MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Santander Consumer Bank AS's ratings and assigns a Ba2(hyb) rating to the additional Tier 1 non-viability securities

18 Oct 2018

London, 18 October 2018 -- Moody's Investors Service has today affirmed Santander Consumer Bank AS's (SCB) Baseline Credit Assessment (BCA) of baa3, adjusted BCA of baa2, long-term and short-term local and foreign currency deposit, issuer and senior unsecured ratings of A3, Prime-2, Counterparty Risk (CR) assessments of A2(cr)/Prime-1(cr) and Counterparty Risk Rating of A2/Prime-1.

At the same time, Moody's assigned a Ba2(hyb) rating to SCB's low trigger Additional Tier 1 (AT1) securities.

Moody's has also upgraded SCB's backed senior unsecured debt rating to A2 from A3 to align it with the senior unsecured debt rating of the guarantor Santander Consumer Finance S.A. (Santander CF; deposits and debt A2/A2 stable; BCA baa2), with a stable outlook.

The outlooks on the long-term ratings are stable.

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

RATINGS RATIONALE

AFFIRMATION OF THE BCA

The affirmation of SCB's standalone BCA of baa3 reflects its strong positioning as one of the Nordic's leading consumer finance lenders as well as its overall sound credit-risk profile with strong capitalization and resilient profitability. SCB's adjusted BCA of baa2 also incorporates Moody's assumption of a high probability of affiliate support from its parent Santander CF.

SCB has exhibited a strong and resilient profitability, a trend we expect to continue, despite negative pressure in margins due to increased competition. Net income increased to 1.9% of tangible assets during the first half of 2018 compared to 1.7% of tangible assets at the year-end of 2016, despite being negatively impacted as a result of the implementation of IFRS9. Higher lending volumes and lower funding costs contributed positively on net interest income.

Moody's considers SCB's capitalization as adequate for the risks undertaken by the bank in the auto finance segment. The bank's common equity tier one (CET1) ratio was 16.2% at the end of June 2018 increased from 15.1% at end 2016 and well above the regulatory minimum of 13.4% set by Norway's FSA. At the same time SCB benefits from a strong leverage ratio of 12.5% at end-June 2018, well above the 5% regulatory requirement and the Norwegian banking average.

AFFIRMATION OF THE DEPOSITS, SENIOR AND SUBORDINATED DEBT RATINGS

The affirmation of SCB's long-term senior unsecured programme ratings of (P)A3, which are not guaranteed by its Spanish parent Santander Consumer Finance S.A. (Santander CF; debt and deposits A2/A2 stable, BCA baa2), 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) (A2/A2 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.

Similarly, SCB's subordinated programme ratings of (P)Baa3 (also not guaranteed by Santander CF) are derived from (1) the bank's adjusted BCA of baa2; and (2) Moody's Advanced LGF analysis, which results into a negative adjustment of one notch from the adjusted BCA, driven by the current low volume of subordinated debt issued by the bank (approximately 1.1% of tangible banking assets in resolution) as well as the low level of subordination provided by additional tier one (AT1) instruments issued by the bank (approximately 1.4%).

ASSIGNMENT OF NON-CUMULATIVE BANK PREFERRED SHARES RATING

SCB's non-cumulative bank preferred shares (AT1 securities) are deeply subordinated instruments that only rank senior to SCB's holders of ordinary shares and other obligations or capital instruments ranking junior to AT1 securities. The bonds will be converted into equity if SCB's CET1 ratio falls below 5.125% as described at the Own Funds Measurement Regulation.

SCB's non-cumulative bank preferred shares rating of Ba2(hyb) is derived from (1) the bank's adjusted BCA of baa2; (2) Moody's Advanced LGF analysis, which results into a negative adjustment of one notch from the adjusted BCA and an additional downward notching of -2 from the adjusted BCA reflecting coupon suspension risk ahead of a potential failure.

UPGRADE OF THE BACKED SENIOR UNSECURED RATING

The upgrade of SCB's BACKED senior unsecured debt rating to A2 from A3 is to align it with the senior unsecured debt rating of the guarantor Santander CF. The senior unsecured ratings of Santander CF were upgraded earlier this year, following the upgrade on the sovereign rating of Spain.

WHAT COULD CHANGE THE RATING UP/DOWN

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 to the bank's deposit and senior debt ratings. In addition, 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.

SCB's BCA could be downgraded because of: (1) A deterioration of asset quality, or an increase in SCB's risk profile in combination with lower profitability;(2) a deterioration of the weighted macro profile of "Strong+" to "Strong"; (3) a deterioration of the bank's funding and liquidity characteristics and (4) a lower probability of affiliate support from Santander CF. A downgrade of SCB's BCA would likely result in a similar downgrade of the bank's long-term deposit and senior debt ratings. In addition a smaller cushion of liabilities eligible for a bail-in, resulting in a higher loss-given-failure for deposits and debt would also result in a downgrade of the bank's long-term deposit and senior debt ratings.

LIST OF AFFECTED RATINGS

..Issuer: Santander Consumer Bank AS

Upgrades:

....Backed Senior Unsecured Regular Bond/Debenture, Upgraded to A2 from A3, outlook remains stable

Assignments:

....Preferred Stock Non-cumulative, Assigned Ba2(hyb)

Affirmations:

.... Adjusted Baseline Credit Assessment, Affirmed baa2

.... Baseline Credit Assessment, Affirmed baa3

.... Long Term Counterparty Risk Assessment, Affirmed A2(cr)

.... Short Term Counterparty Risk Assessment, Affirmed P-1(cr)

.... Long Term Counterparty Risk Rating, Affirmed A2

.... Short Term Counterparty Risk Rating, Affirmed P-1

.... Long Term Issuer Rating, Affirmed A3, outlook remains stable

.... Short Term Issuer Rating, Affirmed P-2

.... Long Term Bank Deposit Rating, Affirmed A3, outlook remains stable

.... Short Term Bank Deposit Rating, Affirmed P-2

.... Senior Unsecured Regular Bond/Debenture, Affirmed A3, outlook remains stable

.... Senior Unsecured Medium-Term Note Program, Affirmed (P)A3

.... Subordinate Medium-Term Note Program, Affirmed (P)Baa3

Outlook Action:

....Outlook remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in August 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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