

Banco Santander S.A.

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Ratings Score Snapshot

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Issuer Credit Rating

A+/Stable/A-1

Resolution Counterparty Rating

AA-/--/A-1+

SACP: a

Support: +1

Additional factors: 0

Anchor	bbb	
Business position	Very strong	+2
Capital and earnings	Adequate	0
Risk position	Strong	+1
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment		0

ALAC support	+1
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
A+/Stable/A-1
Resolution counterparty rating
AA-/A-1+

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Key strengths	Key risks
Wide geographic diversification and solid market positions in the markets where it operates.	Exposure to higher-than-average economic risk in some of the countries where it operates.
Focus on stable retail banking business, underpinning the bank's sound and resilient earnings.	Some countries and business segments are still vulnerable to potential macroeconomic setbacks.
Successful strategy and implementation.	Proven appetite for acquisitions.

Santander's business model will remain a key rating strength. Santander enjoys a powerful, geographically diversified retail banking franchise, with a presence in both developed and emerging economies that generate strong, consistent operating earnings, and is efficient compared to peers. As in the past, the recent global pandemic in 2020 demonstrated the effectiveness of the group's diversification and, in turn, its business resilience. Given that the economic fallout of the pandemic has varied by country in terms of scale and timing, the bank has been able to use different levers in each of them to better manage the impact (see chart 1).

We expect moderate capital strengthening on the back of improved profitability and selective growth. The bank's capital, which has strengthened over recent years, remained resilient in 2021. We project the bank's risk-adjusted

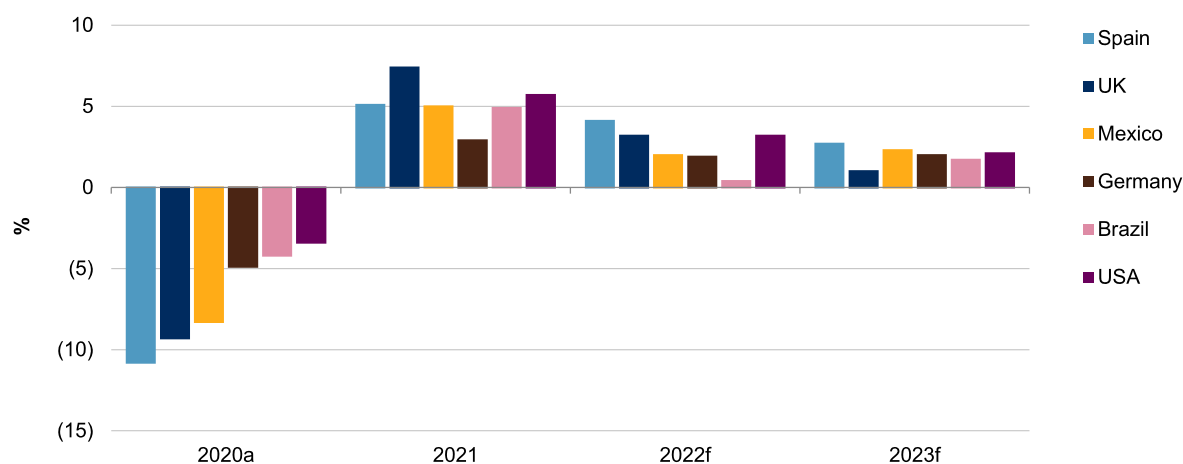
capital (RAC) ratio to hover around 8.5%-9% over the next couple of years, underpinned by sound retained earnings sufficient to fund expected business and loan growth. Benefits from rising interest rates in most of the geographies where the group operates--alongside the conservative provisioning during the pandemic--should support growing operating profits in the coming years despite some potential economic headwinds and inflationary pressure on operating costs.

NPLs are likely to pick up given pockets of risk in Spain and Latin America, although deterioration will remain manageable. Though the gross nonperforming loan (NPL) ratio remained flat, we expect it to deteriorate somewhat in coming quarters as support from authorities recedes and we see the full extent of damage to the private sector from the pandemic and the more recent economic slowdown on the back of rising inflation and rates and persistent tension in global supply chains. We see the small and midsize enterprise (SME) portfolios in Spain and Brazil as being potentially more vulnerable. Conversely, we expect residential mortgages, which account for over one third of Santander's loan book, to remain resilient. We expect the bank's NPL ratio to increase to about 4.5%–5% of gross loans in 2023 from 3.6% in March 2022. We consider this level of deterioration to be manageable.

Our ratings on Santander now benefit from one notch of additional loss-absorbing capacity (ALAC) uplift. In December 2021, and following the revision of our methodology for rating financial institutions, we raised our long-term rating on Santander to 'A+' to reflect that the bank had a larger buffer of subordinated instruments (including senior nonpreferred debt) that could be bailed-in to recapitalize the bank in a resolution scenario, thereby providing protection for senior creditors.

Chart 1

All Key Markets Where Santander Operates Faced A Synchronized Recession



a--Actual. f--Forecast. Updated using June 2022 Economic Forecast reports. Source: S&P Global Ratings.
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Outlook

The stable outlook reflects our expectations that Santander will be able to withstand the headwind from the Russia–Ukraine conflict and preserve its credit strengths, including its large and diversified footprint, strong earnings power, and sound risk-adjusted capitalization over the next couple of years. Specifically, we expect its operating performance to improve on the back of business growth in the Americas and some benefits from cost savings to mitigate inflationary pressures in the mature European market, leading to return on equity (ROE) of about 10% in 2023. We expect the bank's RAC ratio to improve to 8.5%-9.0% by 2023 from 8.4% in 2021 on the back of higher retained earnings and 3%-5% average loan growth. We also anticipate asset quality to remain under control, and the cost of credit to remain at about 100-110bps by 2023.

Downside scenario

The ratings could come under pressure if the bank failed to maintain a buffer of bail-inable debt sustainably exceeding 500bps of its S&P Global Ratings' risk-weighted assets (RWA). A negative rating action could also occur if its wide geographical and business diversification stopped providing tangible benefits to its risk profile, or if unexpected events (such as material acquisitions) undermined its capital position. A lowering of our sovereign credit rating on Spain would also likely trigger a similar rating action on Santander, since it is unlikely we would rate Santander two notches above the rating on Spain.

Upside scenario

At the current rating level, we see limited upside to the ratings on Santander. We could take a positive rating action if the bank reached and maintained a higher level of risk-adjusted capital, provided that we also saw stronger resilience in a hypothetical sovereign default scenario, allowing a gap of two notches--the maximum under our methodology--above our sovereign credit rating on Spain.

Key Metrics

Banco Santander S.A.--Key Ratios And Forecasts

	--Fiscal year ended Dec. 31--				
(%)	2019a	2020a	2021a	2022f	2023f
Growth in operating revenue	1.9	(9.2)	4.8	1.6-2.0	4.3-4.7
Growth in customer loans	4.1	(1.5)	7.7	2.4-3.0	2.2-2.6
Growth in total assets	4.3	(0.9)	5.8	1.7-2.1	1.0-1.4
Net interest income/average earning assets (NIM)	2.9	2.6	2.7	2.5-2.7	2.7-2.9
Cost to income ratio	47.5	48.1	48.8	45.3-47.7	44.9-47.2
Return on average common equity	6.7	(9.7)	9.7	8.7-9.6	8.7-9.4
Return on assets	0.6	(0.5)	0.5	0.5-0.6	0.5-0.6
New loan loss provisions/average customer loans	1.1	1.4	0.8	0.9-1.0	1.0-1.1
Gross nonperforming assets/customer loans	3.8	3.7	3.6	3.8-4.2	3.6-4.0
Net charge-offs/average customer loans	1.3	0.9	0.9	1.1-1.1	1.0-1.0

Banco Santander S.A.--Key Ratios And Forecasts (cont.)

	--Fiscal year ended Dec. 31--				
(%)	2019a	2020a	2021a	2022f	2023f
Risk-adjusted capital ratio	7.7	7.7	8.4	8.4-8.6	8.6-8.9

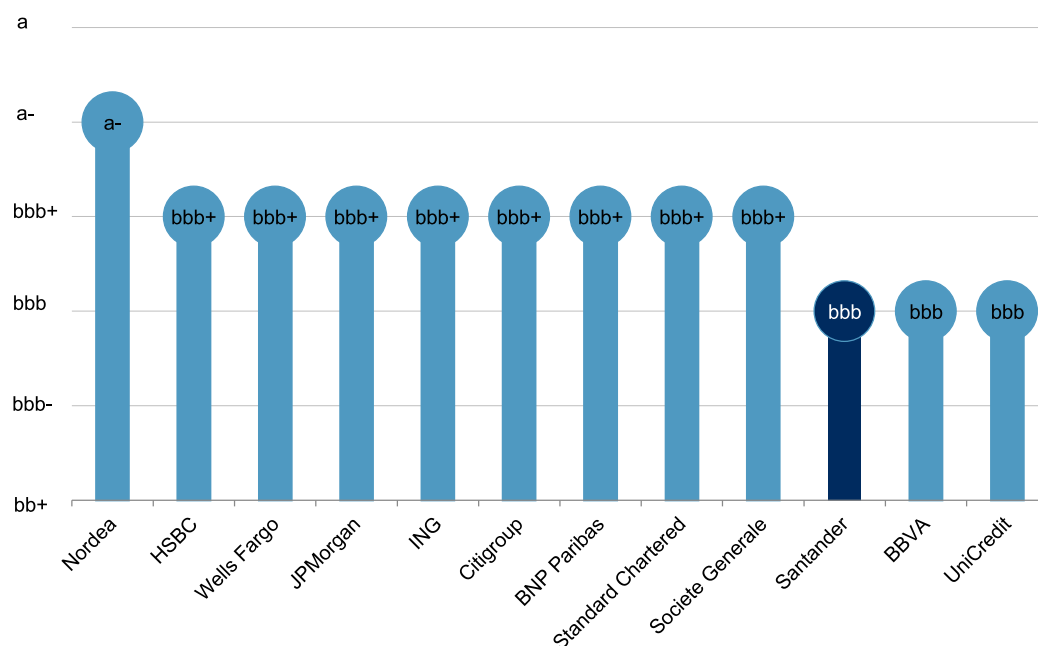
All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

Anchor:'bbb', Reflecting The Higher-Than-Average Economic Risk Of The Markets Where The Bank Operates

Our anchor for Santander is currently 'bbb', weaker than that of most of its global peers, as chart 2 shows. We generally compare Santander with the following peers: HSBC, BNP, JP Morgan, Citigroup, Standard Chartered, ING, Societe Generale, Wells Fargo, BBVA, Nordea, and Unicredit.

Chart 2

Santander's Lower Than Peers Anchor Reflects Higher Economic Risks Of Its Footprint



Data as of 4th July, 2022. Source: S&P Global Ratings.

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The weighted-average economic risk to which Santander is exposed is not only higher than that of global peers, but also marginally higher than that faced by institutions operating primarily in Spain. The U.K. and Spain account for the

group's largest credit exposures at about one-quarter each in December 2021. Both have an economic risk score of 4. Brazil (economic risk of 7) and the U.S. (economic risk of 3) each account for about 10%. The remaining exposures are split roughly evenly at about 5% each between Mexico (economic risk of 6), Portugal (economic risk of 6), Germany (economic risk of 1), other Latin American countries (economic risk of 7), and the rest of Europe (economic risk of 4). Weightings are rounded to the nearest 5% before averaging.

With regard to industry risk, our assessment of '4' balances Spanish banks' solid funding profiles and a supportive institutional framework with the profitability challenges and technological disruption that the industry faces. Customer deposits now fund the bulk of banks' credit operations, and at historically low costs. Recourse to external funding has fallen meaningfully, with the banking sector's net external position even turning negative. Furthermore, banks' borrowings from the European Central Bank's (ECB's) third targeted longer-term refinancing operations are largely deposited back at the ECB. That said, the pandemic aggravated preexisting profitability challenges and accelerated digitalization trends, making it more difficult for banks, particularly midsize banks, to achieve higher returns than their cost of capital. While higher interest rates will offer upside to banks' net interest income, we still anticipate limited volume growth and rising pressure on operating costs due to high inflation, which will partly eat some of the benefits of wider margins.

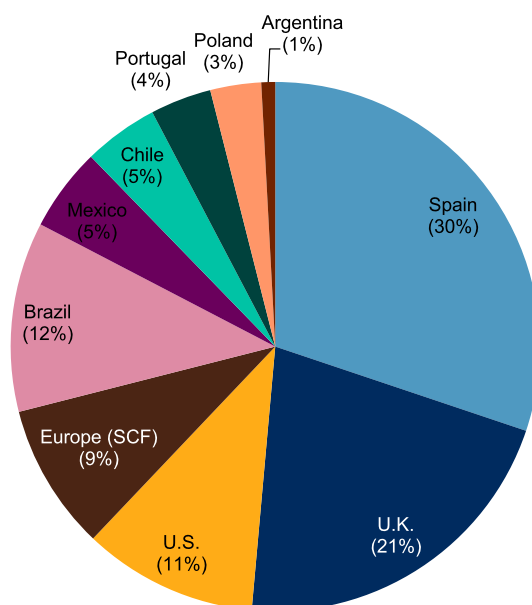
Business Position: A Powerful, Geographically Diversified, And Profitable Retail Banking Franchise

Santander benefits from a robust business model focused on a stable retail banking business that generates strong, consistent earnings. Its geographically diversified franchise gives it leading market positions in the countries where it operates and has helped the bank to weather the recent pandemic-induced economic downturn in all the markets Santander operates in.

Of the bank's global peers, only the ratings on French bank BNP Paribas and U.S. bank JP Morgan Chase benefit from these business model strengths to the same extent as Santander.

Chart 3**Santander Benefits From Wide Geographic Diversification, Weighted Toward Matured Economies**

Geographical distribution of the group's asset base as of 1Q2022



Q--Quarter. Source: Banks' Financial Report.

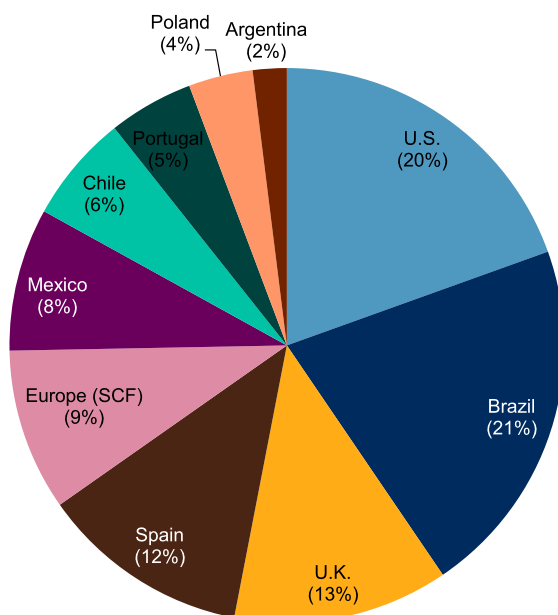
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As a result of an intensive expansion strategy over the past two decades, Santander is currently one of the most geographically diversified banks in the world. Generally, no single country concentrates more than 30% of the group's net profits and credit. Its presence in developed economies outweighs its presence in emerging markets (accounting for 85% and 15% of loans in March 2022, respectively), but it is fairly balanced when measured in terms of profit contribution (about 55% and 45%, as of March 2022). Historically, the limited economic correlation of the countries in which it operates has allowed Santander to accommodate the ups and downs of the different economic cycles and achieve consistent, resilient results over time. This has also been confirmed during the recent pandemic, since the magnitude and timing of the economic impact in each country has varied, and the bank used different levers in each of them to mitigate the impact.

Chart 4

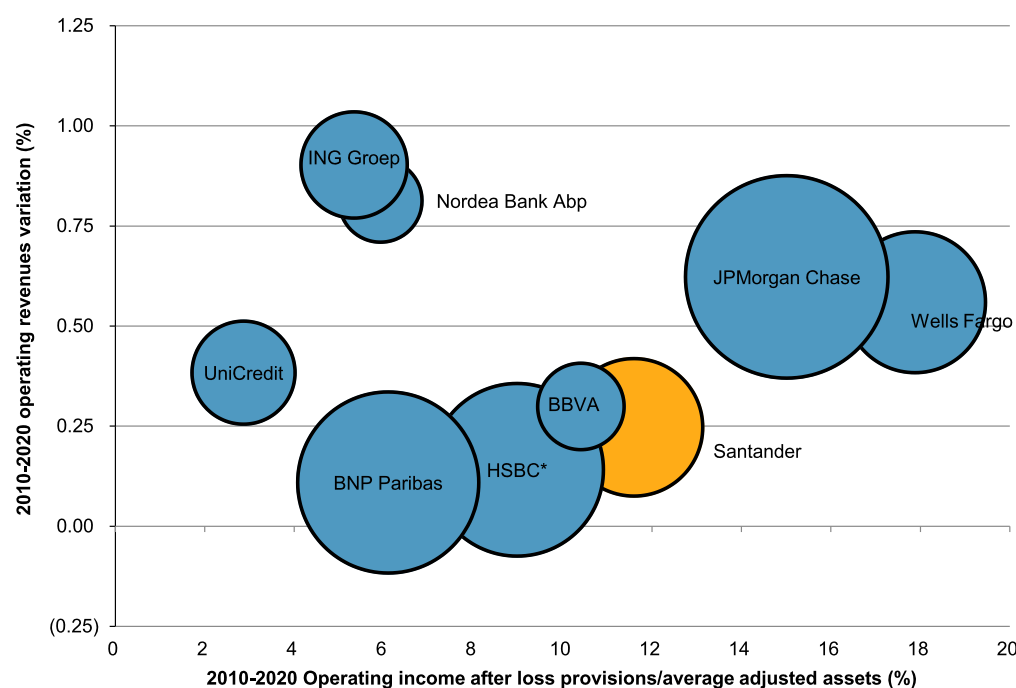
Emerging Markets Are Key Contributors To The Group's Profitability

Geographical contribution to net attributable profits as of 1Q2022



Q--Quarter. Source: Banks' Financial Report.

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Chart 5**Santander's Profitability Resilience Versus Peers**

Bubble size represents Total Assets as of March 2022. *As of December 2021. Source: S&P Global Ratings.

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Santander also enjoys strong positions and franchises in most of its markets of operation, which provide it with pricing power and a loyal retail customer funding base. In addition to the 18% market share in loans that the bank holds in Spain, Santander is the third-largest mortgage lender in the U.K. (holding about 11% of the market). It owns the second-largest banks in Portugal, Poland, and Chile and the third-largest banks in Mexico and Brazil (excluding public banks). It has also built one of the largest pan-European consumer finance business. Santander is also present in the U.S., where it benefits from decent, though regional and still underperforming, market positions in several strong northeastern markets, and a now fully owned consumer arm specialized in nonprime auto loans (SCUSA).

The group primarily focuses on retail banking activities, which support the bank's business and earnings stability. Compared with peers, Santander exhibits a track record of stronger, more-resilient earnings, and outstanding efficiency.

Santander benefits from a clear, well-executed strategy, which has led to the transformation of what was once a domestic institution into a strong and well-diversified global banking group. Inorganic growth has been a key enabler of the bank's build-up of a global franchise over the years and we think Santander could, in principle, consider further mergers and acquisitions if opportunities were to arise, most likely in businesses or markets where it already operates. Specifically, last year the bank bought minorities in its Mexican and U.S. consumer finance subsidiaries, in addition to a

U.S.-based broker-dealer, Amherst Pierpont Securities. We don't believe these transactions indicate a significant shift in the group's strategy but demonstrate that Santander manages its equity investments in foreign subsidiaries dynamically and is committed to deploying capital efficiently toward higher-growth, more profitable countries and businesses.

We don't anticipate the appointment of a new CEO for the group from early next year to result in a significant strategic shift. The choice of an internal candidate who has managed a large business unit in the group for a few years and knows the bank well should ensure managerial and business continuity in the foreseeable future. We believe the bank's strategic priorities will therefore remain unchanged:

- Improving the bank's operating performance;
- Maintaining a solid capital base, improving the allocation of capital to the more profitable businesses;
- Expanding the business by engaging further existing clients; and
- Accelerating the digitalization of the business.

The group has also committed to operate more cohesively across units, fostering collaboration, avoiding duplications, and facilitating synergies. With this aim, the bank streamlined its operating model for Santander units in Europe (One Santander) and combined SCF and Openbank to build up a purely digital consumer finance business and increase synergies and cross selling.

Capital And Earnings: Capital Has Remained Resilient And Could Strengthen Further, Despite Recent Acquisitions

Santander's level of capital, measured by regulatory ratios and our own RAC measure, remains tighter than most international peers, but this is balanced by the predictability and quality of its earnings, which contribute to consistent capital buildup.

Santander managed to gradually enhance its level of capital over the past few years despite the challenging operating environment and pandemic-related stress. Specifically, the RAC ratio stood at 8.4% at end-2021, compared to 7% as of end-2018 and despite the impact of pandemic-related provisions, write-down of goodwill, and deferred tax assets.

We expect Santander's RAC ratio to hover around 8.5%-9% in 2022-2023, supported by higher retained earnings and selective loan growth.

Although the pandemic and, more recently, the energy shock has made it more difficult for the bank to achieve its medium-term target of 13%-15% underlying return on tangible equity and reduce the cost-to-income ratio to 42%-45%, these indicators stood at a promising 11% and 47%, respectively, in March 2022.

Overall, we expect net profits to keep growing over the next couple of years. Specifically, we expect:

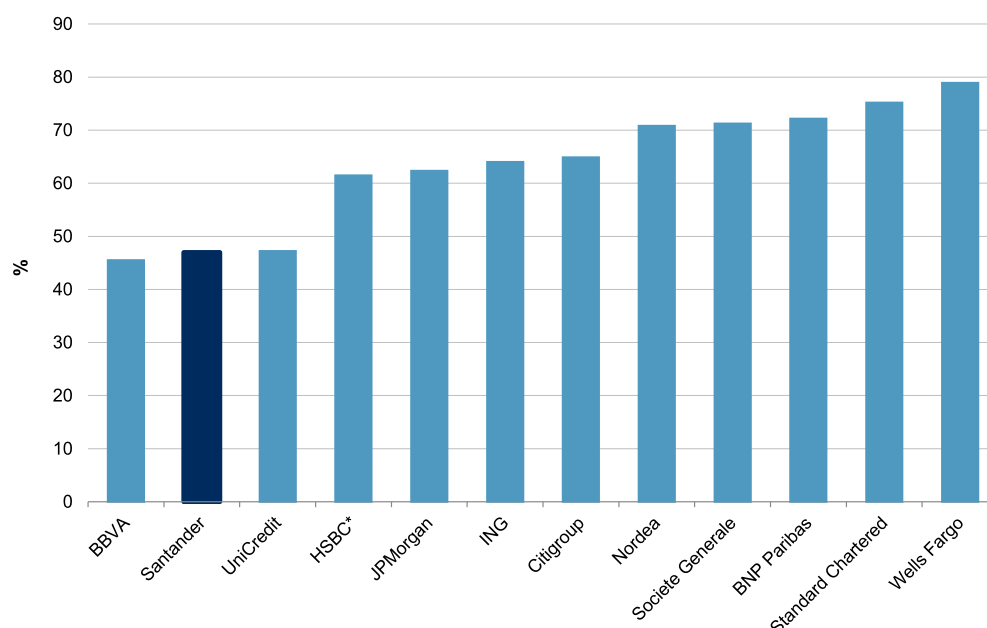
- A sustained increase in operating income (about 4%-5% yearly growth on average in 2022-2024) on the back of rising interest rates. We expect this will somewhat offset the increase in operating costs from inflationary pressures, with the cost-to-income ratio subsequently declining to 44% in 2024 from 47% in 2021.

- Manageable credit impairments at pre-pandemic levels, with the cost of risk declining to 105-110 bps of average loans.
- A dividend pay-out of around 40%, including both cash dividends and share buyback, in line with the bank's disclosed targets. We also project an average risk-weighted asset (RWA) growth of 3%-4% during 2022-2023.
- By region, Latin America and U.S. should continue to grow volumes and revenues. Meanwhile in Europe, controlling costs remains the priority, mainly in Spain and the U.K.

Chart 6

Strong Efficiency Is A Key Attribute Of Santander

Cost to income ratio as of March 2022



*As of December 2021. Source: S&P Global Ratings.

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The bank's earnings buffer (which measures the capacity of the bank's earnings to cover normalized losses) remains a sound 200 bps of S&P Global Ratings' RWAs over 2022-2024, above the 189bps average reported over 2019-2021.

We forecast hybrid instruments to account for about 10% of Santander's total adjusted capital (TAC) over 2021-2022. Hybrid instruments included in TAC are now largely additional Tier 1 (AT1) instruments--issued by the parent and the U.K. subsidiary. The remaining legacy preference shares included in TAC are minimal, about €150 million. Based on the outstanding amount of AT1 and Tier II instruments, of 1.52% and 2.51% respectively, there is little room to issue more.

The group's capital is usually allocated efficiently across subsidiaries, with higher resources dedicated to higher growth

and profitable business areas. Although capital ratios are now higher than standard group levels in a number of geographies due to regulatory dividend restrictions during the pandemic, we expect sustained dividend upstreaming to the parent to resume and current differences to reduce.

Santander reported a fully loaded common equity (CET1) ratio of 12.05% as of March 2022 (in line with its target of CET 1 above 12%). As a result, Santander's regulatory capital ratios stand comfortably above the supervisory review and evaluation process (SREP) requirements, with an MDA buffer of 321 bps as of March 2022.

Our capital measure is weaker than the regulator's, reflecting the higher risks that we see in economies where Santander operates, and the still-large balance of DTAs resulting from timing differences outstanding on the bank's balance sheet. Indeed, our calculation of Santander's RWAs is almost 70% higher than the regulatory one.

Risk Position: Wide Geographic And Risk Diversification Ease The Repercussions Of The Global Recession

Despite Santander's capital ratios being lower than peers (both by regulatory and S&P Global Ratings' measures), we consider its capital base solid enough to manage the risks that it faces. Because of the countries where it operates, Santander faces higher-than-average risks, but its wide geographic diversification in economies that have historically been uncorrelated provides it with a benefit that our RAC calculation does not fully capture. Equally, the bank enjoys good diversification by risk and client type; it also has a track record of better-than-average asset quality in many of the main markets of operation. It achieved the latter through sound risk management, underwriting standards, and the close monitoring of risks.

The diversification benefit that we calculate for Santander is one of the highest in our sample of rated global banks. We calculate that RWAs after diversification at end-2021 stood almost 25% below those before diversification effects.

Our credit cost estimates are set to stabilize at pre-pandemic levels by 2023 (105-110 bps), alongside the moderate recovery of the economies in which the bank operates.

We see pockets of risk in some asset classes and regions. For example, SMEs in Spain, including the remaining loans with ICO Guarantee, and Brazil, while residential mortgages should remain solid. We also anticipate some additional deterioration in loan books in Latin America, on the back of the economic slowdown. We expect the stock of gross NPLs to somewhat increase this year and next and stabilize at about 4% in 2023, as Santander aims to accelerate the clean up and disposal of some legacy problematic assets in Spain.

The stage 2 loans increased materially by 28% in March 2022 from March 2020 and represent about 7% of total loans, compared to 5.4% at the start of the COVID-19 pandemic. We will monitor the evolution of the Stage 2 loans as we believe that their migration into nonperforming could be the main driver of asset quality deterioration.

Furthermore, most loans under moratoria have expired, without having a material impact on credit quality. Out of the €93 billion loans under moratoria which expired, only 7% were then classified as nonperforming while about 16% went into the Stage 2 bucket.

The additional provisioning through 2021, with about €3 billion of so-called "post model adjustments" due to COVID-19, improves--although only temporarily--the group's reserves coverage to almost 67% of NPLs at March 2022, from 66% in 2019.

Santander's portfolio is granular, with exposures to the top-20 private creditors accounting for about a third of TAC in December 2021. It is also well diversified by business. Specifically, the group's exposure to consumer lending (25% of the loan book) is higher than that of peers, due to its large auto-lending business in Europe and the U.S. Only the latter has a higher-risk profile, however, as it is mostly subprime. Furthermore, its performance during the pandemic has proved more resilient than we expected. The residential mortgage book (35% of total credit) is primarily low risk, especially in the U.K., where most of Santander's mortgages originate. This will form a source of credit stability.

Given the nature of its business, the bank's main risk exposure is to credit risk. That said, Santander is also structurally exposed to foreign currency risks due to its local currency investments in subsidiaries abroad. The bank's policy is to largely hedge its equity investments' exposure to minimize the impact of adverse movement in the group's regulatory capital ratio. Hedging has historically proved effective when foreign currencies suffered large devaluations. With regards to the hedging of the subsidiaries' profit contribution to the group, Santander's stance is more opportunistic and depends on the bank's expectations of rate moves and prices.

The group also actively manages its structural exposures to interest rate risk, through asset-liability committee portfolios or swaps across geographies. At present, most operations, other than Brazil and Chile, are positioned to benefit from interest rate increases.

Given its large size and operations in multiple jurisdictions, managing the group entails some complexity. However, we consider this to be manageable. We believe that Santander's retail business model, consistently replicated across its network, and its organizational structure, facilitate the bank's management.

Funding And Liquidity: A Structurally Balanced And Resilient Funding Profile

Santander enjoys a fairly balanced funding profile, weighted toward retail deposits. The group's loan-to-deposit ratio stood at 104% at March 2022. It also holds a manageable amount of wholesale funding, diversified by instrument, market, and investors; is exposed to limited refinancing risk as debt maturities are spread over several years; and has proved able to access market funding in times of market turbulence.

The bank's stable funding ratio, according to our calculations, stood at a solid 115% at March 2022, having improved from 101% at end-2019, particularly due to reduced leverage and market-share gains in deposits in matured markets.

The bank operates abroad through subsidiaries that are largely independent from the parent for funding purposes. However, in addition to SCF and UCI (a joint venture with BNP), which recurrently receive funding from the parent, other subsidiaries (e.g. Chile, Brazil, and the U.S.) are now obtaining financing from the parent with the aim of optimizing the parent's ample liquidity available. We anticipate, however, that this is just temporary intragroup funding and will revert in the coming quarters and years.

There are no significant differences in the funding profiles of subsidiaries within the group. The group entities and

regions that are proportionally more dependent on wholesale financing are SCF, Chile, and SCUSA.

The group's wholesale debt outstanding in the market totaled €176.2 billion at March 2022, across a wide array of instruments: senior (30%), covered bonds (24%), senior nonpreferred (30%), subordinated debt (10%), and preferred securities (6%). If securitizations are added, total wholesale debt would exceed €200 billion. Banco Santander S.A. and Santander UK are the most active issuers in the group, accounting for about 85% of the group's wholesale debt outstanding. The calendar of debt maturities is well spread and thus manageable.

In recent years, Santander has opportunistically borrowed resources from the European Central Bank (ECB)'s targeted longer-term refinancing operation (TLTRO) programs to take advantage of attractive terms, and has done it again under the TLTRO III facility, which is almost entirely deposited back at the central bank. Similarly, some of Santander's subsidiaries access central bank facilities from host countries, though proportionally to a lesser extent.

Santander benefits from sound liquidity, which we believe it will preserve once the TLTRO expires as it aims to tap wholesale markets and maintain sizable liquidity buffers.

We estimate the group's liquidity ratio--by S&P Global Ratings' measure (broad liquid assets to short-term wholesale funding)--at 2.4x at March 2022, up from 1.4x at end-2019, also benefitting from extraordinary liquidity available through the TLTRO. Broad liquid assets also amounted to 50% of customer deposits as of the same date. Liquidity is held in cash and liquid securities portfolios. The latter are primarily invested in government securities. The largest portfolios are those of Brazil, U.K., the U.S., and Poland. We also note that central banks' financing is flattening our liquidity ratios.

Support: One Notch Of ALAC Uplift

The issuer credit rating on Santander includes one notch of ALAC uplift (see Six European Banks Upgraded On ALAC Or Group Support Uplift; Off UCO On Implementation Of Revised FI Criteria, December 2021). This is because we believe that the bank's buffer of subordinated bail-inable debt is wide enough to provide protection for senior creditors in a resolution scenario. We expect that ALAC to RWAs will remain above 6% throughout 2024, comfortably above our 500 bps threshold.

The ALAC buffer comprises senior nonpreferred and subordinated debt instruments. In line with the resolution perimeter of the parent, we have only included bail-inable instruments issued (or to be issued) by Banco Santander S.A., excluding those issued by subsidiaries abroad identified as separate points of entry in resolution (most notably, all instruments issued out of the U.K. and U.S.).

However, we markedly increased the threshold for a one-notch uplift for Santander, to 500bps from the standard 300bps. This accounts for the parent bank operating with some double leverage and, as a result, in a resolution scenario some of its Tier II and senior nonpreferred debt would likely need to absorb losses, not solely to recapitalize the business. Moreover, the bank will not be eligible for a potential second notch of ALAC uplift given its current SACP.

Notably, by setting the ICR above the sovereign credit rating on the bank's country of domicile, we reflect our view

that there is an appreciable likelihood that Santander would not default in the stress scenario that would likely accompany a hypothetical default of Spain. In such a scenario, our modeling anticipates that Santander would face substantial impairments--which would erode a significant portion, but not all, of its capital base--and that it could suffer sizable liquidity outflows. This would very likely trigger the bank's resolution and thus the bail-in of junior instruments. Still, this action, and the funding support that would likely be provided by authorities during the resolution, would together help the bank to avoid an immediate default on its senior obligations if the Spanish sovereign were to default. However, given the uncertainty surrounding any resolution process in a hypothetical sovereign default scenario, at present we are limiting the distance above the sovereign credit rating to one notch.

The subsidiaries that are core and highly strategic to the group, and which resolution authorities plan to resolve with the parent bank, will benefit from the banks' stronger creditworthiness. This includes Santander Consumer Finance S.A. and Santander Consumer Bank AG.

As of March 2022, Santander's MREL ratio was 35.5%. Moreover, the TLAC requirement is 21.5% from 2022 and--including the 2.5% allowed share of senior debt--Santander's TLAC of 25.5% at March 2022 already complies with future requirements.

The Single Resolution Board identified nine different points of entry for the Santander group, which will be subject to a separate resolution process from that of the parent. Those separate points of entry are:

- Spain, which is the largest as it also includes the European operations of Santander Consumer Finance, as well as all equity holdings in subsidiaries abroad; and
- Portugal, the U.K., Poland, the U.S., Mexico, Brazil, Chile, and Argentina.

Each point of entry would be required to build up its own cushions of bail-inable instruments to face a potential resolution scenario, provided that it is required to do so by host authorities. Indeed, the U.K. and the U.S. operations are already building their own TLAC/MREL cushions, and we understand that the Portuguese operations will also have their own plan soon. We understand that Santander's intention is to downstream ALAC to SCF, which will, in turn, further downstream it to its subsidiaries.

Environmental, Social, And Governance

Environmental, social and governance (ESG) factors are not a material, direct influence on our credit ratings on Santander at this time.

Santander's governance, control standards, and transparency are high, which is very much needed given that its presence in several countries exposes the group to diverse risks. In recent years, it has been under the regulatory scrutiny of the U.S. authorities and was required to make meaningful adjustments to its risk management in the country. We understand that major issues have now been addressed. The bank also has large exposures to markets such as those in Latin America, where governance practices may be weaker than in Spain, Santander's domestic market, and therefore require constant monitoring. So far, the bank has managed those risks well. Santander's board of directors is diverse, fairly international, and includes several independent members. The representation of the Botín

family, founder of the bank, looks high compared with the economic interest the family holds. Of the two seats the family holds, however, one belongs to Ana Botin in her role as executive chairman. In 2018, the decision-making process at the board level raised some questions, as a new CEO was announced and reconsidered only three months later, leading to a legal dispute that ended in a high economic compensation.

Social factors are increasingly relevant for a retail-focused bank like Santander. However, the bank has experienced fewer client claims or conduct issues than several other global banks in the past decade. It was not affected by Spanish customers' claims on mortgage interest rate floors and the bank managed to proactively reduce the risk of claims in other instances (arranging solutions to private banking clients affected by Bernie Madoff's case or to retail clients of Popular who lost their investments when the bank was resolved). In the U.K., misconduct charges largely originated from payment protection insurance cases at the bank that Santander acquired before the financial crisis, but it was also fined in 2018 for failing to effectively process the accounts and investments of deceased customers.

Environmental factors do not overly affect the bank's credit quality, and related risks are very much in line with those faced by peers. Of note, Santander is a large provider of auto loans (15% of the group's loan exposure), so the business and financial challenges that the auto industry faces could indirectly affect its business prospects. A substantial change in consumer preferences, such as favoring renting over ownership, could force the bank to adapt its product offer. The group has set a target to be carbon neutral by 2050.

ESG Credit Indicators



ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

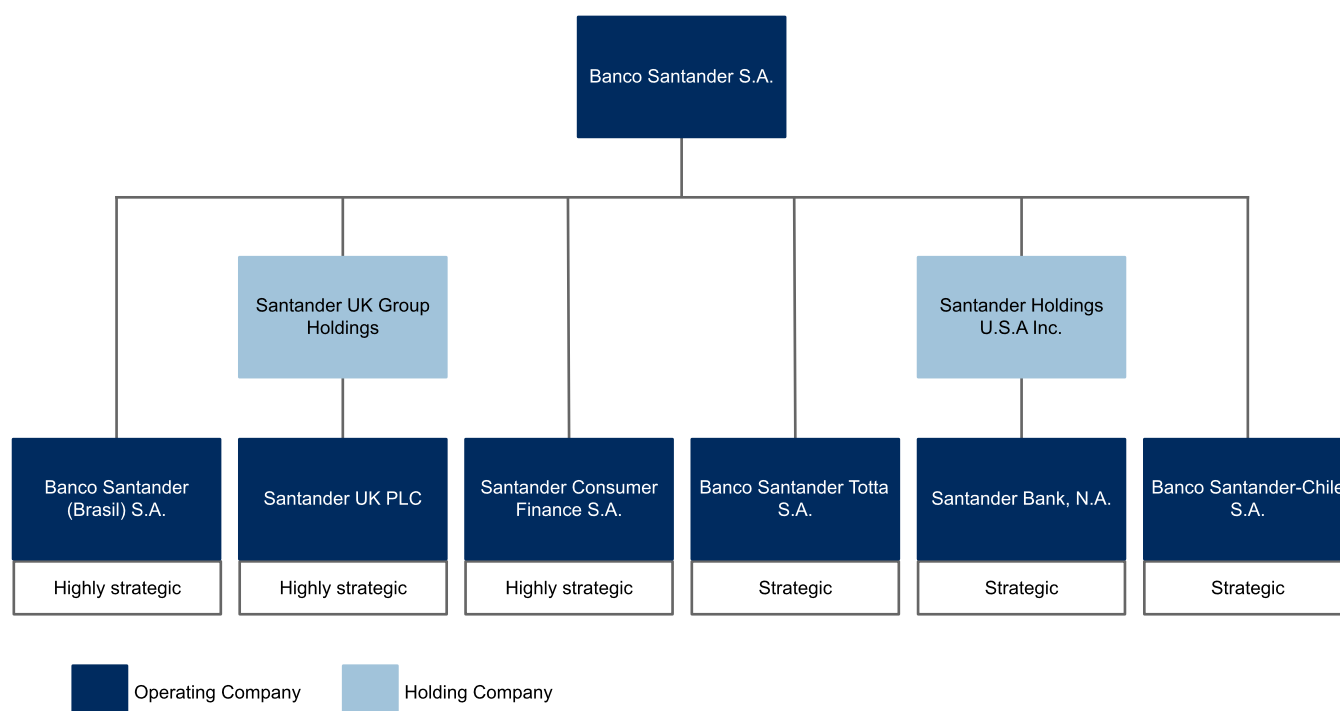
Group Structure, Rated Subsidiaries, And Hybrids

We rate six of Santander's operating subsidiaries globally (see chart below). In contrast to most other global banking groups, we do not consider any of Santander's subsidiaries as core (see *How We're Refining Our View Of The Strategic Importance Of Certain Spanish Bank Subsidiaries*, published on Aug. 2, 2019).

At present, the ratings on only three of Santander's subsidiaries benefit from group support: Santander Consumer Finance S.A. (three notches of uplift), Banco Santander Totta, S.A. in Portugal (one notch), and Banco Santander N.A. in the U.S. (three notches).

We do not incorporate group support into the ratings on the remaining three subsidiaries for various reasons: the sovereign creditworthiness of the host country limits any upside potential (Brazil); the ratings benefit already from ALAC uplift (Santander UK PLC); or the stand-alone credit profile is already one notch lower than the parent's group credit profile (GCP) of 'a' (Santander Chile).

Santander's Simplified Organization Chart Including Rated Subsidiaries Only



Source: Banco Santander S.A., S&P Global Ratings.

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Hybrid Ratings

We consider senior nonpreferred debt, nondeferrable subordinated debt, and preference shares as hybrid instruments and arrive at these ratings by notching down from the bank's 'a' SACP.

We therefore rate Banco Santander S.A.'s senior nonpreferred debt at 'A-', one notch below the bank's SACP to reflect subordination versus senior obligations.

We rate nondeferrable subordinated debt at 'BBB+', two notches below the bank's SACP. In addition to being subordinated, we believe that these instruments (capital instruments for regulatory purposes) could be written down to absorb losses ahead of resolution, that is, before the institution reaches the point of nonviability.

We rate junior subordinated debt at 'BBB-', four notches below the bank's SACP. In addition to the above, the wider notching compared with nondeferrable subordinated instruments reflects the risk of coupon suspension and these instruments computing as a Tier 2 regulatory capital (one notch), as well as the existence of a mandatory trigger for coupon suspension linked to the availability of enough profits in the prior year's reporting--as opposed to enough distributable reserves (an additional notch).

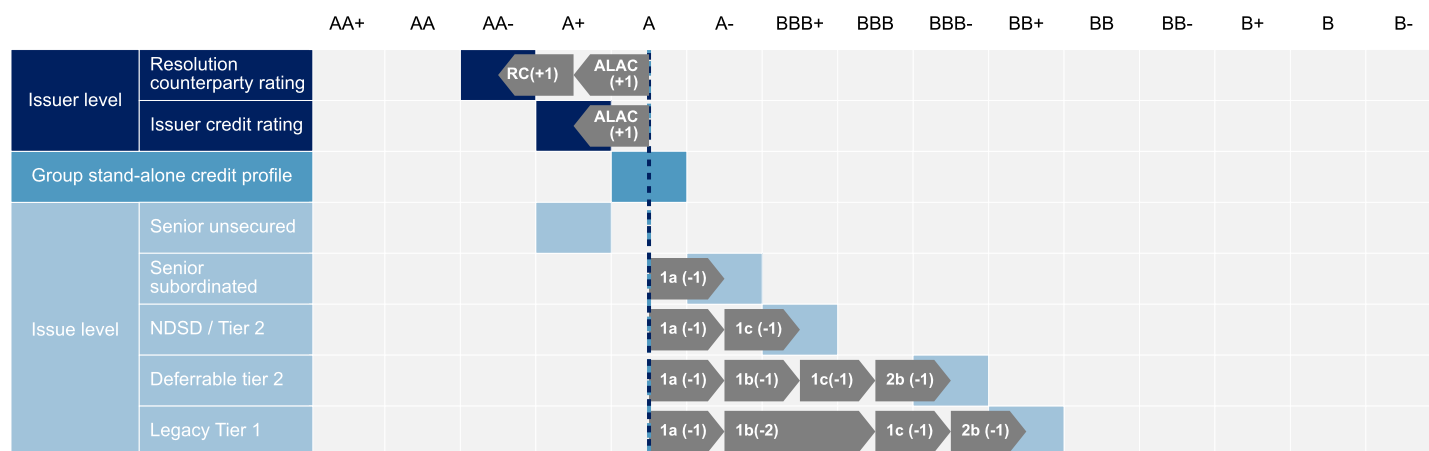
Finally, we rate the remaining two legacy preference shares five notches below the bank's SACP, at 'BB+'. The additional notch difference relates to preference shares computing as Tier I rather than Tier II capital.

We do not rate the bank's AT1 instruments issued in the past few years.

Resolution Counterparty Ratings (RCRs)

We set the RCR of Banco Santander at 'AA-'. The RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing entity. We therefore rate them one notch above the bank's long-term ICR to show their lower relative default risk. Santander's RCR also stands two notches above the long-term sovereign credit rating on Spain, indicating that we see a considerable likelihood that a sovereign default would not immediately trigger a default on the bank's RCR liabilities.

Banco Santander S.A.: Notching



Key to notching

- Group stand-alone credit profile
- Issuer credit rating

- ALAC Additional loss-absorbing capacity buffer
- RC Resolution counterparty liabilities (senior secured debt)
- 1a Contractual subordination
- 1b Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital
- 1c Mandatory contingent capital clause or equivalent
- 2b Other nonpayment or default risk not captured already

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 2 of our "Hybrid Capital: Methodology And Assumptions" criteria, published on March 2, 2022.

NDSD—Non-deferrable subordinated debt.

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Key Statistics

Table 1

Banco Santander S.A.--Key Figures					
	--Year-ended Dec. 31--				
(Mil. €)	2022*	2021	2020	2019	2018
Adjusted assets	1,646,841	1,577,530	1,490,479	1,492,966	1,429,279
Customer loans (gross)	967,282	937,064	869,856	882,815	848,319
Adjusted common equity	78,416	73,148	68,907	73,486	67,385
Operating revenues	12,765	48,846	46,621	51,367	50,425
Noninterest expenses	5,996	22,780	22,433	24,379	23,410
Core earnings	3,201	12,663	N/A	12,292	12,277

N/A--Not applicable. *Data as of March 31.

Table 2

Banco Santander S.A.--Business Position					
	--Year-ended Dec. 31--				
(%)	2022*	2021	2020	2019	2018
Loan market share in country of domicile	17.1	17.4	17.5	17.6	17.6
Deposit market share in country of domicile	18.5	18.4	18.3	18.9	18.2
Total revenues from business line (currency in millions)	12,778.8	48,899.5	46,735.3	52,657.6	50,453.0
Commercial banking/total revenues from business line	13.8	11.6	11.5	10.0	10.1
Retail banking/total revenues from business line	79.0	81.1	79.6	82.7	84.9
Commercial and retail banking/total revenues from business line	92.8	92.7	91.2	92.7	95.0
Other revenues/total revenues from business line	7.2	7.3	8.8	7.3	5.0
Return on average common equity	11.6	9.7	(9.7)	6.7	8.2

*Data as of March 31.

Table 3

Banco Santander S.A.--Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	2022*	2021	2020	2019	2018
Tier 1 capital ratio	13.8	14.2	14.0	13.1	13.1
S&P Global Ratings' RAC ratio before diversification	N/A	8.4	7.7	7.7	7.0
S&P Global Ratings' RAC ratio after diversification	N/A	11.0	9.8	9.5	9.2
Adjusted common equity/total adjusted capital	88.7	88.0	88.8	89.1	87.7
Net interest income/operating revenues	69.4	68.3	68.6	68.7	68.1
Fee income/operating revenues	22.0	21.5	21.5	22.9	22.8
Market-sensitive income/operating revenues	3.0	3.2	4.7	3.0	3.6
Cost to income ratio	47.0	46.6	48.1	47.5	46.4
Preprovision operating income/average assets	1.7	1.7	1.6	1.8	1.9
Core earnings/average managed assets	0.8	0.8	N/A	0.8	0.8

*Data as of March 31. N/A--Not applicable. RAC--Risk-adjusted capital.

Table 4

Banco Santander S.A.--Risk-Adjusted Capital Framework Data					
(Mil. €)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global Ratings' RWA	Average S&P Global Ratings' RW (%)
Credit risk					
Government and central banks	628,595.0	26,587.5	4.2	95,833.2	15.2
Of which regional governments and local authorities	11,296.0	312.5	2.8	3,988.2	35.3
Institutions and CCPs	60,007.0	17,900.0	29.8	23,005.0	38.3
Corporate	228,711.0	160,975.0	70.4	244,306.2	106.8
Retail	618,008.0	210,962.5	34.1	339,319.9	54.9
Of which mortgage	407,838.0	81,200.0	19.9	160,925.7	39.5
Securitization§	47,489.0	9,262.5	19.5	17,972.4	37.8
Other assets†	88,841.0	58,100.0	65.4	127,065.5	143.0
Total credit risk	1,671,651.0	483,787.5	28.9	847,502.3	50.7
Credit valuation adjustment					
Total credit valuation adjustment	--	1,762.5	--	6,883.9	--
Market risk					
Equity in the banking book	2,095.0	17,337.5	827.6	13,444.4	641.7
Trading book market risk	--	17,212.5	--	26,027.5	--
Total market risk	--	34,550.0	--	39,471.9	--
Operational risk					
Total operational risk	--	58,787.5	--	94,688.1	--
	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global Ratings' RWA	% of S&P Global Ratings' RWA
Diversification adjustments					
RWA before diversification	--	578,887.5	--	988,546.3	100.0
Total diversification/ Concentration adjustments	--	--	--	(233,250.6)	(23.6)
RWA after diversification	--	578,887.5	--	755,295.7	76.4
		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings' RAC ratio (%)
Capital ratio					
Capital ratio before adjustments		82,452.0	14.2	83,097.4	8.4
Capital ratio after adjustments‡		82,452.0	14.2	83,097.4	11.0

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions.

‡Adjustments to tier 1 ratio are additional regulatory requirements (e.g. transitional floor or pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2021, S&P Global Ratings.

Table 5

Banco Santander S.A.--Risk Position					
(%)	--Year-ended Dec. 31--				
	2022*	2021	2020	2019	2018
Growth in customer loans	12.9	7.7	(1.5)	4.1	2.9

Table 5

Banco Santander S.A.--Risk Position (cont.)					
(%)	--Year-ended Dec. 31--				
	2022*	2021	2020	2019	2018
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	(23.6)	(21.1)	(19.4)	(23.4)
Total managed assets/adjusted common equity (x)	21.3	22.1	22.1	21.0	22.0
New loan loss provisions/average customer loans	0.9	0.8	1.4	1.1	1.1
Net charge-offs/average customer loans	0.9	0.9	0.9	1.3	1.3
Gross nonperforming assets/customer loans + other real estate owned	3.7	3.5	3.7	3.8	4.2
Loan loss reserves/gross nonperforming assets	67.4	69.1	74.3	65.8	65.3

*Data as of March 31. N/A--Not applicable. RWA--Risk-weighted assets.

Table 6

Banco Santander S.A.--Funding And Liquidity					
(%)	--Year-ended Dec. 31--				
	2022*	2021	2020	2019	2018
Core deposits/funding base	63.6	64.4	63.8	62.0	61.2
Customer loans (net)/customer deposits	104.1	103.6	103.9	109.6	110.3
Long-term funding ratio	87.4	88.4	86.4	80.3	83.5
Stable funding ratio	115.2	116.6	112.4	101.6	106.1
Short-term wholesale funding/funding base	13.4	12.3	14.5	21.0	17.6
Broad liquid assets/short-term wholesale funding (x)	2.4	2.6	2.1	1.4	1.6
Broad liquid assets/total assets	27.3	27.1	25.5	24.0	24.0
Broad liquid assets/customer deposits	50.3	49.0	47.2	46.4	46.9
Net broad liquid assets/short-term customer deposits	30.3	30.9	26.1	13.1	19.5
Short-term wholesale funding/total wholesale funding	36.0	34.0	39.3	54.3	44.5
Narrow liquid assets/3-month wholesale funding (x)	3.4	3.7	2.9	2.2	2.2

*Data as of March 31.

Banco Santander S.A.--Rating Component Scores	
Issuer Credit Rating	A+ / Stable / A-1
SACP	a
Anchor	bbb
Economic risk	
Industry risk	
Business position	Very strong
Capital and earnings	Adequate
Risk position	Strong
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	+1
ALAC support	+1
GRE support	0

Banco Santander S.A.--Rating Component Scores (cont.)

Issuer Credit Rating	A+ / Stable / A-1
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. SACP--Stand-alone credit profile.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Six European Banks Upgraded On ALAC Or Group Support Uplift; Off UCO On Implementation Of Revised FI Criteria, Dec. 16, 2021
- Certain Financial Institution Issuer And Issue Ratings Placed Under Criteria Observation Following Criteria Update, Dec. 9, 2021
- RFC Process Summary: Financial Institutions Rating Methodology, Dec. 9, 2021
- RFC Process Summary: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Financial Institutions And BICRA Criteria Published, Dec. 9, 2021

Ratings Detail (As Of July 27, 2022)***Banco Santander S.A.**

Issuer Credit Rating	A+ / Stable / A-1
Resolution Counterparty Rating	AA- / -- / A-1+
Commercial Paper	
Foreign Currency	A-1

Ratings Detail (As Of July 27, 2022)*(cont.)	
Senior Subordinated	A-
Senior Unsecured	A+
Short-Term Debt	A-1
Subordinated	BBB+
Issuer Credit Ratings History	
22-Mar-2022	A+/Stable/A-1
16-Dec-2021	A+/Negative/A-1
24-Jun-2021	A/Stable/A-1
29-Apr-2020	A/Negative/A-1
06-Apr-2018	A/Stable/A-1
Sovereign Rating	
Spain	A/Stable/A-1
Related Entities	
Banco Santander (Brasil) S.A.	
Issuer Credit Rating	BB-/Stable/B
<i>Brazil National Scale</i>	brAAA/Stable/brA-1+
Banco Santander-Chile S.A.	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
<i>Foreign Currency</i>	A-2
Senior Unsecured	A-
Banco Santander SA (London Branch)	
Certificate Of Deposit	
<i>Local Currency</i>	A-1
Banco Santander S.A. (New York Branch)	
Commercial Paper	
<i>Local Currency</i>	A-1
Banco Santander Totta S.A.	
Issuer Credit Rating	BBB/Stable/A-2
Resolution Counterparty Rating	BBB/--/A-2
Senior Unsecured	BBB
PSA Banque France	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	A-2
Senior Unsecured	BBB+
Santander Bank, N.A.	
Issuer Credit Rating	A-/Stable/A-2
Senior Unsecured	A-
Short-Term Debt	A-2
Subordinated	BBB+
Santander Consumer Bank AG	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1

Ratings Detail (As Of July 27, 2022)*(cont.)

Commercial Paper	A-1
Senior Subordinated	BBB+
Senior Unsecured	A
Santander Consumer Finance S.A.	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/-/A-1
Commercial Paper	
<i>Local Currency</i>	A-1
Senior Subordinated	BBB+
Senior Unsecured	A
Short-Term Debt	A-1
Subordinated	BBB
Santander Financial Services PLC	
Issuer Credit Rating	A-/Stable/A-2
Resolution Counterparty Rating	A/-/A-1
Santander Holdings U.S.A Inc.	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+
Santander Totta SGPS, S.A.	
Senior Unsecured	BBB
Santander UK Group Holdings PLC	
Issuer Credit Rating	BBB/Stable/A-2
Junior Subordinated	BB-
Senior Unsecured	BBB
Short-Term Debt	A-2
Subordinated	BB+
Santander UK PLC	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/-/A-1
Junior Subordinated	BB
Junior Subordinated	BB+
Preference Stock	BB
Senior Secured	AAA/Stable
Senior Unsecured	A
Senior Unsecured	A-1
Short-Term Debt	A-1
Subordinated	BBB-

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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