FITCH AFFIRMS SANTANDER CONSUMER FINANCE'S LONG-TERM IDR AT 'A-'; UPGRADES VR TO 'A-'

Fitch Ratings-Barcelona/London-09 November 2018: Fitch Ratings has affirmed Santander Consumer Finance, S.A.'s (SCF) Long-Term Issuer Default Rating (IDR) at 'A-'. The Outlook is Stable. At the same time, Fitch has upgraded the bank's Viability Rating (VR) to 'a-' from 'bbb+'. A full list of rating actions is at the end of this rating action commentary.

The upgrade of the VR reflects the consolidation of SCF's leading consumer finance franchise in Europe after an acquisitive period, with a bias towards strong and stable Northern economies and Germany. Combined with tight and consistent underwriting standards across the bank's subsidiaries, this supports good profitability and resilient asset quality metrics over the cycle.

KEY RATING DRIVERS
IDRS, SENIOR DEBT AND SUPPORT RATING
SCF's IDRs (and its senior debt rating) are driven by the banks' intrinsic strength, as reflected in its VRs. The IDRs are also underpinned by potential shareholder support. This reflects Fitch's view that SCF is a core group subsidiary of Santander and thus there is an extremely high probability of support by it, should the need arise.

The Stable Outlook reflects the bank's and its parent's stable intrinsic creditworthiness.

The Support Ratings (SR) of '1' for SCF reflects Fitch's view of an extremely high probability of support from its parent. SCF is fully-owned by Banco Santander and we view it as a key and integral part of the group, given that it manages most of Banco Santander's consumer finance operations in Europe. Our assessment of support takes into consideration that SCF's operations, risk management and controls, as well as management and corporate culture are highly integrated with those of Banco Santander.

SCF's long and successful track record in supporting the Banco Santander group objectives, the parent and its subsidiary operating in the same jurisdiction, thus being subject to the same regulations, and sharing the same brand also contribute to our overall support assessment.

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

SCF's existing senior unsecured debt and senior non-preferred debt programme ratings are rated at the same level as the bank's Long-Term IDR to reflect Fitch's view that the likelihood of default on both debt classes is in line with that of SCF. In our assessment, we take into account the fact that SCF is within Banco Santander's resolution perimeter and the amounts of internal loss-absorbing capacity at SCF's level. The amount of SCF's qualifying junior debt is still small, at about 2.2% of risk-weighted assets, and does not provide material incremental probability of default protection to senior preferred creditors or provide comfort that recoveries in a default scenario would be above average.

VR
SCF's VR reflects its strong consumer finance franchise in Europe, which supports consistently healthy profitability, resilient asset quality favoured by its geographic and product mix and its adequate capitalisation. The VR also factors in its diversified funding structure, albeit biased towards wholesale funds, and the availability of parental funding.

SCF has a leading consumer finance franchise in Europe and is in the top three in its core operating markets. In the past few years, SCF has strengthened its franchise and product mix through selected acquisition. The most recent and relevant of these is the agreement signed with Banque PSA in France in the auto segment, as it gave SCF entrance to a large market leveraging on a strong market share. With this, we view SCF has consolidated its leading pan-European consumer finance franchise and it is now present in 15 European countries, albeit with a bias towards Northern European countries and Germany. However, in our assessment we also consider SCF's monoline and cyclical consumer lender business model, with its product mix still heavily weighted towards auto loans.

SCF's solid business model and franchise result in strong pricing power and adequate risk pricing. Together with low loan impairment charges this has helped offset earnings pressure from a low interest-rate environment and increased competition in some markets. The bank also benefits from being part of the Santander group from a cost-efficiency standpoint. We expect SCF's profitability to remain sound, supported by growing business volumes and sound economic conditions in most of its markets.

Asset quality metrics have proved fairly resilient over the economic cycle, as SCF's risk profile benefits from its large exposure to more stable and highly rated European economies, a large share of relatively less risky secured lending, mainly auto loans, and tight risk management controls and risk appetite across the different geographies.

SCF is adequately capitalised for its risk profile, as the bank maintains its capitalisation and leverage levels with satisfactory buffers over minimum regulatory requirements, with a fully-loaded Basel III CET1 ratio of 12% at end-1H18. SCF's capitalisation is largely managed by its parent Banco Santander on a "need-cost optimisation" basis. As a result, SCF has limited flexibility to retain earnings given the group's capital policy. However, in our assessment of capitalisation, we also take into account SCF's well reserved credit risks and ultimately, ordinary capital support from the parent if needed.

SCF's funding structure is stable and more diversified than wholesale-funded non-bank peers, as the group benefits from the ability to take deposits, which accounted for about 40% of total funding at end-June 2018. They remain mostly originated in Germany, but have consistently increased in recent years in other jurisdictions, helping SCF achieve some degree of geographical funding diversification. Wholesale funding, mostly secured and senior unsecured debt, complements SCF's funding profile. SCF's liquidity profile is adequate, with the stock of unencumbered liquid assets accounting for about 7.5% of the bank's total assets. In our assessment of SCF's funding and liquidity profile, we also incorporate potential ordinary support from the parent.

RATING SENSITIVITIES

IDRS AND SENIOR DEBT

SCF's IDRs could be upgraded if its VR is upgraded or if Santander's IDRs are upgraded. A downgrade would require a downgrade of both its VRs and Santander's IDRs.

SCF's senior preferred debt and senior non-preferred debt programme ratings are primarily sensitive to changes in the bank's IDRs. In addition, we could notch the senior preferred ratings above the IDRs if the bank increased qualifying junior and senior-non preferred buffers to an extent sufficient to restore viability and prevent default on its senior preferred debt after a failure of the bank.

VR

An upgrade of the VR is unlikely due to SCF's monoline business model in a global context and the bank's limited track-record of funding self-sufficiency and liquidity buffers.

Although currently not expected by Fitch, negative rating pressure could arise from a marked deterioration in asset quality, leading to pressure on earnings and capital pressure; or from a prolonged inability to competitively access wholesale markets.

SUPPORT RATING
While it is not our base case, SCF's ratings would also be sensitive to the consumer finance segment becoming less strategic for Santander or to SCF becoming significantly less integrated within the group, leading Fitch to no longer view it as a subsidiary that is key and integral to Santander's operations.

The rating actions are as follows:
Long-Term IDR: affirmed at 'A-'; Outlook Stable
Short-Term IDR: affirmed at 'F2'
Support Rating: affirmed at '1'
Viability Rating: upgraded to 'a-' from 'bbb+'
Senior unsecured debt long-term rating: affirmed at 'A-'
Senior unsecured debt short-term rating and commercial paper: affirmed at 'F2'
Senior non-preferred program rating affirmed at 'A-'

Contact:
Primary Analyst
Cristina Torrella
Senior Director
+34 93 323 8405
Fitch Ratings Espana, S.A.U.
Avinguda Diagonal, 601, 2nd Floor
08029 Barcelona

Secondary Analyst
Raphael Nascimento
Associate Director
+34 93 323 8406

Committee Chairperson
James Watson
Managing Director
+7 495 956 6657

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@thefitchgroup.com.

Additional information is available on www.fitchratings.com

Applicable Criteria
Bank Rating Criteria (pub. 12 Oct 2018)
https://www.fitchratings.com/site/re/10044408

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