Fitch Ratings has assigned Santander Consumer Bank AG's (SCB AG; A-/Stable/F2) EUR250 million 0.25% fixed-rate mortgage Pfandbrief with a seven-year maturity a 'AAA' rating. The Outlook is Stable.

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 'AAA' breakeven over-collateralisation (OC) of 19.5%, which is the minimum SCB AG intends to maintain.

The high breakeven OC relative to peers is driven by a cash flow valuation component of 5.0% and an asset disposal loss of 11.7%, reflecting the maturity mismatches of this newly set up programme. Residential mortgage loans with high remaining terms are tested to repay bond issuances with a significantly shorter maturity.

The credit loss component of only 2.7% reflects the high quality of SCB AG's cover assets. As of October 2017, ordinary cover assets consisted of German residential housing loans. The programme's credit loss is a secondary rating driver, driven by limited expected defaults together with the maximum low loan-to-value (LTV) anchored in the German Pfandbrief Act.

Fitch usually assumes that the cover pool is replenished with assets of a similar amortisation. However, when testing a switch of the recourse against the cover pool shortly ahead of the modelled bond redemption, Fitch assumed that replenishment, if any, would be made from the existing stock of loans, leading to a shorter cover assets' residual life. This keeps maturity mismatches between the cover pool and the covered bonds constant. This constitutes a variation to Fitch's criteria Covered Bonds Rating Criteria. The variation has no rating impact.

RATING SENSITIVITYs
The 'AAA' rating would be vulnerable to downgrade if any of the following occurs: SCB AG's IDR is downgraded to 'BBB-' or lower; (ii) the combined number of notches represented by the IDR uplift and the PCU is reduced from six to three or lower; or (iii) the 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.

Contact:
Additional information is available on www.fitchratings.com

Applicable Criteria
Covered Bonds Rating Criteria (pub. 01 Dec 2017)
https://www.fitchratings.com/site/re/906615
EMEA RMBS Rating Criteria (pub. 27 Oct 2017)
https://www.fitchratings.com/site/re/905358
https://www.fitchratings.com/site/re/10008155
Fitch’s Interest Rate Stress Assumptions for Structured Finance and Covered Bonds - Excel File (pub. 17 Feb 2017)
https://www.fitchratings.com/site/re/894478
Germany Residential Mortgage Rating Criteria Addendum (pub. 17 May 2017)
https://www.fitchratings.com/site/re/898262
Global Bank Rating Criteria (pub. 25 Nov 2016)
https://www.fitchratings.com/site/re/891051
Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 23 May 2017)
https://www.fitchratings.com/site/re/898537
Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 23 May 2017)
https://www.fitchratings.com/site/re/898538
Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 17 Feb 2017)
https://www.fitchratings.com/site/re/893890

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