

# 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>	1.172
Resolution uplift	2 notches	Covered bonds (EURbn) <sup>a</sup>	1.025
Payment continuity uplift (PCU)	6 notches	Nominal OC (%) <sup>a</sup>	14.3
Recovery uplift	2 notches	OC Fitch considers in its analysis (%)	12.2
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>	5.0
ALM loss (%)	-0.1	WAL of the liabilities (years) <sup>a</sup>	4.8

<sup>a</sup>Data at 30 September 2022. 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 12.2% 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, resulting in a 'A+' resolution reference point. This is based on the legislative provisions around the German Pfandbrief-framework as well as SCB's IDR being equal to its viability rating.

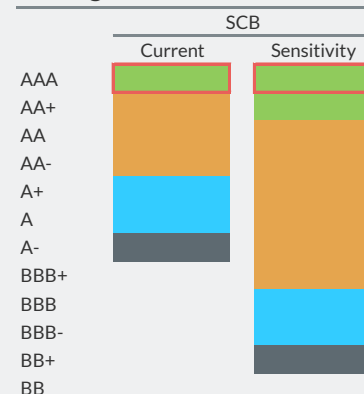
**Six-Notch PCU:** The six-notch PCU reflects the liquidity protection for principal and interest payments provided by the 180-day liquidity reserve as well as the conditional 12-months maturity extension feature as stipulated under the Pfandbrief law.

**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.

**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 immediate recourse to the cover pool. The yield on the loans included in the cover pool exceeds that of the covered bonds, 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 2022, the cover pool comprised 23,042 German residential mortgage borrowers with an average loan size of EUR60,000. 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. Long interest-fixing in combination with an amortising nature for 97% of the loans in the cover 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' (current LTV) ratio of 44.9%, would allow for outstanding recoveries.

## Cover Pool

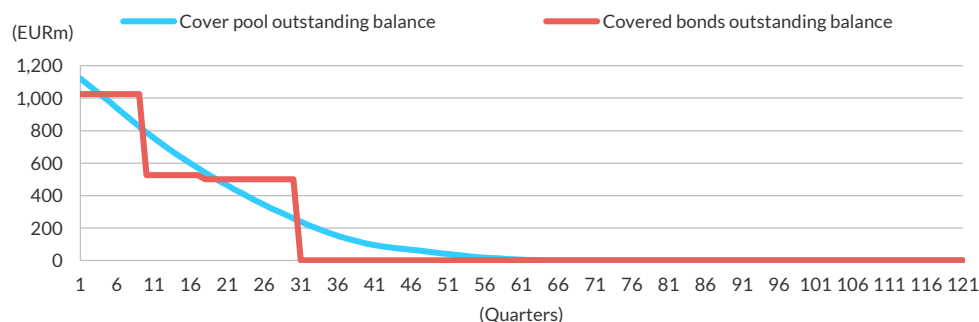
### Characteristics at 30 September 2022

General			
Current principal balance (EURbn)	1.121	Average loan size (EUR)	60,000
Number of loans	18,680	Payment type (%)	
Number of borrowers	23,042	Annuity	97.4
Number of financed properties	13,794	Principal & interest	0
WA current loan-to-value (%)	44.9	Interest-only	2.6
Occupancy type (%)			
Loan characteristics (%)		Owner-occupied	87.2
Residential mortgage loans to individuals	100	Multi-family housing	2.3
Fixed-rate loans with periodic resets	100	Construction	0.0
Loans in arrears	0	Other/unknown	10.5

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.

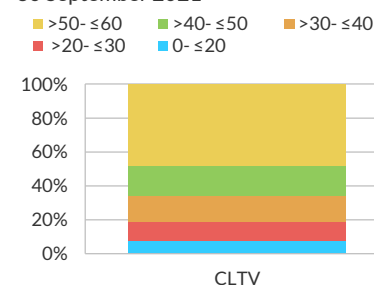
## Assets and Liabilities Unstressed Amortisation Profile



Source: Fitch Ratings

## LTV Breakdown

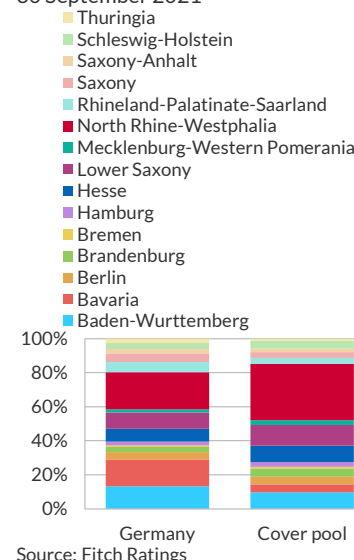
30 September 2021



Source: Fitch Ratings

## Geographical Breakdown

30 September 2021



## 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 Coventry Building Society of 16.3%.

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. The ALM Loss component for SCB is accordingly lower than Coventry's. 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, due to the full cash flow analysis being conducted for SCB. 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 10.3% 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 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 – Sparkasse Hannover – Mortgage Pfandbriefe	Coventry Building Society – Mortgage Covered Bonds
IDR/Outlook	A-/Stable	A+/Stable
Resolution uplift (notches)	2	2
PCU (notches)	6	6
Recovery uplift (notches)	2	2
'B' portfolio loss rate (%)	0.4	0.4
'AAA' break-even OC (%)	4.0	10.5
Break-even OC components (%)		
Credit loss	3.3	10.5
ALM loss	-0.1	-

Source: Fitch Ratings, data at September 2022

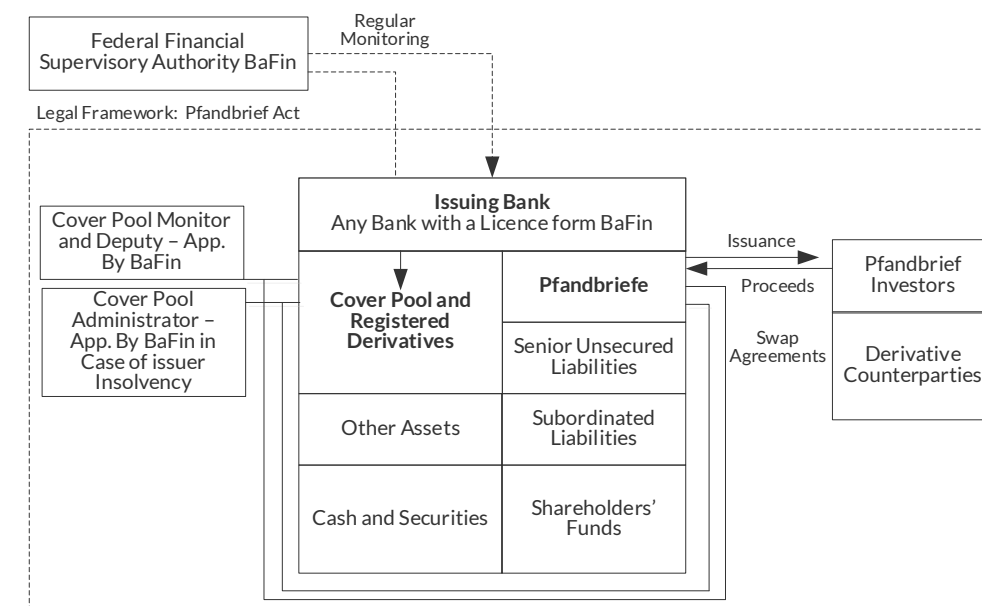
## Applicable Criteria

Covered Bonds Rating Criteria (November 2022)  
European RMBS Rating Criteria (November 2022)  
Bank Rating Criteria (September 2022)  
Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (September 2021)  
Structured Finance and Covered Bonds Country Risk Rating Criteria (July 2022)  
Structured Finance and Covered Bonds Counterparty Rating Criteria (July 2022)

## Related Research

Fitch Affirms Santander Consumer Bank AG at 'A-'; Outlook Stable (May 2022)  
Net Present Value Rule Protects Pfandbrief programmes (November 2022)  
Covered Bonds in Charts: Net Present Value Rule Protects Pfandbrief Programmes (November 2022)  
Covered Bonds Surveillance Snapshot 3Q22 (October 2022)  
Covered Bonds Protection Dashboard (September 2022)  
German Sparkassen Mortgage Pfandbriefe Programmes – Peer Review (July 2022)  
What Investors Want to Know: German Pfandbriefe (February 2022)

### Diagram of a Pfandbrief Programme



Source: Fitch Ratings

### List of Outstanding Mortgage Covered Bonds at Nov 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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