

# RatingsDirect®

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## Banco Santander S.A.

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# Banco Santander S.A.

## Ratings Score Snapshot

Global Scale Ratings	
<b>Issuer Credit Rating</b>	A+ / Stable / A-1
<b>Resolution Counterparty Rating</b>	AA- / -- / A-1+

SACP: a → Support: +1 → Additional factors: 0

Anchor	bbb		ALAC support	+1	<table border="1"> <tr> <th>Issuer credit rating</th> </tr> <tr> <td style="text-align: center;"><b>A+ / Stable / A-1</b></td> </tr> <tr> <th>Resolution counterparty rating</th> </tr> <tr> <td style="text-align: center;"><b>AA- / -- / A-1+</b></td> </tr> </table>	Issuer credit rating	<b>A+ / Stable / A-1</b>	Resolution counterparty rating	<b>AA- / -- / A-1+</b>
Issuer credit rating									
<b>A+ / Stable / A-1</b>									
Resolution counterparty rating									
<b>AA- / -- / A-1+</b>									
Business position	Very strong	+2	GRE support	0					
Capital and earnings	Adequate	0	Group support	0					
Risk position	Strong	+1	Sovereign support	0					
Funding	Adequate	0							
Liquidity	Adequate								
CRA adjustment	0								

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

## Credit Highlights

Overview	
Key strengths	Key risks
Wide geographic diversification and solid retail banking franchises in the markets where the bank operates, which underpin solid and consistent earnings.	Exposure to higher-than-average economic risk in some countries of operation.
Successful strategy and implementation.	Weak macroeconomic growth and still-high financing costs could pressure some borrowers.
Sound capitalization compared to the risks it faces.	

*The bank is delivering on its strategic plan and looks well placed to achieve its 2025 targets.* The plan focuses on growing the business organically (attracting new clients and further engaging current ones); strengthening the group's profitability and increasing shareholders' distributions; improving efficiency (with the "One Transformation" plan as a key enabler); preserving solid capitalization and an effective capital allocation; and progressing its digital and ESG agendas.

*Profitability will hold up well as interest rates gradually decline.* Santander's net profits recorded another high in 2023, of €11.1 billion, equivalent to a return on equity (ROE) of 12.1% according to our calculations. While the gradual decline in interest rates will put pressure on margins from mid 2024 onward, we believe that the bank's proactive

hedging strategy, the resumption of lending growth, the cost benefits of the "One Transformation" plan, and stable credit impairments will continue supporting its solid performance. We forecast Santander's ROE to be around 12% this year, before slightly declining toward 11% in 2025-2026. Solid earnings and contained risk asset expansion (as the bank makes more use of risk-transfer techniques) will moderately improve its risk-adjusted capital (RAC) ratio, which we foresee being around 8.5% in 2025-2026.

***Signs of asset quality deterioration are emerging in some markets, but we expect the impact to be contained.*** Although the group's nonperforming loan (NPL) ratio has remained fairly stable over the past few years, some markets have lately been showing a moderate deterioration as high financing costs and softer economic activity take a toll on weaker borrowers. Credit provisioning therefore increased to 137 basis points (bps) in June 2024, driven primarily by increases in North and South America. And while we could still see some lag effects, we expect further asset quality deterioration to be fairly contained, with NPLs and credit costs peaking this year at 3.8% and 133 bps according to our calculations (before moderately reducing in 2025-2026).

***Santander's strong business model is helping to offset the inherently higher risk of its footprint.*** Santander has operations in a number of countries that face higher-than-average economic risks, but its focus on retail banking activities; its powerful, efficient franchises; and its wide geographic diversification have, over time, supported a track record of strong, consistent operating earnings.

## Outlook

The stable outlook reflects our expectations that over the next couple of years Santander will be able to withstand economic headwinds and preserve its credit strengths, including its large and diversified footprint, strong earnings power, and sound risk-adjusted capitalization. We expect the group's operating performance to remain solid even as interest rates decline and as key strategic initiatives bear fruit and help contain costs, leading to ROE of 12%-11% in 2024-2026. We expect the bank's RAC ratio to improve moderately, hovering around 8.5% by 2025-2026, thanks to solid profits and moderate growth, and despite higher distributions to shareholders. While asset quality could weaken, we anticipate any deterioration will be contained, with our estimate of the cost of risk standing at around 120-130 bps over 2024-2026.

### Downside scenario

The ratings could come under pressure if the bank failed to maintain a buffer of bail-inable debt sustainably exceeding 500 bps of its S&P Global Ratings' risk-weighted assets. We could also consider a negative rating action if the bank's 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. If we were to lower our sovereign credit rating on Spain this would also likely trigger a similar rating action on Santander because it is unlikely that we would rate Santander two notches above the rating on Spain.

### Upside scenario

At the current rating level, we see limited upside to our 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 --				
(%)	2021a	2022a	2023a	2024f	2025f
Growth in operating revenue	4.8	12.4	9.7	1.3-1.6	(0.8)-(1.0)
Growth in customer loans	7.7	6.2	-0.6	1.8-2.2	3.1-3.8
Net interest income/average earning assets (NIM)	2.7	3.0	3.1	2.9-3.2	2.8-3.1
Cost-to-income ratio	46.6	46.4	44.4	44-46	45-47
Return on average common equity	9.7	11.0	12.1	11.5-12.5	11-11.5
New loan loss provisions/average customer loans	0.8	1.1	1.3	1.3-1.4	1.2-1.3
Gross nonperforming assets/customer loans	3.5	3.5	3.6	3.6-4.0	3.4-3.7
Risk-adjusted capital ratio	8.4	7.8	7.9	8.1-8.5	8.3-8.5

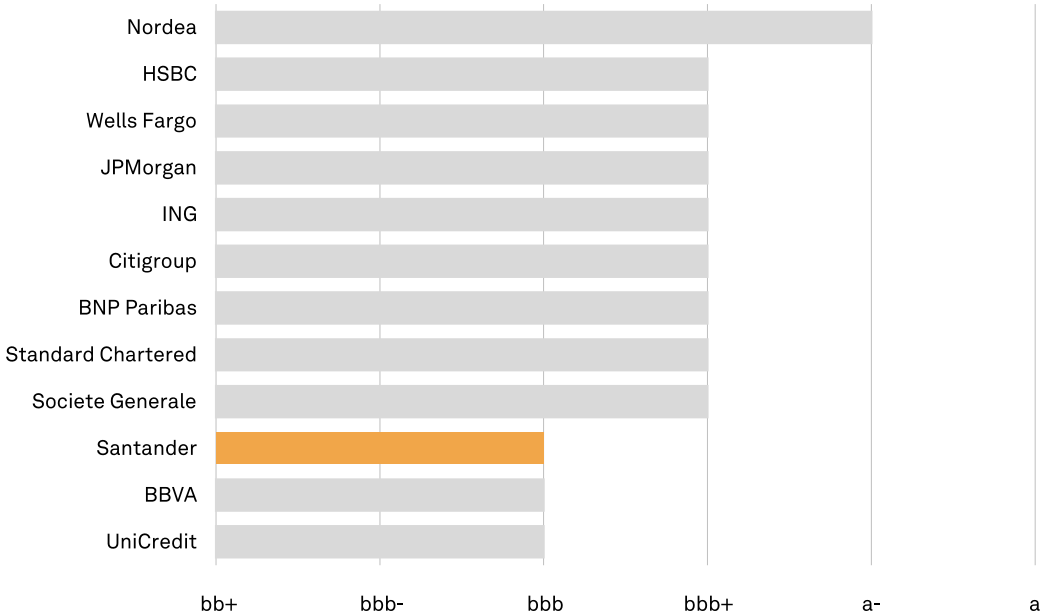
All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

## Anchor: 'bbb' Reflecting Higher-Than-Average Economic Risk Of Markets Of Operation

Our anchor for Santander is currently 'bbb', weaker than that of most of its global peers (see chart 1). 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 1

### Santander's lower-than-peers' anchor reflects the higher economic risks of its footprint



Data as of Aug. 27, 2024. Source: S&P Global Ratings. Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

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--almost one-quarter each in June 2024. Both have an economic risk score of 4. The U.S. (economic risk 3) and Brazil (economic risk of 7) 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 5, improved in March 2024), Germany (economic risk of 2), and other Latin American countries (economic risk of 7). The rest of Europe (economic risk 4), including Poland, accounts for the remaining 15%. Weightings are rounded to the nearest 5% before averaging.

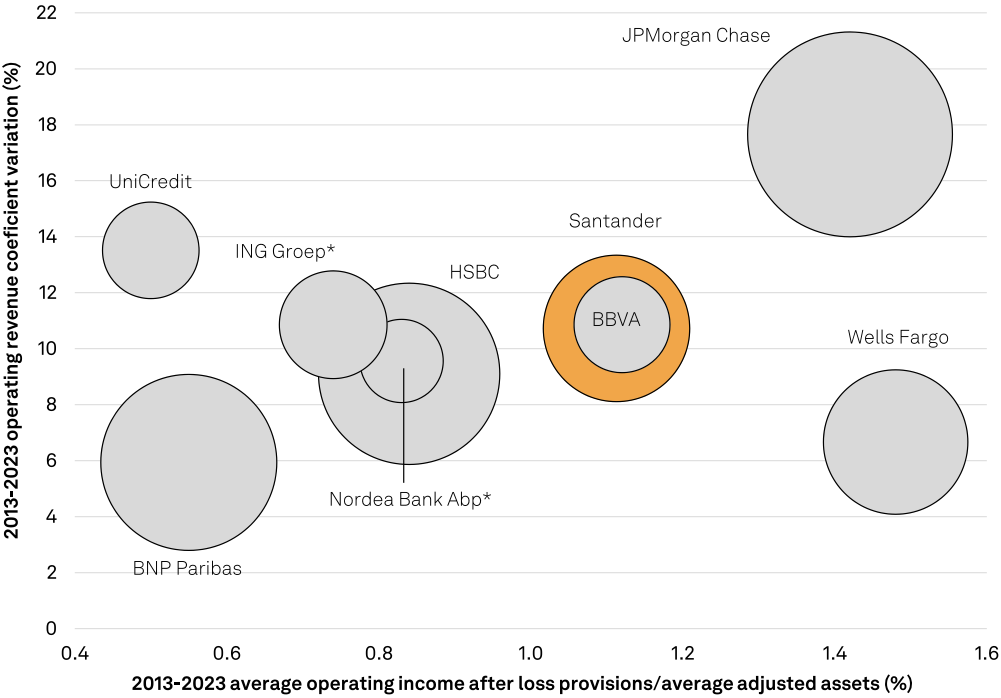
With regard to industry risk, our assessment of '4' is supported by Spanish banks' solid funding profiles. Customer deposits more than fully fund banks' loan books and reliance on external debt is therefore marginal. Deposits are largely from households, a low-cost and stable source. Additionally, banks' profitability has improved thanks to positive interest rates and lean operating structures after a decade of downsizing. Largely supervised by the European Central Bank, Spain's regulatory and supervisory framework is aligned with international standards, as are banks' governance and disclosure standards.

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

Santander benefits from a robust business model based on a geographically diversified franchise, with leading market positions in the countries where it operates and a focus on stable retail banking, all of which contribute to strong, consistent earnings and outstanding efficiency (charts 2 and 3). 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 2**

**Santander has a track record of strong profits and recurrent earnings**

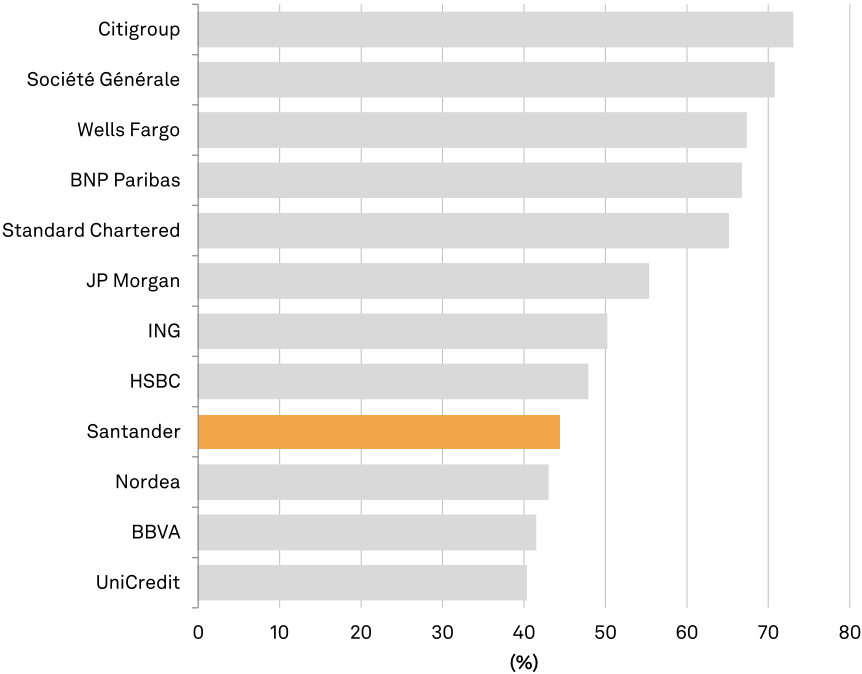


\*Data as of 2014-2023. Bubble size represents total assets in euros as of December 2023. Coefficient variation measures the standard deviation of operating revenue to the mean. Source: S&P Global Ratings. Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

**Chart 3**

**High efficiency is a key attribute of Santander**

Cost-to-income ratio as of December 2023



Source: S&P Global Ratings.  
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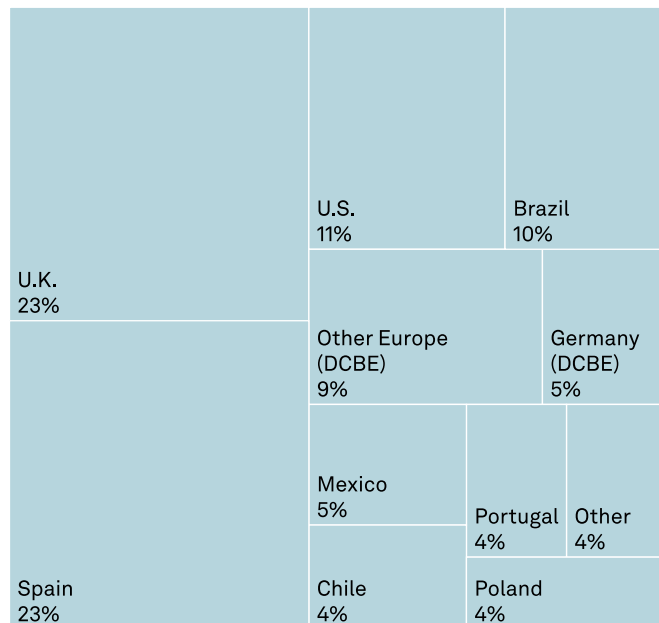
Santander is currently one of the most geographically diversified banks in the world (see chart 4). No single country accounts for more than 25% of the group's net profits and credit. Its presence in developed economies outweighs its presence in emerging markets (78% and 22% of loans in June 2024, respectively) but it is more balanced in terms of profit contribution (about 62% and 38% during the first half of 2024; see chart 5). The limited economic correlation of its countries of operation has allowed Santander to accommodate the ups and downs of different economic cycles and achieve consistent, resilient results over time. Geographic diversification even proved valuable during the pandemic because the magnitude and timing of economic effects in each country varied.



**Charts 4-5**

**Santander benefits from wide geographic diversification, weighted toward matured economies**

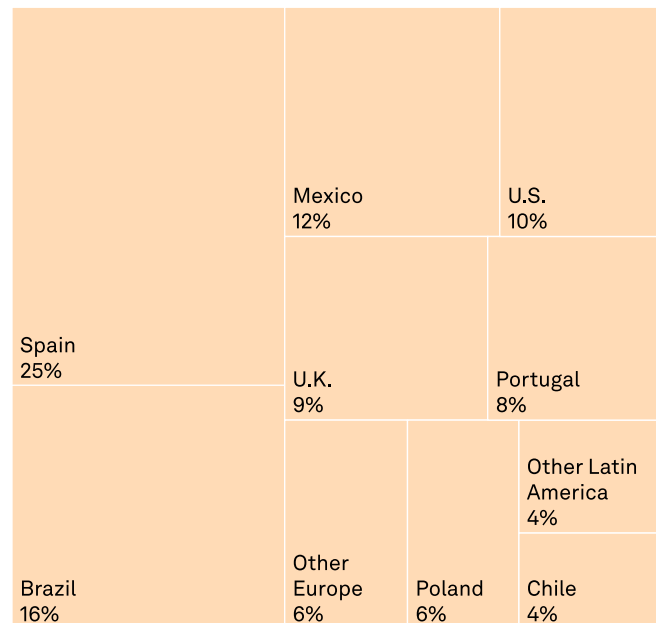
Geographical distribution of the group’s customer loans as of Q2 2024



DBCE--Digital Consumer Bank Europe. Source: Banks’ financial reports. Copyright © 2024 by Standard & Poor’s Financial Services LLC. All rights reserved.

**The profit contribution of matured and emerging countries is more balanced**

Geographical contribution to net attributable profits as of June 2024



Excludes the corporate center and the small negative contribution of other European and North American countries. Source: Banks’ financial reports. Copyright © 2024 by Standard & Poor’s Financial Services LLC. All rights reserved.

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. (with 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 businesses. Santander is present in the U.S., where it benefits from decent--though regional and still underperforming--market positions in several strong northeastern areas and a now-fully-owned consumer arm specializing in nonprime auto loans (SCUSA).

The group primarily focuses on retail banking activities that support its business and earnings stability, although one aim of its strategic plan is to grow the business and profit contribution of its other four global arms (consumer; corporate and investment banking; wealth management and insurance; and payments). It wants these four businesses to contribute more than 40% of group revenues and more than 50% of group fees by 2025.

Over the years Santander has benefited from a clear, well-executed strategy, and still does. A year and a half into its new strategic plan, the bank looks well placed to achieve its 2025 targets of:

- Strengthening profits and increasing shareholder remuneration. It aims to reach a RoTE of 15%-17%, a 42% efficiency ratio, and a 50% pay-out;

- Maintaining a solid capital base (a fully loaded CET 1 ratio following Basel III amendments in excess of 12%) and strict discipline in capital allocation, prioritizing the higher growth, more profitable businesses;
- Growing the business, attracting new clients (adding 40 million new clients, which we view as overly ambitious), and engaging further existing clients; and
- Progressing digital and environmental social and governance (ESG) agendas.

A key enabler will be aligning all business units under a common, simpler operating model ("One Santander"), a project on which the bank is making progress. The goal is to simplify the product offering, automate processes, and reduce the operational burden at branches (which in turn is intended to improve the customer experience). The plan contemplates an improved IT architecture including the full migration of current core banking systems to a cloud-based platform.

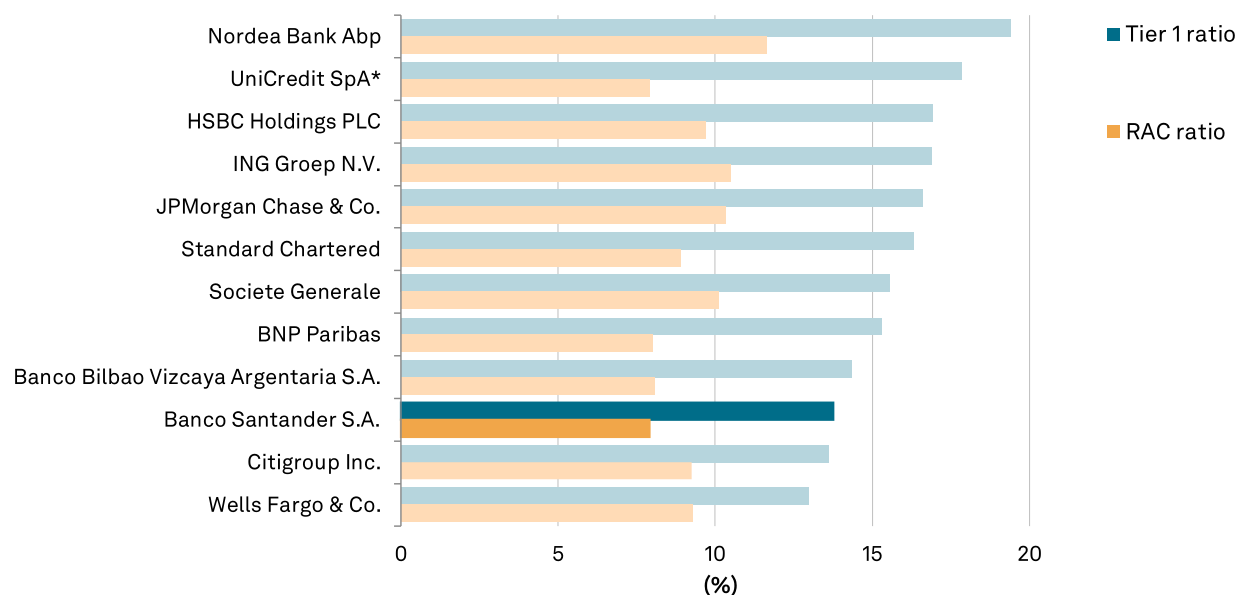
The plan focuses on organic growth, but we cannot disregard the possibility of the bank considering inorganic expansion if opportunities were to arise and fit within its financial targets, most likely in businesses and markets where it already operates.

## **Capital And Earnings: Strong Profitability Will Support Some Capital Build-Up**

Although the gap has reduced in recent years, Santander's capitalization, measured by both regulatory ratios and our RAC measure, still stands below that of most international peers (see chart 6). But the group benefits from a track record of stronger, more predictable earnings, which supports capital build-up and enables it to perform well in regulatory stress tests. It consistently shows more manageable capital depletion than peers under adverse scenarios.

Chart 6

Santander's regulatory capital and RAC stand below those of peers



\*RAC estimate. RAC--Risk-adjusted capital. Data as of end-2023. Source: S&P Global Ratings. Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

Santander ended 2023 with a RAC ratio of 7.9%, marginally above the 7.8% at end-2022, and we forecast it could grow to around 8.5% by 2025-2026. Robust profitability and moderate risk-asset expansion (less than 3% annually in 2024-2026 according to our estimates) will support some further strengthening, despite payouts--cash dividends and share buybacks--of about 50%. The bank's more active use of risk-asset transfers will help keep risk-asset growth under control.

On a regulatory basis, the bank's capital ratios will likely remain more stable as capital generation largely absorbs the regulatory impacts to come. The bank is committed to maintaining its fully loaded CET1 ratio at over 12%--roughly the same as today. Quality of capital should also remain sound, with hybrid instruments accounting for about 9.5% of total-adjusted capital (TAC) over 2024-2026. At end-2023, Santander's hybrid instruments included in TAC comprised 7 AT1 instruments issued by the parent and one by the U.K. subsidiary, totaling €8.4 billion.

Santander's profitability has strengthened significantly in the last two years with the return of positive rates to Europe, spurring its net interest income. The bank recorded €11.1 billion and €9.6 billion of net profits in 2023 and 2022, respectively, and saw its ROE reach 12.1% and 11.0%. While declining interest rates will affect the bank's net interest margin from mid-2024 onward, proactive hedging, the resumption of business growth, cost benefits of the "One Transformation" plan, and stable credit impairments (at 120-130 bps according to our forecasts) will continue supporting its solid performance. We estimate Santander's ROE to stay around 12% this year, then decline slightly toward 11% in 2025-2026. We anticipate its earnings buffer (which measures the capacity of the bank's earnings to

cover normalized losses) to stand at a solid 212 bps of S&P Global Ratings' RWAs over 2024-2026.

The group's capital is fairly distributed across subsidiaries. From time to time, regulatory restrictions on dividend distributions have temporarily left some subsidiaries with excess capital, but these situations are addressed as soon as feasible with the upstreaming of extraordinary dividends, such as the one we saw in Portugal and the U.S. in 2022-2023. The payout from subsidiaries to the parent has been approaching 100% in recent years, from 50%-60% seen pre-pandemic.

With a phased-in and fully loaded common equity Tier 1 ratio of 12.5% as of June 2024, and phased-in and fully loaded total capital ratios of 16.7% and 16.4%, respectively, Santander's capital ratios have stood comfortably above its regulatory requirements, despite the latter having increased in 2024 to 9.6% and 13.9% respectively. Requirements will increase further in 2025 and 2026, following Bank of Spain's decision to activate the countercyclical buffer, but the impact will be manageable for Santander (some additional 12 bps each year) as it will apply only to the domestic business. The bank's AT1 bucket was not fully filled as of June 2024, while the bank reported some excess of Tier II capital, but the recent placement of an additional AT1 for US\$1.5 billion will contribute to reducing the AT1 shortfall by year-end. That said, the bank's maximum-distributable-amount buffer of 245 bps at June 2024 still looked comfortable, even if below that of peers.

Our capital measure is weaker than the regulatory calculation, reflecting the higher risks we see in some of the economies where Santander operates and the still-large balance of deferred tax assets resulting from timing differences outstanding on the bank's balance sheet. Therefore, our calculation of Santander's RWAs is 1.8x the regulatory one.

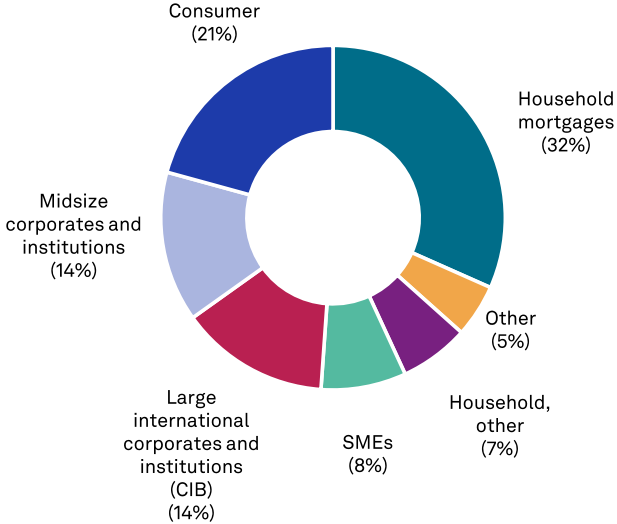
## **Risk Position: Benefits From Wide Geographic And Risk Diversification And Better Asset Quality Across Its Markets Of Operation**

Despite Santander's capital ratios being lower than peers' (both by regulatory and S&P Global Ratings' measures), we consider its capitalization solid for the risks it faces. This is mainly due to the benefits it derives from its wide geographic diversification in economies that have historically proved to be uncorrelated, an aspect that our RAC calculation does not fully capture. The diversification benefit we calculate for Santander (25% at end-2023) is one of the highest in our sample of rated global banks.

Equally, the bank has good diversification by risk and client type (see chart 7). Residential mortgages accounted for 32% of loans at June 2024 and have a low risk profile across geographies, and in particular in the U.K. where most of Santander's mortgages are originated. The share of consumer lending (27% of the loan book) is higher than that of peers given its large auto-lending businesses in Europe and the U.S. (which together account for 21%). But only the US auto loans have a higher risk profile, comprising a lower-than-before but still-high 60% share of subprime lending. Conversely, the European consumer lending portfolio, mostly originated in Germany, the Nordics, France, Spain and Italy, has a lower-than-average risk profile. Finally, corporate exposures, at 36% of the total, are fairly evenly split between small and midsize enterprises (SMEs; 8%), midsize corporates (14%), and large international corporates (14%) and are distributed across a number of sectors. Single-name concentration is limited, with the 20 largest exposures representing 38% of the bank's 2023 TAC.

**Chart 7**

**Santander's loan book is well diversified by asset class**

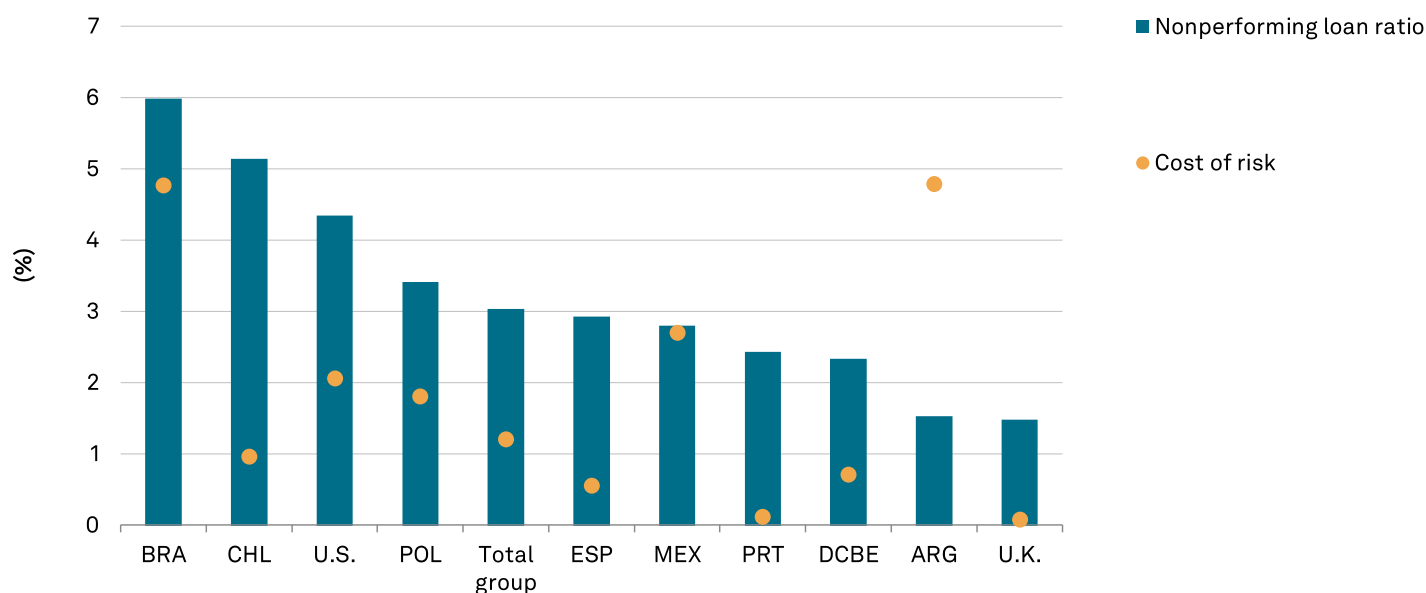


Data as of June 2024. SMEs--Small and midsize enterprises. Source: Bank's financial reports. Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

Compared to global peers, Santander generally reports higher problematic exposures and credit losses. But this is attributable to the riskier nature of the markets where it operates (chart 8), rather than its credit underwriting, which we view as sound. Risks are also closely monitored and, as a result, Santander's asset quality track record is better-than-average in most markets of operation.

Chart 8

## Santander's asset quality metrics are a reflection of its footprint



Data as of June 2024. Cost of risk is calculated as credit provisions over average loans. ARG--Argentina. BRA--Brazil.

CHL--Chile. DCBE--Digital Consumer Bank Europe. ESP--Spain. MEX--Mexico. POL--Poland. PRT--Portugal. Source: Bank's financial reporting. Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

Since the end of 2021, the group's NPL ratio, according to our calculations, has been hovering around 3.5% with 65%-70% coverage. Credit losses averaged 110 bps of average loans up to 2022, but have since risen toward 130 bps in 2023 and June 2024. While asset quality performance proved quite resilient during both the pandemic and the energy crisis, in 2023 we saw early signs of weakening in some markets--namely the Americas--as the higher financing costs and slowdowns in activity took a toll on weaker borrowers. We could still see some lag effects in the next 12 months, but deterioration should be contained with NPLs and credit costs growing only marginally. We forecast these will peak at 3.8% and 133 bps in 2024 before moderately reducing in 2025. Stage 2 credits increased to 8.2% at June 2024, reducing differences with peers in Europe, but this seems to relate more to stricter criteria than an increased perception of risks.

Given the nature of its business, the bank's main risk relates to credit. That said, Santander is also structurally exposed to foreign currency risks from its local currency investments in subsidiaries abroad. The bank's policy is to largely hedge the risk of adverse foreign currency movements affecting the group's regulatory capital ratio. Historically, this hedging has proved effective when foreign currencies have suffered large devaluations. The hedging of subsidiaries' profit contribution to the group, though, is more opportunistic and may not cover 100% of expected profits. It depends on the bank's expectations of foreign exchange moves and the pricing of hedges.

The group also actively manages its structural exposures to interest-rate risk, through asset-liability committee (ALCO) portfolios and increasingly interest-rate swaps and futures across geographies. Indeed, in recent months the bank enlarged its hedging to reduce the sensitivity of its net interest margin to upcoming interest rate declines, given that structurally most of its operations (other than Brazil, Chile, and SCF), and in particular the Spanish one, are asset sensitive. In June 2024 the group's ALCO portfolio amounted to €103 billion, up from €87 billion in June 2023.

Running such a large business across multiple jurisdictions entails some complexity. But we think Santander has its risks well under control. We believe its retail business model, which is consistently replicated across its network, and its organizational structure, facilitate its management. The subsidiaries' self-financing profiles and the parent's less supportive stance (compared to other peers) toward the subsidiaries in adverse scenarios help limit contagion risks across the group entities and set a threshold for the parent's risk taking.

## **Funding And Liquidity: Structurally Balanced And Resilient Funding Profile**

Santander enjoys a fairly balanced funding profile weighted toward sticky retail deposits, largely provided by households and SMEs. These are largely insured. The group's loan-to-deposit ratio stood at 101% at June 2024 according to our calculations. 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 reliance on short-term wholesale debt is limited; and has good access to market funding even in times of market turbulence.

The bank's stable funding ratio, according to our calculations, stood at a solid 106% at June 2024, with a regulatory net stable funding ratio at 123%.

The bank operates through subsidiaries that are independent from the parent for funding purposes. While the parent subscribes capital instruments from its subsidiaries and channels MREL to those subsidiaries that form part of its resolution perimeter, pure funding channeled to subsidiaries is marginal.

There are no significant differences in the funding profiles of subsidiaries within the group. The group entities with the most excess customer deposits are Spain, Poland and Mexico, while the subsidiaries proportionally more dependent on wholesale financing are SCF, Chile, and SCUSA.

The group's wholesale debt outstanding in the market totaled €210.6 billion as of June 2024, across a wide array of instruments: senior (33%), covered bonds (25%), senior nonpreferred (27%), subordinated debt (11%), and AT1(4%). If securitizations were added, the group's total wholesale debt would be around €270 billion. Banco Santander S.A. and Santander U.K. are the most active issuers, accounting for about 85% of the group's wholesale debt outstanding. The calendar of debt maturities is well spread and manageable. Furthermore, Santander has easy access to the markets. In the first half of 2024, for example, it had completed most of its funding plans for the whole year.

Santander also benefits from sound liquidity, which the repayment of central bank borrowings since 2022--primarily the ECB's targeted longer term refinancing operations--has not eroded. At March 2024 the bank still had minor ECB borrowings at SCF and some subsidiaries, with the largest central bank funding held by Santander U.K. and, to a lesser

degree, Chile.

Our measure of the group's broad liquid assets to short-term wholesale funding was 1.6x at June 2024, with broad liquid assets also accounting for a solid 53% of customer deposits at the same date. The group's regulatory liquidity ratio stood at 163% as of June 2024. Liquidity is held in cash (€152 billion) and liquid securities (€129 billion). The latter are primarily invested in government securities, which are fairly split across countries. Almost two thirds of the securities portfolio is accounted as held-to-collect, with unrealized losses representing a manageable 2% of the bank's fully loaded CET1.

## Support: One Notch Of ALAC Uplift

Since the end of 2021, the issuer credit rating on Santander includes one notch of additional loss-absorbing capacity (ALAC) uplift (see "Six European Banks Upgraded On ALAC Or Group Support Uplift; Off UCO On Implementation of Revised FI Criteria," published Dec. 16, 2021), as is the case for most of its global peers. That is because we expect the bank will maintain a buffer of subordinated bail-inable debt wide enough to provide protection for senior creditors in a resolution scenario. We expect Santander's ALAC to remain comfortably above the 500 bps threshold we require for the bank to benefit from one notch of ratings uplift.

Although at June 2024 the bank comfortably complied with its MREL requirement (reported MREL at this date was 40% including €25 billion of senior preferred debt compared to a requirement of 33.8%, including a 4.1% combined capital buffer) the bank already communicated its requirement will increase to 36.5% and 37.7% by January and June 2025 respectively. This increase relates to the deductions the SRB makes for the investments in subsidiaries falling outside the resolution perimeter. Santander's ALAC buffer could therefore still increase somewhat, exceeding 1,000 bps of RWA by end-2026.

Our ALAC analysis focuses on banks' recapitalization capacity in a resolution scenario once losses have been absorbed by Tier 1 capital. The ALAC buffer therefore comprises senior nonpreferred and subordinated debt instruments. Given the bank's multiple-point-of-entry resolution strategy, our analysis centers on the parent's resolution perimeter, which includes Banco Santander S.A., Santander Consumer Finance and also, since the second quarter of 2023, its Portuguese operations. Conversely, the U.K., Poland, the U.S., Mexico, Brazil, Chile, Argentina, Uruguay, Peru, and Colombia have been identified as separate points of entry in resolution. This means that the parent would not be required to recapitalize them in a resolution scenario and therefore host authorities could require them to build their own cushions of bail-inable debt to face such an event.

As a result, we only compute in our ALAC measure the 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. Equally, our RWA calculation only corresponds to the businesses falling under the parent's resolution perimeter, as these would be the ones the parent would have to recapitalize in a resolution scenario.

The threshold that we require Santander to get a one-notch ratings uplift based on ALAC is markedly higher than the standard: 500 bps rather than 300 bps. This reflects that the parent bank operates with double leverage and, as a result, in a resolution scenario some of its Tier 2 and senior nonpreferred debt would likely need to absorb losses, including



those arising from the value lost in its investments in subsidiaries outside the resolution perimeter, not solely to recapitalize the business.

With the ALAC notch incorporated into the ratings, the issuer credit rating (ICR) on Santander stands one notch above the sovereign credit rating on Spain, its country of domicile. This means we believe 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 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 therefore 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 avoid an immediate default on its senior obligations if the Spanish sovereign were to default.

## Environmental, Social And Governance

ESG factors are not a material, direct influence on our credit ratings on Santander.

Santander's governance, control standards, and transparency are high, necessarily so as 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 the 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 founding Botin family looks high compared with the economic interest the family holds. Of the family's two seats, 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, but then reconsidered only three months later, leading to a legal dispute that ended with significant 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 some 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 for private banking clients affected by Bernie Madoff's case or for the 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 (one quarter 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 targets being carbon neutral by 2050 and is committed to facilitate clients' green transitions.

By 2025 it aims to have raised and facilitated €120 billion of green financing.

## Group Structure And Rated Subsidiaries

We rate six of Santander's operating subsidiaries globally (chart 9). Some have, in turn, other rated subsidiaries under them.

In contrast to most other global banking groups, we do not consider any of Santander's subsidiaries to be core (see "How We're Refining Our View Of The Strategic Importance Of Certain Spanish Bank Subsidiaries," published Aug. 2, 2019).

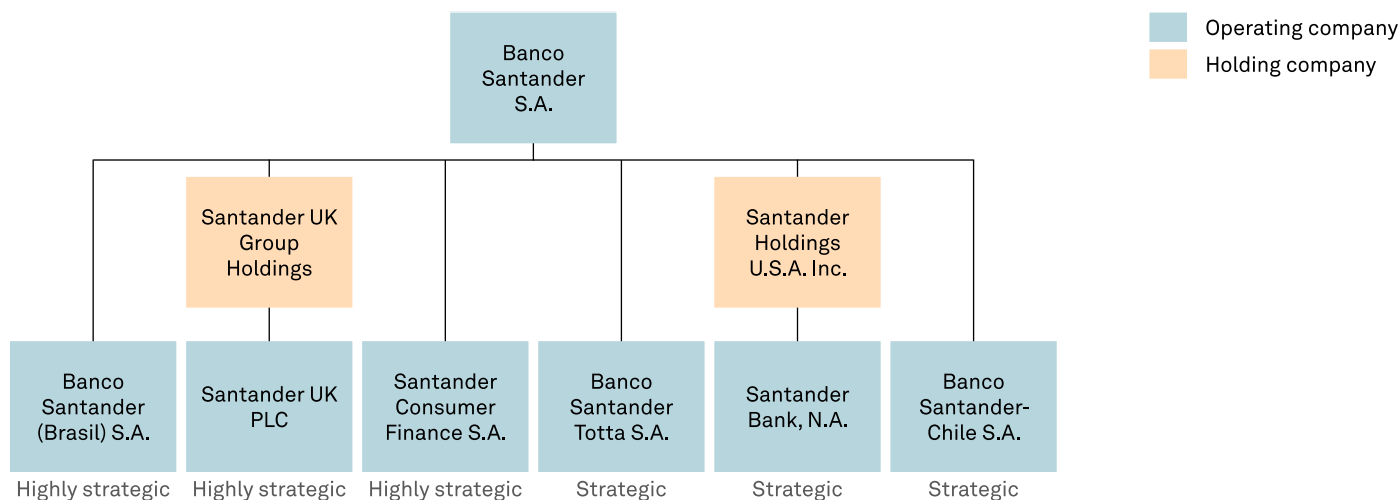
At present, the ratings on only three of Santander's subsidiaries benefit from group support: Santander Consumer Finance S.A. (three notches of uplift), Banco Santander Totta, S.A. in Portugal (two notches), and Banco Santander N.A. in the U.S. (three notches).

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 U.K. PLC); or the stand-alone credit profile (SACP) is already one notch lower than the parent's group credit profile of 'a' (Santander Chile).

**Chart 9**

### Santander's simplified organizational structure

Rated subsidiaries only



Sources: Banco Santander S.A., S&P Global Ratings.   
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## Hybrid Ratings

We consider senior nonpreferred debt, nondeferrable subordinated debt, and AT 1 instruments and preference shares as hybrid instruments and arrive at these ratings by notching down from the bank's 'a' SACP.

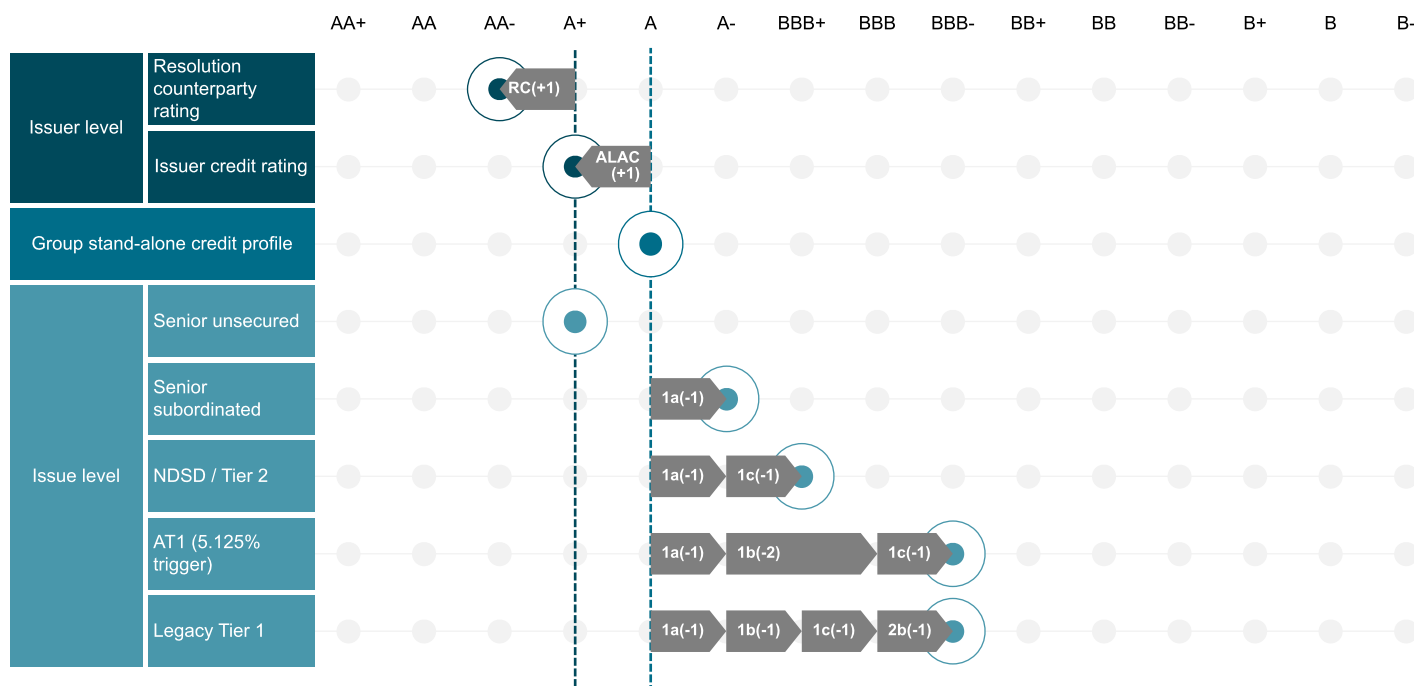
We therefore rate Banco Santander S.A.'s senior nonpreferred debt at 'A-', one notch below the bank's SACP to reflect subordination versus senior obligations.

We rate nondeferrable subordinated debt at 'BBB+', two notches below the bank's SACP. In addition to being subordinated, we believe 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 the bank's AT1 instruments at 'BBB-', four notches below the bank's SACP. See "Banco Santander S.A.'s Additional Tier 1 Instrumented Rated 'BBB-', April 30, 2024. The four notches reflect: the instruments' contractual subordination (one notch), the risk of coupon suspension and these instruments computing as a Tier 1 regulatory capital (two notches), as well as the risk of principal conversion into equity if the bank were in distress (one notch).

Finally, we also rate at 'BBB-' one remaining legacy preference share, with a residual outstanding of €144 million. Our ratings take into account that the instrument has a narrower definition of distributable items (linked to the previous year's profits), but we consider the risk of coupon nonpayment lower than that of Tier 1 instruments, because since January 2022 the regulator has considered this legacy preference share to be Tier 2 capital.

### Banco Santander S.A.: Notching



#### Key to notching

- Group stand-alone credit profile
- Issuer credit rating

**RC** Resolution counterparty liabilities (senior secured debt)

**ALAC** Additional loss-absorbing capacity buffer

**Group** Group support

**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.  
AT1--Additional Tier 1. NDSD--Non-deferrable subordinated debt.

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## 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 long-term ICR on the bank 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.

## Key Statistics

**Table 1**

Banco Santander S.A.--Key figures					
	--Year ended Dec. 31--				
(Mil. €)	2024	2023	2022	2021	2020
Adjusted assets	1,765,438.0	1,775,729.9	1,714,506.8	1,577,530.2	1,490,478.7
Customer loans (gross)	991,913.1	988,448.6	994,781.5	937,063.7	869,856.1
Adjusted common equity	80,109.2	79,878.3	76,951.8	73,147.9	68,907.2
Operating revenues	32,105.7	60,250.2	54,920.0	48,845.9	46,621.2
Noninterest expenses	14,303.7	26,769.5	25,479.9	22,779.7	22,433.0
Core earnings	7,686.1	15,475.5	13,380.2	12,662.8	N/A

N/A--Not applicable. Source: S&P Global Ratings.

**Table 2**

Banco Santander S.A.--Business position					
	--Year ended Dec. 31--				
(%)	2024	2023	2022	2021	2020
Loan market share in country of domicile	17.5	17.5	17.5	17.4	17.5
Deposit market share in country of domicile	20.4	20.4	19.5	18.4	18.3
Total revenues from business line (currency in millions)	32,471.7	60,601.8	54,938.2	48,899.5	46,735.3
Commercial banking/total revenues from business line	N/A	13.7	13.5	11.6	11.5
Retail banking/total revenues from business line	N/A	74.7	77.7	81.1	79.6
Commercial & retail banking/total revenues from business line	70.0	88.4	91.2	92.7	91.2
CIB/total revenues from business line	12.9	N/A	N/A	N/A	N/A
Payments and settlements/total revenues from business line	8.3	N/A	N/A	N/A	N/A
Asset management/total revenues from business line	5.5	0.0	0.0	0.0	0.0
Other revenues/total revenues from business line	3.3	11.6	8.8	7.3	8.8
Return on average common equity	12.8	12.1	11.0	9.7	-9.7

N/A--Not applicable. Source: S&P Global Ratings.

**Table 3**

Banco Santander S.A.--Capital and earnings					
	--Year ended Dec. 31--				
(%)	2024	2023	2022	2021	2020
Tier 1 capital ratio	13.9	13.7	13.6	14.2	14.0
S&P Global Ratings' RAC ratio before diversification	N/A	7.9	7.8	8.4	7.7
S&P Global Ratings' RAC ratio after diversification	N/A	10.5	10.2	11.0	9.8
Adjusted common equity/total adjusted capital	90.7	90.4	90.2	88.0	88.8
Net interest income/operating revenues	73.1	71.8	70.3	68.3	68.6
Fee income/operating revenues	20.2	20.0	21.5	21.5	21.5
Market-sensitive income/operating revenues	3.0	4.4	3.0	3.2	4.7
Cost-to-income ratio	44.6	44.4	46.4	46.6	48.1

Table 3

Banco Santander S.A.--Capital and earnings (cont.)					
	--Year ended Dec. 31--				
(%)	2024	2023	2022	2021	2020
Preprovision operating income/average assets	2.0	1.9	1.8	1.7	1.6
Core earnings/average managed assets	0.9	0.9	0.8	0.8	N/A

RAC--Risk-adjusted capital. N/A--Not applicable. Source: S&P Global Ratings.

Table 4

Banco Santander S.A.--Risk-adjusted capital framework data						
(Mil. €)	EAD(1)	Basel III RWA (2)	Average Basel III RW (%)	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)	
Government and central banks	476,278	29,915	6	81,273	17	
Of which regional governments and local authorities	14,356	635	4	2,154	15	
Institutions and CCPs	71,892	18,411	26	25,253	35	
Corporate	322,336	184,386	57	347,889	108	
Retail	587,170	211,950	36	325,550	55	
Of which mortgage	370,966	77,966	21	148,143	40	
Securitization (3)	68,684	11,419	17	24,980	36	
Other assets(4)	76,948	62,839	82	128,174	167	
Of which deferred tax assets	11,099	--	--	27,748	3	
Of which amount of over (-) or under (+) capitalization of insurance subsidiaries	0	--	--	0	0	
Total credit risk	1,603,308	518,920	32	933,120	58	
Total credit valuation adjustment	--	675	--	2,636	--	
Equity in the banking book	6,611	3,880	59	54,562	825	
Trading book market risk	--	16,450	--	23,819	--	
Total market risk	--	20,330	--	78,381	--	
Total operational risk	--	67,025	--	103,546	--	
RWA before diversification	--	623,731	--	1,117,683	100	
Total Diversification/ Concentration Adjustments	--	--	--	-275,825	-25	
RWA after diversification	--	623,731	--	841,858	75	
		<b>Tier 1 capital</b>	<b>Tier 1 ratio (%)</b>	<b>Total adjusted capital</b>	<b>Standard &amp; Poor's RAC ratio (%)</b>	
Capital ratio before adjustments		85,742	14	88,356	8	
Capital ratio after adjustments (6)		85,742	14	88,356	11	

Securitisation exposure includes the securitisation tranches deducted from capital in the regulatory framework. Other assets includes Deferred tax assets (DTAs) not deducted from ACE. For public-sector funding agencies, the single name adjustment is calculated on the regional government and local authorities portfolio. For Tier 1 ratio, adjustments are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). EAD--Exposure at default. RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Source: S&P Global Ratings.

Table 5

Banco Santander S.A.--Risk position					
(%)	--Year ended Dec. 31--				
	2024	2023	2022	2021	2020
Growth in customer loans	0.7	-0.6	6.2	7.7	-1.5
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	-24.7	-23.7	-23.6	-21.1
Total managed assets/adjusted common equity (x)	22.3	22.7	22.8	22.1	22.1
New loan loss provisions/average customer loans	1.4	1.3	1.1	0.8	1.4
Net charge-offs/average customer loans	1.1	1.2	1.1	0.9	0.9
Gross nonperforming loans/customer loans	3.5	3.6	3.5	3.5	3.7
Loan loss reserves/gross nonperforming loans	64.5	64.0	65.4	69.1	74.3

RWA--Risk-weighted asset. N/A--Not applicable. Source: S&P Global Ratings.

Table 6

Banco Santander S.A.--Funding and liquidity					
(%)	--Year ended Dec. 31--				
	2024	2023	2022	2021	2020
Core deposits/funding base	62.7	63.2	64.8	64.4	63.8
Customer loans (net)/customer deposits	101.7	99.7	101.0	103.6	103.9
Long-term funding ratio	80.1	83.2	85.3	88.4	86.4
Stable funding ratio	105.9	112.9	113.0	116.6	112.4
Short-term wholesale funding/funding base	21.1	17.8	15.6	12.3	14.5
Regulatory net stable funding ratio	N/A	123.0	121.0	126.0	120.0
Broad liquid assets/short-term wholesale funding (x)	1.6	2.0	2.1	2.6	2.1
Broad liquid assets/total assets	28.3	30.0	27.6	27.1	25.5
Broad liquid assets/customer deposits	53.1	55.7	49.8	49.0	47.2
Net broad liquid assets/short-term customer deposits	20.0	28.3	26.6	30.9	26.1
Regulatory liquidity coverage ratio (LCR) (%)	163.0	166.0	152.0	163.0	168.0
Short-term wholesale funding/total wholesale funding	55.6	47.5	43.5	34.0	39.3
Narrow liquid assets/3-month wholesale funding (x)	2.3	3.0	3.3	3.7	2.9

N/A--Not applicable. Source: S&P Global Ratings.

Banco Santander S.A.--Rating component scores	
Issuer credit rating	A+/Stable/A-1
SACP	a
Anchor	bbb
Economic risk	4
Industry risk	4
Business position	Very strong
Capital and earnings	Adequate
Risk position	Strong
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0

**Banco Santander S.A.--Rating component scores (cont.)**

<b>Issuer credit rating</b>	<b>A+ /Stable/ A-1</b>
Support	+1
ALAC support	+1
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

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

**Related Criteria**

- General Criteria: Ratings Above The Sovereign—Corporate and Government Ratings. Methodology And Assumptions, Nov 19, 2023
- 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: Principles Of Credit Ratings, Feb. 16, 2011

**Related Research**

- Banking Industry Country Risk Assessment: Spain, July 18, 2024
- Global Banks Midyear Outlook 2024, July 17, 2024
- Credit Conditions Europe: Keep Calm, Carry On, June 25, 2024
- Banco Santander S.A.'s Additional Tier 1 Instruments Rated 'BBB-', April 30, 2024
- Slides: Spanish Banks In 2024: Clear Skies, Jan 24, 2024

**Ratings Detail (As Of September 27, 2024)\*****Banco Santander S.A.**

Issuer Credit Rating	A+ /Stable/ A-1
Resolution Counterparty Rating	AA-/--/A-1+



## Ratings Detail (As Of September 27, 2024)\*(cont.)

Commercial Paper	
<i>Foreign Currency</i>	A-1
Junior Subordinated	BBB-
Preference Stock	BBB-
Senior Subordinated	A-
<b>Issuer Credit Ratings History</b>	
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
<b>Sovereign Rating</b>	
Spain	A/Stable/A-1
<b>Related Entities</b>	
<b>Banco Santander (Brasil) S.A.</b>	
Issuer Credit Rating	BB/Stable/B
<i>Brazil National Scale</i>	brAAA/Stable/brA-1+
<b>Banco Santander-Chile S.A.</b>	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
<i>Foreign Currency</i>	A-2
Senior Unsecured	A-
<b>Banco Santander SA (London Branch)</b>	
Certificate Of Deposit	
<i>Local Currency</i>	A-1
<b>Banco Santander S.A. (New York Branch)</b>	
Issuer Credit Rating	A+/Stable/A-1
Commercial Paper	
<i>Local Currency</i>	A-1
<b>Banco Santander Totta S.A.</b>	
Issuer Credit Rating	A-/Positive/A-2
Resolution Counterparty Rating	A-/--/A-2
Senior Unsecured	A-
<b>Banque Stellantis France</b>	
Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	A-2
Senior Unsecured	BBB+
<b>Santander Bank, N.A.</b>	
Issuer Credit Rating	A-/Stable/A-2
Senior Unsecured	A-
Short-Term Debt	A-2
Subordinated	BBB+
<b>Santander Consumer Bank AG</b>	
Issuer Credit Rating	A/Stable/A-1

## Ratings Detail (As Of September 27, 2024)\*(cont.)

Resolution Counterparty Rating	A+/--/A-1
Commercial Paper	A-1
Senior Unsecured	A
<b>Santander Consumer Finance S.A.</b>	
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
<b>Santander Financial Services PLC</b>	
Issuer Credit Rating	A-/Stable/A-2
Resolution Counterparty Rating	A/--/A-1
<b>Santander Holdings U.S.A Inc.</b>	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+
<b>Santander UK Group Holdings PLC</b>	
Issuer Credit Rating	BBB/Stable/A-2
Junior Subordinated	BB-
Senior Unsecured	BBB
Short-Term Debt	A-2
Subordinated	BB+
<b>Santander UK PLC</b>	
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-1
<b>Santander US Capital Markets LLC</b>	
Issuer Credit Rating	A-/Stable/A-2

\*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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