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CREDIT OPINION
23 April 2018

Update

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RATINGS

Santander Consumer Finance S.A.

Domicile	Spain
Long Term Debt	A2
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	A2
Type	LT Bank Deposits - Dom Curr
Outlook	Stable

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 sovereign upgrade

Summary

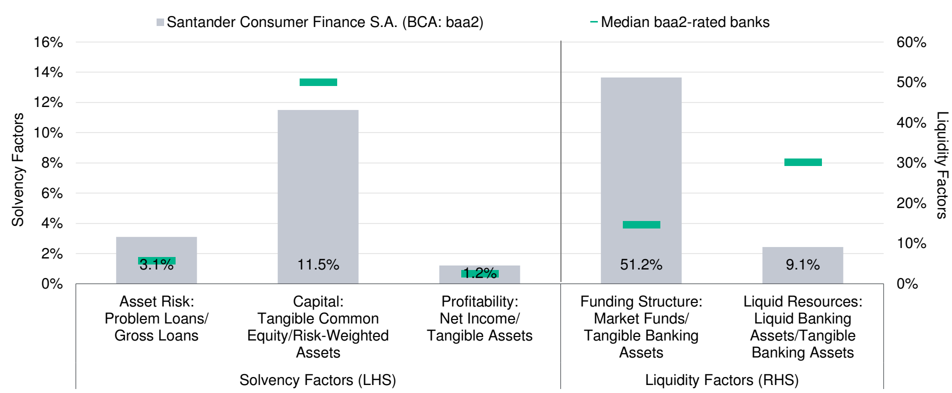
On 17 April 2018, we upgraded Santander Consumer Finance S.A.'s (SCF) deposit and senior debt ratings to A2/Prime-1 from A3/Prime-2. The outlook on the long-term deposit and senior unsecured debt ratings is stable. The rating action was prompted by the upgrade of Spain's government bond rating to Baa1 from Baa2 on 13 April 2018.

SCF's A2/Prime-1 deposit and senior debt ratings reflect (1) the bank's baa2 baseline credit assessment (BCA); (2) the high probability of support from its Banco Santander S.A. (A2/(P)A2 stable, baa1) resulting in a one-notch uplift and an adjusted BCA of baa1; (3) Moody's revised advanced Loss Given Failure (LGF) analysis indicates extremely low loss-given-failure for long-term depositors and senior unsecured creditors. Notwithstanding, the bank's long-term deposit and senior unsecured debt ratings are capped at A2 (two notches of uplift from the bank's adjusted BCA) by Spain's sovereign rating of Baa1 stable. As a domestic subsidiary, we consider SCF to be subject to the same resolution perimeter of the parent and therefore we apply the Advanced LGF analysis of Banco Santander.

SCF's Counterparty Risk Assessment (CR Assessment) is A3(cr)/Prime-2(cr).

SCF's standalone baa2 BCA reflects its strong franchise as one of Europe's leading consumer finance entities as well as its overall sound credit-risk profile, with good profitability and stabilising asset-quality indicators. The bank's standalone BCA also reflects the cyclicality of the consumer finance business and its high reliance on wholesale funding.

Exhibit 1
Rating Scorecard - Key Financial Ratios



Source: Moody's Financial Metrics

Credit strengths

» Very strong geographical diversification; SCF has leading consumer finance franchises domestically and in its other markets

» Sound profitability and improving asset risk trends

» Good risk absorption capacity and ongoing support from the parent (Banco Santander S.A.) will continue to underpin capital

Credit challenges

» Lack of business diversification due to its concentration on the cyclical consumer finance business

» Liquidity assessment reflects reliance on wholesale funding

Outlook

SCF's deposit and senior debt ratings have a stable outlook, in line with that of its parent Banco Santander S.A.

Factors that could lead to an upgrade

Any upward pressure on SCF's baa2 BCA would need to counterbalance the positive rating drivers (stemming from its diversified and relatively resilient earning streams) with the cyclicality of the consumer finance business, which renders the bank vulnerable to economic downturns. Similar to its parent, the long-term deposit and senior debt ratings of SCF could be upgraded if Spain's sovereign rating were to be upgraded.

Factors that could lead to a downgrade

Downward pressure on SCF's standalone BCA could develop if the bank's financial fundamentals deteriorate to the extent that its overall risk absorption capacity weakens from current levels. SCF's deposit and senior debt ratings could be affected as a result of a downgrade of the standalone BCA of its parent (Banco Santander). A downgrade of Spain's government rating could also lead to the downgrade of SCF's deposit and senior unsecured ratings.

Key indicators

Exhibit 2

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

	6-17[2]	12-16[2]	12-15[2]	12-14[2]	12-13[3]	CAGR/Avg.[4]
Total Assets (EUR million)	96,276	96,242	86,429	70,832	72,103	8.6[5]
Total Assets (USD million)	109,808	101,511	93,887	85,710	99,354	2.9[5]
Tangible Common Equity (EUR million)	7,420	6,947	6,283	5,243	4,975	12.1[5]
Tangible Common Equity (USD million)	8,463	7,328	6,825	6,345	6,856	6.2[5]
Problem Loans / Gross Loans (%)	2.3	2.4	3.1	4.5	4.0	3.3[6]
Tangible Common Equity / Risk Weighted Assets (%)	11.5	11.0	11.4	11.1	9.8	11.2[7]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	20.7	22.0	26.0	34.3	31.6	26.9[6]
Net Interest Margin (%)	3.4	3.5	3.6	3.2	3.0	3.4[6]
PPI / Average RWA (%)	3.5	3.6	3.7	-	-	3.6[7]
Net Income / Tangible Assets (%)	1.3	1.3	1.3	0.7	0.9	1.1[6]
Cost / Income Ratio (%)	44.3	44.7	45.4	45.4	47.5	45.5[6]
Market Funds / Tangible Banking Assets (%)	50.9	51.2	49.9	41.7	42.2	47.2[6]
Liquid Banking Assets / Tangible Banking Assets (%)	7.8	9.1	12.1	10.7	15.4	11.0[6]
Gross Loans / Due to Customers (%)	254.3	254.3	236.3	206.2	189.7	228.2[6]

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel III - fully-loaded or transitional phase-in; IFRS [3] Basel II; IFRS [4] May include rounding differences due to scale of reported amounts [5] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime [6] Simple average of periods presented for the latest accounting regime. [7] Simple average of Basel III periods presented

Source: Moody's Financial Metrics

Profile

With total assets of €99.7 billion at end-December 2017, SCF is one of Europe's leading consumer finance companies. It has undergone significant geographic expansion in recent years and, consequently, is currently present in 13 countries, benefiting from leading positions in many of these regions, with its primary markets being Germany, the Nordic countries, Spain and France.

The institution's large and geographically diversified franchise has been built up through acquisitions in markets that have shown significant growth potential. SCF is currently the leader in consumer finance in Germany, with more than 6 million clients and a strong footprint in its core business. SCF also has a strong leading market share in other European countries, including the Nordic countries, Italy, Spain, France and Portugal.

We expect that operations in Germany and the Nordic countries will continue to be the main contributors in terms of profit to SCF's European operations, given its leading position and growth experienced in these markets. We also note the improved economic prospects of some of SCF's core markets namely Spain, which should continue to enhance its contribution to the groups profits.

Detailed credit considerations

Sound profitability and improving trend in asset risk

Profitability and Asset Risk, that we score at a2, are the key factors underpinning SCF's standalone rating. We have positively adjusted both scores to reflect the banks most recent performance as well as our expectations that this trend will be maintained over the next 12 to 18 months.

SCF displays sound overall profitability. At end-December 2017, the entity reported a net income-to-tangible banking assets ratio of 1.3%. From year-end 2016 to year-end 2017, the net interest income increased by 4%, positively impacted by the incorporation of the operations of Banque PSA in France but also influenced by the improved business volumes in core markets as economic activity improved as well as the continued reduction in funding costs. We note that SCFs geographical diversification underpins its revenue generation capacity.

At end-December 2017, SCF reported a non-performing (NPL) loan ratio of 2.5%, broadly in line with the 2.4% reported a year earlier. The banks coverage ratio (i.e. Loan loss reserves as a % of NPLs) stood at a high 101%, above the 58% system average.

SCF's sound asset risk is underpinned by the entity's conservative risk management that is based on: (1) focus on recovery processes; (2) conservative provisioning policies to ensure maintenance of high coverage ratios; and (3) and strict underwriting policies for new loans. In addition, SCF uses loan portfolio disposals on a recurrent basis to manage its asset risk, which contributes to the improvement of NPL ratios.

Furthermore, diversification into stable and sound economies such as Germany and the Nordic region and the positive growth prospects for most of the economies in the euro area periphery will support SCFs sound current asset risk levels.

Adequate solvency levels and ongoing support from the parent will continue to underpin capital

We have assessed SCF's capital buffer at baa1, which compares well to domestic peers. The bank had a Moody's-defined tangible common equity (TCE)-to-risk weighted assets (RWA) ratio of 11.5% at end-June 2017.

Despite SCF's acquisitive strategy, its capital ratios have improved over the recent past, mainly driven by the number of capital increases carried out by the parent, the most recent being the EUR300 million capital increase in March 2015 (after the EUR375 million performed in December 2014) to compensate for the impact of the acquisition of Banque PSA.

SCF reported a Common Equity Tier 1 (CET1 phased-in) capital ratio of 12.9% at end-December 2017, above the 12.5% reported a year earlier.

Liquidity assessment reflects reliance on wholesale funding

We assess SCF's Liquidity score at ba3, which highlights the entity's high reliance on wholesale markets, as well as relatively low cushion in the form of liquid assets on its balance sheet.

Our liquidity ratios are calculated based on the individual accounts of SCF S.A. driven by our consideration that liquidity among the different subsidiaries of SCF is not fungible. In addition, our liquidity assessment excludes from SCF's individual liquidity ratios, the funding delivered by its parent that is namely dedicated to support SCF's French operations and are not used to finance the domestic franchise.

This results in a market funds to tangible banking asset ratio of 52.3% at end-December 2016 (latest audited individual financial statements available) that drives our b3 funding structure score and a liquid banking assets to tangible banking assets ratio of 21.9% that corresponds to a baa1 liquid resources score.

In recent years, SCF (on a consolidated basis) has focused to diversify its funding sources by increasing its deposit base and issuing a wide range of debt instruments. The bank also displays sound and recurrent capacity to tap the wholesale funding markets across its main geographies. SCF's reliance on ECB funding stood at EUR10.3 billion at end-December 2017.

Strong geographical diversification is offset by lack of business diversification

Our assessment of SCF's strong geographical diversification in its balance sheet and income sources is reflected in a one notch positive qualitative adjustment in the Business Diversification score. However, this adjustment is offset as we also adjust one notch down SCF's BCA for the lack of "business diversification", as the bank is namely involved in consumer finance. These adjustments overall result on an unchanged BCA of baa2.

Support and structural considerations

Affiliate support

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

Loss Given Failure analysis

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

As a domestic subsidiary of Santander, Moody's applies the revised Advanced LGF analysis of its parent Banco Santander, which translates into an extremely low loss-given-failure for SCF's deposits and senior unsecured debt. Notwithstanding, the bank's long-term deposit and senior unsecured debt ratings are capped at A2 (two notches of uplift from the bank's adjusted BCA) by Spain's sovereign rating of Baa1 stable.

In our advanced LGF analysis of Banco Santander, we have incorporated the bank's public issuance plans up until 2019 and our expectation that the bank will continue to issue debt in order to comply with Total Loss Absorbing Capacity (TLAC) requirements, which will require it to have minimum TLAC of 19.5% of risk-weighted assets (RWAs) by January 2019, and 21.5% by January 2022.

Please refer to the Loss Given Failure and Government Support table at the bottom of the scorecard.

Government support considerations

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

Counterparty Risk Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

The CR Assessment is positioned at A3(cr)/Prime-2(cr)

The CR Assessment, prior to government support, is positioned one notch above the Adjusted BCA of baa1, based on the cushion 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 expected loss, therefore we focus purely on subordination and take no account of the volume of the instrument class.

The CR Assessment does not benefit from any systemic support uplift as it is rated one notch above Spain's Baa1 rating, in line with our support assumptions on deposits and senior unsecured debt . Our moderate probability of government support reflects our view that any support provided by governmental authorities to a bank which benefits senior unsecured debt or deposits is very likely to benefit operating activities and obligations reflected by the CR Assessment as well, consistent with our belief that governments are likely to maintain such operations as a going-concern in order to reduce contagion and preserve a bank's critical functions.

Methodology and scorecard

About Moody's Bank Scorecard

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment 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 3

Santander Consumer Finance S.A.

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

Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	3.1%	a3	←→	a2	Expected trend	
Capital						
TCE / RWA	11.5%	baa1	←→	baa1	Expected trend	
Profitability						
Net Income / Tangible Assets	1.2%	a3	←→	a2	Expected trend	
Combined Solvency Score		a3		a3		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	51.2%	b3	←→	b3	Market funding quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	9.1%	ba2	←→	baa1	Stock of liquid assets	
Combined Liquidity Score		b1		ba3		
Financial Profile				baa2		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				Baa1		
Scorecard Calculated BCA range				baa1-baa3		
Assigned BCA				baa2		
Affiliate Support notching				1		
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 Assessment	--	--	--	--	--	--	--	1	0	a3 (cr)
Deposits	--	--	--	--	--	--	--	2	0	a2
Senior unsecured bank debt	--	--	--	--	--	--	--	2	0	a2
Dated subordinated bank debt	--	--	--	--	--	--	--	-1	0	baa2
Non-cumulative bank preference shares	--	--	--	--	--	--	--	-1	-2	ba1 (hyb)

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

Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
SANTANDER CONSUMER FINANCE S.A.	
Outlook	Stable
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
Subordinate MTN -Dom Curr	(P)Baa2
Pref. Stock Non-cumulative -Dom Curr	Ba1 (hyb)
Commercial Paper -Dom Curr	P-1
PSA BANQUE FRANCE	
Outlook	Stable
Bank Deposits	Baa1/P-2
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Issuer Rating	Baa1
Senior Unsecured -Dom Curr	Baa1
ST Issuer Rating	P-2
SANTANDER CONSUMER BANK AS	
Outlook	Stable
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	A3
Subordinate MTN	(P)Baa3
ST Issuer Rating	P-2
SANTANDER CONSUMER BANK S.P.A.	
Outlook	Stable
Bkd Senior Unsecured -Dom Curr	A2

Source: Moody's Investors Service

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