S&P Global
Ratings

RatingsDirect®

Santander Consumer Bank AG

Primary Credit Analyst:
Heiko Verhaag, CFA, Frankfurt (49) 69-33-999-215; heiko.verhaag@spglobal.com

Secondary Contact:
Bernd Ackermann, Frankfurt (49) 69-33-999-153; bernd.ackermann@spglobal.com

Table Of Contents

Santander Consumer Bank AG

SACP	bbb+	+	Support	0	+	Additional Factors	0

Anchor	a-	
Business Position	Moderate	-1
Capital and Earnings	Strong	+1
Risk Position	Moderate	-1
Funding	Average	0
Liquidity	Adequate	

ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

Issuer Credit Rating
BBB+/Stable/A-2

Major Rating Factors

Strengths:	Weaknesses:
• Large market share in the consumer finance business in Germany. • Strong risk-adjusted profitability and capitalization. • High granularity of the loan portfolio.	• Large exposure to volatility in the consumer finance business. • Concentration in a few business segments. • Limited growth potential in the competitive German consumer finance market

Outlook: Stable

S&P Global Ratings' outlook on Germany-based Santander Consumer Bank AG (SCB) is stable, reflecting our view that material changes to SCB's strategy and financial profile are unlikely over the next 18-24 months. Furthermore, our view of SCB's core group status to Spain-based Santander Consumer Finance S.A. (SCF; BBB+/Stable/A-2) is unlikely to change during that period, such that our ratings on SCB will likely move in tandem with that on SCF.

Downside scenario

As long as we continue to consider SCB a core member of SCF, any deterioration in SCB's stand-alone credit profile (SACP) would be offset by uplift from extraordinary group support. We could nevertheless lower the rating on SCB if we were to lower the rating on SCF. This could be triggered by a similar action on the ultimate parent Banco Santander or the Spanish sovereign, or if we believed Banco Santander Group's commitment to the SCF consumer finance business had weakened. In addition, a weakening of SCB's importance to SCF could lead us to lower the rating, although we view this as remote over the next 24 months.

Upside scenario

Conversely, a positive rating action on SCF would result in a similar action on SCB. An upgrade of SCF would be triggered by a similar action on both Banco Santander and the sovereign, or by our revision of SCF's status within the group to core.

An improvement in SCB's stand-alone creditworthiness alone would be unlikely to result in an upgrade of SCB. However, an upgrade could follow if we were also to assess SCB as insulated from SCF, or if we anticipated a distinct resolution strategy for SCB, independent from the rest of the group.

Rationale

The 'BBB+' long-term rating on SCB is based on our 'a-' anchor for German domestic banks and the bank's high market share and concentration in the German consumer finance niche. The rating also takes into account our forecast of a risk-adjusted capital (RAC) ratio between 12.0%-12.5% over the next 12-24 months. In addition, the rating reflects the concentration of SCB's loan book on consumer finance, which lacks the diversification of universal bank peers. We also take into account the bank's diversified funding profile dominated by retail deposits and its comfortable liquidity position. Based on these factors, we view SCB's SACP at 'bbb+'.

Furthermore, in our view SCB is a core subsidiary of its intermediate parent SCF and contributes close to 40% to the lending volume of SCF. We expect SCB's strategy will remain aligned with that of Banco Santander Group's consumer finance strategy. The group support does not result in uplift currently, with SCB's SACP of 'bbb+' being at the same rating level as our issuer credit rating on SCF.

Anchor: 'a-' for banks operating only in Germany

Our bank criteria use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating (ICR). Our anchor for a commercial bank operating mainly in Germany is 'a-', based on an economic risk score of '1' and an industry risk score of '3'. We view the economic risk trend in the German banking industry as negative and the industry risk trend as stable.

Our economic risk assessment reflects Germany's highly diversified and competitive economy, which we believe remains robust in the face of projected fragile and sluggish improvements in economies and financial markets across Europe until 2018 as well as the potential for limited negative effects from the U.K. referendum decision to leave the EU (Brexit). Despite accelerated house-price increases, we currently do not see major economic imbalances given that these price rises are not accompanied by credit expansion in the German economy. We anticipate that the German housing market will remain undervalued by the end of 2018 in affordability terms. However, as an export-led nation, Germany remains vulnerable to swings in global economies, trade flows, and capital market trends. Our negative economic risk trend mainly captures a one-in-three possibility that we could revise our current assessment of a very low risk of economic imbalances within the next 24 months if we see higher house-price increases than the average 5.6% between 2016 and 2018 that we currently forecast, or if we observed strong lending expansion or materially softer underwriting standards in the German banking industry.

Industry risk benefits from Germany's extensive funding market and banks' domestic funding surpluses, as well as from material improvements that have been made to strengthen banking regulation and supervision given ongoing EU-wide regulatory harmonization and convergence as banks implement Basel III. However, we believe that strong competition in German markets, coupled with an ultra-low interest rate environment, remain drags on profitability, although this is currently mitigated by historically low credit losses in Germany.

We classify the likelihood of the German government providing extraordinary support to systemic domestic banks as uncertain, as is the case for most other European banks. This is because, following the full implementation of the EU's enhanced bank resolution framework in 2015, governments such as Germany that wish to provide support to stressed banks are constrained from directly bailing them out.

Table 1

Santander Consumer Bank AG Key Figures

	--Year-ended Dec. 31--				
(Mil. €)	**2016**	**2015**	**2014**	**2013**	**2012**
Adjusted assets	43,201.5	41,810.3	38,283.7	36,438.4	36,629.4
Customer loans (gross)	31,547.8	30,860.7	30,850.8	31,164.1	31,502.5
Adjusted common equity	2,511.9	2,747.9	2,710.0	2,606.3	2,490.9
Operating revenues	1,435.6	1,494.9	1,576.8	1,396.1	1,410.6
Noninterest expenses	807.4	850.8	906.2	829.9	916.2
Core earnings	532.0	511.6	563.9	466.2	333.6

Business position: Concentrated position in the German consumer finance market

We consider SCB's business position to be moderate, owing to its fairly concentrated business model. We see it as potentially more susceptible to swings in economic trends than a traditional retail bank's business model, however we note that SCB's operating income after credit losses proved relatively stable over the last economic cycle. Moreover, margin pressure in Germany's highly competitive consumer finance market appears to limit SCB's growth potential, given that it aims to maintain risk-adjusted profitability. While the corporate banking activities have the potential to further diversify SCB's revenue streams and to profit from the global franchise of Banco Santander Group, we regard this more as a long-term possibility. Also the retail mortgage business will only gradually develop in our view.

These weaknesses are only partly offset by SCB's strong domestic market share of about 13% in the niche auto loan and consumer finance market. SCB's consumer finance division has one of the most cost-efficient operations among its peers. Its business position also benefits from the increased diversification realized through the acquisition of SEB AG's retail operations in 2011, which added domestic retail mortgages to the portfolio.

In our view, the announced restructuring of its brands and branch network will have a positive earnings impact from 2020, through reduced operating costs and increased revenues. However, we expect 2017 or 2018 net income will be reduced by onetime restructuring charges, whose size will depend on the negotiation outcome with the workers council. We believe the increased efficiency will nevertheless enable SCB to better cope with a continued low interest environment and defend its market share in a very competitive market.

Table 2

Santander Consumer Bank AG Business Position

	--Year-ended Dec. 31--				
(%)	**2016**	**2015**	**2014**	**2013**	**2012**
Loan market share in country of domicile	1.1	1.1	1.1	1.2	1.1
Deposit market share in country of domicile	0.7	0.8	0.8	0.9	1.0
Total revenues from business line (mil. €)	1,435.6	1,537.8	1,576.8	1,396.1	1,410.6
Return on equity	17.3	17.9	3.6	15.5	11.9

Capital and earnings: Strong capitalization, despite profit transfer agreement

We assess SCB's capital and earnings as strong. This is based primarily on our forecasted S&P Global Ratings' RAC ratio in the range of 12.0%-12.5% by year-end 2018. Based on a profit transfer agreement, SCB upstreams all of its profits to SCF such that we do not expect any capital build up over the coming years. Based on a common equity tier-1 ratio of 13.2% as of year-end 2016, coupled with the bank's ambition to further expand its lending business over the next years, we expect a deterioration of our RAC ratio from the 12.6% level as of year-end 2016.

Our assessment of the quality of capital acknowledges that the total adjusted capital largely consists of high-quality common equity.

We believe that SCB's earnings generation, as a potential first line of defense in case of increasing credit losses, will remain strong, thanks to stable high-margin lending. We estimate SCB's earnings buffer--which measures the capacity for a bank's preprovision earnings to cover normalized (annual average through the cycle) losses--at 200 basis points (bps)-230bps, which is stronger than that of most German retail banks.

Table 3

Santander Consumer Bank AG Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2016**	**2015**	**2014**	**2013**	**2012**
Tier 1 capital ratio	13.2	12.8	12.3	10.1	9.9
S&P Global Ratings' RAC ratio before diversification	12.6	12.1	11.8	11.5	11.6
S&P Global Ratings' RAC ratio after diversification	11.8	12.2	11.9	12.0	12.7
Adjusted common equity/total adjusted capital	99.8	99.8	99.8	99.8	99.8
Net interest income/operating revenues	80.6	78.7	74.6	76.9	76.0
Fee income/operating revenues	12.4	14.7	18.3	19.8	19.5

Table 3

Santander Consumer Bank AG Capital And Earnings (cont.)

	--Year-ended Dec. 31--				
(%)	**2016**	**2015**	**2014**	**2013**	**2012**
Noninterest expenses/operating revenues	56.2	56.9	57.5	59.4	65.0
Preprovision operating income/average assets	1.5	1.6	1.8	1.5	1.3
Core earnings/average managed assets	1.2	1.3	1.5	1.3	0.9

RAC--Risk-adjusted capital.

Table 4

Santander Consumer Bank AG Risk-Adjusted Capital Framework Data

(€ 000s)	Exposure at default	Basel III RWA	Average Basel III RW (%)	S&P Global Ratings' RWA	Average S&P Global Ratings' RW (%)
Credit risk					
Government and central banks	1,752,419	0	0	6,065	0
Institutions and CCPs	1,452,605	235,038	16	358,544	25
Corporate	6,558,949	5,243,700	80	4,107,077	63
Retail	23,787,223	11,458,938	48	11,785,077	50
Of which mortgage	3,496,861	1,219,375	35	708,234	20
Securitization*	2,021,562	236,900	12	682,676	34
Other assets§	532,491	311,475	58	479,684	90
Total credit risk	36,105,249	17,486,050	48	17,419,124	48
Credit valuation adjustment					
Total credit valuation adjustment	--	11,750	--	0	--
Market risk					
Equity in the banking book	5,985	305,250	1,250	52,371	875
Trading book market risk	--	0	--	0	--
Total market risk	--	305,250	--	52,371	--
Operational risk					
Total operational risk	--	2,293,587	--	2,547,551	--
		Basel III RWA		**S&P Global Ratings' RWA**	**% of S&P Global Ratings' RWA**
Diversification adjustments					
RWA before diversification		20,096,637		20,019,046	100
Total diversification/concentration adjustments		--		1,371,789	7
RWA after diversification		20,096,637		21,390,835	107
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings' RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		2,647,831	13.2	2,515,902	12.6
Capital ratio after adjustments†		2,647,831	13.2	2,515,902	11.8

Table 4

Santander Consumer Bank AG Risk-Adjusted Capital Framework Data (cont.)

*Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. §Other assets includes Deferred Tax Assets (DTAs) not deducted from ACE. †Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2016, Standard & Poor's.

Risk position: Concentration risk in consumer finance loans

In our view, SCB's overall risk position is moderate, and a relative weakness compared to that of larger peers. Our assessment reflects concentration risk in its loan book because it is heavily weighted toward German consumer finance exposures. In our view, the credit quality of such exposures is inherently more volatile, and losses in a stress environment might be higher than for secured retail banking products like mortgages. In a strong economic downturn, losses could accumulate rather quickly. However, we note SCB's track record of limited losses compared with those of its pure consumer finance peers, demonstrating a more conservative approach to risk.

The current economic environment in Germany results in very favorable risk metrics, with a nonperforming loan ratio of 2.1% and cost of risk of 31bps in 2016. We anticipate that these metrics have likely bottomed out, and that cost of risk will normalize to 50bps-100bps over the medium term.

We understand that SCB intends to develop its retail mortgage and corporate business, but we doubt that this would lead to a material improvement in risk diversification within the next two to three years. In our view, the loan portfolio will continue to be dominated by car financing and unsecured consumer lending.

Table 5

Santander Consumer Bank AG Risk Position

	--Year-ended Dec. 31--				
(%)	**2016**	**2015**	**2014**	**2013**	**2012**
Growth in customer loans	2.2	0.0	(1.0)	(1.1)	7.1
Total diversification adjustment/S&P Global Ratings' RWA before diversification	6.9	(0.7)	(0.4)	(3.8)	(8.2)
Total managed assets/adjusted common equity (x)	17.3	15.3	14.3	14.2	14.9
New loan loss provisions/average customer loans	0.3	0.4	0.3	0.3	0.5
Gross nonperforming assets/customer loans + other real estate owned	2.1	2.9	3.2	3.5	3.6
Loan loss reserves/gross nonperforming assets	96.3	94.7	92.2	99.1	105.2

RWA--Risk-weighted assets.

Funding and liquidity: Franchise-based and online deposits, complemented by securitizations

Our average assessment of SCB's funding profile compared with domestic peers' is a forward-looking one that assumes that the bank will successfully broaden its long-term funding sources. The stable funding ratio, S&P Global Ratings' measure of available long-term funding relative to long-term funding needs, was 80% in 2016. This level is lower than we see among local peers, which often show ratios comfortably above 100%. However, we expect this ratio to improve in the medium term, with the issuance of covered bonds and senior notes, and we also note the bank's limited use of short-term wholesale funding sources. We believe that customer deposits, which are largely granular retail deposits, will remain the main funding source for SCB, currently covering 78% of the funding base. While asset-backed securities have historically been an important funding vehicle for SCB, the bank has recently retained most of them on its own books as available collateral for opportunistic funding from the European Central Bank (ECB). In our view, SCB has sufficient and highly diversified sources to replace ECB funding in the medium term.

SCB's liquidity is adequate, in our view, based on the bank's negligible reliance on short-term wholesale funding. Our liquidity ratio (broad liquid assets to short-term wholesale funding) was comfortable at 2.7x in 2016. We also consider the potential benefits and stability provided by SCB's membership in the Banco Santander Group, although no committed facilities exist as far as we know.

Table 6

Santander Consumer Bank AG Funding And Liquidity

	--Year-ended Dec. 31--				
(%)	**2016**	**2015**	**2014**	**2013**	**2012**
Core deposits/funding base	77.5	81.1	88.9	89.9	93.4
Customer loans (net)/customer deposits	130.0	120.9	117.1	110.6	101.8
Long-term funding ratio	97.3	85.5	94.2	95.9	98.4
Stable funding ratio	79.8	74.8	80.9	90.3	97.2
Short-term wholesale funding/funding base	2.9	15.8	6.4	4.4	1.8
Broad liquid assets/short-term wholesale funding (x)	2.7	0.8	0.9	1.2	3.3
Net broad liquid assets/short-term customer deposits	7.1	(5.0)	(0.8)	1.1	6.3
Short-term wholesale funding/total wholesale funding	12.9	83.5	57.3	43.7	26.7
Narrow liquid assets/3-month wholesale funding (x)	3.0	0.8	1.2	1.4	12.6

Support: No notches of uplift to the SACP

We currently do not incorporate any extraordinary group support into SCB's rating, given that we assess its intrinsic creditworthiness as equal to that of its intermediate parent, SCF. However, if in our view of SCB's SACP weakened, we would continue to rate it in line with SCF as long as the group status remains unchanged.

Our ratings on SCB do not benefit from uplift for additional loss-absorbing capacity. We understand that, unlike other group subsidiaries, the German operations have not been identified as a separate point of entry in the event of a resolution of Banco Santander. The rating on SCB could also benefit from the build-up of additional loss-absorbing capacity at the Banco Santander level.

Additional rating factors: None

No additional factors affect this rating.

Related Criteria

- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And

Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Germany-Based Santander Consumer Bank Outlook Revised To Stable From Positive; 'BBB+/A-2' Ratings Affirmed; June 12, 2017
- Outlook On Spain-Based Banco Santander S.A. Revised To Stable From Positive On Acquisition Of Banco Popular Espanol, June 9, 2017
- Outlook On Spain-Based BBVA And Santander Consumer Finance Revised To Positive Following Action On Sovereign; April 3, 2017
- Research Update: German Credit Institution Santander Consumer Bank Assigned 'BBB+/A-2' Ratings; Outlook Stable, March 30, 2017
- Outlook On Banco Santander 'A-' Long-Term Rating Revised To Positive On Expected Sizable ALAC Buffer; Ratings Affirmed, Feb. 9, 2017
- Banco Santander S.A., Dec. 23, 2016
- Santander Consumer Finance S.A., Dec. 20, 2016
- Banking Industry Country Risk Assessment: Germany, Sept. 7, 2016

Anchor Matrix

Industry Risk	**Economic Risk**									
	1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	**a-**	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of September 4, 2017)

Santander Consumer Bank AG	
Counterparty Credit Rating	BBB+/Stable/A-2
Counterparty Credit Ratings History	
12-Jun-2017	BBB+/Stable/A-2
03-Apr-2017	BBB+/Positive/A-2
30-Mar-2017	BBB+/Stable/A-2

Ratings Detail (As Of September 4, 2017) (cont.)	
Sovereign Rating	
Germany (Federal Republic of)	AAA/Stable/A-1+
Related Entities	
Abbey National Capital Trust I	
Preferred Stock	BB
Banco Popular Espanol S.A.	
Issuer Credit Rating	BBB+/Positive/A-2
Senior Unsecured	BBB+
Banco Santander (Brasil) S.A.	
Issuer Credit Rating	BB/Negative/B
Brazil National Scale	brAA-/Negative/brA-1+
Junior Subordinated	CCC+
Subordinated	B
Banco Santander-Chile S.A.	
Issuer Credit Rating	A/Negative/A-1
Commercial Paper	
Foreign Currency	A-1
Senior Unsecured	A
Subordinated	A-
Banco Santander S.A.	
Issuer Credit Rating	A-/Stable/A-2
Certificate Of Deposit	
Local Currency	A-2
Commercial Paper	
Local Currency	A-2
Preference Stock	BB
Preferred Stock	BB
Preferred Stock	BB+
Senior Unsecured	A-
Short-Term Debt	A-2
Subordinated	BBB
Subordinated	BBB+
Banco Santander Totta S.A.	
Issuer Credit Rating	BB+/Stable/B
Senior Unsecured	BB+
Santander Asset Management Investment Holdings Ltd	
Issuer Credit Rating	BB/Watch Pos/B
Santander Bank, N.A.	
Issuer Credit Rating	BBB+/Stable/A-2
Senior Unsecured	BBB+
Short-Term Debt	A-2
Subordinated	BBB
Santander Consumer Finance S.A.	
Issuer Credit Rating	BBB+/Stable/A-2

Ratings Detail (As Of September 4, 2017) (cont.)	
Commercial Paper	
Local Currency	A-2
Senior Unsecured	BBB+
Short-Term Debt	A-2
Subordinated	BBB-
Santander Holdings U.S.A Inc.	
Issuer Credit Rating	BBB+/Stable/A-2
Preferred Stock	BB
Senior Unsecured	BBB+
Santander UK Group Holdings PLC	
Issuer Credit Rating	BBB/Stable/A-2
Junior Subordinated	B+
Senior Unsecured	BBB
Short-Term Debt	A-2
Subordinated	BB+
Santander UK PLC	
Issuer Credit Rating	A/Negative/A-1
Junior Subordinated	BB
Junior Subordinated	BB+
Preference Stock	BB
Preferred Stock	BB
Senior Unsecured	A
Short-Term Debt	A-1
Subordinated	BBB-
Sovereign Real Estate Investment Trust	
Preferred Stock	BB

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

Additional Contact:
Financial Institutions Ratings Europe; FIG_Europe@spglobal.com