Fitch Ratings

Banks
Retail & Consumer Banks
Spain

Santander Consumer Finance, S.A.

Update

Key Rating Drivers

VR Drives Ratings: Santander Consumer Finance, S.A.'s (SCF) Issuer Default Ratings (IDRs) are driven by the bank's intrinsic strength, as reflected in its Viability Rating (VR). The IDRs are further underpinned by potential shareholder support, which is reflected in its Shareholder Support Rating (SSR) of 'a-'. Fitch Ratings believes SCF's parent, Banco Santander, S.A. (A-/Stable), has strong incentives to support it as we consider SCF a core and integral part of the group, given that it manages most of Banco Santander's consumer finance operations in Europe.

Sound Standalone Profile: The bank's VR reflects a strong consumer finance franchise in Europe, sound earnings generation through economic cycles, and adequate capitalisation and funding. The latter two factors benefit from ordinary support from its parent. The VR also factors in some degree of stability in its asset quality despite the cyclical nature of its business, aided by the bank's geographical diversification, a large share of less-risky secured consumer lending and effective risk controls.

Leading Franchise in Auto Loans: SCF has a leading franchise in European consumer finance, with a clear bias towards northern European countries with strong economies. The bank's business model benefits from the granular nature of its client base, adequate product distribution, and agreements with auto-manufacturers and retail store chains, which provide recurrent business volumes and adequate loan quality.

Resilient Profitability: SCF's franchise, adequate risk-pricing and operating efficiency result in resilient operating profitability structurally. The bank's operating profit has averaged about 2.5% of its risk-weighted assets (RWAs) over the past 10 years, with limited volatility.

Well-Managed Credit Risks: SCF's asset-quality metrics have been resilient over the economic cycle as its risk profile benefits from its well-balanced geographic footprint and a large proportion of less-risky secured lending, mainly auto loans. It also benefits from tight risk-management controls and prudent risk appetite across the different geographies.

Adequate Capitalisation: Capitalisation is adequate considering SCF's credit risk profile, limited market risks and ordinary support from the parent. The limited retained earnings reflect Banco Santander largely managing SCF's capitalisation on a "need-cost optimisation" basis.

Rating Sensitivities

Parent Rating, VR: SCF's IDRs would be downgraded if both Banco Santander's IDRs and SCF's VR were downgraded. SCF's IDRs also remain sensitive to a downgrade of Spain's sovereign rating. The most likely trigger for a downgrade of SCF's VR would be the bank's inability to maintain its good earnings generation, resulting in an operating profit structurally below 2% of RWAs and without credible prospects to restore it over the medium-to-long term. The VR is also sensitive to the operating environment score (currently 'a-') lowering.

A downgrade of Banco Santander's VR, and hence of its Long-Term IDR, would most likely trigger a downgrade of SCF's VR given the close interlinks between the two banks in the form of operational integration, intragroup funding and capital management.

Limited VR Upside: A positive rating action would require an upgrade of Banco Santander's IDRs, which in turn is contingent upon an upgrade of Spain's sovereign rating. An upgrade of SCF's VR is currently unlikely because of the bank's undiversified business model.

Ratings

Foreign Currency	
Long-Term IDR	A-
Short-Term IDR	F2
Viability Rating	a-
Shareholder Support Rating	a-
Sovereign Risk	
Long-Term Foreign- and Local-Currency IDRs	A-
Country Ceiling	AAA

Outlooks

Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign- and Local-Currency IDRs	Stable

Applicable Criteria

Bank Rating Criteria (November 2021)

Related Research

Fitch Affirms Santander at 'A-'; Outlook Stable (May 2022)
Global Economic Outlook - March 2022

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Debt Rating Classes

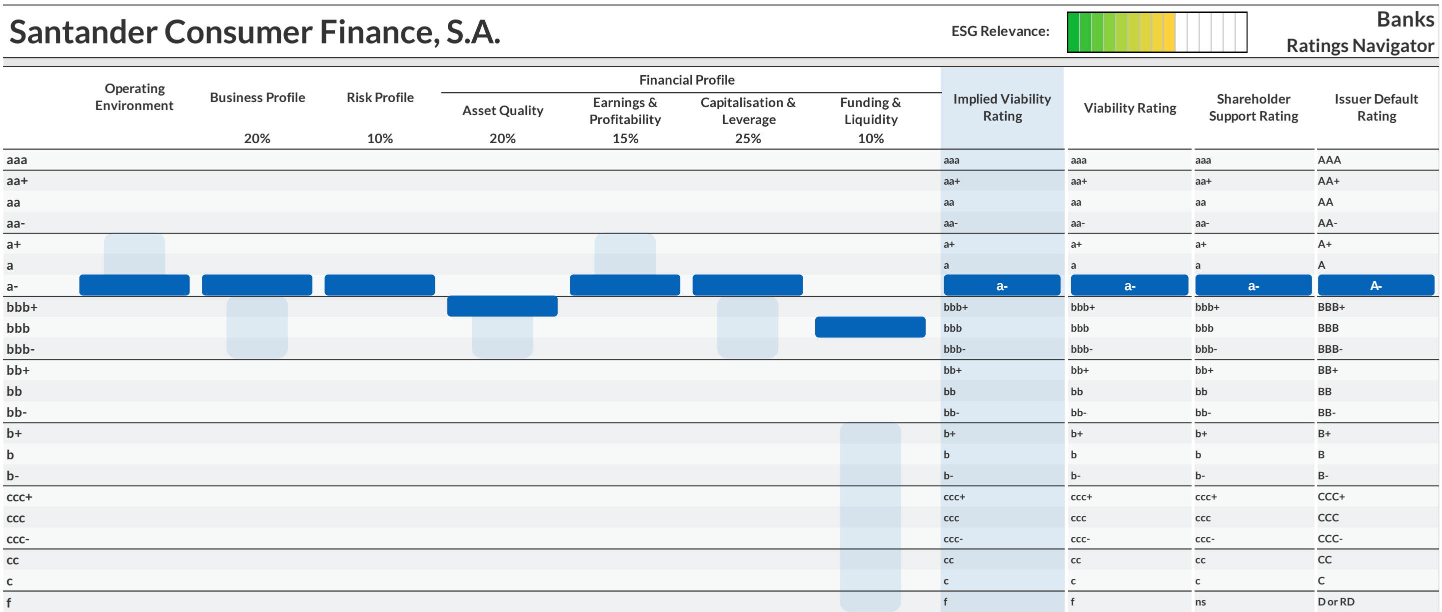
Rating Level	Rating
Deposit ratings	A/F1
Senior preferred debt	A/F1

Source: Fitch Ratings

SCF's long-term senior preferred debt and deposit ratings are rated one notch above SCF's and Banco Santander's Long-Term IDRs to reflect the protection that accrues from the buffers of junior and senior non-preferred debt in the resolution perimeter. Banco Santander and SCF are part of the same resolution group. Fitch estimates that the buffer of qualifying junior debt and senior non-preferred debt exceeds 10% of RWAs (after deconsolidating subsidiaries that are in different resolution groups) on a sustained basis. We expect Banco Santander to continue issuing a significant volume of senior non-preferred and junior debt to continue meeting the group's minimum requirement for own funds and eligible liabilities (MREL) and subordination requirements.

The short-term senior preferred debt and deposit ratings of 'F1' benefit from the equivalent long-term senior debt and deposit ratings having been notched up to reflect protection.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR Adjustments

The operating environment score for SCF is one notch above that of domestic banks in Spain to reflect the benefits of SCF's international diversification, including into stronger economies than its home market. The most significant markets for SCF are Germany, the Nordics, Spain and France. However, Spain has a proportionately higher influence as the group's credit profile is correlated with that of the Spanish sovereign.

The business profile score has been assigned above the implied score as SCF benefits from being part of a larger banking group. The capitalisation and leverage score is above the implied score as we factor in ordinary support from Banco Santander, which would provide capital to support growth if needed. The funding and liquidity score is also above the implied score to reflect SCF's established market access and ordinary support from the parent.

Shareholder Support

Shareholder Support Rating KRDs	
Parent IDR	A-
Total Adjustments (notches)	0
Shareholder Support Rating:	**a-**
Shareholder ability to support	
Shareholder Rating	
Shareholder regulation	Equalised
Relative size	Equalised
Country risks	Equalised
Shareholder propensity to support	
Role in group	Equalised
Reputational risk	Equalised
Integration	Equalised
Support record	1 Notch
Subsidiary performance and prospects	Equalised
Legal commitments	2+ Notches

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

SCF's SSR of 'a-' is in line with Banco Santander's Long-Term IDR of 'A-' to reflect our view that SCF is a core and integral part of the group, resulting in an extremely high probability of support, if needed. Our assessment of shareholder support also considers that the parent and SCF operate in the same jurisdiction, are subject to the same regulations and belong to the same resolution perimeter in Spain. The high degree of integration of SCF's operations, risk management and controls with those of Banco Santander, as well as SCF's long and successful record of supporting the group objectives, also contribute to our overall support assessment.

Significant Changes

Heightened Economic Risks Following Outbreak of War in Ukraine

Fitch revised the economic outlook for the eurozone in March 2022, following the start of the war in Ukraine. After returning to pre-pandemic growth levels in 4Q21, the eurozone economy will stall in 2022 and 2023 (revised expected growth of 3% and 2.3%, respectively) due to high energy prices, supply-chain disruptions, raw material shortages, and uncertainty linked to the conflict and related sanctions. A sudden stop in Russian gas supply would likely prompt a recession in the eurozone and would particularly affect Germany, one of SCF's core markets. Fitch believes that SCF's operating environment score of 'a-' still has some buffer against these risks.

Operating Profit Recovered to Pre-Pandemic Levels in 2021

Operating profit recovered to 2.9% of RWAs in 2021 due to lower loan impairment charges (LICs) and business volumes and revenues recovering after the pandemic. New lending grew by 11% across businesses and supported the growth in the loan portfolio (2% yoy) and in operating income (4% yoy). Operating expenses marginally increased as cost-efficiency measures offset the impact of new business acquisitions. LICs dropped 40%, underpinned by good asset-quality dynamics, and represented 0.5% of gross loans in 2021 (0.8% in 2020). Performance of loans under moratoria was good and the impaired loan ratio remained low at 2% at end-2021.

Summary Financials and Key Ratios

		31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018
	Year End	Year End	Year End	Year End	Year End
	USDm	EURm	EURm	EURm	EURm
	Audited - Unqualified	Audited - Unqualified	Audited - Unqualified	Audited - Unqualified	Audited - Unqualified
Summary Income Statement					
Net interest and dividend income	4,024	3,558.3	3,481.7	3,428.1	3,312.7
Net fees and commissions	861	761.5	711.3	787.3	764.3
Other operating income	139	122.8	74.6	52.6	57.5
Total operating income	5,025	4,442.6	4,267.6	4,268.0	4,134.5
Operating costs	2,098	1,855.2	1,811.4	1,801.2	1,763.1
Pre-impairment operating profit	2,926	2,587.4	2,456.2	2,466.8	2,371.4
Loan and other impairment charges	560	495.1	825.2	381.0	258.9
Operating profit	2,366	2,092.3	1,631.0	2,085.8	2,112.5
Other non-operating items (net)	-77	-68.4	-344.0	-100.5	-87.4
Tax	603	533.2	523.3	575.2	565.9
Net income	1,686	1,490.7	763.7	1,410.1	1,459.2
Summary Balance Sheet					
Assets					
Gross loans	114,994	101,674.8	99,637.9	100,237.0	93,788.6
- of which impaired	2,299	2,033.1	2,026.9	1,969.8	1,861.5
Loan loss allowances	2,392	2,115.2	2,197.4	1,938.4	1,908.2
Net loans	112,602	99,559.6	97,440.5	98,298.6	91,880.4
Interbank	411	363.6	551.8	158.4	152.7
Derivatives	143	126.8	79.0	97.7	184.9
Other securities and earning assets	6,224	5,502.9	5,980.7	3,298.6	3,299.4
Total earning assets	119,380	105,552.9	104,052.0	101,853.3	95,517.4
Cash and due from banks	21,450	18,965.1	10,316.8	7,829.0	5,871.7
Other assets	7,253	6,413.2	5,665.8	4,900.9	4,223.2
Total assets	148,083	130,931.2	120,034.6	114,583.2	105,612.3
Liabilities					
Customer deposits	44,209	39,088.5	37,500.9	37,131.5	34,391.1
Interbank and other short-term funding	41,242	36,465.3	15,999.7	18,939.3	20,531.7
Other long-term funding	40,676	35,964.8	47,730.4	39,565.8	33,462.8
Trading liabilities and derivatives	211	186.8	205.6	118.6	112.2
Total funding and derivatives	126,339	111,705.4	101,436.6	95,755.2	88,497.8
Other liabilities	6,595	5,831.5	4,691.0	5,585.1	3,941.4
Preference shares and hybrid capital	1,357	1,200.0	1,200.0	1,050.0	1,050.0
Total equity	13,792	12,194.3	12,707.0	12,192.9	12,123.1
Total liabilities and equity	148,083	130,931.2	120,034.6	114,583.2	105,612.3
Exchange rate		USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015	USD1 = EUR0.873057

Source: Fitch Ratings, Fitch Solutions, SCF

In 1Q22, operating profit continued to benefit from growth in operating income as business activity remained resilient and from stable LICs. These developments offset higher operating expenses, largely due to perimeter effects and additional investments.

Summary Financials and Key Ratios

	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.9	2.3	2.9	3.1
Net interest income/average earning assets	3.4	3.4	3.5	3.6
Non-interest expense/gross revenue	42.4	43.2	43.0	43.6
Net income/average equity	11.9	6.1	11.6	12.7
Asset quality				
Impaired loans ratio	2.0	2.0	2.0	2.0
Growth in gross loans	2.0	-0.6	6.9	5.9
Loan loss allowances/impaired loans	104.0	108.4	98.4	102.5
Loan impairment charges/average gross loans	0.5	0.8	0.4	0.3
Capitalisation				
Common equity Tier 1 ratio	12.6	13.2	12.5	12.3
Tangible common equity/tangible assets	7.9	9.1	8.9	9.6
Basel leverage ratio	9.4	8.9	8.5	8.7
Net impaired loans/common equity Tier 1	-0.9	-1.9	0.4	-0.6
Funding and liquidity				
Gross loans/customer deposits	260.1	265.7	270.0	272.7
Liquidity coverage ratio	319.0	314.0	248.0	269.0
Customer deposits/total non-equity funding	34.7	36.6	38.4	38.5
Net stable funding ratio	115.0	114.0	106.0	107.0

Source: Fitch Ratings, Fitch Solutions, SCF

Environmental, Social and Governance Considerations

FitchRatings

Santander Consumer Finance, S.A.

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Santander Consumer Finance, S.A. has 5 ESG potential rating drivers

- Santander Consumer Finance, S.A. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance, if present, is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

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