Daiwa Capital Markets

Banco Santander S.A.

SAN SM

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Agency	Issuer Rating			Debt Instruments		
	LT	ST	Outlook	SP	SNP	T2
Moody's	A2	P-1	Positive	A2	Baa1	Baa2
S&P	A+	A-1	Stable	A+	A-	BBB+
Fitch	A	F1	Stable	A	A	BBB+

Source: Moody's, S&P, Fitch.

Background and Ownership

Banco Santander ("Santander") is the largest banking group in Spain and ranks among the five largest banks in Europe, with a total balance sheet size of €1.8tn at 1Q25. Compared to most of its Spanish peers, Santander operates a highly international business model with strong retail and commercial banking franchises in LATAM and North America, as well as a string of leading European consumer finance businesses. This broad footprint facilitates earnings generation through the cycle, providing the group with income diversification from stable, developed markets as well as higher-yielding emerging markets. In Spain, Santander are the second largest lender with an 18% market share in loans, some 1,800 branches and more than 15 million customers. Elsewhere, Santander operates market leading retail and commercial banking franchises in Portugal, Chile, Mexico and Brazil. As at 1Q25, shares in Santander were largely held by institutional (62%) and retail investors (37%).

Peer Comparables – Major European Banks at 1Q25

Issuers	Total Assets (€bn)	Net Income (€m)	RoTE (%)	NIM (%)	Cost-Income Ratio (%)	NPL (%)	NPL Coverage Ratio (%)	CET1 (%)	LCR (%)
Santander	1,845	3,402	16.6	2.7	41.8	3.0	65.7	12.9	157
BNP Paribas	2,802	2,951	11.8	2.3	63.7	1.6	69.6	12.4	133
UBS	1,427	1,608	8.5	1.8	82.2	0.9	44.5	14.3	181
Deutsche Bank	1,417	1,968	11.9	1.4	61.2	2.9	39.1	13.8	134
BBVA	773	2,698	20.2	3.3	38.2	2.9	82.0	13.1	138
Caixabank	637	1,470	16.5	1.7	37.7	2.5	70.0	12.5	197
Sabadell	249	489	15.0	2.0	46.2	2.7	62.7	13.3	197

Source: Company reports; Bloomberg

Main Activities

Santander is a retail and commercial bank providing universal banking services to retail clients, SMEs and large corporates. Retail banking operations have been the banks' main focus (60% of total lending), although it aims to grow its other four business lines to more than 40% of group revenues and 50% of group fees by FY25. The group is organised along five main business lines:

- **Retail and Commercial Banking** (50% of total income in 1Q25) integrates the retail and commercial banking businesses (excl. the consumer finance and cards businesses) and services individuals, SMEs and corporates. It serves approximately 80 million active customers globally, largely attributed to its strong presence in Brazil (41% of retail customers).
- **Corporate and Investment Banking** (14%) aggregates the group's transaction banking (cash management, export finance), global banking (debt and equity capital markets, leveraged finance and advisory services), and global markets businesses to corporate and institutional customers.
- **Wealth Management and Insurance** (6%) integrates Santander's private banking, asset management and insurance businesses.
- **Digital Consumer Bank** (21%) aggregates the groups' consumer finance businesses: Openbank – the groups' digital banking platform – and Santander Consumer Finance, a leading European auto-lender.
- **Payments** (9%) correspond to the groups' digital payment solutions segment for banking clients and new customers. It is split by: (1) PagoNxt – a global payments platform owned by Santander – and; (2) the cards business.

Group Restructuring and M&A activity

In May, Santander announced the sale of its Polish subsidiary, Santander Bank Polska, to Erste Bank AG for €7bn. The all-cash sale entails a 49% stake in the subsidiary, with Santander retaining 13%. The deal also includes the sale of 50% of Santander's Polish asset management business (TFI). It is expected to generate a €2bn net capital gain once completed in late-2025, with a positive 100bps effect on the group's CET1 position. Proceeds are thought to facilitate operational expansions in core European markets as well as the Americas, while roughly half will be distributed to shareholders through accelerated share buybacks. The group is currently undergoing a strategic overhaul of its business, looking to strengthen in North America. Furthermore, Santander is reportedly weighing up the future of its UK operations amid interest from domestic peers. However, the recent sale of the Polish operations arguably made this somewhat less likely as the bank has strengthened its cash position substantially. Since then, senior management have rejected an £11bn approach from NatWest for its UK retail banking division, while reiterating the position that they consider the UK a "core" market. Nevertheless, question marks over the future of the UK operations will likely persist over the near-term as the balance sheet has slowly declined in recent years. Furthermore, as the second largest motor finance provider in the UK, Santander has had to put some ~£300mn in provisions aside as it is being scrutinised for potential mis-selling of auto finance deals. Overall, the UK's highly competitive banking sector, its somewhat burdensome ring-fencing regime and ongoing legal disputes may lead the parent company to consider exiting the UK.

Financial Strength Indicators

Profitability – Santander has enjoyed above average profitability over the past decade, with the average return on tangible equity (RoTE) standing at 11.7% over this period (excl. FY20). The group leveraged its international footprint to generate higher risk-adjusted returns, benefitting from recent higher interest rates, especially due to its large retail and commercial banking presence. In 1Q25, net profit was €3.4bn (+19% y/y), as fee income growth offset a 5% decline in net interest income (NII), which remained the main income source at €11.4bn (73% of total). Lower interest rates in key markets reduced NII, while net fee and commission income rose 4% y/y to €3.4bn, driven by greater customer activity in the wealth, transaction and global banking segments.

Regionally, Spain and the US led income growth in 1Q25, with revenues up +4% y/y and 8% y/y, respectively. Spain's, improved economic outlook and lower loan loss provisions (€304mn, -8% y/y), boosted net income to €1.1bn (+49% y/y). In the US, strong fee income growth (+33% y/y) and lower LLPs (-13% y/y) led to a net profit of €417mn (+49% y/y), despite higher expenses for the CIB expansion and digital platforms. This result made the US the third largest profit centre in the group. These regional bright spots were somewhat weighed down by lower net income in the UK (-7% y/y), Brazil (-9%) and Mexico (-4%).

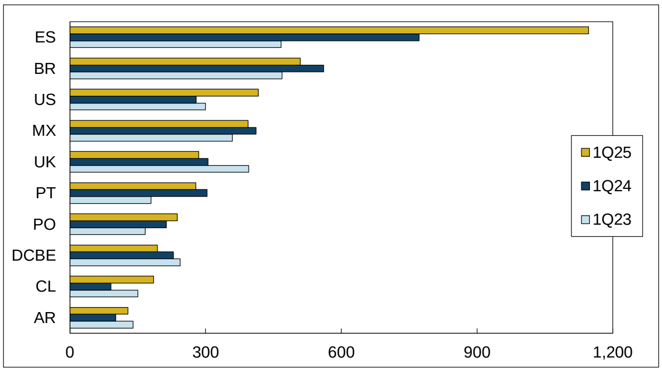
Santander also benefitted from lower banking tax charges in Spain for 1Q25 (€87mn vs. €335mn in 1Q24) as it booked a linear quarterly charge rather than the full annual amount. For 2025-2027, a progressive tax structure will replace the flat rate, likely resulting in higher contributions from larger banks and a modest impact on Santander's profitability over the medium term.

Banco Santander – Key Data

Key Ratios (%)	1Q25	FY24	FY23
CET1	12.9	12.8	12.3
NPL	3.0	3.1	3.1
NPL Coverage	65.7	65.0	68.0
LCR	157	153	166
Net Interest Margin	2.7	2.9	2.7
Cost to Income	41.8	41.8	44.1
Balance Sheet (€bn)			
Total Assets	1,845	1,837	1,797
Gross Loans	1,087	1,076	1,059
Customer Deposits	1,082	1,056	1,047
Debt Securities	318	326	309
Total Equity	111	107	104
Income Statement (€bn)			
Total Income	15.5	61.9	57.4
o/w NII	11.4	46.7	43.3
o/w NFI	3.4	13.0	12.1
Total Costs	6.5	26.0	25.4
Net Income	3.4	12.6	11.1

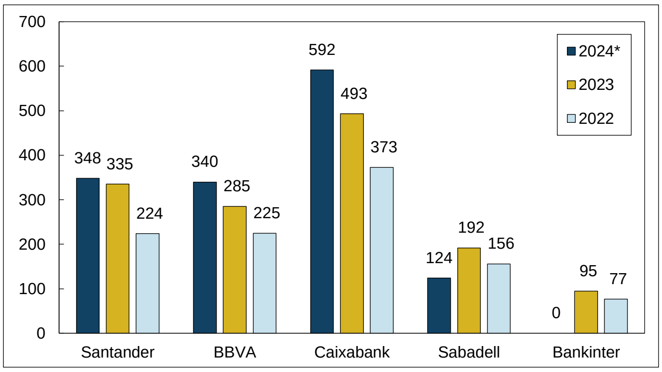
Source: Company reports; Bloomberg

Net Profit* by Geography



*Source: *Excluding Corporate Centre and "other"; Company reports*

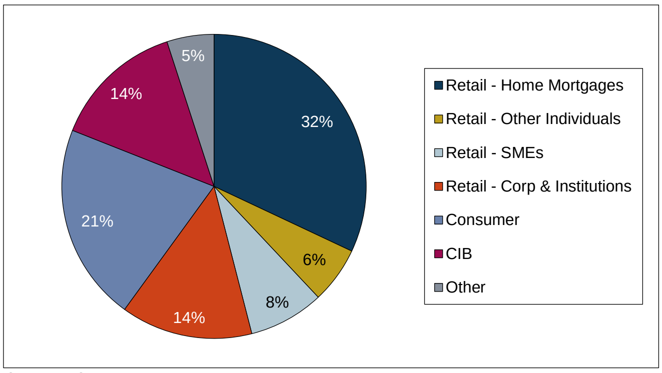
Banking Tax Paid by Spanish Banks



*Source: *Annualised on the basis that quarterly tax impacts are linear; Company reports*

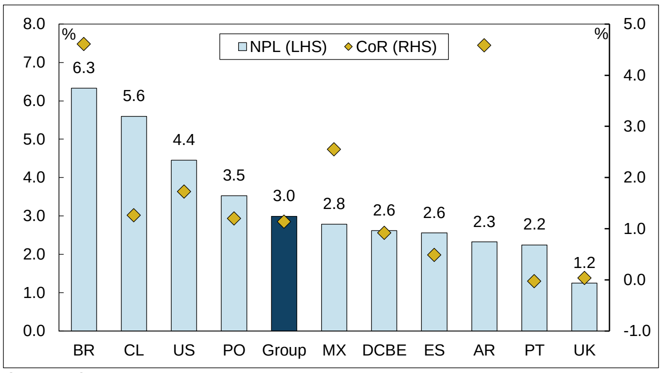
Asset Quality – Santander's balance sheet has expanded significantly over the past decade (+45%) as total assets to date stand at €1.8trn (+1% y/y). At the same time, group-wide asset quality has continually improved, supported by subdued inflationary pressures and more recently a reduction in interest rates. Relative to European peers, asset quality may appear weaker, but this reflects Santander's diversified exposures in developing markets (~22% of total loans; ~48% of net operating incomes). At the group level, the cost-of-risk (CoR) stood at 110bps, which appears elevated compared with Santander's domestic operations (1Q25: 49bps). This mainly reflects higher risk premiums for doing business in developing markets across LATAM. Overall, the CoR decreased 6bps y/y due to lower provisions held against select European portfolios (UK and Spanish mortgages), more benign economic outlooks in these same regions, as well as generally lower inflationary pressure. The non-performing loan (NPL) ratio stood at 3%, a 10bp decline y/y buoyed by the CIB segment as the volume of credit impaired loans fell across its business units (predominantly in the EU & US). The coverage ratio for impaired loans was adequate at 66%, broadly in line with peers. The group's retail portfolio (~60% of total loan book) is mainly comprised of high-quality residential mortgages (90% of which have an LTV of <80%), and a corporate portfolio which is >50% secured (property collateral or otherwise).

Loan-book by Business



Source: Company reports

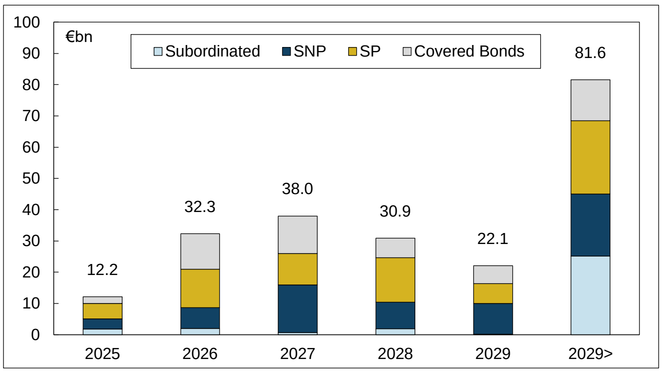
NPL and CoR by Geography



Source: Company reports

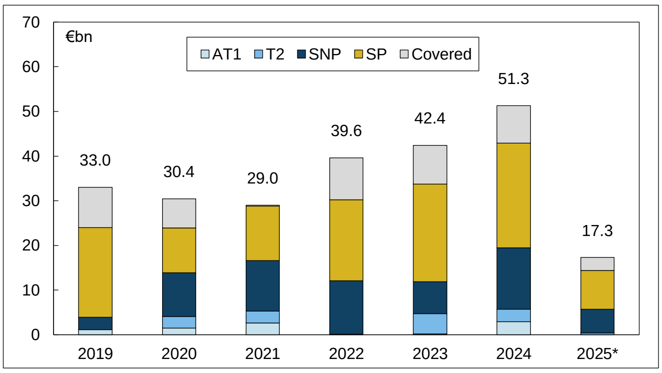
Funding and Liquidity – Total customer deposits amount to €976bn as of 1Q25, equivalent to ~56% of group non-equity funding (NEF). Two-thirds (€644bn) of these are sticky retail deposits, underlining the banks' retail focus. They are largely sourced from households and represent a stable and low-cost source of funding for the bank. Customer deposits wholly cover Santander's loan book exposures, with the bank reporting a loan-to-deposit ratio of 98% as of 1Q25 (FY24: 100%; FY23: 99%). Group subsidiaries are self-funded and can therefore be more independently run from the parent (excluding Santander SCF). Regions within the group that display somewhat greater reliance on deposit funding include Spain, Poland and Mexico, while those skewed to wholesale funding include SCF, Chile and the United States. With regards to MREL, Banco Santander subscribes to capital instruments issued by subsidiaries within its resolution perimeter and channels MREL to those subsidiaries in support of meeting their regulatory requirements. Total debt outstanding amounts to €217bn and accounts for ~13% of Santander's NEF, well-varied across payment ranks: covered bond (23%); senior (33%); senior non-preferred (29%), Tier 2 (10%) and AT1 (5%). The most active issuers in the group are Banco Santander and Santander UK, which account for 78% of outstanding bonds according to Bloomberg. Issued bonds are predominantly denominated in EUR (44%), followed by USD (32%), GBP (9%) and BRL (5%), among others.

Medium-to-Long Term Funding Maturity Profile



*Source: *As of 1Q25; Company reports*

Medium-to-Long Term Funding Issuance Profile



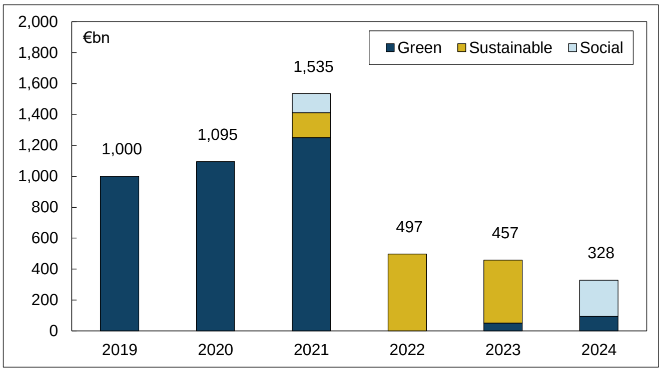
*Source: *As of 1Q25; Company reports*

Santander's MREL ratio of 41% sits 440bps above requirements and comprises €35bn in SNP and €27bn in senior preferred (SP) bonds. Relative to its full-year funding target of €34.5-40.5bn, Santander have issued 61% of the lower-bound of its target (including 2025 pre-funding). Subordinated debt issuance is broadly completed as of the first quarter, with Santander expected to issue a minimum of €12bn in senior debt and €1-2bn in covered bonds before year-end. Liquidity metrics are sound, with Santander holding €329bn in HQLA as of 1Q25, 50% of which is cash, broadly unchanged y/y. Liquidity ratios are well-above minimum requirements at the group and subsidiary level. Group NSFR stood at 123% (1Q24: 123%) and the LCR fell slightly to 157% (1Q24: 166%).

ESG Activities and Funding

Santander established its Sustainable Bond Framework in 2022 (superseding the 2019 Green Bond Framework), which permits the issuance of green, social and sustainability bonds. It was last updated in 2023 and carries a second party opinion from Sustainalytics. Santander has 11 ESG-themed bonds outstanding for a combined total of €3.95bn. This represents 12% of the outstanding ESG bond volume issued by Spanish banks. ESG-related initiatives are ingrained into Santander's corporate strategy, with numerous qualitative and quantitative guidelines set, with the aim of attaining a leading market position in the transition towards greater sustainability. Santander aligned its operations, investments, financing, and services to customers with the UN SDGs. As a founding member of the Net-Zero Banking Alliance, Santander is committed to transition all operational and attributable greenhouse gas emissions to align with pathways to net-zero by 2050 or sooner. As of FY24, Santander were reportedly ranked second compared with European peers in financing renewable energy operations, amounting to €7.3bn (4.5% market share). Santander has met key sustainability targets during the first quarter, such as mobilising €120bn in green finance by 2025 (1Q25: €145bn) and to accruing €100bn in AuM of socially-responsible investments (1Q25: €108bn). Going forward, Santander aims to reach its longer-term target of €220bn of green financing by 2030 and to financially include 5mn unbanked, underbanked or financially vulnerable people (1Q25: 4.8mn, excluding the 11.8mn people reached between 2019-22), both of which Santander are well on-track to achieving.

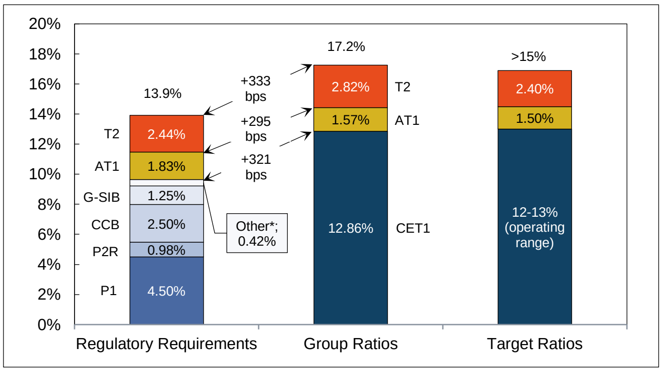
ESG Medium-to-Long Term Funding Issuance Profile



Source: Company reports; Bloomberg

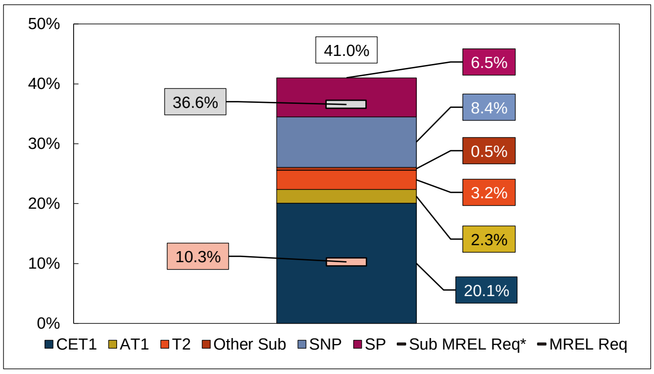
Capitalisation – As of 1Q25, Santander's fully-loaded CET1 stood at 12.9%, broadly in line with Spanish peers and within the banks' target range of 12-13%. CET1 has grown by ~60bps y/y supported by strong retained earnings and improved capital efficiency via Santander's asset rotation and risk transfer activities which more than offset accrued shareholder remuneration and adjustments to regulatory models. Santander aim to redistribute half of group profits to shareholders, split evenly between share buybacks and dividends. The CET1 buffer over regulatory capital requirements was +321bps, placing Santander at the lower range compared to peers (BBVA: 396bps; Caixa: 378bps; Sabadell: 436bps; Bankinter: 441bps). The CET1 ratio, while in line with domestic peers (average 12.9%), is below the European average of 16% according to EBA data. This is in part due to Santander's business model and the resulting higher RWA intensity, as well as its international footprint. Capitalisation is expected to remain resilient in 2025, benefitting from the sale of its Polish subsidiary as well as its track record of organically generating capital from profits.

SREP Requirements and MDA



*Source: *Includes Countercyclical Buffer (0.39%) and Systemic Risk Buffer (0.03%); P1 = Pillar 1, P2R = Pillar 2 requirements, CCB = Capital Conservation Buffer, G-SIB = Buffer for Global Systemically Important Bank; Company reports*

MREL Structure vs. Requirements



*Source: *As of FY24; Company reports*

Rating Agencies' Views

Moody's (Apr-25): Banco Santander's ratings reflect the lenders' leading market positions in several core markets, each with their own distinct credit cycles which underpin sustained revenue generation and low earnings volatility. Funding is assessed as being both diversified and well-established, upholding the banks' liquidity buffer. Capitalisation is determined as 'modest' albeit, improving with 'resilient' levels of stress capital. Profitability is deemed relatively average, due to the comparative bottom-line to peers despite Santander's proportionally higher exposure to emerging markets across the group. The 'positive' outlook assessment for Santander is aligned with that of the Spanish sovereign. Moody's have noted that an upgrade in the sovereign rating would likely result in upgrades to Santander's long-term deposit and senior unsecured ratings. The divestment in Santander Bank Polska is deemed credit neutral, as the rating agency highlights that the substantial capital gain (€7bn) will be allocated towards shareholder remuneration and both organic and inorganic growth.

S&P (Sep-24): Santander's 'A+'/'A-1' rating and stable outlook were affirmed, as the agency commented that despite asset quality deterioration in some markets off the back of higher financing costs and softer economic activity, the strong business model offsets the economic risks associated with its diversified operations as proven in its track record of strong operating revenues. S&P expect operating performance to remain solid even as interest rates decline and as key strategic initiatives help contain costs. With this in mind, S&P noted that the rating could be under pressure if: (1) the bank fails to maintain a buffer of bail-inable debt sustainably exceeding 500bps of its RWAs; (2) unexpected events (such as material acquisitions) undermined its capital position and; (3) the Spanish sovereign were to be downgraded.

Fitch (Feb-25): Santander's long-term issuer rating was upgraded to 'A' from 'A-', reflecting Fitch's view that the banks' strong and resilient performance can support a rating one notch above the Spanish rating of 'A-'. Fitch noted that the group's geographic diversification, moderate direct exposure to the Spanish sovereign and its strength relative to Spanish peers support the uplift relative to the sovereign. The performance is underpinned by successful broad and balanced geographic diversification, resilient earnings, good loss absorption capacity and limited asset-quality variation over various cycles. The agency highlighted that a CET1 ratio consistently below ~13% or diminished earnings resilience (operating profits/RWAs <3%) may constitute a negative rating action in the future.

Recent Benchmark Transactions

Issue Date	Security	Maturity/Call	Size (m)	IPT/IPG (bps)	Final Spread (bps)	Coupon (%)	Yield (%)	Book (m)/cov.
15/07/24	SP	7Y	US$1,500	T+120a	T+95	5.365	5.365	$4,095 / 2.73x
15/07/24	SP	4NC3	US$1,500	T+145a	T+120	5.439	5.439	$3,600 / 2.40x
01/08/24	AT1	PNC9.5	US$1,500	8.375%a	T+391.1	8.000	8.000	$8,500 / 5.67x
02/10/24	SNP	4.5NC3.5	€2,000	MS+130a	MS+100	3.250	3.298	€3,800 / 1.90x
15/01/25	Snr. Unsecured	6.25NC5.25	US$1,250	T+150a	T+125	5.694	5.694	$2,500 / 2.00x
17/02/25	SNP	10Y	€1,250	MS+150	MS+120	3.500	2.306	€5,200 / 4.16x

Source: Bloomberg, Bondradar

This is an issuer profile and contains factual statements only. All statements are sourced from Santander's financial reports, which can be found at https://www.santander.com/en/shareholders-and-investors/financial-and-economic-information

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1: Outperform TOPIX/benchmark index by more than 15% over the next 12 months.
2: Outperform TOPIX/benchmark index by 5-15% over the next 12 months.
3: Out/underperform TOPIX/benchmark index by less than 5% over the next 12 months.
4: Underperform TOPIX/benchmark index by 5-15% over the next 12 months.
5: Underperform TOPIX/benchmark index by more than 15% over the next 12 months.

Benchmark index: TOPIX for Japan, S&P 500 for US, STOXX Europe 600 for Europe, HSI for Hong Kong, STI for Singapore, KOSPI for Korea, TWII for Taiwan, and S&P/ASX 200 for Australia.

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- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements**.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.
** The ratio of margin requirements etc. to the amount of the transaction cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

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