FitchRatings

Banks
Retail & Consumer Banks
Germany

Santander Consumer Bank AG

Update

Key Rating Drivers

VR Drives IDRs, Support Underpins: Santander Consumer Bank AG's (SCB AG) Issuer Default Ratings (IDRs) are driven by the bank's Viability Rating (VR). The IDRs are further underpinned 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) and resulting in a Shareholder Support Rating (SSR) of 'a-'. 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. It results in good asset quality, sound profits and adequate capital, funding and liquidity profiles. The VR also reflects the bank's modest business diversification, given its small share in residential mortgages and SME lending.

Focused, Profitable Business Profile: SCB AG's business model proved resilient in 2022 and new business volumes increased in all of the bank's focus segments, despite the economic downturn in Germany. However, higher interest rates and commission expenses put pressure on asset and liability margins. High inflation also negatively affected SCB's cost efficiency, which nonetheless remains competitive. We believe that SCB's business profile will continue to deliver a level of profitability above the German banking sector average.

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

Resilient Asset Quality: SCB's loan quality was stable in 2022 despite challenges from the operating environment. We expect impaired loans to rise moderately in 2023 as higher interest rates and inflation test the financial headroom for households, SMEs and the mobility sector. However, we expect SCB AG's four-year-average impaired loan ratio to remain below 3% in the medium term.

Costs Weigh on Profits: SCB AG's through-the-cycle profitability is well above the domestic sector average and reflects wide interest rate margins, a competitive cost base, and contained loan impairment charges (LICs). We expect LICs to increase in 2023 above the long-term average due to the economic downturn. However, the four-year-average operating profit/risk-weighted assets (RWAs) is likely to remain above 1.5% in the medium term.

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 internally as annual profits are upstreamed to its German intermediate parent. Our assessment also considers a flexible approach for capital relief transactions and good leverage ratio of 6.7 % at end-2022.

Self-Funded, Largely Through Deposits: SCB AG has an established retail deposit franchise supplemented by regular capital market issuance. 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. SCB AG has adequate liquidity buffers in place.

This is a text exhibit 'Key VR/Support/BHC Factors - Light Text'. See instructions in side pane.

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 (Germany)	
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 2023)

Related Research

Fitch Affirms Santander Consumer Bank AG at 'A-'; Outlook Stable (May 2023)

Santander Consumer Bank AG (June 2023)

Santander Consumer Bank AG - Ratings Navigator (May 2023)

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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 was downgraded, and if, at the same time, the SSR was downgraded.

SCB AG's VR could be downgraded if the bank's operating profit durably declines below 1.5% of RWA 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.

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 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 SSR.

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 first 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 (long-term/short-term)	A/F1

Source: Fitch Ratings

The Derivative Counterparty Rating (DCR), 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 and Santander, because it is part of the same 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+' prevents higher short-term 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.

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+' prevents a higher Short-Term IDR.

Significant Changes from Last Review

Deteriorating Economic Prospects: Weak Economic Growth and Asset Quality Risks Ahead

The continued challenging operating environment in Germany reflects weak economic growth – mainly due to the impact of higher energy prices. A strong backlog of orders is still supporting German manufacturing, but new orders are slowing. Production is well short of pre-pandemic levels, and the energy-intensive sectors continue to struggle despite having recovered from the worst of the energy price and supply shock. Germany's GDP fell 0.3% in 1Q23, marking a second successive quarter of contraction. The recession took the German economy below its pre-pandemic level, lagging well behind the post-pandemic recovery paths elsewhere in Europe. Meanwhile, inflation remained high and was sticky at 6.1% in August, down only 0.1pp from July, and core inflation was unchanged at 5.5%.

So far, the German banking sector has proved resilient to the downturn as banks' profits in 1H23 increased yoy, supported by higher interest rates, improved margins and low-risk costs. Corporate defaults remained benign throughout 2022 and into 1H23; however, Fitch expects an increase of corporate insolvencies in 2H23 and 2024. Therefore, asset quality pressure is likely to materialise from 2H23, primarily in energy-intensive industrial sectors such as the chemical, paper, glass industry or machinery sectors, due to a fall in domestic demand.

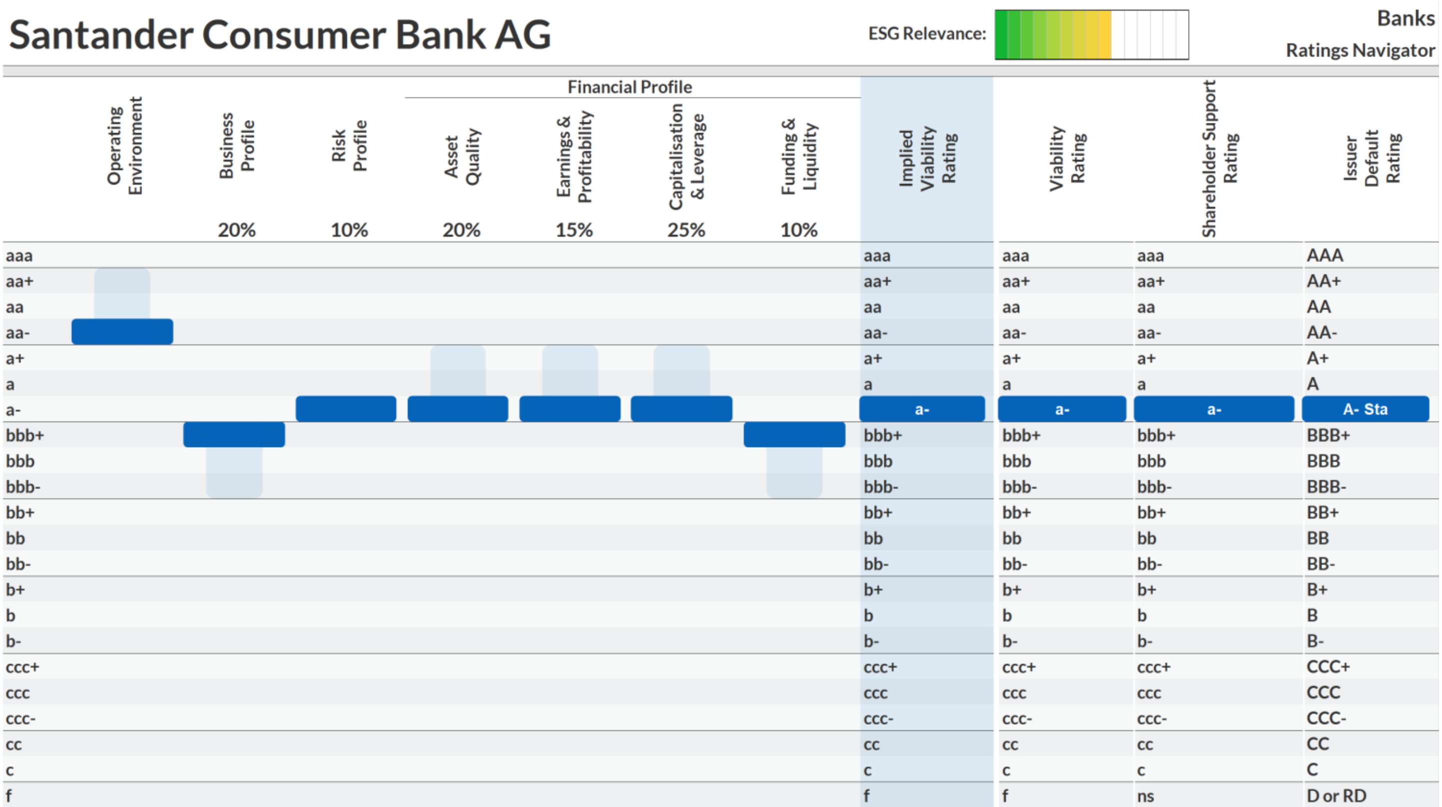
Sectors that are interest-rate-sensitive, such as construction and real estate, are likely to have higher default rates.

Inflation Weighs on Consumer Confidence

Consumer price inflation in Germany remained high and was persistent at 6.1% in August 2023, down only 0.1pp from July. Core inflation remained unchanged at 5.5%. The German Consumer Climate Indicator, compiled by the market research company Gesellschaft fuer Konsumforschung (GfK), dropped to -25.5 in August, marking the lowest reading since May this year. In addition, GfK's "propensity to buy" sub-index has remained low since summer 2022, weighing on consumer sentiment.

We believe that the weaker consumer fundamentals over the medium term could weigh on private sector credit demand from consumer finance banks, although this had not yet materialised as of mid-2023.

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

Financial Statements

	31 Dec 22 Year end (EURm)	31 Dec 21 Year end (EURm)	31 Dec 20 Year end (EURm)	31 Dec 19 Year end (EURm)
Summary income statement				
Net interest and dividend income	1,054	1,071	1,010	1,055
Net fees and commissions	163	182	158	155
Other operating income	142	193	130	111
Total operating income	1,359	1,446	1,298	1,321
Operating costs	774	752	780	833
Pre-impairment operating profit	585	694	518	488
Loan and other impairment charges	141	161	124	33
Operating profit	444	533	394	454
Net income	444	533	394	454
Summary balance sheet				
Assets				
Gross loans	32,784	29,407	29,749	30,497
- Of which impaired	498	589	528	537
Loan loss allowances	740	551	532	536
Net loans	32,044	28,856	29,217	29,961
Interbank	6,778	2,755	2,860	2,152
Other securities and earning assets	12,962	12,730	12,196	10,019
Total earning assets	51,784	44,341	44,273	42,133
Cash and due from banks	1,291	10,758	5,349	3,496
Other assets	535	525	506	474
Total assets	53,610	55,623	50,127	46,102
Liabilities				
Customer deposits	25,250	23,390	22,774	23,170
Interbank and other short-term funding	8,686	10,473	7,254	4,999
Other long-term funding	14,707	16,712	15,217	13,298
Total funding and derivatives	48,643	50,576	45,245	41,467
Other liabilities	1,245	1,326	1,161	1,238
Preference shares and hybrid capital	409	408	408	333
Total equity	3,313	3,313	3,313	3,063
Total liabilities and equity	53,610	55,623	50,127	46,102

Source: Fitch Ratings, Fitch Solution, SCB AG

Key Ratios

	31 Dec 22	31 Dec 21	31 Dec 20	31 Dec 19
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.0	2.8	2.0	2.3
Net interest income/average earning assets	2.2	2.4	2.3	2.6
Non-interest expense/gross revenue	61.1	52.0	60.1	63.1
Net income/average equity	13.4	16.1	12.4	14.8
Asset quality				
Impaired loans ratio	1.5	2.0	1.8	1.8
Growth in gross loans	11.5	-1.2	-2.5	0.3
Loan loss allowances/impaired loans	148.6	93.6	100.8	99.8
Loan impairment charges/average gross loans	0.4	0.5	0.4	0.1
Capitalisation				
Common equity Tier 1 ratio	12.9	15.0	14.4	13.0
Tangible common equity/tangible assets	5.8	5.6	6.2	6.2
Basel leverage ratio	6.7	7.3	7.5	n.a.
Funding and liquidity				
Gross loans/customer deposits	129.8	125.7	130.6	131.6
Liquidity coverage ratio	231.7	519.6	236.6	187.8
Customer deposits/total non-equity funding	51.5	45.9	49.9	55.4
Gross loans/customer deposits + covered bonds	124.8	120.4	125.1	128.8

Source: Fitch Ratings, Fitch Solutions, SCB AG

Support Assessment

Shareholder Support	
Shareholder 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

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 businesses for the group. We believe that Santander would increase SCB AG's capital to support organic growth and acquisitions whenever needed, as it has in the past.

Subsidiaries and Affiliates

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.

			ESG Relevance to Credit Rating
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) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
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 relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.h 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), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
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) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
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.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

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