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Fitch Affirms Santander Consumer Bank AS at 'A-'; Outlook Stable

Fitch Ratings - Warsaw - 14 Mar 2023: Fitch Ratings has affirmed Santander Consumer Bank AS's (SCB) Long-Term Issuer Default Rating (IDR) at 'A-' and Viability Rating (VR) at 'bbb+'. The Outlook on the Long-Term IDR is Stable. A full list of rating actions is below.

Key Rating Drivers

Parent Support Drives IDRs: SCB's IDRs are driven by support from its ultimate parent Banco Santander, S.A. (Santander; A-/Stable), potentially channeled via SCB's intermediate parent Santander Consumer Finance S.A. (SCF; A-/Stable). The Stable Outlook on SCB's Long-Term IDR mirrors that on its parents.

SCB's IDRs are equalised with Santander's as Fitch sees a very high probability that SCB would be supported directly by Santander, or indirectly via SCF (its 100% shareholder). This is reflected in SCB's Shareholder Support Rating (SSR) of 'a-'.

SCB's Short-Term IDR of 'F2' is the lower of two possibilities corresponding to the bank's 'A-' Long-Term IDR, in line with Santander's and SCF's Short-Term IDRs.

Strong Intrinsic Creditworthiness: SCB's VR reflects its leading Nordic consumer-finance franchise, underpinned by a clear and consistent business model, moderate risk appetite in auto and unsecured lending, and strong financial metrics. However, the VR is one notch below the implied VR of 'a-'. This is because we attribute high importance to the business profile score of 'bbb+' to reflect the bank's limited business model diversification that results from its focus on consumer finance. We believe this focus may have a long-term impact on SCB's financial metrics beyond that captured in the financial-profile scores.

Leading Nordic Auto Lender: SCB is a leading Nordic consumer finance bank with strong market shares and relationships in the four main Nordic countries. It is particularly strong in auto finance where the bank holds number one positions in Norway and Denmark. SCB's franchise benefits from being part of SCF, particularly through globally arranged captive agreements, branding, and strategic partnerships.

Solid Earnings Generation: SCB's healthy and resilient pre-impairment profitability is underpinned by strong margins and robust cost efficiency, providing adequate loss-absorption capacity for its concentration on consumer finance. We forecast SCB's operating profit at 2.3% of risk-weighted assets (RWAs) in 2023 and 2024. Sluggish credit expansion, particularly in higher-yielding unsecured lending,

will weigh on income growth and inflationary pressure should limit the potential for further cost efficiencies in the short term.

Well-Controlled Credit Risk: The bank's underwriting standards are sound, underpinned by a dominant share of well-collateralised auto lending (about 85% of loans) and the generally sound repayment capacity of borrowers in the Nordic countries. Asset-quality metrics have remained resilient over the credit cycle, owing to SCB's prudent risk appetite, evenly balanced geographical mix, strong risk controls and adequate risk-based pricing.

Manageable Asset-Quality Pressure: Deterioration in the operating environment will likely weigh on asset quality in 2023. However, we believe the economic slowdown will be moderate in the Nordic region. We expect SCB's impaired loan ratio to remain below 3% in 2023 and loan impairment charges (LICs)/gross loans to reach about 70bp in 2023 and 2024.

Sound Capitalisation: SCB's fully-loaded common equity Tier 1 ratio (CET1) and Basel leverage ratio compare well with those of similarly rated peers. They were respectively 18.7% and 12.9% at end-2022. The parent has been supportive of SCB in recent years with capital injections.

Stable Funding Profile: SCB's funding is a rating weakness due to a less developed deposit-and-wholesale debt franchise (compared with higher-rated large Nordic banks') and still material reliance on parental funding (at about 25% of total funding at end-2022). Our assessment also reflects SCB's appropriate liquidity, good access to wholesale funding and the availability of ordinary support from the group.

Rating Sensitivities

Factors that could, individually or collectively, lead to negative rating action/downgrade:

SCB's IDRs and SSR would be downgraded if SCF's and Santander's IDRs are downgraded, as SCB's shareholder-support driven ratings are sensitive to the same factors that might drive a change in its parents' IDRs.

SCB's IDRs and SSR are also sensitive to a weakening of Santander's and SCF's propensity to support SCB, for example if the Nordic countries or the consumer-finance segment become less strategic for the group or if SCB becomes significantly less integrated within the group, which we do not expect.

The VR could be downgraded if SCB's financial profile materially weakens. This would require a durable contraction of its operating profit/RWAs and CET1 ratios to below 1.5% and 15%, respectively, combined with impaired loans and LICs/gross loans ratios durably increasing above 4% and 1%, respectively.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

SCB's IDRs and SSR would be upgraded if SCF's and Santander's IDRs are upgraded.

In the longer term, an upgrade of SCB's VR would be contingent on a more diversified business model and a longer record of funding self-sufficiency.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

SCB's long-term senior preferred debt and deposit ratings are one notch above the bank's Long-Term IDR. This reflects our expectation of the protection that will accrue to senior preferred debt and deposits from junior resolution debt buffers raised by the parent. This is because SCB is part of the same resolution group as Santander and SCF under the group's single-point-of-entry resolution strategy.

The short-term preferred senior debt and deposit ratings of 'F1' are the lower of two options mapping to the long-term ratings of 'A', in line with its parents' short-term preferred senior debt and deposit ratings.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

SCB's long-term senior preferred debt and long-term deposit ratings are sensitive to changes of SCF's and Santander's IDRs, as SCB's shareholder-support driven ratings are sensitive to the same factors that might drive a change in its parents' IDRs.

The senior preferred debt and deposit ratings could also be downgraded by one notch on changes in the group resolution strategy resulting in a reduction in the level of protection we currently expect for these debt layers from internal resources within the group.

VR ADJUSTMENTS

The VR of 'bbb+' is below the implied VR of 'a-' due to the following adjustment reason: business profile (negative).

The capitalisation and leverage score of 'a-' is below the 'aa' category implied score due to the following adjustment reasons: risk profile and business model (negative) and historical and future metrics (negative).

The funding and liquidity score of 'bbb' is above the 'bb' category implied score due to the following adjustment reasons: non-deposit funding (positive) and liquidity access and ordinary support (positive).

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-

specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Public Ratings with Credit Linkage to other ratings

SCB's ratings are linked to the ratings of Santander and SCF.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on SCB, either due to their nature or the way in which they are being managed by the bank. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Santander Consumer Bank AS	LT IDR	A- 	Affirmed	A- 
	ST IDR	F2	Affirmed	F2
	Viability	bbb+	Affirmed	bbb+
	Shareholder Support	a-	Affirmed	a-
• long-term deposits	LT	A	Affirmed	A
• Senior preferred	LT	A	Affirmed	A
• short-term deposits	ST	F1	Affirmed	F1
• Senior preferred	ST	F1	Affirmed	F1

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Bank Rating Criteria \(pub.07 Sep 2022\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Santander Consumer Bank AS EU Issued, UK Endorsed

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