MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns A3 deposit and issuer ratings to Santander Consumer Bank AS; outlook stable

Global Credit Research - 03 May 2016

London, 03 May 2016 -- Moody's Investors Service has today assigned long-term and short-term local and foreign currency deposit and issuer ratings of A3 and Prime-2 to Santander Consumer Bank AS (SCB). The outlooks on the long-term ratings are stable. Moody's has also assigned to SCB a Baseline Credit Assessment (BCA) of baa3, an adjusted BCA of baa2 and Counterparty Risk (CR) assessments of A2(cr)/Prime-1(cr).

At the same time, Moody's affirmed SCB's backed senior unsecured debt rating at A3 with stable outlook. It has also affirmed the backed long-term senior unsecured MTN programme at (P)A3 and the backed short-term debt programme at (P)Prime-2. The backed subordinated MTN programme was affirmed at (P)Baa2.

SCB is the fully-owned subsidiary of Santander Consumer Finance S.A. (Santander CF; debt and deposits A3/A3 stable, BCA baa2) operating in the Nordic region of Europe. SCB provides secured auto financing (71% of lending at year-end 2015) and unsecured consumer loans and credit cards (29%) in Norway, where the bank is headquartered, Sweden, Denmark and Finland. The bank also collects online retail deposits in these countries, apart from Finland. In 2014, it acquired GE Money Bank AB, with a business focus on unsecured consumer loans and credit cards in the Nordic countries.

A list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

-- LONG-TERM DEPOSIT AND ISSUER RATINGS

SCB's long-term deposit and issuer ratings of A3 reflect (1) the bank's BCA of baa3; (2) one notch of uplift resulting from the high probability of affiliate support from Santander CF and ultimately from Banco Santander S.A. (Spain) (A3/A3 stable, baa1); and (3) two notches of uplift arising from Moody's Advanced Loss Given Failure (LGF) analysis, which assesses the benefit of instrument volume and subordination protecting creditors from losses in the event of resolution. Moody's assumes a low probability of support from the Norwegian government in favour of depositors and senior unsecured debt holders, which does not translate into rating uplift.

-- BACKED UNSECURED DEBT RATINGS

Certain unsecured debt issued by SCB also benefits from a full and unconditional guarantee granted by its immediate parent, Santander CF. The ratings of these instruments reflect Moody's view that the holders of this debt have an effective recourse to both SCB and Santander CF's financial resources. As a result the backed subordinated MTN programme, is affirmed at (P)Baa2, in line with other subordinated debt issued by Santander CF.

-- BASELINE CREDIT ASSESSMENT

SCB's BCA of baa3 is supported by the bank's sound financial fundamentals and the resilient performance of its lending portfolio in its four operating countries. The bank's BCA is moderately constrained by the monoline nature of its activities. The bank's problem loans remain low, at 2.1% of gross loans at year-end 2015 (2014: 1.5%), despite an increase in problem loans in Norway in 2015 on the back of weakening domestic growth, and are well covered by provision reserves (108% at year-end 2015). Going forward, the higher proportion of senior unsecured loans and credit cards in the bank's business mix, caused by the acquisition of GE Money Bank in the Nordics, could place a moderate degree of pressure on asset quality. Nonetheless, Moody's expects that the integration of GE Money Bank's activities should help improve lending standards on par with Santander CF's practices, and does not expect any further asset quality deterioration to be significant in this regard. Moody's considers that the bank's common equity tier one (CET1) ratio of 15.3% at year-end 2015 is adequate for the risks undertaken.

SCB has exhibited a relatively strong and resilient profitability over time, with net income representing 1.1% of tangible assets on average in the last three years. Going forward, we expect profitability to remain adequate, despite the negative pressure on net interest margins due to the low interest rate environment. In addition, the decrease in merger costs which weighted on profitability in 2015 will help support net earnings. Lastly, Moody's believes that SCB's funding is adequate and views positively the bank's strategy to increase its independence from parent funding. As year-end 2015, SCB relied directly on its parent Santander CF for 30% of its funding, the remainder being made of online retail deposits (33%), securitisation (20%) and unsecured bonds (17%). The unsecured bonds are guaranteed by affiliated entities for senior debt or subscribed by the parent for subordinated and additional tier one (AT1) securities.

-- AFFILIATE SUPPORT

Moody's considers there is a high probability that Santander CF would extend extraordinary support to SCB in case of need. This assumption is reflected in a one-notch uplift from the bank's BCA, resulting in an adjusted BCA of baa2. Support from Santander CF is illustrated by its high degree of involvement in the strategy and management of SCB's operations. Santander CF also provides, guarantees or subscribes to a portion of SCB's funding and debt issuance.

-- LOSS GIVEN FAILURE ANALYSIS

Moody's applies its Advanced LGF analysis to SCB reflecting Norway's upcoming implementation of the European Union's Bank Recovery and Resolution Directive (BRRD).

SCB's deposits and senior unsecured creditors would likely face a very low loss rate in resolution, due to the loss absorption provided by the significant amount of senior unsecured debt and the subordination provided by subordinated debt and AT1 securities. This results in two notches of LGF uplift for both the deposit rating and the issuer rating from SOFIB's adjusted BCA.

OUTLOOKS

The outlooks on SCB's deposit and issuer ratings are currently stable.

WHAT COULD CHANGE THE RATING UP/DOWN

Although unlikely at present, an upgrade of SCB's BCA could occur if the bank's capital position was strengthened and credit risk trends improved, while maintaining satisfactory levels of profitability and reducing reliance on confidence-sensitive market funding. An upgrade of SCB's BCA would likely result in a similar upgrade of the bank's deposit and issuer ratings. A larger cushion of liabilities eligible for a bail-in, resulting in a lower loss-given-failure for deposits and debt, could also lead to an upgrade of the deposit and issuer ratings.

A downgrade of SCB's BCA could result from 1) a deterioration of asset quality, which could for instance be triggered by further weakening of Norway's macro-economic growth prospects or by a lower performance of unsecured consumer credit in SCB's portfolio; 2) a significant deterioration in profitability, which could be caused by net interest margin pressures due to the prolonged low interest rate environment; 3) a deterioration of the bank's funding and liquidity characteristics; or 4) a smaller cushion of liabilities eligible for a bail-in, resulting in a higher loss-given-failure for deposits and debt.

A downgrade of SCB's BCA would likely result in a similar downgrade of the bank's long-term deposit and issuer ratings.

LIST OF AFFECTED RATINGS AND RATING ASSESSMENTS

The following BCAs, ratings and CRAs of SCB were assigned or affected by today's rating actions:

- Moody's assigned a BCA of baa3 to SCB

- Moody's assigned an adjusted BCA of baa2 to SCB

- Moody's assigned long-term deposit and issuer ratings of A3 with stable outlooks to SCB

- Moody's assigned short-term deposit and issuer ratings of Prime-2 to SCB

- Moody's assigned a long-term CR assessment of A2(cr) to SCB

- Moody's assigned a short-term CR assessment of Prime-1(cr) to SCB

- The backed senior unsecured debt rating was affirmed at A3 with stable outlook

- The backed long-term senior unsecured MTN programme was affirmed at (P)A3

- The backed short-term debt programme was affirmed at (P)Prime-2

- The backed subordinated MTN programme was affirmed at (P)Baa2.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in January 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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