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CREDIT OPINION
19 October 2020

Update

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RATINGS

Santander Consumer Finance S.A.

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

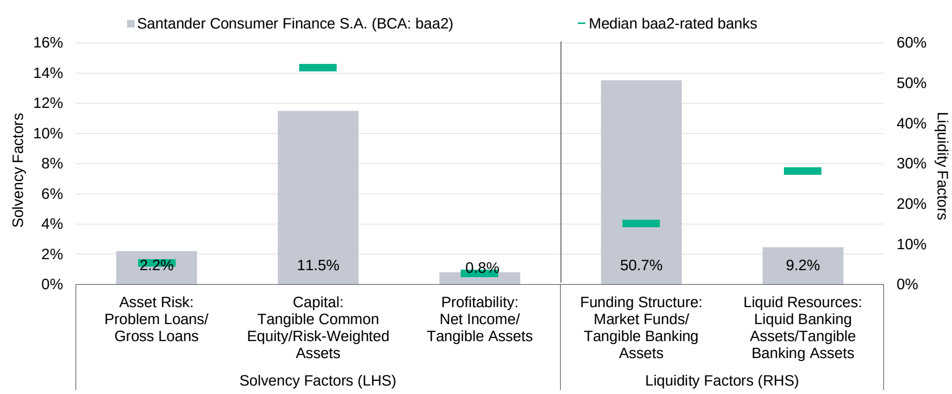
Summary

Santander Consumer Finance S.A.'s (SCF) A2/Prime-1 deposit and senior debt ratings reflect the bank's baa2 Baseline Credit Assessment (BCA); the high probability of support from Banco Santander S.A. (Spain) (Banco Santander, A2/A2 stable, baa1[1]), resulting in a one-notch uplift and an Adjusted BCA of baa1; and 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 asset-quality indicators. The bank's BCA also reflects the cyclicality in the consumer finance business and its high reliance on market funds. We expect, however, that the performance of SCF's asset quality and profitability will deteriorate over the next 12-18 months as a result of the coronavirus-induced economic downturn.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

» Strong geographical diversification

» 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 weaker macroeconomic conditions across SCF's key markets

» 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 and incorporates our expected performance for the bank's credit profile. The stable outlook on SCF's ratings is also 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 cyclicality of the consumer finance business, which renders the bank vulnerable to economic downturns, with an improvement in 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 weaker operating environment from the coronavirus crisis.

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]

	06-20[2]	12-19[2]	12-18[2]	12-17[2]	12-16[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	114,404.6	114,583.2	105,612.3	99,716.3	96,241.5	5.1[4]
Total Assets (USD Million)	128,494.0	128,619.4	120,730.1	119,739.1	101,510.9	7.0[4]
Tangible Common Equity (EUR Million)	8,186.0	7,993.5	8,274.2	7,327.7	6,947.3	4.8[4]
Tangible Common Equity (USD Million)	9,194.2	8,972.7	9,458.6	8,799.1	7,327.7	6.7[4]
Problem Loans / Gross Loans (%)	2.2	2.0	2.0	2.2	2.4	2.1[5]
Tangible Common Equity / Risk Weighted Assets (%)	11.5	11.0	11.9	10.9	11.0	11.3[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	20.7	19.8	18.3	21.0	22.0	20.4[5]
Net Interest Margin (%)	3.1	3.2	3.3	3.4	3.5	3.3[5]
PPI / Average RWA (%)	3.2	3.3	3.3	3.4	3.6	3.4[6]
Net Income / Tangible Assets (%)	0.8	1.3	1.4	1.3	1.3	1.2[5]
Cost / Income Ratio (%)	43.8	43.3	43.6	44.4	44.7	44.0[5]
Market Funds / Tangible Banking Assets (%)	51.8	50.7	51.1	50.4	51.2	51.1[5]
Liquid Banking Assets / Tangible Banking Assets (%)	11.3	9.2	8.0	7.7	9.1	9.1[5]
Gross Loans / Due to Customers (%)	271.2	270.0	272.7	265.2	254.3	266.7[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 €114 billion as of the end of June 2020, 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, 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.

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 4.6 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, Spain, France, Italy and Portugal.

Detailed credit considerations

Sound profitability and asset risk that will be affected by weaker economic conditions

Profitability and Asset Risk, which we score at baa2 and a3, respectively, are the key factors underpinning SCF's standalone rating.

Our baa2 Profitability score reflects our expectation that SCF's return on tangible assets will fall below 1% over the outlook period. This is below the performance recorded over the recent years, but above the 0.23% return on tangible assets reported as of the end of June 2020, which was affected by a number of one-off extraordinary charges, as well as by a substantial increase in the cost of credit risk. We expect SCF to return to more normalised profitability levels in 2021, but still be affected by higher provisioning levels because of increased asset-quality pressures.

As of the end of June 2020, SCF reported a net profit of €130 million, down from €736 million a year earlier. This sharp decline in the bank's profit is explained by a €277 million loss related to the goodwill deterioration of the Nordic subsidiary, as well as a €49 million charge related to the depreciation of the deferred tax assets (DTA) in Spain. Adjusted for these non-recurring items, SCF's return on tangible assets will increase to 0.8%, which maps to the assigned Profitability score.

SCF also increased its loan-loss provisions by almost 210% compared with a year earlier, reflecting higher expected credit losses as a result of the coronavirus crisis. SCF's cost of risk increased to 95 basis points (bps) on an annualised basis as of the end of June 2020 from 40 bps in 2019.

The bank's pre-provision profit declined by 1.3% as of the end of June 2020, driven by the 2.4% decrease in operating revenue and despite the 3.8% decline in operating expenses. Fee and commission income was severely affected (17.6% decline) by the drop in the economic activity, as well as by the lockdowns in most of the countries where SCF operates. For the remainder of the year, we expect revenue to improve from the very weak levels recorded in the first half of 2020, as the economy recovers gradually and lending activity resumes. Operating revenue will also be supported by the maintenance of low funding costs, aided by the cheap conditions of the European Central Bank's (ECB) TLTRO III. SCF is committed to continue reducing operating expenses, and cost control remains a key strategic target for the entity.

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 2.2% as of the end of June 2020. Our asset risk assessment also incorporates our view that the bank's stock of NPLs will increase over the next few months as loan repayment moratoriums expire, but still stay within a range that is commensurate with a score of a3. We expect, however, that the coronavirus crisis 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 the end of June 2020 remained broadly stable compared with a year earlier and compares very favourably with the Spanish system average of 4.4% as of the same date. The bank's coverage ratio (that is, loan-loss reserves as a percentage of NPLs) remained very high at 101.5%, well above the 64.5% system average.

As of the end of June 2020, SCF had €5.47 billion under payment moratoriums, representing 4.8% of the bank's total loan portfolio; €1.95 billion of loans were under legal moratoriums, while €3.52 billion were under the private-sector payment holiday scheme. The percentage of loans under payment moratoriums that were classified as NPLs was very low at 0.78% as of the end of June 2020, although we expect the bulk of these NPLs to increase by H1 2021 once the payment holiday schemes expire in the different geographies where SCF operates.

Adequate solvency levels

We have assessed SCF's Capital Buffer at baa2, which compares well with that of its domestic peers. The bank had Moody's-adjusted tangible common equity/risk-weighted assets of 11.5% as of the end of June 2020.

SCF reported a fully loaded Common Equity Tier 1 (CET1) capital ratio of 13.35% as of the end of June 2020, above the 12.54% reported as of December 2019. The bank shows a large buffer over its 2020 Supervisory Review and Evaluation Process (SREP) requirement of 9.9%.

The increase in regulatory capital of more than 80 bps is partly explained by the amendments to the European Union (EU) Capital Requirement Regulation (CRR 2) approved in June 2020. These so-called quick-fix measures provided 15 bps of additional capital, while the reduction in deductions because of intangible assets had a positive impact of 42 bps.

Our more conservative capital assessment relative to regulators' capital ratios is primarily explained by (1) the fact that regulators do not deduct convertible DTA from the capital base, while we give benefit, as a capital component, to only a part of them; and (2) a more conservative risk weighting that we apply to sovereign exposures compared with the regulators' risk weighting of 0%.

SCF reported a regulatory leverage ratio of 8.78% as of the end of June 2020, above the 8.48% reported 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 €7.1 billion as of the end of June 2020. SCF's funding profile responds to the parent's funding plan, which has issued sizeable 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.

SCF's market funds/tangible banking assets was close to 70% as of the end of December 2019 (based on its audited individual financial statements), driving our caa1 Funding Structure score. SCF's liquid banking assets/tangible banking assets was around 35% as of the end of December 2019, which results in the assigned a2 Liquid Resources score.

SCF has taken advantage of the attractive conditions of the ECB's TLTRO III facility and increased its reliance on this funding source to €11.5 billion as of the end of June 2020 on a consolidated basis, compared with €7.9 billion as of the end of December 2019. The entity's consolidated liquidity coverage ratio was 297% as of the end of June 2020, while the net stable funding ratio was 111%.

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 pandemic, 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 2020 (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 rating.

Methodology and scorecard

About Moody's Bank Scorecard

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

Rating methodology and scorecard factors

Exhibit 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		2.2%	a3	↓	a3	Expected trend	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)		11.5%	baa2	↔	baa2	Expected trend	
Profitability							
Net Income / Tangible Assets		0.8%	baa2	↓	baa2	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 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 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 The bank ratings shown in this report are the bank's long-term deposit rating, senior unsecured debt rating and BCA.

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CLIENT SERVICES

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

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