FitchRatings

Santander Consumer Bank AG

Mortgage Pfandbriefe

Covered bonds rating/Outlook	AAA/Stable	**Asset type**	Residential mortgages
Issuer Default Rating/Outlook	A-/Negative/F2	**Cover assets (EURm)**	1,168
Resolution uplift	2 notches	**Covered bonds (EURm)**	1,000
Payment continuity uplift	4 notches	**Nominal OC (%)**	16.7
Recovery uplift	2 notches	**Breakeven OC (%)**	8.5
Unused notches for rating	2	**OC Fitch considers in its analysis (%)**	12.5
Credit loss (%)	2.9	**Basis of OC relied upon**	Lowest of the last 12 months
ALM loss (%)	5.8	**Covered bonds maturity type**	Hard bullet

Notes: OC – Overcollateralisation. ALM – Asset and Liability Management. Data as of December 2020
Source: Fitch Ratings

Key Rating Drivers

Two-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 four notches and a recovery uplift of two notches. The rating is also based on the overcollateralisation (OC) of 12.5% considered by Fitch Ratings in its analysis. This is higher than the agency's 'AAA' break-even OC of 8.5%. The two-notch buffer against a downgrade of the IDR supports the Stable Outlook on the Pfandbriefe rating.

Four-Notch PCU: The four-notch PCU reflects the liquidity protection for principal and interest payments provided by the 180-day liquidity reserve as stipulated under the Pfandbrief law. The upcoming transposition of the European Covered Bond Directive in Germany could lead to additional protection for Pfandbrief holders in terms of payment continuity, by introducing a conditional 12-month maturity extension option. This could create an additional buffer against issuer rating downgrade for the programme.

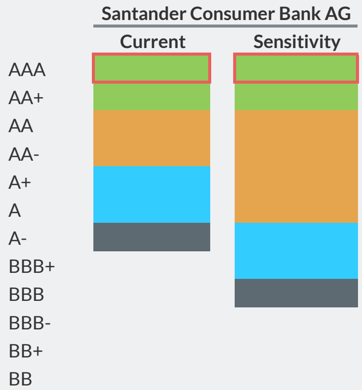
'AAA' Break-even OC: The 'AAA' break-even OC of 8.5% supports timely payments in a 'AA' stress scenario and recoveries given default in line with a two-notch recovery uplift under Fitch's criteria.

ALM Loss Currently Drives Breakeven OC: The asset and liability management (ALM) loss component, which represents the non-credit-loss component of the breakeven OC and reflects the modelled maturity and interest rate mismatches, is the main component of the 'AAA' break-even OC. It is based on a worst-case scenario that assumes an issuer default occurs just before the next bond matures. This reflects the need for stressed asset sales to meet the bond payment in a decreasing interest rate environment, in which assets may reset to a lower yield.

The ALM loss component would also be influenced by the introduction of extendible maturities in the German Pfandbrief Law. A maturity extension would grant the cover pool administrator additional time to secure alternative refinancing options and should also lower the risk that stressed asset sales are needed to meet payments to covered bondholders. This would be reflected in Fitch's modelling of asset liability mismatches and could lead to a lower ALM Loss component and reduced Fitch breakeven OC for a given rating.

Coronavirus Impact: Fitch acknowledges the uncertainty and volatility related to the coronavirus pandemic. The agency has evaluated and considers SCB's business continuity plan adequate to minimise disruptions in the collection process. During a severe crisis, portfolio delinquencies and losses could increase as a result of reduced income or temporary job losses.

Rating Sensitivity to IDR Downgrade



Covered Bond rating	AAA
Recovery uplift (notches)	2
PCU (notches)	4
Resolution uplift (notches)	2
IDR	A-

Source: Fitch Ratings

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Programme Highlights

Granular Residential Mortgage Portfolio: At end-December 2020, the cover pool comprised 23,578 German residential mortgage borrowers with an average loan size of EUR57,500. The top 10 borrowers in the cover pool make up 0.4% of the assets. The portfolio, combined with the low weighted average current loan-to-value of 44.9%, would allow for outstanding recoveries. The cover pool is also regionally well diversified with loan exposures in similar proportion to the distribution of inhabitants in Germany.

Cover Pool

Characteristics as of 31 December 2020[a]			
General			
Current principal balance (EURm)	1,117.5	Average loan size (EUR)	57,500
Number of loans	19,432	**Payment type (%)**	
Number of borrowers	23,578	Annuity	97
WA current loan-to-value (%)	44.9	Principal & interest	0
		Interest-only	3
Loan characteristics (%)		**Occupancy type (%)**	
Residential mortgage loans to individuals	100	Owner-occupied	89.4
Fixed-rate loans with periodic resets	100	Multi-family housing	2.7
Loans in arrears	0	Construction	0.0
		Other/unknown	10.6

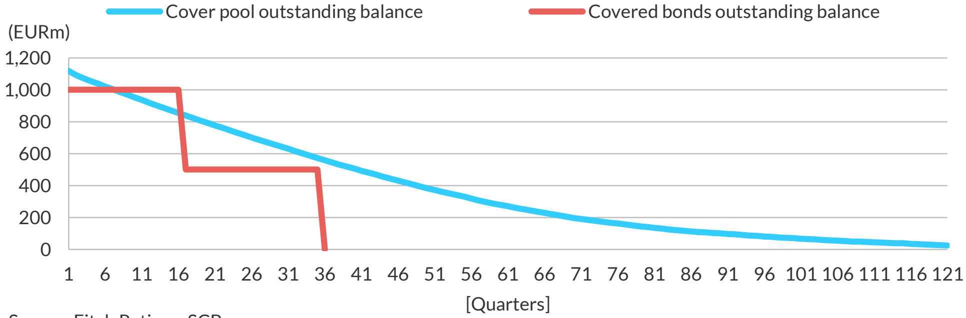
[a] Excluding substitute assets
Source: Fitch Ratings, SCB

Coronavirus Weakens Asset Performance Outlook: We expect a temporary weakening in borrowers' ability to keep up with mortgage payments due to the economic impact of the coronavirus pandemic, although measures such as employee furlough schemes and support for self-employed borrowers should buffer the near-term impact.

No Additional Impact from Payment Holidays: The pool cut underlying the analysis in this report did not contain any loans subject to payment holiday provisions at 31 December 2020. The relevant moratorium has expired in Germany and loans have reverted to a normal amortisation.

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 loans is evenly distributed.

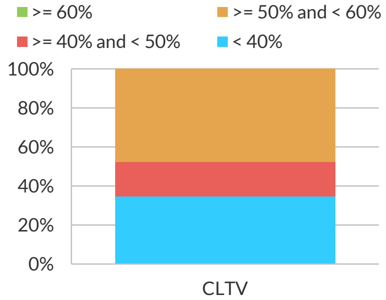
Assets and Liabilities Unstressed Amortisation Profile



Source: Fitch Ratings, SCB

LTV Breakdown

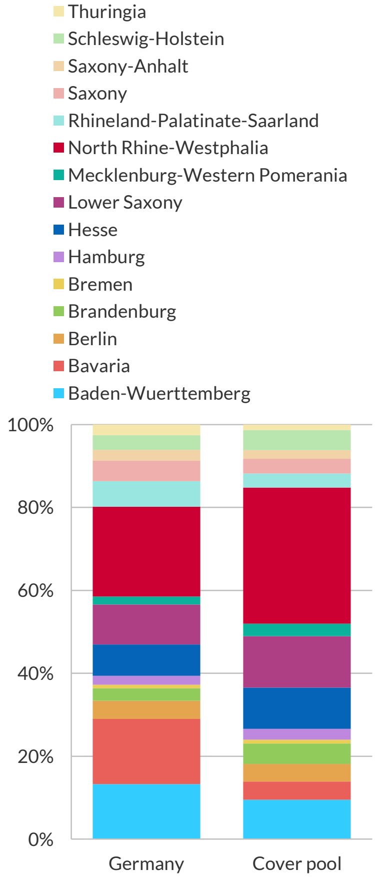
31 December 2020



Source: Fitch Ratings, SCB

Geographical Breakdown

31 December 2020



Source: Fitch Ratings, SCB

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' breakeven OC for SCB's covered bond programme is 8.5%. This is lower than the 'AAA' breakeven OC for Sparkasse Hannover (SPK Hannover) of 10.5% and for Coventry Building Society of 14.3%.

In the case of SCB, the ALM loss of 5.8% mainly reflects a worst-case scenario that assumes an issuer default occurs just before the first bond maturity, which triggers the need of a stressed asset sale to meet the bond payment. The component is driven by the excess spread available in the programme, the amortisation profile of the assets 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. SPK Hannover is rated 'AAA' based on the IDR plus resolution uplift plus two notches of recovery uplift. In this case, there is no cash flow modelling.

The credit loss component of 2.9% for SCB's cover assets is lower than for SPK Hannover, since 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 broadly in line with Coventry, which also has a purely residential pool. The 2.8% 'AA' expected loss for SCB is based on a 10% weighted average foreclosure frequency and a 72% weighted average recovery rate, which is floored at the minimum loss assumption for German mortgage loans under the *European RMBS Rating Criteria*.

Please see Fitch's *Covered Bond Surveillance Snapshot* (January 2021) 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-/Negative	A+/Negative	A-/Negative
Resolution uplift (notches)	2	2	2
PCU (notches)	4	4	6
Recovery uplift (notches)	2	2	1
'B' portfolio loss rate (%)	0.4	0.4	0.4
'AAA' breakeven OC (%)	8.5	10.5	14.3
Breakeven OC components (%)			
Credit loss	2.9	10.5	3.3
ALM loss	5.8	-	10.9

Source: Fitch Ratings, data at February 2021

Applicable Criteria

Covered Bonds Rating Criteria (November 2020)

European RMBS Rating Criteria (December 2020)

Bank Rating Criteria (February 2020)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (November 2020)

Structured Finance and Covered Bonds Country Risk Rating Criteria (September 2020)

Structured Finance and Covered Bonds Counterparty Rating Criteria (January 2020)

Related Research

Fitch Affirms Santander Consumer Bank AG's IDR at 'A-'/Negative; VR at 'a-' (September 2020)

Pfandbrief Act Proposals Would Reduce Payment Interruption Risk (October 2020)

Covered Bonds Surveillance Snapshot (January 2021)

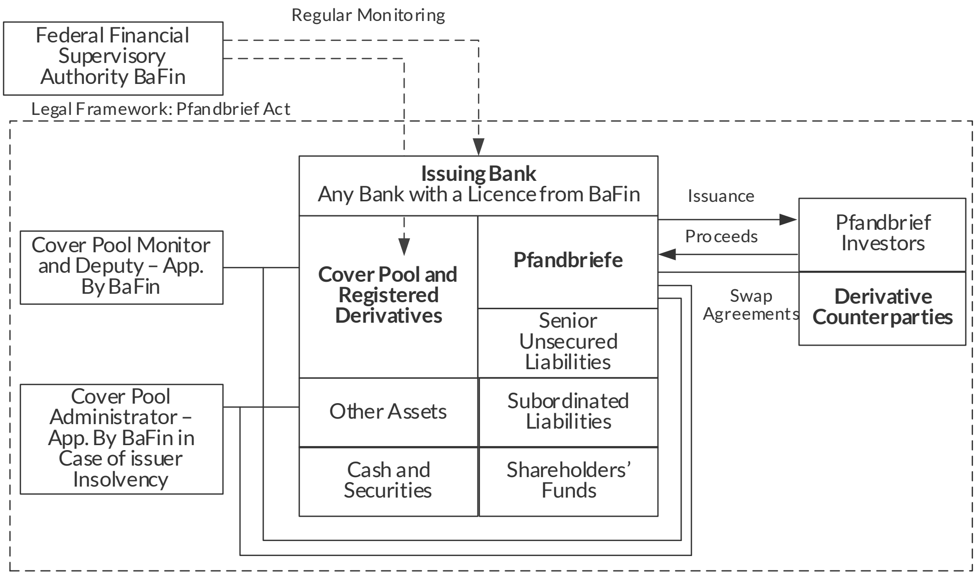
Covered Bonds Protection Dashboard (February 2021)

Structured Finance and Covered Bonds ESG Relevance Heatmap - 4Q20 (January 2021)

Fitch Ratings 2021 Outlook: Global Covered Bonds (November 2020)

German Home Price Data Consistent with Regional Demand Trends (February 2021)

Diagram of a Pfandbrief Issuance



Source: Fitch Ratings

List of Outstanding Mortgage Covered Bonds as of February 2021

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

Source: Fitch Ratings, SCB

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.