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CREDIT OPINION
10 April 2024

Update

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RATINGS

Santander Consumer Finance S.A.

Domicile	Madrid, Spain
Long Term CRR	A2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	A2
Type	Senior Unsecured - Fgn Curr
Outlook	Positive
Long Term Deposit	A2
Type	LT Bank Deposits - Dom Curr
Outlook	Positive

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Santander Consumer Finance S.A.

Update following rating affirmation

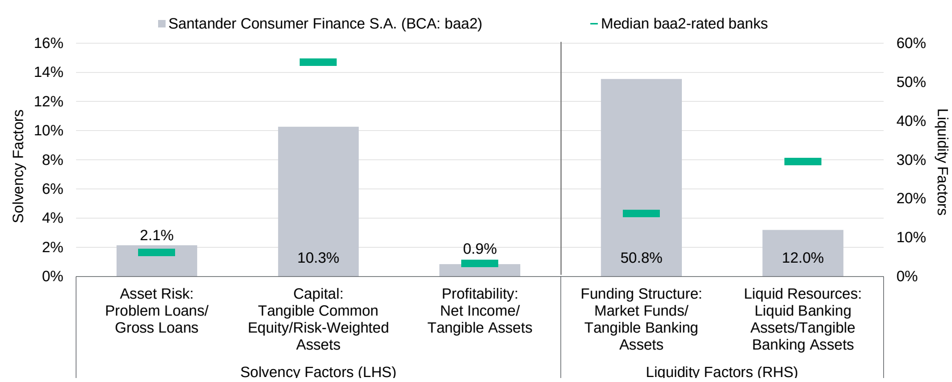
Summary

On 19 March 2024, we affirmed Santander Consumer Finance S.A.'s (SCF) senior debt and deposit ratings and changed the outlook to positive.

SCF's A2 deposit and senior unsecured debt ratings reflect the bank's baa2 Baseline Credit Assessment (BCA); the high probability of support from its parent Banco Santander S.A. (Spain) (Banco Santander, A2 positive/A2 positive, baa1[1]), resulting in a one-notch uplift and an Adjusted BCA of baa1; and an extremely low loss given failure for junior depositors and senior unsecured creditors based on our Advanced Loss Given Failure (LGF) analysis, resulting in a three-notch uplift. However, the bank's long-term deposit and senior unsecured debt ratings are capped at A2, two notches above the Government of Spain's Baa1 rating. Because SCF belongs to Banco Santander's resolution group, we apply the Advanced LGF analysis of its parent company to it.

SCF's standalone baa2 BCA reflects its overall sound credit risk profile, with low asset risk relative to its business profile as a consumer finance lender, and good profitability. The BCA also reflects the bank's monoline business model focused on consumer finance, and its high reliance on market funding. We expect some deterioration in SCF's asset-quality metrics over the next 12-18 months as a result of the high cost of living, economic slowdown and higher debt-servicing costs, factors which will weaken households' purchasing power in the main countries where SCF operates.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Ratings

Credit strengths

» Strong geographical diversification, which reduces earnings volatility

» Solid profitability and low asset risk

» Good risk-absorption capacity and ongoing support from its parent (Banco Santander) if necessary

Credit challenges

» Likelihood of asset-quality deterioration because of high cost of living, economic slowdown and higher debt-servicing costs

» Lack of business diversification because of its concentration in the cyclical consumer finance business

» Funding profile characterised by a high reliance on market funding

Outlook

The positive outlook on SCF's long-term deposit and senior unsecured debt ratings is driven by the positive outlook on Spain's sovereign debt rating. The outlook on SCF's ratings is aligned with the outlook on its parent, Banco Santander.

Factors that could lead to an upgrade

An upgrade of the baa2 BCA would require an improvement in the bank's financial indicators, principally stronger solvency levels and lower reliance on market funding. An upgrade of the BCA would result in the convergence of our assessment of the bank's standalone creditworthiness with that of its parent Banco Santander, therefore not affecting its Adjusted BCA of baa1.

Similar to those of its parent, the bank's long-term deposit and senior debt ratings could be upgraded if Spain's sovereign rating is upgraded.

Factors that could lead to a downgrade

Moody's could lower SCF's standalone BCA if the bank's asset quality deteriorates beyond our current expectations, or we assess a lower probability of parental support or a weakening in Banco Santander's creditworthiness.

A downgrade of Spain's government rating could also lead to a downgrade of SCF's deposit and senior unsecured debt ratings.

Key indicators

Exhibit 2

Santander Consumer Finance S.A. (Consolidated Financials) [1]

	12-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	143,347.5	130,279.7	130,931.2	120,034.6	114,583.2	5.8[4]
Total Assets (USD Million)	158,349.5	139,040.6	148,358.9	146,869.0	128,619.4	5.3[4]
Tangible Common Equity (EUR Million)	8,281.9	8,286.1	7,823.4	8,479.8	7,993.5	0.9[4]
Tangible Common Equity (USD Million)	9,148.6	8,843.4	8,864.7	10,375.5	8,972.7	0.5[4]
Problem Loans / Gross Loans (%)	2.1	2.0	2.0	2.0	2.0	2.0[5]
Tangible Common Equity / Risk Weighted Assets (%)	10.3	10.5	10.6	11.9	11.0	10.9[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	24.1	21.3	20.5	19.0	19.8	20.9[5]
Net Interest Margin (%)	2.6	2.8	2.9	3.0	3.2	2.9[5]
PPI / Average RWA (%)	2.8	3.3	3.4	3.2	3.3	3.2[6]
Net Income / Tangible Assets (%)	0.9	1.2	1.1	0.9	1.3	1.1[5]
Cost / Income Ratio (%)	48.1	43.5	43.1	43.9	43.3	44.4[5]
Market Funds / Tangible Banking Assets (%)	50.8	52.8	55.7	52.8	50.7	52.6[5]
Liquid Banking Assets / Tangible Banking Assets (%)	12.0	11.1	18.8	13.4	9.2	12.9[5]
Gross Loans / Due to Customers (%)	241.3	263.3	262.1	266.8	270.0	260.7[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Ratings and company filings

Profile

SCF is one of Europe's leading consumer finance companies, with total assets of €143 billion as of December 2023. The bank benefits from a large and geographically diversified franchise, built principally through acquisitions in markets with significant growth potential. SCF is present in 16 European countries, with leading positions in many of them. Germany is the most relevant market, with 3.3 million clients and representing almost 40% of SCF's total loan book, followed by France, the Nordic countries and Spain. Outside Europe, SCF has smaller-scale operations in China and Canada.

SCF provides car dealers, retailers and consumers with a range of consumer finance products and services, including automotive financing, consumer durable financing, credit cards, stock credit financing, insurance and mortgages. SCF represented around 11% of Banco Santander's net profit in 2023.

In April 2023, SCF and Stellantis group closed the agreement they had reached in March 2022, whereby SCF, in partnership with Stellantis Financial Services, will finance all of Stellantis' branded vehicles in eight European countries: Spain, Belgium, France, Italy, the Netherlands, Luxembourg, Poland and Portugal. Although the agreement entails that SCF will no longer finance the activities of Stellantis in Germany and the UK, SCF expects the outstanding portfolio from Stellantis' brands to increase by 30% in 2026 from that as of year-end 2022.

Detailed credit considerations

Low problem loan ratio, but asset risk is likely to increase

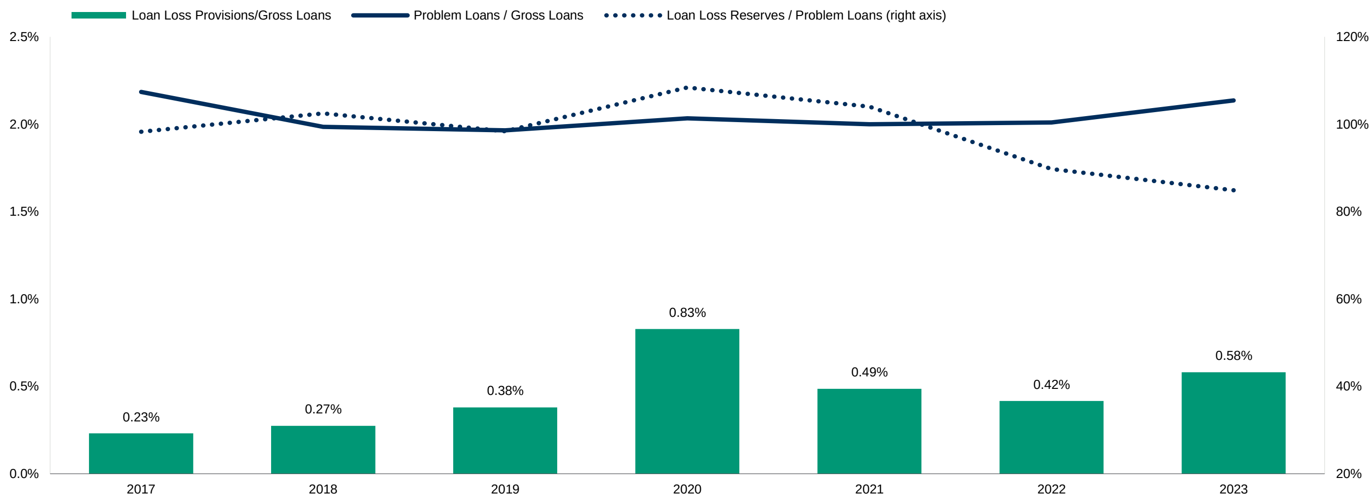
We assign SCF an Asset Risk score of a3, one notch below the macro-adjusted score. Our assessment reflects the bank's historically low nonperforming loan (NPL) ratio and incorporates a likely moderate increase in problem loans as a result of the high cost of living, economic slowdown and higher debt-servicing costs, factors which will constrain households' purchasing power in the main countries where SCF operates.

SCF benefits from sound asset quality given its business profile as a consumer finance lender, with an NPL ratio that has consistently been around 2% for several years (2.14% as of the end of December 2023) and even through the pandemic. The bank's share of Stage 2 loans[2] remains low as well, at 3.4% of total loans as of December 2023, compared with 9.6% for European banks, according to European Banking Authority (EBA) latest data.

SCF's low NPL ratio is partly supported by portfolio sales in which SCF actively engages. However the solid asset-quality performance is also reflected in the bank's cost of credit, which historically has remained at a low level for a bank engaging in the consumer finance business. After some swings in recent years caused by the pandemic, the cost of credit stood at 58 bps in 2023, at a similar level compared to its average level over the last decade (0.62% in the 2012-22 period). The bank has a sound provisioning policy, which aims to swiftly reflect asset-risk deterioration and translate into high loan loss coverage ratios, although such ratio stood in December 2023 below its pre-pandemic levels (85% compared to 98% at the end of 2019).

Exhibit 3

SCF shows strong asset-quality metrics for a consumer finance lender, although we expect a moderate increase in problem loans and in the cost of credit



Source: SCF and Moody's Ratings

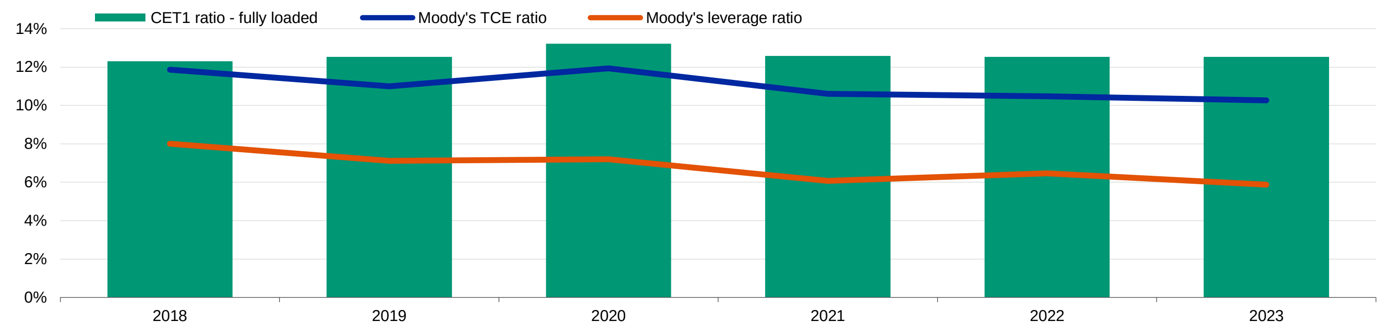
Modest capital driven by group's policy

SCF has a modest capital position which we assess at baa2, consistent with its tangible common equity (TCE) ratio (defined as TCE/ risk-weighted assets [RWA]) of 10.3% and leverage ratio (TCE/total tangible assets) of 5.9% as of December 2023. The bank's fully loaded Common Equity Tier 1 (CET1) capital ratio stood at 12.5% as of the same date. SCF's capital levels are largely driven by Banco Santander group's policy, which sets a CET1 ratio target of 12% - 12.5% for the subsidiary.

SCF follows the internal ratings-based (IRB) approach to calculate credit risk-related RWA in its Spanish portfolio and in part of its French, German and Nordic portfolios, and applies the standard approach for the rest of the portfolios and risk categories. In addition, SCF has a good degree of control over RWA growth because of the bank's use of securitisation to obtain capital relief. Capital buffers over regulatory requirements remain high, with a Supervisory Review and Evaluation Process (SREP) requirement for the CET1 ratio of 8.51%.

The difference between SCF's Moody's TCE ratio and regulatory CET1 ratio is partly explained by our application of more conservative risk weighting to the sovereign exposure compared with regulators (for example, we apply a 50% risk-weight for Spain's sovereign bonds compared with the regulatory risk-weight of 0%).

Exhibit 4
SCF operates with modest capital ratios



Source: SCF and Moody's Ratings

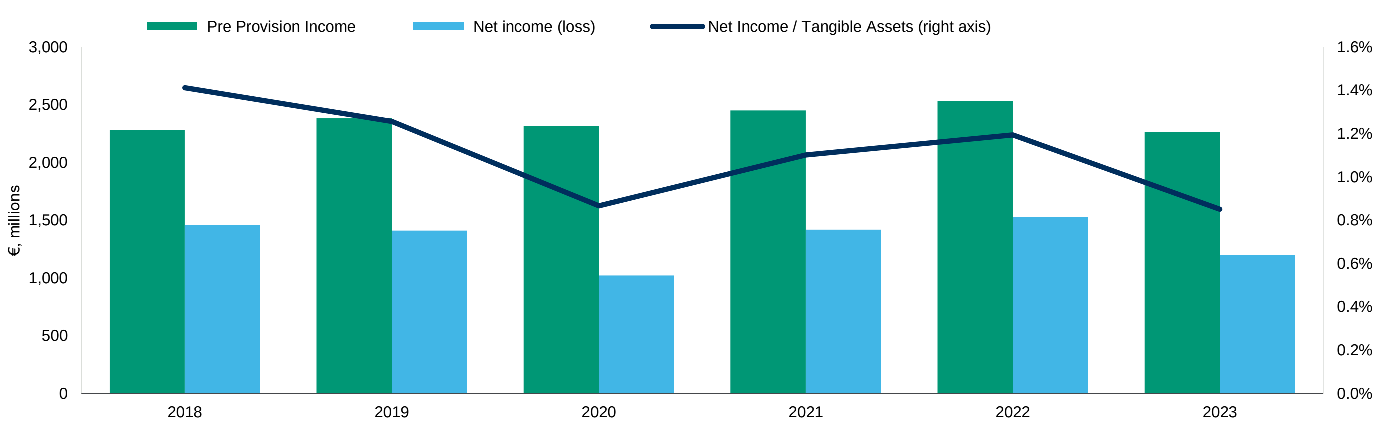
Profitability hit by the rapid increase in rates, but we anticipate a recovery

We assign SCF a profitability score of a3, consistent with our expectation of a return on tangible assets (ROA) of 1%-1.25% in the outlook period. Our assessment anticipates an improvement in the bank's profitability from its 2023 level, which was consistent with ROA of 0.85%.

SCF has traditionally displayed sound profitability, with the bank's ROA staying consistently above 1% in the period 2015-22 with the only exception of 2020. Nevertheless, its profitability in 2023 was negatively affected by the increase in interest rates, given the slower repricing of the banks' assets vs liabilities. Funding costs were also negatively hit by the change of the ECB's TLTRO program funding conditions in October 2022 with SCF's TLTRO borrowings amounting to €18 billion or 17% of total funding as of year-end 2022. Both developments triggered a decline in net interest income of 4.1% compared with the same period a year before. The bank's profitability in the semester was also negatively affected by a decline in fee and commission income of 6.9% mainly due to new regulation on insurance fees in Germany, a 7.6% increase in operating expenses and higher credit costs, which combined led to a decline in reported net income of 18%.

We expect SCF's profitability to recover in 2024 driven by a positive impact on net interest income from volume growth and the repricing of the loan book. Operating expenses will remain strained by inflationary pressure.

Exhibit 5
SCF's profitability metrics are relatively strong



Source: SCF and Moody's Ratings

Funding profile is constrained by a high reliance on market funding

We assign SCF a Funding Structure score of b1, two notches above its macro-adjusted score of b3. We make a two-notch positive adjustment to the score to account for the relatively short-term maturity of SCF's loan portfolio, which reduces risk related to maturity transformation (that is, maturity mismatch between the bank's assets and liabilities), and the less-confidence sensitivity of intragroup funding, which represented 10.0% of total funding as of December 2023.

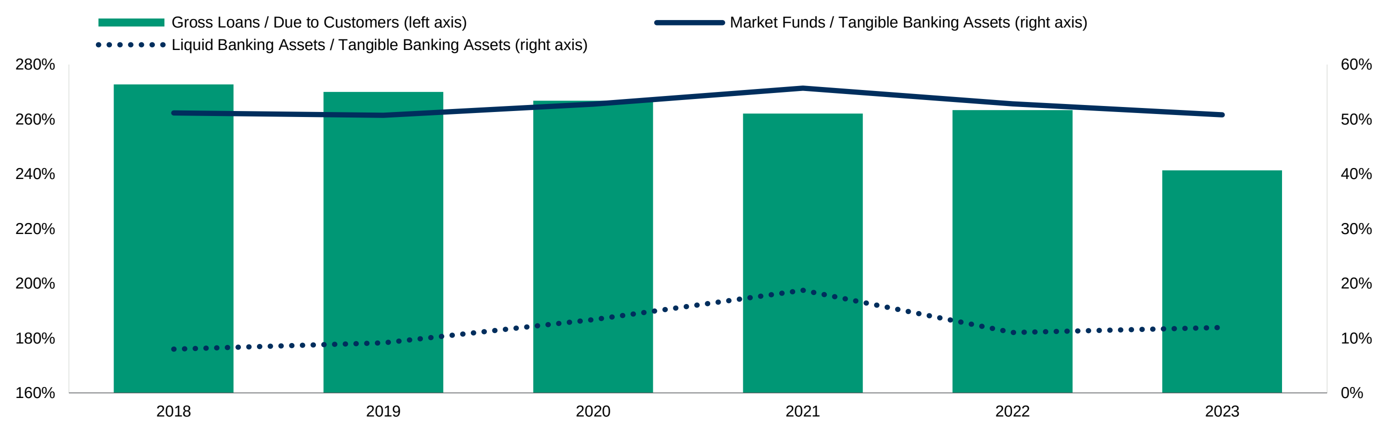
SCF's funding profile is characterised by a high reliance on market funding, partly driven by the lack of access to customer deposits in some of the jurisdictions where it operates. As of the end of December 2023, the bank's market funds/tangible banking assets (TBA) was a high 51%. SCF's liquidity management comprises a variety of funding sources, and includes the provision of liquidity by Banco Santander as a backstop. All of SCF's subsidiaries are nevertheless required, per Banco Santander's internal policy, to have the capacity to provide for their own funding needs without parental support[3].

SCF increased substantially its reliance on European Central Bank's (ECB) funding in 2020 and 2021 because of the favourable terms of the central bank's TLTRO III programme. The use of ECB funds peaked at €20 billion or 18% of total funding at the end of 2021, and its repayment will continue in 2024 until the expiry of the TLTRO III programme. As its reliance on ECB funding gradually reduces, we expect SCF to increase resort to other traditional funding sources such as senior unsecured debt (18% of total funding in December 2023), securitisation notes (12%) or customer deposits (40%). Growing customer deposits is a key funding strategy for SCF in the current high interest rate environment, aimed not only to provide stability to the funding base but also to reduce the negative NII sensitivity to increases in interest rates.

SCF's Liquid Resources score of baa3 is driven by the bank's stock of liquid banking assets, which was 12% of TBA as of December 2023. We make a one-notch positive adjustment from the ba1 macro-adjusted score to account for ongoing liquidity support provided by Banco Santander.

Exhibit 6

SCF's funding profile is characterised by a high reliance on market funding



Sources: SCF and Moody's Ratings

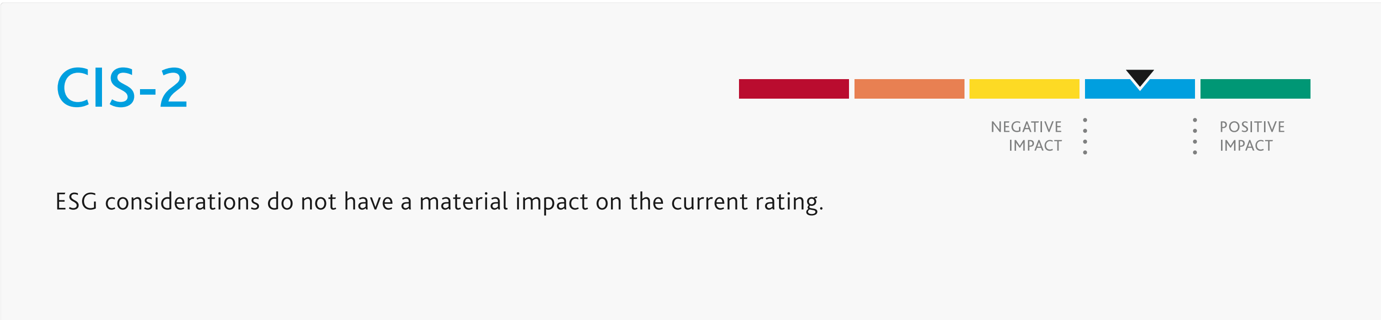
Business concentration in consumer finance offset by broad product offering and geographical diversification

SCF's focus in consumer finance entails risks related to lack of business diversification, thereby exposing the bank to negative shocks affecting the lending segments in which it focuses. Such risks are however mitigated by the bank's broad product offering, whereby it covers a wide arrange of consumer finance needs in the auto and consumer goods and services space, and a good level of geographical concentration across multiple countries in Europe and small but growing operations in a number of non-European countries. Overall, our assessment of business diversification results in an unchanged BCA of baa2.

ESG considerations

Santander Consumer Finance S.A.'s ESG credit impact score is CIS-2

Exhibit 7
ESG credit impact score



Source: Moody's Ratings

SCF's **CIS-2** indicates that ESG considerations do not have a material impact on the current ratings.

Exhibit 8
ESG issuer profile scores

Source: Moody's Ratings

Environmental

SCF faces moderate environmental risks, primarily because of its portfolio exposure to carbon transition risk in its auto lending business. Such risks are associated with stricter emission regulations and the trend towards low and zero emission vehicles. The risk is somewhat mitigated by the short-term nature of the bank's loan portfolio and the bank's flexibility to finance multiple dealers and automaker franchises in response to shifting market pressures and consumer preferences towards low-emission vehicles.

Social

SCF is exposed to high industrywide social risks particularly related to customer relations risk and associated regulatory and litigation risks, requiring high compliance standards. These risks are mitigated by SCF's developed policies and procedures. SCF's high cyber and personal data risks are mitigated by the group's sound IT framework.

Governance

SCF faces low governance risks, and its risk management framework and corporate governance are in line with industry practices. Being present in several countries, the bank operates with a relatively complex legal structure which the bank is trying to simplify by converting a number of foreign subsidiaries into branches. Because SCF is effectively controlled by Banco Santander through its 100% shareholding, we have aligned the subsidiary's board structure, policies and procedures score with that of its parent, given the bank's strategic importance and public affiliation with the group, the parent's oversight of its subsidiary board and the regulated nature of both entities.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Affiliate support

We believe that there is a high probability of support for SCF from its parent, Banco Santander S.A. As a result of our support assessment, SCF's Adjusted BCA is baa1, one notch above its BCA.

Loss Given Failure (LGF) analysis

SCF is subject to the EU Bank Resolution and Recovery Directive (BRRD), which we consider an operational resolution regime. We assume a residual TCE of 3% and post-failure losses of 8% of tangible banking assets, a 25% run-off in junior wholesale deposits and a 5% run-off in preferred deposits, and assign a 25% probability to deposits being preferred to senior unsecured debt. We apply a standard assumption for European banks that 26% of deposits are junior. These metrics are in line with our standard assumptions.

Because SCF belongs to the same resolution group as Banco Santander, we apply the Advanced LGF analysis of its parent, which translates into an extremely low loss given failure for SCF's deposits and senior unsecured debt. The bank's long-term deposit and senior unsecured debt ratings are capped at A2 by Spain's Baa1 sovereign rating.

The same LGF analysis indicates a moderate loss severity for junior senior creditors in the event of the bank's failure, leading to a Baa1 rating for these securities, in line with the bank's Adjusted BCA of baa1.

For more junior securities, our initial LGF analysis confirms a high loss given failure because of the small volume of debt and limited protection from more subordinated instruments and residual equity. We also incorporate two additional downward notches for preference share instruments to reflect the coupon suspension risk ahead of a potential failure.

Government support considerations

There is a low likelihood of government support for SCF's debt and rated wholesale deposits in the event of its failure because of its current position within the Spanish market. Therefore, we do not incorporate any associated uplift into SCF's ratings.

Counterparty Risk Ratings (CRRs)

SCF's CRRs are A2/Prime-1. The CRR, before the government cap, is positioned three notches above the Adjusted BCA of baa1, reflecting the extremely low loss given failure from the high volume of instruments that are subordinated to CRR liabilities.

SCF's CRRs are constrained by Spain's sovereign rating of Baa1. Under our methodology, a bank's CRR will typically not exceed the sovereign rating by more than two notches.

Counterparty Risk (CR) Assessment

SCF's CR Assessment is A3(cr)/Prime-2(cr). The CR Assessment, before the government cap, is positioned three notches above the Adjusted BCA of baa1, based on the buffer against default provided to the senior obligations represented by the CR Assessment by subordinated instruments. The main difference with our Advanced LGF approach used to determine instrument ratings is that the CR Assessment captures the probability of default on certain senior obligations, rather than the expected loss, thereby focusing purely on subordination and taking no account of the volume of the instrument class.

The CR Assessment is capped at A3. The CR Assessment will not typically exceed the sovereign's own rating by more than one notch, or two notches where the Adjusted BCA is already above the sovereign rating.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 9

Santander Consumer Finance S.A.

Macro Factors							
Weighted Macro Profile	**Strong +**	**100%**					

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	2.1%	a2	↓	a3	Quality of assets	
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	10.3%	baa2	↔	baa2	Risk-weighted capitalisation	
Profitability						
Net Income / Tangible Assets	0.9%	baa1	↑	a3	Return on assets	
Combined Solvency Score		baa1		baa1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	50.8%	b3	↔	b1	Term structure	Market funding quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	12.0%	ba1	↔	baa3	Additional liquidity resources	
Combined Liquidity Score		b1		ba2		
Financial Profile				baa2		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Baa1		
BCA Scorecard-indicated Outcome - Range				baa1 - baa3		
Assigned BCA				baa2		
Affiliate Support notching				-		
Adjusted BCA				baa1		

Balance Sheet is not applicable.

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	-	-	-	-	-	-	-	2	0	a2
Counterparty Risk Assessment	-	-	-	-	-	-	-	1	0	a3 (cr)
Deposits	-	-	-	-	-	-	-	2	0	a2
Senior unsecured bank debt	-	-	-	-	-	-	-	2	0	a2
Junior senior unsecured bank debt	-	-	-	-	-	-	-	0	0	baa1
Dated subordinated bank debt	-	-	-	-	-	-	-	-1	0	baa2
Non-cumulative bank preference shares	-	-	-	-	-	-	-	-1	-2	ba1

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	2	0	a2	0	A2	A2
Counterparty Risk Assessment	1	0	a3 (cr)	0	A3(cr)	
Deposits	2	0	a2	0	A2	
Senior unsecured bank debt	2	0	a2	0	A2	A2
Junior senior unsecured bank debt	0	0	baa1	0	Baa1	
Dated subordinated bank debt	-1	0	baa2	0	Baa2	
Non-cumulative bank preference shares	-1	-2	ba1	0	Ba1 (hyb)	

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Ratings

Ratings

Exhibit 10

Category	Moody's Rating
SANTANDER CONSUMER FINANCE S.A.	
Outlook	Positive
Counterparty Risk Rating	A2/P-1
Bank Deposits -Dom Curr	A2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Senior Unsecured	A2
Junior Senior Unsecured -Dom Curr	Baa1
Subordinate -Dom Curr	Baa2
Pref. Stock Non-cumulative -Dom Curr	Ba1 (hyb)
Commercial Paper -Dom Curr	P-1
BANQUE STELLANTIS FRANCE	
Outlook	Stable
Counterparty Risk Rating	A2/P-1
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A2(cr)/P-1(cr)
Issuer Rating	A3
Senior Unsecured -Dom Curr	A3
Commercial Paper -Dom Curr	P-2
SANTANDER CONSUMER BANK AS	
Outlook	Stable
Counterparty Risk Rating	A2/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A2(cr)/P-1(cr)
Issuer Rating	A2
Senior Unsecured	A2
Junior Senior Unsecured MTN	(P)Baa1
Subordinate	Baa2
Pref. Stock Non-cumulative -Dom Curr	Ba2 (hyb)
ST Issuer Rating	P-1
SANTANDER CONSUMER BANK AG	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A2
Senior Unsecured -Dom Curr	A2

Source: Moody's Ratings

Endnotes

1 The bank ratings shown in this report are the bank's deposit rating, senior unsecured debt rating (where available) and Baseline Credit Assessment.

2 Loans that continue to perform but whose credit risk has increased significantly since initial recognition.

3 SCF is the only subsidiary of Banco Santander that is not self funded.

REPORT NUMBER 1394826

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454