MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns first-time A3 deposit and issuer ratings to Santander Consumer Bank AG; outlook positive

13 Dec 2019

Frankfurt am Main, December 13, 2019 -- Moody's Investors Service (Moody's) has today assigned first-time A3 long-term deposit and issuer ratings as well as A2 long-term Counterparty Risk Ratings (CRRs) to Santander Consumer Bank AG (SCB). Concurrently, the rating agency assigned a baa1 Baseline Credit Assessment (BCA) and Adjusted BCA and an A1(cr) long-term Counterparty Risk Assessment (CR Assessment) to SCB. Further, Moody's assigned P-2 short-term deposit ratings and P-1 short-term CRRs as well as a P-1(cr) short-term CR Assessment to the bank. The outlook on SCB's long-term deposit and issuer ratings is positive.

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

RATINGS RATIONALE

-- BASELINE CREDIT ASSESSMENT REFLECTS SOLID FINANCIAL FUNDAMENTALS AND FRANCHISE BUT ALSO LIMITED DIVERSIFICATION

In assigning a BCA of baa1 to SCB, Moody's reflects the bank's market position as one of Germany's largest consumer finance lenders and its solid credit risk profile, which benefits from sound capitalisation and asset risk, resilient profitability and a satisfactory funding profile. The BCA also reflects the bank's limited business diversification and resulting monoline business model adjustment given its strong reliance on consumer lending for its revenues and profits. With total assets of EUR35.1 billion as of December 2018 (excluding retained securitisations) SCB is one of the largest dedicated German consumer lenders with clear focus on retail auto financing and a strong market position within the non-captive automotive finance space.

The bank's non-performing loan ratio was 1.9% as of year-end 2018, reflecting a benign point in the credit cycle but also a strong receivable collection management. At the same time, the bank's clear focus on consumer finance products results in relevant asset and earnings concentration risks. SCB's Tangible Common Equity (TCE) ratio at year end 2018 was 14.9% and the bank aims to sustainably raise its regulatory Common Equity Tier 1 (CET1) capital ratio above 14% (reported 13.9% as of 31 December 2018). The bank's profitability is strong and markedly better than the average of the German banking sector.

SCB is largely funded by client deposits sourced through its German branch network which are highly granular, but have become an increasingly expensive funding instrument for German banks when compared with capital market funding. In addition to retail deposits, the bank has access to a diversified range of funding tools and maintains adequate liquidity buffers.

SCB has a high indirect exposure to the automotive industry, which faces significant challenges amid ambitious regulatory carbon emission targets and technological developments toward autonomous driving. This poses an asset quality risk for SCB in a scenario of significant consumer preference change. German consumer lenders, including SCB, are frequently exposed to social risks that have in several occasions materialised through consumer-friendly court rulings. Corporate governance risk is a key credit consideration for all banks but the rating agency has not identified elevated risks for SCB.

-- ADJUSTED BASELINE CREDIT ASSESSMENT INCORPORATES HIGH PARENTAL SUPPORT ASSUMPTIONS

Moody's considers the likelihood to be high that SCB, as the German subsidiary of Santander Consumer Finance S.A. (SCF; deposits A2 stable/senior unsecured A2 stable, BCA baa2), and ultimately fully owned by Banco Santander S.A. (Spain) (Santander, deposits A2 stable/senior unsecured A2 stable, BCA baa1), would benefit from parental support in case of need. However, this does at present not result in rating uplift to SCB's baa1 Adjusted BCA, because Santander's BCA is currently at the same level.

-- LONG-TERM DEPOSIT AND ISSUER RATINGS WITH A POSITIVE OUTLOOK DUE TO EXPECTED BENEFITS TO THE LIABILITY STRUCTURE FROM RESOLUTION FUNDING

SCB's A3 deposit and issuer ratings are based on the bank's baa1 BCA and Adjusted BCA and the outcome of Moody's Advanced Loss Given Failure (LGF) analysis. Moody's does not apply rating uplift from low government support because of SCB's marginal importance for the German banking system.

SCB's funding structure relies primarily on retail deposits but is accompanied by moderate issuance of bonds designed to be loss absorbing; the results from Moody's Advanced LGF analysis indicate a low loss-given-failure of junior deposits and senior unsecured liabilities, leading to one notch of rating uplift for the bank's long-term deposit and issuer ratings from SCB's baa1 Adjusted BCA.

The positive outlook reflects Moody's expectation of a further increase in the volume of loss-absorbing instruments of SCB over the next 12-18 months. In particular, Moody's expects SCB's parent SCF to subscribe meaningful volumes of such instruments over the next years as part of the group's internal funding and capital measures to meet the requirements of (internal) Total Loss Absorbing Capacity (TLAC) and Minimum Requirements for Own-Funds and Eligible Liabilities (MREL).

WHAT COULD CHANGE THE RATINGS UP/DOWN

An upgrade of SCB's ratings could be prompted by: 1) a higher BCA and Adjusted BCA; and/or 2) a change in SCB's liability structure that could prompt a better result from Moody's Advanced LGF analysis, for example through the issuance of additional volumes of junior senior unsecured and subordinated bonds.

Although considered unlikely, an upgrade of SCB's baa1 BCA could be prompted by a successful diversification of revenues and profits to reduce its reliance on its main line of business, consumer finance; a material increase in its capitalisation beyond Moody's current expectation; or if SCB meaningfully raises its level of unencumbered liquidity.

A downgrade of SCB's issuer and deposit ratings could be prompted by: 1) a BCA downgrade, unless the downgrade was offset by affiliate support; or 2) 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. The latter is currently very unlikely, as reflected by the positive outlook.

SCB's BCA could be downgraded if SCB fails to improve its solvency and liquidity profile through stronger profits without assuming additional exposure to cyclical risks or to higher risk segments of the automotive finance spectrum, or meaningfully improving capital and liquidity buffers.

A downgrade of the BCA of Santander or of the Adjusted BCA of SCF would only result in a downgrade of SCB's Adjusted BCA and long-term ratings if SCB's operations became less independent from and instead more tightly integrated into the operations of its parent banks.

LIST OF AFFECTED RATINGS

Issuer: Santander Consumer Bank AG

Assignments:

....LT Bank Deposits (Local & Foreign Currency), Assigned A3, Outlook assigned Positive

....ST Bank Deposits (Local & Foreign Currency), Assigned P-2

....LT Issuer Rating (Local & Foreign Currency), Assigned A3, Outlook assigned Positive

....Adjusted Baseline Credit Assessment, Assigned baa1

....Baseline Credit Assessment, Assigned baa1

....LT Counterparty Risk Ratings (Local & Foreign Currency), Assigned A2

....ST Counterparty Risk Ratings (Local & Foreign Currency), Assigned P-1

....LT Counterparty Risk Assessment, Assigned A1(cr)

....ST Counterparty Risk Assessment, Assigned P-1(cr)

Outlook Action:

...Outlook, assigned Positive

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in November 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security 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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