FitchRatings

RATING ACTION COMMENTARY

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

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Fitch Ratings - Frankfurt am Main - 31 May 2022: Fitch Ratings has affirmed Santander Consumer Bank AG's (SCB AG) Long-Term Issuer Default Rating (IDR) at 'A-' with a Stable Outlook and Viability Rating (VR) at 'a-'. A full list of rating actions is at the end of this rating action commentary.

Fitch has withdrawn the bank's Support Rating following the update of its Bank Rating Criteria on 12 November 2021 as it is no longer considered by Fitch to be relevant to the agency's coverage. In line with the updated criteria, we have assigned SCB AG a Shareholder Support Rating (SSR) of 'a-'.

KEY RATING DRIVERS

Support and VR Drive IDRs: SCB AG's IDRs are driven by its VR and by Fitch's view of the strong support available from its ultimate parent Banco Santander, S.A. (Santander; A-/Stable), potentially channelled via SCB AG's intermediate parent Santander Consumer Finance SA (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, which dominates its business model, earnings and risk profile, resulting in good asset quality, sound profitability and an adequate capital, funding and liquidity profile. The VR also factors in limited business model diversification into mortgages and SME lending, although we believe that any significant growth in these asset classes would dilute SCB AG's profitability and could weaken its risk/return profile.

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

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 relatively quickly, maintaining controlled interest rate sensitivity.

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

Resilient Asset Quality: Ample support from the German government has mitigated the impact of the pandemic on SCB AG's loan quality, as at peers. We expect a moderate rise of impaired loans in 2022 as inflationary pressure and higher energy prices burden households, SMEs and the mobility sector. We expect SCB AG's four-year-average impaired loan ratio to remain below 2.5% in the medium term.

Sound Pre-Impairment Profitability: SCB AG is one of the few larger German banks that has continued to earn its cost of capital and maintained profitability well above the sector average. We expect risk costs to remain elevated in 2022 in a challenging operating environment and moderately weigh on the bank's financial result. However, we expect four-year-average operating profit/risk-weighted assets (RWAs) to remain above 2% in the next two years.

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.

Increasingly Diverse Funding: SCB AG has gradually diversified its funding profile and strengthened its liquidity buffer in recent years. Retail deposits still remain the bank's main funding source, despite its growing opportunistic use of capital market funding and more recently central bank funding to cut its funding costs. Its large stock of auto and consumer loans enables flexible management of liquid assets, which consist of ECB-eligible retained ABS.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

SCB AG's IDRs would be downgraded if its VR was downgraded, and if 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 SSR.

SCB AG's VR could be downgraded if the bank's operating profit durably declines below 1.5% of RWA without credible prospects to restore it above this threshold over the medium term, combined with a significant and structural deterioration in SCB AG's 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 significant revenue diversification at SCB AG with limited dilution of its operating profit/RWAs.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

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 (DCR), long-term senior preferred (SP) debt and long-term deposit rating are 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 its liquidity and funding score of 'bbb+'/stable prevents a higher Short-Term IDR.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

A downgrade of SCB AG's IDRs would trigger a downgrade of the DCR, SNP and SP debt and deposit ratings. We could also downgrade these ratings by one notch on changes in the group's resolution strategy resulting in weaker protection than we currently expect for this debt from internal resources within the group

Factors that could, individually or collectively, lead to positive rating action/upgrade:

An upgrade of SCB AG's IDRs would trigger an upgrade of its DCR, SNP and SP debt and deposit ratings as long as the bank continues to meet its resolution buffer requirements with SNP and junior debt only

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579

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 AG'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 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

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Santander Consumer Bank AG	LT IDR	A- Rating Outlook Stable	Affirmed	A- Rating Outlook Stable
	ST IDR	F2	Affirmed	F2
	Viability	a-	Affirmed	a-
	Support	WD	Withdrawn	1
	DCR	A(dcr)	Affirmed	A(dcr)
	Shareholder Support	a-	New Rating	
Senior non-preferred	LT	A-	Affirmed	A-
long-term deposits	LT	A	Affirmed	A
Senior preferred	LT	A	Affirmed	A
short-term deposits	ST	F1	Affirmed	F1

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 12 Nov 2021) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Santander Consumer Bank AG	EU,UK Endorsed

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