FitchRatings

Banks
Universal Commercial Banks
Spain

Banco Santander, S.A.

Ratings

Foreign Currency

Long-Term IDR	A-
Short-Term IDR	F2
Derivative Counterparty Rating	A(dcr)
Viability Rating	a-
Government Support Rating	ns

Sovereign Risk (Spain)

Long-Term Foreign-Currency IDR	A-
Long-Term Local-Currency IDR	A-
Country Ceiling	AAA

Outlooks

Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Key Rating Drivers

International Diversification: Banco Santander, S.A.'s ratings reflect the group's internationally diversified business model and its well managed risk profile. Santander has material exposures in stronger economies than its home Spanish market, such as the UK and the US, as well as to emerging markets.

Strong Franchises, Diverse Business: Santander operates a diverse business with a global franchise. It operates in both developed and emerging markets, balancing different interest rate cycles and macroeconomic trends, providing performance stability and good earnings generation over several economic and interest-rate cycles.

Structural Benefits of Transformation Plan: The deployment of common distribution platforms and simplified global product offering, together with Santander's strategic repositioning in US and Latin America (LatAm), should further enhance its market position and earnings stability over time. This is due to more efficient underwriting processes and client outreach supporting business volumes and reduced risk appetite that should result in lower credit losses.

Sound Risk Governance, Reducing Appetite: Santander's sound risk control framework ensures resilience in its operations across jurisdictions. Strategic initiatives and digital advancements are reducing the group's risk appetite, enhancing effectiveness, and homogenising the risk governance across the group. Interest rate and FX risks are well-managed, ensuring earnings stability.

Resilient Asset Quality: Fitch Ratings expects Santander's asset quality to remain resilient due to falling interest rates, conservative underwriting standards and diversified exposures by sector and country despite moderating economic growth in some of its core markets. We expect impaired loans to increase slightly by end-2025, but to remain comfortably below 4% of gross loans. This reflects also improving-quality portfolios, especially in certain riskier markets, such as Brazil and US consumer finance, and proactive impaired loans management, which should mitigate the risk of large inflows of impaired loans.

Sound Profitability Through the Cycle: Santander's balanced exposure to developed and emerging markets and dominant retail business underpin the stability of its profitability through economic and interest rate cycles. Structural interest rate hedges across the core markets, more dynamic business volumes in Europe, and effective cost management should underpin operating profit remaining above 3% of risk-weighted assets (RWAs) in 2024 and 2025.

Capitalisation Commensurate with Risks: Santander has lower risk-weighted capital ratios than its European peers, with a common equity Tier 1 (CET1) ratios of 12.5% at end-June 2024. However, the ratios are adequate relative to the regulatory minimums, which are lower than for most major European banks. We expect its strong profitability and continued capital management, including strategic asset rotation and optimisation, to support capital generation in 2H24–2025 and keep the CET1 ratio above 12% after Basel III end-game implementation.

Diversified Funding, Sound Liquidity: Santander's global retail deposit franchise underpin its stable funding and liquidity. The group also has regular access to the wholesale markets. Its pricing power resulted in contained pass-through on customer deposits in continental Europe and a controlled increase in funding costs in LatAm, where the bank is already benefitting from the rate cuts as liabilities generally reprice faster than assets.

We expect its loans/deposits ratio to marginally fall by end-2025 (end-June 2024: 107.8%) as it should be supported by a recovery in customer savings and growth in deposit franchise.

Applicable Criteria

Bank Rating Criteria (March 2024)

Related Research

Global Economic Outlook – September 2024

Large European Banks Quarterly Credit Tracker - September 2024 (September 2024)

Large European Banks' Profitability Metrics to Stay Strong in 2024 (September 2024)

Santander 1H24 Performance Resilient Amid Strategic Transformation (August 2024)

Spanish Banks to Benefit from Improving Operating Environment (July 2024)

DM100 Banks Tracker (July 2024)

Analysts

Valeria Pasto
+39 02 9475 8304
valeria.pasto@fitchratings.com

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

Rating Sensitivities

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

Santander's ratings are sensitive to a negative revision of our assessment of the Spanish operating environment or sovereign rating. Negative rating action could also result from an unexpected severe setback in economic prospects in the group's core countries, if this significantly affects the group's blended operating environment assessment or key financial ratios.

The ratings would also come under pressure if the group's financial metrics deteriorate materially. This could result from the CET1 ratio declining below 12%, an operating profit/RWAs ratio reducing below 2% and an impaired loans ratio increasing above 4%, all on a sustained basis.

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

Santander has limited positive rating potential in the medium term as its Viability Rating (VR) is in line with its 'a-' operating environment assessment and Spain's sovereign rating. An upgrade would, therefore, require a sustained and material improvement in the group's operating environment assessment, particularly in lower scored jurisdictions, and an upgrade of Spain's sovereign rating, combined with a record of strong asset quality (for example, an impaired loans ratio below 2%) and solid profitability (operating profit/RWAs sustainably above 3%) translating into strengthened capital ratios and with no meaningful increase in its risk appetite.

Other Debt and Issuer Ratings

Rating level	Rating
Deposits	A/F1
Senior preferred debt	A/F1
Senior non-preferred debt	A-
Subordinated Tier 2 debt	BBB
Legacy preferred shares	BB

Source: Fitch Ratings

Senior Debt, Deposit Ratings and Derivative Counterparty Rating (DCR)

Santander's long-term senior preferred debt, deposit ratings, and DCR are rated one notch above the Long-Term Issuer Default Rating (IDR) to reflect the protection that accrues from buffers of junior and senior non-preferred (SNP) debt, which exceed 10% of RWAs (after deconsolidating subsidiaries that are 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 meet the group's minimum requirement for own funds and eligible liabilities (MREL) and subordination requirement.

The short-term senior preferred debt and deposit ratings of 'F1' benefit from their equivalent long-term senior debt and deposit ratings being notched up from the Long-Term IDR.

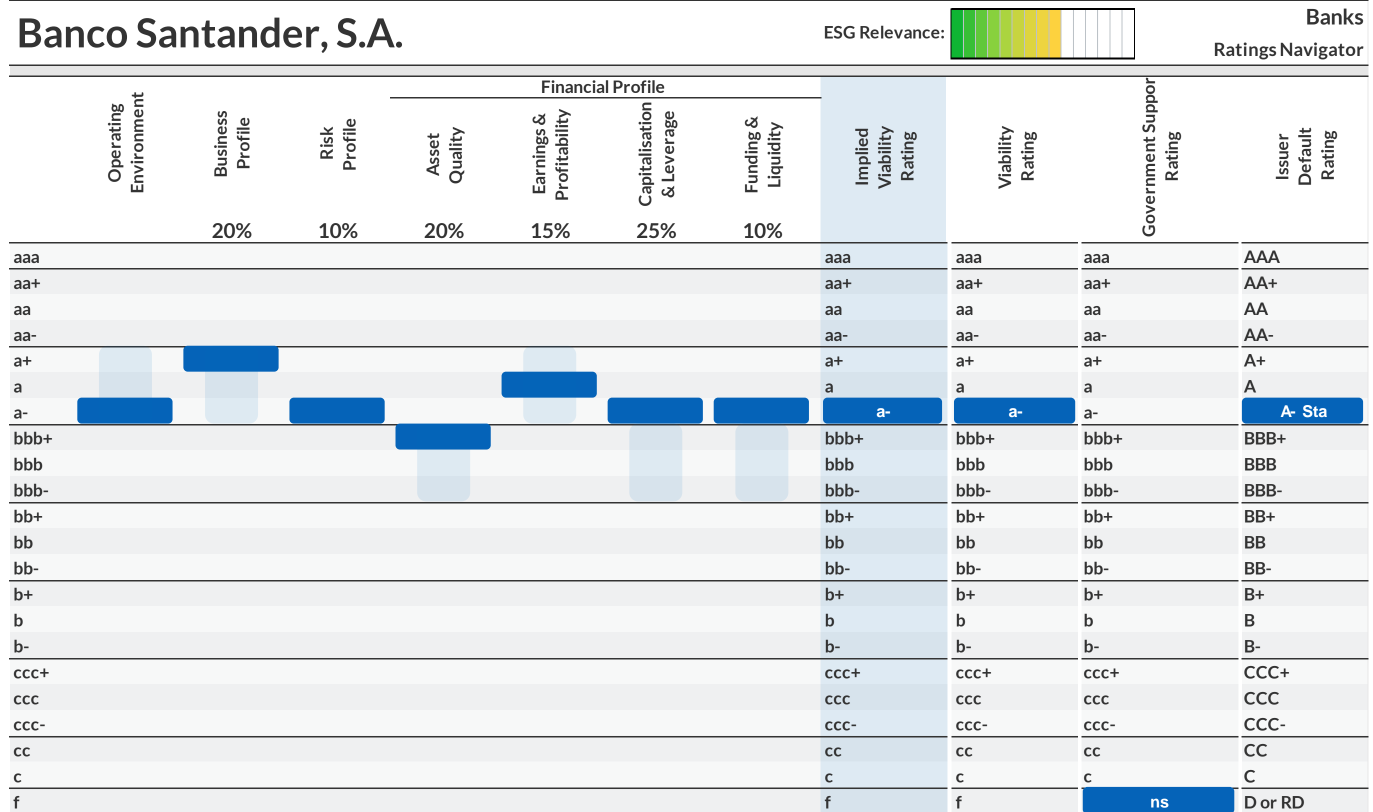
Santander's SNP notes are rated at the same level as the bank's Long-Term IDR, reflecting Fitch's view that the default risk of the notes is equivalent to the bank's and that SNP obligations have average recovery prospects.

Subordinated Debt and Preferred Shares

Subordinated Tier 2 debt issued by Santander is notched down from the bank's 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 poor recoveries for this type of debt in case of default or non-performance of the bank.

Legacy preferred shares 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.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The operating environment score of 'a-' is in line with the 'a' category implied score but above the 'bbb+' score typically assigned to domestic Spanish banks because of the following adjustment reason: international operations (positive).

The capitalisation and leverage score of 'a-' has been assigned above the 'bbb' implied category score because of the following adjustment reason: internal capital generation and growth (positive).

The funding and liquidity score of 'a-' has been assigned above the 'bbb' implied category score because of the following adjustment reasons: deposit structure (positive) and non-deposit funding (positive).

Company Summary and Key Qualitative Factors

Business Profile

Strong Retail Banking Anchors Sustainable Business Model Throughout the Cycles

Santander operates a diverse business with a global franchise through majority-owned subsidiaries, many with domestic market shares above 10% and systemic importance. This provides them with a good degree of pricing power and ability to access the domestic capital markets and stable deposit franchises.

The group entails five global businesses (retail and commercial, consumer, payments, wealth management and corporate and investment banking – CIB). Retail banking is the largest, contributing about 60% of the group's operating profit, which provides stability and recurrence in earnings. Capital market activities also contribute to earnings, although this is more limited than at other global systemically important banks (G-SIBs). Santander's global consumer finance is focused in the auto subsector in continental Europe, where it has a leading franchise.

Santander aims to expand in the US, but it will require some time due to competition and the need of scaling up its deposit franchise to finance growth and achieve adequate returns. Nevertheless, the US is proving a successful market for expanding client-driven business in CIB, focusing on SMEs and exploiting the group sector-specific expertise. Payments (about 9% of the group's revenue) and wealth management (6%) complement the group's business model, and a strategic focus is placed on increasing their earnings contribution.

Transformation Plan on Track, Upgraded Financial Targets

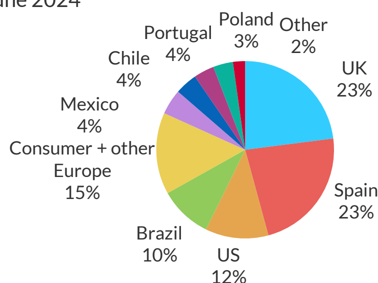
Santander's transformation plan entails simplifying and homogenising its product offering across geographies, enhancement of digitalisation, and deployment of global distribution platforms and technologies to focus on products in which it has competitive advantage, all while leading to structural improvements in operating efficiency. The bank is successfully executing its plan, which together with improving revenue and benign asset performance, allowed Santander to upgrade some of its financial targets for 2024.

We believe that Santander is well-positioned to achieve its revised targets of high-single-digit revenue growth, a return on total equity of above 16%, and a cost/income ratio of about 42% in 2024.

Multiple-Point-of-Entry Resolution Strategy

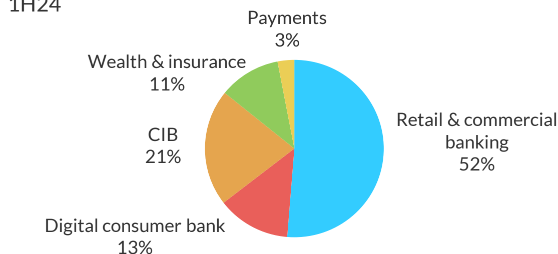
The group's organisational structure consists of a parent bank based in Spain, holding majority stakes in international banking subsidiaries. The group follows a multiple-point-of-entry resolution strategy, which implies that each material foreign subsidiary is required to hold its own recapitalisation buffers following the regulatory requirements in their jurisdiction, and is self-funded. EU's MREL applies to the resolution group that includes the parent bank, SCF and, since May 2023, the Portuguese subsidiary (Santander Totta).

Group Loans by Geography
End-June 2024



Source: Fitch Ratings, Santander

Pre-Tax Profit by Business
1H24



Excludes: Corporate centre (EUR606 million)
Source: Fitch Ratings, Santander

Risk Profile

Effective Risk Governance in Diverse Markets, Enhanced Underwriting and Digitalisation

Santander's risk control framework is comprehensive and sound. Its credit standards have been generally consistent with its business model, with a reduced risk appetite in business segments and geographies that had higher credit risk. In particular, the group has repositioned its US retail activity from sub-prime auto and residential mortgage loans, to prime and near-prime auto lending, in which it can better exploit its competitive advantage of its consumer business. In Brazil, retail activity is shifting from unsecured to secured lending.

Product simplification and increased automation of the underwriting process through common digital platforms are not only enhancing the efficiency of the underwriting process, for instance reducing the time-to-serve, but should also result

in a better control of risks. The benefits of these initiatives are already visible in terms of volumes of loans underwritten, credit losses and reduced operating costs.

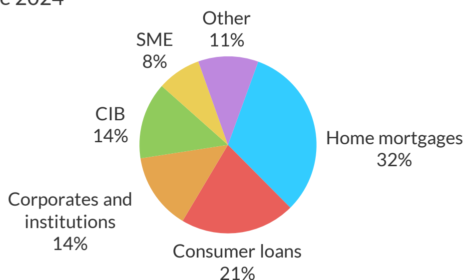
Reduced Interest Rate Sensitivity

Market risks at Santander primarily stem from interest rate and foreign exchange (FX) risks associated with its commercial banking operations. The bank's policy ensures that structural FX exposure is largely hedged in major currencies to protect earnings and capital from exchange rate fluctuations. Interest rate risk is managed at the country level through asset-liability management strategies and hedges. The bank's sensitivity to interest rate changes is managed to ensure net interest income (NII) stability across different geographies through strategies on the ALCO portfolio and hedges.

The group is mostly exposed to interest rate cuts from its operations in developed markets, and in particular Spain, the UK and the US, given their positive sensitivities to interest rates. In Brazil, where deposits are linked to market rates, and, to a much smaller extent, in Chile and European consumer banking, the group instead has a negative sensitivity to interest rates. Santander has been more proactive in hedging its balance sheet in 2024, reducing margin sensitivity to interest rate cuts that should support NII in the coming quarters, resulting in manageable exposure to interest rate risk in the banking book.

Group Loans by Product

End-June 2024

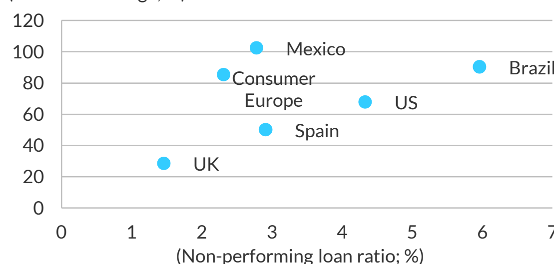


Source: Fitch Ratings, Santander

Asset Quality

End-June 2024

(Reserve coverage; %)



Source: Fitch Ratings, Santander

Financial Profile

Asset Quality

Santander's asset quality has been broadly stable over the past 18 months due to effective credit risk management, including write-offs of legacy exposures and portfolio sales, supported by reducing unemployment leading to low default rates in most countries. Interest rate cuts in South America have also supported asset performance in 1H24, and should continue to do so. Exposure to emerging markets and US consumer business remain a drag on Santander's impaired loans ratio (end-June 2024: 3.3%) compared to large European banks' average, and leave the group exposed to pocket of risks due to their greater vulnerability to changes in the credit cycle.

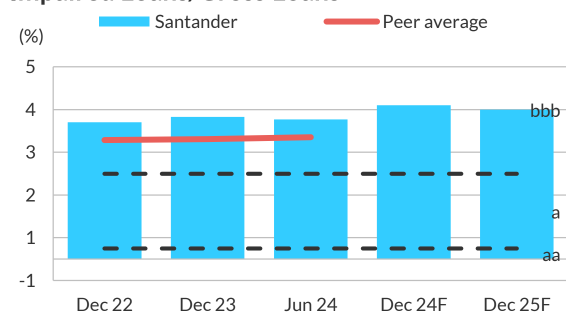
However, Santander's shift towards lower-risk lending should mitigate these risks. We expect impaired loans to increase in 2025, although to remain manageable, mainly arising from the consumer segment. Nevertheless, we forecast the impaired loans ratio to increase only a few basis points above the end-June 2024 level, also benefitting from loan growth rebounds.

European consumer lending (about 20% of total loans) has a low impaired loans ratio (end-June 2024: 2.3%) and an acceptable loan impairment charges (LICs)/gross loans ratio (1H24: 72bp, annualised) given its focus on auto and fleet financing. We expect some deterioration in this segment, also due to delayed repricing, but prudent underwriting and extensive use of write-offs should limit the increase in impaired loans. The remainder of the European exposure is mainly residential mortgage loans in Spain and the UK, which have been resilient to the rise in interest and inflation rates, and we expect risks to remain under control.

Loans to SMEs (8% total loans) and retail corporates and institutions (14%) benefit from the large use of state guarantees and adequate diversification. Commercial real estate exposure is manageable (EUR46 billion) with US CRE (about USD19 billion at end-June 2024) that has limited exposure to the higher-risk office sector (about USD2 billion).

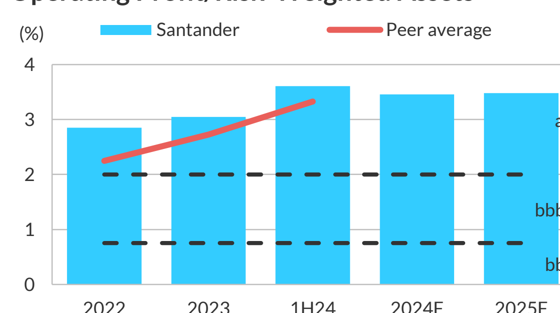
LICs increased to 129bp of average gross loans in 1H24 (121bp as per bank's calculation) from 83bp in 1H22. This mainly reflects structural levels in the US, charges in Poland for Swiss franc mortgage loans, and higher provisions in Brazil due to business growth. We expect LICs to marginally increase in 2H24, but these should remain within the bank's guidance for the year at about 120bp (as per the bank's calculation).

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

Operating profit remained sound at 3.6% of RWAs in 1H24 (2023: 3.1%), due to good net interest and commission income generation across all regions and business segments. NII benefitted from interest rates staying higher for longer, particularly in Europe, and well-managed cost of deposits in mature markets, especially in continental Europe, offsetting subdued loan growth – except for in consumer lending. Santander's reliance on NII (1H24: 78% of operating income) is higher than some large European peers, and falling interest rates are therefore negative for its profitability, especially in Europe.

However, we believe that structural hedging, balance sheet management and loan growth recovery will sustain NII in 2025. Margins should also benefit from repricing deposits in LatAm and the replacement of wholesale funding in certain businesses (i.e. consumer lending) with retail deposits.

CIB led fee income growth in 1H24, in particular in the US, followed by wealth management and payments. CIB should be better-placed than in the past to gather momentum, leveraging on ongoing investments to scale up the business. Santander is progressing well through its transformation plan, which, together with growing revenue, has helped reduce the cost/income ratio to about 43% in 1H24. Santander's process and product simplification and increased digitalisation should contribute to contained cost growth while continuing to invest in business growth.

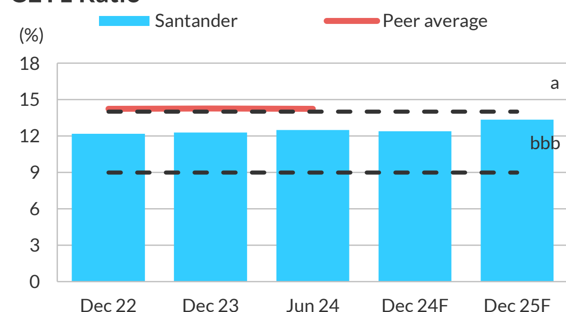
Capitalisation and Leverage

Santander's risk-weighted capital ratios slightly improved in 1H24 due to robust internal capital generation (84bp), which more than offset negative impacts from regulatory and internal model adjustments (24bp) and shareholder remuneration (47bp). In 2024 the bank completed two share buybacks as part of the group's capital remunerative strategy, while keeping its CET1 ratio comfortably above its target of above 12%. In 1H24 Santander frontloaded 24bp of the impact of Basel III end-game, with the residual 30bp to be fulfilled in 2H24, which we view as manageable.

The CET1 buffer of 286bp (maximum distributable amount buffer: 245bp) at end-June 2024, is low compared to most domestic and European peers. The headroom over capital requirements narrowed in 1H24 following increases in its Pillar 2 requirement and systemic buffer. The introduction of the countercyclical buffer (CCyB) in Spain and Poland should be manageable and largely mitigated by Santander's strong internal capital generation, contained asset-quality risks, and sound leverage ratios. The regulatory leverage ratio (end-June 2024: 4.7%) remains in line with that of European peers and well above the minimum requirement.

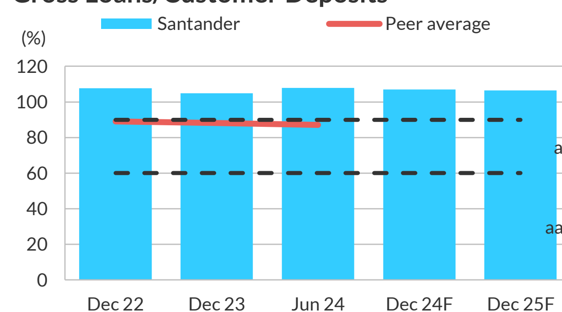
Capitalisation will also further benefit from Santander's active management of its balance sheet through a combination of securitisations and asset sales that should lead to little RWA growth in 2024 and a limited increase in 2025. The MREL ratio for the resolution group headed by the Spanish parent was 40% at end-June 2024, with more than 600bp of buffer over its requirement.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

Santander's customer deposits account for about 65% of its funding and are largely retail (86%). These have proved consistently stable in economic and interest rate cycles. The weak domestic customer deposit growth over the past 12 months has been offset by the switch into mutual funds and deposit gathering in LatAm (+8% yoy at end-June 2024) and consumer finance subsidiaries. Deposit growth in the consumer business reflects the group's progress in its strategy to increase customer funding to finance its operations, likewise in the US despite fierce competition.

Deposit betas have remained below, or in line with, expectations across markets, and pressure is easing, particularly in Latin America, where deposits are linked to market rates and have repriced down following policy rates revisions.

Santander's access to the wholesale markets is resilient and the bank has already executed most of its 2024 funding plan. Refinancing of medium-term maturities of wholesale debt is manageable. Santander held about EUR290 billion of high-quality liquid assets at end-June 2024, which reduced yoy mostly due to the full repayment of ECB funding, but still account for a satisfactory 16% of total assets and are in excess of the bank's short-term commitments.

Additional Notes on Charts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics per Fitch's Bank Rating Criteria. They are based on a combination of Fitch's macro-economic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market.

To the extent Fitch is aware of material non-public information with respect to future events, such as planned recapitalisations or merger and acquisition activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

Black dashed lines represent boundaries for indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'a' category. Years denoted with an 'F' represent Fitch's forecasts. Peer average includes Banco Bilbao Vizcaya Argentaria, S.A. (VR: bbb+), Societe Generale S.A. (a-), Credit Agricole (a+), BNP Paribas SA (a+), HSBC Holdings plc (a+), UniCredit S.p.A. (bbb), CaixaBank, S.A. (bbb+). Unless otherwise stated, financial year (FY) end is 31 December for all banks in this report.

Financials

Financial Statements

	30 Jun 24		31 Dec 23	31 Dec 22	31 Dec 21
	1st half	1st half	12 months	12 months	12 months
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
	Unaudited	Unaudited	Audited – unqualified	Audited – unqualified	Audited – unqualified
Summary income statement					
Net interest and dividend income	25,734	23,950	43,832	39,107	33,883
Net fees and commissions	6,960	6,477	12,057	11,790	10,502
Other operating income	309	288	1,534	1,220	2,019
Total operating income	33,003	30,715	57,423	52,117	46,404
Operating costs	13,875	12,913	25,425	23,903	21,415
Pre-impairment operating profit	19,128	17,802	31,998	28,214	24,989
Loan and other impairment charges	7,067	6,577	12,956	10,863	7,407
Operating profit	12,061	11,225	19,042	17,351	17,582
Other non-operating items (net)	-1,845	-1,717	-2,583	-2,101	-3,035
Tax	3,133	2,916	4,276	4,486	4,894
Net income	7,083	6,592	12,183	10,764	9,653
Summary balance sheet					
Assets					
Gross loans	1,103,884	1,027,346	1,014,953	1,019,188	962,382
– Of which impaired	36,118	33,614	33,821	32,617	31,287
Loan loss allowances	24,311	22,625	22,788	22,684	22,964
Net loans	1,079,573	1,004,721	992,165	996,504	939,418
Interbank	121,816	113,370	54,651	51,552	47,140
Derivatives	67,698	63,004	60,837	71,322	59,463
Other securities and earning assets	380,676	354,282	373,103	297,101	252,468
Total earning assets	1,649,763	1,535,377	1,480,756	1,416,479	1,298,489
Cash and due from banks	167,874	156,234	220,342	223,073	210,689
Other assets	101,701	94,650	95,964	95,107	86,657
Total assets	1,919,338	1,786,261	1,797,062	1,734,659	1,595,835
Liabilities					
Customer deposits	1,023,868	952,878	968,248	946,185	881,847
Interbank and other short-term funding	251,084	233,675	225,597	194,578	148,534
Other long-term funding	335,096	311,862	320,545	314,083	335,315
Trading liabilities and derivatives	62,115	57,808	84,474	96,517	71,513
Total funding and derivatives	1,672,162	1,556,223	1,598,864	1,551,363	1,437,209
Other liabilities	135,806	126,390	93,957	85,711	61,573
Preference shares and hybrid capital	790	735	720	688	658
Total equity	110,580	102,913	103,521	96,897	96,395
Total liabilities and equity	1,919,338	1,786,261	1,797,062	1,734,659	1,595,835
Exchange rate		USD1 = EUR0.930665	USD1 = EUR0.912742	USD1 = EUR0.937559	USD1 = EUR0.884173

Source: Fitch Ratings, Fitch Solutions, Santander

Key Ratios

	30 Jun 24	31 Dec 23	31 Dec 22	31 Dec 21
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	3.6	3.1	2.9	3.0
Net interest income/average earning assets	3.2	3.0	2.8	2.6
Non-interest expense/gross revenue	42.5	44.8	46.5	46.6
Net income/average equity	12.8	12.1	11.0	10.2
Asset quality				
Impaired loans ratio	3.3	3.3	3.2	3.3
Growth in gross loans	1.2	-0.4	5.9	6.5
Loan loss allowances/impaired loans	67.3	67.4	69.6	73.4
Loan impairment charges/average gross loans	1.3	1.3	1.1	0.8
Capitalisation				
Fully loaded common equity Tier 1 ratio	12.5	12.3	12.0	12.1
Basel leverage ratio	4.7	4.7	4.7	5.4
Net impaired loans/common equity Tier 1	14.1	14.4	13.4	11.5
Funding and liquidity				
Gross loans/customer deposits	107.8	104.8	107.7	109.1
Liquidity coverage ratio	163.0	166.0	152.0	163.0
Customer deposits/total non-equity funding	63.6	62.8	64.0	64.0
Net stable funding ratio	–	123.0	121.0	126.0

Source: Fitch Ratings, Fitch Solutions, Santander

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	bbb+ or bbb
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	A-/ Stable
Size of banking system	Negative
Structure of banking system	Neutral
Sovereign financial flexibility (for rating level)	Neutral
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

No Government Support into Ratings

Santander's Government Support Rating of 'no support' reflects our view that, although external extraordinary sovereign support is possible, it cannot be relied upon. 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.

Subsidiaries and Affiliates

Issuer Ratings (Main Subsidiaries)

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	A-/Stable	A/Stable	BBB+/Stable	BBB+/Stable
Short-Term IDR	F2	F2	F1	F2	F2
Viability Rating	a-	bbb	a	bb+	bbb-
Shareholder Support Rating	a-	a-	bbb+	bbb+	bbb+

Source: Fitch Ratings

The IDRs of Santander Totta SGPS, S.A. (Totta), Santander Holdings USA, Inc. (SAN US) and Banco Santander Mexico, S.A., Institucion de Banca Multiple, Grupo Financiero Santander Mexico (SAN Mexico) are based on shareholder support from Santander. The Long-Term IDRs of Santander UK Group Holdings plc (SGH) and Santander Consumer Finance, S.A. (SCF) are driven by their standalone credit profiles, which is reflected in their VRs.

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

The Long-Term IDR of Totta is in line with Santander's. This reflects our expectation of a very strong propensity of Santander to provide support, given the inclusion of Totta into the resolution group headed by the parent, and the consequent reputational risks that a default of the Portuguese subsidiaries would represent for Santander.

The Long-Term IDRs of 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. 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. The banks' performances are supported by strong synergies and integration with the parent, and a wide range of shared risk management and operational practices.

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 ratings reflect the group's low-risk business model, conservative risk appetite, healthy asset quality, strong capitalisation, and stable funding and liquidity profiles. They also reflect a less-diversified business model than larger UK peers.

Environmental, Social and Governance Considerations

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

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

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

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

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
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	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

Social (S) Relevance Scores

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

Governance (G) Relevance Scores

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

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

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact.h 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), the Sustainability Accounting Standards Board (SASB), and the World Bank.

CREDIT-RELEVANT ESG SCALE

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

Score	Description
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', 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.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. 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. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) 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.

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. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

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.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Copyright © 2024 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.