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Santander

By IAM Capital Markets

Pricing on Santander 10NC5 Tier 2's looks good for the risk. Santander is a G-SIB which means there is more onus on the bank being protected to ensure global financial stability. Santander Group's CET1 levels are also well above the minimum loss absorption trigger of 5.125%: EUR45.8bn which means there is ample buffer to account for a stressed scenario. However, what gives me most conviction is that Santander has never been prohibited from making a Tier 1 payment or dividend due or cancelled the payment of coupons of any of its Tier 1 securities.

New Santander 10NC5 - Credit Comments

Issuer Ratings: A2 (positive) (Moody's) | A+ (stable) (S&P) | A- (stable) (Fitch)

Issue Ratings: Baa2 (Moody's) | BBB+ (S&P) | BBB (Fitch)

Santander is the leading financial group in Spain (or local champion). The group's stable capital generation has been supported by strong pre-provision profits providing Santander with a high capacity to absorb losses. The strong capital levels are a function of Santander's business model and areas where it operates with an independent subsidiary model in terms of capital and liquidity. Its liquidity position is compliant with regulatory requirements and ahead of schedule.

Q1 2024 results for the group were strong and Santander is on track to deliver 2024 targets. Santander's focus on profitability and efficiency, as opposed to growth, is credit positive.

CREDIT OPINION

In terms of the credit, we have high conviction in the credit profile of Santander.

- A significant amount of customer lending is within Europe (and the UK), with the rest exposed to North/South America making it a globally systemically important bank (G-SIB). Being a G-SIB means there is more onus on the bank being protected to ensure global financial stability.
- Santander Group's CET1 levels are well above the minimum loss absorption trigger of 5.125%: EUR45.8bn
- Santander has never been prohibited from making a Tier 1 payment or dividend due. Santander has never cancelled the payment of coupons of any of its Tier 1 securities.

	Q1'24	2024 targets
Revenue ¹	9%	Mid-single digit growth
Efficiency	42.6%	<43%
CoR	1.20%	c.1.2%
FL CET1	12.3%	>12.0% after Basel III implementation
RoTE	14.9% 16.2% <small>annualizing the temporary levy impact</small>	16%

CREDIT OPINION

Financial Highlights

Santander							
A2/A+IA	1Q24	4Q23	3Q23	2Q23	1Q23	FY23	FY22
Total Assets EUR mn	1,800,006	1,797,062	1,816,844	1,780,493	1,749,402	1,797,062	1,734,659
Loans/Deposits	100.5%	99.0%	100.4%	103.1%	104.2%	99.0%	101.0%
Profitability							
ROE	8.7%	9.1%	9.1%	8.5%	8.2%	8.7%	7.9%
Net Interest Margin	2.7%	2.5%	2.5%	2.4%	2.4%	2.4%	2.3%
Non-Interest Margin	0.7%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
Total Revenues Margin	3.3%	3.2%	3.3%	3.2%	3.2%	3.3%	3.1%
Cost/Income	43.5%	44.4%	43.6%	45.0%	44.1%	44.3%	45.9%
Capital							
Common Equity Tier 1 Ratio	12.3%	12.3%	12.3%	12.3%	12.3%	12.3%	12.2%
Tier 1 Ratio	13.7%	13.7%	13.8%	13.7%	13.7%	13.7%	13.6%
Fully-Loaded Leverage	4.7%	4.7%	4.7%	4.8%	4.8%	4.7%	4.7%
Asset Quality							
Loan Impairments/Average Loans	1.2%	1.3%	1.2%	1.1%	1.2%	1.2%	1.1%
Gross Impaired/Total Loans	3.3%	3.4%	3.3%	3.3%	3.2%	3.4%	3.3%
Impaired Loans Reserve Coverage	40.5%	40.6%	40.4%	41.0%	40.1%	40.6%	40.8%

Source: Company Reports, CreditSights

Structure of 10NC5

Note, there has been regulatory amortization in the last 5 years, for UK, France, and Spain, which also creates very low call risk for these European Tier 2 structures for, e.g. new Santander 10NC5.

	Australia	UK	France	Spain
Method of loss absorption	Conversion to equity; write off permitted if conversion to equity hits a technical snag	Write-down or conversion in resolution or at PONV, as per BRRD	Write-down or conversion in resolution or at PONV, as per BRRD	Write-down or conversion in resolution or at PONV, as per BRRD
Coupon deferral	No	No	No	No
Call risk	No - the ability to refinance in the domestic market at low cost ensures low call risk in the \$ market	Very low non-call risk given regulatory amortization in last 5 years	Very low non-call risk given regulatory amortization in last 5 years	Very low non-call risk given regulatory amortization in last 5 years
Loss absorption framework	Contractual	Statutory	Statutory	Statutory

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