

## RATING ACTION COMMENTARY

# Fitch Affirms Die Sparkasse Bremen AG's Mortgage Pfandbriefe at 'AA+'; Outlook Stable

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Fitch Ratings - Frankfurt am Main - 24 Apr 2024: Fitch Ratings has affirmed Sparkasse Bremen's (SkBremen; A+/Stable/F1+) mortgage Pfandbriefe at 'AA+' with a Stable Outlook. The affirmation follows Fitch's periodic review of the programme.

## KEY RATING DRIVERS

**Three Notches Above IDR:** The mortgage Pfandbriefe's 'AA+' rating is based on SkBremen's 'A+' Long-Term Issuer Default Rating (IDR), a resolution uplift of two notches and a recovery uplift of one notch. It considers the programme's overcollateralisation (OC) protection provided to bondholders.

Fitch has also granted a payment continuity uplift (PCU) of six notches to the programme, which has not been used as the mortgage Pfandbriefe are rated based on Fitch's limited rating uplift approach. Therefore, the rating is directly linked to SkBremen's IDR. The Stable Outlook on the Pfandbriefe rating mirrors that on SkBremen's IDR.

**'AA+' Break-even OC:** The legal minimum OC of 2.0% on a nominal basis is also the break-even OC for the rating. As SkBremen's ratings are 'A+/'F1+', Fitch relies on the lowest reported OC over the last 12 months of 49.5%.

**Ample OC Cushion:** As of end-March 2024, SkBremen's EUR705 million mortgage Pfandbriefe were secured by EUR1.13 billion of cover assets, resulting in nominal OC of 60.3%. The cover assets consist of residential mortgage loans (64.6%), commercial mortgage loans (32.7%) and substitute assets (2.7%). All the properties are located within Germany.

**Two-notch Resolution Uplift:** The resolution uplift of two notches reflects that SkBremen's Long-Term IDR is based on its participation in a mutual support scheme and that Pfandbriefe are exempt from bail-in in a resolution scenario. It considers Fitch's

assessment that resolution of the issuer would not result in the direct enforcement of recourse against the cover pool and a low risk of undercollateralisation at the point of resolution.

**Six-notch PCU:** The PCU reflects the principal liquidity protection provided by a 12-month maturity extension feature. The mandatory inclusion of liquid assets in the cover pool matching the maximum net negative accumulated balance of cash flows for the next 180 days also provides effective protection for interest payments and senior expenses.

**One-notch Recovery Uplift:** Fitch's rating analysis focused on identifying cumulative risk factors that could undermine recoveries given default of the bonds. As SkBremen's cover pool is exposed to regional concentration, we conducted different credit loss sensitivities and recoveries on the Pfandbriefe remain sufficient to grant a single notch of recovery uplift.

**ESG - Data Transparency & Privacy:** The data provided by SkBremen does not enable Fitch to perform a full analysis. For this reason, Fitch rates the programme on a limited rating-uplift approach, not testing for timely payment and limiting the recovery uplift to one notch.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Positive Rating**

#### **Action/Upgrade:**

SkBremen's covered bond rating could be upgraded if the issuer delivers data allowing for a full analysis and the OC Fitch relies upon supports the higher rating. If the bank's IDR was upgraded by one notch or more to 'AA-' or above, the covered bond rating would be upgraded to 'AAA'.

### **Factors that Could, Individually or Collectively, Lead to Negative Rating**

#### **Action/Downgrade:**

Due to the direct link between the covered bond rating and SkBremen's Long-Term IDR, the covered bond rating would be downgraded if the bank's IDR was downgraded by one notch or more to 'A' or below.

The 'AA+' rating of the Pfandbriefe would not be vulnerable to a downgrade if the relied-upon OC decreases to the legal minimum OC of 2.0%.

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The Pfandbriefe rating is linked to SkBremen's IDR.

## ESG CONSIDERATIONS

Die Sparkasse Bremen AG has an ESG Relevance Score of '5' for Data Transparency & Privacy as data provided by the issuer does not enable the agency to perform a full analysis.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

## RATING ACTIONS

ENTITY / DEBT ⇅	RATING ⇅	PRIOR ⇅
Die Sparkasse Bremen AG		
senior secured, Mortgage Covered Bonds, Mortgage Pfandbriefe	LT    AA+ Rating Outlook Stable  Affirmed	AA+ Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

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**APPLICABLE CRITERIA**

[European RMBS Rating Criteria \(pub. 21 Jun 2023\) \(including rating assumption sensitivity\)](#)

[Structured Finance and Covered Bonds Country Risk Rating Criteria \(pub. 07 Jul 2023\)](#)

[Covered Bonds Rating Criteria \(pub. 09 Oct 2023\) \(including rating assumption sensitivity\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria \(pub. 28 Nov 2023\)](#)

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Die Sparkasse Bremen AG

EU Issued, UK Endorsed

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