FitchRatings

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

Fitch Ratings - Warsaw - 25 Mar 2022: 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.

Fitch has withdrawn SCB's Support Rating of '1' as it is no longer relevant to the agency's coverage following the publication of its updated Bank Rating Criteria in November 2021. In line with the updated criteria, we have assigned SCB a Shareholder Support Rating (SSR) of 'a-'.

Key Rating Drivers

IDRS, SSR AND SENIOR PREFERRED DEBT, DEPOSIT RATINGS

SCB's IDRs, SSR, senior debt and deposit ratings are driven by institutional support from its ultimate (Banco Santander, S.A.; Santander) and direct parents (Santander Consumer Finance S.A.; SCF). Both are rated A-/Stable/a/F2. The Stable Outlook on SCB's Long-Term IDR mirrors that on its parents.

SCB's IDRs are equalised with Santander's IDRs because we believe that there is an extremely high probability that SCB would be supported directly by Santander, or indirectly via SCF (its 100% shareholder) if ever required. We consider SCB a key and integral part of Santander's consumer finance activities. SCB operates in one of SCF's core geographies, and Santander considers consumer finance one of its core markets. In addition, any required support for SCB would be immaterial relative to Santander's ability to provide it due to SCB's modest size.

SCB is highly integrated into the Santander group and has received ordinary support in the form of funding and capital from its parent when necessary to support business growth. SCB's management and corporate culture are highly integrated into SCF's and ultimately into Santander's. SCB also benefits from shared risk management practices within the group and operates under the Santander brand name.

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

The long-term senior preferred debt and deposits are rated one notch above the bank's Long-Term IDR to reflect our expectation of the protection that will accrue to senior preferred debt and deposits from more junior resolution debt and equity buffers that SCB will source from its parent. SCB is part of the same resolution group as SCF and Santander.

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

VR

SCB's VR reflects the bank's leading Nordic consumer finance franchise, underpinned by a clear and consistent business model, moderate risk appetite in the auto and unsecured lending and strong financial metrics. The VR is one notch below the implied 'a-' VR, because we assign a high importance to the bank's business profile score of 'bbb+' to reflect its limited business model diversification and fairly concentrated funding.

SCB has a healthy and resilient pre-impairment profitability underpinned by strong margins and robust cost efficiency, providing adequate loss absorption capacity given the bank's strategic focus on consumer finance. The short duration of its assets allows the bank to reprice loans relatively quickly, maintaining controlled interest rate sensitivity.

We expect SCB's operating profit/risk-weighted assets (RWAs) to return to the pre-pandemic level of about 3% in 2022. This improvement mainly reflects a growing share of higher-yielding unsecured loans, policy rate hikes in Norway, lower expenses (after an organisational restructuring) and stable loan impairment charges (LICs) at normalised levels of about 30% of the pre-impairment operating profit.

The bank's underwriting standards are sound, underpinned by a dominant share of well-collateralised auto lending (about 80% of loans) and the generally good repayment capacity of borrowers in the Nordic countries. Asset quality held up well during the pandemic and we expect SCB's impaired loan ratio and LICs/gross loans to remain stable at about 3% and 85bp in the near term. SCB's prudent provisioning policy translates into low residual credit risk in impaired loans.

SCB's capitalisation is a rating strength and its leverage and risk-weighted capital ratios compare well with those of similarly rated peers. The bank's fully loaded common equity Tier 1 ratio (CET1) and Basel leverage ratio were 18.7% and 13.5% at end-2021, respectively. Fitch expects SCB's CET1 ratio to gradually decrease closer to about 16% in the near term.

SCB's funding is a relative rating weakness due to a less developed deposit and wholesale debt franchise (compared with higher-rated large Nordic banks) and a still material (albeit recently improved) reliance on parental funding (at about 20% of total funding). Our assessment also reflects SCB's appropriate liquidity, good access to wholesale funding and potential ordinary support from the group, if needed.

Rating Sensitivities

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

IDRS, SSR, SENIOR PREFERRED DEBT, DEPOSIT RATINGS

SCB's IDRs, senior preferred debt, deposit ratings and SSR would be downgraded if SCF's and Santander's IDRs were downgraded, as SCB's institutional-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 senior preferred debt and deposit ratings could also be downgraded by one notch if there were 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

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 ratio 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:

IDRS, SSR, SENIOR PREFERRED DEBT, DEPOSIT RATINGS

SCB's IDRs, SSR, long-term senior preferred debt and long-term deposit ratings would be upgraded if SCF's and Santander's IDRs were upgraded.

VR

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

VR ADJUSTMENTS

The Viability Rating has been assigned below the implied Viability Rating due to the following adjustment reason(s): Business Profile (negative)

The Capitalisation & Leverage score of 'a-' has been assigned below the 'aa' implied score due to the following adjustment reason: Risk profile and business model (negative) and Historical and future metrics (negative).

The Funding & Liquidity Score of 'bbb' has been assigned above the 'b' implied score due to the following adjustment reasons: Non-deposit funding (positive), Liquidity coverage (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; a change in the ratings of Santander and SCF could result in a change in SCB's ratings.

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 the entity, either due to their nature or the way in which they are being managed by the entity. 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+
	Support	WD	Withdrawn		1
	Shareholder Support	a-	New Rating		
• 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

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	◆
NEGATIVE	⊖	◆
EVOLVING	○	◆
STABLE	○	

Applicable Criteria

Bank Rating Criteria (pub.12 Nov 2021) (including rating assumption sensitivity)

Additional Disclosures

Solicitation Status

Endorsement Status

Santander Consumer Bank AS	EU Issued, UK Endorsed

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