FITCH AFFIRMS SIX SPANISH COVERED BOND PROGRAMMES

Fitch Ratings-Madrid/London-23 March 2018: Fitch Ratings has affirmed the ratings of five Spanish mortgage covered bond programmes (Cedulas Hipotecarias, or CH) and one Spanish public sector programme (Cedulas Territoriales, or CT) issued by the following banks:

CH ratings:
-Abanca Corporacion Bancaria, S.A. (Abanca, BB+/Stable/bb+): 'A-'/Stable Outlook
-Bankia S.A. (BBB-/Positive/bbb-): 'A'/Positive Outlook
-Caja Laboral Popular Cooperativa de Credito (CLCC; BBB+/Stable/bbb+): 'AA-'/Stable Outlook
-Cajamar Caja Rural, Sociedad Cooperativa de Credito (BB-/Positive): 'BBB+'/Stable Outlook
-Banco Santander, S.A. (A-/Stable/a-): 'AA'/Stable Outlook

CT ratings:
-Cajamar Caja Rural, Sociedad Cooperativa de Credito (BB-/Positive): 'BBB+'/Stable Outlook

The affirmations of the CH follow the application of the European RMBS Rating Criteria published on 02 February 2018, and the calibration of certain Spanish residential mortgage credit assumptions reflecting the upgrade of Spain's Long-Term Issuer Default Rating (IDR) to 'A-'/ Stable from 'BBB+'/Positive on 19 January 2018.

KEY RATING DRIVERS
The programme ratings of the CH and CT are based on: the corresponding bank's Long-Term IDR; an IDR uplift of two-notches; a zero-notch payment continuity uplift (PCU) and a recovery uplift of two notches for all programmes except for Cajamar's CH and CT programmes, which benefit from a three-notch recovery uplift. The Spanish CH and CT are rated on a recovery given default basis and the over-collateralisation (OC) relied upon by Fitch in its analysis more than covers the rating level credit loss and provides more protection than the breakeven OC for the corresponding programme rating.

Reduced Mortgage Credit Losses
The application of the European RMBS Rating Criteria and Fitch's calibration of certain assumptions for Spanish residential mortgages up to the 'AAA' rating scenario, which is the new maximum achievable rating for Spanish structured finance and covered bonds following the sovereign and country ceiling upgrades, has implied a softening of intermediate stresses and reduced the CH credit loss expectations. On average, the 'B' portfolio loss rate for the five CH programmes has reduced to the current 7.8% from 9.3% in September 2017.

Protected by Large OC
Relied upon OCs stand at 210% for Abanca, 116.5% for Bankia, 364.5% for CLCC, 126.5% for Cajamar CH, 125% for Santander and 42.8% for Cajamar CT. The corresponding credit losses were: 26.5% for Abanca, 19% for Bankia, 19% for CLCC, 18% for Cajamar CH, 36% for Santander and 21% for Cajamar CT. The breakeven OC for recovery given default programme ratings is generally the credit loss (as with Abanca CH and Santander CH). However, in line with criteria, where breakeven OC for the rating determined in Fitch's analysis is below the legal minimum, Fitch sets the floor of the breakeven OC at the applicable legal minimum, which is 25% for CH and 48.2% for CT. The breakeven OC for Bankia CH, CLCC CH and Cajamar CH is 25% and 42.8% for Cajamar CT.

Unchanged IDR Uplift and PCU

The unchanged two-notch IDR uplift for all Spanish covered bonds reflect the fact that in a resolution scenario, there could be senior bail-in while covered bonds are exempt from it. Also, resolution will not result in the enforcement of recourse against the cover pool and there is low risk of undercollateralisation at the point of resolution.

The unchanged zero-notch PCU for all Spanish CH and CT programmes reflect the absence of specific liquidity protection mechanisms to bridge temporary shortfalls after the recourse to the cover pool has been enforced. Spanish CH and CT programmes have hard-bullet maturities while cover assets gradually amortise.

CT Cover Pool Composition
As of December 2017, the EUR655 million public sector cover pool of Cajamar CT comprised loans to Spanish regions (39.7%) and local authorities or other entities (58.5%). As per the agency's rating criteria for public sector covered bonds, a default probability compatible with a 'CCC' rating has been assumed for the 59% balance of the cover pool that is unrated.

RATING SENSITIVITIES
The CH ratings of Abanca, Bankia, CLCC, Cajamar and Santander and the CT rating of Cajamar could be upgraded if stronger liquidity protection mechanisms were introduced, allowing for a payment continuity uplift above zero notches. This would be provided that the relied-upon OC of each programme remains above the breakeven OC stressed in the corresponding rating scenario.

Given the absence of PCU, there is a direct relationship between the Long-Term IDR of Abanca, Bankia, CLCC and Santander and that of the covered bond rating so that any upgrade or downgrade of the issuer would have the same corresponding rating movement, dependent on the level of OC available. If Cajamar's IDR was upgraded by one notch to 'BB', we would not upgrade its CH or CT ratings by one notch to 'BBB+'. This is because under Fitch's criteria, if the tested rating on a probability of default (PD) basis was 'BBB-' instead of 'BB+' currently, the covered bonds would be assigned a maximum two-notch recovery uplift instead of three currently.

The Fitch breakeven OC for the covered bond rating will be affected, among others, by the profile of the cover assets relative to outstanding covered bonds, which can change over time, even in 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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Applicable Criteria
CLOs and Corporate CDOs Rating Criteria - Effective from 23 February 2018 to 19 July 2018 (pub. 23 Feb 2018)
https://www.fitchratings.com/site/re/10020715
Covered Bonds Rating Criteria - Effective from 2 March 2018 to 13 August 2018 (pub. 02 Mar 2018)
https://www.fitchratings.com/site/re/10021721
European RMBS Rating Criteria - Effective from 2 February 2018 to 11 May 2018 (pub. 02 Feb 2018)
https://www.fitchratings.com/site/re/10018676
Global Bank Rating Criteria - Effective from 25 November 2016 to 23 March 2018 (pub. 25 Nov 2016)
https://www.fitchratings.com/site/re/891051
Multi-Issuer Cedulas Hipotecarias Rating Criteria (pub. 13 Mar 2018)
https://www.fitchratings.com/site/re/10022868
SME Balance Sheet Securitisation Rating Criteria (pub. 23 Feb 2018)
https://www.fitchratings.com/site/re/10020825
Structured Finance and Covered Bonds Counterparty Rating Criteria - Effective from 23 May 2017 to 1 August 2018 (pub. 23 May 2017)
https://www.fitchratings.com/site/re/898537
Structured Finance and Covered Bonds Country Risk Rating Criteria (pub. 18 Sep 2017)
https://www.fitchratings.com/site/re/903496
Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 02 Feb 2018)
https://www.fitchratings.com/site/re/10018549