FitchRatings

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

Fitch Ratings-Frankfurt/London-09 November 2018: Fitch Ratings has affirmed Santander Consumer Bank AG's (SCB AG; A-/Stable/F2) EUR250 million 0.25% fixed-rate mortgage Pfandbrief rating at 'AAA' with a Stable Outlook.

KEY RATING DRIVERS
The rating is based on the issuer's Long-Term Issuer Default Rating (IDR) of 'A-', an IDR uplift of two notches, a payment continuity uplift (PCU) of four notches, a recovery uplift of two notches and the 'AAA' breakeven over-collateralisation (OC) of 19.5%, which is below the 39.2% nominal OC relied upon by Fitch.

The non-credit loss component (ALM loss) continues to drive the breakeven OC and has remained fairly stable at 17.1% (16.7% previously). This component reflects the slightly increased maturity mismatches mirroring the shortened remaining term to maturity of the one covered bond outstanding. Residential mortgage loans with high remaining terms are tested to repay one bond issuance with a significantly shorter maturity.

The low credit loss component of 2.7% reflects the high quality of SCB AG's cover assets with a high seasoning and low current weighted average loan-to-value ratio of 44%, allowing for outstanding recoveries. 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 last 12 months, Fitch carried forward the previously calculated credit loss.

RATING SENSITIVITIES
The 'AAA' rating would be vulnerable to downgrade if any of the following occurs: Santander Consumer Bank AG's (SCB) Issuer Default Rating (IDR) is downgraded to 'BBB-' or lower; (ii) the number of notches represented by the IDR uplift, the PCU and the recovery uplift is reduced to five or less; or (iii) the overcollateralisation (OC) that Fitch considers in its analysis drops below its 'AAA' breakeven level of 19.5%.

If the OC that Fitch considers in its analysis drops to the legal minimum requirement of 2% on a net present value basis, the programme could only achieve a one-notch recovery uplift. As a result, the covered bond rating would likely be downgraded to 'AA-', one notch above SCB AG's IDR as adjusted by the IDR uplift.

The Fitch breakeven OC for the covered bond rating will be affected by the profile of the cover assets relative to outstanding covered bonds, which can change over time, even in the absence of new issuance. Therefore, the breakeven OC to maintain the covered bond rating cannot be assumed to remain stable over time.

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Additional information is available on www.fitchratings.com

Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018) (https://www.fitchratings.com/site/re/10044408)
Covered Bonds Rating Criteria (pub. 08 Oct 2018) (https://www.fitchratings.com/site/re/10047240)
EMEA RMBS Rating Criteria (pub. 03 Aug 2018) (https://www.fitchratings.com/site/re/10039007)
Fitch's Interest Rate Stress Assumptions for Structured Finance and Covered Bonds - Excel File (pub. 02 Feb 2018) (https://www.fitchratings.com/site/re/10018863)
Germany Residential Mortgage Rating Criteria Addendum (pub. 02 May 2018) (https://www.fitchratings.com/site/re/10028250)
Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 01 Aug 2018) (https://www.fitchratings.com/site/re/10039504)
Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 01 Aug 2018) (https://www.fitchratings.com/site/re/10039505)
Structured Finance and Covered Bonds Country Risk Rating Criteria (pub. 23 Oct 2018) (https://www.fitchratings.com/site/re/10047041)
Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 02 Feb 2018) (https://www.fitchratings.com/site/re/10018549)

Additional Disclosures

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