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)**[a]	1.173
Resolution uplift	2 notches	**Covered bonds (EURbn)**[a]	1.0
Payment continuity uplift (PCU)	6 notches	**Nominal OC (%)**[a]	17.3
Recovery uplift	2 notches	**OC Fitch considers in its analysis (%)**	15.0
Unused notches for rating	4	**Basis of OC relied upon**	Lowest of the last 12 months
Break-even OC (%)	4.0	**Covered bonds maturity type**	Soft bullet
Credit loss (%)	3.3	**WAL of the assets (years)**[a]	4.8
ALM loss (%)	0.6	**WAL of the liabilities (years)**[a]	5.8

[a] Data at 30 September 2021. OC – Overcollateralisation, WAL – Weighted Average Life

Rating Sensitivity to IDR Downgrade

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 15.0% considered by Fitch Ratings in its analysis. This is higher than the agency’s ‘AAA’ break-even OC of 4.0%. 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, resulting in a ‘A+’ resolution reference point. This is based on the legislative provisions around the German Pfandbrief-framework as well as the issuer’s IDR being 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 as stipulated under the Pfandbrief law. It also reflects the conditional 12-month maturity extension feature introduced by the transposition of the European Covered Bond Directive in Germany. This has created an additional buffer against issuer rating downgrade for the programme.

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 4.0% supports timely payments in a ‘AA+’ stress scenario and recoveries given default in line with a one-notch recovery uplift under Fitch’s criteria.

Lower 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 issuer default occurs immediately. Free cash accruing from maturing assets would then have to be reinvested at low rates under Fitch’s interest rate stress assumptions until the final bond maturity. Otherwise the presence of the 180-day liquidity buffer, in combination with the newly introduced 12-months maturity extension feature, effectively mitigates refinancing stress for the covered bonds in this scenario.

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Programme Highlights

Granular Residential Mortgage Portfolio: At end-September 2021, the cover pool comprised 23,558 German residential mortgage borrowers with an average loan size of EUR 58,300. The top 10 borrowers in the cover pool made up 0.5% of the 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. Long interest-fixing in combination with an amortising nature for 97% of the loans in the pool mitigate refinancing risk for borrowers.

Fitch assumes in its cash flow analysis that loans become subject to prevailing market rates at reset, which reduces the reliance on historically higher mortgage rates for low interest rate scenarios. This has been reflected in Fitch's break-even OC for the 'AAA' rating.

Low LTVs: The portfolio, combined with the low weighted average 'current loan-to-value' ratio of 44.9%, would allow for outstanding recoveries.

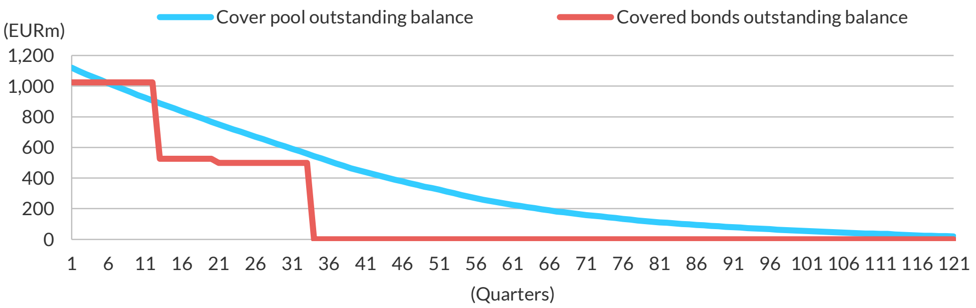
Cover Pool

Characteristics at 30 September 2021[a]			
General			
Current principal balance (EURbn)	1.124	Average loan size (EUR)	58,300
Number of loans	19,286	**Payment type (%)**	
Number of borrowers	23,558	Annuity	97.2
Number of financed properties	14,015	Principal & interest	0
WA current loan-to-value (%)	44.9	Interest-only	2.8
		Occupancy type (%)	
Loan characteristics (%)		Owner-occupied	88.7
Residential mortgage loans to individuals	100	Multi-family housing	2.6
Fixed-rate loans with periodic resets	100	Construction	0.0
Loans in arrears	0	Other/unknown	8.7

[a] Excluding liquid assets
Source: Fitch Ratings, SCB. WA- Weighted Average

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.

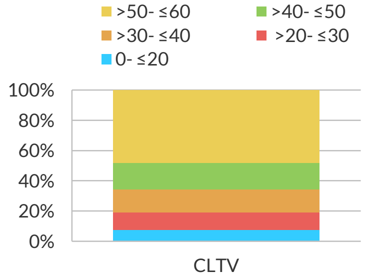
Assets and Liabilities Unstressed Amortisation Profile



Source: Fitch Ratings

LTV Breakdown

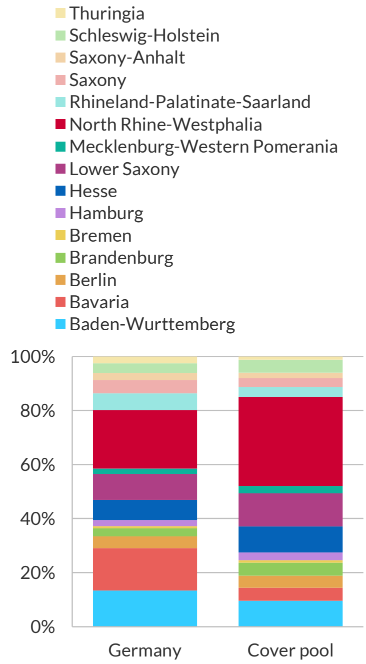
30 September 2021



Source: Fitch Ratings

Geographical Breakdown

30 September 2021



Source: Fitch Ratings

Peer Comparison

The table at the bottom of the page 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 4.0%. This is lower than the 'AAA' break-even OC for Sparkasse Hannover (SPK Hannover) of 10.5% and for Coventry Building Society of 14.9%.

In the case of SCB, the ALM loss of 0.6% mainly reflects a worst-case scenario that assumes an issuer default occurs immediately, which means that cash accruing from maturing assets would then have to be reinvested at low rates until the final bond repayment. The component is driven by the amortisation profile of the assets, excess spread available in the programme and the interest rate scenario modelled. The ALM Loss component for SCB is lower than Coventry's because, despite SCB's concentrated bond maturities, the mortgage loans' maturity profile is evenly distributed, reducing the need for modelled asset sales in a stress scenario. SPK Hannover is 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 SPK Hannover because its pool consists entirely of residential mortgage loans, whereas SPK Hannover's also includes commercial mortgage loans. SPK Hannover's credit loss component is also based on a 'AAA' rating scenario, whereas SCB's is based on the 'AA+' scenario. SCB's credit loss component is in line with Coventry, which also has a purely residential pool. The 3.2% 'AA+' expected loss for SCB is based on a 10.8% weighted average foreclosure frequency and a 70.7% 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 Bond Surveillance 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	Coventry Building Society – 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	1
'B' portfolio loss rate (%)	0.4	0.4	0.4
'AAA' break-even OC (%)	4.0	10.5	14.9
Break-even OC components (%)			
Credit loss	3.3	10.5	3.3
ALM loss	0.6	-	11.7

Source: Fitch Ratings, data at January 2022

Applicable Criteria

Covered Bonds Rating Criteria (June 2021)

European RMBS Rating Criteria (December 2021)

Bank Rating Criteria (November 2021)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (September 2021)

Structured Finance and Covered Bonds Country Risk Rating Criteria (October 2021)

Structured Finance and Covered Bonds Counterparty Rating Criteria (November 2021)

Related Research

Fitch Revises Outlook on Santander Consumer Bank AG to Stable; Affirms at 'A-' (June 2021)

German Pfandbriefe Benefit from Six Notches of PCU following Law Amendment (July 2021)

Covered Bonds Surveillance Snapshot (October 2021)

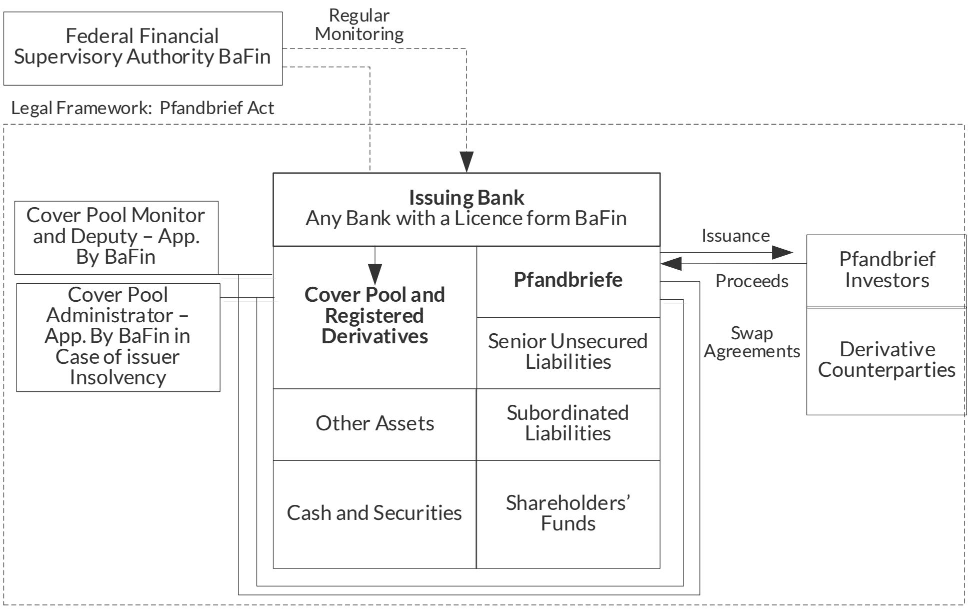
Covered Bonds Protection Dashboard (December 2021)

2022 Outlook: Global Covered Bonds (November 2021)

Global Housing and Mortgage Outlook – 2022 (December 2021)

What Investors Want to Know: Green, Social and Sustainable Covered Bonds (December 2021)

Diagram of a Pfandbrief Programme



Source: Fitch Ratings

List of Outstanding Mortgage Covered Bonds at January 2022

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

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