FitchRatings

Banks
Retail & Consumer Banks
Germany

Santander Consumer Bank AG

Update

Key Rating Drivers

Support and VR Drive IDRs: Santander Consumer Bank AG's (SCB AG) Issuer Default Ratings (IDRs) are driven by its Viability Rating (VR) and by Fitch Ratings' view of the strong support available from SCB AG's ultimate parent, Banco Santander, S.A. (Santander; A-/Stable), potentially channelled via SCB AG's intermediate parent Santander Consumer Finance, S.A. (SCF; A-/Stable). The Stable Outlook on SCB AG's Long-Term IDR mirrors that on its parents.

SCB AG's VR reflects its leading German car and consumer financing franchise that dominates its business model, earnings, and risk profile, resulting in good asset quality, sound profits and adequate capital, funding and liquidity profiles. The VR also factors in modest business model diversification into mortgages and SME lending. Significant growth in these asset classes could, in Fitch's view, dilute SCB AG's profitability and weaken its risk/return profile.

Deep Integration Underpins Support: We view Santander's propensity and ability to support SCB AG as very high, due to SCB AG's deep integration, shared brand name and small size relative to the group. Car and unsecured consumer financing are core group business lines. Fitch believes that Santander would increase SCB AG's capital to support organic growth and acquisitions whenever needed, as it has in the past.

Focused, Profitable Business Profile: SCB AG's sound interest margins in consumer finance and good cost efficiency provide adequate loss-absorption capacity and enabled a resilient financial performance in 2021, despite the pandemic. The short duration of its assets allows the bank to reprice loans faster than universal banks, thus maintaining controlled interest rate sensitivity.

Sound Risk Profile: We expect the strong consumer finance expertise of SCB AG's management, sound execution record and tested risk management framework underpinned by sound underwriting standards, to support SCB AG's credit quality through the cycle.

Resilient Asset Quality: Similar to its German competitors, SCB AG's asset quality remained healthy through the Covid-19 pandemic and into this summer. Fitch expects SCB AG's impaired loans ratio to deteriorate modestly in 2023, mainly due to recessionary pressure on households, SMEs and the mobility sector. However, we expect SCB AG's four-year-average impaired loan ratio to remain below 2.5% in the medium term.

Sound Pre-Impairment Profits: We expect the four-year-average operating profit/risk-weighted assets (RWAs) to remain above 2% through the cycle. In the coming quarters, the ratio could temporarily fall below that level as a challenging operating environment in Germany, triggered by a Russian gas cut-off, would weaken loan demand. This could also lead to higher loan impairment charges, which would only be partially offset by higher earnings from rising rates.

Adequate Capitalisation: Our assessment of SCB AG's capitalisation includes ordinary group support as the bank relies on capital injections from the group to back significant loan growth or acquisitions. The bank usually does not generate capital as it upstreams its full annual profits to its German intermediate parent, based on a control-and-profit transfer agreement. However, SCB AG has some flexibility to retain some of its profits as part of the group's capital planning.

Diversified Funding, Strengthened Liquidity: SCB AG has diversified its funding profile and strengthened its liquidity buffer in recent years. Granular retail deposits remain its main funding source despite increasing opportunistic use of cheap central bank funding. The bank's large stock of unencumbered auto and consumer loans enables flexible management of its liquid assets through the issuance of ECB-eligible retained asset-backed securities.

Ratings

Foreign Currency	
Long-Term IDR	A-
Short-Term IDR	F2
Derivative Counterparty Rating	A(dcr)
Viability Rating	a-
Shareholder Support Rating	a-
Sovereign Risk	
Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (September 2022)

Related Research

Fitch Affirms Santander Consumer Bank AG at 'A-'; Outlook Stable (May 2022)

Santander Consumer Bank AG (June 2022)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

SCB AG's IDRs would be downgraded if its VR is downgraded and if, at the same time, we estimate that the availability of extraordinary support from Santander has decreased. A downgrade of Santander's VR, the sale of a significant stake in SCB AG or a decline in SCB AG's strategic importance for the group could reduce the likelihood of extraordinary support and trigger a downgrade of SCB AG's Shareholder Support Rating (SSR).

SCB AG's VR could be downgraded if the bank's operating profit durably declines below 1.5% of RWAs without credible prospects of restoring it above this threshold over the medium term, combined with a significant and structural deterioration in asset quality. A downgrade of Santander's VR could also put pressure on SCB AG's VR as the latter factors in ordinary support benefits from being part of the group.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of Santander's IDRs would trigger an upgrade of SCB AG's IDRs. An upgrade of SCB AG's VR would require an upgrade of Santander's VRs as well as a major and sustainable increase in revenue diversification at SCB AG with limited dilution of its operating profit/RWAs.

Other Debt and Issuer Ratings

Rating level	Rating
Deposit ratings (long-term/short-term)	A/F1
Senior non-preferred	A-
Senior preferred ratings	A/F1

Source: Fitch Ratings

SCB AG's external senior non-preferred (SNP) debt rating is aligned with its Long-Term IDR, as we expect the bank to continue to meet its resolution buffer requirements with SNP and more junior debt only.

The Derivative Counterparty Rating, long-term senior preferred (SP) debt and long-term deposit rating are all one notch above the Long-Term IDR to reflect the protection accruing to preferred creditors from the SNP and junior debt buffers. SCB AG is issuing its resolution debt buffers internally to SCF/Santander, with which it shares a resolution group. The short-term SP debt and deposit ratings of 'F1' are the lower of the two options mapping to the long-term ratings of 'A', because the liquidity and funding score of 'bbb+'/stable prevents higher short-term ratings.

SCB AG's 'F2' Short-Term IDR is aligned with Santander's. It is also the lower of the two options mapping to the Long-Term IDR of 'A-', because SCB AG's liquidity and funding score of 'bbb+'/stable prevents a higher Short-Term IDR.

Significant Changes from Last Review

Deteriorating Economic Prospects

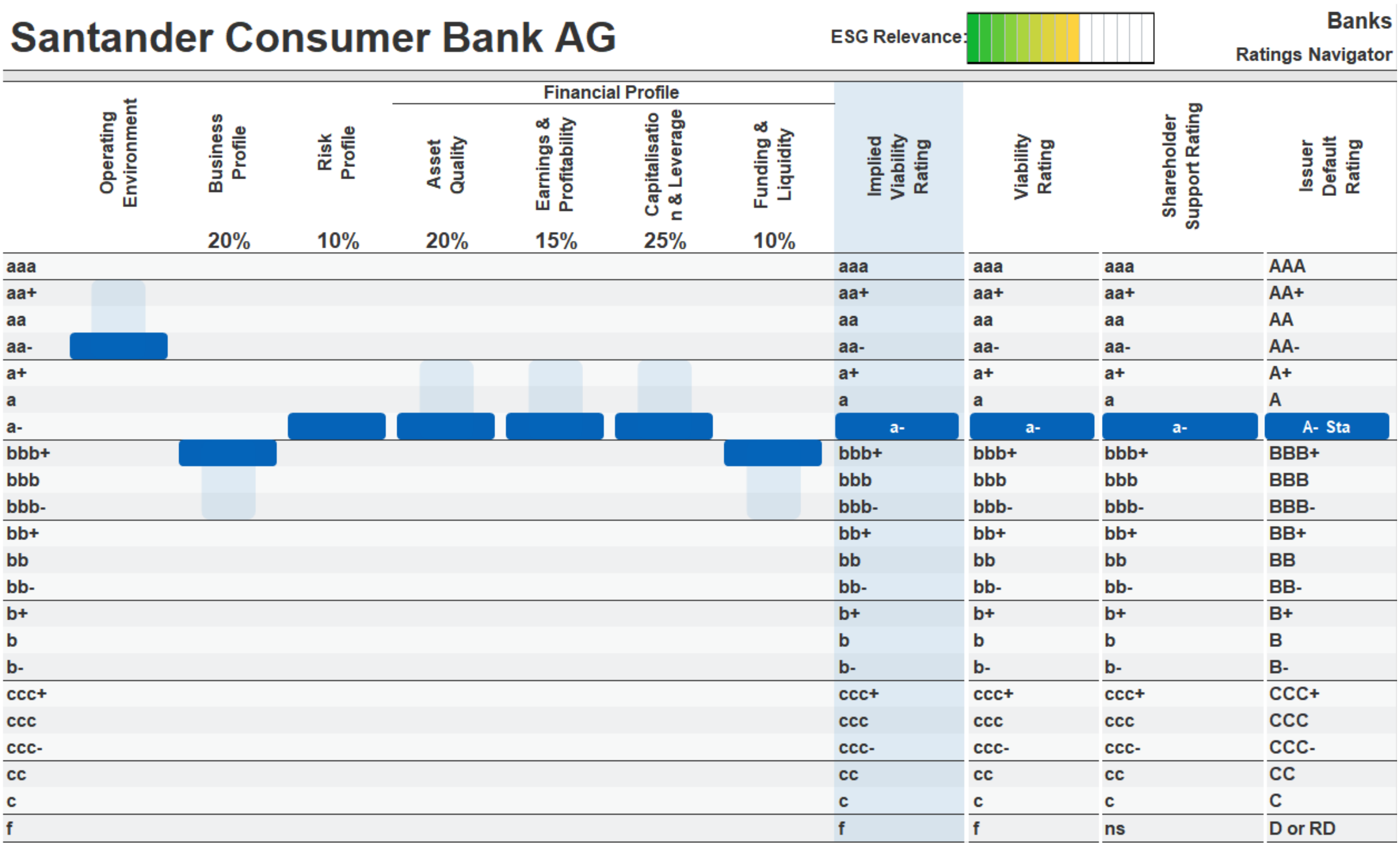
Fitch has lowered its GDP growth forecasts for Germany. We now expect the economic environment to deteriorate in 2H22 and 2023 as the slowdown of the Chinese economy and the war in Ukraine hinder the post-pandemic economic recovery. In particular, business and consumer confidence are affected by exacerbated supply-chain disruptions, energy price inflation and raw material shortages.

The recent halt in supplies of natural gas from Russia to Germany highlight concerns that Russia uses gas exports as a political tool. Russian natural gas accounts for about 19% of Germany's primary energy consumption and the country lacks viable short-term alternative energy supplies. The stop of Russian gas exports to Germany and the consequent rationing to industrial users would therefore lead to a recession (Fitch forecasts GDP to shrink by 0.5% in 2023).

For German banks, we believe that asset-quality deterioration after a cessation of Russian gas supplies could be material, particularly for exposures to vulnerable corporate sectors. However, we do not think that this deterioration would result in wide-ranging downgrades of the German banks given that, for most banks, deterioration in asset quality is not an immediate rating sensitivity due to the current sound asset-quality indicators.

German banks should also benefit from 2023 from improving pre-impairment operating profitability, which has been the key weakness of the German banking sector for many years, following interest rate rises in the eurozone. However, earnings improvements are likely to be gradual given most banks' high proportion of fixed-rate lending, particularly in residential mortgage lending, which at some banks has not been swapped into variable rate and will therefore put pressure on margins.

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.

Financials

Summary Financials and Key Ratios

	31 Dec 21		31 Dec 20	31 Dec 19	31 Dec 18
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
Summary income statement					
Net interest and dividend income	1,211	1,071	1,010	1,055	1,148
Net fees and commissions	206	182	158	155	110
Other operating income	218	193	130	111	90
Total operating income	1,635	1,446	1,298	1,321	1,348
Operating costs	851	752	780	833	815
Pre-impairment operating profit	784	694	518	488	533
Loan and other impairment charges	182	161	124	33	65
Operating profit	603	533	394	454	468
Net income	602	533	394	454	463
Summary balance sheet					
Assets					
Gross loans	33,259	29,407	29,749	30,497	30,402
- Of which impaired	666	589	528	537	566
Loan loss allowances	623	551	532	536	548
Net loans	32,636	28,856	29,217	29,961	29,854
Interbank	3,116	2,755	2,860	2,152	1,531
Other securities and earning assets	14,398	12,730	12,196	10,019	8,337
Total earning assets	50,149	44,341	44,273	42,133	39,722
Cash and due from banks	12,167	10,758	5,349	3,496	2,954
Other assets	594	525	506	474	372
Total assets	62,910	55,623	50,127	46,102	43,048
Liabilities					
Customer deposits	26,454	23,390	22,774	23,170	22,719
Interbank and other short-term funding	11,845	10,473	7,254	4,999	5,374
Other long-term funding	18,902	16,712	15,217	13,298	10,475
Total funding and derivatives	57,201	50,576	45,245	41,467	38,567
Other liabilities	1,500	1,326	1,161	1,238	1,194
Preference shares and hybrid capital	462	408	408	333	223
Total equity	3,747	3,313	3,313	3,063	3,063
Total liabilities and equity	62,910	55,623	50,127	46,102	43,048
Exchange rate		USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015	USD1 = EUR0.873057

Source: Fitch Ratings, Fitch Solutions, Santander Consumer Bank AG

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	2.8	2.0	2.3	2.5
Net interest income/average earning assets	2.4	2.3	2.6	2.9
Non-interest expense/gross revenue	52.0	60.1	63.1	60.5
Net income/average equity	16.1	12.4	14.8	15.1
Asset quality				
Impaired loans ratio	2.0	1.8	1.8	1.9
Growth in gross loans	-1.2	-2.5	0.3	-3.2
Loan loss allowances/impaired loans	93.6	100.8	99.8	96.8
Loan impairment charges/average gross loans	0.5	0.4	0.1	0.2
Capitalisation				
Common equity Tier 1 ratio	15.0	14.4	13.0	13.9
Tangible common equity/tangible assets	5.6	6.2	6.2	6.7
Basel leverage ratio	7.3	7.5	7.0	7.4
Funding and liquidity				
Gross loans/customer deposits	125.7	130.6	131.6	133.8
Liquidity coverage ratio	519.6	236.6	187.8	169.1
Customer deposits/total non-equity funding	45.9	49.9	55.4	58.6

Source: Fitch Ratings, Fitch Solutions, Santander Consumer Bank AG

Support Assessment

Shareholder Support	
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

Strong Parent Support Assumed

SCB AG's IDRs and SSR reflect our view that extraordinary support from Santander (either directly or via SCB AG's intermediate parent SCF) would be extremely likely, if needed. Several capital increases in recent years have demonstrated the group's willingness to provide SCB AG with ordinary support to facilitate its loan growth.

We consider SCB AG a key and integral part of Santander's consumer finance activities. Santander's VR of 'a-' and SCB AG's small size relative to the group underpin our view that Santander's ability to support is very strong. SCB AG shares its parent's brand name, is closely integrated into SCF and, ultimately, into Santander's organisation and systems. These factors underpin our view of the strong availability of extraordinary support from Santander.

Environmental, Social and Governance Considerations

FitchRatings **Santander Consumer Bank AG** — Banks Ratings Navigator

Credit-Relevant ESG Derivation

Santander Consumer Bank AG has 5 ESG potential rating drivers

- Santander Consumer Bank AG 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

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.

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

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 the entity, either due to their nature or the way in which they are being managed by the entity. 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.