FitchRatings

01 Apr 2020 | Rating Changed Outlook to Negative

Fitch Revises Santander Consumer Bank AG's Outlook to Negative; Places VR on RWN

Fitch Ratings-Frankfurt am Main-01 April 2020:

Fitch Ratings has revised Santander Consumer Bank AG's (SCB AG's) Outlook to Negative from Stable, while affirming the bank's Long-Term Issuer Default Rating (IDR) at 'A-'. The bank's 'a-' Viability Rating (VR) has been placed on Rating Watch Negative (RWN).

The Outlook revision follows a recent similar rating action on SCB AG's ultimate parent, Banco Santander, S.A. (Santander, A-/ Negative) and intermediate parent, Santander Consumer Finance, S.A. (SCF, A-/ Negative, Fitch Takes Action on 17 Spanish Banking Groups On Heightened Challenges from Coronavirus Outbreak). The IDRs of SCB AG are based on Fitch's assessment of institutional support from its parents.

A full list of rating actions is detailed below.

Santander Consumer Bank AG; Long Term Issuer Default Rating; Affirmed; A-; RO:Neg
; Short Term Issuer Default Rating; Affirmed; F2
; Viability Rating; Rating Watch On; a-; RW: Neg
; Support Rating; Affirmed; 1
; Derivative Counterparty Rating; Upgrade; A(dcr)
----long-term deposits; Long Term Rating; Upgrade; A
----Senior non-preferred; Long Term Rating; Affirmed; A-
----Senior preferred; Long Term Rating; Upgrade; A
----short-term deposits; Short Term Rating; Upgrade; F1
----Senior preferred; Short Term Rating; Upgrade; F1

Key Rating Drivers

Unless noted below, the key rating drivers for SCB AG are those outlined in our Rating Action Commentary published in October 2019 (Fitch Affirms Santander Consumer Bank AG at 'A-'; Outlook Stable).

SCB AG's IDRs and Support Rating (SR) reflect our view that support from Santander would be extremely likely, if needed. Support could be provided either directly by Santander or by SCF.

The bank's Short-Term IDR was affirmed at 'F2', in line with the parents'. SCB AG's senior non-preferred (SNP) debt is rated in line with the bank's Long-Term IDR, due to our expectation that the bank will meet its resolution buffer requirements determined by resolution authorities with SNP and more junior liabilities.

Fitch has also taken rating actions on SCB AG's Derivative Counterparty Rating (DCR), senior preferred debt and deposit ratings, which were placed Under Criteria Observation (UCO) on 4 March 2020 (see "Fitch Places German and Austrian Banks Under Criteria Observation"), following the publication of Fitch's updated Bank Rating Criteria on 28 February 2020. We have upgraded the bank's DCR, long-term senior preferred and deposit ratings by one notch to reflect the protection that could accrue to them from more junior resolution debt and equity buffers. We also upgraded the short-term senior preferred and deposit ratings by one notch to 'F1'. This is the lower of the two possible short-term ratings mapping to an 'A' long-term rating since SCB AG's funding and liquidity score, which feeds into the VR, is at 'bbb+'.

The RWN on SCB AG's VR reflects the economic fallout from the coronavirus crisis representing a near-term risk to the rating. SCB AG operates exclusively in Germany and we expect the bank to face additional risks as Germany's operating environment weakens. Its business model as a consumer finance lender also exposes the bank to deterioration in its asset quality. Despite SCB AG's resilient profits in recent years, we expect pressure on the bank's profitability from lower business volumes as well as higher loan impairment charges (LICs) from rising non-performing loans. We expect this to put pressure on the ability to consistently and strongly execute on its strategy.

RATING SENSITIVITIES

The most immediate downside risk for the bank's VR is the pandemic and the associated economic and financial market fallout. In our view this represents a clear risk to our assessment of the bank's management and strategy, asset quality as well as earnings and profitability. The extent to which support packages by the government and central bank can mitigate these pressures will depend on the amount and form such support takes. The RWN would result in a downgrade of SCB AG's VR if the bank experiences significant asset-quality deterioration, most likely to arise from its unsecured consumer lending portfolio, or a protracted and material weakening in earnings. A further downward revision of Fitch's expectations for the German economy in 2020 could also exert downward pressure on the VR.

We could remove the RWN from the VR if the pandemic-related disruptions turn out to be short-lived, if the bank demonstrates a superior ability to navigate them, or regulatory intervention effectively neutralises the threat to SCB AG's financial standing.

SCB AG's IDRs, SR and SNP debt ratings would be downgraded if the VR is downgraded and if in Fitch's view the availability of support from Santander/SCF in case of need becomes less likely. A downgrade of Santander's/SCF's IDRs would likely lead to a downgrade of SCB AG's VR because the VR benefits from ongoing support from the group, given SCB AG's strong integration into the group. The likelihood of extraordinary support from Santander/SCF is sensitive to a change in their IDRs or in their propensity to provide support.

A downgrade of Santander's/SCF's IDRs, the sale of a significant stake in SCB AG or declining importance of SCB AG for the group could reduce the likelihood of support. An upgrade of Santander's/SCF's IDRs could increase the likelihood of extraordinary support and, thus, lead to an upgrade of SCB AG's IDRs.

The Outlook on SCB AG would be revised to Stable if the Outlooks on Santander's/SCF's are revised to Stable.

An upgrade of SCB AG's VR would require significant revenue diversification with limited dilution of the bank's return on risk-weighted assets (RWAs), as well as an upgrade of Santander's/SCF's IDRs.

The ratings of SCB AG's DCR, senior preferred debt and deposit ratings are sensitive to changes in the bank's IDRs. They are also sensitive to changes in the buffer of junior and senior non-preferred unsecured debt, if we expect the bank to meet required resolution buffers by including senior preferred liabilities, unless its buffer of junior and senior non-preferred unsecured debt is sustainably above 10% of its RWAs.

Best/Worst Case Rating Scenario

Ratings of financial institutions 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 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

The ratings of SCB AG are linked to the ratings of Santander and SCF; a change in the ratings of Santander and SCF could result in a change of SCB AG's ratings.

ESG Considerations
ESG issues are credit neutral or have only a minimal credit impact on the entity(ies), either due to their nature or the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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Additional information is available on www.fitchratings.com

Applicable Criteria

Bank Rating Criteria (pub. 28 Feb 2020) (including rating assumption sensitivity)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

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