Moody's INVESTORS SERVICE

CREDIT OPINION
27 July 2021

Update

Rate this Research

RATINGS

Santander Consumer Bank AG

Domicile	Germany
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	A2
Type	LT Bank Deposits - Fgn 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 Bank AG

Update following rating action and methodology revision

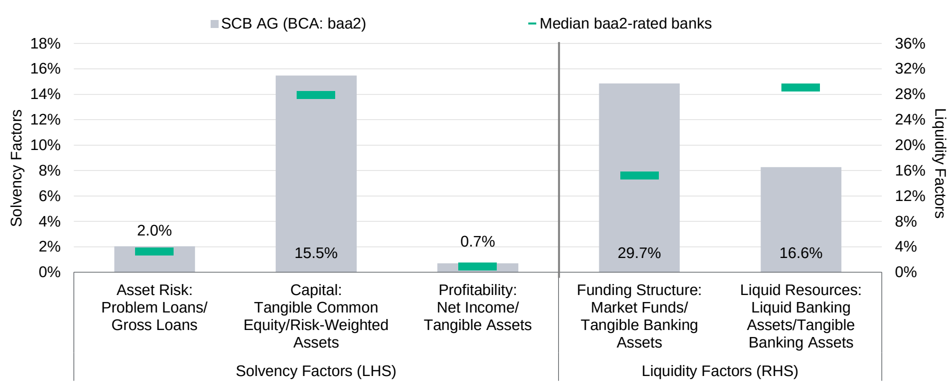
Summary

On 13 July, we upgraded Santander Consumer Bank AG's (SCB) deposit and issuer ratings to A2(stable) from A3(stable), its short-term deposit ratings to P-1 from P-2 and its Counterparty Risk Ratings (CRRs) to A1 from A2. We further assign a baa2 Baseline Credit Assessment (BCA), baa1 Adjusted BCA, A1(cr)/P-1(cr) Counterparty Risk (CR) Assessment and P-1 CRR to the bank.

SCB's A2 deposit and issuer ratings reflect the bank's baa2 BCA, a high probability of affiliate support provided by SCB's parent Santander Consumer Finance S.A. (SCF, A2 stable/A2 stable, baa2)[1] and its ultimate parent Banco Santander S.A. (Spain) (Santander, A2 stable/A2 stable, baa1), and the application of our Advanced Loss Given Failure (LGF) analysis to its liabilities, which provides additional two notches of rating uplift.

SCB's baa2 BCA reflects, and is supported by, the bank's sound asset quality, solid capitalisation and above-average profitability compared with the German banking sector. The BCA also incorporates the more tightly managed liquid resources and continued strong access to diversified funding channels. There are some sector concentration risks in SCB's lending exposure because of the high focus on its main business areas — car finance and consumer lending. Because of this strong focus on a single product and the resulting limited business diversification, we apply a monoline business model adjustment, which is incorporated into the BCA.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

» Overall solid solvency implies satisfactory capacity to absorb shocks, particularly because of good profitability compared with that of its domestic peers and prudent capital management.

» An agreed framework for capital increases and subscription of junior senior unsecured instruments will allow SCB to absorb risk-weighted assets (RWA) and balance-sheet growth while maintaining its financial metrics.

» SCB has an only modest reliance on market funds as it mostly uses granular deposits for its funding.

Credit challenges

» SCB's profile as a consumer lending specialist, including its high concentration in auto loans and stock financing for car dealers relative to its capital, implies vulnerability to sector-related stress and product-specific risks.

» Cost of credit will remain elevated following the gradual reduction of government support measures for the economy.

» Its moderate level of unencumbered liquid assets is a relative weakness in an overall solid credit profile.

Outlook

The stable outlook reflects that we do not expect SCB to sustainably improve its financial profile during the 12-18-month outlook horizon. At the same time, we expect the bank's liability structure to build up further protection for external investors, yet not to a degree that would lead to an upgrade during the outlook horizon.

Factors that could lead to an upgrade

» An upgrade of SCB's ratings could be prompted by a higher Adjusted BCA or by a significant increase in the volume of instruments designed to be loss-absorbing such that it prompts more rating uplift from our Advanced LGF analysis.

» An upgrade of SCB's baa2 BCA could be prompted by a successful diversification of revenue and profit to reduce its reliance on its main line of business, consumer finance; or by a significant and sustained increase in its capitalisation.

Factors that could lead to a downgrade

» A downgrade of SCB's issuer and deposit ratings could be prompted by a BCA downgrade or a weaker result from our Advanced LGF analysis as a result of a declining layer of instruments designed to absorb losses in the case of failure.

» SCB's BCA could be downgraded if its solvency permanently weakens as a result of more limited opportunities for revenue generation, weaker asset quality or structurally weaker capital levels, or if the bank operates with narrower liquidity buffers.

Key indicators

Exhibit 2

Santander Consumer Bank AG (Unconsolidated Financials) [1]

	12-20[2]	12-19[2]	12-18[2]	12-17[2]	12-16[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	39.9	36.6	35.1	34.0	34.2	3.9[4]
Total Assets (USD Billion)	48.8	41.1	40.1	40.9	36.1	7.8[4]
Tangible Common Equity (EUR Billion)	3.1	2.8	2.9	2.9	2.8	2.3[4]
Tangible Common Equity (USD Billion)	3.8	3.2	3.3	3.4	3.0	6.1[4]
Problem Loans / Gross Loans (%)	1.9	2.0	2.2	2.3	2.1	2.1[5]
Tangible Common Equity / Risk Weighted Assets (%)	15.5	14.1	14.9	13.7	14.0	14.4[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	13.8	16.0	17.1	19.2	19.4	17.1[5]
Net Interest Margin (%)	2.7	2.9	3.3	3.3	3.0	3.1[5]
PPI / Average RWA (%)	2.2	2.3	2.6	2.3	3.1	2.5[6]
Net Income / Tangible Assets (%)	0.7	0.8	0.9	0.8	1.1	0.9[5]
Cost / Income Ratio (%)	63.8	64.7	61.2	66.4	56.9	62.6[5]
Market Funds / Tangible Banking Assets (%)	29.7	24.4	20.5	21.4	17.4	22.7[5]
Liquid Banking Assets / Tangible Banking Assets (%)	16.6	9.8	8.5	4.6	7.7	9.4[5]
Gross Loans / Due to Customers (%)	127.1	124.6	122.6	131.1	132.7	127.6[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; LOCAL GAAP. [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 Bank AG (SCB) is a fully owned subsidiary of Santander Consumer Finance S.A., Spain (SCF), and is ultimately owned by Banco Santander S.A. (Spain) (Santander). With total assets of €39.9 billion as of December 2020 (excluding retained securitisations), SCB is one of the largest dedicated German consumer lenders with a clear focus on retail auto financing and a strong market position within the non-captive automotive finance space.

The bank and its subsidiaries predominantly provide car finance along the life cycle of the vehicle, including used car lending, new car loans and leases, as well as dealer financing (58.4% of the lending portfolio of the bank and its subsidiaries as of year-end 2020). The bank leverages its large customer base from its position as Germany's second-largest auto finance company (largest manufacturer-independent) and its smaller durable goods financing activities to generate cross-selling opportunities for its branch-based and direct financing offerings in consumer and mortgage lending. Outside its retail banking activities and as a member of the international Santander network, SCB offers cross-border banking services to an export-oriented German corporate customer base.

Headquartered in Moenchengladbach in Germany, SCB acts as the captive auto finance company for the Volvo and Mazda car brands in Germany, and holds a 51% share in Hyundai Capital Bank Europe GmbH and a 50% share in PSA Bank Deutschland GmbH. As of year-end 2020, SCB had 3,075 employees and operated through 209 branches in Germany.

Recent developments

All the G-20 countries sustained severe output losses in 2020, but the contraction in some economies was sharper than in others. We expect the pace of improvement to be asymmetric across countries. The recovery path is beset with uncertainty and will remain highly dependent on the development and distribution of a vaccine, effective pandemic management and government policy support.

The European Central Bank (ECB) introduced a series of measures to help the European Union (EU) economies weather the widening effects of the pandemic, temporarily increasing banks' liquidity provisions, and lowering regulatory capital and liquidity requirements. As part of these temporary measures, the ECB increased its targeted longer-term refinancing operations (TLTRO III) under more favourable terms, as well as its financial asset purchase programme, while refraining from lowering the ultralow interest rates further. Overall, the package aims to help banks continue to finance corporates, and small and medium-sized enterprises (SMEs) suffering from the effects of the pandemic. The ECB's measures will provide limited relief for banks and their borrowers, and it will require continued significant fiscal policy measures by the EU and its member states to avert higher default rates in banks' lending books.

The Government of Germany (Aaa stable) launched a large stimulus package, and its support has been crucial for corporate borrowers in industries immediately hurt by the pandemic, such as the airlines, tourism, retail and shipping sectors, as well as smaller companies experiencing weak liquidity and high leverage. The scale of the support package is unprecedented and is far larger than the support provided during the 2008-09 financial crisis. At the same time, the government made it easier to access its furlough scheme and extended it to a broader pool of workers, which will limit the spike in unemployment and the fall in domestic consumption. The measures, which are adapted to the evolution of the economic effects of the pandemic, add to Germany's already expansionary fiscal policy stance, as well as to the automatic stabilisers that support household incomes when unemployment increases.

On 28 April 2021, Santander reported results for the first quarter of 2021, in which the group provided updates on some metrics of its German operations. As of 31 March 2021, total customer loans in Germany represented 31% of the group's Digital Consumer Bank (DCB) segment, or around €36 billion out of DCB's €115.7 billion[2] (December 2020: €117.3 billion). The DCB segment has been newly created by Santander and includes SCF and Openbank. The latter operates a full-service digital bank in Germany, but is organisationally separate from SCB and also separately included in DCB's "other" countries.

DCB's new lending dropped by 3% year on year during Q1 2021, with a particularly pronounced decline in Germany, where new business had been strong during January and February 2020 and where new business underwriting was held back by continued lockdown measures during Q1 2021. Still, Germany (including the result from joint ventures and unconsolidated leasing operations owned by SCB) contributed €83 million (Q1 2020: €84 million) to DCB's first-quarter reported underlying attributable profit.

Detailed credit considerations

Sound asset-risk profile will increase within a weak economic environment

SCB's sound asset quality is reflected in its baa2 Asset Risk score, which includes a three-notch downward adjustment from the a2 initial score. Key risks not reflected in the bank's problem loan metrics are its high exposure to the automotive industry; and legal risks in the context of court rulings favouring consumers, for example, on the scope of fees and charges. In addition, we expect the bank's asset quality to deteriorate moderately amid the weak economic environment and the resulting increase in consumer insolvencies we expect for 2021.

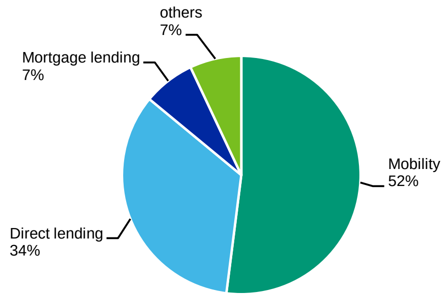
Upon the gradual reduction in government support measures, we expect SCB's asset quality to weaken mainly through its unsecured consumer lending, including instalment loans, current account overdrafts and credit card balances, which jointly account for the largest portion of the bank's direct lending segment. This segment generated one-third of the bank's 2020 gross interest income. SCB's corporate banking book, which grew strongly over the past years to €1.4 billion as of year-end 2020, has so far shown no significant decline in credit performance, but may record an increase in cost of risk because the portfolio is biased towards exporters with a focus on Latin America, a region still particularly affected by the pandemic.

SCB's on-balance-sheet loan book remains focused on new and, in particular, used car financing, which jointly represent more than 40% of the bank's loan book and, jointly with dealer-stock financing, account for 52% of gross interest income. In addition, the role of the leasing business within the perimeter of SCB's equity participations has grown over the past years, not least through the acquisition of a majority stake in Sixt Leasing SE (Sixt Leasing) by Hyundai Capital Bank Europe (HCBE) in May 2020. Contract growth at SCB's unconsolidated subsidiary Santander Leasing GmbH was held back during 2020 by weaker German new car registrations, so that leasing contracts under management rose only moderately by less than 2,000 contracts to almost 173,602 contracts. Through its subsidiaries consolidated at-equity, we expect SCB to continue to grow its exposure to residual value risk currently inherent in small parts of its leasing contracts.

Exhibit 3

Lending for vehicle purchases and dealers, as well as consumer loans, dominates SCB's asset pool

Contribution to 2020 gross interest income by lending type

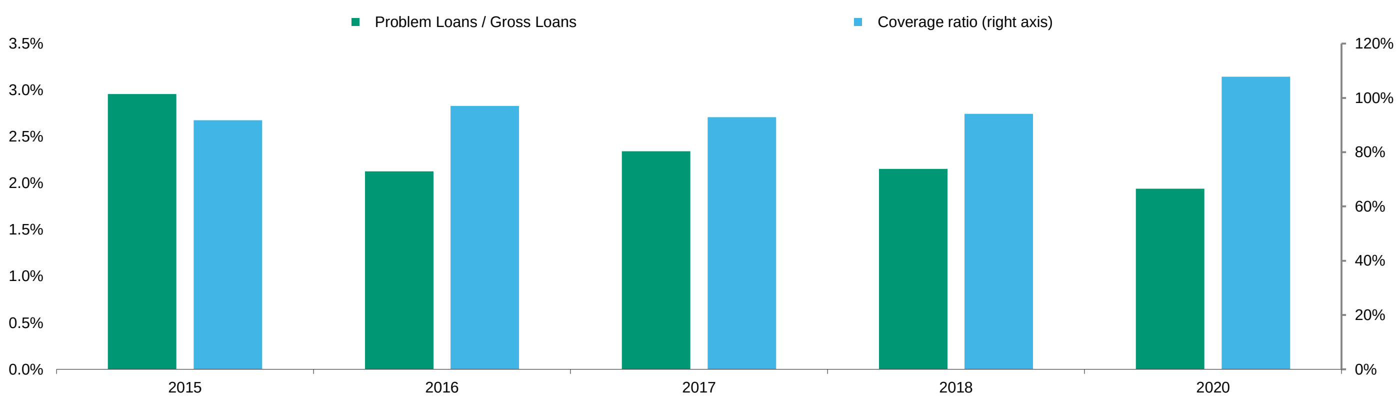


Source: Company report

SCB's problem loans have in recent years stabilised around a moderate 2% of gross loans(1.9% as of year-end 2020). The historically good metrics benefit from SCB's strong receivables collection management and from occasional problem loan sales. The support packages offered by the German government will help avoid a steep increase in unemployment in Germany, and so far, only a fraction of German households has resorted to the payment holidays that legislators made available for Q2 2020. At the same time, the shortened restructuring periods for insolvent households that have been in force since 1 October 2020 lower to some extent the barriers against personal insolvencies in Germany, a risk in particular for unsecured lenders.

Exhibit 4

SCB's problem loan ratio remained stable in 2020, with a very high coverage by provisions



Problem loan ratio in accordance with Moody's definition. The coverage ratio compares total loan loss reserves to problem loans.
Sources: Company reports and Moody's Investors Service

Regulatory capitalisation is sound, providing a suitable buffer under less benign conditions

SCB's sound capitalisation is reflected in the a2 Capital score, which is two notches below the initial score. We assess SCB's capitalisation as sound in the context of the risks that the bank has taken in the field of auto finance secured lending and unsecured consumer lending. The downward adjustment reflects the fact that SCB's tangible common equity (TCE) ratio has exceeded the bank's regulatory Common Equity Tier 1 (CET1) capital ratio in part as a result of prudential regulatory deductions that our capital metric does not incorporate. We expect the bank's TCE ratio, which was at 15.5% as of year-end 2020, to return to levels close to 14%, in line with the bank's multiyear capital planning.

The bank's CET1 ratio was 14.4% as of December 2020, up from 13.0% a year earlier. Regulatory deductions, not reflected in our TCE ratio, and the earlier recognition of the bank's 2019 full-year profit in TCE are the main factors explaining the difference to the CET1 ratio. SCB aims to maintain its CET1 ratio sustainably above 13% to maintain a suitable buffer to its individual capital requirements.

Despite the automatic upstreaming of its profit to the German holding company under its profit and loss transfer agreement, SCB has adequate leeway to decide on the retention of suitable portions of its profit and agrees to any retention or reinvestment of profit by the parent as part of the group's 36-month rolling capital planning.

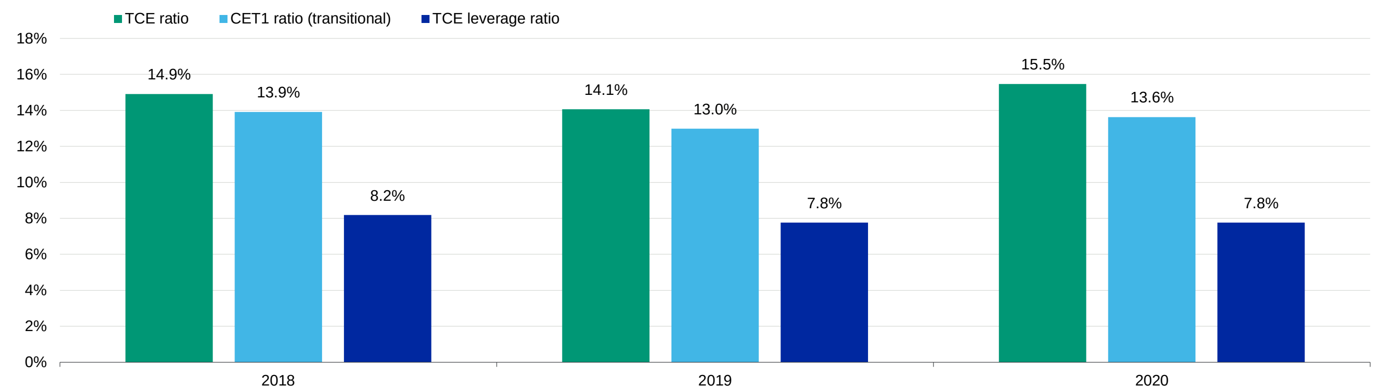
SCB also has a good degree of control over RWA growth because the bank has repeatedly accessed securitisation markets with transactions targeting capital relief.

SCB reported a sound and stable regulatory Tier 1 leverage ratio of 7.5% as of the end of December 2020. Based on our leverage metric of TCE/tangible assets, the ratio was 7.8% (December 2019: 7.8%), reflecting both higher capital base and a higher denominator after the netting of self-retained asset-backed securities (ABS) tranches with the corresponding liabilities. SCB uses the Internal Ratings-Based Approach for most of its loan assets.

Exhibit 5

Earnings retention and management of risk-weighted assets have benefitted SCB's capital ratios in 2020

As a percentage of RWA



TCE = Tangible common equity (Moody's-calculated); CET1 = Common Equity Tier 1 capital; the TCE leverage ratio compares TCE with tangible banking assets.

Sources: Company reports and Moody's Investors Service

Profitability is sound but will be under pressure in a weak operating environment

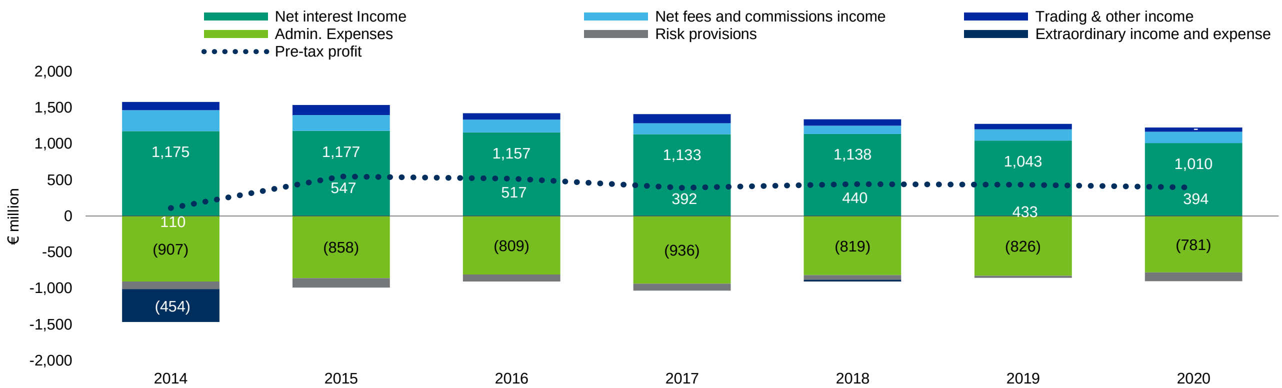
The baa2 assigned score for Profitability is at the level of the initial score. It incorporates our expectation of improving results as the domestic economic environment recovers. The baa2 score also includes an adjustment for taxes (paid at the holding level) and an adjustment for tangible banking assets to account for the assets employed by SCB's fully owned, but not fully consolidated, affiliate Santander Consumer Leasing GmbH to generate its profit, which is included in SCB's profit and loss account. In addition, we factor into this score the relatively high stability of the bank's revenue and profit, and its sound risk charge cover by pre-provision income.

Upon the expiry of German government support programmes, we expect SCB's 2021 and 2022 profit to be challenged by higher cost of risk, which already rose during 2020. Despite the temporary lockdown during the spring, SCB's new lending business remained broadly stable during 2020, supported by strong demand for used cars and a recovering economy in the second half of the year.

Following the purchase offer for Sixt Leasing by SCB's joint venture HCBE, launched just before the coronavirus outbreak in Europe, HCBE acquired 92.1% of Sixt Leasing for more than €340 million. In case the coronavirus pandemic continues to weigh on economic activity, including on the auto leasing industry, HCBE may be required to lower the value of Sixt Leasing, which it acquired at around 1.6x its book value. This could in turn weigh on the value of SCB's share in HCBE, which the bank valued at around €140 million as of year-end 2019. Sixt Leasing reported only a very small pretax profit of €1.0 million during the first three months of 2021.

SCB reported a €394 million pretax profit for 2020 (2019: €454 million), which was fully transferred to its German holding company under the existing profit and loss transfer agreement. SCB's local GAAP pretax income was supported by dividend payments from affiliates held at-equity, foremost by the €74.1 million of earnings transfer from Santander Consumer Leasing GmbH (2019: €54.2 million). Higher loan loss provisions, at €124 million (2019: €33 million), weighed on the weaker 2020 pretax result.

Exhibit 6
Profitability remains above the average of German banks
In € millions, German GAAP



Operating expenses include personnel and administrative expenses, and depreciations and amortisation.
Sources: Company reports and Moody's Investors Service

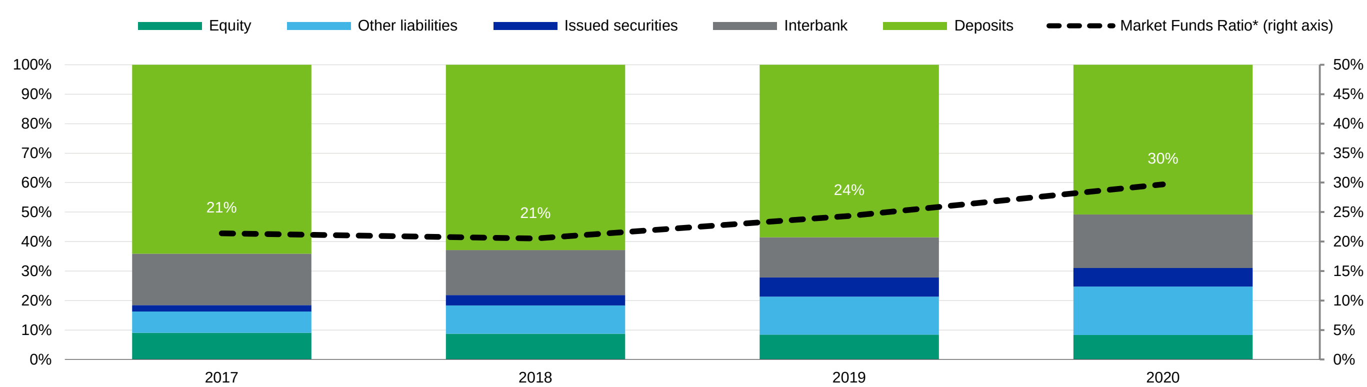
Dependence on market funds is low, but moderately increasing amid growing diversification of funding sources

SCB's adequate funding profile is reflected in the baa1 Funding Structure score, which is the same as the initial score. The baa1 assigned score reflects the bank's low dependence on market funds and its access to diversified funding channels. It also incorporates our expectation that the bank's drawings of central bank funding are temporary.

SCB has sound funding with a low dependence on market funds. Its lending activities are largely funded by client deposits, which, at €20.3 billion as of year-end 2020, funded 51% of its tangible banking assets. Within the low interest rate environment, SCB's customer deposits have increasingly shifted to overnight deposits, in line with the industrywide trends.

The bank did not rely on any unsecured bond issuances until 2017, when it issued its first €500 million junior senior unsecured (senior non-preferred) bond. In October 2019, this was followed by a senior unsecured (senior preferred) bond issuance of the same size. The bank launched a commercial paper programme in 2018 and increased the usage of its mortgage covered bond programme to €500 million (accounted for with 50% of issuance volume in our market funds ratio) in 2019, and issued a benchmark-sized covered bond in Q1 2020. The €7.3 billion in interbank funds contain €6.8 billion of medium-term repo funds (TLTRO funds) transacted with the ECB. Following the introduction of TLTRO III, SCB temporarily increased its use of central bank funding. For the required repo collateral, SCB mostly uses self-originated ABS. The bank has also placed several ABS with investors in public, and previously in private transactions, but maintains a sizeable volume of these outstanding bonds on its own balance sheet.

Exhibit 7
Moderate increase in market funding, but deposits remain the dominant refinancing tool
As a percentage of tangible banking assets



*Market funds ratio = Market funds/tangible banking assets.
Sources: Company reports and Moody's Investors Service

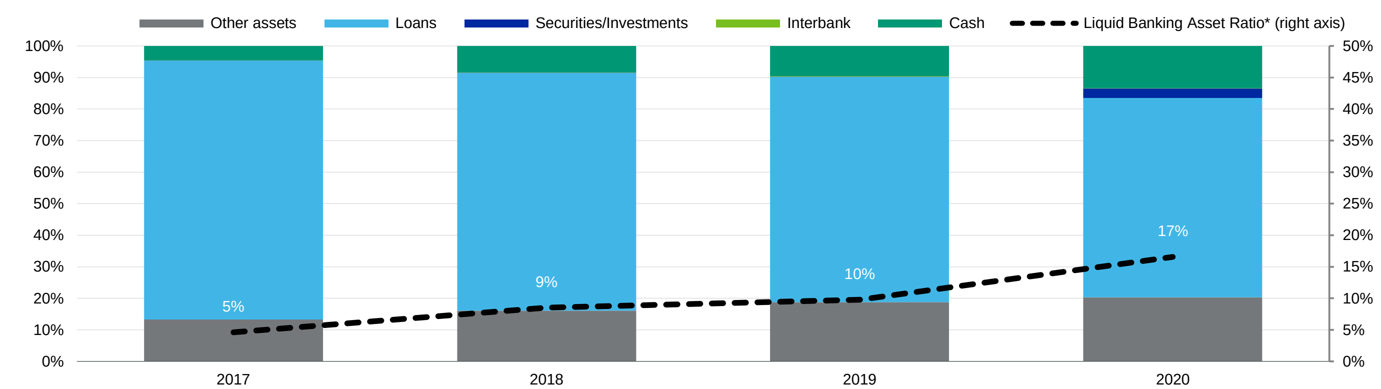
SCB has adequate liquidity buffers

The bank's assigned Liquid Resources score is ba1, one notch above its initial score. The ba1 score reflects our expectation that SCB's on-balance-sheet liquid resources will remain tightly managed at around 10% of tangible banking assets once the bank repays the temporarily sourced central bank funds out of its cash buffer and securities portfolio. At the same time, SCB exhibits a strong degree of compliance with the regulatory LCR requirements, and has the possibility to generate additional liquidity foremost through its ABS programmes and its mortgage covered bond programme.

Overall, the bank maintains adequate liquidity buffers, as illustrated by the 237% LCR reported as of year-end 2020. SCB's reported interbank assets predominantly represent term deposits with affiliates. These claims serve as the refinancing of the affiliates' assets, including, for instance, the lease assets held by Santander Consumer Leasing GmbH, which in practice limits their availability at short notice and in turn may need to be increased if funding needs at the affiliates increase.

The bank's €11.4 billion fixed-income securities portfolio as of December 2020 consisted mainly of €9.9 billion of retained ABS tranches sponsored by SCB, which the bank continues to hold on its balance sheet. The bank had placed these with the ECB as collateral for a total of €6.8 billion of funds sourced through the TLTRO. In addition, SCB acquired €1.5 billion of highly liquid securities during 2020 as a temporary investment of TLTRO funding. In Q1 2020, SCB used practically its entire additional issuance capacity under its mortgage covered bond programme through the issuance of a €500 million covered bond. We expect the bank to gradually add some further collateral from its mortgage lending book to restore its additional issuance leeway over time. Following the issuance of two ABS transactions during Q4 2020, SC Germany S.A., Compartment Mobility 2020-1 and SC Germany S.A., Compartment Consumer 2020-1, we expect the bank to have improved its liquidity buffers at least temporarily.

Exhibit 8
SCB maintains adequate liquidity buffers
As a percentage of tangible banking assets



*Liquid banking assets ratio = Liquid assets/tangible banking assets.
Sources: Company reports and Moody's Investors Service

Lack of business diversification constrains the BCA

We reduce SCB's weighted average outcome of the assigned Financial Profile factor score by one full notch. This adjustment reflects the bank's strongly focused business profile as a provider of consumer lending products. SCB specialises in unsecured consumer lending, consumer goods finance, and captive and non-captive auto finance and lending to borrowers related to the automobile industry. We, therefore, classify SCB as a monoline bank according to our approach for business diversification.

Business diversification is an important gauge of a bank's sensitivity to stress in a single business line. Business diversification is related to earnings stability in the sense that earnings diversification across distinct and relatively uncorrelated lines of business increases the reliability of a bank's earnings streams and its potential to absorb shocks affecting a business line.

SCB's high reliance on consumer and car finance-related earnings streams limits its potential for earnings diversification and exposes it to unexpected shocks outside its direct control. At the same time, SCB benefits from its specialist risk management know-how in managing related business cycle and operational risks.

Macro Profile of Strong+

SCB is focused on the German market, and the bank's assigned Strong+ Weighted Macro Profile is at the same level as the Strong+ Macro Profile of Germany.

Environmental, social and governance considerations

In line with our general view on the banking sector, SCB has a low exposure to environmental risks[3] (see our environmental risks heat map for further information). Given the concentration in auto finance, the bank is particularly exposed to the challenges the automotive industry faces related to carbon transition. SCB could face credit losses in the event of higher car dealer default rates, in the case car dealers fail to adapt to the changing industry landscape. SCB could also face a stronger-than-expected decline in the value of loan collateral from both conventional combustion engines and new loans backed by alternative fuel vehicles if the technological change happens in an abrupt and disruptive way rather than in a smooth transition process.

For social risks, we also place SCB in line with our general view on the banking sector, which indicates a moderate exposure. This includes considerations in relation to the coronavirus pandemic, given the substantial implications for public health and safety and the severe and extensive economic shock the pandemic has caused across many sectors, regions and markets. For further information, see our social risk heat map[4]. SCB has a high exposure to consumer lending, which carries higher margins than residential mortgage lending, but is also particularly exposed to challenges by consumer protection associations.

Governance[5] is highly relevant for SCB, as it is to all banks. SCB has an appropriate risk management framework commensurate with its risk appetite. As such, we do not have specific governance concerns for SCB. Nonetheless, corporate governance remains a key credit consideration and continues to be a subject of our ongoing monitoring.

Support and structural considerations

Affiliate support

There is a high probability that SCF would support SCB in case of need already as a going concern. This results in one notch of uplift for SCB's Adjusted BCA and ratings. Support from SCF is illustrated by its high degree of involvement in the strategy and management of SCB's operations.

Loss Given Failure (LGF) analysis

SCB is subject to the EU Bank Recovery and Resolution Directive (BRRD), which we consider an operational resolution regime. We, therefore, apply our Advanced LGF analysis, taking into account the risks faced by the different debt and deposit classes across the liability structure, should the bank enter resolution.

We assume residual TCE of 3% and post-failure losses of 8% of tangible banking assets, a 25% runoff in “junior” wholesale deposits and a 5% runoff in preferred deposits. These ratios are in line with our standard assumptions. In addition, we assume a 10% share of wholesale deposits relative to total deposits, which is our standard assumption for banks relying mostly on retail deposits. Because we use private data provided by the bank to determine current amounts of senior unsecured and junior senior debt as well as our future new issuance expectations, we do not disclose the underlying volumes of the liability tranches included in our Advanced LGF analysis for SCB.

» For SCB's A2 deposit and issuer ratings, our LGF analysis indicates a very low loss given failure, leading to a two-notch uplift from the bank's baa1 Adjusted BCA.

Government support

German banks operate in an environment of weak prospects for financial assistance from the government. We, therefore, generally assume a “low” probability of support for banks that are not considered of global or domestic systemic relevance, including SCB. As a result, we do not apply a rating uplift for government support in our ratings for SCB.

Counterparty Risk Ratings (CRRs)

SCB's CRRs are A1/P-1

SCB’s CRRs are three notches above the Adjusted BCA of baa1, reflecting the extremely low loss given failure supported by the significantly increasing amount of subordinated instruments, in particular at the junior senior unsecured debt level. In line with our support assumptions on deposit and issuer ratings, SCB's CRRs do not benefit from government support uplift.

Counterparty Risk (CR) Assessment

SCB's CR Assessment is A1(cr)/P-1(cr)

SCB’s CR Assessment is 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 more subordinated instruments — including the bank’s junior deposits and senior unsecured debt. Because the CR Assessment captures the probability of default on certain senior operational obligations, rather than expected loss, we focus purely on subordination and take no account of the volume of the instrument class.

Methodology and scorecard

Rating methodology

The principal methodology used in rating SCB was the Banks Methodology, published in July 2021.

About Moody's Bank Scorecard

Our Bank 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 9
Santander Consumer Bank AG

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%	a2	↔	baa2	Sector concentration	Operational risk
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	15.5%	aa3	↔	a2	Capital retention	Expected trend
Profitability						
Net Income / Tangible Assets	0.7%	baa2	↔	baa2	Expected trend	Return on assets
Combined Solvency Score		a2		baa1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	29.7%	baa2	↔	baa1	Extent of market funding reliance	Deposit quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	16.6%	baa2	↔	ba1	Additional liquidity resources	Stock of liquid assets
Combined Liquidity Score		baa2		baa2		
Financial Profile				baa1		
Qualitative Adjustments				Adjustment		
Business Diversification				-1		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				-1		
Sovereign or Affiliate constraint				Aaa		
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	-	-	-	-	-	-	-	3	0	a1
Counterparty Risk Assessment	-	-	-	-	-	-	-	3	0	a1 (cr)
Deposits	-	-	-	-	-	-	-	2	0	a2
Senior unsecured bank debt	-	-	-	-	-	-	-	2	0	a2

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a1	0	A1	A1
Counterparty Risk Assessment	3	0	a1 (cr)	0	A1(cr)	
Deposits	2	0	a2	0	A2	A2
Senior unsecured bank debt	2	0	a2	0	A2	A2

[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 10

Category	Moody's Rating
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
PARENT: 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

Source: Moody's Investors Service

Endnotes

1 The ratings shown in this report are the banks' deposit rating and outlook, senior unsecured rating and outlook, and BCA.

2 Excluding reverse repos.

3 Environmental risks can be defined as environmental hazards encompassing the impacts of air pollution, soil/water pollution, water shortages, and natural and human-made hazards (physical risks). Additionally, regulatory or policy risks, like the impact of carbon regulation or other regulatory restrictions, including the related transition risks like policy, legal, technology and market shifts, which could impair the evaluation of assets are an important factor. Certain banks could face a higher risk from concentrated lending to individual sectors or operations exposed to the aforementioned risks.

4 Social risk considerations represent a broad spectrum, including customer relations, human capital, demographic and societal trends, health and safety, and responsible production. 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 mitigated by sizeable 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 towards digital banking services increasing information technology costs, ageing population concerns in several countries affecting the demand for financial services, or socially driven policy agendas translating into regulations that affect banks' revenue bases.

5 Corporate governance is a well-established key driver for banks and related risks are typically included in our evaluation of the banks' financial profile. Further, factors like specific corporate behaviour, key person risk, insider and related-party risk, strategy and management risk factors and dividend policy may be captured in individual adjustments to the BCA, if deemed applicable. Corporate governance weaknesses can lead to a deterioration in a bank's credit quality, while governance strengths can benefit its credit profile. When credit quality deteriorates because of poor governance, such as a breakdown in controls resulting in financial misconduct, it can take a long time to recover. Governance risks are also largely internal rather than externally driven.

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