

CREDIT OPINION

24 April 2020

Update

 Rate this Research

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

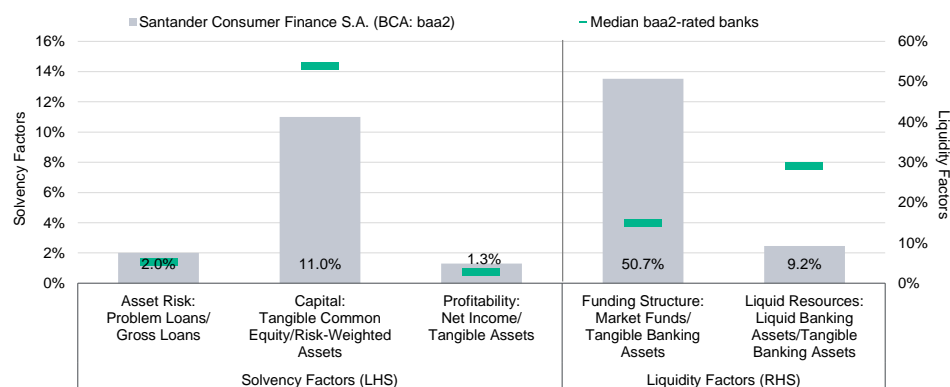
[Santander Consumer Finance S.A.](#)'s (SCF) A2/Prime-1 deposit and senior debt ratings reflect (1) the bank's baa2 Baseline Credit Assessment (BCA); (2) the high probability of support from [Banco Santander S.A. \(Spain\)](#) (Banco Santander, A2/A2 stable, baa1), resulting in a one-notch uplift and 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 as 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 performance of these metrics can, however, reverse if the current economic shock because of the global spread of coronavirus broadens and extends. The bank's standalone BCA also reflects the cyclical nature 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 geographical 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

- » Challenges to the bank's asset quality and profitability stemming from the weakening operating environment
- » 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

An upgrade of the baa2 BCA would require SCF to counterbalance the cyclicity of the consumer finance business, which renders the bank vulnerable to economic downturns, with an improvement of the bank's financial indicators, principally stronger solvency and profitability levels and a lower reliance on market funds.

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

Factors that could lead to a downgrade

SCF's standalone BCA could be downgraded if the bank's financial fundamentals deteriorate to the extent that its overall risk-absorption capacity weakens from the current levels as a result of the weakening operating environment from the coronavirus outbreak.

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

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

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

	12-19 ²	12-18 ²	12-17 ²	12-16 ²	12-15 ²	CAGR/Avg. ³
Total Assets (EUR Million)	114,583.2	105,612.3	99,716.3	96,241.5	86,428.7	7.3 ⁴
Total Assets (USD Million)	128,619.4	120,730.1	119,739.1	101,510.9	93,887.1	8.2 ⁴
Tangible Common Equity (EUR Million)	7,993.5	8,274.2	7,327.7	6,947.3	6,282.9	6.2 ⁴
Tangible Common Equity (USD Million)	8,972.7	9,458.6	8,799.1	7,327.7	6,825.1	7.1 ⁴
Problem Loans / Gross Loans (%)	2.0	2.0	2.2	2.4	3.1	2.3 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	11.0	11.9	10.9	11.0	11.4	11.2 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	19.8	18.3	21.0	22.0	26.0	21.4 ⁵
Net Interest Margin (%)	3.2	3.3	3.4	3.5	3.6	3.4 ⁵
PPI / Average RWA (%)	3.3	3.3	3.4	3.6	3.7	3.5 ⁶
Net Income / Tangible Assets (%)	1.3	1.4	1.3	1.3	1.3	1.3 ⁵
Cost / Income Ratio (%)	43.3	43.6	44.4	44.7	45.4	44.3 ⁵
Market Funds / Tangible Banking Assets (%)	50.7	51.1	50.4	51.2	49.9	50.7 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	9.2	8.0	7.7	9.1	12.1	9.2 ⁵
Gross Loans / Due to Customers (%)	270.0	272.7	265.2	254.3	236.3	259.7 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 Investors Service and company filings

Profile

With total assets of €115 billion as of the end of December 2019, Santander Consumer Finance, S.A. (SCF) is one of Europe's leading consumer finance companies. It has undergone significant geographical expansion in recent years and, consequently, is now present in 15 countries, benefitting 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 264 branches throughout Europe, including 51 in Spain, as of year-end 2019.

The institution's large and geographically diversified franchise has been built up through acquisitions in markets that have shown significant growth potential. SCF is 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.

Recent developments

The rapid global spread of the coronavirus has led to a deteriorating economic outlook, sharply lower oil prices and a broad financial market upheaval, generating an unprecedented credit shock across many sectors worldwide. Our [baseline](#) economic scenario assumes pandemic-driven disruptions of economic activity through June, followed by some recovery in the second half of 2020. However, the potential for [downside outcomes](#) is increasing. At the same time, a number of measures have been [announced](#) by European regulators to safeguard banks' role as they cope with the short-term pressures of the coronavirus outbreak.

The greatest negative credit impact will be felt initially by banks in regions most immediately and acutely disrupted or with concentrated lending to the most affected sectors, as well as more thinly capitalised banks and non-bank lenders.

To reflect the growing strain of the coronavirus-related disruptions, in March 2020, we [changed](#) the outlook on six European banking systems to negative, including Spain.

On 12 March, the [European Central Bank \(ECB\)](#) [announced a series of measures](#) to help European Union (EU) economies weather the widening effects of the coronavirus pandemic, temporarily increasing banks' liquidity provision and lowering regulatory capital and

liquidity requirements. As part of these temporary measures, the ECB increased its targeted long-term refinancing operations ([TLTRO III](#)) under more favourable terms and expanded the scope of its financial asset purchase programme.

The temporary suspension of capital buffer requirements (capital conservation buffer and Pillar 2 guidance), together with the option for banks to allow their liquidity coverage ratio (LCR) to fall below 100%, gives banks greater flexibility and additional leeway to absorb the economic impact, such as asset-quality declines. Overall, the package aims to help banks continue to finance corporates and small and medium-sized enterprises suffering from the effects of the coronavirus outbreak.

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, with its main exposures being Germany (36% of total assets), Norway (17%), Spain (17%), France (14%), Italy (9%) and other European Union countries.

Detailed credit considerations

Sound profitability and asset risk that could be affected by the weaker operating environment

Profitability and Asset Risk, which we score at baa1 and a3 respectively, are the key factors underpinning SCF's standalone rating.

SCF displays overall good profitability. As of the end of December 2019, the entity reported a net income-to-tangible banking assets ratio of 1.3%, which maps to an a3 profitability score. SCF's geographical diversification underpins its sound revenue generation capacity. However, our baa1 assessment of the bank's profitability reflects our expectation that revenues and the cost of credit risk are going to be challenged as a result of the deteriorating operating environment.

As of December 2019, SCF maintained sound profitability, with a reported net profit of €1.4 billion, although down by around 3% from 2018. This decline was mainly driven by significantly higher loan-loss provisions, which increased by 48% on the back of increased lending growth, change in the product mix of its Spanish operations and lower portfolio sales in the Nordics. Operating expenses, which grew by around 2%, driven by the acquisition of Hyundai Kia's joint venture in Germany, also contributed to the decline in bottom-line results. Operating income remained strong with an increase of 10% versus the previous year, underpinned by solid growth in net interest income as lending volumes increased.

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 2% as of the end of December 2019. Our asset risk assessment also incorporates our view that the bank's stock of NPLs could increase levels over the next 12-18 months, but still stay within a range that is commensurate with a strong score of a3.

We expect, however, that the coronavirus outbreak will have a direct impact on banks' asset quality, and we could reassess our current assessment of this factor depending on the breath and severity of the shock and the broad deterioration in credit quality that it will trigger.

SCF's NPL ratio as of December 2019 remained broadly stable compared with a year earlier, and compares very favourably with the Spanish system average of 4.57% as of the same date. The bank's coverage ratio (that is, loan-loss reserves as a percentage of NPLs) was a high 98.4%, above the 60% system average.

SCF's sound asset risk is underpinned by the entity's conservative risk management, which involves (1) focus on recovery processes; (2) conservative provisioning policies to ensure 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.

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% as of the end of December 2019. The supervisory measures announced by the ECB give banks significant additional leeway to absorb asset-quality deterioration because capital requirements have temporarily been lowered (please see the Recent developments section).

SCF reported a fully loaded Common Equity Tier 1 (CET1) capital ratio of 12.5% as of the end of December 2019, more than the 12.3% reported as of December 2018. The bank shows a buffer of more than 350 basis points over its 2019 Supervisory Review and Evaluation Process (SREP) requirement of 8.85% and slightly above the system average CET1 ratio of 11.9%¹ as of the end of December 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.

We calculate the liquidity ratios 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 high reliance on intragroup funding, which amounted to €7.7 billion as of the end of December 2019 from €10.3 billion a year earlier. 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 2019 (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 around 35% as of the end of December 2019, which results in the assigned a2 Liquid Resources score.

The steps taken by monetary authorities to help banks cope with the coronavirus outbreak will alleviate the liquidity pressures that banks including SCF could be facing.

Strong geographical diversification is offset by the lack of business diversification

Our assessment of the strong geographical diversification in SCF's 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 risks heat map](#) for further information.

Overall, we expect banks to face moderate social risks. This includes considerations in relation to the rapid and widening spread of the coronavirus outbreak, given the substantial implications for public health and safety and deteriorating global economic outlook, creating a severe and extensive credit shock across many sectors, regions and markets. See our [social risk heat map](#) for further information.

We do not have any particular concern around SCF's governance, and we believe that the bank has 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 for SCF 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 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

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 honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. 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 uncollateralised portion of payables arising from derivatives transactions and the uncollateralised 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.

SCF's CR Assessment is positioned at A3(cr)/Prime-2(cr)

The CR Assessment, before 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.

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 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	2.0%	a3	↓	a3	Expected trend	
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	11.0%	baa2	↔	baa2	Expected trend	
Profitability						
Net Income / Tangible Assets	1.3%	a3	↓	baa1	Expected trend	
Combined Solvency Score		baa1		baa1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	50.7%	b3	↔	caa1	Market funding quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	9.2%	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		
BCA Scorecard-indicated Outcome - 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	Assigned	Additional Preliminary	
	Instrument	Sub-ordination	Instrument	Sub-ordination	De Jure	De Facto	Notching Guidance vs. Adjusted BCA	LGF notching	Notching	Rating Assessment
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 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
Junior Senior Unsecured -Dom Curr	Baa1
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
Commercial Paper -Dom Curr	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	Baa3
Pref. Stock Non-cumulative -Dom Curr	Ba2 (hyb)
ST Issuer Rating	P-2
SANTANDER CONSUMER BANK AG	
Outlook	Positive
Counterparty Risk Rating	A2/P-1
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A3

Source: Moody's Investors Service

Endnotes

1 Source: European Banking Authority.

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