

Rating Object	Rating Information	
Banco Santander S.A. (Group) as parent of Banco Santander Totta S.A.	Long Term Issuer Rating / Outlook: A- / positive	Short Term: L2
Creditreform ID: 6226 Management: José Antonio Álvarez (CEO) Ana Botín (Executive Chairman)	Type: Update / Unsolicited	
Rating Date: 13 April 2022 Monitoring until: withdrawal of the rating Rating Methodology: CRA "Bank Ratings v.3.1" CRA "Rating of Bank Capital and Unsecured Debt Instruments v.2.1" CRA "Environmental, Social and Governance Score for Banks v.1.0" CRA "Rating Criteria and Definitions v.1.3"	Rating of Bank Capital and Unsecured Debt Instruments:	
Rating History: www.creditreform-rating.de	Preferred Senior Unsecured:	A-
	Non-Preferred Senior Unsecured:	BBB+
	Tier 2:	BB+
	Additional Tier 1:	BB

Our rating of Banco Santander Totta S.A. is reflected by our rating opinion of Banco Santander S.A. (Group) due to its group structure. Therefore we refer to our rating report of Banco Santander S.A. (Group) from 13 April 2022.

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Key Rating Driver

- + Spain's largest bank with high systematic relevance for the global banking sector
- + Internationally diversified business model with strong market positions in key markets
- + Strong cost to income ratios
- + Earnings reaching already pre-pandemic level
- +/- Significant refinancing from customer deposit
- +/- Business activities in weaker economies. Currency effects might have significant impact in the individual business countries but enable significant earnings
- Asset quality remains weak area, with relatively high cost of risk
- Moderate capitalization

Executive Summary

Creditreform Rating affirms the unsolicited long-term issuer rating of Banco Santander S.A. at A-. However, we raise the outlook from stable to positive. The raise of the outlook and the affirmation of the Credit rating are a result of the less significant and less lasting impact of the Corona crisis on Banco Santander's performance. In addition, we expect the bank to deliver strong and stable earnings and a further growth of its business activities in its core markets. Moreover, Banco Santander benefits from its high geographic diversification and the increased digitalization.

Company Overview

Founded in 1857, Banco Santander S.A. (hereafter: Santander or the Bank) is managed by the Botín family in the fourth generation. The bank developed from a series of mergers and acquisitions into a globally operating and multinational financial group, beginning in the 1990s. After the merger with Banco Central Hispano in 1990, Banco Santander became the largest universal bank in Spain. The bank's headquarter is in Madrid.

Santander's business model focuses primarily on commercial banking (lending and deposit business with private customers as well as small and medium-sized corporate customers). Banco Santander differentiates between a primary segment and secondary segment in its business areas.

This primary level of segmentation is based on the Group's management structure and comprises four operating areas as well as the Corporate Centre. The operating areas are Europe (comprises all business activities carried out in the region, except that included in Digital Consumer Bank), North America, South America and Digital Consumer Bank (incl. Santander Consumer Finance, which incorporates the entire consumer finance business in Europe, Openbank and Open Digital Services). The bank's ten core markets are: Spain, Mexico, USA, Chile, Argentina, Brazil, UK, Portugal, Poland and the Digital Consumer Bank division (in Germany, among others).

At the secondary level of segmentation, Santander is structured into Retail Banking, Santander Corporate & Investment Banking (SCIB), Wealth Management & Insurance (WM&I) and PagoNxt, which have the following responsibilities:

- Retail Banking: Covers all customer banking businesses, including consumer finance, except those of corporate banking, which are managed through Santander Corporate & Investment Banking, asset management, private banking and insurance, which are managed by Wealth Management & Insurance.
- Santander Corporate & Investment Banking: SCIB business includes revenue from global corporate banking, investment banking and global markets, including treasuries managed globally (always after the appropriate distribution with Retail Banking customers), as well as equity business.
- Santander Wealth Management & Insurance: WM&I consists of the divisions asset management business (Santander Asset Management), the corporate unit of Private Banking and International Private Banking in Miami and Switzerland and the insurance business (Santander Insurance)

- PagoNxt. The PagoNxt division offers digital payment solutions, providing global technology solutions for the bank and its new customers in the open market. It is structured in three businesses: Merchant Acquiring, International Trade and Consumer.

Moreover, Santander is the second largest bank in the Eurozone in terms of market capitalization. As of December 2021, the bank recorded about EUR 1,595 billion of total assets. Santander has a strong and focused presence in its core markets across Europe and the Americas with more than 3.9 million shareholders and 153 million customers. In addition to expanding its digital business model, Banco Santander, with its approximately 10,000 branches (2021), continues to have a high international presence, unlike many of its competitors.

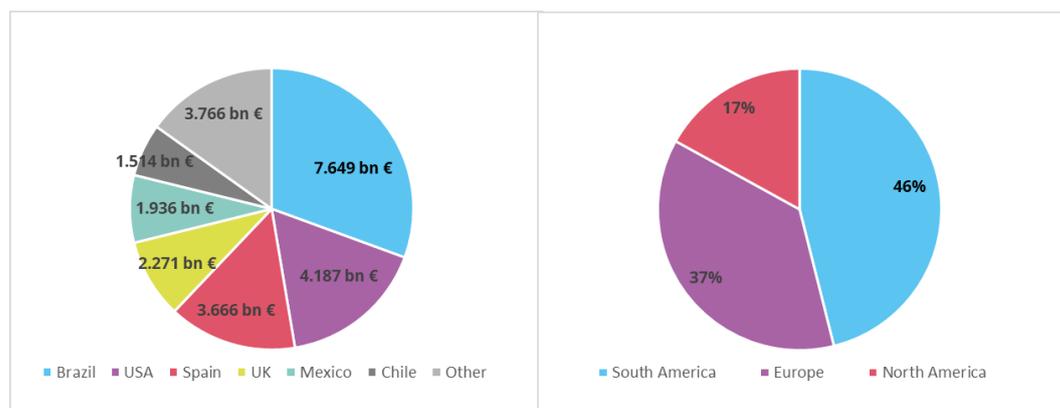
Business Development

Profitability

Banco Santander was able to increase its net interest income in 2021 again after the drop in 2020, which was mostly related to the Corona pandemic impact and resulting exchange effects. The bank benefits from higher volumes, which positive impact was partially offset by lower interest rates. Net of exchange effects, Banco Santander would achieve a growth of its interest income by about 7%. In 2021, Santander recorded significant growth of its interest income in particular in UK (+22%), Brazil (+13%) as well as Chile (10%), while the US segment recorded declining interest income primarily due to disposals of the Puerto Rico and the Bluestem portfolio, in addition to a 2% decrease in Mexico. Overall, Santander benefits from its strong geographical diversification, which allows higher interest margins in comparison to the European market. In addition, Santander benefits from the participation at the ECB TLTRO III program, which enables the bank to record an interest income of about €868mn in 2021 (391mn EUR in 2020).

The following chart shows the geographical distribution of the bank's net operating income in 2021:

Chart 1: Geographical distribution of the net operating income of Banco Santander S.A. | Source: Annual report 2021, Own Illustration



Moreover, Santander's fee and commission income improved year-over-year (+4.9%), but remained below the pro-Corona pandemic level. Leaving out exchange effects, Santander would even record an increase YOY by about 8%. Driver of the increase in fee income are among others increased asset management fees in addition to the account management fees. By geography, driver of the increased fee income are Europe excl. UK (up by 9%) and South America (+13%). By contrast, the drop in 2020 was mainly related to exchange effects and lower market activities in Europe excl. Poland.

Furthermore, interest income and fee income are the main sources of income of Banco Santander and account for about 90% of total income. With both sources of

income Santander benefits from its high level of diversification and shows a strong level of resilience.

Net trading income, which increased in 2020 due to foreign currency hedging, portfolio sales and market volatility management, normalized and returned to its pre-Corona pandemic level.

The increase in operating costs is primarily related to inflationary environment in South America, in addition due to among others higher costs in Poland as well as in general higher investments. However, in the view of the development of 2020, this development shows a drop to the previous pre-Corona pandemic cost level and was to be expected since the drop in 2020 was mostly related to currency effects. In addition, Santander follows a strict cost management with ongoing investments in cost reductions, which enables the bank so maintain a good level of cost efficiency.

Banco Santander's cost of risk normalized after the strong increase following the Corona pandemic impact in 2020. With cost of risk of about 79bp (own calculation) in 2021, Santander's ratio is at an elevated level in comparison to other large European banks, but can be explained by its significant overseas business activities in particular in South America. The strong increase in 2020 was mostly due to the weaker economic outlook caused by the Corona pandemic in addition to some collective and individual assessments to reflect expected credit losses. However, Santander released about 750mn EUR of those provisions in 2021 already. After the significant goodwill impairment in 2020 (Santander UK: € 6.1bn, Santander US: €2.3bn, Santander Bank Polska: € 1.2bn and others) the remaining goodwill on Santander's balance sheet reached a moderate level of about €12.7bn.

A detailed group income statement for the years of 2018 through 2021 can be found in Figure 1 below:

Figure 1: Group income statement | Source: eValueRate / CRA

Income Statement (EUR m)	2021	%	2020	2019	2018
Income					
Net Interest Income	33.370	+4,3	31.994	35.283	34.341
Net Fee & Commission Income	10.502	+4,9	10.015	11.779	11.485
Net Insurance Income	211	+0,5	210	120	51
Net Trading & Fair Value Income	1.563	-28,5	2.187	1.531	1.797
Equity Accounted Results	432	< -100	-96	324	737
Dividends from Equity Instruments	513	+31,2	391	533	370
Other Income	2.344	+13,3	2.069	3.147	1.671
Operating Income	48.935	+4,6	46.770	52.717	50.452
Expense					
Depreciation and Amortisation	2.987	-4,4	3.126	4.624	2.615
Personnel Expense	11.216	+4,0	10.783	12.141	11.865
Tech & Communications Expense	3.272	+0,2	3.264	3.356	2.077
Marketing and Promotion Expense	510	-2,5	523	685	646
Other Provisions	2.814	+18,3	2.378	3.490	2.223
Other Expense	6.139	+0,2	6.127	6.294	7.766
Operating Expense	26.938	+2,8	26.201	30.590	27.192
Operating Profit & Impairment					
Operating Profit	21.997	+6,9	20.569	22.127	23.260
Cost of Risk / Impairment	7.407	-40,1	12.374	9.352	8.936
Net Income					
Non-Recurring Income	98	> +100	44	0	0
Non-Recurring Expense	141	-98,6	10.315	232	123
Pre-tax Profit	14.547	< -100	-2.076	12.543	14.201
Income Tax Expense	4.894	-13,1	5.632	4.427	4.886
Discontinued Operations	-	-	-	-	-
Net Profit	9.653	< -100	-7.708	8.116	9.315
Attributable to minority interest (non-controlling interest)	1.529	+43,8	1.063	1.601	1.505
Attributable to owners of the parent	8.124	< -100	-8.771	6.515	7.810

Due to Santander's regained profitability in 2021, all of the Group's earnings figures increased year-over-year and reached again its widely satisfying level.

Santander's ROA, ROE and RORWA before and after taxes figures reached again a satisfying level in 2021 after the drop in 2020. The quick rebound despite the still ongoing Corona pandemic is remarkable. Overall, the Group distinctly benefits from its diversified business model with its overseas activities, which are characterized by high-margins. This fact is underpinned by Santander's net interest margin, which remained at an impressive level over the recent years, in particular in comparison with other large European banks. In addition, Santander maintains its sound cost to income ratios, which represent the bank's intrinsic profitability and which are clearly ahead of most other large European banks. The bank clearly shows a strict cost discipline with ongoing investments to increase its efficiency. Finally, Santander's earnings figures are again one of the best performers of all areas analyzed after the drop in 2020.

A detailed overview of the income ratios for the years of 2018 through 2021 can be found in Figure 2 below:

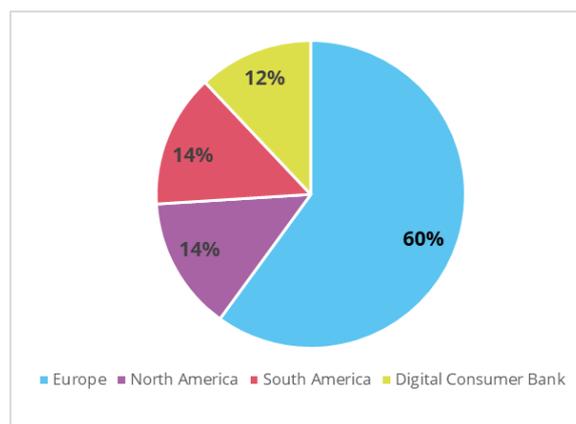
Figure 2: Group key earnings figures | Source: eValueRate / CRA

Income Ratios (%)	2021	%	2020	2019	2018
Cost Income Ratio (CIR)	55,05	-0,97	56,02	58,03	53,90
Cost Income Ratio ex. Trading (CIRex)	56,86	-1,90	58,77	59,76	55,89
Return on Assets (ROA)	0,60	+1,12	-0,51	0,53	0,64
Return on Equity (ROE)	9,95	+18,39	-8,44	7,33	8,68
Return on Assets before Taxes (ROAbT)	0,91	+1,05	-0,14	0,82	0,97
Return on Equity before Taxes (ROEbT)	14,99	+17,26	-2,27	11,33	13,23
Return on Risk-Weighted Assets (RORWA)	1,67	+3,04	-1,37	1,34	1,57
Return on Risk-Weighted Assets before Taxes (RORWAbT)	2,51	+2,88	-0,37	2,07	2,40
Net Interest Margin (NIM)	2,33	-0,09	2,42	2,62	2,67
Pre-Impairment Operating Profit / Assets	1,38	+0,68	0,69	1,45	1,59
Cost of Funds (COF)	0,89	-0,10	1,00	1,57	1,52
Change in %-Points					

Asset Situation and Asset Quality

In general, Santander's balance sheet as well as the aforementioned income statement are strongly affected by exchange rate movements, in particular in volatile times. After the negative exchange rate effects in 2020, which were the main driver of the decreased net loan position, Santander was able to expand its lending activities in 2021 again. Net loans to customers, as the main balance sheet item, increased by about 6% (4% excl. exchange effects). According to Santander's statement from 7 March 2022, the bank's direct exposure to Russian and Ukrainian markets and assets is negligible. The breakdown of the credit volume by geographical business area (as of 2021) is shown in chart 2 below:

Chart 2: Geographical distribution of gross loans and advances to customers (excl. reverse repos) of Banco Santander S.A. | Source: Annual Report 2021, Own Illustration



Moreover, Chart 1 in combination with Chart 2 show the profitability of the South American business activities despite their relative low share of the loan volume. While the bank was able to regain its pre-Corona pandemic level volumes in North and South America as well as at the digital consumer bank, Santander was able to expand its loan activities in particular in Europe by 5% in comparison to 2019. In addition, the bank's loan portfolio shows a high level of diversification with regard to economic sectors whereby the financial and insurance sector (20%); the manufacturing sector (13%) and real estate sector (10%) record the most relevant shares.

All other asset items did not change significantly over the recent years, except for the bank's cash position. The high cash holding of Santander follows the bank's participation at the ECB TLTRO III program (as of 31 December 2021 with 88.9bn EUR), which enables the bank very favorable refinancing at even negative rates.

A detailed look at the development of the asset side of the balance sheet for the years of 2018 through 2021 can be taken in Figure 3 below:

Figure 3: Development of assets | Source: eValueRate / CRA

Assets (EUR m)	2021	%	2020	2019	2018
Cash and Balances with Central Banks	223.964	+35,2	165.596	118.600	129.264
Net Loans to Banks	33.865	+16,3	29.115	31.412	25.032
Net Loans to Customers	939.418	+6,7	880.497	896.515	850.611
Total Securities	185.425	-3,5	192.186	203.246	205.993
Total Derivative Assets	59.463	-23,2	77.442	72.315	65.634
Other Financial Assets	58.107	-13,0	66.787	84.297	75.083
Financial Assets	1.500.242	+6,3	1.411.623	1.406.385	1.351.617
Equity Accounted Investments	7.525	-1,3	7.622	8.772	7.588
Other Investments	978	+1,6	963	973	1.563
Insurance Assets	432	-0,7	435	484	534
Non-current Assets & Discontinued Ops	4.089	-8,0	4.445	4.601	5.426
Tangible and Intangible Assets	48.927	+2,6	47.680	61.949	53.154
Tax Assets	25.196	+2,5	24.586	29.585	30.251
Total Other Assets	8.446	-22,5	10.896	9.946	9.138
Total Assets	1.595.835	+5,8	1.508.250	1.522.695	1.459.271

Santander's NPL ratio (stage 3 loans) of 3.16% is at a comparatively low level, even though the bank's has significant activities outside of Europe. In addition, even in comparison to some other large European banks and despite the Corona pandemic impact, Santander's NPL ratio remains low.

Moreover, Santander's NPL to RWA ratio shows a moderate risk of Santander's loans in comparison to its risk-weighted assets as well. In addition, the ratio increased slightly despite the Corona pandemic impact. Despite the bank's significant business activities in emerging markets, which bear a higher risk weighting, Santander's RWA ratio is at a relatively low level. Moreover, the reserves / NPL ratio of about 72.5% of Santander is at a sound level and shows adequate risk provisioning. Both of Santander's net-write off ratios were at an unsatisfactory level already before the Corona pandemic. Despite the slight improvement in impairment expense in 2021, the bank still shows a higher risk profile with regard to its assets, which leads to higher impairment needs. The bank's potential problem loans ratio (measured by stage 2 loans) is besides the increased loan loss provision the other significant lasting impact of the Corona pandemic. With a potential problem loan ratio of about 7.19%, Santander reached an elevated level and remained at this in 2021, indicating persistent potential risk as a result of the Corona pandemic.

A detailed overview of the asset quality for the years of 2017 through 2020 can be found in Figure 4 below:

Figure 4: Development of asset quality | Source: eValueRate / CRA

Asset Ratios (%)	2021	%	2020	2019	2018
Net Loans/ Assets	58,87	+0,49	58,38	58,88	58,29
Risk-weighted Assets/ Assets	36,31	-0,94	37,25	39,75	40,59
NPLs*/ Net Loans to Customers	3,16	-0,05	3,21	3,32	3,73
NPLs*/ Risk-weighted Assets	5,46	-0,02	5,48	5,38	5,65
Potential Problem Loans**/ Net Loans to Customers	7,19	-0,31	7,51	5,63	6,13
Reserves/ NPLs*	72,57	-4,00	76,57	68,35	69,65
Reserves/ Net Loans	2,44	-0,24	2,68	2,48	2,74
Cost of Risk/ Net Loans	0,79	-0,62	1,41	1,04	1,05
Cost of Risk/ Risk-weighted Assets	1,28	-0,92	2,20	1,55	1,51
Cost of Risk/ Total Assets	0,46	-0,36	0,82	0,61	0,61

Change in %-Points

* NPLs are represented by Stage 3 Loans where available.

** Potential Problem Loans are Stage 2 Loans where available.

Refinancing, Capital Quality and Liquidity

Total deposits from customers represent the major source of refinancing of Santander. About 35% of the customer deposits are customer deposits from Spain while only 10% of customer deposits are related to South America, which are subject to higher exchange effects (distribution of the rest: 12% EU excl. Spain, 35% OECD incl. UK with major share, 8% US and Puerto Rico). Overall, after the drawdown on customer deposits mostly due to exchange effects in particular in South America, Santander recorded in 2021 significant growth of its customer deposits in all of its geographical areas. Most of the banks customer deposits are demand deposits (78%) and bear a risk of quick withdrawals. In general, Santander denotes increasing deposits at current accounts, while time deposits show a slower growth, which is in line with market development.

Santander's total debt item, as the second largest position of liabilities, consist primarily of senior unsecured debt (€111bn) and senior secured debt (€82bn) with a balanced maturity profile. About €90bn of Santander's bonds and debentures outstanding are denominated in Euro while €66bn are denominated in US Dollar (other significant currencies are GBP with about 13bn and the Brazilian Real with €9bn), which shows a well-diversified funding mixture with regard to its currencies.

The most relevant change in recent years with regard to the bank's refinancing is related to the ECB TLTRO III funding program, which enables funding at very favorable rates (up to -1%) if conditions are met. As of December 2021, Santander took about €88.9bn at the ECB program, which has the aforementioned significant positive impact on the income statement. By contrast, Santander's recent fluctuation of its total equity is related to the fluctuated results in 2021 vs. 2020 in addition to exchange effects.

A detailed overview of the development of liabilities for the years of 2018 through 2021 can be found in Figure 5 below:

Figure 5: Development of refinancing and capital adequacy | Source: eValueRate / CRA

Liabilities (EUR m)	2021	%	2020	2019	2018
Total Deposits from Banks	178.038	+13,2	157.306	138.155	142.499
Total Deposits from Customers	881.987	+8,2	814.836	785.454	747.736
Total Debt	246.163	+4,6	235.269	261.977	246.619
Derivative Liabilities	59.277	-17,2	71.624	69.333	62.007
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	98.761	-3,6	102.464	115.169	117.836
Total Financial Liabilities	1.464.226	+6,0	1.381.499	1.370.088	1.316.697
Insurance Liabilities	770	-15,4	910	739	765
Non-current Liabilities & Discontinued Ops	-	-	-	-	-
Tax Liabilities	8.649	+4,4	8.282	9.322	8.135
Provisions	9.583	-11,7	10.852	13.987	13.225
Total Other Liabilities	15.554	+1,1	15.385	17.900	13.088
Total Liabilities	1.498.782	+5,8	1.416.928	1.412.036	1.351.910
Total Equity	97.053	+6,3	91.322	110.659	107.361
Total Liabilities and Equity	1.595.835	+5,8	1.508.250	1.522.695	1.459.271

In contrast to the balance sheet equity, the regulatory capital ratios improved over the recent years continuously. The Group's CET1 (we consider only fully loaded figures unless otherwise stated) improved slightly YOY but remain at a below average level in comparison to other large European banks. The increase in CET1 capital even offset the increased volume of risk-weighted assets and slightly exceed the bank's targeted CET1 ratio of about 11-12%. With regard to the minimum required CET1 ratio of 8.85% (Total Capital requirement at 13.01%), the banks records a comfortable buffer but is at the lower end in comparison to other large European banks. Referring the Group's Tier 2 capital and Additional Tier 1 Capital (target of 1.5% AT1 and 2% T2 Capital), Santander maintained widely its regulatory capital amount, which are like the CET1 ratio below average in comparison to other large European banks. Moreover, at the EBA stress test 2021, Santander performed quit well with an only minor and clearly below average impact on the bank's capital ratio in the adverse scenario.

Overall, Santander meets comfortably all regulatory capital requirements. In contrast to the regulatory capital figures, the Group maintained a sound leverage ratio and an adequate Total Equity to Total Assets ratio in 2021. The drop of Santander's total equity ratio in 2020 is on one hand a result of the negative result in addition to the extension of the bank's total assets due to the TLTRO III liabilities, which is rather a technical issue than a potential risk. With regard to the bank's dividend policy, Santander follows a moderate policy and intends to distribute 40% of the group's underlying profit, in approximately equal parts between cash dividends and share buybacks. Santander's capital figures are the least favorable performers in any of the areas analyzed.

The Group's LCR of 163% and NSFR of 126% are in line with other large European banks. Santander meets the regulatory requirements comfortably in this regard. The customer deposits to total funding ratio of the bank shows the Group's stable and favorable source of funding - the deposits of its customers. Overall, we do not perceive any liquidity issues at Santander and the whole banking sector.

A detailed overview of the development of capital and liquidity ratios for the years of 2018 through 2021 can be found in Figure 6 below:

Figure 6: Development of capital and liquidity ratios | Source: eValueRate / CRA

Capital Ratios and Liquidity (%)	2021	%	2020	2019	2018
Total Equity/ Total Assets	6,08	+0,03	6,05	7,27	7,36
Leverage Ratio	5,37	+0,04	5,33	5,15	5,22
Common Equity Tier 1 Ratio (CET1)*	12,12	+0,23	11,89	11,65	11,30
Tier 1 Ratio (CET1 + AT1)*	13,79	+0,35	13,44	13,05	12,80
Total Capital Ratio (CET1 + AT1 + T2)*	16,41	+0,68	15,73	15,02	14,77
SREP/ CET1 Minimum Capital Requirements	8,85	+0,00	8,85	9,69	9,70
MREL / TLAC Ratio	35,35	-	-	-	-
Net Loans/ Deposits (LTD)	106,51	-1,55	108,06	114,14	113,76
Net Stable Funding Ratio (NSFR)	126,00	+6,00	120,00	112,00	114,00
Liquidity Coverage Ratio (LCR)	163,00	-5,00	168,00	147,00	158,00
Customer Deposits / Total Funding (excl. Derivates)	61,27	+0,70	60,57	58,50	57,97
Interbank Ratio	19,02	+0,51	18,51	22,74	17,57
Change in %-Points					

* Fully-loaded where available

Due to Banco Santander's bank capital and debt structure, as well as its status as a G-SIB, the Group's Preferred Senior Unsecured Debt instruments have not been notched down in comparison to the long-term issuer rating. Due to the seniority structure, Santander's Non-Preferred Senior Unsecured debt has been notched down by one notch. However, Santander's Tier 2 capital rating is rated four notches below the long-term issuer rating based on the bank's capital structure and seniority in accordance with our rating methodology. Additional Tier 1 capital is rated five notches below the long-term issuer rating, reflecting a high bail-in risk in the event of resolution.

Environmental, Social and Governance (ESG) Score Card

Banco Santander SA (Group) has one significant and two moderate ESG rating drivers

- Corporate Governance is identified as a highly significant rating driver. The relevance for the credit rating results from the impact of the Corporate Governance factor on all other ESG factors and the overall well-being of the bank. This sub-factor is rated positive due to Banco Santander's strong and sustainable performance track record in addition to the widespread ESG policies.

- Corporate Behaviour and Green Financing / Promoting are identified as moderate rating driver. While Green Financing / Promoting was downnotched to neutral due to the relative low amount of green financing/bonds activities, Corporate Behaviour was upnotched to positive due the bank's business activities, which are widely in line with the ideas and beliefs of the society .

**ESG
Bank Score**

3,8 / 5

Score Guidance	
> 4,25	Outstanding
>3,5 - 4,25	Above-average
>2,5 - 3,5	Average
>1,75 - 2,5	Substandard
<= 1,75	Poor

Factor	Sub-Factor	Consideration	Relevance Scale 2022	Eval.
Environmental	1.1 Green Financing / Promoting	The sub-factor "Green Financing/Promoting" has a moderate relevance for the credit rating, and is rated neutral in terms of the CRA ESG criteria.	3	()
	1.2 Exposure to Environmental Factors	The sub-factor "Exposure to Environmental Factors" has a low relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	2	(+)
	1.3 Resource Efficiency	The sub-factor "Resource Efficiency" has no significant relevance for the credit rating, and is rated neutral in terms of the CRA ESG criteria.	1	()

Social	2.1 Human Capital	The sub-factor "Human Capital" has low relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	2	(+)
	2.2 Social Responsibility	The sub-factor "Social Responsibility" has no significant relevance for the credit rating, and is rated neutral in terms of the CRA ESG criteria.	1	()

Governance	3.1 Corporate Governance	The sub-factor "Corporate Governance" is highly relevant for the credit rating, and is rated positive in terms of the CRA ESG criteria.	4	(+)
	3.2 Corporate Behaviour	The sub-factor "Corporate Behaviour" has a moderate relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	3	(+)
	3.3 Corporate Transparency	The sub-factor "Corporate Transparency" has no significant relevance for the credit rating, and is rated very positive in terms of the CRA ESG criteria.	1	(+ +)

ESG Relevance Scale	
5	Highest Relevance
4	High Relevance
3	Moderate Relevance
2	Low Relevance
1	No significant Relevance

ESG Evaluation Guidance	
(+ +)	Strong positive
(+)	Positive
()	Neutral
(-)	Negative
(- -)	Strong negativ

The ESG Score is based on the Methodology "Environmental, Social and Governance Score of Banken (Version 1.0)" of Creditreform Rating AG, which is available on our homepage <https://creditreform-rating.de/en/about-us/regulatory-requirements.html>. In addition, we refer to CRA's position paper "Considering the Impact of ESG Factors".

Conclusion

Creditreform Rating affirms the rating of Banco Santander S.A. at 'A-' but increases the outlook from stable to positive. The increase of the outlook is a result of the bank's quickly regained profitability and the only very limited impact of the Corona pandemic. In addition, the bank's asset quality figures follow a positive trend.

Banco Santander showed a strong performance in the fiscal year 2021 after the previous year, which was highly affected by the Corona pandemic. Santander recorded significant reversals of impairments in addition to various ambivalent exchange effects. In addition, the pandemic revealed Santander's dependency on economic developments, which cannot be compensated by the strong investment banking or asset servicing. Independent of that, Banco Santander shows a steady process of its digital transformation in addition to its ongoing cost cutting and efficiency measures, which enable a sound intrinsic profitability with sustainable higher profit margins pushed by the banks overseas business activities. The targeted ROE of about >13% and the CIR of about 45% for 2022 underpin the bank's ambitious goals.

The bank's asset quality figures are at a considerable level, given Santander's various overseas business activities, in particular in South America. In addition, a continuous positive trend is present. However, Santander's cost of risk ratios and the elevated potential problem loan ratio indicate the higher risk of business, which however enable the aforementioned sound profitability figures. As of now, the impact of the war in Ukraine cannot be assessed; however, the direct exposure of Santander seems to be relatively small but economic uncertainties arise. Banco Santander's volume of loans and the number of customers are growing steadily with increasing share of digital customers, which are more profitable for the bank. It remains to be seen how the risks of the loan portfolio will develop after the run out of all government pandemic support measures.

The capitalization of the bank remained moderate with sufficient buffer to the minimum requirements, which is, however at the lower end in comparison to other large European banks. The targeted CET1 ratio of about 12% indicates no further improvements with regard to the bank's capitalization. By contrast, Santander performed quite well at the EBA stress test 2021 with an only minor and clearly below average impact on the bank's capital ratio in the adverse scenario, which indicates sound risk management.

Outlook

The outlook of the Long-Term Issuer Rating of Banco Santander and its bank capital and debt instruments is 'positive'. In the medium term, CRA expects Santander to maintain its sound level of profitability whereas the Corona pandemic impact turned out to be very little. In addition, we expect the bank at least to maintain its equity ratios whereas the asset quality figures follow a positive trend. Moreover, we assume no further significant economic impact of the Corona pandemic and stable political environment in the Santander's major markets of operations.

Best-case scenario: A+

Worst-case scenario: BBB+

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

Scenario Analysis

In a scenario analysis, the bank is able to reach an "A+" rating in the "best case" scenario and an "BBB+" rating in the "worst case" scenario. The ratings of bank capital and senior unsecured debt would behave similarly based on our rating mechanism. These ratings are especially sensitive to changes in total equity and to the bank capital and debt structure in general.

We might upgrade Banco Santander's long-term issuer credit rating and its bank capital and debt instruments if we see that Banco Santander is able to increase credit volume and earnings in future periods. In addition, the bank should at least maintain its capitalization and asset quality.

By contrast, a downgrade of the Group's long-term issuer credit rating and its bank capital and debt instruments is likely if we see a persistent earnings weakness and a reduction of the banks' capital ratios. In particular, we will observe the lasting Corona pandemic impact on Banco Santander's asset quality and its business activities in general.

Appendix

Bank ratings

The bank ratings are dependent on a host of quantitative and qualitative factors. An improvement in either sub-category may result in a higher rating score.

LT Issuer / Outlook / Short-Term **A- / positive / L2**

Bank Capital and Debt Instruments Ratings

The ratings for bank capital and debt instruments are inter alia dependent on subordination and relative size of the instrument class, based on the long-term issuer rating of the bank.

Preferred Senior Unsecured Debt (PSU): **A-**
 Non-Preferred Senior Unsecured Debt (NPS): **BBB+**
 Tier 2 (T2): **BB+**
 Additional Tier 1 (AT1): **BB**

Rating History

Please consult our website www.creditreform-rating.de for additional information regarding the dates of publication.

Figure 7: Rating History

Bank Issuer Rating	Rating Date	Result
LT / Outlook / Short-Term (Initial)	15.08.2018	A / stable / L2
Rating Update	22.11.2019	A / stable / L2
Monitoring	24.03.2020	A / NEW / L2
Rating Update	26.11.2020	A- / negative / L2
Rating Update	17.12.2021	A- / stable / L2
Rating Update	13.04.2022	A- / positive / L2
Bank Capital and Debt Instruments	Rating Date	Result
Senior Unsecured / T2 / AT1 (Initial)	15.08.2018	A / BBB- / BB+
PSU / NPS / T2 / AT1	22.11.2019	A / A- / BBB- / BB+
PSU / NPS / T2 / AT1	24.03.2020	A / A- / BBB- / BB+ (NEW)
PSU / NPS / T2 / AT1	26.11.2020	A- / BBB+ / BB+ / BB
PSU / NPS / T2 / AT1	17.12.2021	A- / BBB+ / BB+ / BB
PSU / NPS / T2 / AT1	13.04.2022	A- / BBB+ / BB+ / BB
Subsidiaries of the Bank	Rating Date	Result
Banco Santander Totta S.A.		
LT / Outlook / Short-Term (Initial)	25.09.2018	A / stable / L2
Rating Update	22.11.2019	A / stable / L2

Creditreform Bank Rating

Banco Santander S.A. (Group) as parent of
Banco Santander Totta S.A.

Monitoring	24.03.2020	A / NEW / L2
Rating Update	26.11.2020	A- / negative / L2
Rating Update	17.12.2021	A- / stable / L2
Rating Update	13.04.2022	A- / positive / L2
Bank Capital and Debt Instruments of Banco Santander Totta S.A.		
Senior Unsecured / T2 / AT1 (Initial)	25.09.2018	A / BBB- / BB+
PSU / NPS / T2 / AT1	22.11.2019	A / A- / BBB- / BB+
PSU / NPS / T2 / AT1	24.03.2020	A / A- / BBB- / BB+ (NEW)
PSU / NPS / T2 / AT1	26.11.2020	A- / BBB+ / BB+ / BB
PSU / NPS / T2 / AT1	17.12.2021	A- / BBB+ / BB+ / BB
PSU / NPS / T2 / AT1	13.04.2022	A- / BBB+ / BB+ / BB

Figure 8: Income statement of Banco Santander Totta S.A. | Source: eValueRate / CRA

Income Statement (EUR k)	2020	%	2019	2018
Income				
Net Interest Income	786.640	-8,1	855.714	866.278
Net Fee & Commission Income	373.212	-1,9	380.504	372.398
Net Insurance Income	17.236	-20,5	21.687	19.780
Net Trading & Fair Value Income	99.052	+4,8	94.482	6.421
Equity Accounted Results	14.553	+34,7	10.805	14.568
Dividends from Equity Instruments	1.734	-3,1	1.789	1.674
Other Income	37.224	+38,6	26.861	101.594
Operating Income	1.329.651	-4,5	1.391.842	1.382.713
Expense				
Depreciation and Amortisation	68.418	+21,4	56.335	72.964
Personnel Expense	324.383	-6,2	345.988	357.209
Tech & Communications Expense	68.768	-4,1	71.693	62.538
Marketing and Promotion Expense	12.424	-8,1	13.516	13.458
Other Provisions	66.707	> +100	995	250.652
Other Expense	201.321	+1,1	199.223	274.144
Operating Expense	742.021	+7,9	687.750	1.030.965
Operating Profit & Impairment				
Operating Profit	587.630	-16,5	704.092	351.748
Cost of Risk / Impairment	187.632	< -100	-6.963	2.800
Net Income				
Non-Recurring Income	5.014	-82,6	28.736	21.107
Non-Recurring Expense	-	-	-	-
Pre-tax Profit	405.012	-45,3	739.791	370.055
Income Tax Expense	109.344	-48,5	212.315	-129.897
Discontinued Operations	-	-	-	-
Net Profit	295.668	-43,9	527.476	499.952
Attributable to minority interest (non-controlling interest)	109	-50,0	218	12
Attributable to owners of the parent	295.559	-43,9	527.258	499.964

Figure 9: Key earnings figures of Banco Santander Totta S.A. | Source: eValueRate / CRA

Income Ratios (%)	2020	%	2019	2018
Cost Income Ratio (CIR)	55,81	+6,39	49,41	74,56
Cost Income Ratio ex. Trading (CIRex)	60,30	+7,29	53,01	74,91
Return on Assets (ROA)	0,51	-0,43	0,94	0,91
Return on Equity (ROE)	6,18	-6,01	12,19	11,79
Return on Assets before Taxes (ROAbT)	0,69	-0,62	1,32	0,67
Return on Equity before Taxes (ROEbT)	8,46	-8,63	17,09	8,73
Return on Risk-Weighted Assets (RORWA)	1,65	-1,18	2,83	2,49
Return on Risk-Weighted Assets before Taxes (RORWAbT)	2,26	-1,71	3,97	1,85
Net Financial Margin (NFM)	1,56	-0,19	1,75	1,64
Pre-Impairment Operating Profit / Assets	1,01	-0,25	1,26	0,64
Cost of Funds (COF)	0,63	-0,08	0,71	0,74
Change in %-Points				

Figure 10: Development of assets of Banco Santander Totta S.A. | Source: eValueRate / CRA

Assets (EUR k)	2020	%	2019	2018
Cash and Balances with Central Banks	4.543.652	+29,8	3.500.397	2.506.630
Net Loans to Banks	20.170	-97,2	727.486	675.031
Net Loans to Customers	38.987.703	+9,6	35.564.413	35.563.158
Total Securities	12.478.566	-7,4	13.472.526	13.131.305
Total Derivative Assets	924.729	-18,1	1.129.674	1.274.759
Other Financial Assets	-	-	-	3.379
Financial Assets	56.954.820	+4,7	54.394.496	53.154.262
Equity Accounted Investments	131.136	+16,8	112.259	111.376
Other Investments	250.531	-0,8	252.513	297.625
Insurance Assets	17.510	-21,7	22.373	40.365
Non-current Assets & Discontinued Ops	51.461	+16,8	44.043	30.022
Tangible and Intangible Assets	373.211	-8,9	409.882	377.430
Tax Assets	393.876	-34,9	604.868	683.733
Total Other Assets	157.918	-34,8	242.339	332.759
Total Assets	58.330.463	+4,0	56.082.773	55.027.572

Figure 11: Development of asset quality of Banco Santander Totta S.A. | Source: eValueRate / CRA

Asset Ratios (%)	2020	%	2019	2018
Net Loans/ Assets	66,84	+3,43	63,41	64,63
Risk-weighted Assets/ Assets	30,79	-2,46	33,25	36,44
NPLs*/ Net Loans to Customers	3,57	-0,99	4,56	5,72
NPLs*/ Risk-weighted Assets	7,75	-0,96	8,70	10,15
Potential Problem Loans**/ Net Loans to Customers	10,91	+5,22	5,69	5,52
Reserves/ NPLs*	71,48	+14,90	56,58	54,51
Reserves/ Net Loans	2,55	-0,03	2,58	3,12
Cost of Risk/ Net Loans	0,48	+0,50	-0,02	0,01
Cost of Risk/ Risk-weighted Assets	1,04	+1,08	-0,04	0,01
Cost of Risk/ Total Assets	0,32	+0,33	-0,01	0,01
Change in %-Points				

* NPLs are represented by Stage 3 Loans where available.
** Potential Problem Loans are Stage 2 Loans where available.

Figure 12: Development of refinancing and capital adequacy of Banco Santander Totta S.A. | Source: eValueRate / CRA

Liabilities (EUR k)	2020	%	2019	2018
Total Deposits from Banks	7.085.306	+54,7	4.578.852	4.632.609
Total Deposits from Customers	35.939.026	+2,3	35.118.949	33.381.336
Total Debt	2.560.585	-25,4	3.431.231	4.322.597
Derivative Liabilities	1.442.885	-3,2	1.491.045	1.330.269
Securities Sold, not yet Purchased	-	-	-	-
Other Financial Liabilities	4.729.284	-11,1	5.319.577	5.333.638
Total Financial Liabilities	51.757.086	+3,6	49.939.654	49.000.449
Insurance Liabilities	4.193	-15,4	4.959	-
Non-current Liabilities & Discontinued Ops	-	-	-	-
Tax Liabilities	391.264	-0,7	393.964	254.269
Provisions	950.932	-1,4	964.754	1.040.849
Total Other Liabilities	441.856	-2,1	451.252	490.707
Total Liabilities	53.545.331	+3,5	51.754.583	50.786.274
Total Equity	4.785.132	+10,6	4.328.190	4.241.298
Total Liabilities and Equity	58.330.463	+4,0	56.082.773	55.027.572

Figure 13: Development of capital and liquidity ratios of Banco Santander Totta S.A. | Source: eValueRate / CRA

Capital Ratios and Liquidity (%)	2020	%	2019	2018
Total Equity/ Total Assets	8,20	+0,49	7,72	7,71
Leverage Ratio	7,80	+1,50	6,30	6,50
Common Equity Tier 1 Ratio (CET1)*	20,60	+5,60	15,00	14,00
Tier 1 Ratio (CET1 + AT1)*	23,90	+5,60	18,30	17,00
Total Capital Ratio (CET1 + AT1 + T2)*	24,90	+6,30	18,60	17,10
Net Loans/ Deposits (LTD)	108,48	+7,21	101,27	106,54
Net Stable Funding Ratio (NSFR)	-	-	-	-
Liquidity Coverage Ratio (LCR)	121,90	-	-	-
Change in %-Points				

* Fully-loaded where available

Regulatory

Creditreform Rating AG was neither commissioned by the rating object nor by any other third party for the rating. The analysis took place on a voluntary basis by Creditreform Rating AG and is to be described in the regulatory sense as an unsolicited rating. The following scheme clarifies the level of participation of the rated entity (rating object):

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	No
With Access to Internal Documents	No
With Access to Management	No

The rating is based on publicly available information and internal evaluation methods for the rated bank. The quantitative analysis is based mainly on the latest annual accounts, interim reports, other investor relations information of the bank, and calculated key figures by eValueRate / CRA.

The information and documents processed met the requirements of the rating system of Creditreform Rating AG as published on the website www.creditreform-rating.de. The rating was carried out on the basis of the rating methodology for [bank ratings as \(v3.1\)](#), the methodology for the [rating of bank capital and unsecured debt instruments \(v2.1\)](#) as well as the rating methodology for [Environmental, Social and Governance Score for Banks \(v1.0\)](#) in conjunction with Creditreform's basic document [Rating Criteria and Definitions \(v1.3\)](#).

The complete presentation of the rating methodologies used by Creditreform Rating AG and the basic document Rating Criteria and Definitions (v1.3) are published on our homepage:

<https://www.creditreform-rating.de/en/about-us/regulatory-requirements.html>

On 13 April 2022, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to Banco Santander S.A. (Group) and the relevant subsidiary, and the preliminary rating report was made available to the bank. There was no change in the rating score.

The rating is valid until withdrawal and is subject to monitoring from the rating date (see cover page). The rating will be comprehensively reviewed at least once every year. Within this period, the rating can be updated.

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No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services

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To prepare this credit rating, CRA has used following substantially material sources:

1. Aggregated data base by eValueRate
2. Annual Report and interim reports
3. Investors relations information and other publications
4. Website of the rated bank
5. Public and internal market analyses
6. Internet research

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRA website. Furthermore CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.

Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

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In case where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating and indicates how the different methodologies or these other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions, such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings as well as best-case scenario credit ratings are explained in mentioned methodologies and / or in the credit rating report.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the rating report or the "Basic data" card as a "Rating action"; first release is indicated as "initial rating", other updates are indicated as an "update", "upgrade or downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available in the rating report or in the „Basic data“ information card.

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