FitchRatings

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

Fitch Ratings - Frankfurt am Main - 05 Mar 2024: Fitch Ratings has affirmed Santander Consumer Bank AS's (SCB) Long-Term Issuer Default Rating (IDR) at 'A-' and its 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 equalised with Santander's as Fitch sees a very high probability that SCB would be supported directly by its ultimate parent, Banco Santander, S.A. (Santander; A-/Stable), or indirectly via its intermediate parent Santander Consumer Finance S.A. (SCF; A-/Stable; its 100% shareholder). This is reflected in SCB's Shareholder Support Rating (SSR) of 'a-'. The Stable Outlook on SCB's Long-Term IDR mirrors that on its parents.

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. 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 SCB's limited business diversification stemming 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.

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, due 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 2024 but we believe economic slowdown will be moderate in the Nordic region. We expect SCB's impaired loan ratio to remain around 3% in 2024, and for loan-impairment charges (LICs)/gross loans to reach about 70bp in 2024. This broadly corresponds to the bank's historical average risk costs and is in line with our expectations for a consumer lender operating in the Nordics.

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 2.6% of risk-weighted assets (RWAs) in 2024. Sluggish credit expansion, particularly in higher-yielding unsecured lending, will weigh on income growth, but we expect this to be mitigated by cost-saving measures in the short term.

Sound Capitalisation: SCB's common equity Tier 1 ratio (CET1; end-2023: 18.6%) and Basel leverage ratio (12.6%) compare well with those of similarly rated peers. Fitch expects higher payout ratios of annual earnings once macroeconomic uncertainties reduce, leading to a CET1 ratio towards 16%.

S**table 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'). Our assessment also reflects SCB's appropriate liquidity, good access to wholesale funding and the availability of ordinary support from the Santander 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 sustained 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 increasing above 4% and 1%, respectively, on a sustained basis.

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.

Over the long 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 the 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 that result in lower protection for these classes of debt 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).

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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation of the materiality and relevance of ESG factors in the rating decision. 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-	LT	A	Affirmed		A

ENTITY/DEBT	RATING			RECOVERY	PRIOR
term deposits					
• 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.01 Sep 2023) (including rating assumption sensitivity)

Additional Disclosures

Solicitation Status

Endorsement Status

Santander Consumer Bank AS EU Issued, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at https://www.fitchratings.com/site/re/10238496

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