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 parents (Santander Consumer Finance, S.A.; SCF, both 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 as Fitch Ratings believes there is an extremely high probability that SCB would be supported directly by Santander, or indirectly via SCF (its 100% shareholder) if needed.

Strong Intrinsic Creditworthiness: SCB's Viability Rating (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.

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 good repayment capacity of borrowers in the Nordic countries. Asset quality has held up well during the pandemic and we expect SCB's impaired loan ratio and loan impairment charges (LICs)/gross loans to remain stable at about 3% and 85bp, respectively, in the near term.

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

Profitability Tailwinds: We expect SCB's operating profit/risk-weighted assets (RWAs) ratio to return to the pre-pandemic level of about 3% in 2022, from about 2.6% in 2021. 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 LICs at normalised levels of about 30% of the pre-impairment operating profit.

Sound Capitalisation: SCB's capitalisation is a rating strength. The bank'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 13.5% at end-2021.

Stable Funding Profile: 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 (although recently improved) reliance on parental funding (at about 20% of total funding at end-2021). Our assessment also reflects SCB's appropriate liquidity, good access to wholesale funding and potential ordinary support from the group, if needed.

Rating Sensitivities

Revised Support Assessment: SCB's IDRs would be downgraded if the IDRs of SCF and Santander were downgraded, since SCB's support driven ratings are sensitive to the same factors that might drive a change in its parents' IDRs. SCB's ratings are also sensitive to a weakening in 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, which we do not expect. SCB's IDRs would be upgraded if SCF's and Santander's IDRs were upgraded.

Financial Profile Deterioration: The VR could be downgraded in case of a durable contraction of SCB's operating profit/RWAs and CET1 ratio below 1.5% and 15%, respectively, in combination with impaired loans and LICs/gross loans ratios durably increasing above 4% and 1%, respectively.

Ratings

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

Outlooks

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

Applicable Criteria

Bank Rating Criteria (November 2021)

Related Research

Fitch Affirms Santander Consumer Bank AS at 'A-'; Outlook Stable (March 2022)

Global Economic Outlook (March 2022)

Nordic Banks' Credit Profiles Resilient (January 2022)

Fitch Affirms Santander Consumer Finance at 'A-'; Outlook Stable (December 2021)

Nordic Banks–Peer Review (October 2021)

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Debt Rating Classes

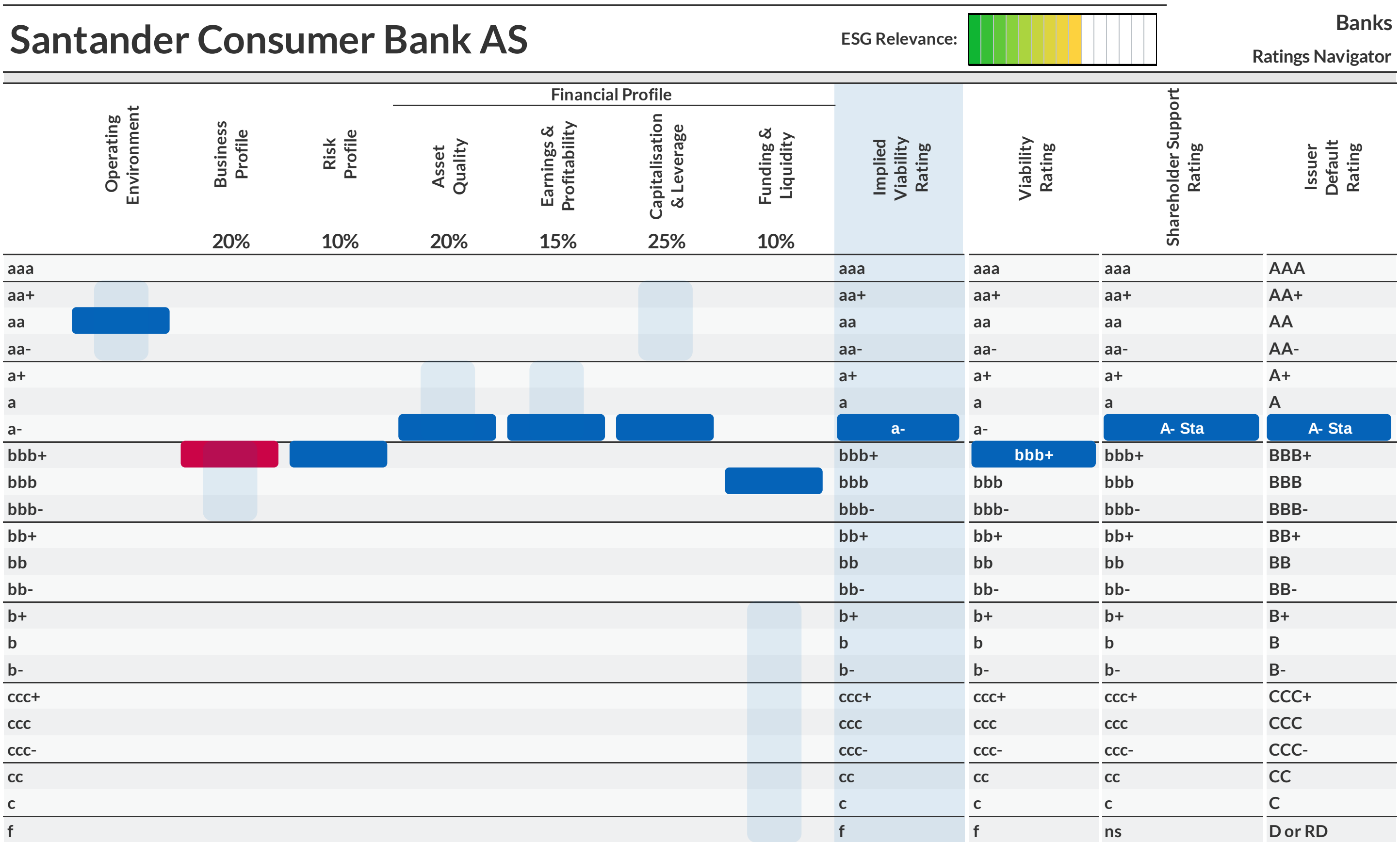
Rating Level	Rating
Deposits	A/F1
Senior Preferred	A/F1

Source: Fitch Ratings

The long-term senior preferred debt and deposits are rated one notch above the bank's Long-Term IDR. This is to reflect our expectation of the protection accruing to senior preferred debt and deposits from the 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



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

Viability Rating Adjustments

The VR is one notch below the implied 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.

The Capitalisation & Leverage score is below the implied score to reflect likely higher pay-out ratios once macroeconomic uncertainties reduce and the business model which is vulnerable to cyclical performance swings.

The Funding & Liquidity score is above the implied score to reflect SCB's good liquidity coverage, established market access to non-deposit funding and ordinary support from the parent.

Shareholder Support Assessment

Shareholder Support Rating KRDs	
Parent IDR	A-
Total Adjustments (notches)	0
Shareholder Support Rating:	**A-**
Shareholder ability to support	
Shareholder Rating	A-/ Stable
Shareholder regulation	Equalised
Relative size	Equalised
Country risks	Equalised
Shareholder propensity to support	
Role in group	Equalised
Reputational risk	Equalised
Integration	Equalised
Support record	1 Notch
Subsidiary performance and prospects	Equalised
Legal commitments	2+ Notches

The colours indicate the weighting of each KRD in the assessment.
Higher influence · Moderate influence · Lower influence

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.

Brief Company Summary

Leading Auto Lender 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 (about 80% of loans). 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 and merchants.

Revenue almost solely consists of net interest income (around 95% of revenue). 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 and product development synergies.

Sound Strategic Execution, Credible Management Team

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.

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.

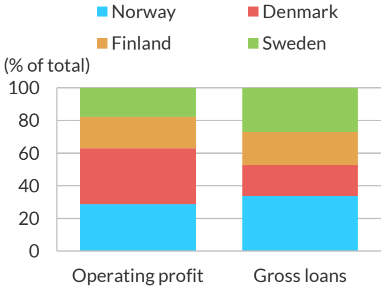
SCB's high annual credit volume generation is masked by a short effective maturity of loans (about two years for auto loans). However, the fast loan book turnover is well controlled and balance sheet growth has been comfortably matched by capital generation.

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.

We expect the product mix (82% auto financing/18% unsecured at end-2021) to remain stable in the short-to-medium term. The bank's loan growth rate has fluctuated in recent years due to the acquisition of Forso Nordic AB from Ford Motor Company in 2020, foreign exchange-rate movements (negative impact in 2021, positive in 2020) and tightened lending standards for unsecured loans in mid-2021. Following the removal of pandemic-related restrictions in the Nordic countries, we expect demand for unsecured credit to pick up in 2022.

Lending and Profitability

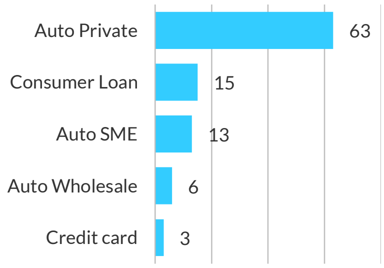
By geography; end-2021



Source: Fitch Ratings, SCB

Product Split of Gross Loans

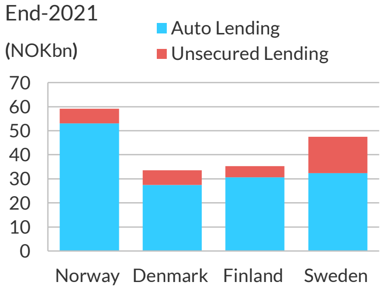
End-2021, (%)



Source: Fitch Ratings, SCB

Geographical Split of Gross Loans

End-2021



Source: Fitch Ratings, SCB

Summary Financials and Key Ratios

	31 Dec 21		31 Dec 20	31 Dec 19	31 Dec 18
	Year end (USDm) Audited	Year end (NOKm) Audited	Year end (NOKm) Audited	Year end (NOKm) Audited	Year end (NOKm) Audited
Summary income statement					
Net interest and dividend income	801	7,088	7,655	7,178	6,919
Net fees and commissions	36	318	262	366	429
Other operating income	0	0	-101	52	35
Total operating income	837	7,406	7,816	7,596	7,383
Operating costs	324	2,871	3,369	3,178	3,244
Pre-impairment operating profit	512	4,535	4,447	4,418	4,139
Loan and other impairment charges	133	1,176	1,999	807	5
Operating profit	379	3,359	2,448	3,611	4,134
Other non-operating items (net)	n.a.	n.a.	253	n.a.	n.a.
Tax	90	793	571	742	995
Net income	290	2,566	2,130	2,869	3,139
Other comprehensive income	-6	-49	71	-9	-37
Fitch comprehensive income	284	2,517	2,201	2,860	3,102
Summary balance sheet					
Assets					
Gross loans	19,837	175,589	181,267	165,331	162,802
- Of which impaired	610	5,402	4,961	4,324	3,319
Loan loss allowances	559	4,949	5,004	3,939	3,518
Net loans	19,278	170,640	176,263	161,392	159,284
Interbank	496	4,391	7,238	3,968	2,982
Derivatives	12	102	18	37	64
Other securities and earning assets	1,095	9,692	6,851	11,567	10,389
Total earning assets	20,880	184,825	190,370	176,964	172,719
Cash and due from banks	427	3,784	3,363	66	65
Other assets	423	3,748	5,159	3,911	3,324
Total assets	21,731	192,357	198,892	180,941	176,108
Liabilities					
Customer deposits	8,281	73,304	81,142	65,484	54,645
Interbank and other short-term funding	3,439	30,443	29,363	32,173	42,004
Other long-term funding	6,098	53,981	54,037	53,825	52,909
Trading liabilities and derivatives	7	63	25	22	45
Total funding and derivatives	17,826	157,791	164,567	151,504	149,603
Other liabilities	532	4,711	5,153	4,347	3,169
Preference shares and hybrid capital	254	2,250	2,250	2,250	2,250
Total equity	3,119	27,605	26,922	22,840	21,086
Total liabilities and equity	21,731	192,357	198,892	180,941	176,108
Exchange rate		USD1 = NOK8.8517	USD1 = NOK8.7324	USD1 = NOK8.7997	USD1 = NOK8.7077

Source: Fitch Ratings, Fitch Solutions, SCB

Summary Financials and Key Ratios

	31 Dec 21	31 Dec 20	31 Dec 19	31 Dec 18
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.6	1.9	3.0	3.4
Net interest income/average earning assets	3.8	4.0	4.1	4.4
Non-interest expense/gross revenue	38.8	43.1	41.8	43.9
Net income/average equity	9.3	8.3	13.2	16.0
Asset quality				
Impaired loans ratio	3.1	2.7	2.6	2.0
Growth in gross loans	-3.1	9.6	1.6	13.4
Loan loss allowances/impaired loans	91.6	100.9	91.1	106.0
Loan impairment charges/average gross loans	0.7	1.1	0.5	-0.1
Capitalisation				
Common equity Tier 1 ratio	18.9	19.4	18.1	15.7
Fully loaded common equity Tier 1 ratio	18.7	19.2	17.8	15.4
Tangible common equity/tangible assets	13.8	13.0	12.1	11.4
Basel leverage ratio	13.5	13.8	13.1	12.0
Net impaired loans/common equity Tier 1	1.9	-0.2	1.8	-1.0
Funding and liquidity				
Gross loans/customer deposits	239.5	223.4	252.5	297.9
Liquidity coverage ratio	144.0	237.0	187.0	133.7
Customer deposits / total non-equity funding	45.8	48.7	42.6	36.0
Net stable funding ratio	110.1	114.4	108.0	94.2

Source: Fitch Ratings, Fitch Solutions, SCB

About Fitch Forecasts

The forecasts in the charts further in the report reflect Fitch's forward view on the bank's core financial metrics under Fitch's Bank Rating Criteria. They are based on a combination of Fitch's macro-economic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market.

To the extent Fitch is aware of material non-public information with respect to future events such as planned recapitalisations or merger and acquisition activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

Key Financial Metrics – Latest Developments

Resilient Asset Quality

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. The phasing-out of state support packages and the interest rate tightening in Norway should not lead to meaningfully asset quality pressure. The recently tightened debt affordability assessment (in line with EBA guidelines) bodes well for asset quality in unsecured loans.

The bank's impaired loans are conservatively classified as being more than half composed of loans without payment arrears. The impaired loans/gross loans ratio at end-2021 was materially higher for unsecured lending at 9.6% compared with 1.6% for auto loans. Both ratios have increased since 2017 due to more conservative write-off criteria, to lower sales of impaired loans, and to EBA's new definition of default (introduced in 2021). Impaired loans are comfortably covered by specific loan loss allowances (53% at end-2021). The ratio was 43% for secured and 61% for unsecured loans.

SCB's pre-impairment operating profit in the last five years has been sufficient to absorb LICs equivalent to about 260bp of average gross loans. The highest level of credit risk cost in the last decade was 110bp (in 2020 and 2014) and we expect this ratio to normalise at 80bp-85bp.

Good Profitability and Manageable Loan Losses

SCB's strong profitability throughout the credit cycle reflects its low-cost base, sound interest margins and contained LICs. The short duration of its assets allows the bank to reprice loans relatively quickly, maintaining controlled interest rate sensitivity. In 2021, the net interest margin stood at almost 3.8%, or almost 3.2% net of loan impairment charges. Cost efficiency is robust despite SCB's small size. The bank plans to keep the cost/income ratio below 35%.

We expect a moderate profitability improvement in 2022 and 2023 due to loan growth recovery, higher margins and an improved cost efficiency following the bank's recent restructuring. In 2021, margins were pressured due to a temporary interest cap in Finland, and to a changed lending mix more heavily weighted towards secured lending.

Sound Capitalisation

SCB's capitalisation is sound for the rating level and the business model. At end-2021, the fully-loaded CET1 ratio was 580bp above the requirement and the leverage ratio stood at a high level of 13.4%. Fitch expects higher pay-out ratios once macroeconomic uncertainties decrease as the agency expects the CET1 ratio to move towards 16%. The bank targets a CET1 ratio which will provide a capital surplus of at least 100bp above its requirement. The parent has been supportive of SCB in recent years, injecting capital when needed.

Stable Funding Base

The reliance on parental funding remains material at about 20%, which we believe is likely to remain stable. SCB has recently successfully increased its deposit base, in line with the group's strategy to have self-funded subsidiaries. Following a new pricing strategy, deposits shrank by 10% in 2021 and represented about 45% of all funding at end-2021. SCB also 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.

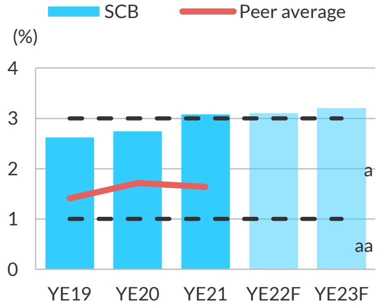
The use of securitisation has slightly decreased (8% of funding at end-2021) due to strict legislation in Norway, although SCB is still able to issue ABS in its other markets. Following expected regulatory changes later in 2022, we expect the bank to be able to issue ABS in Norway again.

At end-2021, SCB's liquid assets equalled about 7% of total assets or 25% when including undrawn facilities from the parent. We believe the bank would receive liquidity support from the parent if access to wholesale funding markets was uncertain or prohibitively expensive.

Black dashed lines represent indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'aa' category. Light-blue columns represent Fitch's forecasts.

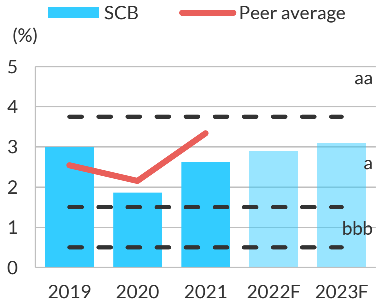
Peer average includes Santander Consumer Finance, S.A. (VR:a-), LeasePlan Corporation N.V. (bbb+), Leeds Building Society (a-), Santander Consumer Bank AG (a-).

Impaired Loans/Gross Loans



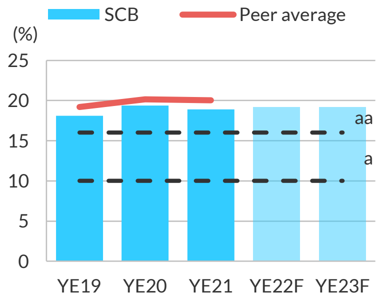
Source: Fitch Ratings, banks

Operating Profit/RWAs



Source: Fitch Ratings, banks

CET1/RWAs



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	Business Profile (incl. Management & governance); Risk Profile; 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	Business Profile (incl. Management & governance); Risk Profile	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; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	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	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	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	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	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.

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.

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.