MOODY'S

Rating Action: **Moody's places Santander Consumer Bank AS's deposit and senior unsecured ratings on review for upgrade**

24 Apr 2023

Stockholm, April 24, 2023 -- Moody's Investors Service ("Moody's") has today placed Santander Consumer Bank AS's (SCB) long- and short-term foreign and local currency deposit and issuer ratings of A3 and P-2, and foreign currency senior unsecured ratings of A3 on review for upgrade. The junior senior unsecured medium-term note (MTN) program ratings of (P)Baa2 and senior unsecured MTN program ratings of (P)A3 were also placed on review for upgrade. Moody's also affirmed SCB's Baseline Credit Assessment (BCA) of baa3, Adjusted BCA of baa2, the local and foreign currency long- and short-term Counterparty Risk Ratings of A2 and P-1, the long- and short-term Counterparty Risk Assessments of A2(cr) and P-1(cr). The local and foreign currency subordinated ratings of Baa2, the local and foreign currency subordinated MTN program ratings of (P)Baa2, and the local currency Preferred Stock Non-cumulative rating of Ba2(hyb) were also affirmed. The outlook on the long-term deposit, issuer and senior unsecured ratings was changed to ratings under review from stable.

The review for upgrade will consider the degree to which the bank's Minimum Requirement for own funds and Eligible Liabilities (MREL) will lead to SCB issuing an increased volume of senior non-preferred (SNP) debt in the first half of 2023. This would likely increase the level of protection for creditors in the case of failure, impacting positively the ratings placed on review.

RATINGS RATIONALE

Moody's affirmation of SCB's BCA of baa3 reflects the bank's established position as one of the Nordic region's leading auto and consumer finance lenders, which underpins its high profitability, strong capitalization, overall moderate asset risk and supported by access to the resources of Santander Consumer Finance S.A. (SCF). The bank's BCA also reflects its high reliance on potentially more confidence-sensitive wholesale funding underpinned by its relatively weaker deposit franchise relative to peers, and the limitations that arise from its monoline business model, as in the case for other specialised lenders.

Furthermore, Moody's affirmation of SCB's Adjusted BCA of baa2 reflects the rating agency's view that SCB benefits from a high probability of extraordinary affiliate support from SCF in case of need and ultimately from Banco Santander S.A. (Spain), which translates into a one-notch uplift from its baa3 standalone BCA. The high probability of affiliate support is based on: 1) the 100% ownership by SCF; 2) SCF's high degree of involvement in the strategy and management of SCB; and 3) the ongoing funding support as SCF subscribes to a portion of SCB's debt and to all SNP debt and hybrid capital instruments.

The review for upgrade reflects a high likelihood and Moody's expectation that the bank will issue larger volumes of MREL-eligible SNP notes at an earlier stage than previously anticipated. During the review period, Moody's will monitor these SNP issuances and assess the level of protection afforded to all creditor levels in a resolution scenario of the bank, through the rating agency's loss given failure (LGF) analysis.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

SCB's deposit and senior unsecured debt ratings could be upgraded if the bank issues a larger buffer of more junior liabilities, resulting in a lower loss given failure for depositors and senior debt. The bank's ratings could also be upgraded if it improves its credit risk profile while maintaining satisfactory levels of profitability, and its reliance on confidence-sensitive market funding declines, exerting upward pressure on its BCA.

A downgrade is currently unlikely given the review for upgrade, although SCB's ratings could be downgraded if the bank's capital declines significantly; asset quality deteriorates or its risk profile increases in combination with lower profitability; or the bank's funding and liquidity characteristics weaken significantly. SCB's ratings could also be downgraded in case Moody's lowers its affiliate support assumptions, due to a reduced commitment by the parent bank to support its subsidiary. In addition, a potential shift in SCB's liability structure – for example, if the amount of outstanding senior unsecured debt were to significantly decline – could lead to lower creditor protection and a downgrade of the bank's deposit and senior debt ratings.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://ratings.moodys.com/api/rmc-documents/71997. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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Mattias Eric Frithiof
Asst Vice President - Analyst
Financial Institutions Group
Moody's Investors Service (Nordics) AB
Norrlandsgatan 20
Stockholm, 111 43
Sweden
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Nondas Nicolaides
VP - Senior Credit Officer
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service (Nordics) AB
Norrlandsgatan 20
Stockholm, 111 43
Sweden
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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