FitchRatings

Banks
Universal Commercial Banks
Spain

Banco Santander, S.A.

Key Rating Drivers

Ratings Reflect Geographic Diversification: Banco Santander, S.A.'s ratings reflect Fitch Ratings' view that the bank's international footprint is a key business model strength, despite exposure to higher-risk emerging markets. We expect that the group's rigorous approach to risk control will mitigate asset quality pressure from the pandemic, and that it will be able to keep its capital ratios that are at the lower end of peers' but commensurate with its ratings, helped by its resilient earnings generation capacity through economic cycles.

Operating Environment Score Stabilised: Santander benefits from solid banking franchises in several European and Latin American countries, and the US. Fitch revised to stable the trend on the operating environment score (which considers its geographic footprint) following stabilisation in some core markets, including the US and some Nordic countries. Santander benefits from experience through economic cycles in different markets, but challenges remain.

Resilient Earnings: Profitability in 2020 faced significant earnings headwinds, driven by lower interest rates in mature markets, business disruption and high loan impairment charges (LICs) due to the pandemic. It recovered well in 1Q21, supported by a recovery in activity, lower LICs and continued cost-cutting measures. Business growth in expanding markets and segments, such as payment services and digital consumer lending, lower LICs and cost savings should help move 2021 group operating profitability towards pre-pandemic levels.

Asset Quality A Relative Weakness: Asset quality remains a relative weakness compared with some European peers. The group's exposure to emerging markets inherently results in above averages impaired loan ratio and LICs, which are mitigated by higher net interest margins.

Loan performance has been resilient to date (impaired loan ratio at 3.4% at end-1Q21), benefitting from government and private sector support measures. We expect asset quality will deteriorate once these measures unwind in 2H21-2022, although the extent of a deterioration should be contained thanks to Santander's good risk controls. Compared to peers, reserve coverage of impaired loans has been maintained sustainably high.

Adequate Capital: We expect Santander will continue to operate with a common equity Tier 1 (CET1) ratio in the upper range of its 11%-12% target (12.3% CET 1 ratio at end-1Q21) while economic uncertainty persists. The CET1 ratio should be maintained within the target range over time despite its resumption of dividend pay-outs and growth strategy. Our assessment of capital also considers that the group keeps its foreign subsidiaries well capitalised.

Diversified Funding; Good Liquidity: The group's funding and liquidity is stable, supported by its large deposit franchises in the core markets. The group's approach requires foreign subsidiaries to be locally funded. The group also benefits from good liquidity and deep global capital market access for wholesale funding, at the parent bank and at subsidiaries.

Rating Sensitivities

Sovereign Rating: An upgrade would be contingent on an upgrade of Spain's sovereign rating. This would have to be accompanied by stronger capital ratios and improved asset quality. Equally important would be the ability to preserve the group's earnings resilience, which means maintaining the sound earnings performance at the main international subsidiaries.

Capital Erosion: Santander's ratings would be pressured if its CET1 ratio declined below 11% without a credible plan to rebuild it rapidly. A significant erosion of its earnings resilience over time (i.e. operating profit/risk-weighted assets, RWAs, below 2% on a sustained basis) would also likely result in a negative rating action. Ratings remain sensitive to a downgrade of Spain (A-/Stable) or a significant weakening in the operating environments in its core markets.

Ratings

Foreign Currency	
Long-Term IDR	A-
Short-Term IDR	F2
Derivative Counterparty Rating	A(dcr)
Viability Rating	a-
Support Rating	5
Support Rating Floor	NF
Sovereign Risk	
Long-Term Foreign-Currency IDR	A-
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

Global Economic Outlook (June 2021)

Large European Banks Quarterly Credit Tracker - 4Q20 (March 2021)

Cost-Cutting Still a Priority for Spanish Banks (April 2021)

Large Spanish Banks: 2021 Halfway to Recovery (February 2021)

Analysts

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

Pau Labro Vila
+34 93 494 3464
pau.labrovila@fitchratings.com

Related Issuer Ratings

Rating level	Santander Consumer Finance, S.A.	Santander Totta SGPS, S.A.	Santander UK Group Holdings plc	Santander Holdings USA, Inc.	Banco Santander Mexico, S.A., Institucion de Banca Multiple, Grupo Financiero Santander Mexico
Long-Term IDR	A-/Stable	BBB+/Stable	A/Negative	BBB+/Stable	BBB+/Stable
Short-Term IDR	F2	F2	F1	F2	F2
Viability Rating	a-	bbb-	a	bb+	bbb-
Support	1	2	2	2	2

Source: Fitch Ratings

The Long-and Short-Term Issuer Default Rating (IDRs) of Santander Consumer Finance, S.A. (SCF), Santander Totta SGPS, S.A. (Totta), Santander Holdings USA, Inc. (SAN US), Banco Santander Mexico, S.A., Institucion de Banca Multiple, Grupo Financiero Santander Mexico (SAN Mexico) are based on institutional support from Santander. The Long-Term IDR of Santander UK Group Holdings plc (SGH) is driven by its standalone credit profile, reflected in its Viability Rating (VR).

SCF's ratings are aligned with the ratings of Santander driven by potential shareholder support. We believe that Santander has strong incentives to provide support to fully-owned SCF as we consider it a core and integral part of the group, given that it manages most of Santander's consumer finance operations in Europe. SCF is also part of Santander's resolution group.

The Long-Term IDRs of Totta, SAN US and SAN Mexico are notched down once from Santander's to reflect Fitch's view that their activities are strategically important to the group, although not as core as the Spanish operations. We also consider the strong ability (given the relative size to the group is unlikely to represent a constraint) and strong propensity of parent support. Also, the banks' performance is supported by strong synergies and integration with the parent, and a wide range of shared risk-management and operational practices.

SGH's ratings are assessed on a consolidated basis. SGH acts as the holding company for the Santander group's UK entities, and its VR is equalised with that of the main operating subsidiary reflecting SGH's role in the group and low holding company double leverage. The VR is based on the group's conservative risk appetite, adequate capitalisation and stable funding and liquidity profile as well as a less diversified business mix than larger UK peers, which weakens the group's profitability.

Debt Ratings

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

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

Santander's SNP notes are rated at the same level as the bank's Long-Term IDR, reflecting Fitch's view that the default risk of the notes is equivalent to that of the IDR and that SNP obligations are viewed as having average recovery prospects.

Debt Rating Classes

Debt level	Rating
Banco Santander, S.A.	
Deposits	A/F1
Senior preferred	A/F1
Senior non-preferred	A-
Tier 2 debt	BBB
Legacy hybrid preferred notes	BB
Additional Tier 1 notes	BB+

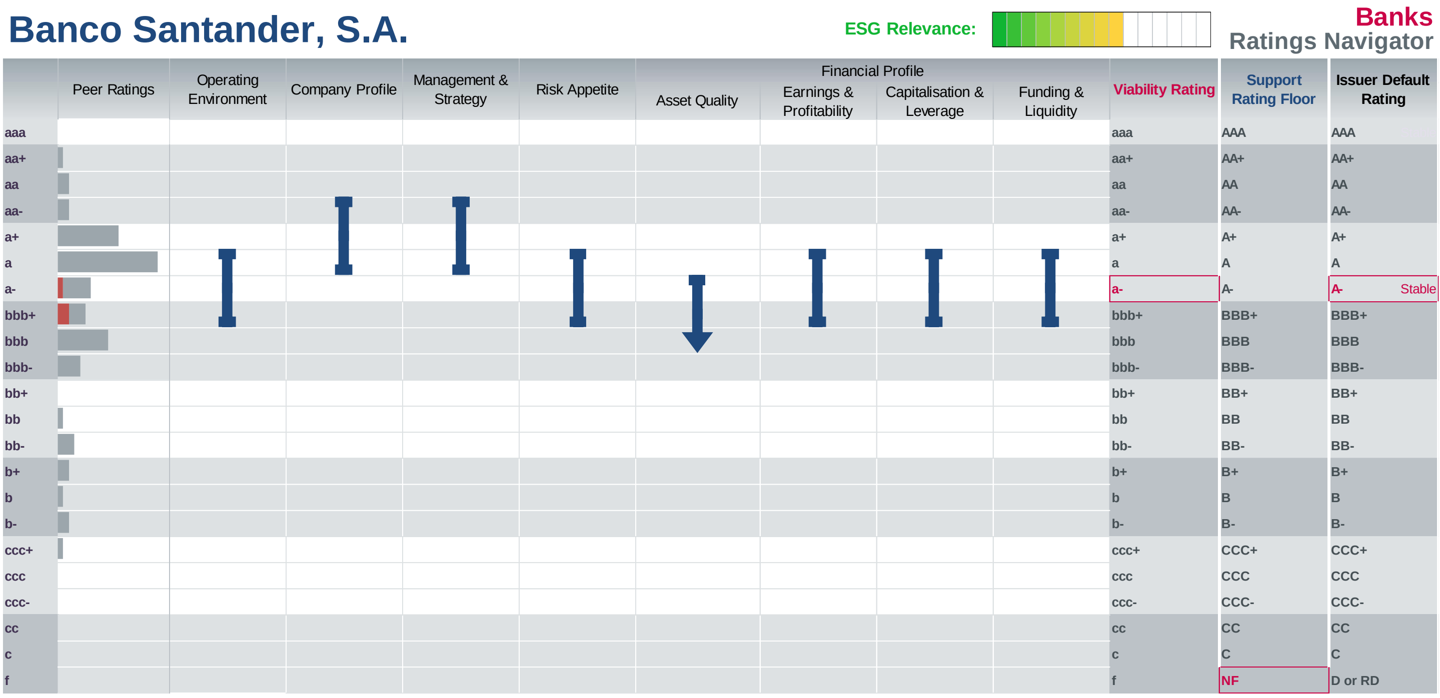
Source: Fitch Ratings

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

We rate additional Tier 1 (AT1) debt with fully discretionary coupon payment four notches below the group's VR. This comprises two notches each for loss-severity and for non-performance risk. Our assessment is based on the bank operating with a CET1 ratio that is above maximum distributable amount thresholds and our expectation that this will continue. Our assessment is also underpinned by the group's record of strong pre-provision earnings generation throughout the cycle and sound leverage ratio.

Legacy preferred shares are rated five notches below the bank's VR to reflect higher-than-average loss severity risk of these securities (two notches from the VR), as well as high risk of non-performance (an additional three notches) due to a profit test.

Ratings Navigator



Significant Changes

Blended Operating Environment Assessment; Stable Outlook

We base our operating environment assessment on a blended approach given Santander's diversified footprint and exposures with a balanced mix between developed and emerging markets. The latter results in the score being one notch above that of domestic banks in Spain. The outlook revision of the score to stable reflects that the operating environments in some of Santander's core markets, including the US and some Nordic countries, have stabilised.

The pandemic has weighed on the global economic outlook with Fitch forecasting material GDP contractions in 2020. Recovery in 2021 is gathering pace particularly in developed economies, reflecting positive data surprises, good progress on vaccine rollout, services-sector reopening and clearer evidence of the impact of powerful ongoing policy support. Santander's two largest developed markets, Spain and the UK, faced deeper and more protracted economic contraction than the global average in 2020. However, the speed of vaccination is accelerating which should support the return to recovery, particularly in the UK. We have recently revised up growth forecasts for Brazil and Mexico after showing surprising resilience in 1Q21. In the US, we expect Santander's challenging competitive position to make it more difficult for the bank to reap the full benefits of economic recovery.

Offer to Buy Minority Stakes in Mexico

Santander's offer to buy the 8.3% stake of minorities in its Mexican subsidiary for estimated EUR550 million fits in with its strategy to expand in high growth markets like Latin America. Santander expects to close the acquisition in the second or third quarter of this year and will then seek to delist the shares from the Mexican stock exchange. The negative capital impact should be manageable at around 8 bps of CET 1 if it acquires 100% of the minority stakes.

Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colors – Influence on final VR

- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ▫ Stable

Fitch GDP Growth Projections (%)

Country/OES*	2020	2021f	2022f
Spain (bbb+/Negative)	-10.8	6.0	6.6
UK (aa-/Negative)	-9.8	6.6	5.0
Germany (aa-/Negative)	-4.8	4.2	4.2
Portugal (bbb-/Negative)	-7.6	3.5	4.1
Poland (bbb+/Negative)	-2.7	4.4	4.5
Brazil (b+/Negative)	-4.1	5.0	2.0
Mexico (bb+/Negative)	-8.3	5.3	2.7
Chile (a-/Stable)	-5.8	6.1	3.5
Argentina (b-/Negative)	-10.0	6.5	1.3
US (aa/Stable)	-3.5	6.8	3.9

*OES: Operating Environment Score
Source: Fitch Ratings, Fitch Solutions

Company Summary

Geographically Diversified Business Model

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

Retail and commercial banking accounts for more than three-quarters of the group's underlying attributable profit, which provides a high degree of recurrence and stability to Santander's earnings. Despite the predominance of mature markets in Santander's loan book, their contribution to the group's underlying attributable profit (excluding the corporate centre) is generally below 50% (although this significantlly improved in 1Q21 to about 60%, largely driven by the good performance in the US on lower LICs). This is due not only to inherently higher profitability levels in emerging markets, but also to the negative impact of low interest rates and lower business growth prospects in mature markets.

Selected Growth; Europe Restructuring

The additional restructuring (mainly in the UK and Portugal) announced in 1Q21, for which EUR530 million costs were booked, is in line with the group's strategy to protect better than European peers' cost efficiency levels and offset revenues pressures in mature markets. Growth is focused on Latin American markets, consumer finance through increased investment in digitalisation and reduced exposures to capital intensive businesses. We view strategic targets as feasible, supported by Santander's good execution record, but challenges remain from the still high level of uncertainty of the ultimate effects of the pandemic.

Moderate Risk Appetite; Emerging Market Exposure

Santander's risk appetite is moderate overall and is supported by good central oversight, which mitigates the relative complexity of the group's presence in a large number of jurisdictions. This, combined with its retail focus and geographic diversification underpins the resilience of the group's asset quality in periods of stress. The group also appears to have been proactive in reducing risk limits and focusing on collection and recovery process in response to the pandemic. Santander has identified as most vulnerable geographies: Spain, particularly the SME segment, given it is among the European countries mostly hit by the crisis, unsecured consumer business and emerging markets, particularly Brazil.

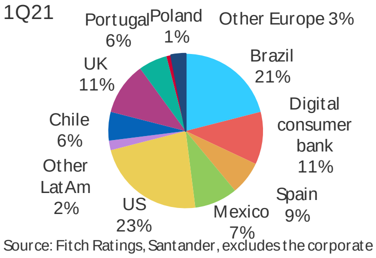
FX risk is managed centrally and is mostly from equity investment in subsidiaries financed in euros and from earnings. The group's policy is to keep the structural FX exposure fully hedged in the most relevant currencies. Potential FX effects on consolidated fully-loaded CET1 from exchange-rate movements are hedged and expected profits for 2021 are significantly hedged to ensure earnings stability.

Multiple Point of Entry Approach

The Santander group's organisational structure consists of a parent bank based in Spain that holds majority stakes in international banking subsidiaries. This structure is commensurate with the group's business model and its multiple-point-of-entry resolution strategy. The latter implies that each material foreign subsidiary is required to hold its own required recapitalisation buffers following the requirements in their jurisdiction. EU's MREL applies to the resolution group (RG) that includes the parent bank and Santander Consumer Finance S.A. The bank estimates that this RG complies with the MREL (28.6% of risk-weighted assets for 2019). New MREL based on BRRD II are pending formal communication by resolution authorities, but we believe the RG is well placed to meet them on its funding plan, which is largely centred on issuing loss-absoring debt instruments. As a global sistemically important bank (G-SIIB), Santander has to meet Total Loss-Absorbing Capacity (TLAC) requirement and this is expected to be requested at each resolution entity. At end-2020, the RG complies with TLAC requirements.

Underlying Attributable Profit by Region

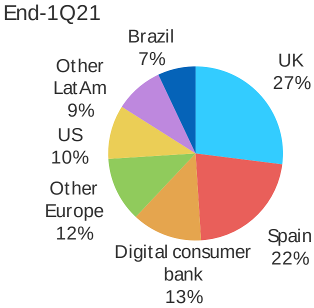
1Q21



Source: Fitch Ratings, Santander, excludes the corporate centre

Group Loans by Geography

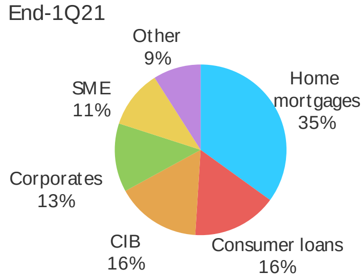
End-1Q21



Source: Fitch Ratings, Santander

Group Loans by Product

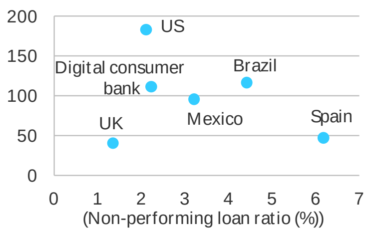
End-1Q21



Source: Fitch Ratings, Santander

Asset Quality

End-1Q21
(Reserve coverage (%))



Source: Fitch Ratings, Group management accounts

Summary Financials and Key Ratios

	31 Mar 21		31 Dec 20	31 Dec 19	31 Dec 18
	3 months - 1st quarter	3 months - 1st quarter	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
	Unaudited	Unaudited	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	9,405	8,021.0	32,385.0	35,816.0	34,711.0
Net fees and commissions	2,988	2,548.0	10,015.0	11,779.0	11,485.0
Other operating income	942	803.0	1,879.0	1,634.0	4,228.0
Total operating income	13,334	11,372.0	44,279.0	49,229.0	50,424.0
Operating costs	6,001	5,118.0	21,130.0	23,280.0	24,779.0
Pre-impairment operating profit	7,333	6,254.0	23,149.0	25,949.0	25,645.0
Loan and other impairment charges	2,411	2,056.0	12,382.0	9,352.0	8,986.0
Operating profit	4,922	4,198.0	10,767.0	16,597.0	16,659.0
Other non-operating items (net)	-1,285	-1,096.0	-12,843.0	-4,054.0	-2,391.0
Tax	1,340	1,143.0	5,632.0	4,427.0	4,886.0
Net income	2,297	1,959.0	-7,708.0	8,116.0	9,382.0
Summary balance sheet					
Assets					
Gross loans	1,083,892	924,430.0	904,092.0	918,757.0	873,918.0
- Of which impaired	37,049	31,598.0	30,815.0	32,559.0	34,218.0
Loan loss allowances	27,441	23,404.0	23,595.0	22,242.0	23,307.0
Net loans	1,056,451	901,026.0	880,497.0	896,515.0	850,611.0
Interbank	60,707	51,776.0	16,101.0	23,475.0	40,633.0
Derivatives	77,740	66,303.0	77,442.0	72,315.0	65,634.0
Other securities and earning assets	309,169	263,684.0	292,764.0	323,242.0	290,853.0
Total earning assets	1,504,067	1,282,789.0	1,266,804.0	1,315,547.0	1,247,731.0
Cash and due from banks	226,204	192,925.0	153,839.0	101,067.0	113,663.0
Other assets	102,201	87,165.0	87,607.0	106,081.0	97,877.0
Total assets	1,832,472	1,562,879.0	1,508,250.0	1,522,695.0	1,459,271.0
Liabilities					
Customer deposits	982,184	837,685.0	814,836.0	785,454.0	747,736.0
Interbank and other short-term funding	293,487	250,309.0	219,153.0	200,517.0	175,368.0
Other long-term funding	287,617	245,303.0	223,208.0	263,746.0	279,553.0
Trading liabilities and derivatives	91,838	78,327.0	92,762.0	87,340.0	79,763.0
Total funding	1,655,126	1,411,624.0	1,349,959.0	1,337,057.0	1,282,420.0
Other liabilities	68,672	58,569.0	59,348.0	66,949.0	59,428.0
Preference shares and hybrid capital	185	158.0	7,784.0	8,176.0	10,296.0
Total equity	108,489	92,528.0	91,159.0	110,513.0	107,127.0
Total liabilities and equity	1,832,472	1,562,879.0	1,508,250.0	1,522,695.0	1,459,271.0
Exchange rate		USD1 = EUR0.85288	USD1 = EUR0.821963	USD1 = EUR0.89015	USD1 = EUR0.873057

Source: Fitch Ratings, Fitch Solutions, Santander

Summary Financials and Key Ratios

	31 Mar 21	31 Dec 20	31 Dec 19	31 Dec 18
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	3.0	1.9	2.7	2.8
Net interest income/average earning assets	2.6	2.5	2.8	2.8
Non-interest expense/gross revenue	45.3	47.6	47.6	49.9
Net income/average equity	8.7	-7.9	7.4	8.9
Asset quality				
Impaired loans ratio	3.4	3.4	3.5	3.9
Growth in gross loans	2.3	-1.6	5.1	6.0
Loan loss allowances/impaired loans	74.1	76.6	68.3	68.1
Loan impairment charges/average gross loans	0.9	1.4	1.1	1.1
Capitalisation				
Common equity Tier 1 ratio	12.3	12.3	11.7	11.5
Fully loaded common equity Tier 1 ratio	11.9	11.9	11.7	11.3
Tangible common equity/tangible assets	4.1	4.2	5.5	5.2
Basel leverage ratio	5.1	5.3	5.1	5.2
Net impaired loans/common equity Tier 1	11.7	10.4	14.6	16.1
Funding and liquidity				
Loans/customer deposits	110.4	111.0	117.0	116.9
Liquidity coverage ratio	173.0	165.0	147.0	158.0
Customer deposits/funding	62.1	63.4	61.6	60.8
Net stable funding ratio	120.0	120.0	112.0	114.0

Source: Fitch Ratings, Fitch Solutions, Santander

Key Financial Metrics – Latest Developments

Asset Quality Deterioration Expected but LICs Likely Peaked in 2020

Loan performance has been resilient to date with only limited growth in Stage 3 loans since the onset of the pandemic, thanks to recoveries and write-offs offsetting new inflows. Asset quality has benefited from government support measures in Santander's main markets. We expect that asset quality will deteriorate as these measures unwind. The extent of the deterioration should be mitigated by Santander's good risk controls and underwriting standards.

At end-1Q21, 86% of loan moratoriums had already expired, with only 5% of the total becoming non-performing. This has supported the stability of the impaired loan ratio. However, the worsened economic outlook drove a 30% increase of the Stage 2 loan ratio in 4Q20 which remained broadly stable in 1Q21, at 7.6% of gross loans (5.8% at end-2019). Wholesale loans are diversified by industry, and exposure to sectors particularly affected by the pandemic (automotive, hotel, restaurant & leisure, oil & gas, transport, construction, retail non-food) accounted for about 13% of gross loans at end-1Q21. Despite the reduction in LICs in 1Q21, the group's impaired loan coverage ratio was broadly stable at 74%, above the healthy long-term average of about 60%.

Profit Recovery After a Net Loss in 2020

Santander reported a EUR8.8 billion net loss in 2020 driven by large goodwill impairments (mostly in the US and the UK) and deferred tax assets valuation adjustments, exacerbated by one-off EUR1.1 billion restructuring costs in Spain in 4Q20. Operating profitability proved resilient despite income headwinds and higher LICs. We see 2020 profitability hit in the context of Santander's strong record of operating profitability (average operating profit/RWAs ratio of 2.1% from 2008 to 2019). With a cost/income ratio of consistently below 50%, we expect Santander to return to averaged EUR25 billion in pre-impairment operating profit annually. This provides a good buffer against adverse asset-quality shocks, before hitting capital.

Santander's 1Q21 results confirmed earlier signs of a recovery benefiting from a rebound in business activity, particularly in the US and the UK where vaccination rollout is more advanced, relative resilience in Latin America (particularly Brazil) and materially lower LICs. We expect LICs to decline in the year compared to 2020, although they will be maintained at above-normalized levels.

Sustained Good Organic Capital Generation

Santander's capital ratios structurally lag behind peers but are well above regulatory minimums, which are at the low end among European peers. The group's regulatory leverage ratio of 5.1% at end-1Q21 is, however, in line with that of European peers. Santander's CET1 ratio was stable at 12.3% at end-1Q21 (11.9% fully loaded), above the target range of 11%-12%. We expect Santander to operate in the upper range of the target in the next two years until there is more visibility on the full impact of the crisis. The group plans to restore a payout of 40-50% of the underlying profit, in cash, once dividend restrictions are lifted.

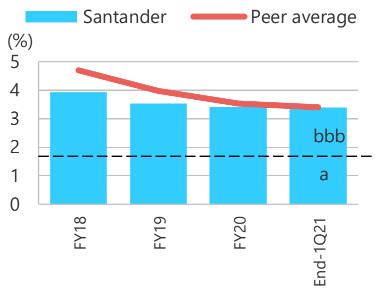
Major operating subsidiaries maintain capital ratios above local requirements. Capital appears well-managed and Fitch expects long-term group capital efficiency to improve, in line with Santander's focus on redeploying capital to less capital intensive or stronger-performing businesses. But this will depend on local regulators continuing to allow the operating subsidiaries to upstream capital to the parent, which we expect to be largely the case in 2021.

Strong Deposit Franchise, Demonstrated Market Access Support Funding

Santander's funding and liquidity is stable, supported by the bank's large deposit franchises in the core markets. The group also benefits from good liquidity and deep global capital market access for wholesale funding, at the parent bank and at subsidiaries. Santander's loans/deposits ratio has been satisfactory in the past few years, between 115% and 120%, and this should continue. Santander has opportunistically borrowed resources from the ECB's TLTRO programmes to take advantage of attractive terms and has done it again under the TLTRO III facility. Similarly, some of its subsidiaries accessed central bank facilities from host countries, though proportionately to a lower extent.

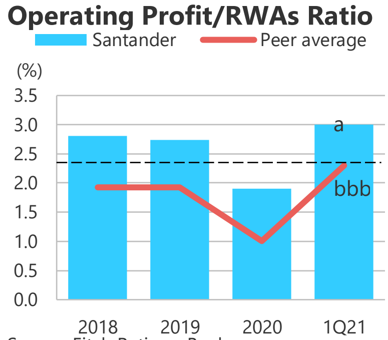
Notes on Charts: Black dashed lines represent indicative quantitative ranges for core financial metrics given an operating environment score of 'a'. Peers include: Banco Santander (Viability Rating: a-); Banco Bilbao Vizcaya Argentaria, S.A. (bbb+); Intesa Sanpaolo S.p.A. (bbb-); UniCredit S.p.A. (bbb-);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

Impaired Loan Ratio



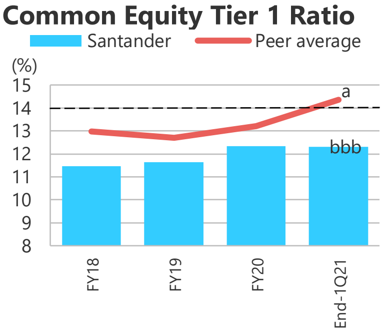
Source: Fitch Ratings, Banks

Operating Profit/RWAs Ratio



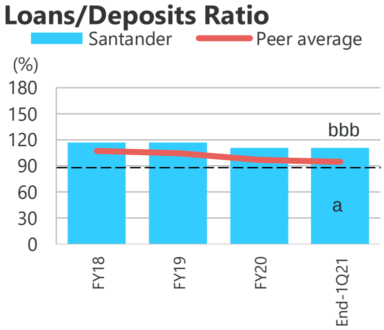
Source: Fitch Ratings, Banks

Common Equity Tier 1 Ratio



Source: Fitch Ratings, Banks

Loans/Deposits Ratio



Source: Fitch Ratings, Banks

Sovereign Support Assessment

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

Sovereign Support not Reliable

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

Environmental, Social and Governance Considerations

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

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

				Overall ESG Scale
Banco Santander, S.A. has 5 ESG potential rating drivers	key driver	0	issues	5
Banco Santander, S.A. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.	driver	0	issues	4
Governance is minimally relevant to the rating and is not currently a driver.	potential driver	5	issues	3
	not a rating driver	4	issues	2
		5	issues	1

Environmental (E)

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

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				1

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

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

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

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

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

CREDIT-RELEVANT ESG SCALE

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

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

The highest level of ESG credit relevance, is a score of 3. This means ESG issues are credit neutral or have only a minimal credit impact on Santander, either due to their nature or to the way in which they are being managed by Santander. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR WHICH THE LEAD ANALYST IS BASED IN AN ESMA- OR FCA-REGISTERED FITCH RATINGS COMPANY (OR BRANCH OF SUCH A COMPANY) CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

Copyright © 2021 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.