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CREDIT OPINION
29 November 2021

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

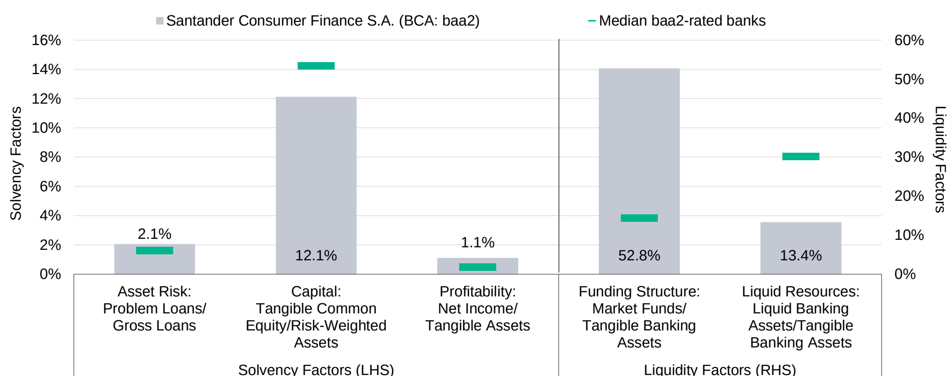
Summary

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), resulting in a one-notch uplift and an Adjusted BCA of baa1; and our revised Advanced Loss Given Failure (LGF) analysis, which indicates a 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, 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 and Counterparty Risk Ratings (CRRs) are A3(cr)/Prime-2(cr) and A2/Prime-1, respectively.

SCF's standalone baa2 BCA reflects its overall sound credit risk profile, with good profitability and asset-quality indicators. The BCA also reflects the bank's monoline business model, which is focused on the consumer finance business, and its high reliance on market funds. However, we expect some deterioration in SCF's asset-quality metrics over the next 12-18 months as a result of the coronavirus pandemic.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

» Strong geographical diversification, which drives consistent profit generation and low earnings volatility

» Solid profitability and asset risk

» Good risk absorption capacity and ongoing support from its parent (Banco Santander) if needed, which will continue to shore up its capital

Credit challenges

» Asset quality strained by the coronavirus pandemic across SCF's key markets

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

» Funding profile characterised by its large reliance on market funds

Outlook

SCF's deposit and senior debt ratings have a stable outlook, reflecting our expectation of a broadly steady performance over the next 12-18 months, against a backdrop of a still-uncertain operating environment because of the pandemic. 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 an improvement in the bank's financial indicators, principally stronger solvency 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 is upgraded.

Factors that could lead to a downgrade

SCF's standalone BCA could be downgraded if the bank's asset quality deteriorates beyond our current expectations as a result of the coronavirus pandemic.

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]

	06-21[2]	12-20[2]	12-19[2]	12-18[2]	12-17[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	123,209.2	120,034.6	114,583.2	105,612.3	99,716.3	6.2[4]
Total Assets (USD Million)	146,114.0	146,869.0	128,619.4	120,730.1	119,739.1	5.9[4]
Tangible Common Equity (EUR Million)	8,586.6	8,479.8	7,993.5	8,274.2	7,327.7	4.6[4]
Tangible Common Equity (USD Million)	10,182.8	10,375.5	8,972.7	9,458.6	8,799.1	4.3[4]
Problem Loans / Gross Loans (%)	2.1	2.0	2.0	2.0	2.2	2.0[5]
Tangible Common Equity / Risk Weighted Assets (%)	12.1	11.9	11.0	11.9	10.9	11.6[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	19.0	19.0	19.8	18.3	21.0	19.4[5]
Net Interest Margin (%)	3.0	3.1	3.2	3.3	3.4	3.2[5]
PPI / Average RWA (%)	3.4	3.3	3.3	3.3	3.4	3.4[6]
Net Income / Tangible Assets (%)	1.1	0.9	1.3	1.4	1.3	1.2[5]
Cost / Income Ratio (%)	43.4	43.2	43.3	43.6	44.4	43.6[5]
Market Funds / Tangible Banking Assets (%)	53.8	52.8	50.7	51.1	50.4	51.8[5]
Liquid Banking Assets / Tangible Banking Assets (%)	13.8	13.4	9.2	8.0	7.7	10.4[5]
Gross Loans / Due to Customers (%)	255.1	266.8	270.0	272.7	265.2	265.9[5]

[-] Further to the publication of our revised methodology in July 2021, for issuers that have "high trigger" additional Tier 1 instruments outstanding, not all ratios included in this report reflect the change in treatment of these instruments. [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

Santander Consumer Finance, S.A. (SCF) is one of Europe's leading consumer finance companies, with total assets of €123 billion as of June 2021. The bank benefits from a large and geographically diversified franchise, built up principally through acquisitions in markets with significant growth potential. SCF is present in 16 European countries, benefitting from leading positions in many of them. Germany is the most relevant market, with almost four million clients and representing around 40% of SCF's total loan book, followed by the Nordic countries, Spain and France. Out of Europe, SCF has operations in China, although of a smaller scale.

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.

Detailed credit considerations

Low problem loan ratio but we anticipate an increase in asset risk

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 2.1% as of June 2021. Our Asset Risk assessment also incorporates our view that the bank's stock of NPLs will increase over the next few months as a result of the coronavirus pandemic, but will remain within a range that is commensurate with a score of a3.

SCF's NPL ratio as of half-year 2021 remained broadly stable compared with that a year earlier and compares favourably with the Spanish system average of 4.1% as of the same period. The large volume of provisions in 2020 drove the bank's coverage ratio (that is, loan loss reserves as a percentage of NPLs) to a high 106%.

As of June 2021, SCF granted €9.0 billion under payment moratoriums, representing 9.1% of the bank's total loan portfolio, of which only €91 million had not expired yet. Most of the payment moratoriums had been granted under a private-sector payment holiday scheme (77% of the total).

Adequate solvency levels

With a tangible common equity (TCE) ratio (defined as TCE/Moody's-adjusted risk-weighted assets [RWA]) of 12.1% as of June 2021 and a leverage ratio (TCE/total tangible assets) of 7.1% as of the same date, SCF has an adequate capital position, which we assess at baa2. Unlike that of many of its Spanish peers, SCF's TCE does not contain low-quality elements, such as DTA.

SCF reported a fully loaded Common Equity Tier 1 (CET1) capital ratio of 13.3% as of June 2021. The bank's CET1 capital ratio remained broadly stable in the first half of 2021, after increasing significantly in 2020 by almost 70 bps. The increase was mainly explained by the amendments to the European Union (EU) Capital Requirement Regulation (CRR 2) enacted in June 2020, which provided 38 bps of additional capital, and the goodwill amortisation of the Nordic subsidiary, which had a positive impact of 41 bps. The bank has a large buffer over its 2021 Supervisory Review and Evaluation Process (SREP) requirement for the CET1 ratio of 8.55%.

SCF's regulatory leverage ratio was 9.3% as of June 2021, above the 8.9% reported as of the end of December 2020.

Gradual recovery in profitability but likely to remain below pre-pandemic levels

Our baa1 Profitability score is consistent with a return on tangible assets of 1.0%-1.2% and in line with the bank's recent performance (return on tangible assets of 1.1% in the first half of 2021). This reflects an improvement from the 0.9% (Moody's-adjusted) return on tangible assets in 2020 because of the decline in credit costs. However, asset-quality pressures and related provisions will still keep the bank's profitability below pre-pandemic levels.

In the first six months of 2021, SCF reported net profit of €670 million, a substantial increase from €130 million in the year-earlier period. The bank's profitability in 2020 was hit by depressed earnings and a substantial increase in the cost of credit as a result of the pandemic, as well as by a number of one-off extraordinary charges. Specifically, in 2020, SCF recorded a €277 million loss related to the goodwill amortisation of the Nordic subsidiary, as well as a €47 million charge related to the depreciation of deferred tax assets (DTA) in Spain.

Both higher revenue and lower credit costs contributed to profit growth in H1 2021. Operating income grew by 5%, principally driven by an 11% growth in fee and commission income from new business activity. Loan loss provisions declined by 42%, reflecting the improved economic and credit outlook as the effects of the pandemic abate. SCF's cost of risk decreased to 55 basis points (bps) as of June 2021 from 83 bps in 2020.

We expect revenue to improve as the economy recovers gradually. 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) targeted longer-term refinancing operations (TLTRO) III. SCF is committed to reducing its operating expenses, and cost control remains a key strategic target for the entity.

Funding profile characterised by 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 assessment that liquidity is not fungible among the different subsidiaries of SCF.

Our SCF's liquidity assessment reflects the bank's high reliance on intragroup funding, which amounted to almost €9 billion as of the end of June 2021. SCF's funding profile is driven by the funding plan of its parent, which 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 replaced part of its wholesale market funds by intragroup funding. SCF is part of Banco Santander's resolution plan and, therefore, is subject to the internal MREL requirement.

SCF's market funds/tangible banking assets (TBAs) was around 70% as of the end of December 2020 (based on its audited individual financial statements), driving our caa1 Funding Structure score. The bank's Liquid Resources score of a2 is driven by its stock of liquid banking assets, which was around 32% of TBAs as of the end of December 2020.

SCF has taken advantage of the attractive conditions of the ECB's TLTRO III facility and increased its reliance on this funding source to €19.9 billion as of the end of June 2021 on a consolidated basis, compared with €11.5 billion as of the end of December 2019. The entity's consolidated liquidity coverage ratio (LCR) was 490% as of the end of June 2021, while the net stable funding ratio (NSFR) was 117% as of March 2021.

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 by one notch downwards for the lack of business diversification because the bank is mainly involved in consumer finance. Overall, these adjustments result in an unchanged BCA of baa2.

Environmental, social and governance considerations

In line with our general view of the banking sector, SCF has low exposure to environmental risks. See our environmental risks heat map for further information.

Overall, we expect banks to face moderate social risks. These risks include considerations in relation to the pandemic because of the substantial implications for public health and safety. See our social risks heat map for further information.

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

Support and structural considerations

Affiliate support

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 (LGF) analysis

SCF is subject to the EU Bank Resolution and Recovery Directive, which we consider an operational resolution regime. We assume a residual TCE ratio of 3%, post-failure losses of 8% of TBAs, a 25% runoff in junior wholesale deposits and a 5% runoff in preferred deposits, and assign a 25% probability to deposits being preferred to senior unsecured debt and a 26% proportion of junior deposits. These metrics are in line with our standard assumptions.

Because SCF is a domestic subsidiary, we apply the 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.

The same LGF analysis indicates a moderate loss severity for junior senior creditors in the event of the bank's failure, leading to a rating of Baa1 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 additional downward notching of two notches for preference share instruments to reflect the coupon suspension risk ahead of a potential failure.

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 because of its current position within the Spanish market. Therefore, we do not incorporate any associated uplift into SCF's ratings.

Counterparty Risk Ratings (CRRs)

SCF's CRRs are A2/Prime-1. The CRR, before the government cap, is positioned three notches above the Adjusted BCA of baa1, reflecting the extremely low loss given failure from the high volume of instruments that are subordinated to CRR liabilities.

SCF's CRRs 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

SCF's CR Assessment is A3(cr)/Prime-2(cr). The CR Assessment, before the 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	2.1%	a3	↓	a3	Expected trend	
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	12.1%	baa1	↓	baa2	Expected trend	
Profitability						
Net Income / Tangible Assets	1.1%	baa1	↔	baa1	Expected trend	
Combined Solvency Score		baa1		baa1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	52.8%	b3	↔	caa1	Market funding quality	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	13.4%	ba1	↔	a2	Stock of liquid assets	
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				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)Baa2
Subordinate	Baa2
Pref. Stock Non-cumulative -Dom Curr	Ba2 (hyb)
ST Issuer Rating	P-2
SANTANDER CONSUMER BANK AG	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Issuer Rating	A2

Source: Moody's Investors Service

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