

Rating Action: Moody's affirms Santander Consumer Bank AG's A3 long-term deposit and issuer ratings, outlook changed to stable

04 Dec 2020

Baseline Credit Assessment (BCA) downgraded to baa2 from baa1

Frankfurt am Main, December 04, 2020 -- Moody's Investors Service (Moody's) has today affirmed Santander Consumer Bank AG (SCB)'s ratings, including the bank's A3 long-term deposit and issuer ratings. The rating agency changed the outlook on the long-term deposit and issuer ratings to stable from positive. Concurrently, the rating agency downgraded SCB's Baseline Credit Assessment (BCA) to baa2 from baa1 and affirmed SCB's Adjusted BCA at baa1.

A full list of affected ratings and rating inputs can be found at the end of this press release.

RATINGS RATIONALE

-- DOWNGRADE OF SCB's BCA

The downgrade of SCB's BCA to baa2 from baa1 reflects Moody's assessment that the further weakening of the credit and economic environment in Germany since last year renders it unlikely that SCB will improve its financial profile to a level commensurate with the previous baa1 BCA.

The bank's baa2 BCA reflects and is supported by SCB's sound asset quality, solid capitalization 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, primarily retail deposits, complemented by asset-backed securities, covered and senior unsecured bonds.

Moody's sees some sector concentration risks in SCB's lending exposure due to the high focus on its main business areas, car finance and consumer lending. Owing to this strong focus on a single product and because of the resulting lack in business diversification the rating agency considers SCB to operate a monoline business model and continues to negatively adjust the financial profile by one notch.

The rating agency believes that cyclical risks to SCB's financing portfolio will become more evident once the extensive government support measures made available by the Government of Germany (Aaa stable) will expire. Moody's expects SCB to maintain its Tangible Common Equity (TCE) sustainably around 14% of risk-weighted assets.

-- AFFIRMATION OF SCB's ADJUSTED BCA

Moody's sees a high probability of affiliate support being provided by SCB's parent Santander Consumer Finance S.A. (SCF, deposits A2 stable/senior unsecured A2 stable, BCA baa2) and its ultimate parent Banco Santander S.A. (Spain) (Santander, deposits A2 stable/senior unsecured A2 stable, BCA baa1) because of the full ownership by SCF through Santander Consumer Holding GmbH; SCB's role as a core subsidiary of SCF, coupled with identical brand and name; and ongoing funding and capital support, including SCF's acquisition of SCB's debt issuances designed to absorb losses in resolution as well as SCB's capital instruments.

The rating agency's unchanged assumption of high affiliate support resulted in the affirmation of SCB's baa1 Adjusted BCA, which now incorporates one notch of uplift from SCB's baa2 BCA.

-- AFFIRMATION OF SCB's DEPOSIT AND ISSUER RATINGS

The affirmation of SCB's long-term deposit and issuer ratings at A3 reflects Moody's assessment of the forward-looking development of the bank's liability structure and its decision to maintain the one notch of uplift from the rating agency's Advanced Loss Given Failure (LGF) analysis.

SCB has issued material volumes of bail-in-able bonds to its parent SCF and a lower volume outside of the Santander group. As a result, the rating agency expects SCB's senior unsecured debt investors and depositors to benefit from being embedded into Santander group both through its assumption for affiliate support and

internally placed bail-in-able bonds.

SCB's ratings continue to incorporate no rating uplift from government support because of SCB's marginal importance for the German banking system.

-- OUTLOOK CHANGE TO STABLE FROM POSITIVE

Following the incorporation of affiliate support and the benefit of internally placed bail-in-able bonds and based on the rating agency's expectation of further issuance volumes within and outside of the Santander group Moody's does not anticipate further rating uplift for SCB's BCA, which resulted in a change of outlook to stable from positive.

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

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

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

A downgrade of SCB's issuer and deposit ratings could be prompted by a BCA downgrade, or a weaker result from Moody's 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 SCB's solvency was to permanently weaken as a result of more limited opportunities for revenue generation, weaker asset quality or structurally weaker capital levels or if SCB operated with narrower liquidity buffers.

LIST OF AFFECTED RATINGS

Issuer: Santander Consumer Bank AG

..Affirmations:

...Long-term Counterparty Risk Ratings, affirmed A2

...Short-term Counterparty Risk Ratings, affirmed P-1

...Long-term Counterparty Risk Assessment, affirmed A1(cr)

...Short-term Counterparty Risk Assessment, affirmed P-1(cr)

...Long-term Bank Deposits, affirmed A3, outlook changed to Stable from Positive

...Short-term Bank Deposits, affirmed P-2

...Long-term Issuer Ratings, affirmed A3, outlook changed to Stable from Positive

...Adjusted Baseline Credit Assessment, affirmed baa1

..Downgrade:

...Baseline Credit Assessment, downgraded to baa2 from baa1

..Outlook Action:

...Outlook changed to Stable from Positive

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1147865 . Alternatively, please see the Rating Methodologies page on www.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 at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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