CREDIT OPINION
3 December 2024

Update

Send Your Feedback

Santander Consumer Finance S.A.

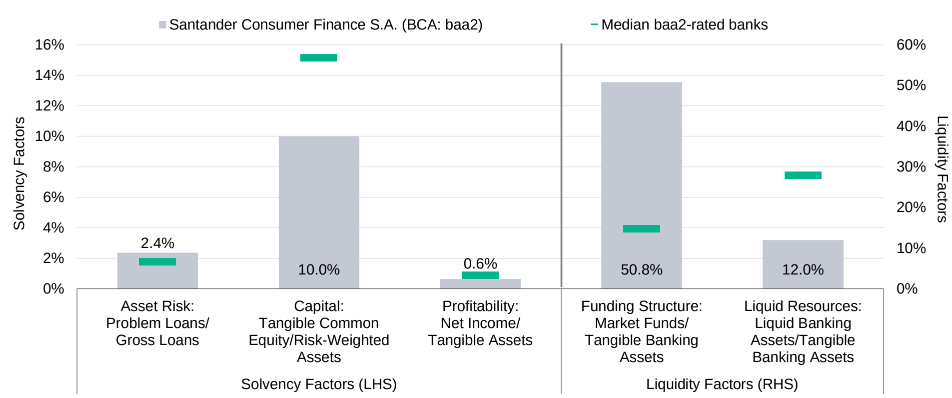
Update following rating affirmation

Summary

Santander Consumer Finance S.A.'s (SCF) A2 deposit and senior unsecured debt ratings reflect the bank's baa2 Baseline Credit Assessment (BCA); the very 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 (positive) rating. Because SCF belongs to Banco Santander's resolution group, we apply the same Advanced LGF analysis as that of its parent company to the bank.

SCF's standalone baa2 BCA reflects its overall sound credit risk profile, underpinned by its long-established leading position in the auto and consumer finance business in several European countries. SCF displays low asset risk relative to its business profile and good profitability, which we expect to remain solid over the next 12-18 months despite some recent deterioration caused by an increase in problem loan entries and in the cost of credit. The BCA also reflects the bank's business model concentration on consumer finance, although related risks are mitigated by the bank's broad product offering and a good level of geographical diversification, and its high reliance on market funding.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Ratings

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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Credit strengths

» Strong geographical diversification and market position in the main countries of operation, which supports recurrent revenue and reduces earnings volatility

» Sound profitability despite some expected weakening

» Ongoing support from its parent, Banco Santander, if necessary

Credit challenges

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

» Modest capital driven by Banco Santander group's policy for subsidiaries

» Cost of credit to increase from low levels

» Funding profile characterised by a high reliance on market funding with limited access to customer deposits

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 in line with the outlook on the ratings of its parent, Banco Santander.

Factors that could lead to an upgrade

An upgrade of SCF's baa2 BCA would require an improvement in its financial indicators, principally stronger solvency levels and lower reliance on market funding. An upgrade of the BCA would bring the bank's standalone creditworthiness to the same level as that of its parent Banco Santander, therefore not affecting its Adjusted BCA of baa1.

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

Factors that could lead to a downgrade

We could lower SCF's standalone BCA if the bank's asset quality or profitability deteriorates beyond our current expectation, 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]

	06-24[2]	12-23[2]	12-22[2]	12-21[2]	12-20[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	144,952.7	143,347.5	130,279.7	130,931.2	120,034.6	5.5[4]
Total Assets (USD Million)	155,353.6	158,349.5	139,040.6	148,358.9	146,869.0	1.6[4]
Tangible Common Equity (EUR Million)	8,198.0	8,281.9	8,286.1	7,823.4	8,479.8	(1.0)[4]
Tangible Common Equity (USD Million)	8,786.3	9,148.6	8,843.4	8,864.7	10,375.5	(4.6)[4]
Problem Loans / Gross Loans (%)	2.4	2.1	2.0	2.0	2.0	2.1[5]
Tangible Common Equity / Risk Weighted Assets (%)	10.0	10.3	10.5	10.6	11.9	10.7[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	26.8	24.1	21.3	20.5	19.0	22.3[5]
Net Interest Margin (%)	2.5	2.6	2.8	2.9	3.0	2.8[5]
PPI / Average RWA (%)	2.9	2.8	3.3	3.4	3.2	3.1[6]
Net Income / Tangible Assets (%)	0.6	0.9	1.2	1.1	0.9	0.9[5]
Cost / Income Ratio (%)	47.0	48.1	43.5	43.1	43.9	45.1[5]
Market Funds / Tangible Banking Assets (%)	48.4	50.8	52.8	55.7	52.8	52.1[5]
Liquid Banking Assets / Tangible Banking Assets (%)	11.3	12.0	11.1	18.8	13.4	13.3[5]
Gross Loans / Due to Customers (%)	224.0	241.3	263.3	262.1	266.8	251.5[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

Santander Consumer Finance S.A. (SCF) is one of Europe's leading consumer finance companies, with total assets of €145 billion as of June 2024. 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 the bank's total loan book, followed by France, the Nordic countries and Italy. Outside Europe, it 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 8% of Banco Santander's net profit in the first half of 2024.

In April 2023, SCF and Stellantis group closed the agreement they had reached in March 2022. Per the agreement, SCF, in partnership with Stellantis Financial Services, were to 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.

In February 2024, SCF closed the acquisition of Athlon Sweden AB through its Norwegian branch Santander Consumer Mobility AS for €22.4 million. With this acquisition, SCF will expand its leasing services of private end commercial vehicles in Sweden.

Detailed credit considerations

Cost of credit to increase from low levels

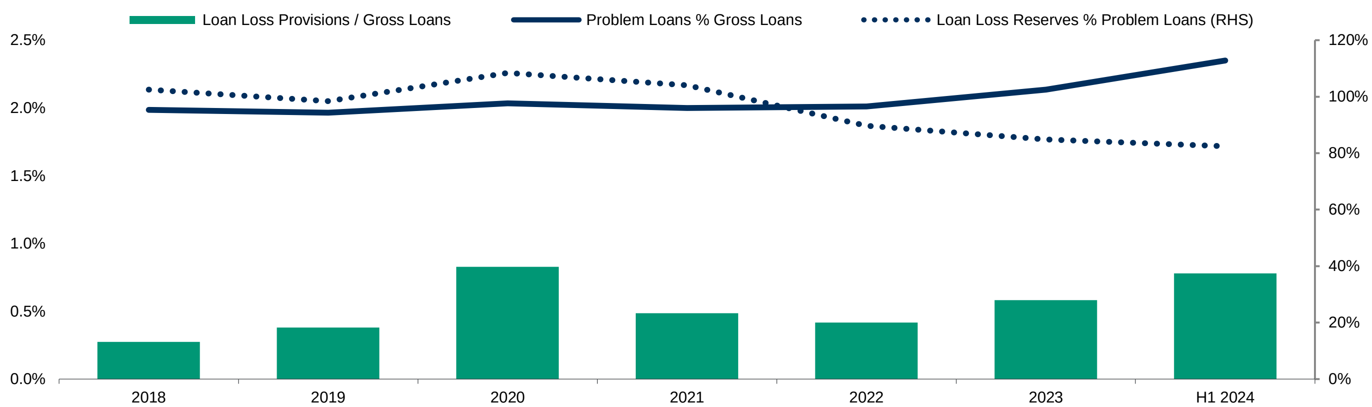
We assign SCF an Asset Risk score of a3, one notch below the macro-adjusted score. We apply a one-notch negative adjustment to reflect the bank's asset risk performance in terms of the cost of credit, which is not fully visible in the nonperforming loan (NPL) ratio given the bank's active write-off policy and engagement in portfolio sales.

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, supported by portfolio sales in which the bank actively engages. The bank's share of stage 2 loans[2] remains low as well, at 5.5% of total loans as of June 2024, compared with 9.3% for European banks, according to European Banking

Authority as of the same date. However, the share of stage 2 loans increased from 3.4% as of December 2023, triggered by the introduction of a lower threshold on the probability of default of loans classified at stage 2.

SCF's cost of credit (calculated as loan loss provisions over total loans) has increased gradually from low levels, standing at 58 basis points (bps) in 2023 and 78 bps in H1 2024 compared with levels at or below 40 bps in earlier years (excluding the pickup in provisions in 2020 and 2021 caused by the coronavirus pandemic). The increase in the cost of credit is explained by a combination of factors, including a lower activity in portfolio sales, a depletion of excess loan loss provisions, and an increase in new NPL formation caused by the moderating but still-high debt servicing costs faced by households (the NPL ratio actually deteriorated to 2.35% in June 2024 from 2.14% as of year-end 2023). The cost of credit was also impacted in H1 2024 by additional provisions stemming from the reclassification of loans to stage 2. We expect SCF's cost of credit to stabilise around 70 bps-75 bps, at levels more commensurate for a bank engaging in the consumer finance business.

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



Sources: SCF and Moody's Ratings

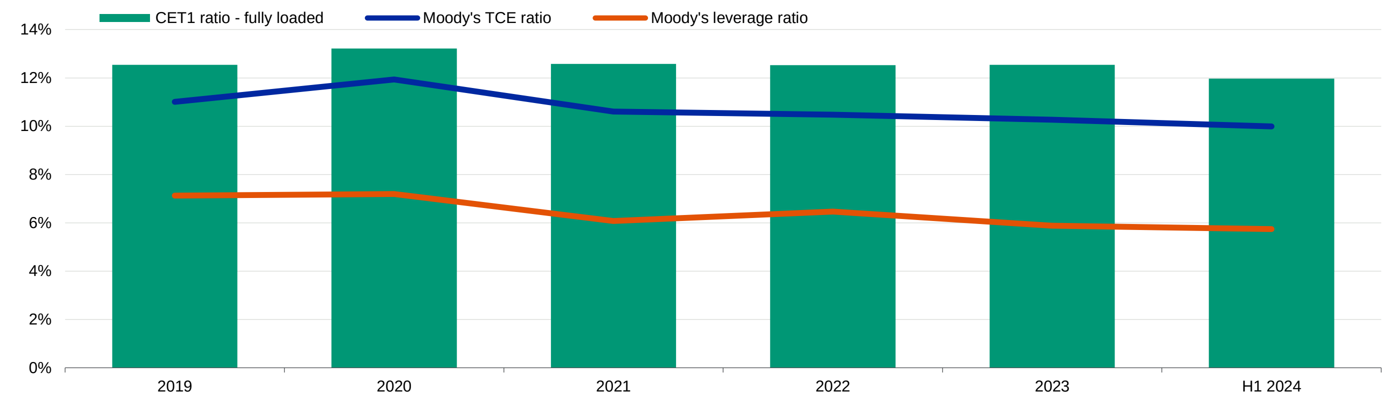
Modest capital driven by group's policy for subsidiaries

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 10.0% and leverage ratio (TCE/total tangible assets) of 5.7% as of June 2024. The bank's fully loaded Common Equity Tier 1 (CET1) capital ratio stood at 12.0% as of the same date. SCF's capital levels are largely driven by the Banco Santander group policy, which sets a CET1 ratio target of 12%-12.5% for the subsidiary.

SCF follows the internal ratings-based approach to calculate the 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 its RWA growth because of its use of securitisation to obtain capital relief. Capital buffers over regulatory requirements remain high, with a Supervisory Review and Evaluation Process requirement for the CET1 ratio of 9.18%.

The difference between SCF's TCE ratio and regulatory CET1 ratio is mainly explained by our application of a 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%), and the treatment of minority interest (€2.47 billion as of June 2024), which we do not consider a component of our TCE capital measure.

Exhibit 4
SCF operates with modest capital ratios driven by Banco Santander's group policy



Sources: SCF and Moody's Ratings

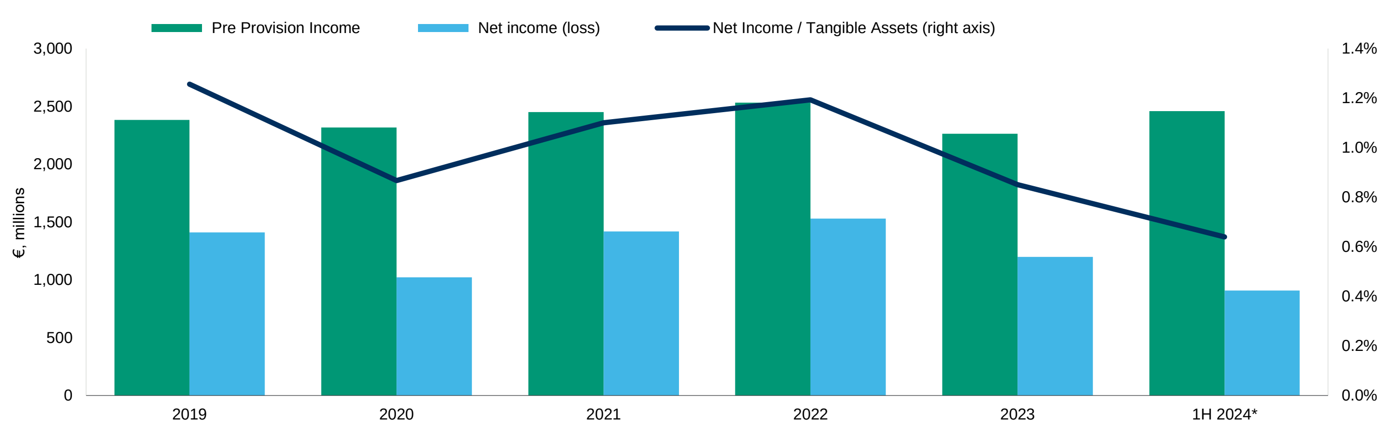
Pressure on profitability from the higher-for-longer interest rate environment and increase in the cost of credit

We assign SCF a Profitability score of baa1, consistent with our expectation of a return on tangible assets (ROA) of 0.75%-1.0% during the outlook period.

SCF's traditionally good profitability, with the bank's ROA staying consistently above 1% in the period 2015-22 (except for 2020), was hurt by the increase in interest rates in 2023 given the slower repricing of the bank's assets compared with its liabilities. The bank's net interest income (NII) declined by 5% in the year and, although we expect a gradual recovery of NII because of the ongoing repricing of assets (NII grew by 1% in 1H 2024 from the previous semester), we expect it to remain below historical levels during the outlook period as the higher-for-longer interest rate environment keeps funding costs at a high level.

In addition to lower NII, SCF's profitability will remain depressed because of the increase in the cost of credit from historically low levels (see section on Asset Risk above), with loan loss provisions increasing by 51% in 2023 and a further 36% in H1 2024 (annualised volumes). On a positive note, the bank achieved a 13% growth in fee and commission income in H1 2024 and maintained stable operating costs despite inflationary pressures, which remained nearly unchanged in H1 2024. All in all, the bank's reported ROA stood at 0.64% in H1 2024 which, excluding a number of one-off expenses and charges, increases to 0.77%.

Exhibit 5
Since 2023, SCF's profitability has been hit by the higher interest rates and the increase in the cost of credit



Sources: 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 lower confidence sensitivity of intragroup funding, which represented around 10% of total funding as of June 2024 (excluding the debt issuances that are acquired by Banco Santander for internal minimum requirement for own funds and eligible liabilities [iMREL] purposes).

SCF's funding profile is characterised by a high reliance on market funding (48% of tangible banking assets (TBA) as of June 2024), partly driven by the lack of access to customer deposits in some of the jurisdictions where it operates. Nevertheless, the use of market funds has declined slightly in recent years as the bank's customer deposit base grew, representing 43% of total funding as of the end of June 2024 compared with levels below 35% a few years before. Growing customer deposits is a key strategy for SCF, aimed not only to provide stability to the funding base but also to reduce the negative sensitivity of NII to increases in interest rates.

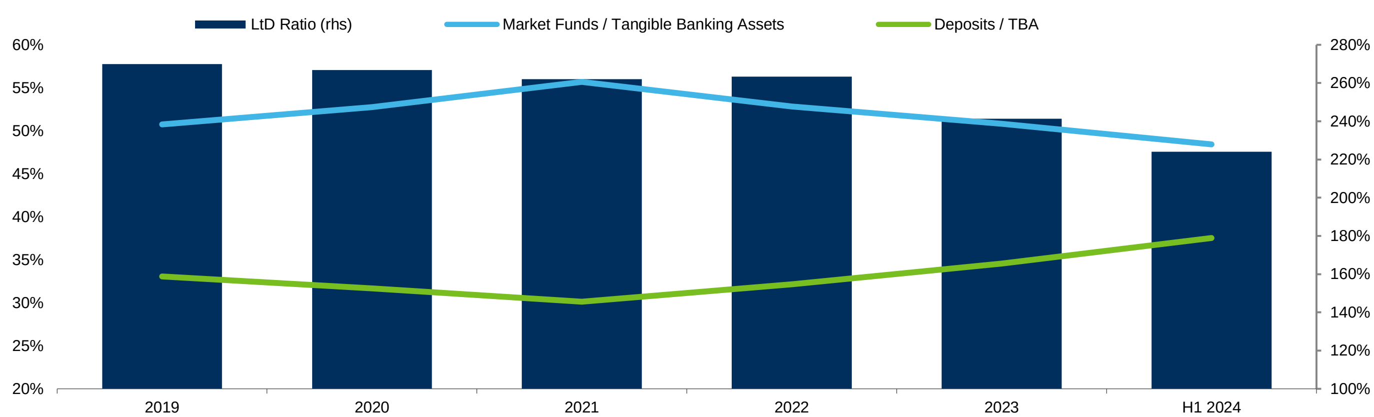
SCF's liquidity management comprises a variety of market funding sources, including the issuance of senior unsecured debt, commercial paper and securitisation notes. The bank also covers part of its funding needs through the issuance to its parent Banco Santander of loss-absorbing debt (Tier 2 and junior senior unsecured debt) to comply with the regulatory iMREL. With eligible liabilities and own funds representing 26.92% of RWA of June 2024, the bank comfortably met the iMREL requirement of 23.83% set for 2024.

SCF's liquidity management also 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.

SCF's Liquid Resources score of baa3 is driven by its stock of liquid banking assets, which was 11% of TBA as of June 2024. We make a one-notch positive adjustment from the ba1 macro-adjusted score to account for the availability of additional liquidity resources provided by the Banco Santander group.

Exhibit 6

SCF's high reliance on market funding has slightly reduced since 2021 amid customer deposits growth



Sources: SCF and Moody's Ratings

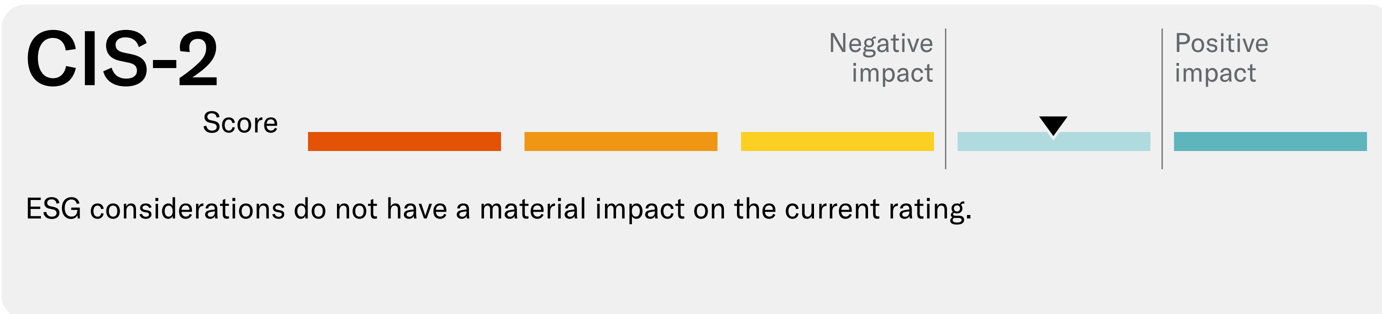
Business concentration in consumer finance offset by broad product offering and geographical diversification

SCF's focus on consumer finance entails risks related to lack of business diversification, thereby exposing the bank to shocks affecting the lending segments on which it focuses. These risks are, however, mitigated by the bank's broad product offering, which covers a wide range of consumer finance needs in the auto and consumer goods and services space, and by 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

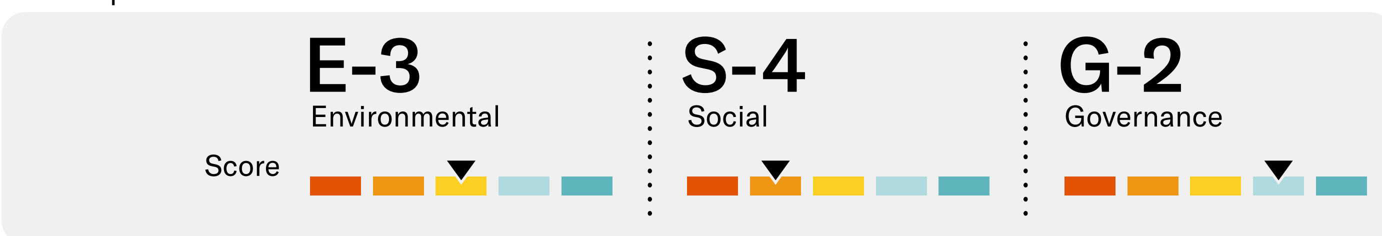
Exhibit 7
ESG credit impact score



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 assume a very high probability of support for SCF from its parent Banco Santander, in light of the strategic relevance of the subsidiary and the close links established through the provision of liquidity support and the purchase of all the loss-absorbing instruments issued by SCF, given that both entities belong to the same resolution group. 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, which we consider an operational resolution regime. Thus, we apply our advanced LGF analysis, using 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 position within the Spanish market. Therefore, we do not incorporate any associated uplift into SCF's ratings.

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 significantly differ from that suggested by raw data alone (although 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
Rating Factors

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	2.4%	a2	↓	a3	Quality of assets	
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	10.0%	ba1	↔	baa2	Risk-weighted capitalisation	
Profitability						
Net Income / Tangible Assets	0.6%	baa2	↔	baa1	Return on assets	
Combined Solvency Score		baa2		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 AG	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A1
Senior Unsecured -Dom Curr	A1
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

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 BCA.

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

REPORT NUMBER 1429314

CLIENT SERVICES

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