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CREDIT OPINION
4 November 2019

Update

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RATINGS

Santander Consumer Finance S.A.

Domicile	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	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 to credit analysis

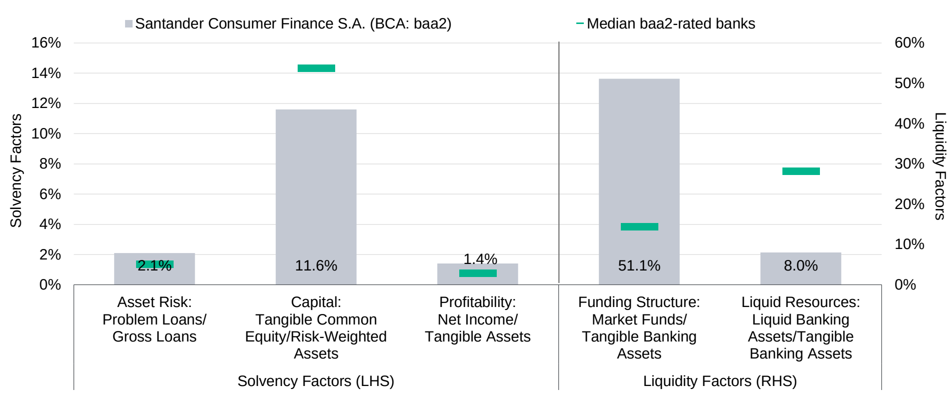
Summary

Santander Consumer Finance S.A.'s (SCF) 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 Banco Santander S.A. (Spain) (Banco Santander) (A2/A2 stable, baa1), resulting in a one-notch uplift and an Adjusted BCA of baa1; and (3) our revised Advanced Loss Given Failure (LGF) analysis, which indicates very low loss given failure for long-term depositors and senior unsecured creditors. However, the bank's long-term deposit and senior unsecured debt ratings are capped at A2 by Spain's sovereign rating of Baa1 stable. Because SCF is a domestic subsidiary, we believe it is subject to the same resolution perimeter of the parent and therefore we apply the Advanced LGF analysis of Banco Santander.

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

SCF's standalone baa2 BCA reflects its overall sound credit risk profile, with good profitability and stable asset-quality indicators. The bank's standalone BCA also reflects the cyclicality in the consumer finance business and its high reliance on market funds.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

» Strong geographic diversification, which underpins sustained profit generation

» Sound profitability and asset risk

» Good risk-absorption capacity and ongoing support from the parent (Banco Santander), which will continue to underpin its capital

Credit challenges

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

» Funding profile determined by its large reliance on market funds

Outlook

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

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 that of 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 the 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 a downgrade of SCF's deposit and senior unsecured ratings.

Key indicators

Exhibit 2

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

	06-19[2]	12-18[2]	12-17[2]	12-16[2]	12-15[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	109,793.9	105,612.3	99,716.3	96,241.5	86,428.7	7.1[4]
Total Assets (USD Million)	125,033.0	120,730.1	119,739.1	101,510.9	93,887.1	8.5[4]
Tangible Common Equity (EUR Million)	8,315.5	8,274.2	7,327.7	6,947.3	6,282.9	8.3[4]
Tangible Common Equity (USD Million)	9,469.7	9,458.6	8,799.1	7,327.7	6,825.1	9.8[4]
Problem Loans / Gross Loans (%)	1.9	2.0	2.2	2.4	3.1	2.3[5]
Tangible Common Equity / Risk Weighted Assets (%)	11.6	11.9	10.9	11.0	11.4	11.3[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	18.2	18.3	21.0	22.0	26.0	21.1[5]
Net Interest Margin (%)	3.3	3.3	3.4	3.5	3.6	3.4[5]
PPI / Average RWA (%)	3.2	3.3	3.4	3.6	3.7	3.5[6]
Net Income / Tangible Assets (%)	1.4	1.4	1.3	1.3	1.3	1.3[5]
Cost / Income Ratio (%)	44.7	43.6	44.4	44.7	45.4	44.6[5]
Market Funds / Tangible Banking Assets (%)	50.9	51.1	50.4	51.2	49.9	50.7[5]
Liquid Banking Assets / Tangible Banking Assets (%)	8.0	8.0	7.7	9.1	12.1	9.0[5]
Gross Loans / Due to Customers (%)	271.2	272.7	265.2	254.3	236.3	259.9[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 due to scale of reported amounts. [4] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime. [5] Simple average of periods presented for the latest accounting regime. [6] Simple average of Basel III periods presented.
Sources: Moody's Investors Service and company filings

Profile

With total assets of €110 billion as of the end of June 2019, Santander Consumer Finance, S.A. (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 15 countries, benefiting from leading positions in many of these regions, with its primary markets being Germany, the Nordic countries, Spain and France.

SCF provides car dealers, retailers and consumers with a range of consumer finance products and services, including automotive financing, consumer durables financing, credit cards, stock credit financing, insurance and mortgages. Along with its subsidiaries, it operated through a network of 284 branches throughout Europe, including 62 in Spain, as of year-end 2018.

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 six 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, Spain, France, Italy and Portugal.

Detailed credit considerations

On 23 October 2019, we lowered Germany's Macro Profile to Strong+ from Very Strong-, which resulted in a lower weighted average Macro Profile for SCF to Strong from Strong+. The Macro Profile reflects our assessment of the macro environment in which a bank operates and has a direct bearing on our assessment of the financial profile of the bank. In particular, SCF's weighted average Macro Profile reflects the group's geographical diversification into 15 countries measured by the distribution of assets, being its main exposures Germany (36% of total assets), Norway (18%), Spain (17%), France (13%), Italy (9%) and other European Union countries.

Sound profitability and improving trend in asset risk

Profitability and Asset Risk, which we score at a3, are the key factors underpinning SCF's standalone rating.

SCF displays overall good profitability. As of the end of June 2019, the entity reported a net income-to-tangible banking assets ratio of 1.4%, which drives our a3 Profitability score. SCF's geographic diversification underpins its sound revenue generation capacity.

As of June 2019, SCF maintained a sound profitability performance, with a reported net profit of €736 million, which is an increase of 5% from a year earlier. This improvement was mainly underpinned by a 3% increase in operating revenue, mainly supported by the net interest income, in particular, because of higher volumes. Operating costs remained contained compared with those a year earlier. Bottom-line results also benefited from the maintenance of a low cost of credit risk, which stood at 0.36%.

Our a3 Asset Risk score is in line with the Macro-Adjusted score and is driven by SCF's low nonperforming loan (NPL) ratio of 1.9% as of the end of June 2019. Our asset risk assessment also incorporates our view that the cost of credit risk will slightly increase from current very low levels over the next 12-18 months, but still within a range that is commensurate with a strong score of a3.

SCF's NPL ratio as of June 2019 remained broadly stable compared with the level as of the end of December 2018 and 20 basis points below the ratio reported a year earlier, and compares very favourably to the Spanish system average of 5.1% as of the same date. The bank's coverage ratio (that is, loan-loss reserves as a percentage of NPLs) stood at a high 102.3%, above the 59% system average.

SCF's sound asset risk is underpinned by the entity's conservative risk management, which involves (1) focusing on recovery processes; (2) conservative provisioning policies to ensure the maintenance of high coverage ratios; and (3) 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 in NPL ratios.

Furthermore, the group's broad geographic diversification and the slower but still-positive growth prospects for most of the economies where SCF operates will support the maintenance of its sound profitability and asset risk metrics.

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

We have assessed SCF's capital buffer at baa2, which compares well with that of its domestic peers. The bank had a Moody's-adjusted tangible common equity-to-risk weighted assets ratio of 11.9% as of the end of December 2018.

SCF reported a fully loaded Common Equity Tier 1 capital ratio of 12.37% as of the end of June 2019, above the 12.28% reported as of December 2018. The bank shows a buffer of more than 400 basis points over its 2018 Supervisory Review and Evaluation Process (SREP) requirement of 8.15% and stood slightly above the system average Common Equity Tier 1 capital ratio of 11.6%[1] as of the end of June 2019.

Funding profile determined by its high reliance on market funds and large buffer of liquid assets

We assess SCF's Combined Liquidity score at ba2, which highlights the entity's high reliance on wholesale markets, as well as the large buffer in the form of liquid assets on its balance sheet.

Our liquidity ratios are calculated based on the individual accounts of SCF, driven by our consideration that liquidity among the different subsidiaries of SCF is not fungible.

SCF's liquidity assessment reflects the bank's large reliance on intragroup funding, which rose to €10.3 billion as of the end of December 2018 from €8.5 billion a year earlier. This shift in SCF's funding profile responds to the parent's funding plan, which has issued sizable volumes of debt to fulfill its total loss-absorbing capacity (TLAC) requirements. As a result, SCF has reduced the volume of new debt issuance and has replaced part of its wholesale market funds by intragroup funding.

The market funds-to-tangible banking asset ratio was close to 70% as of the end of December 2018 (based on SCF's audited individual financial statements) driving our caa1 Funding Structure score. SCF's liquid banking assets-to-tangible banking assets ratio was 38% as of the end of December 2018, which results in the assigned a2 Liquid Resources score.

Strong geographic diversification is offset by the lack of business diversification

Our assessment of SCF's strong geographic 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 because we also adjust SCF's BCA one notch down for the lack of business diversification because the bank is mainly involved in consumer finance. These adjustments overall result in an unchanged BCA of baa2.

Environmental, social and governance considerations

In line with our general view on the banking sector, SCF has a low exposure to environmental risks. See our Environmental risk heat maps for further information.

The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which are partly mitigated by sizable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct are a further social risk. Social trends are also relevant in a number of areas, such as shifting customer preferences toward digital banking services, increasing information technology cost, aging population concerns in several countries affecting demand for financial services or socially driven policy agendas that may translate into regulations that affect banks' revenue base. Overall, we expect SCF to face moderate social risks, in line with our view on the banking sector.

We do not have any particular concern around SCF's governance, and we believe that the bank displays an appropriate risk management framework commensurate with its risk appetite.

Support and structural considerations

Affiliate support

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

Loss Given Failure analysis

SCF is subject to the EU Bank Resolution and Recovery Directive, which we consider an operational resolution regime. We assume a residual tangible common equity ratio of 3% and post-failure losses of 8% of tangible banking assets, a 25% runoff in "junior" wholesale deposits, a 5% runoff 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.

Because SCF is a domestic subsidiary, we apply the revised Advanced LGF analysis of its parent Banco Santander, which translates into a very 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 sovereign rating of Baa1 stable.

In our Advanced LGF analysis of Banco Santander, we have incorporated the bank's public issuance plans until 2019 (included) and our expectation that the bank will continue to issue debt to comply with Total Loss Absorbing Capacity (TLAC)/Minimum Requirement for Own-Funds and Eligible Liabilities (MREL) requirements.

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 Ratings (CRRs)

CRRs are opinions of the ability of entities to honor the uncollateralized portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honored. CRRs are distinct from ratings assigned to senior unsecured debt instruments and from issuer ratings because they reflect that, in a resolution, CRR liabilities might benefit from preferential treatment compared with senior unsecured debt. Examples of CRR liabilities include the uncollateralized portion of payables arising from derivatives transactions and the uncollateralized portion of liabilities under sale and repurchase agreements.

SCF's CRRs are positioned at A2/Prime-1

The CRRs of SCF 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

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 (for example, 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 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 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.

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**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	2.1%	a3	←→	a3	Expected trend	
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	11.6%	baa2	←→	baa2	Expected trend	
Profitability						
Net Income / Tangible Assets	1.4%	a3	←→	a3	Expected trend	
Combined Solvency Score		baa1		baa1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	51.1%	b3	←→	caa1	Market funding quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	8.0%	ba3	←→	a2	Stock of liquid assets	
Combined Liquidity Score		b2		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		
Scorecard Calculated BCA range				baa1 - baa3		
Assigned BCA				baa2		
Affiliate Support notching				1		
Adjusted BCA				baa1		

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
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
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 Investors Service

Ratings

Exhibit 4

Category	Moody's Rating
SANTANDER CONSUMER FINANCE S.A.	
Outlook	Stable
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
Subordinate -Dom Curr	Baa2
Pref. Stock Non-cumulative -Dom Curr	Ba1 (hyb)
Commercial Paper -Dom Curr	P-1
PSA BANQUE 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
ST Issuer Rating	P-2
SANTANDER CONSUMER BANK AS	
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	A3
Junior Senior Unsecured MTN	(P)Baa3
Subordinate MTN	(P)Baa3
Pref. Stock Non-cumulative -Dom Curr	Ba2 (hyb)
ST Issuer Rating	P-2

Source: Moody's Investors Service

Endnotes

1 European Banking Authority.

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