa2		
Assigned BCA				baa1		
Affiliate Support notching				0		
Adjusted BCA				baa1		

Balance Sheet is not applicable.

DEBT CLASS	DE JURE WATERFALL		DE FACTO WATERFALL		NOTCHING		LGF NOTCHING GUIDANCE VS. ADJUSTED BCA	ASSIGNED LGF NOTCHING	ADDITIONAL NOTCHING	PRELIMINARY RATING ASSESSMENT
	INSTRUMENT VOLUME + SUBORDINATION	SUB-ORDINATION	INSTRUMENT VOLUME + SUBORDINATION	SUB-ORDINATION	DE JURE	DE FACTO				
Counterparty Risk Rating	-	-	-	-	-	-	-	2	0	a2
Counterparty Risk Assessment	-	-	-	-	-	-	-	1	0	a3 (cr)
Deposits	-	-	-	-	-	-	-	2	0	a2
Senior unsecured bank debt	-	-	-	-	-	-	-	2	0	a2
Junior senior unsecured bank debt	-	-	-	-	-	-	-	0	0	baa1
Dated subordinated bank debt	-	-	-	-	-	-	-	-1	0	baa2
Non-cumulative bank preference shares	-	-	-	-	-	-	-	-1	-2	ba1

INSTRUMENT CLASS	LOSS GIVEN FAILURE NOTCHING	ADDITIONAL NOTCHING	PRELIMINARY RATING ASSESSMENT	GOVERNMENT SUPPORT NOTCHING	LOCAL CURRENCY RATING	FOREIGN CURRENCY RATING
Counterparty Risk Rating	2	0	a2	0	A2	A2
Counterparty Risk Assessment	1	0	a3 (cr)	0	A3(cr)	
Deposits	2	0	a2	0	A2	A2
Senior unsecured bank debt	2	0	a2	0	A2	A2
Junior senior unsecured bank debt	0	0	baa1	0	Baa1	Baa1
Dated subordinated bank debt	-1	0	baa2	0	Baa2	Baa2
Non-cumulative bank preference shares	-1	-2	ba1	0	Ba1 (hyb)	Ba1 (hyb)

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 9

Category	Moody's Rating
BANCO SANTANDER S.A. (SPAIN)	
Outlook	Stable
Counterparty Risk Rating	A2/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Issuer Rating	A2
Senior Unsecured	A2
Junior Senior Unsecured	Baa1
Junior Senior Unsecured MTN	(P)Baa1
Subordinate	Baa2
Pref. Stock Non-cumulative	Ba1 (hyb)
Commercial Paper	P-1
BANCO SANTANDER ARGENTINA S.A.	
Outlook	Stable
Counterparty Risk Rating -Fgn Curr	Caa3/NP
Counterparty Risk Rating -Dom Curr	Caa1/NP
Bank Deposits -Fgn Curr	Caa3/NP
Bank Deposits -Dom Curr	Caa1/NP
Baseline Credit Assessment	ca
Adjusted Baseline Credit Assessment	caa3
Counterparty Risk Assessment	Caa1(cr)/NP(cr)
BANCO SANTANDER, S.A. (URUGUAY)	
Outlook	Stable
Bank Deposits	Baa3/P-3
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	Baa2(cr)/P-2(cr)

SANTANDER FINANCIAL SERVICES PLC	
Outlook	Negative
Counterparty Risk Rating	Aa3/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Issuer Rating	A1
ST Issuer Rating	P-1
SANTANDER INT'L DEBT, S.A. UNIPERSONAL	
Outlook	Stable
Senior Unsecured	A2
SANTANDER US DEBT, S.A. UNIPERSONAL	
Outlook	Stable
Senior Unsecured	A2
TOTTA (IRELAND) P.L.C.	
Bkd Commercial Paper -Dom Curr	P-2
SANTANDER UK PLC	
Outlook	Negative
Counterparty Risk Rating	Aa3/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Issuer Rating	A1
Senior Unsecured	A1
Subordinate	Baa1
Jr Subordinate	Baa3 (hyb)
Pref. Stock Non-cumulative -Dom Curr	Ba1 (hyb)
Commercial Paper	P-1
Other Short Term	(P)P-1
SANTANDER UK GROUP HOLDINGS PLC	
Outlook	Stable
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Issuer Rating -Dom Curr	Baa1
Senior Unsecured	Baa1
Subordinate	Baa1
Pref. Stock Non-cumulative -Dom Curr	Ba1 (hyb)
Other Short Term	(P)P-2
BANCO SANTANDER, S.A., LONDON BRANCH	
Counterparty Risk Rating	A2/P-1
Deposit Note/CD Program	--/P-1
Counterparty Risk Assessment	A3(cr)/P-2(cr)
BANCO SANTANDER, S.A., NEW YORK BRANCH	
Counterparty Risk Rating	A2/P-1
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Commercial Paper	P-1
BANCO SANTANDER TOTTA S.A.	
Outlook	Positive
Counterparty Risk Rating -Dom Curr	A3/P-2
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Senior Unsecured MTN -Dom Curr	(P)Baa1
Commercial Paper -Dom Curr	P-2
Other Short Term -Dom Curr	(P)P-2
SANTANDER CONSUMER FINANCE S.A.	
Outlook	Stable

Counterparty Risk Rating	A2/P-1
Bank Deposits -Dom Curr	A2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Senior Unsecured	A2
Junior Senior Unsecured -Dom Curr	Baa1
Subordinate -Dom Curr	Baa2
Pref. Stock Non-cumulative -Dom Curr	Ba1 (hyb)
Commercial Paper -Dom Curr	P-1
SANTANDER INTERNATIONAL PRODUCTS PLC	
Outlook	Stable
Bkd Senior Unsecured -Dom Curr	A2
Bkd Commercial Paper -Dom Curr	P-1
Bkd Other Short Term -Dom Curr	(P)P-1
BANCO SANTANDER (BRASIL) S.A.	
Outlook	Stable
Counterparty Risk Rating	Baa3/P-3
Bank Deposits	Ba1/NP
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)
Senior Unsecured MTN	(P)Ba1
Other Short Term	(P)NP
BANQUE STELLANTIS FRANCE	
Outlook	Stable
Counterparty Risk Rating	A2/P-1
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A2(cr)/P-1(cr)
Issuer Rating	A3
Senior Unsecured -Dom Curr	A3
Commercial Paper -Dom Curr	P-2
BANCO SANTANDER (BRASIL) S.A. - CAYMAN BR	
Counterparty Risk Rating	Baa3/P-3
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)
Senior Unsecured MTN	(P)Ba1
Other Short Term	(P)NP
BANCO SANTANDER-CHILE	
Outlook	Stable
Counterparty Risk Rating	A2/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A2(cr)/P-1(cr)
Senior Unsecured	A2
SANTANDER CENTRAL HISPANO ISSUANCES LTD.	
Bkd Subordinate MTN	(P)Baa2
SANTANDER CENTRAL HISPANO INTERNATIONAL LTD	
Bkd Sr Unsec MTN	(P)A2
Bkd Commercial Paper	P-1
Bkd Other Short Term	(P)P-1
EMISORA SANTANDER ESPANA S.A.U	
Outlook	Stable
Bkd Sr Unsec MTN	(P)A2
SANTANDER BANK POLSKA S.A.	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A2/P-1

Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Senior Unsecured MTN	(P)A3
SANTANDER HOLDINGS USA, INC.	
Outlook	Stable
Senior Unsecured	Baa3
BANCO SANTANDER MÉXICO, S.A.	
Outlook	Stable
Counterparty Risk Rating	A3/P-2
Bank Deposits	Baa1/P-2
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Senior Unsecured	Baa1
Subordinate	Baa3 (hyb)
Jr Subordinate	Ba1 (hyb)
SANTANDER CONSUMER BANK AS	
Outlook	Rating(s) Under Review
Counterparty Risk Rating	A2/P-1
Bank Deposits	A3/P-2[1]
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A2(cr)/P-1(cr)
Issuer Rating	A3[2]
Senior Unsecured	A3[2]
Junior Senior Unsecured MTN	(P)Baa2[2]
Subordinate	Baa2
Pref. Stock Non-cumulative -Dom Curr	Ba2 (hyb)
ST Issuer Rating	P-2[2]
SANTANDER ISSUANCES S.A. UNIPERSONAL	
Subordinate	Baa2
SANTANDER CONSUMER BANK AG	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A2
Senior Unsecured -Dom Curr	A2
SANTANDER BANK, N.A.	
Outlook	Stable
Counterparty Risk Rating	Baa1/P-2
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Issuer Rating	Baa1
SANTANDER FINANCE PREFERRED, S.A. UNIPERSONAL	
Pref. Stock Non-cumulative -Dom Curr	Ba2 (hyb)
SOVEREIGN REAL ESTATE INVESTMENT TRUST	
Pref. Stock Non-cumulative	Ba1 (hyb)
BANESTO HOLDINGS, LTD.	
BACKED Pref. Stock Non-cumulative	Ba2 (hyb)

[1] Rating(s) within this class was/were placed on review on 24 April 2023. [2] Placed under review for possible upgrade on 24 April 2023.

Source: Moody's Investors Service

Endnotes

1 Net attributable profit to the parent excluding the corporate centre and nonrecurrent adjustments.

2 At constant euro.

3 12.3% applying transitional provisions of applicable regulation.

4 7.85% on an unconsolidated basis versus 15.98% reported as of the end of September 2022.

5 323 bps including the Single Resolution Board's Capital Requirements Regulation (CRR2) quick-fix.

6 Pillar 2 Requirement per ECB criteria.

7 Targeted longer-term refinancing operations

8 The ratings shown in this report are the bank's deposit rating, senior unsecured debt rating and BCA.

9 Net of trading derivatives and interbank balances.

10 Excluding covered bonds.

11 the resolution Group is composed of Banco Santander and its relevant subsidiaries belonging to the same resolution group, mainly the entities of the sub-groups headed by Santander Consumer Finance, S.A., Open Bank, S.A. and Santander Totta SGPS, S.A..

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454