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Fitch Affirms Santander Consumer Bank AG's Mortgage Pfandbriefe at 'AAA'; Outlook Stable

Fitch Ratings - Frankfurt am Main - 26 Oct 2023: Fitch Ratings has affirmed Santander Consumer Bank AG's (SCB; A-/Stable/F2) mortgage Pfandbriefe at 'AAA' with a Stable Outlook, following its periodic review of the programme.

KEY RATING DRIVERS

The mortgage Pfandbriefe's 'AAA' rating is based on SCB's 'A-' Long-Term Issuer Default Rating (IDR), the various uplifts above the IDR granted to the programme and the overcollateralisation (OC) protection for Pfandbrief holders. The Stable Outlook reflects that on SCB's IDR and a four-notch buffer against an IDR downgrade.

The Pfandbriefe are rated six notches above the bank's IDR. This is out of a maximum achievable uplift of 10 notches, consisting of a resolution uplift of two notches, a payment continuity uplift (PCU) of six notches and a recovery uplift of two notches.

As SCB's IDRs are 'A-/F2', Fitch relies on the lowest reported OC over the last 12 months of 16.2%, which provides more protection than Fitch's 'AAA' break-even OC of 3%.

'AAA' Break-even OC

Fitch's unchanged 'AAA' break-even OC of 3% supports a timely payment rating level of 'AA+' and a one-notch recovery uplift to 'AAA'. It remains driven by the credit loss and the ALM (assets-liabilities mismatch) loss at the 'AA+' timely payment rating level. In accordance with its Covered Bonds Rating Criteria, Fitch carried forward the results of its asset and cash flow models, as the asset-liability characteristics have not materially changed since the last annual review in November 2022 and the relied upon OC is more than twice the break-even OC for the rating.

The unchanged and low credit loss of 3.3% reflects the high quality of SCB's cover assets, with high seasoning and a low current weighted average loan-to-value (LTV) ratio of 45.8%, which allows for outstanding recoveries. The credit loss is driven by the portfolio loss floor in Fitch's criteria, which the agency applied to address the idiosyncratic risks of low-risk portfolios.

The ALM loss of Fitch 'AAA' break-even OC remains -0.1%, reflecting the stable asset-liability structure of the programme as well as the risk mitigation provided by the 12-month extendible maturity feature in addition to a 180-day liquidity buffer. It also reflects the excess spread in the programme, resulting from higher-yielding fixed-rate mortgage loans held in the cover pool against the lower-yielding fixed-rate Pfandbriefe. We expect the ALM loss to reverse once additional Pfandbriefe are issued at a potentially higher yield.

As of end-September 2023, SCB's EUR1.025 billion outstanding mortgage Pfandbriefe were secured by EUR1.289 billion cover assets, resulting in a nominal OC of 25.8%. The cover pool consists of private residential mortgages in Germany.

Uplifts

The two-notch resolution uplift reflects that collateralised Pfandbriefe in Germany are exempt from bail-in, Fitch's view of sufficiently low risk of under-collateralisation at the point of resolution, and that a resolution of SCB is not likely to result in the direct enforcement of the recourse against the cover pool.

The six-notch PCU reflects principal liquidity protection provided by a 12-month maturity extension feature. The mandatory inclusion of liquid assets in the cover pool matching the maximum negative accumulated balance of cash flows for the next 180 days also provides effective protection of interest payments and senior expenses.

The two-notch recovery uplift of the programme reflects that Fitch did not identify any material risks to recovery expectations.

RATING SENSITIVITIES

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

The covered bonds are rated 'AAA', which is the highest level on Fitch's scale and cannot be upgraded.

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

SCB's mortgage Pfandbriefe rating would be vulnerable to a downgrade if the bank's IDR was downgraded by five notches to 'BB' or below; or if the OC considered by Fitch in its analysis provides less protection than Fitch's 'AAA' breakeven OC of 3.0%.

In case the OC that Fitch considers in its analysis drops to the legal minimum requirement of 2% on a nominal basis, the Pfandbriefe's rating would likely be downgraded to 'AA'.

Fitch's 'AAA' breakeven OC for the covered bond rating will be affected, among other things, by the profile of the cover assets relative to outstanding Pfandbriefe, which can change over time, even in the absence of new issuance.

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 Pfandbriefe rating is driven by SCB's credit risk as measured by its Long-Term IDR.

ESG Considerations

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>.

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Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Santander Consumer Bank AG			
• senior secured, Mortgage Covered Bonds, Mortgage Pfandbriefe	LT	AAA 	Affirmed
			AAA 

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

- [Bank Rating Criteria \(pub.01 Sep 2023\) \(including rating assumption sensitivity\)](#)
- [Covered Bonds Rating Criteria \(pub.09 Oct 2023\) \(including rating assumption sensitivity\)](#)
- [European RMBS Rating Criteria \(pub.21 Jun 2023\) \(including rating assumption sensitivity\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria \(pub.14 Mar 2023\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum \(pub.01 Aug 2022\)](#)

[Structured Finance and Covered Bonds Country Risk Rating Criteria \(pub.07 Jul 2023\)](#)

[Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria \(pub.28 Dec 2022\)](#)

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. Sector-specific best- and worst-case scenario credit ratings are listed in more detail at <https://www.fitchratings.com/site/re/10238496>

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