FitchRatings

Banks
Retail & Consumer Banks
Norway

Santander Consumer Bank AS

Key Rating Drivers

Parent Support Drives IDRs: Santander Consumer Bank AS's (SCB) Issuer Default Ratings (IDRs) are driven by institutional support from its ultimate (Banco Santander, S.A., Santander) and direct (Santander Consumer Finance, S.A., SCF) parents. Both parents are rated 'A-'/Negative with a Viability Rating (VR) of 'a-' and a Short-Term IDR of 'F2'.

SCB's IDRs are equalised with Santander's IDRs because Fitch Ratings believes there is an extremely high probability SCB would be supported directly by Santander, or indirectly by SCF (its 100% shareholder) if required.

Strong Intrinsic Creditworthiness: SCB's VR reflects the bank's leading Nordic consumer-finance franchise, underpinned by a clear and consistent business model, moderate risk appetite in auto and unsecured lending and resilient financial performance. The VR also factors in limited business model diversification and fairly concentrated funding.

Manageable Asset Quality Risks: The bank's underwriting standards are sound, underpinned by a dominant share of well-collateralised auto lending (about 80% of loans) and the generally sound repayment capacity of borrowers in the Nordic countries. We expect a moderate deterioration in SCB's impaired loan ratio to about 3.5% at end-2021 from 2.7% at end-2020. The ratio could be lower due to write-offs, which annually equalled about 50bp of average loans in 2019 and 2020.

Resilient Profitability: SCB has 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 quickly, limiting interest-rate sensitivity. We expect modestly stronger profitability in 2021, but credit losses will remain material.

Sound Capitalisation: SCB's 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 19.2% and 13.7% at end-2020, respectively.

Concentrated Funding: SCB uses a material proportion of group funding, although this fell to represent around a fifth of total funding at end-2020 from around one-third at end-2016, as SCB pursues an increasingly self-funded strategy. The bank has materially increased its external funding in recent years through launching competitive deposit accounts. Our assessment of funding and liquidity also reflects appropriate balance sheet liquidity, good access to wholesale funding and support from the group, if needed.

Rating Sensitivities

Revised Support Assessment: The Negative Outlook on SCB's Long-Term IDR mirrors that on its parents. SCB's IDRs and Support Rating (SR) would be downgraded if the IDRs of SCF and Santander are downgraded. SCB's IDRs and SR are also sensitive to a weakening in Santander's and SCF's propensity to support SCB, for example, if the Nordic countries and /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.

Financial Profile Deterioration: The economic fallout from pandemic in the geographies where SCB's operates represents a risk to our assessment of its asset quality. The VR could be downgraded in the event of a significant increase in risk appetite together with material deterioration in SCB's financial profile on a sustained basis, demonstrated by increases in the impaired loan ratio above 4% and a decrease in operating profit/risk-weighted assets (RWAs) ratio below 1.5% and a CET1 ratio below 15%.

Ratings

Foreign Currency	
Long-Term IDR	A-
Short-Term IDR	F2
Viability Rating	bbb+
Support Rating	1
Sovereign Risk	
Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA

Outlooks

Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Foreign- and Local-Currency IDRs	Stable

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

Global Economic Outlook (March 2021)

Fitch Affirms Santander Consumer Bank AS at 'A-'; Outlook Negative (March 2021)

Fitch Affirms Santander Consumer Finance's IDR at 'A-'/Negative; VR at 'a-' (September 2020)

Fitch Affirms Santander at 'A-'; Outlook Negative (June 2020)

Analysts

Olivia Perney
+33 1 44 29 91 74
olivia.perney@fitchratings.com

Michal Bryks, FCCA
+48 22 338 62 93
michal.bryks@fitchratings.com

Anders Vidén
+46 72 191 10 76
anders.viden@fitchratings.com

Debt Rating Classes

Rating level	Rating
Deposits	A/F1
Senior preferred debt	A/F1

Source: Fitch Ratings

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 junior resolution debt and equity buffers which SCB will source from its parent. SCB is part of the same resolution group as SCF and Santander.

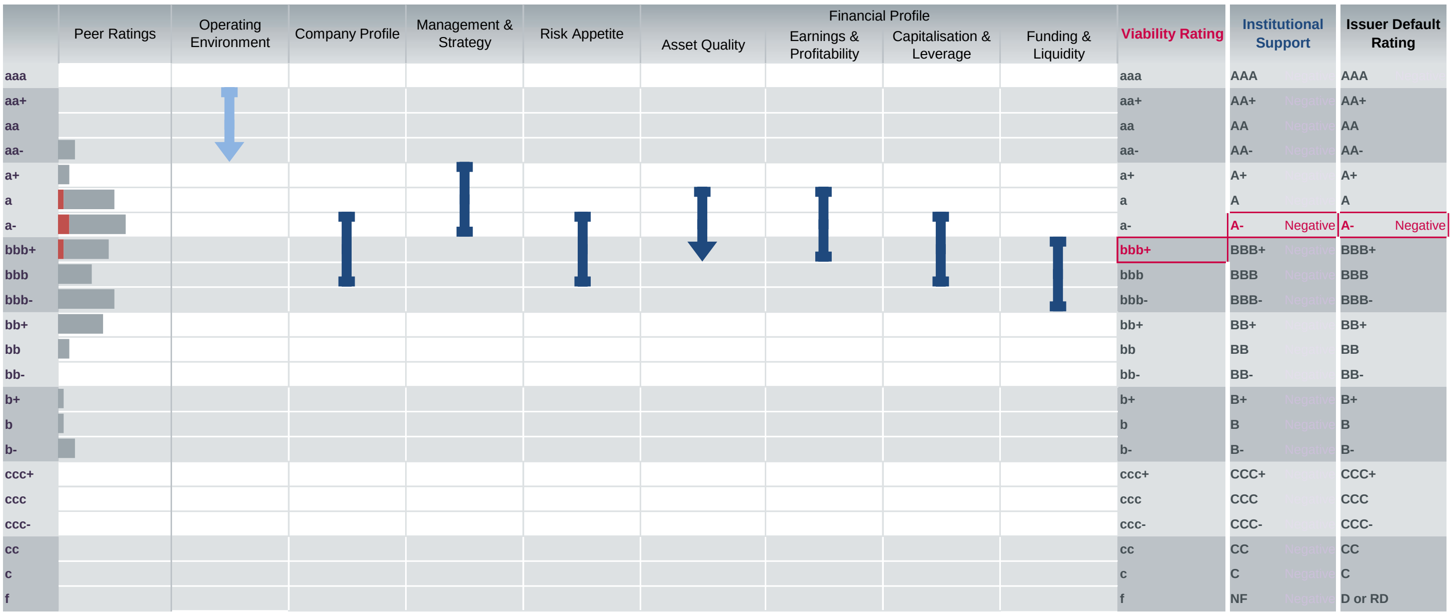
The short-term senior preferred debt and deposit ratings of 'F1' are the lower of the two options mapping to the long-term ratings of 'A', in line with its parents' short-term senior preferred debt and deposit ratings.

Ratings Navigator

Santander Consumer Bank AS

ESG Relevance:

Banks
Ratings Navigator



Institutional Support Assessment

Institutional Support			Value
Parent IDR			A-
Total Adjustments (notches)			+0
Institutional Support:			**A-**
Support Factors (negative)	Equalised	1 Notch	2+ Notches
Parent ability to support and subsidiary ability to use support			
Parent/group regulation	✓		
Relative size	✓		
Country risks	✓		
Parent Propensity to Support			
Role in group	✓		
Potential for disposal		✓	
Implication of subsidiary default	✓		
Integration	✓		
Size of ownership stake	✓		
Support track record		✓	
Subsidiary performance and prospects	✓		
Branding	✓		
Legal commitments			✓
Cross-default clauses			✓

Bar Chart Legend

Vertical bars – VR range of Rating Factor
Bar Colors – Influence on final VR
- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook
- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ▫ Stable

Institutional Support Drives IDRs

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. 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 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.

Significant Changes

Gradual Operating Environment Improvement After 2020 Stress

Business activity in the Nordic region has been less constrained than in most European economies because of the less restrictive lockdowns in response to the pandemic. GDP contracted by 3.7% in Denmark, 2.8% in Sweden and Finland and only 0.8% in Norway in 2020. Fitch expects a moderate rebound in 2021.

The four Nordic countries have strong social safety nets and automatic stabilisers in place. Moreover, the strength of their public finances and sovereign ratings allow these governments to launch significant relief measures to help soften the negative impact on their economies from the pandemic. Measures taken by these governments so far aim at preventing corporate bankruptcies and redundancies, protecting household income and supporting liquidity for the banking sector.

The pandemic did not materially affect the sales of cars in the Nordics. The demand for used cars (which represent the vast majority of the market by units sold) was stable in 2020. Demand for new cars decreased as companies postponed their vehicle purchases in 2020 and private individuals' appetite for consumption decreased. In 2021 we expect consumer confidence to recover, which should support new car sales. We expect the economic recovery to regain momentum once restrictions ease and the deployment of vaccinations increases, but there are still significant downside risks to our forecasts.

Brief Company Summary

Leading Player in the Nordic Region

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 says it holds the number one positions in Norway, Denmark and Finland. SCB's franchise benefits from being part of SCF, particularly through globally arranged captive agreements, branding and strategic partnerships.

Auto finance is the bank's core product. It is mainly distributed through relationships with auto manufacturers, dealers, importers and, to a lesser extent, through direct marketing and the bank's own website. Unsecured lending makes up the remainder of the loans and consists of consumer and credit card loans, and sales finance. It is sourced mainly through the internet and through business partners, with sales finance especially benefiting from online retail distribution and agreements with retailers/merchants.

Revenue largely consists of net interest income, usually forming around 90% of total operating income. SCB has some pricing power in its four markets and benefits from the high perceived quality of the Santander brand compared with many peers. The benefits of being part of the Santander group also include efficiency advantages from technology synergies.

Credible Management Team, Sound Strategic Execution

The bank's strategy is closely aligned with that of SCF and of Santander. The bank wants to maintain its position in auto finance in the Nordic region. In consumer finance the bank is reassessing its position given margin and regulatory pressure and fierce competition.

SCB's senior management has a clear strategic vision and a good degree of depth. It has also demonstrated an ability to both integrate acquired businesses and grow organically, while maintaining its prudent risk appetite. Management quality and execution strongly benefit from integration with Santander in terms of corporate culture and governance.

Appropriate Risk Management Policies and Procedures

SCB's risk management policies and procedures are good and appropriate given its business model, being closely integrated with those of the wider Santander group. This includes limits on credit, market and liquidity risk exposures, securitisation, operational, compliance and IT risks.

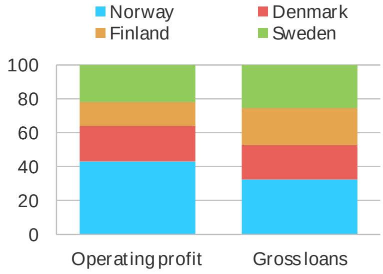
We believe credit standards are largely consistent, but may vary slightly over economic cycles. The loan approval process is largely automated for auto and unsecured loans with a stable level of acceptance. Auto financing mostly comprises loans to private individuals, followed by SMEs (fleet financing and wholesale financing). SCB's portfolio is fairly granular, given its predominantly retail nature, which reduces borrower concentration. Loans are well-diversified geographically and the residual value risk management in auto lending is prudent.

Consumer protection has been a prioritised area for Nordic financial regulators in recent years. Regulatory changes focussed primarily on debt affordability, resulting in several revisions in underwriting standards in 2020, primarily in unsecured lending in Norway, Finland and Denmark. Tighter underwriting standards, including the implementation of new scorecards across the regions, are aimed at maintaining adequate risk-return profile.

Loan growth has been strong in recent years but well-controlled and comfortably matched by internal capital generation. In 2020 the acquisition of Forso Nordic AB from Ford Motor Company was capital neutral due to equity injection from the parent. It demonstrates the owner's willingness to provide ordinary support aimed at achieving a sustainable expansion of the franchise.

Lending and Profitability

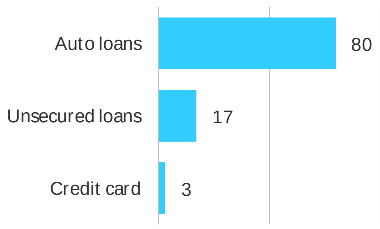
By geography; end-2020 (%)



Source: Fitch Ratings, SCB

Product Split of Gross Loans (%)

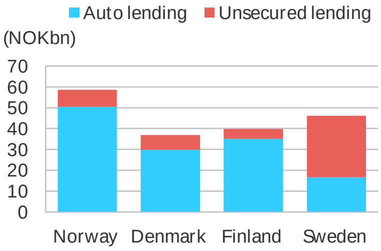
End-2020



Source: Fitch Ratings, SCB

Geographical Split of Loan Portfolios

End-2020



Source: Fitch Ratings, SCB

Summary Financials and Key Ratios

	31 Dec 20		31 Dec 19	31 Dec 18	31 Dec 17
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(NOKm)	(NOKm)	(NOKm)	(NOKm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	877	7,655	7,178	6,919	6,607
Net fees and commissions	30	262	366	429	442
Other operating income	-12	-101	52	35	-60
Total operating income	895	7,816	7,596	7,383	6,989
Operating costs	386	3,369	3,178	3,244	2,881
Pre-impairment operating profit	509	4,447	4,418	4,139	4,108
Loan and other impairment charges	229	1,999	807	5	113
Operating profit	280	2,448	3,611	4,134	3,995
Other non-operating items (net)	29	253	n.a.	n.a.	n.a.
Tax	65	571	742	995	940
Net income	244	2,130	2,869	3,139	3,055
Other comprehensive income	8	71	-9	-37	186
Fitch comprehensive income	252	2,201	2,860	3,102	3,241
Summary balance sheet					
Assets					
Gross loans	20,758	181,267	165,331	162,802	143,615
- Of which impaired	568	4,961	4,324	3,319	2,912
Loan loss allowances	573	5,004	3,939	3,518	2,822
Net loans	20,185	176,263	161,392	159,284	140,793
Interbank	829	7,238	3,968	2,982	3,226
Derivatives	2	18	37	64	237
Other securities and earning assets	785	6,851	11,567	10,389	6,882
Total earning assets	21,800	190,370	176,964	172,719	151,138
Cash and due from banks	385	3,363	66	65	65
Other assets	591	5,159	3,911	3,324	7,897
Total assets	22,776	198,892	180,941	176,108	159,100
Liabilities					
Customer deposits	9,292	81,142	65,484	54,645	50,617
Interbank and other short-term funding	3,363	29,363	32,173	42,004	31,921
Other long-term funding	6,188	54,037	53,825	52,909	52,122
Trading liabilities and derivatives	3	25	22	45	175
Total funding	18,846	164,567	151,504	149,603	134,835
Other liabilities	590	5,153	4,347	3,169	3,086
Preference shares and hybrid capital	258	2,250	2,250	2,250	2,250
Total equity	3,083	26,922	22,840	21,086	18,929
Total liabilities and equity	22,776	198,892	180,941	176,108	159,100
Exchange rate		USD1 = NOK8.7324	USD1 = NOK8.7997	USD1 = NOK8.7077	USD1 = NOK8.205

Source: Fitch Ratings, Fitch Solutions, SMN

Summary Financials and Key Ratios

	31 Dec 20	31 Dec 19	31 Dec 18	31 Dec 17
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.9	3.0	3.4	3.6
Net interest income/average earning assets	4.0	4.1	4.4	4.6
Non-interest expense/gross revenue	43.1	41.8	43.9	41.2
Net income/average equity	8.3	13.2	16.0	17.4
Asset quality				
Impaired loans ratio	2.7	2.6	2.0	2.0
Growth in gross loans	9.6	1.6	13.4	15.2
Loan loss allowances/impaired loans	100.9	91.1	106.0	96.9
Loan impairment charges/average gross loans	1.1	0.5	-0.1	0.1
Capitalisation				
Common equity Tier 1 ratio	19.4	18.1	15.7	15.5
Tangible common equity/tangible assets	13.0	12.1	11.4	11.3
Basel leverage ratio	13.8	13.1	12.0	12.0
Net impaired loans/common equity Tier 1	-0.2	1.8	-1.0	0.5
Funding and liquidity				
Loans/customer deposits	223.4	252.5	297.9	283.7
Liquidity coverage ratio	237.0	187.0	133.7	148
Customer deposits/funding	48.7	42.6	36.0	37.0
Net stable funding ratio	114.4	108.0	94.2	96.0

Source: Fitch Ratings, Fitch Solutions, SCB

Key Financial Metrics – Latest Developments

Sound Loan Book but Asset Quality Could Worsen

Asset quality metrics remained resilient over the credit cycle, owing to SCB's prudent risk appetite, its well-balanced geographical mix, strong risk controls and adequate risk-based pricing. In 2020 the governments' and central banks' support packages have helped to mitigate negative pressures on the ability of borrowers to service loans. Once these support packages are phased out, we expect asset quality to moderately worsen. We also believe that significant impaired loans sales are less likely to take place in the current environment.

At end-2020, the impaired loan ratio in auto loans was flat at 1.3% and in unsecured lending it increased moderately to 8.3% (2019: 7.2%). The impaired loans ratio in the unsecured portfolio has increased since 2017 due to more conservative write-off criteria. Specific loan loss allowances for impaired secured and unsecured loans were 50% and 67%, respectively. In 2021 and 2022 we expect loan impairment charges (LICs) to be lower than in 2020 (over 100bp of average gross loans), but above the pre-pandemic level of 42bp on average in 2015-2019.

The demand for coronavirus-related support from SMEs was negligible while private individuals with loan moratoria represented a small share (below 10%) of gross loans at end-2020. Almost all loan moratoria have already expired with the vast majority of customers without arrears.

Good Profitability and Manageable Loan Losses

SCB has better profitability than the peer average throughout the credit cycle. It is driven by a low-cost base and sound interest margins on its growing loan portfolio. In 2020, SCB's operating profit/risk-weighted assets (RWAs) deteriorated to 1.9% (2019: 3%), mainly due to weaker recoveries from bad debt sales and the management's adjustments for expected credit losses.

SCB's net interest margin is sufficient to absorb sizeable credit losses and the short duration of its assets allows the bank to reprice loans relatively quickly, maintaining controlled interest rate sensitivity. Cost efficiency is robust despite SCB's small size and the bank plans to improve its already healthy cost/income ratio to below 40% in the medium-term.

We expect that the strength of SCB's pricing power, its cost efficiency and strong market relationships will support the bank's pre-impairment profitability and that the headwinds to profitability from the pandemic will be manageable and temporary.

Sound Capitalisation

SCB's capitalisation is sound for the rating level and the business model. At end-2020, the bank's CET1 ratio was 645bp above its requirement. The surplus reflects fully retained 2019 and 2020 profits in light of a communication by the Norwegian Ministry of Finance to refrain from dividend payments until end-3Q21. Fitch expects the ratio to gradually decrease closer to the normalised level at about 15% once the recommendation is withdrawn.

The parent has been supportive of SCB from a capital perspective in recent years, injecting capital when needed and the latest example of that was in connection with the Forso Nordic transaction for which the parent provided SCB with NOK2 billion (about EUR200 million, 7% of total equity at end-2020).

Increased Self-Funding

SCB's funding and liquidity profile is appropriate for the business model. At end-2020, SCB's liquid assets equalled about 7% of total assets or 25% when including undrawn facilities from the parent. We believe the bank would be able to receive liquidity support from the parent if access to wholesale funding markets was uncertain or prohibitively expensive.

SCB has successfully increased its deposit base in recent years, in line with the group's strategy to have self-funded subsidiaries. Deposits increased by 24% in 2020 (broadly in line with the market in the Nordics) and reached almost 50% of all funding at end-2020. As a result, reliance on parental financing shrank to 18% of funding, and this is likely to remain stable in the future.

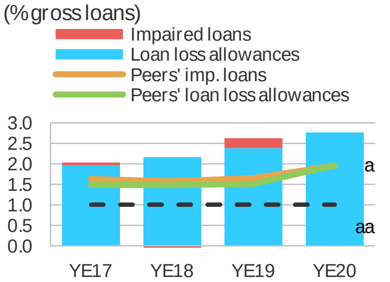
SCB also partly funds itself via securitisations and unsecured debt, and particularly on the unsecured side has been able to tap the markets more frequently in recent years. The use of securitisations has slightly reduced (10% of funding at end-2020) due to strict legislation in Norway, although SCB is still able to issue ABS in its other markets.

Peer average includes: Santander Consumer Bank AS (VR: 'bbb+') Santander Consumer Bank AG (a-), Santander Consumer Finance, S.A. (a-), LeasePlan Corporation N.V. (bbb+) and Leeds Building Society (a-)

Black dashed lines in the charts represent indicative quantitative ranges and corresponding implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'aa' category.

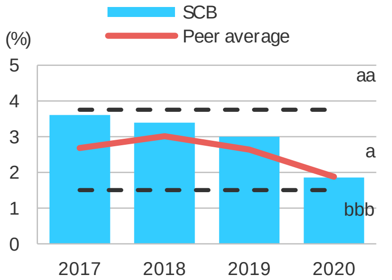
Asset Quality

(% gross loans)



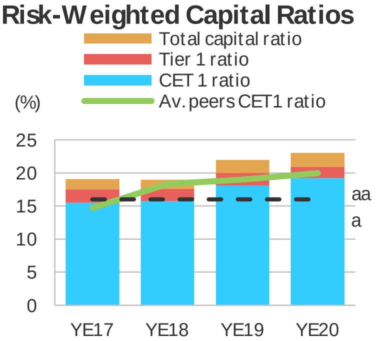
Note: Impaired loans fully covered by reserves at YE18 and YE20
Source: Fitch Ratings, banks

Operating Profit/RWAs



Source: Fitch Ratings, banks

Risk-Weighted Capital Ratios



Source: Fitch Ratings, banks

Environmental, Social and Governance Considerations

FitchRatings **Santander Consumer Bank AS**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Santander Consumer Bank AS has 5 ESG potential rating drivers

- Santander Consumer Bank AS has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

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 to the way in which they are being managed by the entity.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.