Six European Banks Upgraded On ALAC Or Group Support Uplift; Off UCO On Implementation Of Revised FI Criteria

December 16, 2021


- We have now completed the review of all banks placed on UCO that would be subject to a multiple-point-of-entry (MPE) resolution approach in the event of nonviability.

- We calculate each banking group’s additional loss-absorbing capacity (ALAC) buffers in line with the resolution perimeter of their subgroups.

- Based on the updated criteria, we consider that the banks we reviewed have already built up a sizable enough cushion of bail-in-able instruments to protect senior debtholders in a resolution scenario, and that they will retain this cushion.

- We have therefore raised by one notch our ratings on Banco Santander S.A., Erste Bank Group AG, and Banco Bilbao Vizcaya Argentaria S.A., as well as the ratings on some of their subsidiaries, namely Santander Consumer Finance S.A., Santander Consumer Bank AG, and BBVA Global Markets B.V. and removed them all from UCO. All outlooks are negative, except for that on Erste Bank Group AG, which is stable.

- Our assessment of these banks’ stand-alone creditworthiness remains unchanged.

MADRID (S&P Global Ratings) Dec. 16, 2021--S&P Global Ratings today said that it took the following rating actions:

- It raised the long-term issuer credit rating (ICR) on Banco Santander S.A. to 'A+' from 'A', the long-term issue rating on all outstanding senior unsecured instruments to 'A+' from 'A', and its long- and short-term RCR to 'AA-/A-1+' from 'A+/A-1'. The short-term ICR, short-term senior debt ratings, and all hybrid debt ratings were affirmed. The outlook is negative.

- It raised the long-term ICR on Erste Bank Group AG (Erste) to 'A+' from 'A', the long-term issue rating on all outstanding senior unsecured instruments to 'A+' from 'A', and its long- and short-term RCR to 'AA-/A-1+' from 'A+/A-1'. The short-term ICR, short-term senior debt ratings, and all hybrid debt ratings were affirmed. The outlook is stable.

- It raised the long- and short-term ICR on Banco Bilbao Vizcaya Argentaria S.A. (BBVA) to 'A/A-1' from 'A-/A-2', the issue rating on all outstanding senior unsecured instruments to 'A/A-1' from 'A-/A-2', and its long-term resolution counterparty rating (RCR) to 'A+' from 'A'. The short-term
RCR was affirmed at 'A-1'. The debt ratings on hybrid instruments were also affirmed. The outlook is negative.

- In a related action, it raised to 'A/A-1' from 'A-/A-2' the long- and short-term ICRs and senior unsecured issue ratings on the following subsidiaries: Santander Consumer Finance S.A. (SCF), Santander Consumer Bank AG (SCB), and BBVA Global Markets B.V. It also raised the long-term RCRs on SCF and Santander Consumer Bank AG (SCB) to 'A+' from 'A', and affirmed the short-term RCRs at 'A-1'. The debt ratings on hybrids were also affirmed. The outlook on the three entities is negative.

- For all these issuers, the ICRs, RCRs, and senior unsecured debt and program ratings were removed from UCO, where they were placed on Dec. 9, 2021.


Under our revised criteria, our ALAC analysis continues to focus on the prospect of full and timely payment of senior preferred creditors' claims if the bank fails. In our view, ALAC uplift is still appropriate for these banks as they are likely to be subject to an effective bail-in-led resolution strategy.

However, our ALAC measure now concentrates only on banks' recapitalization capacity when the bank is no longer a going concern, once losses have been absorbed by Tier 1 capital. We now exclude the concept of excess total adjusted capital from our ALAC measure as we see the role of this capital as protection from becoming insolvent and therefore take account of it in the SACP. We expect that banks will use their equity and additional Tier 1 capital to absorb losses while still a going concern, or at the point of nonviability. Consistently, our methodology now describes lower headline thresholds for ratings uplift based on ALAC, and incorporates only additional subordinated capacity that can be used to recapitalize a bank.

Resolution planning for MPE groups assumes that, in the event of nonviability, the group will break up. Because regulators will handle the resolution of each subgroup separately, parent banks could lose their investments in subsidiaries that are outside their resolution perimeter. However, they will not be required to recapitalize these subsidiaries. Our ALAC analysis therefore focuses on the parental subgroup’s recapitalization capacity, while remaining mindful of the relative loss-absorption capacity of each subgroup.

Banco Santander, Erste, and BBVA have already built a large enough ALAC buffer to merit a one-notch ratings uplift, and we expect them to maintain it. As long as each instrument meets the eligibility criteria, we include in our calculations of ALAC all Tier II and senior nonpreferred debt instruments issued, or to be issued, by the parent bank, while the risk-weighted assets (RWAs) correspond only to the businesses falling within the parent bank’s resolution perimeter. For BBVA and Erste, we compare the ALAC buffers against standard thresholds for banks with investment-grade anchors: 300 basis points (bps) for a one-notch uplift and 600 bps for a two-notch uplift. In the case of Santander, however, we markedly increased the threshold for a one-notch uplift, to 500bps. This accounts for the parent bank operating with some double leverage and, as a result, some of its Tier II and senior nonpreferred debt being needed to absorb losses, not solely to recapitalize the business. Neither Erste nor Santander will be eligible for a potential second notch of ALAC uplift given their current SACPs.
### Existing And Expected ALAC Buffers

<table>
<thead>
<tr>
<th>Bank</th>
<th>ALAC uplift</th>
<th>Threshold for a one-notch uplift</th>
<th>2020</th>
<th>2023e</th>
<th>Total</th>
<th>Subordinated</th>
<th>Reported MREL at Sept. 21</th>
</tr>
</thead>
</table>
|                            |             |                                  |      |       |       |              | as a % of TREA **
| Banco Santander S.A.*       | 1 notch     | 5.00%                            | 767  | 700   | 29.85%| 9.04%        | 34.59%                  |
| Erste Bank Group AG        | 1 notch     | 3.00%                            | 458  | 350   | 26.71%| 14.61%       | 32.12%                  |
| Banco Bilbao Vizcaya Argentaria S.A. | 1 notch     | 3.00%                            | 550  | 480   | 24.78%| 13.50%       | 29.92%                  |

**e--Estimate. TREA--Total Risk Exposure Amount. *Threshold for one notch increased to reflect double leverage. **MREL requirement no longer includes combined capital buffers, but reported MREL does include them. Combined capital buffers are: 3.51% for Santander, 4.1% for Erste, and 2.5% for BBVA.**

The ICR on Santander stands one notch above the long-term sovereign credit rating of its home country, Spain. By setting the ICR above the sovereign credit rating on the bank’s country of domicile, we reflect our view that there is an appreciable likelihood that Santander would not default in the stress scenario that would likely accompany a hypothetical default of Spain. In such a scenario, our modeling anticipates that Santander would face substantial impairments—which would erode a significant portion, but not all, of its capital base—and that it could suffer sizable liquidity outflows. This would very likely trigger the bank’s resolution and thus the bail-in of junior instruments. The ICR on Santander stands one notch above the long-term sovereign credit rating of its home country, Spain.

The RCRs on both Santander and BBVA exceed the sovereign credit rating on Spain by two notches and one notch, respectively. In a hypothetical sovereign default stress scenario, we expect that the two banks would be resolved, and that their existing available bail-in capacity (including in extremis the senior preferred debt, which can legally be bailed in) would enable the two banks to absorb the effects of this scenario without triggering a default on their RCR liabilities.

The ALAC buffer provides protection for senior creditors in a resolution scenario. Therefore, we adjusted upward the ICR on the banks mentioned above, all debt ratings assigned to senior unsecured debt instruments, and the RCRs. However, the ratings on hybrid debt, including senior nonpreferred instruments, remain unchanged.

The stronger creditworthiness of Santander and BBVA will only benefit a few subsidiaries. These are those that are core and highly strategic to the group, and which resolution authorities plan to resolve with the parent bank. This includes SCF, SCB, and BBVA Global Markets, all of which we upgraded as a result. For the time being, the ratings on PSA Banque France, which we view as a systemically important subsidiary of SCF, remain on UCO.
Our assessment of the stand-alone creditworthiness of Santander, Erste, and BBVA remains unchanged. We have therefore not taken a rating action on these banks' senior nonpreferred debt and other hybrid instruments.

Banco Santander S.A.

Primary analyst: Antonio Rizzo

Santander’s superior banking franchise continues to support the ratings, as it leverages global diversification, relatively higher profitability, prudent risk management, and adequate capitalization. Specifically, we consider that the bank will continue to generate sustainable operating income in the next two years and maintain superior efficiency (below 50% cost-to-income) and prudent credit provisioning (about 100 bps-105 bps of cost of risk) to deliver its strategic priorities, notably improving profitability (9% return on equity; ROE) and capital (risk-adjusted capital (RAC) ratio slightly above 8%). The higher-than-average economic risk of the countries where Santander operates partially offsets these strengths. In addition, we now factor in the bank’s ability to maintain a buffer of bail-inable instruments that is large enough to provide some protection to senior debtholders in a resolution scenario.

Outlook

The negative outlook mirrors that on the Spanish sovereign as we currently consider it unlikely that we would rate Santander two notches above Spain.

Downside scenario: We could downgrade the bank if the sovereign credit rating on Spain, which currently has a negative outlook, were lowered.

Upside scenario: We could revise the outlook to stable if current downward pressures on the sovereign credit rating on Spain were to ease. Equally, we could revise the outlook to stable if the bank's modelling were to suggest stronger resilience in a sovereign default scenario, providing sufficient comfort to allow a gap of two notches above our sovereign credit rating on Spain—the maximum allowed under our methodology.

Ratings Score Snapshot

Issuer Credit Rating: A+/Negative/A-1
Stand-alone credit profile: a
Anchor: bbb
- Business Position: Very Strong (+2)
- Capital and Earnings: Adequate (0)
- Risk Position: Strong (+1)
- Funding and Liquidity: Adequate/Adequate (0)
- Comparable Rating Analysis: 0
Support: +1
The ratings on SCF now benefit from three notches of parental support uplift, from two before. Given that SCF is a highly strategic subsidiary of Santander and the only subsidiary in the group falling under the parent's resolution perimeter, we consider it to be eligible to indirectly benefit from the parent's higher creditworthiness due to ALAC build up. In turn, SCF's stand-alone creditworthiness continues to reflect its solid franchise and wide geographic diversification across Europe, comfortable capitalization, and solid earnings generation capacity. These factors partly mitigate the risks stemming from its consumer-focused loan book and its business concentration in car financing.

**Outlook**

The negative outlook mirrors that on its parent, Banco Santander, as well as that on Spain, SCF's country of domicile. So long as we continue to assess SCF as highly strategic to Banco Santander, and it remains under Santander's resolution perimeter, our ratings on SCF will remain one notch below those on its parent, and capped at the level of the Spanish sovereign.

**Downside scenario:** In particular, a downgrade of the long- and short-term ratings on SCF in the next 12-24 months could follow a similar action on Banco Santander. We could also downgrade SCF if we believed its parent's commitment to it had weakened, such that we revised downward our view of the subsidiary's long-term strategic importance for the Santander group. In addition, even if the above-mentioned circumstances do not materialize, we could still lower our ratings on SCF if we lowered the sovereign credit rating. That is because highly strategically important subsidiaries like SCF cannot be rated above the sovereign of their country of domicile based on group support, unless their exposure to their country of domicile is lower than 10%, which is not the case.

**Upside scenario:** An outlook revision to stable would only follow that on both the parent, Banco Santander, and on Spain. In addition, we would have to believe that the parent’s commitment to SCF had not weakened and that SCF would remain part of Santander’s resolution perimeter.

**Ratings Score Snapshot**

Issuer Credit Rating: A/Negative/A-1  
Stand-alone credit profile: bbb  
Anchor: bbb+
Santander Consumer Bank AG (SCB)

Primary analyst: Michal Selbka

The ratings on SCB now benefit from three notches of parental support uplift from Santander Consumer Finance (SCF), from two before. Given that SCB is a core subsidiary of SCF and falls, like its parent, under Santander’s resolution perimeter, we consider it to be eligible to indirectly benefit from Santander’s higher creditworthiness due to ALAC build-up.

On a stand-alone basis, we continue to view SCB as a relatively small German bank that specializes in car financing and consumer finance and is therefore more vulnerable to economic cycles. We expect SCB will be able to defend and grow its profitability in its higher-margin business segments. However, we consider that it may face profitability constraints in other business areas where it lacks a meaningful German market presence, such as in mortgages or small and midsize enterprises (SMEs) or corporates.

Outlook

The negative outlook mirrors that on SCF. We expect SCB will remain a core subsidiary and remain under Santander’s resolution perimeter, and would therefore be directly affected by a strengthening or weakening of its parent’s credit profile.

Downside scenario: A downgrade of SCB in the next 12-24 months could result from a downgrade of SCF. This could be triggered by a similar action on the ultimate parent, Santander, a Spanish sovereign downgrade, or if we believed that Santander’s commitment to SCF had weakened. In addition, a weakening of SCB’s importance to SCF could lead us to lower the rating on SCB, although we view this as a remote possibility over the next 24 months.

Upside scenario: We could revise the outlook back to stable following a similar action on SCF, in turn triggered by similar actions on Banco Santander and Spain, as long as we believe that its parent’s commitment to SCB had not weakened and SCB remains part of Santander’s resolution perimeter.
Ratings Score Snapshot

Issuer Credit Rating: A/Negative/A-1
Stand-alone credit profile: bbb
Anchor: bbb+
- Business Position: Moderate (-1)
- Capital and Earnings: Strong (+1)
- Risk Position: Moderate (-1)
- Funding and Liquidity: Adequate and Adequate (0)
- Comparable Rating Analysis: 0

Support: +3
- ALAC Support: 0
- GRE Support: 0
- Group Support: +3
- Sovereign Support: 0

Additional Factors: 0

Erste Group Bank AG

Primary analyst: Cihan Duran

In addition to benefiting from one notch of ALAC uplift, the ratings on Erste remain supported by its leading market position in Austria and six other Central and Eastern European (CEE) markets, its strong funding and liquidity profile, and comfortable capitalization. The bank also benefits from solid profitability, thanks to the higher margins and solid efficiency of its CEE operations. However, its domestic operations show modest performance amid the low interest rate environment.

Outlook

The stable outlook on Erste reflects our view that, over the next 18-24 months, it will be able to preserve a solid balance sheet—in particular sound asset quality metrics and strong liquidity buffers—in what would likely be a supportive economic environment. It also reflects our view that Erste will maintain solid profitability and capital build-up capacity.

Downside scenario: We could lower our ratings on Erste if we see a more material or prolonged setback for profitability and asset quality, particularly if the bank becomes loss-making. This would challenge our current view that Erste demonstrates superior resilience in difficult markets. We could also lower the ratings if Erste’s ALAC ratio decreases sustainably below the relevant 3.0% threshold within our forecast horizon.
Upside scenario: Although unlikely, we could raise our ratings if Erste materially strengthened its RAC ratio, while maintaining solid asset quality and sound cost efficiency. For an upgrade to happen, sustainable economic improvements in its main markets of operation, as well as easing pressure on profitability and the level of competition in the Austrian banking market, would also have to occur.

Ratings Score Snapshot

Issuer Credit Rating: A+/Stable/A-1
Stand-alone credit profile: a
Anchor: bbb+
- Business Position: Strong (+1)
- Capital and Earnings: Adequate (0)
- Risk Position: Adequate (0)
- Funding and Liquidity: Strong and Strong (+1)
- Comparable Rating Analysis: 0

Support: +1
- ALAC Support: +1
- GRE Support: 0
- Group Support: 0
- Sovereign Support: 0

Additional Factors: 0

Banco Bilbao Vizcaya Argentaria S.A. (BBVA)

Primary analyst: Elena Iparraguirre

In addition to benefiting from one notch of ALAC uplift, our ratings on BBVA remain supported by the bank's strong, geographically diversified, and profitable retail banking franchise, as well as its prudent risk management and adequate capitalization. We are forecasting an improvement in ROE to 9%-10% in 2021-2023, thanks to cost savings (primarily in Spain), lower credit provisions, and a likely higher contribution from Turkey as the bank's ownership of Garanti increases (although the evolution of the Turkish lira will very much determine this).

Asset quality should remain under control and capital will stand above the bank's target level until 2023. Despite BBVA's recently announced bid for Garanti's capital that is held by minorities and the planned buy-back of 10% of its share capital, we anticipate our RAC measure to hover around 9% in 2021-2022, declining to 8.5% only in 2023, as BBVA either reinvests or further distributes the remaining excess capital to shareholders.

These strengths are balanced by the higher-than-average economic risk of the countries where BBVA operates.
Outlook

The negative outlook mirrors that on the Spanish sovereign credit rating and reflects our view that, in a hypothetical scenario of the Spanish sovereign defaulting, it is unlikely that BBVA will avoid defaulting on its senior obligations. In such a scenario, the bank will face significant liquidity outflows and substantial losses, which, given the group’s high exposure to its home market, will deplete its capital. As part of the bank’s resolution, hybrid instruments will be bailed in; however, under our stress test assumptions, the capital shortfall would be so substantial that a bail-in of senior preferred debt instruments may also be needed to ensure the bank’s long-term viability.

Downside scenario: We could therefore lower the ratings if the sovereign credit rating on Spain, which currently has a negative outlook, were lowered.

Upside scenario: All else being equal, we could revise our outlook on BBVA to stable if the current downward pressure on the sovereign credit rating on Spain eased or we concluded that, in a hypothetical sovereign stress scenario, BBVA would have sufficient capacity to restore its capital viability without bailing in senior preferred debt.

Ratings Score Snapshot

Issuer Credit Rating: A/Negative/A-1
Stand-alone credit profile: a-
Anchor: bbb
- Business Position: Strong (+1)
- Capital and Earnings: Adequate (0)
- Risk Position: Strong (+1)
- Funding and Liquidity: Adequate and Adequate (0)
- Comparable Rating Analysis: 0

Support: +1
- ALAC Support: +1
- GRE Support: 0
- Group Support: 0
- Sovereign Support: 0

Additional Factors: 0

Related Criteria

- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Certain Financial Institution Issuer And Issue Ratings Placed Under Criteria Observation Following Criteria Update, Dec. 9, 2021
- RFC Process Summary: Financial Institutions Rating Methodology, Dec. 9, 2021
- RFC Process Summary: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Financial Institutions And BICRA Criteria Published, Dec. 9, 2021

Ratings List

*********** Banco Bilbao Vizcaya Argentaria S.A. ***********

Ratings Affirmed

<table>
<thead>
<tr>
<th>Banco Bilbao Vizcaya Argentaria S.A.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Subordinated</td>
</tr>
<tr>
<td>Subordinated</td>
</tr>
</tbody>
</table>

BBVA Global Finance Ltd.

| Subordinated                       | BBB  |

Upgraded

<table>
<thead>
<tr>
<th>Banco Bilbao Vizcaya Argentaria S.A.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Unsecured</td>
</tr>
<tr>
<td>Certificate Of Deposit</td>
</tr>
<tr>
<td>Commercial Paper</td>
</tr>
</tbody>
</table>

B.B.V. Finance (DE) Inc.

| Commercial Paper                   | A-1  |

www.spglobal.com/ratingsdirect
### BBVA Commercial Paper Ltd.
- **Commercial Paper**: A-1, A-2

### BBVA Global Finance Ltd.
- **Senior Unsecured**: A, A-

### BBVA Global Markets B.V.
- **Senior Unsecured**: A, A-

### BBVA U.S. Senior, S.A. Unipersonal
- **Commercial Paper**: A-1, A-2

### Banco Bilbao Vizcaya Argentaria S.A., Paris Branch
- **Commercial Paper**: A-1, A-2

### Bex America Finance Inc.
- **Commercial Paper**: A-1, A-2

### Upgraded; CreditWatch/Outlook Action
- **To**
- **From**
  - **Banco Bilbao Vizcaya Argentaria S.A.**
  - **BBVA Global Markets B.V.**
    - **Issuer Credit Rating**: A/Negative/A-1, A-/Stable/A-2

### Upgraded; Ratings Affirmed
- **To**
- **From**
  - **Banco Bilbao Vizcaya Argentaria S.A.**
    - **Resolution Counterparty Rating**: A+/--/A-1, A/--/A-1
    - **Certificate Of Deposit**: A/A-1, A-/A-2

### * * * * * * * * * * * * * * Banco Santander S.A. * * * * * * * * * * * * *

### Ratings Affirmed
**Banco Santander S.A.**
- **Senior Subordinated**: A-
- **Subordinated**: BBB+
- **Junior Subordinated**: BBB-
- **Preference Stock**: BB+
- **Commercial Paper**: A-1

### Santander Consumer Bank AG
- **Senior Subordinated**: BBB+

### Santander Consumer Finance S.A.
- **Subordinated**: BBB
- **Senior Subordinated**: BBB+

### Banco Santander S.A. (New York Branch)
- **Commercial Paper**: A-1
### Banco Santander SA (London Branch)

<table>
<thead>
<tr>
<th></th>
<th>A-1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Certificate Of Deposit</strong></td>
<td></td>
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<tr>
<td><strong>Upgraded</strong></td>
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<td><strong>To</strong></td>
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<tr>
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<td></td>
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### Banco Santander S.A.

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<tr>
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### Santander Consumer Bank AG

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<thead>
<tr>
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<td><strong>Commercial Paper</strong></td>
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<td>A-2</td>
</tr>
<tr>
<td><strong>Upgraded; CreditWatch/Outlook Action</strong></td>
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### Santander Consumer Finance S.A.

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<thead>
<tr>
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### Santander Consumer Bank AG

| **Issuer Credit Rating**        | A/Negative/A-1 | A-/Stable/A-2 |
| **Upgraded; CreditWatch/Outlook Action; Ratings Affirmed** |              |               |
| **To**                          |               |               |
| **From**                        |               |               |

### Santander Consumer Finance S.A.

| **Issuer Credit Rating**        | A+/Negative/A-1 | A/Stable/A-1 |
| **Upgraded; Ratings Affirmed**  |                |              |
| **To**                          |                |              |
| **From**                        |                |              |

### Banco Santander S.A.

| **Certificate Of Deposit**      | A+/A-1 | A/A-1 |
| **Local Currency**              |        |       |
| **Upgraded**                    |        |       |
| **To**                          |        |       |
| **From**                        |        |       |

### Santander Consumer Bank AG

| Resolution Counterparty Rating  | A+/--/A-1 | A/--/A-1 |
| **Upgraded**                    |            |          |
| **To**                          |            |          |
| **From**                        |            |          |

* * * * * * * * * * * * * * Erste Group Bank AG * * * * * * * * * * * * * *

### Erste Group Bank AG

| Senior Subordinated             | A-    |
| **Senior Subordinated**         |       |
| **Subordinated**                | BBB+  |
| **Junior Subordinated**         | BBB-  |
| **Commercial Paper**            | A-1   |
| **Ratings Affirmed**            |       |

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December 16, 2021  12
Six European Banks Upgraded On ALAC Or Group Support Uplift; Off UCO On Implementation Of Revised FI Criteria

Erste Finance (Delaware) LLC

| Commercial Paper | A-1 |

Erste Group Bank AG (Hong Kong Branch)

| Commercial Paper | A-1 |

Upgraded

| To | From |
| Erste Group Bank AG | Resolution Counterparty Rating | AA-/--/A-1+ | A+/--/A-1 |
| Erste Group Bank AG | Senior Unsecured | A+ | A |

Upgraded; /Outlook Action; Ratings Affirmed

| To | From |
| Erste Group Bank AG | Issuer Credit Rating | A+/Stable/A-1 | A/Positive/A-1 |

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings’ rating categories is contained in “S&P Global Ratings Definitions” at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings’ public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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December 16, 2021 13