

Santander Consumer Bank AG (/gws/en/esp/issr/88386330)**Fitch Affirms Santander Consumer Bank AG at 'A-'; Outlook Stable**

Fitch Ratings-London-28 July 2017: Fitch Ratings has affirmed Santander Consumer Bank AG's (SCB AG) Long-Term Issuer Default Rating (IDR) at 'A-' and Short-Term IDR at 'F2'. The Outlook is Stable. Fitch has also affirmed SCB AG's Viability Rating (VR) at 'a-'. A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS**IDRS, VR AND SUPPORT RATING**

The IDRs are driven by the standalone strength of SCB AG as captured in its Viability Rating (VR), and by institutional support.

We believe that, if needed, SCB AG would benefit from strong support from its ultimate parent, Banco Santander, S.A. (Santander, A-/Stable/F2/a-). As Santander's main operating subsidiary in Germany, SCB AG is deeply integrated within the operations of its intermediate parent Santander Consumer Finance, S.A. (SCF, A-/Stable/F2/bbb+). The VR reflects SCB AG's solid business model and franchise in Germany, which result in strong pricing power and adequate risk pricing, and considerable flexibility to mitigate the earnings pressure arising from a low interest-rate environment.

Our assessment of SCB AG's business model also reflects our expectation that the bank's mortgage and SME lending businesses will continue to grow gradually, in turn increasing revenue diversification, but eroding the bank's return on assets. We expect that consumer finance will continue to dominate the bank's business and drive the bank's strong performance and resilient financial profile. As a result, we expect profitability to remain strong in the foreseeable future, even if Germany's operating environment starts to deteriorate slightly, which is not our base case.

SCB AG's funding consists primarily of retail deposits, and liquidity is robust. Funding is independent of Santander and has been significantly diversified since 2014 by scaling up origination of retained auto and consumer ABS, which the bank used as collateral to access the European Central Bank's (ECB) targeted longer-term refinancing operations (TLTRO) in 2016. Its large pool of unencumbered ECB-eligible secured loans provides funding flexibility. Further moderate diversification will be achieved in the medium term by issuing mortgage Pfandbriefe. We believe the high asset margins and established franchise of SCB AG in the large German retail deposit market, despite its low market share, would enable the bank to collect sufficient deposits by raising deposit remuneration should additional liquidity needs arise.

SCB AG's capitalisation is robust but should be assessed in the context of a control and profit transfer agreement (CPTA) that obliges SCB AG to transfer its entire net income to its immediate parent, Santander Consumer Holding GmbH (SCH), a German-based holding company. This could create a reliance on capital injections from Santander, should SCB AG resume significant loan growth.

SCB AG's IDRs also reflect our view that Santander has a high propensity to provide both ordinary and extraordinary support if needed, given the shared brand name and SCB AG's deep integration within SCF and, ultimately, Santander's organisation and systems. SCB AG accounts for the largest share (about 40%) of SCF's consolidated loan portfolio, and Santander has publicly defined consumer finance as one of its 10 core markets. In addition, several capital injections from Santander in recent years to support SCB AG's organic and external growth support our view that Santander's willingness to support its subsidiary is strong.

SCB AG's Support Rating reflects Santander's strong ability to provide support directly or via SCF if needed. We assess this ability through Santander's and SCF's Long-Term IDRs as well as SCB AG's modest size relative to Santander's. Therefore, we equalise SCB AG's IDRs with those of Santander and SCF.

The CPTA prevents SCB AG from generating internal capital despite its strong performance. In light of SCH's limited resources, this is likely to make SCB AG reliant on capital re-injections from Santander/SCF to compensate it for any potential large annual losses or to support significant loan growth. Therefore, SCB AG's IDRs are likely to be capped by those of Santander.

SCB AG's 'F2' Short-Term IDR is the lower of two possible Short-Term IDRs for an 'A-' rated bank because we do not consider funding and liquidity a particular strength for the bank.

SENIOR NON-PREFERRED DEBT RATINGS

The programme ratings are driven by and equalised with SCB AG's IDRs. Fitch views that the likelihood of default on senior unsecured notes under this programme would reflect the likelihood of default of the bank.

DCR AND DEPOSIT RATINGS

Due to its retail deposits and ABS-driven funding mix, the buffer of junior and vanilla senior debt at SCB AG is very small at about 2% of risk-weighted assets and does not provide material incremental probability of default protection to derivative counterparties or depositors or provide comfort that recoveries in a default scenario would be above average. Therefore, the bank's DCR and Deposit Ratings are equalised with the bank's IDRs.

RATING SENSITIVITIES

IDRS, VR AND SUPPORT RATING

SCB AG's IDRs are primarily sensitive to a change of Santander's or SCF's IDRs or to a weaker propensity of institutional support from the parent. The latter could be signalled, for example, by the sale of a significant stake in SCB AG or if we otherwise believe that Santander no longer views SCB AG as a core entity. SCB AG's IDRs would only be downgraded if the VR is also downgraded. Our assessment of SCB AG's capitalisation incorporates strong ordinary support from the parent because of the presence of the CPTA, which means that a downgrade of its parents' IDRs would likely lead to a downgrade of SCB AG's VR.

An upgrade of SCB AG's VR would require major revenue diversification and sustainable strengthening of the bank's standalone capital and liquidity buffers. A downgrade of the VR could result from excessive growth, a failure to maintain an adequate risk-return profile in mortgage and SME lending, strong margin pressure in consumer finance, severe deterioration of German households' creditworthiness triggering significant asset quality pressure or sharp capital erosion due to insufficient re-injections from Santander, or if we conclude that Santander's ability to provide capital has weakened.

SENIOR NON-PREFERRED DEBT RATINGS

The ratings are primarily sensitive to changes in SCB AG's IDRs.

DCR AND DEPOSIT RATINGS

SCB AG's DCR and Deposit Ratings are primarily sensitive to changes in the bank's IDRs. In addition, we could notch the DCR and Deposit Ratings above the IDRs if the bank increases its qualifying junior and vanilla senior debt buffers to an extent sufficient to restore viability and prevent a default on its derivative obligations and deposits after a failure of the bank.

The DCR and Deposit Ratings are also sensitive to future changes to Germany's resolution regime, which may alter the hierarchy of the various instruments in resolution, although this is not our expectation.

The rating actions are as follows:

Long-Term IDR affirmed at 'A-'; Outlook Stable

Short-Term IDR affirmed at 'F2'

Viability Rating affirmed at 'a-'

Support Rating affirmed at '1'

Derivative Counterparty Rating affirmed at 'A-(dcr)'

Deposit Ratings affirmed at 'A-'/F2'

Senior unsecured debt issuance programme affirmed at 'A-'/F2'

Contact:

Primary Analyst

Patrick Rioual

Senior Director

+49 69 76 80 76 123

Fitch Deutschland GmbH

Neue Mainzer Strasse 46-50

60311 Frankfurt am Main

Secondary Analyst

Sebastian Schrimpf, CFA

Associate Director

+49 69 76 80 76 136

Committee Chairperson

Christian Scarafia

Senior Director

+44 20 3530 1012

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

Additional information is available on www.fitchratings.com

Applicable Criteria

Global Bank Rating Criteria (pub. 25 Nov 2016) (<https://www.fitchratings.com/site/re/891051>)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form (<https://www.fitchratings.com/site/dodd-frank-disclosure/1027144>)

Solicitation Status (<https://www.fitchratings.com/site/pr/1027144#solicitation>)

Endorsement Policy (<https://www.fitchratings.com/regulatory>)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings)

(<https://www.fitchratings.com/understandingcreditratings>). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM (<https://www.fitchratings.com>). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory) (<https://www.fitchratings.com/site/regulatory>). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2017 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers,

guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Solicitation Status

Fitch Ratings was paid to determine each credit rating announced in this Rating Action Commentary (RAC) by the obligator being rated or the issuer, underwriter, depositor, or sponsor of the security or money market instrument being rated, except for the following:

Endorsement Policy - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (<https://www.fitchratings.com/regulatory>) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.