Fitch Ratings

18 Nov 2020 | Affirmation

Fitch Takes Multiple Rating Actions on 5 Spanish Covered Bond Programmes

Fitch Ratings-Madrid-18 November 2020:

Fitch Ratings has affirmed the ratings of two Spanish mortgage covered bond programmes (Cedulas Hipotecarias, or CH) and one Spanish public-sector programme (Cedulas Territoriales, or CT). In addition, Fitch has maintained the Rating Watches on two other CH programmes. A full list of rating actions is detailed below.

KEY RATING DRIVERS

Covered Bond Ratings Linked to Bank Ratings

Spanish covered bond ratings are directly linked to their respective issuing banks' Issuer Default Ratings (IDR), as they use all notches of uplift above the issuer's rating as defined by Fitch's Covered Bonds Rating Criteria. Therefore, the Rating Watch Positive (RWP), Rating Watch Negative (RWN) and Negative Outlooks on the covered bonds mirror the corresponding rating status on the IDR of Bankia S.A. (Bankia, BBB/RWP/F2), Bankoa S.A. (Bankoa, A-/RWN/F1), Cajamar Caja Rural, S.C.C. (Cajamar, BB-/Negative/B) and Banco Santander S.A. (A-/Negative/F2). Resolution of the RWP on Bankia's and RWN on Bankoa's CH is directly linked to the resolution of the respective Rating Watches on the two banks, which may take longer than six months.

Unchanged Rating Uplifts

The rating actions taken today do not alter any of the rating uplifts assigned to any of the covered bond programmes. Spanish covered bonds are rated between three and five notches above the respective Long-Term IDR, consisting of a resolution uplift of one-to-two notches (one for Bankoa's CH and two for the rest), a Payment Continuity Uplift (PCU) of zero notches and a recovery uplift of two-to-three notches (three for Cajamar's CH and CT and two for the rest).

Ample OC Compensates for COVID-19 Stresses

Fitch expects the coronavirus crisis to negatively impact the performance of Spanish cover pools due to job losses, weakening consumer demand and various depressed markets. To reflect such adverse macroeconomic circumstances, Fitch's credit analysis of the cover pools has accommodated additional sensitivities linked to larger projected losses, which are fully compensated by the relied-upon over-collateralisation (OC) ratios of the covered bond programmes (see Rating Sensitivities ahead).

ESG - Governance

All CH and CT programmes have an Environmental, Social and Governance (ESG) Relevance Score of '5' for Transaction & Collateral Structure due the absence of a dedicated liquidity protection mechanism in the Spanish covered bond framework. This explains the PCU of zero notches. Fitch rates the CH and CT programmes on a recovery-basis approach and does not test for timely payment on the covered bonds.

RATING SENSITIVITIES

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

-An upgrade of any of the banks' IDRs would lead to an equivalent upgrade of the covered bonds, due to the direct link between the CH or CT ratings and the respective issuer's Long-Term IDR.

-The outcome of the merger between Bankia and Caixabank S.A. (BBB+/Negative/F2) could lead to a positive rating action on Bankia's CH rating as highlighted by the RWP on the covered bonds' rating.

-The introduction of dedicated liquidity protection mechanisms that effectively mitigate payment interruption risk on the covered bonds if the cover pool becomes the source of repayment would lead to a positive rating action. This because CH and CT have hard-bullet redemptions while the cover assets gradually amortise. In this scenario, Fitch would be able to assign a PCU greater than zero notches currently.

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

-A downgrade of any of the banks' IDRs would lead to an equivalent downgrade of the covered bonds.

-The outcome of the acquisition of Bankoa by ABANCA Corporacion Bancaria, S.A.(BBB-/Negative/F3) could lead to a negative rating action on Bankoa's CH rating as highlighted by the RWN on the covered bonds' rating.

- Lifetime projected credit losses on the cover pools not fully compensated by OC. We view such a scenario as highly remote considering the Spanish covered bond framework, which offers ample OC cushions, and defines the cover pool as non-securitised loans within the balance sheet of the issuer.

Fitch's breakeven OC for the ratings correspond to the lifetime credit loss expectations on the cover pools, which can change over time and is influenced by the profile of the cover assets. The current breakeven OC and relied-upon OC ratios for the Spanish covered bond programmes are as follows:

Bankia CH: 18%, 160%

Bankoa CH: 16.5%, 97.5%

Cajamar CH: 13%, 90%

Cajamar CT: 18.5%, 42.8%:

Santander CH: 30.5%, 61.5%

If the relied-upon OC is reduced to the 25% legal minimum in Spain applicable to CH, Santander CH would be downgraded by one notch while other CH programmes' ratings will be unaffected.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond 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, visit [https://www.fitchratings.com/site/re/10111579]

CRITERIA VARIATION

Bankoa CH - Treatment of Obligor Concentration Risk

Fitch assumed a 100% loss severity on the top 10 obligors within the commercial and real estate sub pools, to account for very large obligor concentration risk. This is a variation from Fitch's

Multi-Issuer Cedulas Hipotecarias Rating Criteria, which assume portfolios to be highly granular, with no significant single obligor concentration risk. This variation has had no rating impact.

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 CH and CT ratings are driven by the credit risk of the respective issuers as measured by their Long-Term IDRs.

ESG Considerations

All CH and CT have an ESG Relevance Score of '5' for Transaction & Collateral Structure due the absence of a dedicated liquidity protection mechanism in the Spanish covered bond framework. This has a negative impact on the credit profile and is relevant to the rating in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Bankia S.A.
----senior secured, Mortgage Covered Bonds, Cedulas Hipotecarias; Long Term Rating; Rating Watch Maintained; A+; Rating Watch Positive
Cajamar Caja Rural, Sociedad Cooperativa de Credito
----senior secured, Public Sector Covered Bonds, Cedulas Territoriales; Long Term Rating; Affirmed; BBB+; Rating Outlook Negative
----senior secured, Mortgage Covered Bonds, Cedulas Hipotecarias; Long Term Rating; Affirmed; BBB+; Rating Outlook Negative
Bankoa S.A.
----senior secured, Mortgage Covered Bonds, Cedulas Hipotecarias; Long Term Rating; Rating Watch Maintained; AA-; Rating Watch Negative
Banco Santander, S.A.

----senior secured, Mortgage Covered Bonds, Cedulas Hipotecarias; Long Term Rating; Affirmed; AA; Rating Outlook Negative

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Applicable Model

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

MICH Model, v4.35.2 (1)

Portfolio Credit Model, v2.11.0 (1)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

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Endorsement Status

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