RATING ACTION COMMENTARY

Fitch Upgrades Santander to 'A'; Outlook Stable

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Fitch Ratings - Milan - 11 Feb 2025: Fitch Ratings has upgraded Banco Santander, S.A.'s (Santander) Long-Term Issuer Default Rating (IDR) to 'A' from 'A-' and Viability Rating (VR) to 'a' from 'a-'. The Outlook on the IDR is Stable. A full list of rating actions is below.

The upgrade reflects our view that Santander's strong and resilient performance can support a rating one notch above the Spanish sovereign Long-Term IDR of 'A-'/Positive. Its performance is underpinned by successful broad and balanced geographic diversification, resilient earnings, good loss absorption capacity, and limited asset-quality variability over various cycles.

The upgrade also reflects our expectation that Santander will operate with above historical capital ratios.

KEY RATING DRIVERS

Balanced Geographic Diversification: Santander's ratings benefit from its stable, well-balanced geographically diversified retail and commercial banking operations with strong franchises in several key markets and a European leading consumer finance business. Its business profile and effective risk management support resilient profitability, offsetting lower capital ratios and weaker asset quality compared with higher-rated European peers. Santander's funding benefits from its growing deposit base, while maintaining access to diverse wholesale funding sources.

Ratings One Notch above Spain: The group's geographic diversification, moderate direct exposure to the Spanish sovereign, and its strength relative to Spanish peers support a rating above its domestic sovereign. The ratings reflect our expectations that Santander would likely continue servicing its obligations in a sovereign default, and that the Spain sovereign is unlikely to impose material restrictions on Santander's debt-servicing capacity.

Strong Business Profile: Santander's business model is focused on retail and commercial banking, which it complements with growing CIB business, consumer finance, wealth management & insurance and payments services. Its global franchise covers both developed (western Europe and US) and more volatile markets with strong domestic market shares, which allow the bank to generate sound and stable earnings through different interest-rate and economic cycles.

Benefits from Transformation Plan: The deployment of common distribution platforms and a simplified global product offering, together with Santander's strategic repositioning in the US and Latin America, should further enhance its market position and earnings stability over time.

Robust Risk Framework: Santander's risk profile has benefited from broad improvements in key operating environments, notably in Spain. The bank has consistently tightened its underwriting standards in more vulnerable geographies according to macroeconomic changes, which supports asset-quality resilience. Interest-rate and foreign-exchange (FX) risks are well-managed. Exposure to Spanish sovereign debt, which accounted for 0.5x common equity Tier 1 (CET1) capital at end-September 2024, is manageable and compares well with European peers.

Resilient Asset Quality: We expect Santander's impaired loans ratio to remain at around 3.5% in 2025 and 2026, versus 3.1% at end-2024, as calculated by Santander, also aided by loan growth. Asset quality should benefit from falling interest rates in key markets, and from the group's robust credit risk framework, which is improving the quality of its loans, especially in certain riskier markets, such as Brazil and US consumer finance. While the impaired loans ratio is still higher than most European peers, it has shown little variation across various cycles.

Improved Earnings to Stay: We expect Santander's operating profit to remain comfortably above 3% of risk-weighted assets (RWAs) in 2025-2026. This will be supported by structural interest-rate hedges against falling interest rates across core markets, more dynamic business volumes in Europe, lower funding costs, and a consistently better cost-to-income ratio than in the past.

Improving Capital Prospects: Santander's risk-weighted capital ratios have increased in recent years but remain lower than most European peers. However, we view its capital buffers over regulatory requirements as satisfactory and commensurate with the group's risk profile, given its proven capital-management capabilities and high financial flexibility.

For 2025 and 2026, we expect Santander to operate with a CET1 ratio of about 13%, also in line with management's guidance. Our assessment also recognises strong capitalisation at its international subsidiaries and the group's multiple point-of-entry resolution model, which ensures independent management of capital and funding, limiting capital and liquidity fungibility outside the resolution group.

Diversified Funding, Strong Retail Franchise: Santander's global retail deposit franchise supports its stable funding and liquidity. Access to the wholesale markets should benefit from improving prospects for Spanish banks after the positive revision of the Spanish sovereign rating Outlook. Santander's successful execution of its funding strategy aimed at expanding its deposit franchise, plus a recovery in customers' savings, should contribute to reduce the loans-to-deposits ratio, narrowing the gap with international peers.

RATING SENSITIVITIES

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

Negative rating pressure would emerge if we no longer expect Santander to structurally operate with a CET1 ratio of around 13%, if current diversifications benefits from a balanced geographic footprint weaken because of a higher weighting towards more volatile markets, or if operating profits/RWAs falls below 3%, signalling diminishing earnings resilience.

The ratings are also sensitive to a downgrade of Spain's sovereign rating, which we do not currently expect, as Santander's ratings are capped at one notch above its home country. Further, an unexpected severe setback in the economic prospects in the group's core countries sharply eroding the group's business and financial prospects would be negative for Santander.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of Santander is unlikely and would be contingent on an upgrade of Spain's rating. In addition, an upgrade would also require Santander maintaining a CET1 ratio materially above 13%, while preserving an operating profit/RWAs well above 3%, without significantly altering the group's risk profile, and achieving stronger asset-quality metrics.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

Santander's 'F1' Short-Term IDR has been upgraded by one notch following the upgrade of the bank's Long-Term IDR. It remains the lower of two options mapping to a 'A' Long-Term IDR, reflecting its 'a-' funding and liquidity profile.

Santander's long-term senior preferred debt, deposit ratings, and Derivative Counterparty Rating (DCR), have been upgraded to 'A+' from 'A' to maintain their one-notch differential with the Long-Term IDR. This reflects the protection that accrues from buffers of senior non-preferred and more junior debt at the resolution group. We estimate that this buffer was almost 20% at end-June 2024 of resolution group RWAs. Fitch expects the buffer to remain above 10% of RWAs on a sustained basis. For the same reasons, Santander's senior non-preferred notes are rated at the same level as its Long-Term IDR.

The short-term senior preferred debt and deposit ratings of 'F1' have been affirmed and are the lower of two options mapping to 'A+' long-term deposit and senior preferred ratings on Fitch's rating scale, respectively, reflecting its 'a-' funding and liquidity profile.

The rating of subordinated Tier 2 debt, which has been upgraded to 'BBB+' from 'BBB', is two notches below the bank's VR, which is line with Fitch's baseline notching for loss severity.

Santander's legacy preferred shares, which have been upgraded to 'BB+' from 'BB', are rated five notches below the bank's VR. This corresponds to two notches for loss severity and three notches for non-performance risk, given the presence of a profit test in the notes' terms and conditions.

Santander's Government Support Rating (GSR) of 'no support' reflects our view that although external extraordinary sovereign support is possible it cannot be relied on. This is because senior creditors can no longer expect to receive full extraordinary support from the sovereign in the event that the bank becomes non-viable.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

Santander's DCR, senior debt and deposit ratings are primarily sensitive to changes in Santander's IDRs, from which they are notched. We would downgrade the DCR, long-term senior preferred and non-preferred debt and deposit ratings by one notch if the size of the combined buffer of junior and SNP debt for the resolution group falls below 10% of RWAs on a sustained basis as the group partly meets its MREL with senior preferred debt.

Santander's subordinated debt and legacy preferred shares' ratings are primarily sensitive to a change in Santander's VR, from which they are notched. The ratings are also sensitive to a change in the notes' notching, which could arise if Fitch changes its assessment of their non-performance risk relative to the risk captured in the VR or their expected loss severity.

An upgrade of the GSR would be contingent on a positive change in the sovereign's propensity to support the bank. In Fitch's view, this is highly unlikely, although not impossible.

VR ADJUSTMENTS

The operating environment score of 'a-' is below the 'aa' implied category score and in line with the 'a-' score of domestic Spanish banks, due to the following adjustment reason: sovereign rating (negative).

The capitalisation and leverage score of 'a-' is above the 'bbb' implied category score due to the following adjustment reason: internal capital generation and growth (positive).

The funding and liquidity score of 'a-' is above the 'bbb' implied category score, due to the following adjustment reasons: deposit structure (positive) and non-deposit funding (positive).

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores

RATING ACTIONS

ENTITY / DEBT ⬍	RATING ⬍		PRIOR ⬍
Banco Santander, S.A.	LT IDR Upgrade	A Rating Outlook Stable	A- Rating Outlook Stable

	ST IDR	F1	Upgrade	F2
	Viability	a	Upgrade	a-
	DCR	A+(dcr)	Upgrade	A(dcr)
	Government Support	ns	Affirmed	ns
preferred	LT	BB+	Upgrade	BB
Senior non-preferred	LT	A	Upgrade	A-
long-term deposits	LT	A+	Upgrade	A
Senior preferred	LT	A+	Upgrade	A
subordinated	LT	BBB+	Upgrade	BBB

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 15 Mar 2024) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

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Endorsement Policy

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Banco Santander, S.A.	EU Issued, UK Endorsed

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