

# Santander Consumer Bank AG

## Mortgage Pfandbriefe

Covered bonds rating/Outlook	AAA/Stable	Asset type	Residential mortgages
Issuer Default Rating/Outlook	A-/Stable	Cover assets (EURbn) <sup>a</sup>	1.29
Resolution uplift	2 notches	Covered bonds (EURbn) <sup>a</sup>	1.03
Payment continuity uplift (PCU)	6 notches	Nominal OC (%) <sup>a</sup>	25.8
Recovery uplift	2 notches	OC Fitch considers in its analysis (%)	16.2
Unused notches for rating	4	Basis of OC relied upon	Lowest of the last 12 months
Break-even OC (%)	3.0	Covered bonds maturity type	Soft bullet
Credit loss (%)	3.3	WAL of the assets (years) <sup>a</sup>	5.3
ALM loss (%)	-0.1	WAL of the liabilities (years) <sup>a</sup>	3.8

<sup>a</sup> Data at 30 September 2023. OC – Overcollateralisation. WAL – Weighted average life  
Source: Fitch Ratings

### Key Rating Drivers

**Four-Notch Rating Cushion:** The 'AAA' Pfandbriefe rating is based on Santander Consumer Bank AG's (SCB) Long-Term Issuer Default Rating (IDR) of 'A-', a resolution uplift of two notches, a payment continuity uplift (PCU) of six notches and a recovery uplift of two notches. The rating is also based on the overcollateralisation (OC) of 16.2% considered by Fitch Ratings in its analysis. This is higher than the agency's 'AAA' break-even OC of 3.0%. The four-notch buffer against a downgrade of the IDR supports the Stable Outlook on the Pfandbriefe rating.

**Two-Notch Resolution Uplift:** The covered bonds are granted a two-notch resolution uplift, reflecting that collateralised Pfandbriefe in Germany are exempt from bail-in, Fitch's view of sufficiently low risk of under-collateralisation at the point of resolution, and that a resolution of SCB is not likely to result in the direct enforcement of the recourse against the cover pool. The two-notch resolution uplift also takes into account that SCB's IDR is equal to its Viability Rating.

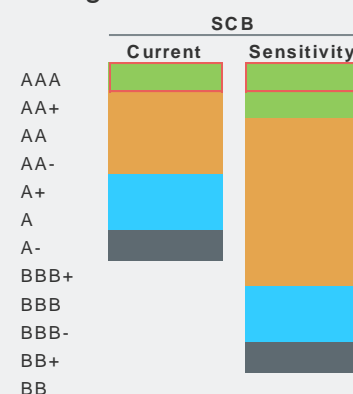
**Six-Notch PCU:** The six-notch PCU reflects the liquidity protection for principal and interest payments provided by the 180-day liquidity reserve and the conditional 12-month maturity extension feature as stipulated under the Pfandbrief law.

**Two-Notch Recovery Uplift:** Fitch has granted a recovery uplift of two notches because we expect the covered bonds to experience outstanding recoveries in the event of any potential default.

**'AAA' Break-Even OC:** The 'AAA' break-even OC of 3.0% supports timely payments in a 'AA+' stress scenario and recoveries given default in line with a one-notch recovery uplift under Fitch's criteria.

**Low ALM Loss:** The asset and liability management (ALM) loss component represents the non-credit-loss component of the break-even OC and reflects the modelled maturity and interest rate mismatches. It is based on a worst-case scenario that assumes an immediate recourse to the cover pool. The yield on the loans included in the cover pool exceeds that of the covered bonds outstanding, leading to a negative ALM loss component. It is expected to revert to a positive number again once additional covered bonds are issued at a potentially higher yield.

### Rating Sensitivity to IDR Downgrade



Covered bond rating	AAA
Recovery uplift (notches)	2
PCU (notches)	6
Resolution uplift (notches)	2
IDR/reference IDR	A-

Source: Fitch Ratings

### Analysts

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## Programme Highlights

**Granular Residential Mortgage Portfolio:** At end-September 2023, the cover pool comprised 23,870 German residential mortgage borrowers with an average loan size of EUR65,200. The top 10 borrowers in the cover pool made up 0.4% of the cover assets. The cover pool is also regionally well diversified with loan exposures in similar proportion to the distribution of inhabitants in Germany.

**Fixed-Rate, Mostly Amortising Loans:** The loans have individual interest reset dates and a repayment option for private borrowers after 10 years under German law. The cover pool comprises fixed rate mortgages, 97.8% of which are amortising.

**Low Loan-to-Values (LTV):** The portfolio, combined with the low weighted average current loan-to-value (CLTV) ratio of 45.8%, would allow for outstanding recoveries.

## Cover Pool

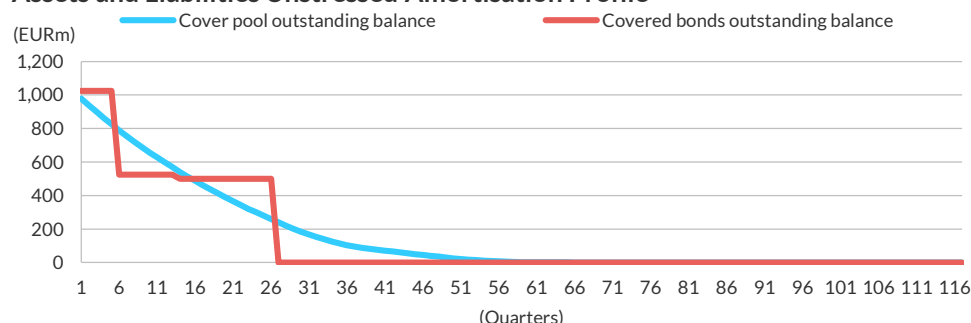
### Characteristics at 30 September 2023

General		Payment type (%)	
Current principal balance (EURbn)	1.29	Annuity	97.8
Number of loans	18,982	Interest-only	2.2
Number of borrowers	23,870	Occupancy type (%)	
WA current loan-to-value (LTV) (%)	45.8	Owner-occupied	85.8
WAL of the assets (years) <sup>a</sup>	5.3	Non-owner occupied	14.2
WAL of the liabilities (years) <sup>a</sup>	3.8	Regional distribution (%)	
Substitute assets (EURm)	51.3	Baden-Württemberg	11.0
Loan characteristics		Bavaria	8.3
Average loan size (EUR)	65,200	Hesse	8.7
Residential mortgage loans to individuals (%)	100	Lower Saxony	10.9
Fixed-rate loans with periodic resets (%)	100	North Rhine-Westphalia	30.4
Loans in arrears (%)	0	Other	30.7

Source: Fitch Ratings

**Low Market Risks:** The programme has no foreign-exchange exposure as assets and liabilities are exclusively denominated in euros. The outstanding fixed-rate Pfandbriefe are also secured purely by fixed-rate assets and the maturity profile of the loans is evenly distributed. The credit loss is driven by the portfolio loss floor in Fitch's criteria, which the agency applied to address the idiosyncratic risks of low-risk portfolios.

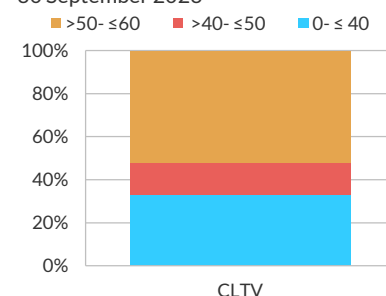
## Assets and Liabilities Unstressed Amortisation Profile



Source: Fitch Ratings

## LTV Breakdown

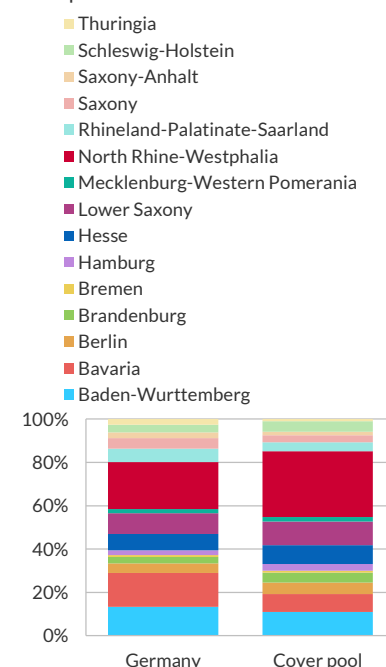
30 September 2023



Source: Fitch Ratings

## Geographical Breakdown

30 September 2023



Source: Fitch Ratings

## Peer Comparison

The Peer Comparison table compares the key rating drivers for the covered bond programme with other Fitch-rated residential mortgage covered bond programmes with similar characteristics.

The 'AAA' break-even OC for SCB's covered bond programme is 3.0%. This is lower than the 'AAA' break-even OC for Sparkasse Hannover (SPK Hannover) of 10.5% and for Sparkasse Pforzheim-Calw (SPK PFCW) of 6.5%.

In the case of SCB, the ALM loss of -0.1% mainly reflects the stable asset-liability structure of the programme as well as the risk mitigating factors of modelling the 12-month extendible maturity feature in addition to a 180-day liquidity buffer. It also reflects the excess spread in the programme, resulting from higher yielding fixed rate mortgage loans held in the cover pool against lower yielding fixed rate covered bonds. SPK Hannover and SPK PFCW are rated 'AAA', based on the IDR plus resolution uplift plus two notches of recovery uplift. In this case, no cash flow modelling is conducted.

The credit loss component of 3.3% for SCB's cover assets is lower than for the other two programmes because its pool consists entirely of residential mortgage loans, whereas the pools of both Sparkassen also include commercial mortgage loans.

The credit loss components of the peers are also based on a 'AAA' rating scenario, whereas SCB's is based on the 'AA+' scenario, due to the cash flow analysis being conducted for SCB. SCB's credit loss component is driven by the portfolio loss floor, given the high seasoning and low current weighted average LTV levels of the residential assets within the pool.

The 3.2% 'AA+' expected loss for SCB is based on a 10.3% weighted average foreclosure frequency and a 69.1% weighted average recovery rate, which is floored at the minimum loss assumption for German mortgage loans under Fitch's *European RMBS Rating Criteria*.

Please see Fitch's *Covered Bonds Snapshot* and the related Excel file for a detailed comparison of rating drivers across all Fitch-rated covered bond programmes.

## Peer Comparison: Key Rating Drivers

	Santander Consumer Bank AG – Mortgage Pfandbriefe	Sparkasse Hannover – Mortgage Pfandbriefe	Sparkasse Pforzheim Calw – Mortgage Covered Bonds
IDR/Outlook	A-/Stable	A+/Stable	A+/Stable
Resolution uplift (notches)	2	2	2
PCU (notches)	6	6	6
Recovery uplift (notches)	2	2	2
B portfolio loss rate (%)	0.4	0.4	0.4
AAA break-even OC (%)	3.0	10.5	6.5
<b>Break-even OC components (%)</b>			
Credit loss	3.3	10.5	6.5
ALM loss	-0.1	-	-

Source: Fitch Ratings, data at September 2023

## Applicable Criteria

[Covered Bonds Rating Criteria \(October 2023\)](#)

[Bank Rating Criteria \(September 2023\)](#)

[Structured Finance and Covered Bonds Country Risk Rating Criteria \(July 2023\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria \(March 2023\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum \(August 2022\)](#)

[Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria \(December 2022\)](#)

## Related Research

[Fitch Affirms Santander Consumer Bank AG's Mortgage Pfandbriefe at 'AAA'; Outlook Stable \(October 2023\)](#)

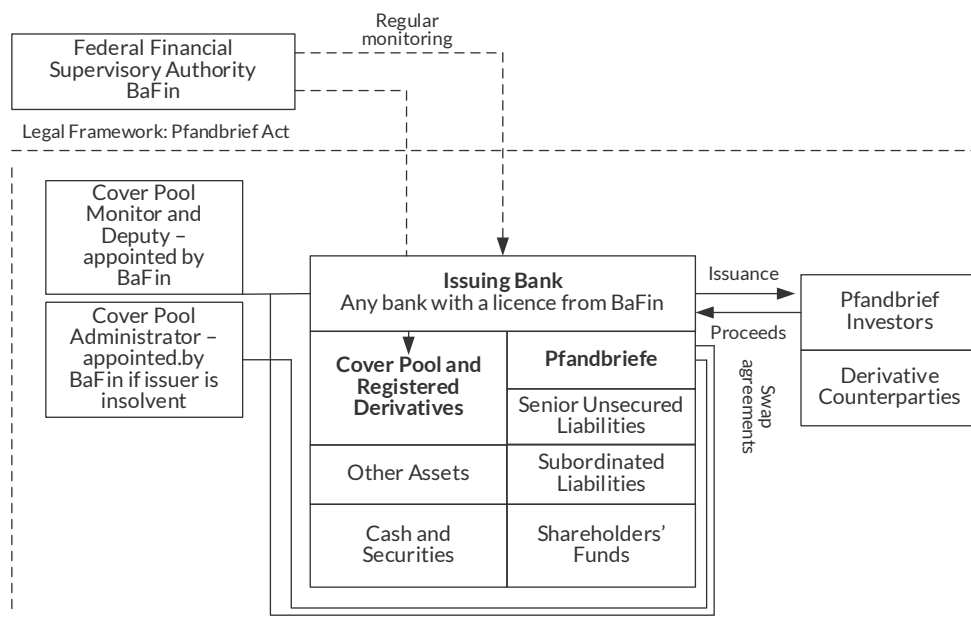
[Fitch Affirms Santander Consumer Bank AG at 'A-'; Outlook Stable \(May 2023\)](#)

[Covered Bonds Snapshot - 3Q23 \(October 2023\)](#)

[Covered Bonds Protection Dashboard \(June 2023\)](#)

[German Sparkassen Mortgage Pfandbriefe Programmes – Peer Review \(June 2023\)](#)

### Diagram of a Pfandbrief Programme



Source: Fitch Ratings

### List of Outstanding Mortgage Covered Bonds at October 2023

ISIN	Currency	Amount (m)	Maturity
XS1727499680	EUR	500	5 December 2024
XS2421360558	EUR	25	17 December 2026
XS2114143758	EUR	500	14 February 2030

Source: Fitch Ratings, SCB

### Programme Review

Cover pool and covered bond information is updated on a quarterly basis and displayed on Fitch's covered bond surveillance pages, available at [www.fitchratings.com](http://www.fitchratings.com), and in the quarterly Covered Bonds Snapshot report.

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## ESG Relevance Scores

## Credit-Relevant ESG Derivation

Santander Consumer Bank AG, Mortgage Pfandbriefe has 6 ESG potential rating drivers

- ➔ Santander Consumer Bank AG, Mortgage Pfandbriefe has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure/recovery practices, borrower/consumer data protection (data security) but this has very low impact on the rating.
- ➔ Santander Consumer Bank AG, Mortgage Pfandbriefe has exposure to macroeconomic factors and sustained structural shifts in secular preferences affecting consumer behavior and underlying mortgages and/or mortgage availability but this has very low impact on the rating.
- ➔ Governance is minimally relevant to the rating and is not currently a driver.

key driver	0	issues	5	
driver	0	issues	4	
potential driver	6	issues	3	
not a rating driver	4	issues	2	
	4	issues	1	

## Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	2	Regulatory risks, fines, or compliance costs related to building emissions and related reporting standards (including energy consumption)	Asset Stresses; Cash Flow Stresses; OC Protection	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	2	Environmental site risk and associated remediation/liability costs; sustainable building practices including Green building certificate credentials	Asset Stresses; Cash Flow Stresses; OC Protection	2
Exposure to Environmental Impacts	2	Asset, operations and/or cash flow exposure to extreme weather events and other catastrophe risk, including but not limited to flooding, hurricanes, tornadoes, and earthquakes	Asset Stresses; Cash Flow Stresses; OC Protection	1

## How to Read This Page

ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The **Environmental (E), Social (S) and Governance (G)** tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The **Credit-Relevant ESG Derivation table's** far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.

**Classification** of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

## Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Accessibility to affordable housing; GSE/agency issued or provision for social good; services for underbanked and underserved communities	Asset Stresses; Cash Flow Stresses; OC Protection	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure/recovery practices, borrower/consumer data protection (data security)	Asset Stresses; Cash Flow Stresses; OC Protection; Issuer Risk Present	4
Labor Relations & Practices	1	n.a.	n.a.	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	3	Macroeconomic factors and sustained structural shifts in secular preferences affecting consumer behavior and underlying mortgages and/or mortgage availability	Asset Stresses; Cash Flow Stresses; OC Protection	1

## Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Rule of Law, Institutional and Regulatory Quality	3	Jurisdictional legal risks; regulatory effectiveness; supervisory oversight; foreclosure laws; government support and intervention	Issuer Risk Present; Payment Continuity Assessment; OC Protection; Asset Stresses; Cash Flow Stresses	5
Transaction & Collateral Structure	3	Asset isolation; resolution/insolvency remoteness; legal structure; structural risk mitigants; complex structures	Issuer Risk Present; Payment Continuity Assessment; OC Protection; Asset Stresses; Cash Flow Stresses	4
Transaction Parties & Operational Risk	3	Counterparty risk; origination, underwriting and/or aggregator standards; borrower/lessee/sponsor risk; originator/servicer/manager/operational risk	Issuer Risk Present; Payment Continuity Assessment; OC Protection; Asset Stresses; Cash Flow Stresses	3
Data Transparency & Privacy	3	Transaction data and periodic reporting	Issuer Risk Present; Payment Continuity Assessment; OC Protection; Asset Stresses; Cash Flow Stresses	2
				1

## CREDIT-RELEVANT ESG SCALE - DEFINITIONS

How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant; a key transaction or program rating driver that has a significant impact on an individual basis.
4	Relevant to transaction or program ratings; not a key rating driver but has an impact on the ratings in combination with other factors.
3	Minimally relevant to ratings; either very low impact or actively mitigated in a way that results in no impact on the transaction or program ratings.
2	Irrelevant to the transaction or program ratings; relevant to the sector.
1	Irrelevant to the transaction or program ratings; irrelevant to the sector.

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