Fitch Ratings

29 Oct 2019 | Affirmation

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

Fitch Ratings-Frankfurt am Main-29 October 2019:

Fitch Ratings has affirmed Santander Consumer Bank AG's (SCB AG) Long-Term Issuer Default Rating (IDR) at 'A-' with a Stable Outlook. Fitch has also affirmed SCB AG's Viability Rating (VR) at 'a-' and Support Rating at '1'.

A full list of rating actions is at the end of this rating action commentary.

Key Rating Drivers

IDRS, VR, SUPPORT RATING AND SENIOR NON-PREFERRED (SNP) DEBT RATING

The IDRs of SCB AG are underpinned by its standalone strength, as reflected in its VR, and by Fitch's assessment of institutional support from its parents. Its IDRs and Support Rating reflect our view that support from its ultimate parent Banco Santander, S.A. (Santander, A-/Stable/F2/a-) would be extremely likely, if needed. Support could be provided either directly by Santander or via SCB AG's intermediate parent Santander Consumer Finance, S.A. (SCF, A-/Stable/F2/a-).

Santander has a track record of increasing SCB AG's capital to facilitate loan growth, reflecting the group's willingness to support its subsidiary. SCB AG's modest size relative to Santander's underpins our view that Santander's ability to support is very strong. In addition, SCB AG shares its parent's brand name, is closely integrated into SCF and ultimately Santander's organisation and systems. It accounts for the largest proportion of SCF's loan portfolio, with 35% of the total at end-2018.

SCB AG's VR reflects an established business model dominated by consumer financing in Germany, based on adequate risk policies. The bank has so far been able to maintain its strong pricing power and resilient earnings amid Germany's low interest-rate environment.

SCB AG has been diversifying its business model by expanding into mortgage and SME lending in the last few years. However, we expect the bank's operating profitability to remain heavily reliant on dominant consumer finance operations in the foreseeable future. Our assessment of SCB AG's business model reflects our expectation that the bank's expansion beyond consumer finance will continue at a slow rate given challenging market conditions (including intense competition and low margins) in mortgage and SME lending. Conversely, any significant growth in these asset classes would dilute SCB AG's profitability. Significant progress in diversifying the bank's customer base through an increased focus on e-commerce and asset management would support the bank's business model.

SCB AG has gradually diversified its funding profile in recent years and maintains an adequate liquidity buffer. Its main source of funding is retail deposits, which we believe SCB AG has significant flexibility to increase by raising its deposit remuneration if needed. This is because its profitability has consistently been among the strongest in the German banking sector. The bank issued its initial covered bonds and senior non-preferred notes in 2017 and its initial senior preferred notes in 2019. It makes extensive use of retained auto and consumer ABS as collateral to access the ECB's targeted longer-term refinancing operations (TLTRO). Its commercial paper programme, established in 2018, provides additional flexibility to address short-term funding needs.

Under a contractual control and profit transfer agreement with its immediate parent, the German-based Santander Consumer Holding GmbH, SCB AG up-streams its annual profits in full, which prevents the bank from building capital internally. As a result, SCB AG has relied on capital injections from Santander to underpin its loan growth, and we believe that further support in this form would be forthcoming from Santander, if required. This strong ordinary support from Santander underpins our assessment of SCB AG's capitalisation, which we view as robust.

We assign a score of 'bbb+' to SCB AG's funding and liquidity profile, which we view as reasonably robust. Consequently, the bank's Short-Term IDR is the lower of two possible options corresponding to a Long-Term IDR of 'A-'. This is in line with the Short-Term IDR of its immediate and ultimate parent.

SCB AG's SNP debt is rated in line with the bank's Long-Term IDR as we consider the likelihood of default on the SNP notes to be similar to the likelihood of default of the bank.

SENIOR PREFERRED (SP) DEBT, DEPOSIT AND DERIVATIVE COUNTERPARTY RATINGS (DCR)

SCB AG's buffer of junior and SNP debt is currently equivalent to about 3% of its risk-weighted assets, which is still too small to provide a credible probability of default protection to preferred creditors or to ensure that recoveries in a default would be above-average. Therefore, the DCR, Deposit Ratings and SP debt ratings are equalised with the bank's IDRs and are primarily sensitive to changes in the IDRs.

RATING SENSITIVITIES

IDRS, VR, SUPPORT RATING AND SNP DEBT RATINGS

SCB AG's IDRs and SNP debt ratings are sensitive to Fitch's reassessment of the availability of support from Santander/SCF, in case of need. A downgrade of Santander's/SCF's IDRs would likely lead to a downgrade of SCB AG's VR because the VR benefits from ongoing support from the group, given SCB AG's strong integration into the group. The likelihood of extraordinary support from Santander/SCF is sensitive to a change in their IDRs or in their propensity to provide support. A downgrade of Santander's/SCF's IDRs, the sale of a significant stake in SCB AG or declining importance of SCB AG for the group could reduce the likelihood of support. An upgrade of Santander's/SCF's IDRs could increase the likelihood of extraordinary support and, thus, lead to an upgrade of SCB AG's IDRs.

An upgrade of SCB AG's VR would require significant revenue diversification with limited dilution of the bank's return on risk-weighted assets, as well as an upgrade of Santander's/SCF's IDRs. Deteriorating asset quality, most likely to arise from the bank's unsecured consumer lending portfolio, or strong competitive pressure leading to margin erosion, could lead to a downgrade of the VR.

DCR, SP DEBT AND DEPOSIT RATINGS

The ratings of SCB AG's preferred obligations are primarily sensitive to changes in the bank's IDRs. We would notch the DCR, Long-Term Deposit Rating and long-term SP debt rating once above the LT IDR if SCB AG increases its junior and SNP debt buffer to an extent that is sufficient to restore its viability and prevent a default on its preferred obligations upon a failure of the bank.

Public Ratings with Credit Linkage to other ratings

Banco Santander, S.A. and Santander Consumer Finance, S.A.

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 AG, either due to their nature or to the way in which they are being managed by the bank. For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

Santander Consumer Bank AG; Long Term Issuer Default Rating; Affirmed; A-; RO:Sta
; Short Term Issuer Default Rating; Affirmed; F2
; Viability Rating; Affirmed; a-
; Support Rating; Affirmed; 1
; Derivative Counterparty Rating; Affirmed; A-(dcr)
----long-term deposits; Long Term Rating; Affirmed; A-
----Senior non-preferred; Long Term Rating; Affirmed; A-
----Senior preferred; Long Term Rating; Affirmed; A-
----short-term deposits; Short Term Rating; Affirmed; F2
----Senior preferred; Short Term Rating; Affirmed; F2

Contacts:
Primary Rating Analyst
Markus Glabach,
Director
+49 69 768076 195
Fitch Deutschland GmbH
Neue Mainzer Strasse 46 - 50
Frankfurt am Main D-60311

Secondary Rating Analyst
Caroline Lehmann,
Associate Director
+49 69 768076 176

Committee Chairperson
Christian Kuendig,
Senior Director
+44 20 3530 1399

Media Relations: Louisa Williams, London, Tel: +44 20 3530 2452, Email:
louisa.williams@thefitchgroup.com

Additional information is available on www.fitchratings.com

Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018)
Short-Term Ratings Criteria (pub. 02 May 2019)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form
Solicitation Status
Endorsement Policy

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

---

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 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.