

## Santander Consumer Finance S.A.

**Primary Credit Analyst:**

Lucia Gonzalez, Madrid + 34 91 788 7219; [lucia.gonzalez@spglobal.com](mailto:lucia.gonzalez@spglobal.com)

**Secondary Contact:**

Elena Iparraguirre, Madrid (34) 91-389-6963; [elena.iparraguirre@spglobal.com](mailto:elena.iparraguirre@spglobal.com)

### **Table Of Contents**

---

Major Rating Factors

Outlook

Rationale

Related Criteria

Related Research

# Santander Consumer Finance S.A.

<b>SACP</b>	<b>bbb</b>		+	<b>Support</b>	<b>+2</b>	+	<b>Additional Factors</b>	<b>0</b>
<b>Anchor</b>	<b>bbb+</b>			<b>ALAC Support</b>	<b>0</b>		<b>Issuer Credit Rating</b>	
<b>Business Position</b>	Moderate	-1		<b>GRE Support</b>	<b>0</b>		<b>A-/Stable/A-2</b>	
<b>Capital and Earnings</b>	Strong	+1		<b>Group Support</b>	<b>+2</b>		<b>Resolution Counterparty Rating</b>	
<b>Risk Position</b>	Moderate	-1		<b>Sovereign Support</b>	<b>0</b>		<b>A/--/A-1</b>	
<b>Funding</b>	Average	0						
<b>Liquidity</b>	Adequate							

## Major Rating Factors

Strengths:	Weaknesses:
<ul style="list-style-type: none"> <li>• High strategic importance to parent Banco Santander S.A.</li> <li>• High geographic diversification within Europe.</li> <li>• Comfortable capital position and resilient profitability.</li> </ul>	<ul style="list-style-type: none"> <li>• Business concentration in car financing.</li> <li>• Inherent high-risk nature of the consumer finance business.</li> </ul>

## Outlook: Stable

S&P Global Ratings' stable outlook on Santander Consumer Finance S.A. (SCF) reflects that on the parent, Banco Santander S.A. (A-/Stable/A-1). So long as we continue to assess SCF as highly strategic to Santander, our ratings on SCF will remain one notch below those on the parent and move in tandem with them.

Although our base-case scenario is for the ratings to remain unchanged, an upgrade of SCF in the next two years could be triggered by a similar action on its parent, or by our revision of SCF's status within the group to core. Conversely, we could lower the ratings on SCF following a similar action on the parent, or if we believed that the parent's commitment to SCF had weakened, leading us to revise downward our view of the subsidiary's long-term strategic importance for the Santander group.

## Rationale

The long-term rating on SCF stands one notch below that on the parent because we consider it a highly strategically important subsidiary. This is based on SCF's position as a solidly profitable subsidiary of Banco Santander with operations across Europe that are integral to the overall group strategy. We believe the group remains supportive of management and the overall financial needs of the subsidiary, for example in the form of capital and funding. We also believe that SCF is highly unlikely to be sold as a whole, although we estimate that parts of its business could be divested opportunistically in case of stress.

Our assessment of SCF's stand-alone credit profile (SACP) at 'bbb', two notches below its current ICR, balances the bank's sustained profitability (11.5% return on equity at end-June 2019, based on our calculations, 46.3% cost-to-income) and strong capitalization, with the risks stemming from its consumer-focused loan book. We anticipate that the bank's risk-adjusted capital (RAC) ratio will be 12.0%-12.5% in the coming 18-24 months, compared to 11.9% at end-2018, or 12.2% pro forma our recently revised assessment of Spain's economic risk and our upgrade of Spain to 'A'.

We believe that SCF's funding and liquidity profile compares favorably with that of other consumer finance banks in Europe, owing to its sizable customer deposit base in countries like Germany, and the ongoing support of its parent. The bank's strategic plan aims for self-sufficiency in the longer term, by diversifying funding sources in most countries where it operates. We note, however, that it is not a short-term objective because the group is using excess cash--stemming from its accelerated placement of total loss-absorbing capacity (TLAC) instruments in the market--to finance SCF.

On the other hand, our ratings are constrained by what we see as a business concentrated on consumer finance activities, which carry higher credit risk than traditional retail such as mortgages. The company's wide geographical and consumer product diversification, along with improving asset-quality trends, only partially mitigate these factors. SCF also has better business stability than its peers, with a solid franchise and high market share in most operating countries.

**Table 1**

Santander Consumer Finance S.A. Key Figures					
--Year-ended Dec. 31--					
(Mil. €)	2019*	2018	2017	2016	2015
Adjusted assets	107,499	103,355	97,492	93,964	84,066
Customer loans (gross)	96,554	93,789	88,536	84,140	72,991
Adjusted common equity	9,655	8,978	8,453	7,913	7,193
Operating revenues	2,205	4,220	4,179	4,034	3,706
Noninterest expenses	1,021	1,862	1,875	1,826	1,704
Core earnings	730	1,510	1,437	1,250	1,176

\*Data as of June 30.

**Table 2**

<b>Santander Consumer Finance S.A. Business Position</b>					
	<b>--Year-ended Dec. 31--</b>				
<b>(%)</b>	<b>2019*</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Total revenues from business line (currency in millions)	2,209.1	4,233.3	4,207.2	4,044.5	3,782.9
Commercial banking/total revenues from business line	2.3	2.3	2.3	2.3	2.3
Retail banking/total revenues from business line	96.5	96.5	96.5	96.5	96.5
Commercial & retail banking/total revenues from business line	98.7	98.7	98.7	98.7	98.7
Other revenues/total revenues from business line	1.3	1.3	1.3	1.3	1.3
Return on average common equity	11.5	12.2	11.6	12.0	13.2

\*Data as of June 30.

**Table 3**

<b>Santander Consumer Finance S.A. Capital And Earnings</b>					
	<b>--Year-ended Dec. 31--</b>				
<b>(%)</b>	<b>2019*</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Tier 1 capital ratio	14.0	13.9	13.7	12.3	12.8
S&P Global Ratings' RAC ratio before diversification	N/A	11.9	10.4	8.8	9.6
S&P Global Ratings' RAC ratio after diversification	N/A	12.0	10.6	9.0	10.4
Adjusted common equity/total adjusted capital	90.2	89.5	90.9	100.0	100.0
Net interest income/operating revenues	77.1	78.5	76.7	76.3	74.6
Fee income/operating revenues	18.1	18.1	20.2	20.3	22.3
Market-sensitive income/operating revenues	0.0	0.1	0.1	0.2	(0.3)
Noninterest expenses/operating revenues	46.3	44.1	44.9	45.3	46.0
Provision operating income/average assets	2.2	2.3	2.4	2.4	2.5
Core earnings/average managed assets	1.4	1.5	1.5	1.4	1.5

\*Data as of June 30.

N/A--Not applicable.

**Table 4**

<b>Santander Consumer Finance S.A. RACF [Risk-Adjusted Capital Framework] Data</b>						
<b>(Mil. €)</b>	<b>Exposure*</b>	<b>Basel III RWA</b>	<b>Average Basel III RW(%)</b>	<b>S&amp;P Global RWA</b>	<b>Average S&amp;P Global RW (%)</b>	
<b>Credit risk</b>						
Government & central banks	7,019	652	9	664	9	
Of which regional governments and local authorities	106	17	16	7	7	
Institutions and CCPs	3,222	811	25	884	27	
Corporate	15,942	14,085	88	12,426	78	
Retail	75,509	41,418	55	50,749	67	
Of which mortgage	5,612	1,186	21	1,603	29	
Securitization§	4,558	1,006	22	1,246	27	
Other assets†	3,386	1,906	56	5,258	155	
Total credit risk	109,635	59,878	55	71,227	65	

Table 4

Santander Consumer Finance S.A. RACF [Risk-Adjusted Capital Framework] Data (cont.)					
<b>Credit valuation adjustment</b>					
Total credit valuation adjustment	--	25	--	0	--
<b>Market Risk</b>					
Equity in the banking book	374	1,336	357	3,275	875
Trading book market risk	--	1,394	--	2,091	--
Total market risk	--	2,730	--	5,366	--
<b>Operational risk</b>					
Total operational risk	--	6,283	--	7,912	--
(Mil. €)					
	<b>Exposure</b>	<b>Basel III RWA</b>	<b>Average Basel II RW (%)</b>	<b>S&amp;P Global RWA</b>	<b>% of S&amp;P Global RWA</b>
<b>Diversification adjustments</b>					
RWA before diversification	--	68,916	--	84,505	100
Total Diversification/ Concentration Adjustments	--	--	--	(1,040)	(1)
RWA after diversification	--	68,916	--	83,464	99
(Mil. €)					
		<b>Tier 1 capital</b>	<b>Tier 1 ratio (%)</b>	<b>Total adjusted capital</b>	<b>S&amp;P Global RAC ratio (%)</b>
<b>Capital ratio</b>					
Capital ratio before adjustments		9,597	13.9	10,028	11.9
Capital ratio after adjustments†		9,597	13.9	10,028	12.0

\*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of 'Dec. 31 2018', S&P Global Ratings.

Table 5

Santander Consumer Finance S.A. Risk Position	--Year-ended Dec. 31--				
	2019*	2018	2017	2016	2015
(%)					
Growth in customer loans	5.9	5.9	5.2	15.3	21.4
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	(1.2)	(1.5)	(1.8)	(7.1)
Total managed assets/adjusted common equity (x)	11.4	11.8	11.8	12.2	12.0
New loan loss provisions/average customer loans	0.3	0.3	0.2	0.4	0.7
Net charge-offs/average customer loans	0.3	0.4	(0.1)	(0.0)	1.1
Gross nonperforming assets/customer loans + other real estate owned	1.9	2.0	2.2	2.4	3.1
Loan loss reserves/gross nonperforming assets	102.3	102.5	98.3	107.4	107.4

\*Data as of June 30.  
N/A--Not applicable.

**Table 6**

<b>Santander Consumer Finance S.A. Funding And Liquidity</b>					
	<b>--Year-ended Dec. 31--</b>				
<b>(%)</b>	<b>2019*</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Core deposits/funding base	39.0	39.1	40.1	40.7	42.2
Customer loans (net)/customer deposits	264.7	266.0	258.3	247.8	228.4
Long-term funding ratio	80.6	81.4	82.7	80.9	69.5
Stable funding ratio	82.9	84.0	84.1	83.3	73.7
Short-term wholesale funding/funding base	21.7	20.9	19.2	21.0	33.5
Broad liquid assets/short-term wholesale funding (x)	0.4	0.4	0.4	0.5	0.4
Net broad liquid assets/short-term customer deposits	(37.4)	(36.1)	(36.1)	(35.0)	(59.9)
Short-term wholesale funding/total wholesale funding	34.8	33.6	31.6	35.4	57.9
Narrow liquid assets/3-month wholesale funding (x)	1.2	1.1	1.1	1.2	0.4

\*Data as of June 30.

## Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria - Financial Institutions - General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

## Related Research

- Bulletin: Spain Upgrade Will Not Result In Changes To Bank Ratings, Sept. 23, 2019
- Spain Ratings Raised To 'A/A-1' From 'A-/A-2' On Economic Resilience; Outlook Stable, Sept. 20, 2019

- Banco Santander S.A., Sept. 19, 2019
- How We're Refining Our View Of The Strategic Importance Of Certain Spanish Bank Subsidiaries, Aug. 2, 2019
- Ratings On Two Spanish Banks Raised, Most Affirmed On Receding Economic Risks, May 31, 2019

Anchor Matrix										
Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

### Ratings Detail (As Of October 8, 2019)\*

#### Santander Consumer Finance S.A.

Issuer Credit Rating	A-/Stable/A-2
Resolution Counterparty Rating	A/--/A-1
Commercial Paper	
<i>Local Currency</i>	A-2
Senior Subordinated	A-2
Senior Subordinated	BBB+
Senior Unsecured	A-
Short-Term Debt	A-2
Subordinated	BBB

#### Issuer Credit Ratings History

06-Apr-2018	A-/Stable/A-2
09-Jun-2017	BBB+/Stable/A-2
03-Apr-2017	BBB+/Positive/A-2
06-Oct-2015	BBB+/Stable/A-2

#### Sovereign Rating

Spain	A/Stable/A-1
-------	--------------

#### Related Entities

##### Banco Santander (Brasil) S.A.

Issuer Credit Rating	BB-/Stable/B
<i>Brazil National Scale</i>	brAAA/Stable/brA-1+

## Ratings Detail (As Of October 8, 2019)\*(cont.)

**Banco Santander-Chile S.A.**

Issuer Credit Rating	A/Stable/A-1
Commercial Paper	
<i>Foreign Currency</i>	A-1
Senior Unsecured	A
Subordinated	A-

**Banco Santander S.A.**

Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/-/A-1
Senior Subordinated	A-
Senior Unsecured	A
Short-Term Debt	A-1
Subordinated	BBB+

**Banco Santander SA (London Branch)**

Certificate Of Deposit	
<i>Local Currency</i>	A-1

**Banco Santander S.A. (New York Branch)**

Commercial Paper	
<i>Local Currency</i>	A-1

**Banco Santander Totta S.A.**

Issuer Credit Rating	BBB/Positive/A-2
Resolution Counterparty Rating	BBB/--/A-2
Senior Unsecured	BBB

**PSA Banque France**

Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	A-2
Senior Unsecured	BBB+

**Santander Bank, N.A.**

Issuer Credit Rating	A-/Stable/A-2
Senior Unsecured	A-
Short-Term Debt	A-2
Subordinated	BBB+

**Santander Consumer Bank AG**

Issuer Credit Rating	A-/Stable/A-2
Resolution Counterparty Rating	A/--/A-1
Commercial Paper	A-2
Senior Subordinated	BBB+

**Santander Holdings U.S.A Inc.**

Issuer Credit Rating	BBB+/Stable/A-2
Preferred Stock	BB+
Senior Unsecured	BBB+

**Santander Totta SGPS, S.A.**

Senior Unsecured	BBB
------------------	-----



**Ratings Detail (As Of October 8, 2019)\*(cont.)****Santander UK Group Holdings PLC**

Issuer Credit Rating	BBB/Stable/A-2
Junior Subordinated	B+
Senior Unsecured	BBB
Short-Term Debt	A-2
Subordinated	BB+

**Santander UK PLC**

Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/-/A-1
Junior Subordinated	BB
Junior Subordinated	BB+
Preference Stock	BB
Senior Secured	AAA/Stable
Senior Unsecured	A
Senior Unsecured	A-1
Short-Term Debt	A-1
Subordinated	BBB-

**Sovereign Real Estate Investment Trust**

Preferred Stock	BB+
-----------------	-----

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.