

Santander Consumer Bank AG

Mortgage Pfandbriefe Update

Rating/Outlook

Mortgage Pfandbriefe	AAA/Stable
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Rating Rationale

IDR/Outlook	A-/Stable
IDR uplift	2 Notches
Payment continuity uplift	4 Notches
Tested Rating on PD basis	AA
Recovery given default uplift	2 Notches
Covered Bond Rating	AAA
OC Fitch considers in analysis (%)	39.2
'AAA' breakeven OC (%)	19.5

Key Data

	Sep 18
Asset type	Mortgage
Cover assets (EURm)	496
Pfandbriefe (EURm)	250
Nominal OC (%)	98.3

Source: Fitch Ratings

Related Research

Fitch Affirms Santander Consumer Bank AG at 'A-'; Outlook Stable (November 2018)

Fitch Affirms Santander Consumer Bank AG's Mortgage Pfandbriefe at 'AAA', Outlook Stable (November 2018)

Fitch Ratings 2019 Outlook: Global Covered Bonds (November 2018)

Covered Bonds Surveillance Snapshot (October 2018)

Covered Bonds Surveillance Snapshot-Excel File (October 2018)

'B' Portfolio Loss Rates for Covered Bonds (September 2018)

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Key Rating Drivers

Two-notch Downgrade Buffer: Santander Consumer Bank AG's (SCB AG) mortgage Pfandbrief rating is based on the Long-Term Issuer Default Rating (IDR) of 'A-', an IDR uplift of two notches, a payment continuity uplift of four notches and a two-notch recovery uplift. The over-collateralisation (OC) Fitch Ratings relies on comprises 39.2% and reflects the lowest OC level of the last 12 months, above the 'AAA' breakeven OC of 19.5%. The Stable Outlook on the rating reflects the two-notch buffer against an IDR downgrade.

Maturity Mismatches Persist: There have been no new issuances to date with a large amount of new assets entering the pool. This has kept the asset-liability mismatch in the pool constant and is the driving factor behind the relatively high asset-liability-mismatch loss component of 17.1%. Residential mortgage loans with high remaining terms are tested to repay one bond issuance with a significantly shorter maturity. This aspect is likely to improve should the asset-liability profile become more balanced in the future once further issuances take place.

High-Quality Cover Pool: The credit loss component remains a secondary risk driver at only 2.7% reflecting the high quality of SCB AG's cover assets with a high seasoning and low current weighted average loan-to-value (LTV) ratio of 44%, allowing for outstanding recoveries. Fitch carried forward the previously calculated credit loss in its analysis, as the relied-upon OC for the programme provides enough buffer against the breakeven OC for the rating and the pool characteristics have not changed materially over the past 12 months.

Assigned Uplifts Unchanged: The two-notch IDR uplift reflects that the IDR is based on the issuer's Viability Rating, and that Pfandbriefe are exempt from bail-in in a resolution scenario. The payment continuity uplift of four notches reflects the mandatory inclusion of liquid assets in the cover pool, matching the maximum negative accumulated balance of cash flows for 180 days. We do not expect downside risks to recoveries while the relied-upon OC covers the credit loss allowing for the two-notch recovery uplift.

Programme Highlights

Granular, Diversified Cover Pool: The cover pool consists of 7,415 loans with a relatively small average financing volume of EUR96,900 and the top 10 financings representing less than 0.8% of the total cover pool. The pool consists exclusively of residential mortgage loans secured by properties within Germany that are well diversified across the country. The low LTV of only 44% grants a large buffer to real-estate price declines before losses materialise.

Low Market Risks: The programme has no foreign-exchange exposure, with assets and liabilities exclusively denominated in euros. The outstanding fixed-rate covered bond is also secured by fixed-rate assets.

High Asset Replenishment: The cover pool has grown by about 77% from a year ago. The nominal OC as of end-September 2018 is about 98%. New loans entering the pool are a mix of loans newly originated by SCB and seasoned loans initially originated from SEB Bank that SCB acquired in 2012.

Cover Pool Characteristics: Sep 18

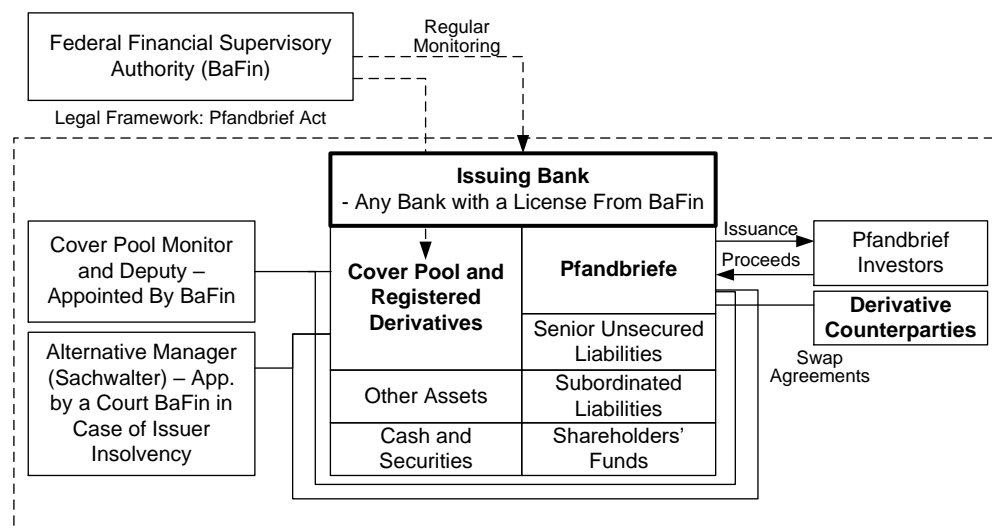
Residential cover pool	
Size (EURm)	496
Number of borrowers	5,112
Number of loans	7,415
Weighted-average seasoning (years)	5.4
Weighted-average LTV (%)	43.8
Average loan balance (EUR 000)	96.9

Interest (%)	
Fixed rate	100
Amortising loans	97
Interest only loans	3
Weighted-average interest rate	2.1

Property type (%)	
Single family homes	62
Flats	24
Multi-family homes	14

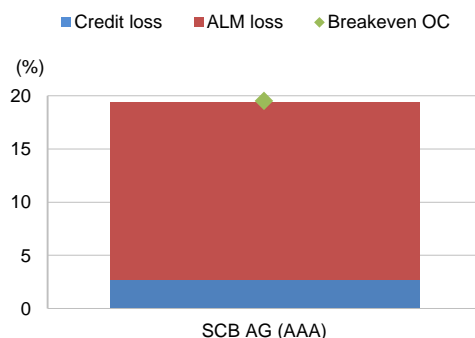
Source: Fitch Ratings, Fitch Solutions, SCB AG

Diagram of a Pfandbrief Issuance



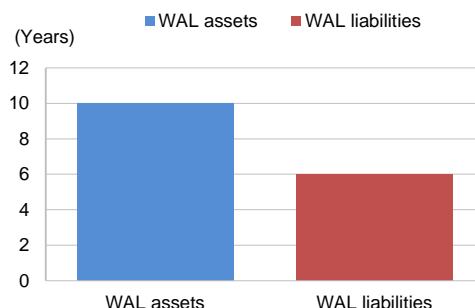
Source: Fitch Ratings

Breakeven OC Components SCB AG



Source: Fitch Ratings

Weighted Average Life (WAL) of Assets and Liabilities



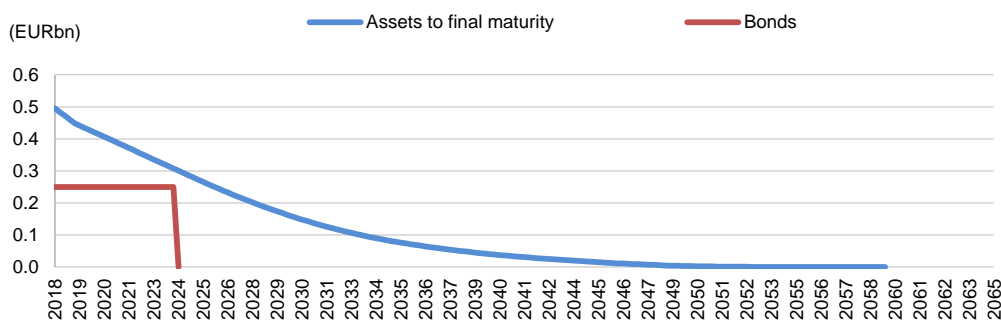
Source: Fitch Ratings

Fitch Default Model Output (%)

Rating level	AAA	AA+	AA
Rating Default Rate (RDR)	14.4	13.1	11.8
Rating Recovery Rate (RRR)	72.2	75.2	78.1
Rating Loss Rate (RLR)	4.0	3.3	2.6

Source: Fitch Ratings

Unstressed Amortisation Profiles



Source: Fitch Ratings SCB AG

Related Criteria

- [Bank Rating Criteria \(October 2018\)](#)
- [Structured Finance and Covered Bonds Country Risk Rating Criteria \(October 2018\)](#)
- [Covered Bonds Rating Criteria \(October 2018\)](#)
- [Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria \(February 2018\)](#)
- [EMEA RMBS Rating Criteria \(August 2018\)](#)
- [Germany Residential Mortgage Rating Criteria Addendum \(May 2018\)](#)
- [Fitch's Interest Rate Stress Assumptions for Structured Finance and Covered Bonds - Excel File \(February 2018\)](#)
- [Structured Finance and Covered Bonds Counterparty Rating Criteria \(August 2018\)](#)
- [Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum \(August 2018\)](#)

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