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) and underscored by the Shareholder Support Rating (SSR) of 'a-'. The Stable Outlook on SCB AG's Long-Term IDR mirrors that on its parent's.

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 profitability and adequate capital, funding and liquidity profiles. The VR also reflects the bank's only slight business diversification.

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 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.

Focused Business Profile: SCB AG's business model has demonstrated its resilience through the economic cycle, and new business volumes have increased in the mobility subsector, which is an area of focus for the bank. The rise is despite a continued economic downturn in Germany.

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: We expect impaired loans to rise in 2024 as persisting higher interest rates continue to challenge borrowers' financial headroom. However, we expect SCB AG's impaired loans ratio to increase to just over 2% in the next two years (1.8% at end-2023).

Refinancing Costs Weigh on Profits: In 2024, we expect a rebound in profitability, and for SCB AG to generate an operating profit of above 1.5% of risk-weighted assets (RWAs). Unlike most German banks, SCB AG did not fully benefit from higher interest rates, due to the slow repricing of its loan book and a big rise in its refinancing costs. Loan impairment charges increased in 2023, halving pre-impairment profit, and we expect a further small rise in 2024.

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 large loan growth or acquisitions. The bank usually does not generate capital internally as annual profits are channelled to its German intermediate parent, based on a control-and-profit transfer agreement. Our assessment also considers a flexible approach to capital relief transactions and a good leverage ratio (7.5% at end-June 2024).

Self-Funded, Mostly Through Deposits: SCB AG's established retail deposit franchise is supplemented by regular capital markets 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.

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 (March 2024)

Related Research

Fitch Affirms Santander Consumer Bank AG at 'A-'; Outlook Stable (May 2024)

Global Economic Outlook (September 2024)

Analysts

Caroline Herper, CFA
+49 69 768076 176
caroline.herper@fitchratings.com

Justus Roppertz
+49 69 768076 176 232
justus.roppertz@fitchratings.com

Rating Sensitivities

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

SCB AG's IDRs would be downgraded if both its VR and SSR are downgraded. A downgrade of Santander's IDR, the sale of a big stake in SCB AG or a decline in the company's strategic importance for the group could reduce the likelihood of extraordinary support and trigger a downgrade of its SSR.

SCB AG's VR could be downgraded if the bank's operating profit durably declines below 1.5% of RWAs 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, as reflected in an impaired loan ratio above 3% over a prolonged period. A downgrade of Santander's VR could also put pressure on SCB AG's VR as the latter factors in the 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 first require an upgrade of Santander's VRs, as well as a major and sustained increase in revenue diversification at SCB AG, with limited dilution of its operating profit/RWAs ratio.

Other Debt and Issuer Ratings

Rating Level	Rating
Deposit ratings	A/F1
Senior non-preferred: long term	A-
Senior preferred ratings	A/F1

Source: Fitch Ratings

The Derivative Counterparty Rating (DCR) and long-term senior preferred debt and long-term deposit ratings are all one notch above the Long-Term IDR to reflect the protection accruing to preferred creditors from the senior non-preferred and junior debt buffers. SCB AG issues its resolution debt buffers internally to SCF or Santander, as it is part of the same resolution group. The short-term senior preferred 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 a higher Short-Term IDR, and are in line with the parent's short-term senior preferred debt and deposit ratings.

SCB AG's senior non-preferred debt rating is aligned with its Long-Term IDR, as we expect the bank to continue to meet its resolution buffer requirements with senior non-preferred 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, and is line with the parent's Short-Term IDR.

Significant Changes from Last Review

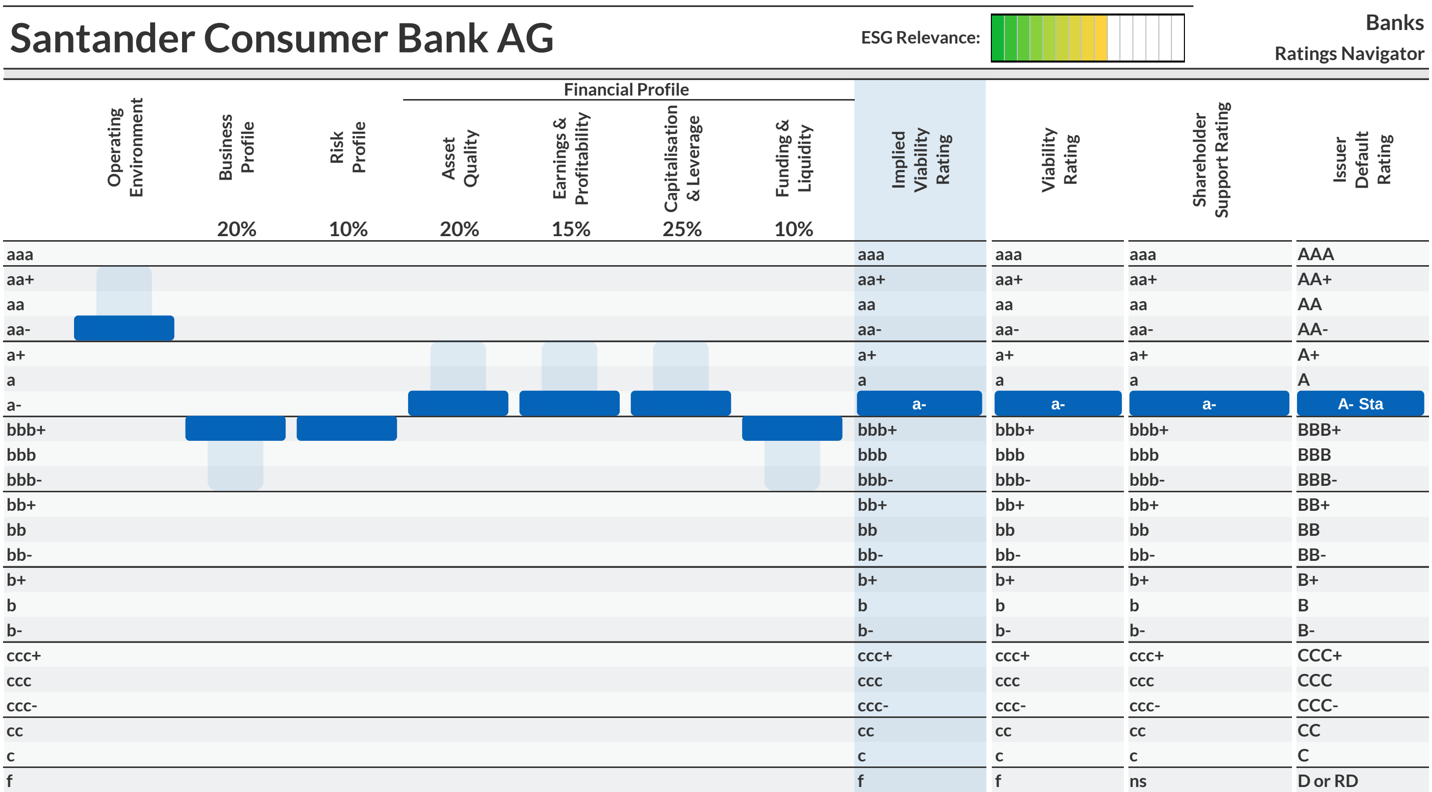
Continued Challenging Operating Environment

We expect SCB AG's operating environment to remain challenging in 2H24 and 2025, as economic growth in Germany will remain sluggish. The economy underperformed in 2Q24, contracting by 0.1% as consumption and investment dipped, after a slight rise in 1Q24. Germany remains the outlier among the big four eurozone economies, with particularly weak domestic demand – although a revision of national accounts narrowed the estimated shortfall in consumption relative to pre-pandemic levels.

A return to steady consumption growth should support a wider recovery after recent shocks, but this is taking longer to materialise than expected. Household confidence has risen, although surveys suggest intentions to save have also gone up. This is underscored by incoming data on household earnings. Wage growth is among the fastest in the eurozone. Real earnings rose 3.1% year-on-year in 2Q24, and the Bundesbank reported many recent pay settlements incorporated nominal rises of 4%–6%. Job creation has slowed and, while unemployment is low in absolute terms, at 3.4%, we expect it to rise in the short term. These developments could contribute to stabilising SCB AG's asset quality.

New business volumes in SCB AG's mobility subsector could, however, be negatively affected by the uncertain economic environment in Germany. Between January and October 2024, new vehicle registrations declined by 0.4%. However, this could be counterbalanced, to some extent, by the number of private registrations, which rose by 8.5% over the same period, given that the bank considers used cars as more important to its business volumes. In addition, consumer lending, a core business line for SCB AG, has shown signs of a gradual recovery after a dip in mid-2024, with growth in consumer credits remaining stable at 1% year-on-year in September 2024 (based on preliminary values).

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 December 2023		31 December 2022	31 December 2021	31 December 2020
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
Summary income statement					
Net interest and dividend income	1,064	971	1,054	1,071	1,010
Net fees and commissions	118	107	163	182	158
Other operating income	70	64	142	193	130
Total operating income	1,252	1,143	1,359	1,446	1,298
Operating costs	785	716	774	752	780
Pre-impairment operating profit	468	427	585	694	518
Loan and other impairment charges	264	241	141	161	124
Operating profit	204	186	444	533	394
Other non-operating items (net)	85	78	–	–	–
Tax	0	0	0	0	1
Net income	289	264	444	533	394
Summary balance sheet					
Assets					
Gross loans	40,388	36,864	32,784	29,407	29,749
– of which impaired	741	676	498	589	528
Loan loss allowances	1,108	1,011	740	551	532
Net loans	39,281	35,853	32,044	28,856	29,217
Interbank	10,642	9,714	6,778	2,755	2,860
Other securities and earning assets	7,098	6,479	12,962	12,730	12,196
Total earning assets	57,021	52,046	51,784	44,341	44,273
Cash and due from banks	753	687	1,291	10,758	5,349
Other assets	539	492	535	525	506
Total assets	58,313	53,225	53,610	55,623	50,127
Liabilities					
Customer deposits	34,355	31,357	25,250	23,390	22,774
Interbank and other short-term funding	2,219	2,025	8,686	10,473	7,254
Other long-term funding	16,375	14,946	14,707	16,712	15,217
Total funding and derivatives	52,948	48,328	48,643	50,576	45,245
Other liabilities	1,189	1,085	1,245	1,326	1,161
Preference shares and hybrid capital	463	423	409	408	408
Total equity	3,712	3,388	3,313	3,313	3,313
Total liabilities and equity	58,313	53,225	53,610	55,623	50,127
Exchange rate		USD1 = EUR0.912742	USD1 = EUR0.937559	USD1 = EUR0.884173	USD1 = EUR0.821963

Source: Fitch Ratings, Fitch Solutions, SCB AG

Key Ratios

	31 December 2023	31 December 2022	31 December 2021	31 December 2020
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	0.8	2.0	2.8	2.0
Net interest income/average earning assets	1.9	2.2	2.4	2.3
Non-interest expense/gross revenue	64.1	61.1	52.0	60.1
Net income/average equity	7.9	13.4	16.1	12.4
Asset quality				
Impaired loans ratio	1.8	1.5	2.0	1.8
Growth in gross loans	12.5	11.5	-1.2	-2.5
Loan loss allowances/impaired loans	149.6	148.6	93.6	100.8
Loan impairment charges/average gross loans	0.6	0.4	0.5	0.4
Capitalisation				
Common equity Tier 1 ratio	13.0	12.9	15.0	14.4
Tangible common equity/tangible assets	6.0	5.8	5.6	6.2
Basel leverage ratio	6.3	6.7	7.3	7.5
Funding and liquidity				
Gross loans/customer deposits	117.6	129.8	125.7	130.6
Gross loans/customer deposits + covered bonds	113.8	124.8	120.4	125.1
Liquidity coverage ratio	220.8	231.7	519.6	236.6
Customer deposits/total non-equity funding	64.3	51.5	45.9	49.9

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

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Environmental, Social and Governance Considerations

FitchRatings **Santander Consumer Bank AG**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Credit-Relevant ESG Derivation				ESG Relevance to Credit Rating
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.	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 reflect 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.