

**Rated entity:**

Mortgage Covered Bond Program issued by Banco Santander S.A.

**Rating:**

AAA

**Rating outlook / watch:**

Outlook stable

**Rating summary:**

This monitoring report covers our update of the mortgage covered bond program issued under Spanish law by Banco Santander, S.A. („Banco Santander“). Our rating of the Banco Santander S.A., Mortgage Covered Bond Program is reflected by our issuer rating opinion of Banco Santander S.A. (Group) due to its group structure. On 17 December 2021, Creditreform Rating AG (“CRA”) affirmed the unsolicited long-term issuer rating of Banco Santander S.A. (Group) at A- and assigned a stable outlook. The rating decision is based on Banco Santander’s high systematic relevance for the global banking sector due to its position as Spain’s largest bank. In addition, an internationally diversified business model, a strong and continuously improving cost income ratio and a nearly pre-crisis income situation supports Banco Santander’s creditworthiness. On the other side, risk arises from the very high impairments on assets in 2020 and a high dependence on currency effects in the individual business countries.

During our monitoring, we did not come to any new findings with regard to the legal and regulatory framework, the liquidity and refinancing risk and the credit and portfolio risk. Nevertheless, it is worth mentioning that on 2 November 2021 the Council of Ministers approved Royal Decree-Law 24/2021 that transposed, inter alia, the European Commission’s covered bond directive for enhanced harmonization of the EU covered bond market and set its entry into force to 8 July 2022. Referring to the first transitory provision, until the legal regime comes into force any securities or bonds that are issued will continue to be governed by the provisions of Law 2/1981. Based on the currently valid legal framework, we therefore maintain a rating uplift of 4 notches for the legal and regulatory framework and a rating uplift of 1 notch for the liquidity and refinancing risk. Furthermore, the credit metrics from the last follow-up rating of 11 February 2021 are valid. The cover pool and cash flow analysis resulted in AAA, which lead to a second rating uplift of 1 notch.

Taking into consideration the updated issuer rating, our analysis of the regulatory framework, liquidity and refinancing risks, as well as our cover pool assessment and results of the cash flow analysis with credit metrics as of 11 February 2021, CRA affirms the covered bond program at AAA. The outlook of the covered bond program was set at stable. The AAA rating represents the highest level of credit quality and the lowest investment risk.

Risk Factor	Result
Issuer rating	A- (rating as of 17 December 2021)
+ Legal and regulatory framework	+4 Notches
+ Liquidity and refinancing risk	+1 Notch
= Rating after 1 <sup>st</sup> uplift	AA+
Cover pool & cash flow analysis	AAA (credit metrics as of 11 February 2021)
+ 2 <sup>nd</sup> rating uplift	+ 1 Notch
= Rating covered bond program	<b>AAA</b>

**Primary key rating driver:**

- + Covered Bonds are subject to strict Spanish legal framework for covered bonds.
- + Full recourse of the covered bonds to the issuer
- + Covered bonds are backed by the appropriate covered asset class.
- Legal framework does not stipulate a special cover pool monitor independent from the issuer.
- Very high impairments on assets in 2020 for the issuer

**Rating sensitivities:**

Best-case scenario: In this scenario, the base case assumptions remained stable, resulting in a cover pool rating of AAA.

Worst-case scenario: In this scenario, we (ceteris paribus) reduced recoveries by 50% and increased credit risk by 50%, resulting in a cover pool rating of AA-. This would affect the 2nd rating uplift by 1 notch, resulting in a rating of AA+ for the covered bond program.

**ESG-criteria:**

CRA generally takes ESG-relevant factors (environmental, social and governance) into account when assessing Covered Bond ratings. Overall, ESG factors have a significant impact on the current rating of this Covered Bond program. CRA identifies governance factors, in particular, to have a highly significant impact on Covered Bond ratings. Since Covered Bonds are subject to strict legal requirements, regulatory risk plays an important role in assessing the credit rating.

The Spanish legal framework defines clear rules to mitigate risks in particular regarding insolvency remoteness, investor's special claim vis-à-vis other creditors, among other provisions. However, the Spanish legal framework does not stipulate a special cover pool monitor independent from the Issuer. Additionally, risk management and internal controls as well as macroeconomic factors such as hedging strategies, interest rates and yield curve are considered to have a highly significant impact on the assessment of the credit rating. Other individual factors with a potential key rating influence were not identified, and therefore did not affect the final rating.

On the subject of ESG (environment, social and governance), Creditreform Rating AG has published the basic document ("The Impact of ESG Factors on Credit Ratings"), which is available on the homepage under the following link:

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

**Rating Date / disclosure to rated entity / maximum validity:**

December 22, 2021 / December 22, 2021 / January 1, 2050

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

**Initial rating date / rating:**

January 30, 2019 / AAA - Outlook stable

**Lead-analyst – position / Person approving (PAC):**

Philip Michaelis (Lead) – Senior Analyst

Christian Konieczny (PAC) – Senior Analyst

**Name & address of legal entity:**

Creditreform Rating AG, Europadamm 2-6, 41460 Neuss, Germany

**Status of solicitation:**

The rating is an unsolicited rating. The degree of participation was as follows:

With Rated Entity or Related Third Party Participation: No

With Access to Internal Documents: No

With Access to Management: No

**Rating methodology / Version / Date of application / Link:**

[Rating Criteria and Definitions, Version 1.3, January 2018](#)

[Technical Documentation Portfolio Loss Distributions, Version 1.4, July 2018](#)

[Rating Methodology Covered Bonds, Version 1.0, July 2017](#)

Information on the meaning of a rating category, definition of default and sensitivity analysis of relevant key rating assumptions can be found at "Creditreform Rating AG, Rating Criteria and Definitions".

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

## **Endorsement:**

Creditreform Rating did not endorse the rating according Article 4 (3), CRA-Regulation.

## **Regulatory requirements:**

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

## **Conflict of Interests**

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 are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks. In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

## **Rules on the Presentation of Credit Ratings and Rating Outlooks**

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our policy "Rating Committee," all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity. To prepare this credit rating, CRA has used following substantially material sources:

1. Transaction structure and participants
2. Transaction documents
3. Issuing documents
4. Other rating relevant documentation

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