FitchRatings

Santander Consumer Finance, S.A.

Update

Key Rating Drivers

Strong Franchise, Resilient Profits: SCF's ratings reflect a strong consumer finance franchise, sound earnings generation capacity through economic cycles, and adequate capitalisation. Its funding is stable but largely reliant on wholesale sources, and its capitalisation benefits from ordinary support from Banco Santander S.A. (A-/Stable). Asset quality is fairly stable despite the cyclical nature of its business, aided by the bank's exposure to highly-rated countries, a large share of lower-risk secured consumer lending and sound risk controls.

Shareholder Support Underpins IDRs: SCF's Issuer Default Ratings (IDR) are driven by its intrinsic strength and underpinned by potential shareholder support (Shareholder Support Rating (SSR) of 'a-'). We believe the bank's parent has strong incentives to support SCF, as it is core and integral to the group, manages most of Banco Santander's consumer finance operations in Europe, and falls under the same resolution group.

Leading European Consumer Franchise: SCF has a leading franchise in European consumer finance and ranks among the top peers in the markets in which it operates. The bank's business model is concentrated in consumer finance with reliance on a few auto manufacturers. However, it benefits from geographical diversification with a bias towards strong northern European countries, adequate product distribution and customer granularity.

Well-Managed Risks: SCF's focus on auto lending, which we view as lower risk than the unsecured consumer business, results in a moderate risk appetite. It has tight underwriting standards and sound risk controls, which together with geographical diversification mitigate risks, resulting in stable asset quality through cycles.

Stable Asset Quality: SCF's asset-quality metrics have remained resilient in the past few years, partly aided by recurrent write-offs. It has an impaired loan ratio of around 2% and a high reserve coverage ratio. Loan impairment charges/gross loans increased in 2023 from relatively low levels in the last two years, and we expect them to be stay close to structural levels in 2024-2025, considering the heightened economic risks across SCF's geographies.

Resilient Operating Profitability: SCF's franchise, adequate risk-pricing and operating efficiency result in resilient operating profitability. Operating profit has been an average 2.5% of risk-weighted assets (RWAs) over the past decade, with limited volatility. This fell to 2.2% in 2023, as assets repriced slower than liabilities. We expect operating profit to recover to 2.5% of RWAs in the medium term, as rates of new loans increase and the share of customer deposits rises in funding, partially offset by higher operating expenses.

Adequate Capitalisation: Capital ratios are adequate for SCF's risk profile and have satisfactory buffers over regulatory requirements. Capitalisation is supported by strong earnings generation and ordinary support from the parent. We expect the bank to maintain a common equity Tier 1 (CET1) ratio of 12%-12.5% in the medium term.

Wholesale-Based Funding: SCF's funding structure is stable. Wholesale funding comprises unsecured and secured debt and intragroup funding. SCF raises deposits (about 40% of total funding at end-2023), mainly through its northern European subsidiaries, and is planning to increase its deposit base to reduce the cost of funding. SCF has well-established access to the 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-Currency IDR	A-
Long-Term Local-Currency IDR	A-
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (March 2024)

Related Research

Global Economic Outlook (June 2024)

Santander Consumer Finance (November 2023)

Fitch Affirms Santander Consumer Finance at 'A-'; Outlook Stable (November 2023)

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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 or SCF's Viability Rating (VR) are downgraded.

The most likely trigger for a SCF's VR downgrade would be the bank's inability to maintain its good earnings generation, resulting in an operating profit structurally below 2% of RWAs. This could stem from a permanent deterioration in its revenue (ie prolonged lower business activity or loss of captive agreements), higher-than-expected credit risks or an inability to manage its cost of funding as planned.

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

SCF's SSR would be downgraded if Banco Santander's IDR is 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 on an upgrade of Spain's sovereign ratings, resulting in a better assessment of the group's operating environment. An upgrade of SCF's VR is currently unlikely, due to its business profile and concentrated business model.

Other Debt and Issuer Ratings

Rating Level	Rating
Deposits	A/F1
Senior preferred debt	A/F1

Source: Fitch Ratings, Fitch Solutions

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 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.

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

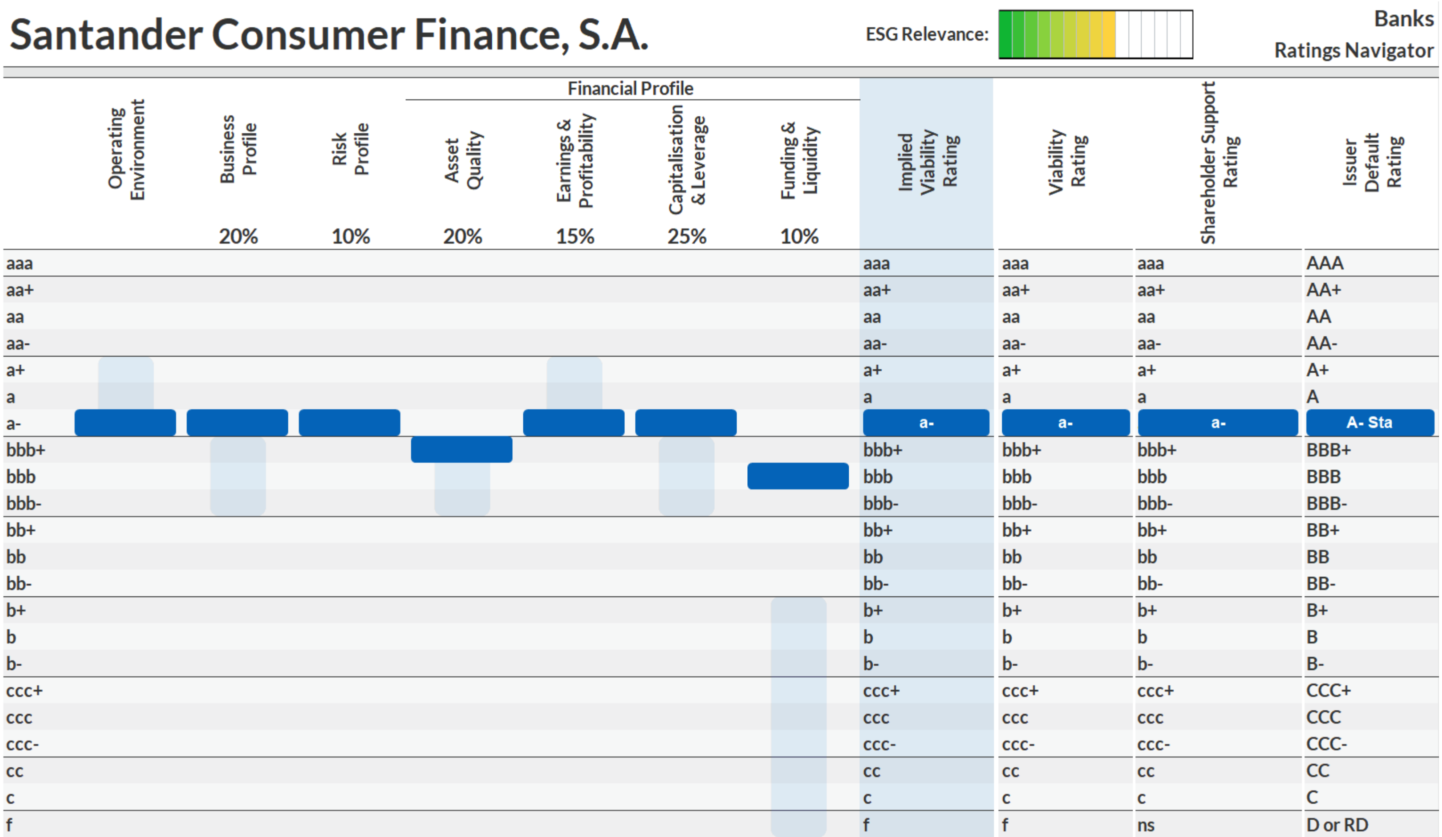
Significant Changes from Last Review

2023 Results in line With Expectations

The bank reported an operating profit at 2.2% of RWAs in 2023, down from 2.9% in 2022, but in line with our expectations. The reduction in operating income was driven by a 4% drop in net interest income due to an anticipated increase in the cost of funding. However, we expect this trend to reverse in 2024 as assets start to reprice at higher rates. Costs rose 8%, which together with weaker operating income, translated into a higher cost/income ratio at 47% in 2023 (42% in 2022). Loan impairment charges increased to structural levels of around 60bp of gross loans, slightly below our forecast.

The bank's business volumes rose 8% year-on-year, helped by a new agreement with Stellantis and a recovery in auto sales in 2023. We expect this trend to continue in 2024-2025 and to support the bank's profitability. The bank's customer deposits also increased strongly by 18%, reflecting successful execution of its strategy to expand its deposit base and reduce cost of funding.

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

The ‘a-’ operating environment score is in line with the ‘a’ implied score. International operations were identified as a relevant positive factor in the assessment.

The ‘a-’ business profile score is above the ‘bbb’ implied score due to the following adjustment reason: group benefits and risks (positive).

The ‘a-’ capitalisation & leverage score is above the ‘bbb’ implied score due to the following adjustment reason: capital flexibility and ordinary support (positive).

The ‘bbb’ funding & liquidity score is above the ‘b & below’ implied score due to the following adjustment reasons: non-deposit funding (positive), ordinary support (positive).

Financials

Financial Statements

	31 Dec 23		31 Dec 22	31 Dec 21	31 Dec 20
	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	3,753	3,425.4	3,571.4	3,558.3	3,481.7
Net fees and commissions	799	729.3	783.5	761.5	711.3
Other operating income	407	371.1	291.3	122.8	74.6
Total operating income	4,958	4,525.8	4,646.2	4,442.6	4,267.6
Operating costs	2,294	2,093.4	1,945.4	1,855.2	1,811.4
Pre-impairment operating profit	2,665	2,432.4	2,700.8	2,587.4	2,456.2
Loan and other impairment charges	749	683.8	451.9	495.1	825.2
Operating profit	1,916	1,748.6	2,248.9	2,092.3	1,631.0
Other non-operating items (net)	57	52.1	-41.0	-68.4	-344.0
Tax	525	479.5	606.3	533.2	523.3
Net income	1,448	1,321.2	1,601.6	1,490.7	763.7
Other comprehensive income	-111	-100.9	58.0	61.8	-175.5
Fitch comprehensive income	1,337	1,220.3	1,659.6	1,552.5	588.2
Summary balance sheet					
Assets					
Gross loans	128,888	117,641.7	108,455.9	101,674.8	99,637.9
- Of which impaired	2,753	2,512.9	2,180.0	2,033.1	2,026.9
Loan loss allowances	2,337	2,133.3	1,956.1	2,115.2	2,197.4
Net loans	126,551	115,508.4	106,499.8	99,559.6	97,440.5
Interbank	1,499	1,367.8	342.8	363.6	551.8
Derivatives	692	631.8	916.6	126.8	79.0
Other securities and earning assets	5,761	5,258.0	7,727.1	5,502.9	5,980.7
Total earning assets	134,502	122,766.0	115,486.3	105,552.9	104,052.0
Cash and cash due from banks	12,357	11,278.5	6,826.2	18,965.1	10,316.8
Other assets	10,192	9,303.0	7,967.2	6,413.2	5,665.8
Total assets	157,051	143,347.5	130,279.7	130,931.2	120,034.6
Liabilities					
Customer deposits	53,412	48,751.7	41,327.3	39,088.5	37,500.9
Interbank and other short-term funding	36,909	33,688.0	35,760.0	36,465.3	15,999.7
Other long-term funding	42,893	39,150.6	32,616.6	35,964.8	47,730.4
Trading liabilities and derivatives	859	783.9	659.8	186.8	205.6
Total funding and derivatives	134,073	122,374.2	110,363.7	111,705.4	101,436.6
Other liabilities	7,225	6,594.6	5,723.8	5,831.5	4,691.0
Preference shares and hybrid capital	1,315	1,200.0	1,200.0	1,200.0	1,200.0
Total equity	14,439	13,178.7	12,992.2	12,194.3	12,707.0
Total liabilities and equity	157,051	143,347.5	130,279.7	130,931.2	120,034.6
Exchange rate		USD1 = EUR0.912742	USD1 = EUR0.937559	USD1 = EUR0.884173	USD1 = EUR0.821963

Source: Fitch Ratings, Fitch Solutions, Santander Consumer Finance, S.A.

Key Ratios

	31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (annualised as appropriate)				
Profitability (%)				
Operating profit/RWAs	2.2	2.9	2.9	2.3
Net interest income/average earning assets	2.9	3.3	3.4	3.4
Non-interest expense/gross revenue	47.1	42.8	42.4	43.2
Net income/average equity	10.2	12.7	11.9	6.1
Asset quality (%)				
Impaired loans ratio	2.1	2.0	2.0	2.0
Growth in gross loans	8.5	6.7	2.0	-0.6
Loan loss allowances/impaired loans	84.9	89.7	104.0	108.4
Loan impairment charges/average gross loans	0.6	0.4	0.5	0.8
Capitalisation (%)				
CET1 ratio	12.5	12.5	12.6	13.2
Basel leverage ratio	8.5	8.9	9.4	8.9
Net impaired loans/CET1	3.8	2.3	-0.9	-1.9
Funding and liquidity (%)				
Gross loans/customer deposits	241.3	262.4	260.1	265.7
Liquidity coverage ratio	115.0	240.0	319.0	314.0
Customer deposits/total non-equity funding	39.7	37.3	34.7	36.6
Net stable funding ratio	103.0	109.0	115.0	114.0

Source: Fitch Ratings, Fitch Solutions, Santander Consumer Finance, S.A.

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 core and integral to the group, resulting in an extremely high probability of support. 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 group in Spain. The high 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.

Subsidiaries and Affiliates

Santander Consumer Bank AG's are driven by its VR and supported by Fitch's view of the strong support available from the ultimate parent, Banco Santander, potentially channelled via its intermediate parent SCF. Santander Consumer Bank's ratings are driven by support from the parent company.

Main Subsidiaries

Rating Level	Santander Consumer Bank AG	Santander Consumer Bank AS
Long-Term IDR	A-/Stable	A-/Stable
Short-Term IDR	F2	F2
Viability Rating	a-	bbb+
Shareholder Support Rating	a-	a-

Source: Fitch Ratings, Fitch Solutions

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				ESG Relevance to Credit Rating
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.	key driver	0	issues	5
Governance is minimally relevant to the rating and is not currently a driver.	driver	0	issues	4
	potential driver	5	issues	3
	not a rating driver	5	issues	2
		4	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
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

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
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) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
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

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

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.h 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), the Sustainability Accounting Standards Board (SASB), and the World Bank.

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 is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.