FitchRatings

**Banks**
Retail & Consumer Banks
**Spain**

# Santander Consumer Finance, S.A.

## Key Rating Drivers

**Strong Consumer Finance Franchise, Resilient Profits:** Santander Consumer Finance, S.A.'s (SCF) ratings reflect a strong consumer finance franchise in Europe, sound earnings generation capacity through economic cycles, and adequate capitalisation and funding. The latter two factors benefit from ordinary support from its parent, Banco Santander S.A. (A-/Stable).

The Viability Rating (VR) also factors in some degree of stability in SCF's asset quality despite the cyclical nature of its business, aided by the bank's exposure to highly rated countries, a large share of less risky secured consumer lending, and effective risk controls.

**Shareholder Support Further Underpins IDRs:** While SCF's Issuer Default Ratings (IDRs) are driven by its intrinsic strength, the ratings are further underpinned by potential shareholder support, which is reflected in the Shareholder Support Rating (SSR) of 'a-'. Fitch Ratings believes the bank's parent has strong incentives to provide support to fully owned SCF as Fitch considers it a core and integral part of the group, given that it manages most of Banco Santander's consumer finance operations in Europe.

**Leading European Auto Loan Franchise:** SCF has a leading franchise in European consumer finance and ranks among the top players in the markets in which it operates. The bank's business model benefits from geographical diversification in Europe, with a clear bias towards strong northern countries, adequate product distribution and the granular nature of its client base. New and used car financing are SCF's core offering, although the bank also offers durables financing and other consumer-lending products.

**Stable Asset Quality:** SCF's asset quality metrics have remained resilient in the past few years, partly aided by recurrent write-offs, with an impaired loan ratio of 2.1% (2.7% including net write-offs) and a high reserve coverage ratio of 93% at end-June 2022 (end-2021: 104%). Loan impairment charges (LICs)/gross loans were also contained (1H22: 0.5%) but we expect these to increase to more normalised levels in 2023, considering the heightened economic risks across SCF's geographies.

**Resilient Operating Profitability:** SCF's franchise, adequate risk-pricing and operating efficiency result in structurally resilient operating profitability. Operating profit has been an average 2.5% of risk-weighted assets (RWA) over the past decade, with limited volatility. Operating profit recovered to 2.9% of RWA in 2021–1H22 (2020: 2.3%), supported by higher fee income and lower LICs. We expect the bank to maintain an operating profit of above 2% of RWA in the medium term, despite a normalisation of LICs and inflationary pressures.

**Adequate Capitalisation:** Capitalisation levels are adequate considering SCF's credit risk profile, limited market risks and ordinary support from the parent. We expect the bank to maintain a common equity Tier 1 ratio of 12% (end-June 2022: 12.3%) and a dividend pay-out ratio of 50%, in line with its strategic targets. The limited retained earnings reflect Banco Santander largely managing the subsidiary's capitalisation on a "need–cost optimisation" basis.

**Diversified Funding Profile:** SCF's funding structure is stable and more diversified than wholesale-funded non-bank peers. Wholesale funding comprises unsecured and secured debt and intragroup funding and ECB's TLTRO. SCF raises deposits (about 40% of total funding at end-June 2022), mainly through its northern European subsidiaries, and is planning to increase its deposit base due to its lower cost compared with other sources. SCF has well-established access to capital markets and would be able to increase intragroup funding if needed.

## Ratings

**Foreign Currency**

| | |
|---|---|
| Long-Term IDR | A- |
| Short-Term IDR | F2 |
| Viability Rating | a- |
| Shareholder Support Rating | a- |

**Sovereign Risk (Spain)**

| | |
|---|---|
| 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 (September 2022)

## Related Research

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

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## Rating Sensitivities

### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

SCF's IDRs would be downgraded if Banco Santander's IDRs and SCF's VR were downgraded. SCF's IDRs are also 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 capacity, resulting in an operating profit structurally below 2% of RWA. This could stem from a permanent deterioration in SCF's revenue (i.e. prolonged lower business activity or loss of captive agreements) or higher-than-expected credit risks. SCF's VR is also sensitive to a lower operating environment assessment (scored at 'a-', supported by the bank's sizeable exposure to Germany and the Nordics).

A downgrade of Banco Santander's VR and hence Long-Term IDR would likely trigger a downgrade of SCF's VR, given the contagion stemming from the close interlinks between the two banks in the form of operational integration, intragroup funding and the parent bank's policy to upstream capital through dividends.

SCF's SSR would be downgraded if Banco Santander's IDR was downgraded, if the consumer finance segment becomes less strategic for the group or if SCF becomes significantly less integrated, which Fitch does not expect.

### Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

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.

## Other Debt and Issuer Ratings

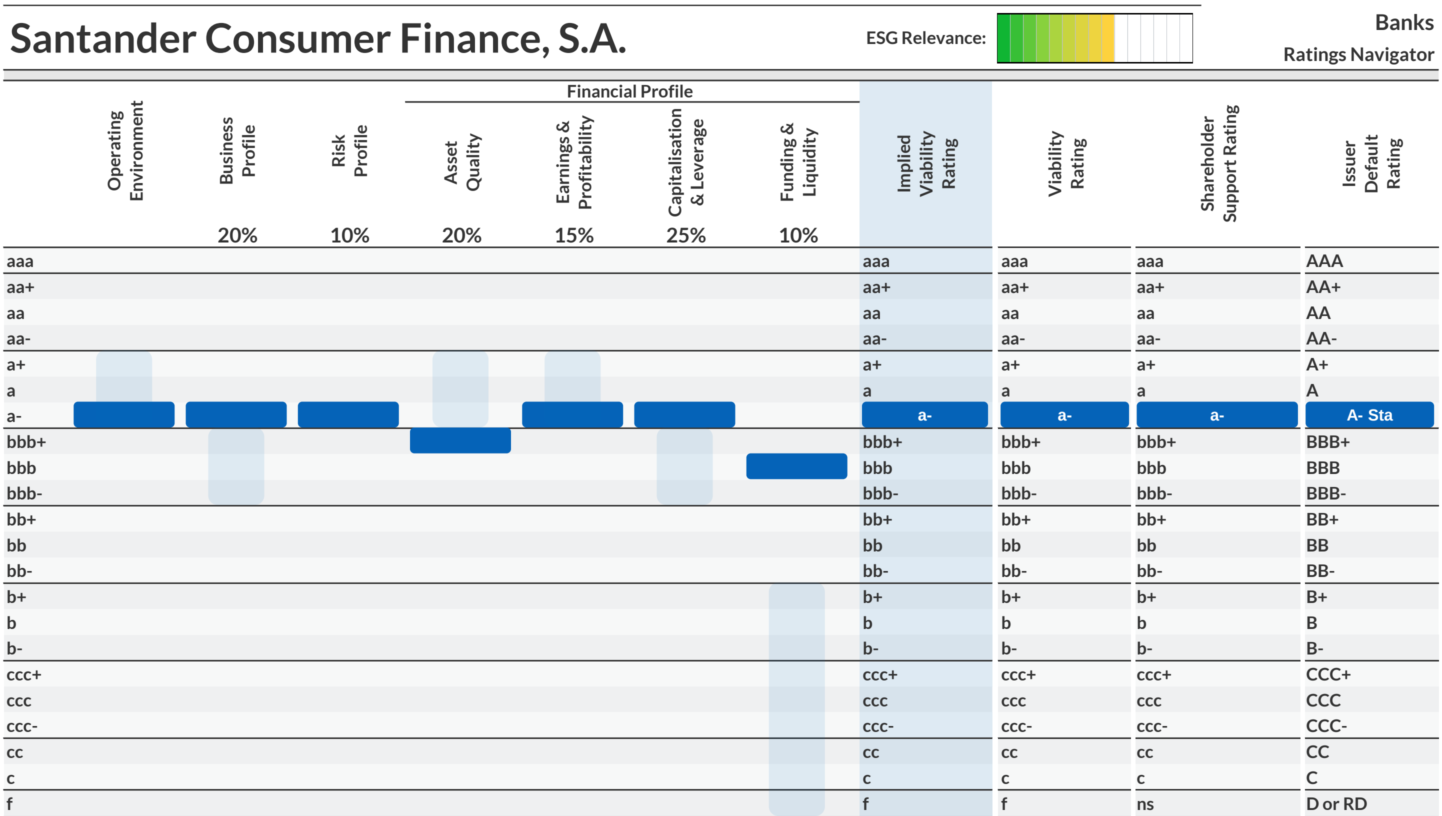
| Rating level | Rating |
|---|---|
| Deposit ratings | A/F1 |
| Senior preferred debt | A/F1 |

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 buffers of junior and senior non-preferred debt in the resolution perimeter. Fitch estimates that the buffer of qualifying junior debt and senior non-preferred debt exceeds 10% of RWA (after deconsolidating subsidiaries that are in different resolution groups) on a sustained basis.

The short-term senior preferred debt and deposit ratings of 'F1' benefit from the fact that equivalent long-term senior debt and deposit ratings have 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 to Key Rating Drivers

SCF's operating environment score 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 given the fact that the group's credit profile is correlated with that of the Spanish sovereign, as reflected in the sensitivity of the group's overall performance to the operating environment in Spain.

The business profile score of 'a-' has been assigned above the implied 'bbb' category score as SCF benefits from being part of a larger banking group.

The asset quality score of 'bbb+' has been assigned below the implied 'a' category score to reflect material write-offs on a recurring basis.

The capitalisation & leverage score of 'a-' is above the implied 'bbb' category score as we factor in ordinary support from Banco Santander, which would provide capital to support growth if needed.

The funding & liquidity score of 'bbb' is above the 'b & below' implied score to reflect SCF's established market access and ordinary support from the parent.

## Company Summary and Key Qualitative Factors

### Operating Environment

Fitch expects the eurozone's GDP to decline for three consecutive quarters in 3Q22–1Q23, resulting in a contraction of 0.1% for the full year 2023, due to the energy crisis, with a significant impact for Germany and Italy, and tightening monetary conditions. The economy should recover in 2024, with expected growth of above 2%.

Energy shortages and rationing are a high risk in parts of the eurozone during the winter, depending on its severity. Consumption will be affected by the shock to real wages from higher inflation. Core inflation is still lower in the eurozone than in the US, but the energy price shock is larger. Fitch expects that inflation in the eurozone will average 8.1% in 2022 and 6% in 2023, with the potential to exceed this. Most governments are announcing plans to shield domestic consumers, but at potentially large fiscal cost. Labour markets continue to hold up, with the unemployment rate static at 6.7% in 2Q22, yet momentum is fading.

Fitch believes that negative effects on automotive demand from weaker macro-economic factors should be partially offset in the medium term by pent-up demand built up over the past two years by severe production interruptions due to pandemic-related and semiconductor shortages. However, the level of auto sales should still remain below pre-pandemic levels, in particular for new cars.

#### Fitch GDP Growth Projections (%)

| Country (OES) | 2021 | 2022F | 2023F |
|---|---|---|---|
| Germany (aa-/Stable) | 2.6 | 1.4 | -0.5 |
| Norway (aa/Stable) | 3.9 | 3.4 | 2.0 |
| Spain (bbb+/Stable) | 5.1 | 4.1 | 1.7 |
| France (aa-/Stable) | 6.8 | 2.5 | 1.1 |
| Italy (bbb/Stable) | 6.6 | 3.0 | -0.7 |

OES: Operating environment score
Source: Fitch Ratings, Fitch Solutions

### Business Profile

#### Leading European Consumer Finance Franchise

SCF is the consumer lending arm of the Banco Santander group in Europe and benefits from its integration into the group, including technology synergies and client relationships. The group has built one of the leading consumer finance franchises in Europe and is among the largest operators in its core markets, giving it some degree of pricing power in some products – although consumer finance is a mature market in Europe, with strong competition. SCF has strengthened its franchise in recent years through acquisitions and the creation of joint ventures with industrial partners.

Financing of new and used cars is SCF's core financing offering, although the bank also provides durables financing and other consumer lending products. The bank has also built a meaningful fee base from cross-selling services, mostly related to insurance products, although reliance on net interest income is still significant (81% of operating income in 1H22, versus 18% from fee and commission income). The bank uses agreements with auto-manufacturers and retail store chains, which provide recurrent business volumes and adequate credit loan quality.

SCF is a Spain-based operating bank that is also the intermediate holding company for the group's consumer finance businesses in continental Europe. SCF actively manages its various operating units and deploys uniform risk-management systems, although each unit is responsible for its own funding, liquidity and capital management, in line with Banco Santander's model. SCF along with its subsidiaries are part of the same resolution perimeter than Banco Santander.

#### Digital Consumer Bank Business Unit

Banco Santander recently created a new business reporting unit, Digital Consumer Bank (DCB), which includes SCF and Openbank. The latter is a separate legal entity with EUR14 billion of assets at end-2021 that acts as Banco Santander's digital bank and offers retail banking services, including deposit-gathering, in Spain and other European markets. SCF uses Openbank's digital capabilities to further improve its digital capabilities, while Openbank benefits from SCF's large customer base to expand its retail capabilities across Europe.

SCF's strategic plan largely focuses on strengthening its franchise in consumer finance and financing of e-commerce buyers and merchants; extending and renewing captive agreements; improving the cost-to-income ratios of less-efficient units; and investing in digitalisation and analytics to enhance customer experience. After the acquisition of Sixt Leasing SE Group in 2020, SCF is expanding its leasing, subscription and fleet financing capabilities, where the bank's positioning is weaker than in other business lines. The bank is also growing its "Buy Now, Pay Later" and green finance segments, although business volumes in these segments remain small. As part of the strategic plan, SCF is simplifying its organisational structure by reducing the number of banking licences for smaller units.

SCF has historically shown good execution skills in implementing its strategy and business plans, aided by the quality of its management, sound geographical diversification and parent support.

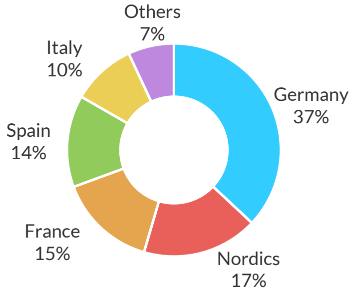
## New Agreement with Stellantis

In 1Q22, SCF and Stellantis N.V. (BBB/Stable) reached a binding agreement that foresees that SCF will become the captive finance provider from 1H23 for all the brands of the auto manufacturer in seven European countries, including France, Italy and Spain. As part of the transaction, SCF will sell its captive businesses with Stellantis in Germany, Austria and the UK to BNP Paribas Personal Finance. Following the agreement, SCF aims at increasing its Stellantis brand portfolio by one third to EUR40 billion by 2026.

We expect the new agreement to be credit positive, despite the increase in concentration to this automaker, as it should support business volumes in the medium term, particularly in Italy. The agreement could result in a slightly change in geographical exposure, although without altering its overall business and risk profiles.

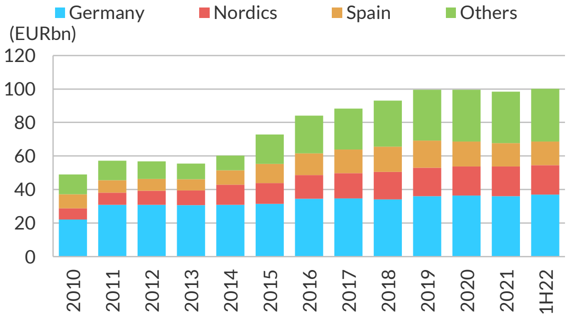
### Loan Book by Country

At End-June 2022




Source: Fitch Ratings, SCF. Excluding PSA UK.

### Evolution of Loans




Source: Fitch Ratings, SCF. Excluding PSA UK in 2021-1H22

## Risk Profile

### Cyclical but Highly Collateralised Business

SCF's main risk is credit risk stemming from its lending activities (80% of total assets at end-June 2022). The bank is mainly focused on auto-finance lending, which is a lower-risk consumer finance segment given its secured nature, but also offers other consumer lending services (durables financing, cash loans and credit cards). SCF's geographic diversification has provided some stability and resilience to SCF's earnings through credit cycles. Its loan book is granular given its retail nature (91% at end-June 2022, with stock finance accounting for the rest). The bank used its excess liquidity and materially increased (55% ytd) its securities portfolio in 1H22. However, the debt portfolio still accounted for a moderate 6% of total assets at end-June 2022, and mostly comprised sovereign debt issued by the countries in which SCF operates.

SCF's risk appetite also benefits from its sound risk-management framework, adequate collateral management and consistent underwriting standards. The entity has enhanced its admission risk model for retail lending through increased automation. For dealer lending related to car-stock financing, the admission process is based on internal ratings, with different levels of delegated authorities. SCF monitors ageing stock and sets ad-hoc plans for preventing or mitigating obsolescence risks.

SCF adheres to Banco Santander group's operational risk framework, with a set of processes, indicators and assessment to monitor non-financial risk exposure. Modest operational losses in recent years mainly relate to external fraud and litigation claims, while residual risks remain small despite SCF growing its leasing and subscription services.

## Loan Book Growth in 1H22 Supported by Gains in Market Shares

We estimate that the loan book marginally declined in 2021 on organic basis (excluding changes in the accounting perimeter related to PSA UK). New lending origination recovered last year but remained below pre-pandemic levels due to ongoing pandemic-related restrictions, supply-chain disruptions and subdued consumption levels. In 1H22, new lending recovered to above 1H19 levels despite a shrinking auto market as SCF gained market shares, supporting the growth in the bank's loan book (2% ytd). The economic slowdown in Europe, with likely recessions in Germany and Italy, and persisting supply-chain issues, will pressure the bank's business opportunities. However, we believe the pent-up demand of cars built during the pandemic and SCF's new agreement with Stellantis will support growth over the next few years.

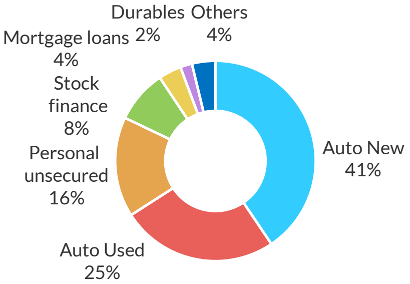
## Contained Market Risks Despite Higher Interest Rates

SCF has a negative sensitivity to higher interest rates in the short term due to the structure of its balance sheet, with a large proportion of loans having fixed interest rates but short maturities. However, the bank has been increasing the funding at fixed rates, while the floating part of the loan portfolio – particularly those with longer tenors – and interest risks are small.

SCF does not hold any trading activity, and exchange rate risks are derived from permanent investments in participation with associate entities, mainly in the Nordics. Assets in non-euro currencies are funded with liabilities in the same currency, limiting exchange-rate risks. The transactions involving exchange-rate risks are hedged via cross-currency swaps. Exchange-rate risk is managed centrally at Banco Santander's group level.

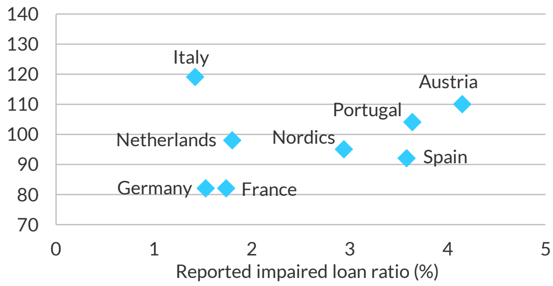
### Loan Book by Product

At End-June 2022




Source: Fitch Ratings, SCF

### Asset Quality by Market at End-June 2022




Source: Fitch Ratings, SCF

## Financial Profile

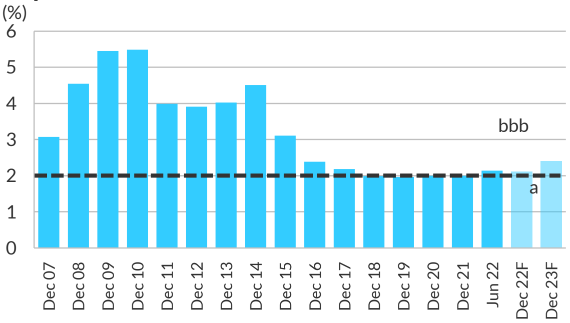
### Asset Quality

SCF's geographic diversification has supported its fairly stable asset quality through economic cycles, with an impaired loan ratio ranging from a peak of 5.5% in 2010 (7.6% including net charge-offs) to a low of about 2% in recent years. The impaired loan ratio has been broadly stable in recent years despite the pandemic (end-June 2022: 2%; 2.7% including net write-offs). The stock of impaired loans increased by 9% in 1H22, partially affected by the new definition of default being implemented.

We expect the impaired loan ratio to moderately deteriorate but to remain within the range consistent within our 'bbb+' assessment, considering resilient employment prospects, support programmes and available savings by households. Write-offs and foreclosures are used as work-out tools for impaired loans and are complemented by a strong collection model, including a team specialised in recoveries, and recurring portfolio sales. Expired loan moratoria and deferred payments for stock finance businesses are performing well. In 4Q21, the bank released the entire pandemic-related provisions built during 2020 at about EUR200 million.

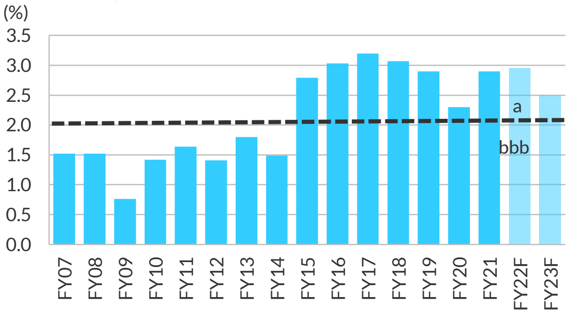
Stage 2 loans represented 3.5% of gross loans at end-June 2022 (3.4% at end-2019), while the stock of restructured operations remains small at below 1% of gross loans. SCF's level of repossessed assets is minimal as the entity's policy is to sell all repossessions in a small timeframe through sales to individuals and dealers or auctions.

**Impaired Loan Ratio**




Source: Fitch Ratings, SCF

**Operating Profit/RWAs**




Source: Fitch Ratings, SCF

### Earnings and Profitability

Operating profit recovered to 2.9% of RWAs in 2021 due to revenues recovering after the pandemic and lower LICs. New lending grew by 11% across businesses and supported the growth in fee income (7% yoy), while NII remained broadly stable due to a larger contribution of the debt securities portfolio. Operating expenses marginally increased as cost-efficiency measures offset the impact of new business acquisitions. LICs dropped to 0.5% of gross loans in 2021 (0.8% in 2020), underpinned by good asset-quality performance. Net income materially improved in 2021 as the bank recorded non-operating losses in 2020 (not included in our estimations of operating profit) related to the goodwill of the Nordics units and the tax credit carry-forwards in the Spanish unit.

In 1H22, SCF's operating profit remained stable at 2.9% of RWAs, although the recovery of the operating income was offset by larger operating expenses. SCF's cost/income ratio of 44% in 1H22 compares well internationally and benefits from being part of the Banco Santander group.

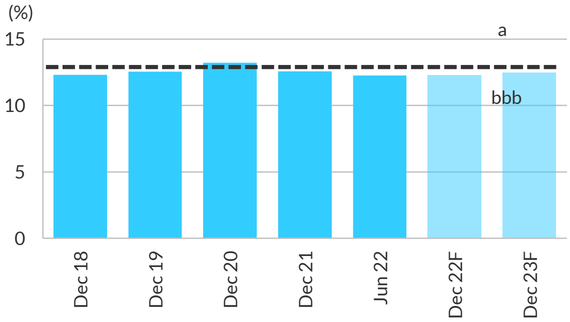
### Capital and Leverage

SCF's CET1 and total capital ratios were 12.3% and 16.4%, respectively, at end-June 2022, which compared well with the regulatory requirements of 7.89% and 12.05%. The bank is aiming to maintain a CET1 ratio broadly stable at current levels as earnings generation should offset planned business growth and dividend distribution to the parent (pay-out of 50%). SCF's leverage ratio was also satisfactory at 8.4% at end-June 2022, down from 9.4% at end-2021 due to the termination of the temporary exemption from the leverage exposure calculation applying to deposits held at the central bank.

RWAs were EUR75 billion at end-June 2022 (59% of total assets), of which 91% and 8% were related to credit and operational risks, respectively. SCF optimises the use of capital based on risk-adjusted profitability measures and by advancing the implementation of more advanced internal models. The bank also undertakes securitisations to transfer risk on a regular basis.

SCF is not a resolution entity and does not have a recovery plan as it is integrated in Banco Santander's resolution perimeter. The bank, however, needs to meet an internal MREL requirement and places all MREL instruments at Banco Santander, while only senior preferred debt is issued to the market.

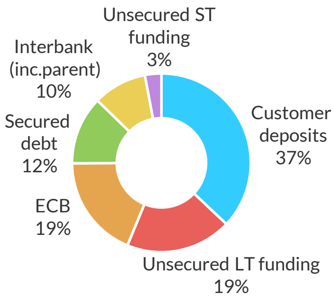
### CET1 Ratio




Source: Fitch Ratings, SCF

### Funding Structure

At End-June 2022




Source: Fitch Ratings, SCF

## Funding and Liquidity

Customer deposits increased 4% yoy, supported by household savings, and represented 37% of funding at end-June 2022. SCF has recently launched different initiatives in order to capture more deposits. Growth in deposits and higher recourse to secured and unsecured funding should allow the bank to repay ECB's TLTRO-III (19% of funding). Excess cash buffers and the matching of part of the securities portfolio with the TLTRO-III also partially reduces the refinancing risks. SCF has reduced the market issuances in 2021–1H22, in part due to higher costs, and the bank maintains a significant funding with its parent (9% of the SCF's funding at end-June 2022).

Unsecured long-term funding includes senior preferred bonds placed in the market and MREL-eligible debt placed at the parent, while unsecured short-term funding is mainly short-term commercial paper. ABS funding (11% of total funding) provides SCF with a cheap funding source that can be retained in order to meet internal liquidity requirements. This type of ABS has a good market perception as the underlying assets tend to have short lives, good residual values, and diversified pools.

SCF manages its liquidity both globally and at country level as legal frameworks and internal limits set different requirements for each operating unit. The end-June 2022 liquidity coverage ratio (266%) and net stable funding ratio (112%) were adequate, in our view. Refinancing risk from debt maturities is mitigated by the short-term nature of its loan book. Liquid assets fell to 9% at end-June 2022 (end-June 2021: 11%), while asset encumbrance remained broadly stable at an adequate 30%.

## Additional Notes on Charts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics per Fitch's Bank Rating Criteria. They are based on a combination of Fitch's macro-economic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market.

To the extent Fitch is aware of material non-public information with respect to future events such as planned recapitalisations or merger and acquisition activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

Black dashed lines represent indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'a' category. Light-blue columns represent Fitch's forecasts.

# Financials

## Financial Statements

| | 30 Jun 22 | | 31 Dec 21 | 31 Dec 20 | 31 Dec 19 | 31 Dec 18 |
|---|---|---|---|---|---|---|
| | 6 months - interim | 6 months - interim | Year end | Year end | Year end | Year end |
| | (USDm) | (EURm) | (EURm) | (EURm) | (EURm) | (EURm) |
| | Audited – unqualified (emphasis of matter) | Audited – unqualified (emphasis of matter) | Audited - unqualified | Audited - unqualified | Audited - unqualified | Audited - unqualified |
| **Summary income statement** | | | | | | |
| Net interest and dividend income | 1,886 | 1,815.5 | 3,558.3 | 3,481.7 | 3,428.1 | 3,312.7 |
| Net fees and commissions | 410 | 394.4 | 761.5 | 711.3 | 787.3 | 764.3 |
| Other operating income | 85 | 81.8 | 122.8 | 74.6 | 52.6 | 57.5 |
| Total operating income | 2,380 | 2,291.7 | 4,442.6 | 4,267.6 | 4,268.0 | 4,134.5 |
| Operating costs | 1,027 | 988.6 | 1,855.2 | 1,811.4 | 1,801.2 | 1,763.1 |
| Pre-impairment operating profit | 1,354 | 1,303.1 | 2,587.4 | 2,456.2 | 2,466.8 | 2,371.4 |
| Loan and other impairment charges | 254 | 245.0 | 495.1 | 825.2 | 381.0 | 258.9 |
| Operating profit | 1,099 | 1,058.1 | 2,092.3 | 1,631.0 | 2,085.8 | 2,112.5 |
| Other non-operating items (net) | -23 | -22.4 | -68.4 | -344.0 | -100.5 | -87.4 |
| Tax | 279 | 268.2 | 533.2 | 523.3 | 575.2 | 565.9 |
| Net income | 797 | 767.5 | 1,490.7 | 763.7 | 1,410.1 | 1,459.2 |
| Fitch comprehensive income | 892 | 858.5 | 1,552.5 | 588.2 | 1,343.5 | 1,410.2 |
| | | | | | | |
| **Summary balance sheet** | | | | | | |
| **Assets** | | | | | | |
| Gross loans | 107,462 | 103,457.9 | 101,674.8 | 99,637.9 | 100,237.0 | 93,788.6 |
| - of which impaired | 2,295 | 2,209.5 | 2,033.1 | 2,026.9 | 1,969.8 | 1,861.5 |
| Loan loss allowances | 2,138 | 2,058.4 | 2,115.2 | 2,197.4 | 1,938.4 | 1,908.2 |
| Net loans | 105,324 | 101,399.5 | 99,559.6 | 97,440.5 | 98,298.6 | 91,880.4 |
| Interbank | 622 | 598.8 | 363.6 | 551.8 | 158.4 | 152.7 |
| Derivatives | 607 | 584.3 | 126.8 | 79.0 | 97.7 | 184.9 |
| Other securities and earning assets | 8,105 | 7,803.3 | 5,502.9 | 5,980.7 | 3,298.6 | 3,299.4 |
| Total earning assets | 114,658 | 110,385.9 | 105,552.9 | 104,052.0 | 101,853.3 | 95,517.4 |
| Cash and due from banks | 10,287 | 9,904.1 | 18,965.1 | 10,316.8 | 7,829.0 | 5,871.7 |
| Other assets | 7,499 | 7,220.0 | 6,413.2 | 5,665.8 | 4,900.9 | 4,223.2 |
| Total assets | 132,445 | 127,510.0 | 130,931.2 | 120,034.6 | 114,583.2 | 105,612.3 |
| | | | | | | |
| **Liabilities** | | | | | | |
| Customer deposits | 42,140 | 40,569.5 | 39,088.5 | 37,500.9 | 37,131.5 | 34,391.1 |
| Interbank and other short-term funding | 35,850 | 34,514.1 | 36,465.3 | 15,999.7 | 18,939.3 | 20,531.7 |
| Other long-term funding | 33,998 | 32,731.2 | 35,964.8 | 47,730.4 | 39,565.8 | 33,462.8 |
| Trading liabilities and derivatives | 483 | 464.7 | 186.8 | 205.6 | 118.6 | 112.2 |
| Total funding and derivatives | 112,470 | 108,279.5 | 111,705.4 | 101,436.6 | 95,755.2 | 88,497.8 |
| Other liabilities | 5,659 | 5,448.4 | 5,831.5 | 4,691.0 | 5,585.1 | 3,941.4 |
| Preference shares and hybrid capital | 1,246 | 1,200.0 | 1,200.0 | 1,200.0 | 1,050.0 | 1,050.0 |
| Total equity | 13,069 | 12,582.1 | 12,194.3 | 12,707.0 | 12,192.9 | 12,123.1 |
| Total liabilities and equity | 132,445 | 127,510.0 | 130,931.2 | 120,034.6 | 114,583.2 | 105,612.3 |
| Exchange rate | | USD1 = EUR0.96274 | USD1 = EUR0.884173 | USD1 = EUR0.821963 | USD1 = EUR0.89015 | USD1 = EUR0.873057 |

Source: Fitch Ratings, Fitch Solutions, SCF

## Key Ratios

| | 30 Jun 22 | 31 Dec 21 | 31 Dec 20 | 31 Dec 19 | 31 Dec 18 |
|---|---|---|---|---|---|
| **Ratios (annualised as appropriate)** | | | | | |
| | | | | | |
| **Profitability** | | | | | |
| Operating profit/risk-weighted assets | 2.9 | 2.9 | 2.3 | 2.9 | 3.1 |
| Net interest income/average earning assets | 3.4 | 3.4 | 3.4 | 3.5 | 3.6 |
| Non-interest expense/gross revenue | 43.9 | 42.4 | 43.2 | 43.0 | 43.6 |
| Net income/average equity | 12.4 | 11.9 | 6.1 | 11.6 | 12.7 |
| | | | | | |
| **Asset quality** | | | | | |
| Impaired loans ratio | 2.1 | 2.0 | 2.0 | 2.0 | 2.0 |
| Growth in gross loans | 1.8 | 2.0 | -0.6 | 6.9 | 5.9 |
| Loan loss allowances/impaired loans | 93.2 | 104.0 | 108.4 | 98.4 | 102.5 |
| Loan impairment charges/average gross loans | 0.5 | 0.5 | 0.8 | 0.4 | 0.3 |
| | | | | | |
| **Capitalisation** | | | | | |
| Common equity Tier 1 ratio | 12.3 | 12.6 | 13.2 | 12.5 | 12.3 |
| Basel leverage ratio | 8.4 | 9.4 | 8.9 | 8.5 | 8.7 |
| Net impaired loans/common equity Tier 1 | 1.7 | -0.9 | -1.9 | 0.4 | -0.6 |
| | | | | | |
| **Funding and liquidity** | | | | | |
| Gross loans/customer deposits | 255.0 | 260.1 | 265.7 | 270.0 | 272.7 |
| Liquidity coverage ratio | 266.0 | 319.0 | 314.0 | 248.0 | 269.0 |
| Customer deposits/total non-equity funding | 37.2 | 34.7 | 36.6 | 38.4 | 38.5 |
| Net stable funding ratio | 112.0 | 115.0 | 114.0 | 106.0 | 107.0 |

Source: Fitch Ratings, Fitch Solutions, SCF

## Support Assessment

| Shareholder Support | |
|---|---|
| Parent IDR | A- |
| Total Adjustments (notches) | 0 |
| Shareholder Support Rating | a- |
| | |
| **Shareholder ability to support** | |
| Shareholder Rating | A-/ Stable |
| 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 group objectives, also contribute to our overall support assessment.

## 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 | 5 | issues | 2 |
| | 4 | issues | 1 |

### Environmental (E)

| General Issues | E Score | Sector-Specific Issues | Reference | E Scale |
|---|---|---|---|---|
| GHG Emissions & Air Quality | 2 | 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. |

Unless otherwise disclosed in this section, the highest level of ESG credit relevance 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 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 third related party. Any exceptions follow below.

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