Creditreform Bank Rating

Banco Santander S.A. (Group)

Creditreform Rating

Rating Object	Rating Information	
Banco Santander S.A. (Group)	Long Term Issuer Rating / Outlook:	Short Term:
	A- / stable	**L2**
Creditreform ID: 6226 Management: José Antonio Álvarez (CEO) Ana Botín (Executive Chairman)	Type: Update / Unsolicited	

Rating Date:	**17 December 2021**
Monitoring until:	withdrawal of the rating
Rating Methodology:	CRA "Bank Ratings v.3.0" CRA "Rating of Bank Capital and Unsecured Debt Instruments v.2.0" CRA "Environmental, Social and Governance Score for Banks v.1.0" CRA "Rating Criteria and Definitions v.1.3"
Rating History:	www.creditreform-rating.de

Rating of Bank Capital and Unsecured Debt Instruments:

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 17 December 2021.

Contents

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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 and continuously improving cost income ratios
- \+ Income situation in 2021 already nearly at pre-crisis level
- \+ Many of the self-imposed medium-term targets, including the ESG targets, to be achieved soon
- +/- Significant refinancing from customer deposit business
- \- Very high impairments on assets in 2020
- \- High dependence on currency effects in the individual business countries

Executive Summary

Creditreform Rating affirms the unsolicited long-term issuer rating of Banco Santander S.A. at A-. However, we raise the outlook from negative to stable. The raise of the outlook and the affirmation of the Credit rating are a result of the unique impact of the Corona crisis on Banco Santander's performance. In addition, we expect a higher net profit in 2021 and a growth in customer base. Moreover, Banco Santander benefits from its high geographic diversification and the increased digitalisation.

Company Overview

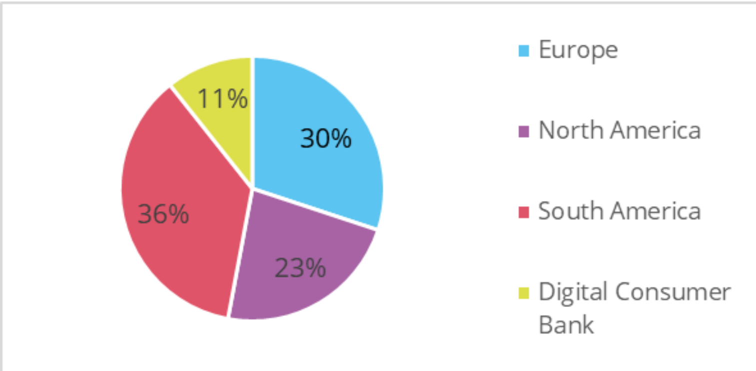
Founded in 1857, the Banco Santander S.A. is managed by the Botín family in the fourth generation. The bank developed from a series of mergers and acquisitions into a globally operating and multinational financial group, beginning in the 1990s. After the merger with Banco Central Hispano in 1990, Banco 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. In the primary segment, commercial banking is divided by geographic area. The ten core markets are: USA, Mexico, Chile, Argentina, Brazil, UK, Portugal, Spain, Poland and the Digital Consumer Bank division (in Germany, among others). The secondary segment includes the business lines that are offered across the Group:

- Santander Corporate & Investment Banking: SCIB business includes revenue from global corporate banking, investment banking and global markets, including treasuries managed globally (always after the adequate 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 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 banks and institutional clients in the open market. In addition, PagoNxt focuses on three business fields to increase growth, be global and achieve efficiency: Merchant Solutions, Trade Solutions and Consumer Solutions.

The following chart shows the geographical distribution of net operating income (9M´21):

Chart 1: Geographical distribution of the net operating income of Banco Santander S.A.| Source: 9M´21 earnings presentation, Own Illustration



Moreover, the bank is second biggest bank in the Eurozone in terms of its market capitalization of EUR 44.011 million in 2020 (9M/2021: EUR 54 bn). As of December 2020, the bank achieved EUR 1,508.3 billion of assets. The Bank has a strong and focused presence in nine core markets across Europa and the Americas with more than >3.8 million shareholders and 152 million customers.

In addition to expanding its digital business model, Banco Santander, with its approximately 11,000 branches (2020), continues to have a high international presence, unlike many of its competitors.

Business Development

Profitability

The Bank has steadily increased its interest income in recent years. Banco Santander benefited in particular from its strong South American business, which allowed higher interest margins than in Europe. The reduced personnel costs in South America also enabled the Bank to work more efficiently and to achieve a higher ROA and ROE than its European peers.

In 2020 the corona crisis has stopped this growth. Both, interest income and fee and commission income are lower in 2020 than in 2019. Admittedly the Bank is able to improve its cost structure, but not to the same extent. The lower interest income is mainly attributable to significantly lower currency exchange rates and lower interest margins in some cases. Lower interest margins occurred primarily in Poland and Portugal. Without the significant exchange rate effects, interest income would have remained relatively stable because lending volumes increased in the South American countries in particular. There was an even more significant percentage decline in fee and commission income. Currency effects were also the main reason for the decline in commission income. However, even without the currency effects, fee and commission income would have been 5% lower, mainly due to less market activity in Europe, except Poland.

Furthermore, interest income and fee income are the main types of income for Banco Santander and account for about 95% of the Bank's total income. The remaining income is net trading income, which has increased due to foreign currency hedging, portfolio sales and market volatility management.

The decline in operating costs was also largely due to currency effects, and the first cost reduction effects can also be seen. Particularly in Europe, the first synergy effects are reducing costs.

The high risk provisioning (€9.6 billion) and the goodwill impairments (UK: €6.1 billion, US: €2.33 billion and Poland: €1.19 billion) will lead to a negative year-end result in 2020. In 2021, we do not yet expect the Bank to achieve the same earnings as of the pre-corona crisis. Earnings will likely suffer by the crisis in the upcoming years as well.

Two main impairment segments thus led to the negative result for the year. On the one hand, impairments of € 12.38 billion were made on financial assets due to the weaker economic outlook caused by the Corona pandemic. This led to an increase of 32% compared to the previous year. These impairments were also made in all countries. The second major aspect that led to the negative result for the year is the impairment resulting from the annual goodwill review. A total of € 10.1 billion was written off on a non-recurring account (Santander UK: € 6.1 billion, Santander US: €2.3 bn, Santander Bank Polska: € 1.2 bn and others).

A detailed group income statement for the years of 2017 through 2020 can be found in Figure 1 below:

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

Income Statement (EUR m)	2020	%	2019	2018	2017
Income					
Net Interest Income	31.994	-9,3	35.283	34.341	34.296
Net Fee & Commission Income	10.015	-15,0	11.779	11.485	11.597
Net Insurance Income	210	+75,0	120	51	249
Net Trading Income	2.187	+42,8	1.531	1.797	1.664
Equity Accounted Results	-96	< -100	324	737	704
Dividends from Equity Instruments	391	-26,6	533	370	384
Other Income	2.069	-34,3	3.147	1.671	1.427
Operating Income	**46.770**	**-11,3**	**52.717**	**50.452**	**50.321**
Expense					
Depreciation and Amortisation	3.126	-32,4	4.624	2.615	3.866
Personnel Expense	10.783	-11,2	12.141	11.865	12.047
Tech & Communications Expense	3.264	-2,7	3.356	2.077	2.545
Marketing and Promotion Expense	523	-23,6	685	646	757
Other Provisions	2.378	-31,9	3.490	2.223	3.058
Other Expense	6.127	-2,7	6.294	7.766	7.017
Operating Expense	**26.201**	**-14,3**	**30.590**	**27.192**	**29.290**
Operating Profit & Impairment					
Pre-impairment Operating Profit	**20.569**	**-7,0**	**22.127**	**23.260**	**21.031**
Asset Writedowns	12.374	+32,3	9.352	8.936	9.259
Net Income					
Non-Recurring Income	44	-	0	0	522
Non-Recurring Expense	10.315	> +100	232	123	203
Pre-tax Profit	**-2.076**	**< -100**	**12.543**	**14.201**	**12.091**
Income Tax Expense	5.632	+27,2	4.427	4.886	3.884
Discontinued Operations	-	-	-	-	-
Net Profit	**-7.708**	**< -100**	**8.116**	**9.315**	**8.207**
Attributable to minority interest (non-controlling interest)	1.063	-33,6	1.601	1.505	1.588
Attributable to owners of the parent	-8.771	< -100	6.515	7.810	6.619

The negative annual result is particularly evident in the key income ratios. The key income ratios related to net income are all negative. Only the cost income ratios show that Santander Bank continues to make progress in its transformation process. The improvement in the cost income ratios is positive. Nonetheless, the negative result for the year leads to a deterioration in the assessment of the quantitative sub-area of profitability. So far, Banco Santander's high-margin business model has allowed it to outperform other large European banks. This time, the high impairments resulting from the Corona pandemic in 2020 have led to below-average profitability.

A detailed overview of the income ratios for the years of 2017 through 2020 can be found in Figure 2 below:

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

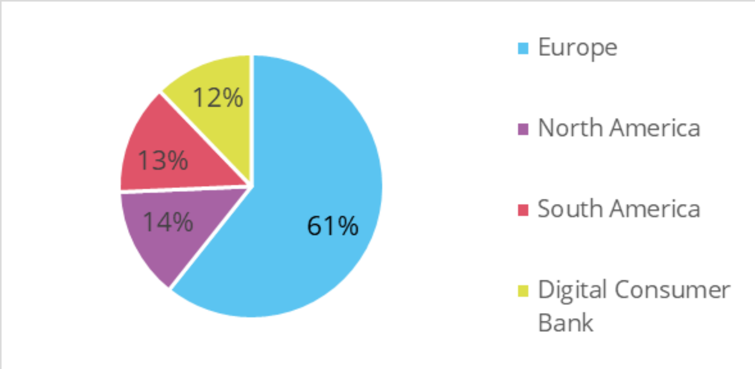
Income Ratios (%)	2020	%	2019	2018	2017
Cost Income Ratio (CIR)	56,02	-2,01	58,03	53,90	58,21
Cost Income Ratio ex. Trading (CIRex)	58,77	-0,99	59,76	55,89	60,20
Return on Assets (ROA)	-0,51	-1,04	0,53	0,64	0,57
Return on Equity (ROE)	-8,44	-15,77	7,33	8,68	7,68
Return on Assets before Taxes (ROAbT)	-0,14	-0,96	0,82	0,97	0,84
Return on Equity before Taxes (ROEbT)	-2,27	-13,61	11,33	13,23	11,32
Return on Risk-Weighted Assets (RORWA)	-1,37	-2,71	1,34	1,57	1,36
Return on Risk-Weighted Assets before Taxes (RORWAbT)	-0,37	-2,44	2,07	2,40	2,00
Net Interest Margin (NIM)	2,42	-0,20	2,62	2,67	2,70
Pre-Impairment Operating Profit / Assets	0,69	-0,76	1,45	1,59	1,46
Cost of Funds (COF)	1,00	-0,57	1,57	1,52	1,67
Change in %Points					

Based on the Q3/2021 figures, Banco Santander's profitability has improved significantly again. Both net interest income and commission income have increased compared to the same time last year. Operating income increased by about 3%, while operating costs remained almost constant. The net loan loss provisions were significantly lower than in the previous year (-37.5%), as were the impairments on non-financial assets, which were almost completely reduced. Attributable profit thus amounts to € 5.8 billion after € -9 billion in the previous year. It remains to be seen how impairments will develop in Q4/2021, when the economy is worse. Nevertheless, we expect a significantly better earnings situation in 2021 compared to the previous year.

Asset Situation and Asset Quality

The balance sheet, like the income statement, is also strongly influenced by negative exchange rates. Without these currency effects, the balance sheet total and net loans to customers, as the main balance sheet item, would have increased. A breakdown of the credit volume by geographical business area (as of Q3/2021) shows that the credit volume in South America increased the most in percentage terms compared to the previous year, but still only accounts for approximately 13% of the total portfolio. It is also noticeable that in Europe, North America and the Digital Consumer Bank there is hardly any further growth in credit volume.

Chart 2: Geographical distribution of the credit volume of Banco Santander S.A.| Source: 9M´21 earnings presentation, Own Illustration



A comparison of the distribution of lending volume to operating income shows how profitable the South American business is for Banco Santander. Increased growth in South America will therefore have a positive impact on profitability.

All other asset items have not changed significantly, except for the increase in cash and balances with central banks. The high cash balance is due to the borrowing of €77.7 billion under the ECB's TLTRO III program (end of 2020).

A detailed look at the development of the asset side of the balance sheet for the years of 2017 through 2020 can be taken in Figure 3 below:

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

Assets (EUR m)	2020	%	2019	2018	2017
Cash and Balances with Central Banks	165.596	+39,6	118.600	129.264	137.273
Net Loans to Banks	29.115	-7,3	31.412	25.032	29.387
Net Loans to Customers	880.497	-1,8	896.515	850.611	830.051
Total Securities	192.186	-5,4	203.246	205.993	226.427
Total Derivative Assets	77.442	+7,1	72.315	65.634	67.067
Other Financial Assets	66.787	-20,8	84.297	75.083	40.629
Financial Assets	**1.411.623**	**+0,4**	**1.406.385**	**1.351.617**	**1.330.834**
Equity Accounted Investments	7.622	-13,1	8.772	7.588	6.184
Other Investments	963	-1,0	973	1.563	2.324
Insurance Assets	435	-10,1	484	534	341
Non-current Assets & Discontinued Ops	4.445	-3,4	4.601	5.426	15.280
Tangible and Intangible Assets	47.680	-23,0	61.949	53.154	49.333
Tax Assets	24.586	-16,9	29.585	30.251	30.243
Total Other Assets	10.896	+9,6	9.946	9.138	9.766
Total Assets	**1.508.250**	**-0,9**	**1.522.695**	**1.459.271**	**1.444.305**

The asset ratios have deteriorated moderately due to the Corona pandemic. Asset quality remains at an adequate level. The higher depreciation ratios and the increased potential problem loans are due to the principle of prudence. These result from a conservative macroeconomic scenario view of the economic performance during the Corona pandemic. However, the RWA ratio and the high reserves for a major European bank shows that Banco Santander S.A. has an adequate risk assesment of its loan portfolio.

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 (%)	2020	%	2019	2018	2017
Net Loans/ Assets	58,38	-0,50	58,88	58,29	57,47
Risk-weighted Assets/ Assets	37,30	-2,45	39,75	40,59	41,89
NPLs*/ Net Loans to Customers	3,21	-0,11	3,32	3,73	2,96
NPLs*/ Risk-weighted Assets	5,48	+0,10	5,38	5,65	4,06
Potential Problem Loans**/ Net Loans to Customers	7,51	+1,88	5,63	6,13	1,41
Reserves/ NPLs*	76,57	+8,22	68,35	69,65	97,54
Reserves/ Net Loans	2,68	+0,20	2,48	2,74	2,88
Net Write-offs/ Net Loans	1,41	+0,36	1,04	1,05	1,12
Net Write-offs/ Risk-weighted Assets	2,20	+0,65	1,55	1,51	1,53
Net Write-offs/ Total Assets	0,82	+0,21	0,61	0,61	0,64
Level 3 Assets/ Total Assets	2,70	-0,47	3,17	0,58	0,53
Change in %Points					

* NPLs are represented from 2017 onwards by Stage 3 Loans.
** Potential Problem Loans are Stage 2 Loans where available.

Based on the Q3/2021 figures, asset quality is at a similar level to the previous year. Stage 2 + Stage 3 loans are slightly lower in percentage terms compared to year-end 2020, but higher than at the same time last year. The coverage ratio is almost unchanged from the previous year and the NPL ratio is also almost unchanged at Group level. However, the NPL ratio in North America has increased. This increase is offset by the lower NPL ratio in Europe. Due to recent lockdowns in Europe, it remains to be seen whether this NPL ratio will continue to decline.

Refinancing, Capital Quality and Liquidity

The development of the liabilities side of the balance sheet was not as dependent on the negative currency effects as the assets side of the balance sheet. On the liabilities side, the decline in the balance sheet is largely due to the lower equity, which was burdened by the negative annual result. Otherwise, there were no extraordinary changes in refinancing, except for the inclusion of the TLTRO III funds, which enable more favourable refinancing. A large part of the loans continues to be refinanced through the deposit business. In contrast to the lending business, approximately 55% of the deposits are from customers in Spain (33%) or the UK (23%), which leads to a high dependence of the refinancing on these two countries. The share of mutual funds in relation to short-term deposits has also become considerably lower, so that the average refinancing has shorter maturities than in the previous year.

A detailed overview of the development of liabilities for the years of 2017 through 2020 can be found in Figure 5 below:

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

Liabilities (EUR m)	2020	%	2019	2018	2017
Total Deposits from Banks	157.306	+13,9	138.155	142.499	139.515
Total Deposits from Customers	814.836	+3,7	785.454	747.736	724.721
Total Debt	235.269	-10,2	261.977	246.619	239.476
Derivative Liabilities	71.624	+3,3	69.333	62.007	66.266
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	102.464	-11,0	115.169	117.836	131.705
Total Financial Liabilities	**1.381.499**	**+0,8**	**1.370.088**	**1.316.697**	**1.301.683**
Insurance Liabilities	910	+23,1	739	765	1.117
Non-current Liabilities & Discontinued Ops	-	-	-	-	-
Tax Liabilities	8.282	-11,2	9.322	8.135	7.592
Provisions	10.852	-22,4	13.987	13.225	14.489
Total Other Liabilities	15.385	-14,1	17.900	13.088	12.591
Total Liabilities	**1.416.928**	**+0,3**	**1.412.036**	**1.351.910**	**1.337.472**
Total Equity	**91.322**	**-17,5**	**110.659**	**107.361**	**106.833**
Total Liabilities and Equity	**1.508.250**	**-0,9**	**1.522.695**	**1.459.271**	**1.444.305**

In contrast to the balance sheet equity, the regulatory capital ratios have increased. The total balance equity in relation to total assets has moderately decreased in the observed period. The Basel III leverage ratio is only acceptable in consideration of the temporary exemption for deposits with Eurosystem central banks. Otherwise, it would also have fallen. Regulatory ratios, however, increased due to relatively lower RWA ratios. Thus, the regulatory capital ratios are already in the medium-term target ratios and all regulatory capital ratios show a sufficient buffer to the SREP requirements. Despite the average improvement in the capital ratios, we rate them only average in our quantitative analysis. In particular, the lower balance sheet equity was below average due to the high net loss for the year. In our analysis, however, we assume that equity will continue to rise due to future retained earnings.

A detailed overview of the development of capital and liquidity ratios for the years of 2017 through 2020 can be found in Figure 6 below:

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

Capital Ratios and Liquidity (%)	2020	%	2019	2018	2017
Total Equity/ Total Assets	6,05	-1,21	7,27	7,36	7,40
Leverage Ratio	5,33	+0,18	5,15	5,22	5,28
Fully Loaded: Common Equity Tier 1 Ratio (CET1)	12,34	+0,69	11,65	11,30	10,84
Fully Loaded: Tier 1 Ratio (CET1 + AT1)	13,89	+0,84	13,05	12,80	12,11
Fully Loaded: Total Capital Ratio (CET1 + AT1 + T2)	16,16	+1,14	15,02	14,77	14,48
SREP Capital Requirements	8,85	-0,84	9,69	9,70	8,65
Net Loans/ Deposits (LTD)	108,06	-6,08	114,14	113,76	114,53
Interbank Ratio	18,51	-4,23	22,74	17,57	21,06
Liquidity Coverage Ratio	168,00	+21,00	147,00	158,00	133,00
Customer Deposits / Total Funding (excl. Derivates)	60,57	+2,07	58,50	57,97	57,01
Net Stable Funding Ratio (NSFR)	120,00	+8,00	112,00	114,00	-
Change in %Points					

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, Banco Santander's Non-Preferred Senior Unsecured debt has been notched down by one notch. However, Banco 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.

Based on the Q3/2021 figures, the equity situation remains comfortable, the regulatory capital ratios continue to be above the medium-term target ratios and have a good buffer above the SREP requirements. The robustness of the Common Equity Tier 1 capital in the EBA stress test in the adverse scenario is also positive. Banco Santander was the bank with the lowest impact on the CET1 phased-in ratio in the adverse scenario.

Environmental, Social and Governance (ESG) Score Card

Banco Santander 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 Santanders strong and sustainable earning figures, the widespread ESG policies and its ambitious ESG targets.

• Corporate Behaviour and Green Financing / Promoting are identified as moderate rating driver. While Green Financing / Promoting is rated positive due to the high amount of green bonds, Coporate Behaviour is rated neutral due the global credit operations.

ESG Score

3,6 / 5

ESG 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 2021	Eval.
Environmental	1.1 Green Financing / Promoting	The sub-factor "Green Financing/Promoting" has a moderate relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	3	(+)
	1.2 Exposure to Environ-mental Factors	The sub-factor "Exposure to Environmental Factors" has a low relevance for the credit rating, and is rated neutral 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 neutral 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 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

Conclusion

Creditreform Rating affirms the rating of Banco Santander S.A. at 'A-' and increases the outlook from negative to stable.

Banco Santander's 2020 financial year was strongly influenced by the Corona pandemic. The high impairments on financial and non-financial assets and the negative currency effects ultimately led to a negative result for 2020. However, excluding these two factors, Banco Santander has already taken important steps in its transformation process. In particular, Banco Santander has been able to achieve some of its ESG targets even during the crisis, and the targeted capital ratios have already been reached. Asset quality targets have also been achieved or are close to being achieved. In the coming years, it will be more ambitious to achieve the growth and earnings targets. The Corona crisis made it clear how dependent Banco Santander is on economic developments in the respective business areas. The high impairments in the loan portfolio could not be compensated by a strong investment banking or AuM, as was the case with some other large European banks.

Banco Santander's performance in the 2021 financial year to date is positive. On the one hand, the volume of loans and the number of customers are growing steadily, and it is positive to note that, in particular, more and more customers are digital customers, which are more profitable for the bank. On the other hand, profits are almost back to pre-crisis levels. It remains to be seen how the risks of the loan portfolio will develop in the event of a continuing Corona crisis. However, the increased cost efficiency will lead to sustainable higher profit margins. Another positive point is the good performance in the EBA stress tests in the adverse scenario, which speaks for Banco Santander's good risk management.

Outlook

The outlook of the Long-Term Issuer Rating of Banco Santander and its bank capital and debt instruments is 'stable'. In the medium term, CRA expects a higher profitability and a stable asset quality. We also expect equity ratios to remain approximately constant. Moreover, we assume no significant economic worsening due to the Corona pandemic and stable political environment in the primary countries of Banco Santander.

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 capitalization should be maintained.

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 ongoing 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- / stable / 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
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
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
Monitoring	24.03.2020	A / NEW / L2
Rating Update	26.11.2020	A- / negative / L2

Rating Update	17.12.2021	A- / stable / 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

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 (v3.0), the methodology for the rating of bank capital and unsecured debt instruments (v2.0), 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 17 December 2021, 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 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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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.

The "Basic data" information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

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 "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 within „Basic data" information card.

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