News Release

Japan Credit Rating Agency, Ltd.

21-I-0051
October 27, 2021

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit ratings.

Banco Santander, S.A. (security code: -)

<Affirmation>

Foreign Currency Long-term Issuer Rating:	A+
Outlook:	Stable
Bonds (Senior Preferred):	A+
Bonds (Senior Non-preferred):	A

Rationale

(1) Banco Santander is Spain's largest commercial bank operating mainly in Europe, Latin America and North America. The ratings are mainly supported by the bank's geographically diversified and retail-focused earning structure, solid operating base in each of the markets where it operates and stable earnings capacity. On the other hand, they are constrained by a relatively high risk profile of its credit portfolio. The outlook of the rating is Stable. In 2020 the bank incurred a loss on consolidated profit, but this was due mainly to increased credit costs and impairment losses brought by the COVID-19 pandemic. Excluding the impairment losses, however, it made a positive consolidated profit by absorbing credit costs with its resilient pre-provisioning income. The business environment has been improving with the recovery trend of the economy in the core regions where the bank operates. While future development of its asset quality after the end of the support measures implemented by the governments and the bank itself should be watched, JCR holds that the bank will be able to absorb any additional credit costs with its earnings and maintain its capital ratio largely at the current level through a steady profit generation in the medium term.

(2) The bank maintains a solid, retail-focused operating base across a wide range of countries including both developed and emerging economies. Its market share in Spain is around 20% for both deposits and loans. Outside of Spain, it holds a market share of around 10% in mortgage loans in the UK. In Latin American countries such as Brazil as well as in Portugal and Poland, it owns local commercial banks that hold deposit and loan market shares generally exceeding 10%. The bank also enjoys a leading position in consumer finance business in many European countries including Germany and Nordic countries. In the United States, it holds a solid business base in commercial banking in the northeastern region and boasts a strong presence in the auto loan market. The bank has secured a critical mass in each of the markets where it operates, allowing it to hold a pricing power and a sticky deposit base.

(3) The bank's credit portfolio has a relatively high risk profile among the major global financial institutions partly because emerging markets constitute an important part of its business base. It should be noted, however, that its portfolio is well diversified among various countries and industries while ample spreads are ensured on loans with higher credit risks. Also, concentration of the credit portfolio on top borrowers is low as it primarily consists of retail loans. Following deterioration of the economic environment in 2020, the bank saw an increase in its Stage 2 loans based on IFRS 9. However, its nonperforming loan ratio kept declining to reach 3.22% at the end of June 2021. Its credit cost ratio rose to the 120bp range in 2020 due mainly to an increase of Stage 2 loans and a precautionary overlay of provisions but was contained to 79bp (on an annualized basis) in the first half of 2021. The outstanding balance of loans under moratorium decreased to less than 1% of the bank's total lending at the end of June 2021, with most of which covered by collaterals. As an unsecured portion of the bank's loans made under the government guarantee programs is only limited, JCR holds that any additional credit costs that could arise after the end of the support measures can be fully absorbed by earnings.

(4) The bank's retail-focused earning structure is geographically diversified among countries whose economic growth is not correlated to each other, enabling it to generate consistent earnings. Moreover, the bank can absorb a relatively large amount of credit costs as its core earning power in terms of pre-provisioning operating income stays high thanks to its solid margins and strict cost control. It had its first full-year loss on consolidated profit in 2020 due to increased credit costs and impairment losses resulting from goodwill impairment and valuation adjustment of deferred tax assets. Excluding the non-recurring factors such as impairments, however, it made a positive

consolidated profit by absorbing the increased credit costs. The bank's earnings performance recovered in the first half of 2021 from the same period of the previous year, supported by significantly lower credit costs and higher pre-provisioning income on increased total income and cost reduction. Faced with the prolonged low interest rate environment in Europe in recent years, the bank has been promoting group-wide initiatives to enhance customer loyalty and promote digitalization, succeeding in capturing more interest and fee incomes and in containing costs. The bank announced an updated strategy in 2020 which aims to further enhancing those initiatives. It plans to focus on payment services and digital consumer finance and promote the creation of a group-wide common operating platform (One Santander).

(5) The Bank's consolidated common equity Tier 1 (CET1) ratio stood at 11.89% (after incorporating the IFRS 9 transitional arrangements) on a fully-loaded basis at the end of June 2021, sound enough to support its current ratings. The impairment losses the bank incurred in 2020 had no impact on its CET 1 ratio. In the medium term, its capital ratio may be negatively affected by some regulatory changes such as a review of the standards concerning the use of internal models. However, JCR holds that the bank will maintain its capital ratio largely at the current level through a steady accumulation of retained earnings. Liquidity remains adequate at the group level with its subsidiaries in each country holding a stable funding base mainly consisting of local deposits.

Toshihiko Naito, Tomohiro Miyao, Haruna Saeki

Rating

Issuer: Banco Santander, S.A.

<Affirmation>

Foreign Currency Long-term Issuer Rating: A+ Outlook: Stable

Issue	Amount (bn)	Issue Date	Due Date	Coupon	Rating
Samurai Senior Non Preferred Bonds – First Series (2017)	JPY 83.7	Dec 11, 2017	Jan 11, 2023	0.568%	A
Samurai Senior Non Preferred Bonds – Third Series (2017)	JPY 12.2	Dec 11, 2017	Dec 10, 2027	1.015%	A
Samurai First Series (2019)	JPY 50.0	Dec 5, 2019	Dec 5, 2024	0.463%	A+

Rating Assignment Date: October 22, 2021

The assumptions for the credit ratings and the definitions of the rating symbols are published as "Types of Credit Ratings and Definitions of Rating Symbols" (January 6, 2014) in Information about JCR Ratings on JCR's website (https://www.jcr.co.jp/en/).

Outline of the rating methodology is shown as "JCR's Rating Methodology" (November 7, 2014), "Banks" (October 1, 2021) and "Rating Methodology for Financial Institutions' Capital and TLAC Instruments" (April 27, 2017) in Information about JCR Ratings on JCR's website (https://www.jcr.co.jp/en/).

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Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

Issuer:	Banco Santander, S.A.
Rating Publication Date:	October 27, 2021

1 The Symbol, Number, or Score in the Rating Scale used to Denote Credit Rating Categories and Notches and, the Identity of the Obligor or the Identity and a Description of the Security or Money Market Instrument as Required by Paragraph (a)(1)(ii)(A) of Rule 17g-7

- Please see the news release. If the credit rating is a private rating, please see the report for private rating.

2 The version of the procedure or methodology used to determine the credit rating; as Required by Paragraph (a)(1)(ii)(B) of Rule 17g-7

- Please see the news release. If the credit rating is a private rating, please see the report for private rating.

3 The Main Assumptions and Principles used in Constructing the Procedures and Methodologies used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7

- The credit rating methodology assumes, in principle, to be applied to assess the likelihood of a given debt payment in light of its issuer's condition and business environment, etc. in the relevant future. There is certain limitation, however, in the time horizon that the rating foresees.
- The credit rating methodology assumes, in principle, that the factors posted in the below are particularly important for such likelihood to be determined, and that the rating determination is made by evaluating each of them not only quantitatively but also employing qualitative analyses.

A) Business Bases
The likelihood of a given debt payment is highly conditional to its issuer's business bases - how they can be maintained/ expanded into the future and thereby secure earnings and cash flows in adequacy and in a sustainable way.

B) Financial Grounds and Asset Quality
The likelihood of debt payment is highly dependent on the degree of the issuer's indebtedness and loss absorption capacity in terms of equity capital. Also notable is that a financial institution might see a significant loss of financial grounds as a result of changes in value of the assets under its possession.

C) Liquidity Positions
The likelihood of debt payment is highly dependent on the adequacy of the issuer's cash and other sources of repayment (liquidity positions).

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The likelihood of debt payment is affected one way or the other by the issuer's related parties such as parent company, subsidiary, guarantor, and the government of the issuer's business domicile, etc. - by their own conditions and/ or position of support/ assistance for the issuer.

E) Order of Seniority in Debt Payment

The likelihood of debt payment can be different between given debts of the same issuer. The likelihood of debt payment for an individual debt is dependent on the issuer's discretion, and/ or its rank relative to other debts of the same issuer in the order of seniority in principal/ interest payment which is determined by design as financial product or by laws, etc.

4 The Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- The objective of the credit rating herewith presented does not include any concerns other than the likelihood of debt payment, such as risks of price changes, market liquidity, etc.
- The credit rating herewith presented is necessary to be reviewed along with possible changes of the issuer of rated objects in its business performance and/ or circumstances which include regulatory environment, and hence subject to possible alteration.

5 Information on the Uncertainty of the Credit Rating as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

- The information used for the determination of credit rating as herewith presented is obtained by JCR from the issuer of rated objects and other sources that JCR trusts in terms of accuracy and reliability but possibly contains errors due to human, non-human or other causes. Consequently, the credit rating determined on the grounds of such information does not constitute, explicitly or implicitly, any representation or warrant of JCR on the information itself or any consequences of its use in terms of accuracy, relevance, timeliness, wholeness, market value, or usefulness for any specific purposes.

6 Use of Due Diligence Services of a Third Party in Taking the Rating Action as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

- There is no use of any third-party due diligence service in the determination of the credit rating herewith presented.

7 Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

- There is no use of any servicer or remittance report to conduct surveillance of the credit rating herewith presented.

8 The Types of Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule17g-7

- The information posted in the below, which includes data, is used for the determination of the credit rating herewith presented.

  A) Audited financial statements presented by the rating stakeholders

  B) Explanations of business performance, management plans, etc. presented by the rating stakeholders

9 Overall assessment of the Quality of Information Available and Considered in Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

- JCR holds its basic policies for securing the quality of information as a base of due diligence for the determination of credit ratings. The information used as a base for the determination of credit rating herewith presented satisfies such policies, which include the audit by an independent auditor, the warranty made by the issuer, the publication by the issuer, some independent media or, otherwise, JCR analyst's scrutiny, etc.
- JCR sees no particular weakness in the quality of information used for the determination of the credit rating herewith presented as compared to the information used in other cases of the credit rating for comparable issuers or ratable objects.
- If the credit rating is an Indication, please see the report for Indication.

10 Information Relating to Conflicts of Interest as Required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

- JCR receives payment of compensation for the determination of the credit rating herewith presented from either one of those parties who are issuer, underwriter, depositor or sponsor.
- JCR did not receive in the last fiscal year in the past payment of compensation from the same party for any kind of JCR's service other than the determination of public or private credit rating, such as one in the ancillary business.

11 Explanation or Measure of the Potential Volatility of the Credit Rating as Required by Paragraph (a)(1)(ii)(K) of Rule 17g-7

A) Business Bases

The credit rating is subject to alteration if there is improvement or deterioration of the issuer's business bases, since its revenue, etc. may improve or deteriorate by the change in its business management policies, clients' preferences, competitive situation, or a technological innovation. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the business bases is large.

B) Financial Grounds and Asset Quality

The credit rating is subject to alteration if the issuer increases/ decreases its debt/ capital or vice versa and thereby makes its individual debt payment liability less or more bearable and its loss absorption capacity into the future decreased or increased. Also, the changes in the quality of asset under the issuer's holding may affect the credit rating, since such changes could raise or lower the likelihood of future loss of the issuer's financial grounds. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the financial grounds and/ or asset quality is large.

C) Liquidity Positions

The credit rating is subject to alteration if there is a change in the issuer's financial management policy or in the relations with fund procurement sources and the change thereby makes its liquidity positions improve or deteriorate. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The credit rating is subject to alteration if there is a change in the issuer's parent company or subsidiary, guarantor or other provider of credit enhancement, or the government of the issuer's business domicile, or other related parties' own conditions and/ or position of support/ assistance for the issuer, and the change thereby makes its business bases, financial grounds and/ or liquidity positions improve or deteriorate, and/ or making the effectiveness of guarantee and other credit enhancement improve or deteriorate. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

E) Order of Seniority in Debt Payment and Non-Payment Forgiven by Contract

The credit rating is subject to alteration if there is a change in the rated debt's status in the order of seniority relative to other debts caused by the improvement/ deterioration of the issuer's financial condition. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large. Also, in case of the financial products for which non-payment of interest/ principal is contractually permissible, the credit rating is subject to alteration if and when the likelihood of such non-payment is projected to increase or decrease. The resultant alteration of the credit rating could be by a notch but often as much as a few notches.

F) Rise and Fall in General Economy and Markets

The credit rating is subject to alteration if there is a rise/ fall in the general economy and/ or the markets inducing the issuer's revenues/ expenses to increase/ decrease and vice versa, etc. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is exceptionally large.

G) Various Events

The credit rating is subject to alteration on occurrence of various events, such as change in the issuer's major shareholders, M&A and other organizational change, accident, violation of the law, litigation, legal/ regulatory change, natural disaster, etc., which are unforeseeable at the time when the credit rating is determined, causing a significant change on the issuer's business bases, financial grounds, etc. The resultant alteration of the credit rating could be by a notch but more often than not as much as a few notches.

12 Information on the Content of the Credit Rating, Including the Historical Performance of the Credit Rating and the Expected Probability of Default and the Expected Loss in the Event of Default as Required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

- Historical records of the credit rating herewith presented are posted in the end of this paper.
- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- Facts of the probability of default are posted as Form NRSRO Exhibit 1 on the JCR website under the URL:

  https://www.jcr.co.jp/en/service/company/regu/nrsro/

13 Information on the Sensitivity of the Credit Rating to Assumptions Made as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

A) Business Bases

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's business bases and powers of earning or cash flow generation, etc. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's business bases on some drastic change in the operational environments, etc.

B) Financial Grounds and Asset Quality

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's financial grounds and asset quality. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's financial grounds and/ or asset quality on some drastic change in its business bases.

C) Liquidity Risks

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's liquidity positions. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's liquidity positions on some drastic change in its financial management policy or relations with fund procurement sources, etc.

D) Order of Seniority in Debt Payment and Non-Payment Forgiven by Contract

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the order of seniority in repayment of interests and principal. JCR assumes the resultant change of the credit rating is most likely by a notch. The change could be as much as a few notches if the issuer's financial structure differs so much and thereby the balance between debts shifted so greatly. Rating change is also possible in case of the financial products for which non-payment of interest/ principal is contractually permissible, if and when the assumptions made at the time of its determination turns out to be inaccurate. The change of the credit rating is assumed to be by a notch but often as much as a few notches.

E) Rise and Fall in General Economy and Markets

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the prospects of general economy and markets. JCR expects the change should be most likely by a notch but could be as much as a few notches, should the economy or the markets change so greatly.

14 Information on the Representations, Warranties, and Enforcement Mechanisms of an Asset-backed Security as Required by Paragraph (a)(1)(ii)(N) of rule 17g-7

・ The credit rating herewith presented is not for an ABS product, and hence no relevant issue.

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JCR

The Historical Performance of the Credit Rating

Issuer Name	Issue Name	Publication Date	Rating	Outlook/Direction
Banco Santander, S.A.	Issuer(Long-term)(FC)	May 19, 2017	A+	Stable
Banco Santander, S.A.	Issuer(Long-term)(FC)	August 22, 2018	A+	Stable
Banco Santander, S.A.	Issuer(Long-term)(FC)	September 20, 2019	A+	Stable
Banco Santander, S.A.	Issuer(Long-term)(FC)	October 5, 2020	A+	Stable
Banco Santander, S.A.	Samurai Senior Non Preferred Bonds - First Series (2017)	December 1, 2017	A	
Banco Santander, S.A.	Samurai Senior Non Preferred Bonds - First Series (2017)	August 22, 2018	A	
Banco Santander, S.A.	Samurai Senior Non Preferred Bonds - First Series (2017)	September 20, 2019	A	
Banco Santander, S.A.	Samurai Senior Non Preferred Bonds - First Series (2017)	October 5, 2020	A	
Banco Santander, S.A.	Samurai Senior Non Preferred Bonds - Third Series (2017)	December 1, 2017	A	
Banco Santander, S.A.	Samurai Senior Non Preferred Bonds - Third Series (2017)	August 22, 2018	A	
Banco Santander, S.A.	Samurai Senior Non Preferred Bonds - Third Series (2017)	September 20, 2019	A	
Banco Santander, S.A.	Samurai Senior Non Preferred Bonds - Third Series (2017)	October 5, 2020	A	
Banco Santander, S.A.	Samurai First Series (2019)	November 29, 2019	A+	
Banco Santander, S.A.	Samurai First Series (2019)	October 5, 2020	A+	

Attestation Required by Paragraph (a)(1)(iii) of Rule 17g-7

I, Toshihiko Naito, have responsibility to this Rating Action and to the best of my knowledge:

A) No part of the credit rating was influenced by any other business activities.

B) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated.

C) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

Toshihiko Naito
General Manager of International Rating Department

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