MOODY'S RATINGS

Rating Action: Moody's Ratings affirms Santander Consumer Bank AS' ratings and assessments, changes outlook to positive on the long-term deposit ratings

17 Dec 2024

Stockholm, December 17, 2024 -- Moody's Ratings (Moody's) has today affirmed Santander Consumer Bank AS' (SCB) long- and short-term deposit and issuer ratings at A2 and P-1 respectively. At the same time, we affirmed the Baseline Credit Assessment (BCA) at baa3, the Adjusted BCA at baa2, the senior unsecured rating at A2, the senior unsecured medium-term note (MTN) program rating at (P)A2, the junior senior unsecured MTN program ratings at (P)Baa1, the subordinate ratings at Baa2, the subordinate MTN program ratings at (P)Baa2, the non-cumulative preferred stock rating at Ba2(hyb), and the long- and short-term Counterparty Risk Ratings (CRR) and Counterparty Risk Assessments (CR Assessment) at A2/P-1 and A2(cr)/P-1(cr), respectively.

The outlooks on the long-term deposit, issuer and senior unsecured debt ratings were changed to positive from stable.

RATINGS RATIONALE

The positive outlook is driven by our assumption of increased probability of support from its parent, Santander Consumer Finance S.A. (SCF; A2, positive), in case of need, because of the increasing strategic integration and the close financial links between the entities. This action follows a change to our assumption of SCF's probability of support from Banco Santander S.A. (Spain) (Banco Santander; A2, positive) to very high from high, announced on 27 November 2024.

The affirmation of SCB's baa3 BCA reflects its established position as one of the Nordic region's leading auto and consumer finance lenders, along with its strong capitalization and robust profitability, which we expect to persist and remain above 0.8% over the next 12-18 months as interest rates decline. This is balanced against moderate asset risks from auto finance lending, while also recognizing strong long-term loan loss performance, demonstrated by only a mild increase in SCB's nonperforming loans ratio to 3.1% in September 2024 from 2.6% in December 2022, despite the impact of elevated interest rates.

The BCA also reflects the bank's high reliance on potentially more confidence-sensitive wholesale funding. While we expect the bank's reliance on wholesale funding to moderate as it continues to grow its deposit franchise, its deposit book is comprised of more price-sensitive term and savings deposits. Additionally, the bank's largely monoline business model of providing automotive finance poses concentration risks, similar to other specialized lenders.

The affirmation of SCB's Adjusted BCA at baa2 reflects our updated assumption of a very high probability of affiliate support from its parent, SCF, and ultimately from Banco Santander, up from a previously high probability. We increased our expectation of affiliate support due to the growing strategic integration between SCB and SCF and the close links established through the provision of liquidity support and the purchase by SCF of a portion of SCB's debt, including all loss-absorbing instruments issued by SCB. The unchanged one-notch affiliate support uplift reflects the lower end of the range as indicated by our joint default analysis approach; the positive outlook reflects our expectation that the probability of support is increasing.

Our unchanged assumption of a very low loss-given-failure for junior depositors and senior debt holders continue to result in a three-notch uplift for the long-term deposit, issuer and senior unsecured ratings. Our unchanged assumption of a low probability of support from the Government of Norway (Aaa, stable) continues to not result in any further uplift to the ratings.

OUTLOOK

The positive outlook on the long-term deposit, issuer, and senior unsecured ratings reflects our expectation that the strategic integration and financial links between SCB, its parent SCF, and the ultimate parent Banco Santander will continue to strengthen over the next 12-18 months.

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

The bank's ratings could be upgraded if its BCA improves, which could be achieved by significantly reducing its reliance on confidence-sensitive market funding and improving the quality of its deposits. Additionally, the ratings could be upgraded through further strengthening of the strategic and financial integration between SCB and its parent, SCF.

SCB's junior senior unsecured MTN program ratings could be further upgraded if the bank issues larger volumes of junior liabilities, including senior non-preferred (SNP) debt, resulting in a lower loss given failure.

A downgrade of SCB's ratings is unlikely given the positive outlook. However, the outlooks on SCB's long-term deposit, issuer, and senior unsecured ratings could be changed to stable if the affiliate support assumptions are reduced due to a decreased commitment by the parent bank to its subsidiary, or if there is a substantial decline in its capitalization, profitability, or a significant deterioration in its asset quality.

Additionally, a material reduction in the volume of junior liabilities, leading to higher expected loss given failure, could result in a downgrade of the bank's long-term deposit, long-term issuer and senior unsecured debt ratings.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in November 2024 and available at https://ratings.moodys.com/rmc-documents/432741 . 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 .

For any affected securities or rated entities receiving direct credit support/credit substitution from another entity or entities subject to a credit rating action (the supporting entity), and whose ratings may change as a result of a credit rating action as to the supporting entity, the associated regulatory disclosures will relate to the supporting entity. Exceptions to this approach may be applicable in certain jurisdictions.

For ratings issued on a program, series, category/class of debt or security, certain regulatory disclosures applicable to each rating of a subsequently issued bond or note of the same series, category/class of debt, or security, or pursuant to a program for which the ratings are derived exclusively from existing ratings, in accordance with Moody's rating practices, can be found in the most recent Credit Rating Announcement related to the same class of Credit Rating.

For provisional ratings, the Credit Rating 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.

Moody's does not always publish a separate Credit Rating Announcement for each Credit Rating assigned in the Anticipated Ratings Process or Subsequent Ratings Process.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody's affiliates outside the UK and is(are) endorsed for use in the UK in accordance with the UK CRA Regulation.

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on https://ratings.moodys.com for additional regulatory disclosures for each credit rating.

Thomas Ogden
Analyst

Nondas Nicolaides
VP - Senior Credit Officer

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

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.