Die Sparkasse Bremen AG

Mortgage Pfandbriefe

Pfandbriefe Rating/Outlook	AA+/Negative	**Asset type**	Mortgage
Issuer Default Rating/Outlook	A+/Negative	**Cover assets (EURbn)**[a]	0.772
Resolution uplift	2 notches	**Covered bonds (EURbn)**[a]	0.437
Payment continuity uplift	4 notches	**Nominal OC (%)**[a]	76.6
Recovery uplift	1 notch	**OC Fitch considers in its analysis (%)**	76.6
Unused notches for rating	0	**Basis of OC relied upon**	Lowest last 12 months
Breakeven OC (%)	0	**Covered bonds maturity type**	Hard Bullet
Credit loss (%)	n.a.	**WAL of the assets (years)**[a]	5.7
ALM loss (%)	n.a	**WAL of the liabilities (years)**[a]	8.8

[a] Data at 31 December 2020. For abbreviations see page 3.
Source: Fitch Ratings

Key Rating Drivers

Limited Rating Uplift Approach: Fitch rates the Sparkasse Bremen's (SkBremen) mortgage Pfandbriefe based on the limited rating uplift approach as data provided by the issuer does not enable the agency to perform a full analysis. Under this approach, Fitch does not test for timely payment and limits the recovery uplift to one notch.

Pfandbrief Rating Linked to IDR: SkBremen's 'AA+' Pfandbrief rating is based on the savings bank's Long-Term Issuer Default Rating (IDR) of 'A+', a resolution uplift of two notches and a recovery uplift of one notch. The legal minimum overcollateralisation (OC) of 0% on a nominal basis is also the break-even OC for the rating.

There is a direct link between the rating of the Pfandbriefe and SkBremen's IDR given Fitch's application of the limited rating uplift approach. Any rating action on the IDR would be reflected on the Pfandbrief rating. The Negative Outlook mirrors that on SkBremen's IDR.

Two-Notch Resolution Uplift: The two notches of resolution uplift reflect that the issuer's IDR is based on its participation in a mutual support scheme and that Pfandbriefe are exempt from bail-in in a resolution scenario. It is also based on our assessment that resolution of the issuer would not result in the direct enforcement of recourse against the cover pool and the low risk of under-collateralisation at the point of resolution.

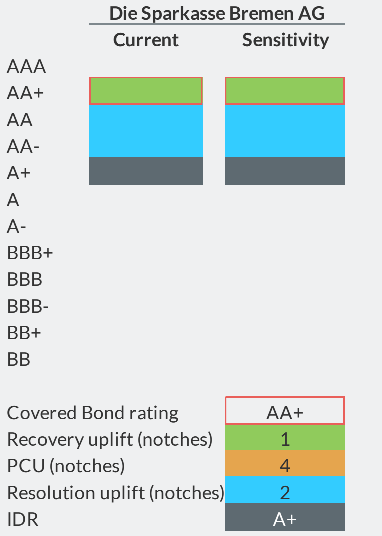
One-Notch Recovery Uplift: The recovery uplift was granted to SkBremen's covered bonds as the agency expects the covered bonds to benefit from at least good recoveries should they default.

Four-Notch PCU: The Payment Continuity Uplift (PCU) reflects the mandatory inclusion of liquid assets in the cover pool matching the maximum negative accumulated balance of cash flows for the next 180 days, which provides effective protection for interest and principal payments for standard German mortgage Pfandbriefe. As the Pfandbriefe are rated on a limited rating uplift basis the PCU is not utilised and provides no buffer against a possible IDR downgrade.

ESG Drivers: The programme 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.

Coronavirus Impact: Fitch expects the coronavirus containment measures to negatively affect the performance of German mortgage loans. However, the Pfandbrief rating benefits from significant cushions between the OC which Fitch relies on in its analysis and Fitch's 'AA+' break-

Rating Sensitivity to IDR Downgrade



Source: Fitch Ratings

Click Here for recorded webcast

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even OC of 0%. Nevertheless, the agency expects the OC cushion to possibly decrease for the programme as a consequence of the coronavirus crisis.

Programme Highlights

High Regional Concentration: SkBremen's operations are almost exclusively concentrated in and around the city of Bremen. German savings banks general business model is to focus on providing banking products within a clearly defined area attributed to each saving bank.

Predominantly Residential Cover Assets: At end-December 2020, the cover pool comprised 10,322 German residential mortgage loans with an average loan size of EUR63,883 and 327 German commercial real estate loans with an average loan size of EUR 302,752. The share of residential assets is 87.2% compared to 12.8% commercial real estate. The weighted average loan to mortgage lending value (LTMLV) of 53% allows for a large buffer to real-estate price declines before losses would materialise.

Other Risks Limited: The programme has no foreign-exchange exposure, with assets and liabilities exclusively denominated in euros. The outstanding fixed-rate Pfandbriefe are also secured by almost exclusively fixed-rate assets (98%).

Uplift Potential for PCU: The upcoming implementation of the European Covered Bond Directive in Germany could lead to additional protection for covered bond holders in terms of payment continuity, by introducing a conditional maturity extension option.

IBOR Exposure

IBOR Risks for Programme

Assets	Liabilities	Hedges
Limited Only about 2% of mortgages are exposed to floating rate arrangements	n.a. All covered bonds pay a fixed rate of interest	n.a. No swaps are in place for the programme

Source: Fitch Ratings

On July 2 2019 the European Money Market Institute was approved as the administrator of EURIBOR. Only with the introduction of a hybrid methodology based on transaction data did the reference interest rate, originally calculated purely from expert assessments, comply with the regulation. This means that EURIBOR can still be used in the EU in financial instruments, consumer credit agreements and investment funds and there is no current indication that it will cease in the near future.

Peer Comparison

The table below compares the key rating drivers for SkBremen with those of the four other mortgage Pfandbrief programmes rated by Fitch and issued by savings banks.

Fitch grants a resolution uplift of up to two notches to mortgage covered bond programmes in Germany as Germany has adopted an advanced bank resolution regime from which fully collateralised covered bonds and secured debt are exempt. The two-notch resolution uplift reflects that the saving banks' Long-Term IDRs are based on their participation in a mutual support scheme.

All German mortgage covered bond programmes receive a PCU of four notches. This is because of the mandatory inclusion of liquid assets in the cover pools matching the maximum negative accumulated balance of cash flows for the next 180 days laid down in the Pfandbrief Act.

Fitch also rates the Pfandbriefe of Sparkasse Westmuensterland (SkWML) and Stadtsparkasse Muenchen (SSkM) 'AA+' based on the limited rating uplift approach. Data provided by the issuers does not enable the agency to perform a full analysis.

The 'AAA' ratings of Sparkasse Pforzheim Calw's (SkPfCw) and Sparkasse Hannover's (SkH) Pfandbriefe are assigned using the full rating approach.The savings banks' IDRs of 'A+', together with a resolution uplift of two notches, enables these two programmes to reach the 'AAA' rating based on recoveries. Timely payment is not tested. SkH's and SkPfCw's 'AAA' break-even OC's

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

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

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

Large Buffers Against Asset Performance Deterioration for Sparkassen Pfandbriefe (July 2020)

Covered Bonds Surveillance Snapshot (January 2021)

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

Global Housing and Mortgage Outlook – 2021 (December 2020)

Covered Bonds Protection Dashboard (March 2021)

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

Selected Peers for Comparison

Issuer/ programme	IDR/ Outlook	CVB rating
Sparkasse Westmünsterland	A+/ Negative	AA+/ Negative
Stadtsparkasse München	A+/ Negative	AA+/ Negative
Sparkasse Hannover	A+/ Negative	AAA/ Stable
Sparkasse Pforzheim Calw	A+/ Negative	AAA/ Stable

Source: Fitch Ratings

are based on the credit losses expected in a 'AAA' rating scenario of 10.3% and 7.9%, respectively. The difference in loss expectation reflects the different share of commercial cover assets. The recovery uplift for SSkM's, SkWML's and SkBremen's programmes is limited to one notch.

The 'AAA' ratings from SkPfCw and SkH are protected by a four-notch buffer against a potential downgrade of the issuer, whereas the 'AA+' ratings of SkWML, SSkM and SkBremen have a zero-notch buffer.

See the Covered Bond Surveillance Snapshot (January 2021) and related Excel file, for a detailed comparison of rating drivers across Fitch-rated covered bond programmes.

Peer Comparison: Key Rating Drivers

	SkBremen	SkWML	SSkM	SkH	SkPfCw
IDR/Outlook	A+/ Negative	A+/ Negative	A+/Negative	A+/ Negative	A+/ Negative
Resolution uplift (notches)	2	2	2	2	2
PCU (notches)	4	4	4	4	4
Recovery uplift (notches)	1	1	1	2	2
Breakeven OC (%)	0	0	0	10.5	8.0
Breakeven OC components (%)					
Credit loss (%)	n.a.	n.a.	n.a.	10.3	7.9
ALM loss (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Pfandbrief rating/Outlook	AA+/ Negative	AA+/ Negative	AA+/ Negative	AAA/ Stable	AAA/ Stable
Buffer against issuer downgrade	0	0	0	4	4
Rating approach	Limited rating uplift	Limited rating uplift	Limited rating uplift	Full	Full

Source: Fitch Ratings

Country Risk Impact

There is no country risk impact on this programme as SkBremen's mortgage Pfandbriefe rating of 'AA+' is below Germany's Long-Term Local-Currency IDR of 'AAA'. Please see Fitch's Structured Finance and Covered Bonds Country Risk Rating Criteria.

The Issuer

SkBremen's IDR has been assigned in line with the Sparkassen-Finanzgruppe's (SFG) IDR. SFG included 376 savings banks at July 2020. In August 2020, Fitch assigned a group rating to 323 of these. The savings banks form a homogenous and relatively cohesive group and are organised into 12 regional savings banks associations. At the national level, Deutscher Sparkassen- und Giroverband, the umbrella organisation of SFG, represents the savings banks and the broader SFG including the Landesbanken. Each savings bank focuses on providing standard banking products within a clearly defined area.

SkBremen is the 14th largest savings bank in Germany with EUR12.1 billion total assets at end-2019. This includes a mortgage book of EUR3.9 billion consisting of both residential and commercial loans. SkBremen is one of the leading financial institutions in Bremen and offers a full range of financial service products to private and commercial clients claiming a market share for the region of 40%.

The savings bank holds a Pfandbrief licence for the issuance of mortgage Pfandbriefe. The first mortgage Pfandbrief was issued in 2009. The issuer focuses on private placements with typical notional values of about EUR10 million. At end-January 2021, no publicly tradeable mortgage Pfandbriefe were outstanding.

Fitch's most recent publications on SFG's issuer ratings can be found in the full rating report (August 2020) and Rating Action Commentary (August 2020).

Abbreviations

IDR: Long-Term Issuer Default Rating

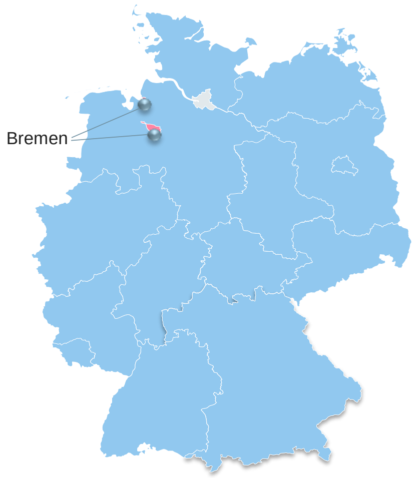
PCU: Payment Continuity Uplift

OC: Overcollateralisation

ALM: Asset and Liability Missmatches

WA: Weighted Average

WAL: Weighted Average Life



Resolution Uplift: Two Notches

The reolution uplift of two notches reflects that collateralised covered bonds in Germany are exempt from bail-in in a resolution scenario. Fitch considers the risk of under-collateralisation to be sufficiently low. The resolution of SkBremen, should this occur, is not expected to lead to a direct enforcement of recourse to the cover pool.

SkBremen's IDR of 'A+' is based on its participation in a mutual support scheme.

PCU: Four Notches

The PCU is based on the principal and interest payment protection mechanism, notably the inclusion of highly liquid assets covering potential cash shortfalls in the next 180 days. Fitch does not consider that other PCU components, "Asset Segregation" and "Alternative Risk Management", present a high risk to payment continuity. Details of the assessments of the asset segregation and alternative risk management components can be found in Appendix 5.

Fitch considers that covered bond payments may continue to be met without any interruption once recourse to the cover pool has been enforced, provided there are satisfactory liquidity protection mechanisms. We view liquidity as the main driver of the smooth transition from the issuer to the cover pool as the source of covered bonds interest and principal payments, and therefore normally the main determinant of the PCU, unless other risks constitute a greater threat to payment continuity.

The implementation of the European Covered Bond Directive currently underway in Germany could lead to additional protection for covered bond holders in terms of payment continuity, by implementing a conditional maturity extension option.

Recovery Uplift: One Notch

Should the covered bonds default, the agency expects them to benefit from at least good recoveries. The very low share of commercial assets and high share of owner-occupied properties along with low weighted average LTMLV's reflect the cover pool's overall high quality. Despite the geographical concentration of cover assets, Fitch does not identify the presence of cumulative risk factors given the relatively diversified business landscape in Bremen and its steadily growing property market.

Cover Pool Analysis

Cover Pool Composition

The cover pool composition reflects the general characteristics associated with German Sparkassen pools concentrated on a set geographical market within Germany, in this case the city of Bremen and its surrounding area. With 62% of assets located in Bremen itself and another 31% in Lower Saxony which surrounds Bremen. The majority of assets are fixed rate (98%) residential mortgages (87%).

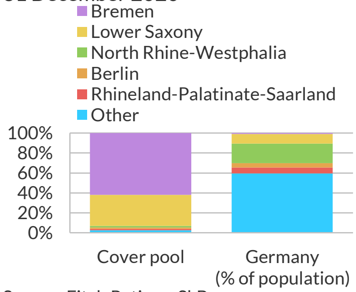
Sample Cover Pool

Characteristics at December 2020			
General			
Current principal balance (EURbn)	0.772	Variable-rate loans (%)	1.8
Number of loans	10,649	WA residential CLTV (%)	52.9
Number of borrowers	8,127	Loans in arrears (%)	0
WA current loan-to-value (CLTV) (%)	53.0	**Loan characteristics (commercial)**	
Average loan size	71,218	10 largest exposures (%)	39.7
Loan characteristics (residential)		Amortising loans (%)	95.1
Owner occupied properties (%)	72.7	Interest only loans (%)	4.9
10 largest exposures (%)	3.1	Fixed-rate loans (%)	96.7
Amortising loans (%)	92.7	Variable-rate loans (%)	3.3
Interest only loans (%)	7.3	WA commercial CLTV (%)	53.4
Fixed-rate loans (%)	98.2	Loans in arrears (%)	0

Source: Fitch Ratings, transaction documents

Geographical Breakdown

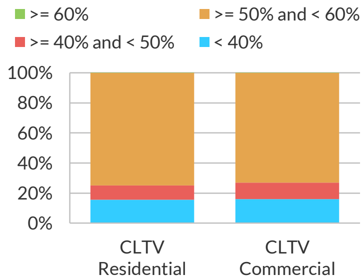
31 December 2020



Source: Fitch Ratings, SkBremen

LTV Breakdown

31 December 2020



Source: Fitch Ratings, SkBremen

Cover Pool Credit Analysis

Fitch did not perform an asset analysis. Detailed asset default and loss assumptions could not be derived because of the limited data provided.

Cash Flow Analysis

Fitch did not perform a cash flow analysis due to the limited data provided. As a result, the agency did not test for timely payment on the covered bonds.

Breakeven OC for the Rating

Fitch's breakeven OC for the rating corresponds to the legal minimum OC, which is the higher of 0% on a nominal basis and 2% on a stressed net present value basis.

OC Fitch Relies Upon in Its Analysis

In its analysis, Fitch gives credit to the lowest OC for the covered bonds over the last 12 months as the issuer's Short-Term IDR is at least 'F2'. The lowest OC for the last twelve months corresponds to 76.6% at 31 December 2020. This provides more protection than Fitch's break-even OC of 0%.

Sensitivity Analysis

There is a direct link between the Pfandbriefe rating and SkBremen's Long-Term IDR given Fitch's application of the limited rating uplift approach. Any changes to the IDR would be reflected on the covered bonds' rating.

SkBremen's Pfandbrief rating could be upgraded to 'AAA' if the issuer delivers data allowing for a full analysis and if the relied-upon OC provides sufficient protection in line with the 'AAA' break-even OC. In that scenario, a cushion against downgrade following an issuer downgrade would be provided.

Applicable Criteria, Models and Data Adequacy

Applicable Criteria

Fitch applies the European RMBS Rating Criteria as its sector-specific criteria under the Covered Bonds Rating Criteria master criteria. The cross-sector criteria apply to specific counterparty and interest rate risks. A full list of applicable criteria is detailed on page 2 of this report.

Criteria Variations

No criteria variations were applied in the rating of this programme.

Applicable Models

No models were applied in the rating of this programme.

Data Adequacy

The analysis also includes a review of SkBremen's origination, underwriting and servicing practices and procedures, which are deemed to be of a high quality. The composition and credit quality of the cover pool may change over time because of the dynamic nature of the programme.

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, and in the quarterly Covered Bonds Surveillance Snapshot.

Disclaimer

References in this report to the content and impact of relevant legislation and/or regulation represent Fitch's interpretation. Fitch relies on legal opinions or memoranda provided by issuers' and/or other outside legal counsel. As Fitch has always made clear, Fitch does not provide legal advice or confirm that a country's legal or regulatory framework, the legal opinions or memoranda, or any other programme documents or any structures are sufficient for any purpose. The disclaimer at the foot of this report makes it clear that this report does not constitute legal, tax and/or structuring advice from Fitch, and should not be used or interpreted as legal, tax and/or structuring advice from Fitch. Should readers of this report need legal, tax and/or structuring advice, they are urged to contact relevant advisers in the relevant jurisdictions.

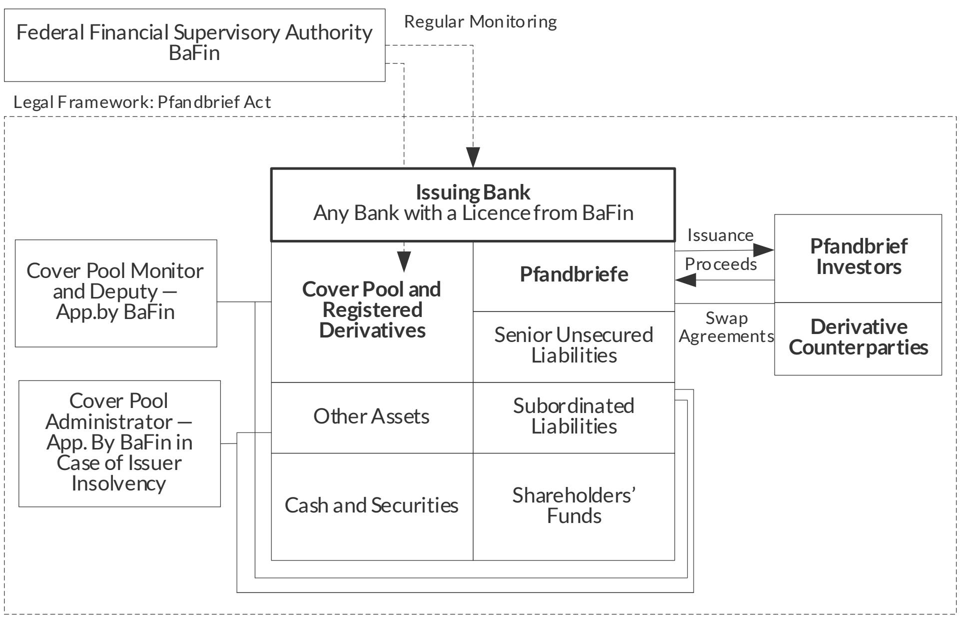
Appendix 1: Structural and Legal Aspects of the Programme

Overview and Basis of Dual Recourse

SkBremen can issue hard-bullet Pfandbriefe under this programme, which are secured by a dynamic pool of German mortgages. These are recorded in a dedicated cover register that does not belong to the insolvency estate of the issuer but constitutes a separate, bankruptcy-exempt estate. The issuer holds a Pfandbrief licence, which was granted in 2009.

As long as the issuer is solvent, it will repay covered bond obligations when due pari passu among themselves and with their senior liabilities, irrespective of the performance of the cover assets. On a second recourse, if issuer insolvency proceedings are started, outstanding covered bonds and registered cover assets will form a separate legal estate in the form of a "Pfandbriefbank with limited business activity" (PBwLBA). The scope of this PBwLBA is restricted mainly to the administration of the mortgage loans and repayment of covered bond obligations.

Diagram of a Pfandbrief Issuance



Source: Fitch Ratings

Flows of Funds Within the Programme

Mortgage loans are cover pool eligible up to 60% of their mortgage lending value. On registration of a loan in the cover register, it becomes part of the cover pool. The issuance proceeds of the mortgage covered bonds flow in the general bank account and are not earmarked for the funding of mortgage loan origination.

Covered bond repayment will also be made from this account unless there has been an enforcement of the recourse to the cover pool. Fitch believes that, on its appointment, the alternative manager (Sachwalter) is the sole party entitled to disburse incoming cash flows from the cover assets to satisfy covered bond payments becoming due. The alternative manager is appointed by a court at the request of BaFin, at the latest on the issuer's insolvency.

Priority of Payments

Two different priorities of payment for application of cash flows received from the cover assets exist. These depend on the timing of the appointment of the alternative manager.

Priority of Payments Before Alternative Manager Appointment

Before the appointment of an alternative manager, all cash flows from the asset portfolio flow to the general bank account. Whenever covered bond payments, interest or principal, are due, the issuer must settle these in full and timely according to the bonds' terms and conditions. The issuer also bears all administrative costs related to the cover pool and the bonds.

The issuer is accountable for compliance with all legal requirements, in particular adherence with all eligibility criteria, minimum OC and liquidity requirements.

Priority of Payments After Appointment

After being appointed, the alternative manager holds the exclusive right to manage the cover assets. This includes liquid assets and incoming cover asset interest and principal repayments. This right is not limited to the amount registered in the cover pool but extends to the whole loan. The alternative manager will deduct appropriate administration costs from the incoming mortgage loan cash flows.

Subsequently, the alternative manager is responsible for separating the incoming whole loan cash flows according to their legal status, i.e. cash flows will be split between cover pool loan part and junior ranking loan parts. The cash flows of junior ranking loan parts will be transferred to the general insolvency estate. From the cash flows of the registered loan parts, the alternative manager will deduct administrative costs relating to the cover pool, such as remuneration and special cover pool audit costs. All remaining funds must be used to repay the mortgage Pfandbriefe according to their terms and conditions.

Payments to privileged derivative counterparties rank pari passu with covered bond payments.

Should funds remain after all administration costs are satisfied and all privileged liabilities have been redeemed in full, the alternative manager will pass these on to the general insolvency estate.

The flow of funds may be affected by the table of events shown in Appendix 3.

Structural Features of the Programme

SkBremen's mortgage covered programme is based on the Pfandbrief legislation (please see appendix 4). The programme does not contain any additional structural features.

Appendix 2: ESG Relevance Scores

FitchRatings

Die Sparkasse Bremen AG, Mortgage Pfandbriefe

Covered Bonds ESG Navigator
Commercial Real Estate Loans and Mixed Mortgage

Credit-Relevant ESG Derivation

Die Sparkasse Bremen AG, Mortgage Pfandbriefe has 1 ESG key rating driver and 5 ESG potential rating drivers

- Die Sparkasse Bremen AG, Mortgage Pfandbriefe has exposure to transaction data and periodic reporting which, on an individual basis, has a significant impact on the rating.
- Die Sparkasse Bremen 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.
- Die Sparkasse Bremen 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.
- Die Sparkasse Bremen AG, Mortgage Pfandbriefe has exposure to jurisdictional legal risks; regulatory effectiveness; supervisory oversight; foreclosure laws; government support and intervention but this has very low impact on the rating.
- Die Sparkasse Bremen AG, Mortgage Pfandbriefe has exposure to asset isolation; resolution/insolvency remoteness; legal structure; structural risk mitigants; complex structures but this has very low impact on the rating.
- Die Sparkasse Bremen AG, Mortgage Pfandbriefe has exposure to counterparty risk; origination, underwriting and/or aggregator standards; borrower/lessee/sponsor risk; originator/servicer/manager/operational risk but this has very low impact on the rating.

			Overall ESG Scale
key driver	1	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	4	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	2	Regulatory risks, fines, or compliance costs from building emissions standards (including energy consumption) and related reporting standards	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

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
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)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
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	5	Transaction data and periodic reporting	Issuer Risk Present; Payment Continuity Assessment; OC Protection; Asset Stresses; Cash Flow Stresses	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular asset class. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the transaction's or program's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the transaction's or program's credit rating. The three columns to the left of the overall ESG score summarize the transaction's or program's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the transaction's or program's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

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 Sustainability Accounting Standards Board (SASB).

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.

Appendix 3: Summary of Events and Relevant Consequences

Table of Events and Relevant Consequences to the Issuer and the Bondholders

Event	Trigger	Structural consequence	Payer	Acceleration	Timely payments	Full repayment
Ongoing (before any of the following events).	None.	The issuer makes scheduled payments to the covered bonds out of its resources. All costs incurred are borne by the issuer. Any funds in connection with privileged swap agreements are to be paid directly to or by the issuer.	Issuer	No	Interest and principal to be paid on their due date.	Principal payments to be met in full by the issuer.
Appointment of alternative manager.	Commencement of issuer insolvency proceedings; or as a measure in case of danger as per Art.46 Kreditwesengesetz.	Upon commencement of insolvency proceedings cover pool, privileged derivatives and covered bonds are legally separated into the PBwLBA. BaFin proposes at least one and up to three alternative manager. The responsible court formally appoints the alternative manager. Upon appointment, the alternative manager is the only party allowed to dispose of cover assets including incoming payments on the cover assets. Covered bond payments are settled by the alternative manager according to their terms and conditions. Swap payments rank pari passu and are also settled by the alternative manager. Expenses are deducted from incoming cash flows before settling bond and swap payments.	PBwLBA	No	Interest and principal remain due as scheduled.	Principal payments to be met in full by the PBwLBA.
Default of the PBwLBA.	Default on any of its obligations, including covered bonds, or overindebtedness of the PBwLBA.	BaFin files an application for commencement of insolvency proceedings against the PBwLBA. All covered bonds become immediately due and payable at their early redemption amount plus accrued interest.	Insolvency estate of the PBwLBA	Yes	No	Depending on the proceeds derived from the portfolio sale.

Source: Fitch Ratings, Pfandbrief Act

Appendix 4: Main Characteristics of Applicable Legislation

The table below is based on Fitch's understanding of certain aspects of the applicable regime and is not a substitute for the original texts and/or German legal advice.

Main Characteristics of German Legislative Pfandbriefe

Issuers	Financial institutions with a licence to issue Pfandbriefe.
Supervision	German Federal Financial Supervisory Authority (BaFin).
Mortgage collateral	• Residential or commercial mortgages; • Geographical scope to the EU/EEA, Switzerland, the US, Canada, Japan, Australia, New Zealand or Singapore; • Up to 20% of the outstanding Pfandbriefe can be substitute assets.
Loan-to-value limits for mortgage loans	60% LTV based on the mortgage lending value.
Public sector assets	• Public sector assets; • Geographical scope to the EU/EEA; • For assets from the US, Canada, Japan and Switzerland, the debtor must be assigned to credit quality step 1; • Up to 10% of the outstanding Pfandbriefe can be substitute assets.
Transfer of assets	Integrated template, assets remain on the issuer's balance sheet.
Cover register	Cover register is required for the respective cover pool.
Cover pool monitor	Independent cover pool monitor (Treuhänder) appointed by BaFin.
Alternative manager (Sachwalter)	A dedicated alternative manager would take over the management of the cover assets and outstanding liabilities post issuer default. He would be appointed by a court at the request of BaFin, at the latest upon the issuer's insolvency.
Minimum OC	• 0% nominal value; • 2% stressed net present value (NPV). The NPV is detailed in a specific net present value regulation (Barwertverordnung) including procedures, stress scenarios and risk models. The approach can be static or dynamic, or based on internal models.
Treatment of swap counterparties	Derivative counterparties rank pari-passu with the claims of the covered bond holders.
Pfandbriefbank with limited business activity	The cover pool constitutes an insolvency-free asset and continues to exist post-issuer default as a PBwLBA to ensure the timely payment of the liability obligations. The PBwLBA would be managed by the alternative manager.

Source: Fitch Ratings, Pfandbrief Act

Appendix 5: Other Payment Continuity Risk Considerations

Asset Segregation

Fitch expects that ring-fencing of the cover pool will be effective given the 'all or nothing' nature of this risk. The ring-fencing of cover assets from any claims from unsecured creditors of the defaulted financial institution is achieved by virtue of law. This is often in the form of an exemption to normal bankruptcy legislation, or through a transfer of the assets to a bankruptcy-remote SPV acting as a guarantor of the issued covered bonds.

Asset Segregation: No Negative Impact on PCU

Component driver	Fitch assessment
Segregation of cover pool from other creditors of issuer	Cover assets are segregated through their registration in the cover register (Deckungsregister). Registered assets form a special estate (PBwLBA) and are exclusively available for the claims of the bondholders and privileged derivative counterparties.
Excess OC immune from claims from other creditors	Residual risk remains as the German covered bond law states that assets should be given back to the general insolvency estate if they are "obviously not necessary" to cover the claims of the bondholders, the minimum OC and the costs of the PBwLBA.
Asset and liability claw back risk	A remote risk of asset and liability claw back as circumstances in which claw back may occur are rare and rather hypothetical.
Commingling risk	Residual risk remains as prior to the commencement of insolvency proceedings or appointment of an alternative manager collections received are not separated from the general bank account in the issuer's name. No structural mitigating factors are in place. After the start of insolvency proceedings or appointment of an alternative manager commingling is legally prohibited.
Set-off risk for deposits	Set-off against assets entered into the pool is excluded by law.

Source: Fitch Ratings

Alternative Management

Systemic Alternative Management

Fitch takes into consideration the framework or contractual clauses governing the appointment of a substitute manager, together with the length of time required to appoint one. We also consider any potential conflict of interest (in cases where a single administrator in a bankruptcy takes care of covered bonds and other creditors) and the manager's responsibilities in the servicing. Other factors we consider include liquidation of the cover assets to meet payments due on the covered bonds and any further protection due to oversight or potential support for regulated covered bonds.

This regulated programme benefits from the statutory role of BaFin to request a suitably qualified alternative manager for the covered bond programme to manage a designated institution's covered bond activities upon an issuer's insolvency. The responsible court would then formally appoint the alternative manager.

If Fitch assesses that systemic alternative management represents a high risk to payment continuity, the otherwise achievable PCU for the programme would be reduced by one notch if it is in the one-to-three-notch range. The PCU for the programme would be reduced by two notches if it was in the four-to-eight-notch range.

Systemic Alternative Management: No Negative Impact on PCU

Component driver	Fitch assessment
Administrator takes exclusive care of covered bondholders? When are they appointed?	An alternative manager will service the pool in the interest of the bondholders. The alternative manager will be appointed at the latest at insolvency of the issuer by a court at the request of BaFin. Prior appointment is possible.
Importance of timeliness of payments in the legal provisions	The Pfandbrief Act highlights that liabilities should be repaid on their due date.
Substitute manager able to sell cover assets or borrow to make timely payments	The alternative manager has the power to sell assets and take bridge-financing, take out loans or issue new Pfandbriefe.
Regulatory oversight	BaFin

Source: Fitch Ratings

Cover Pool-Specific Alternative Management

Fitch focuses on the likely ease of the transferability of relevant data and IT systems to an alternative manager and buyer, with such quality and ease also judged on the quality and quantity of data provided to Fitch.

We would lower the programme PCU driven by its liquidity protection if Fitch assesses cover-pool-specific alternative management to represent a high risk. This would reflect a greater link to the Long-Term IDR of the issuing institution via a reduction by one notch if the otherwise achievable PCU is in the one-to-three-notch range. A reduction of two notches would apply if it was in the four-to-eight-notch range.

Cover Pool Alternative Management: No Negative Impact on PCU

Component driver	Fitch assessment
Cover assets, debtors' accounts and privileged swaps clearly identified within IT systems	Market standard systems are in place that ensure identification of that registered assets of SkBremen.
Standardised or custom-made IT systems used.	Fitch considers used systems to be well known in the market, enabling an alternative manager to easily start managing the programme.
Automation and speed of cover pool reporting	Fitch encountered limitations on available information, which did not enable the agency to perform a full asset analysis. Stratified information has been provided and will be provided on a quarterly basis.
Adequate filing of loan documentation, evidence of security	Loan files for residential loans are available partially in electronic and paper-based form.

Source: Fitch Ratings

Appendix 6: Origination and Servicing

Origination and Underwriting

Fitch views SkBremen's origination practices to be aligned with market standards. The credit risk assessment of mortgage loan applications is based on key principles documented in its credit policy. SkBremen's operations are almost exclusively concentrated in and the near surrounding of Bremen.

Loans are originated using different channels, mainly through its own branch network but also to a lesser extent through different mortgage brokers (about 25% of newly originated loans at end-2020). SkBremen manages its own origination through branches focusing on mortgage loan origination, so-called 'ImmobilienCenters' (real estate centres) with specialised advisors.

Regardless of the origination channel, underwriting processes are centralised and supported by standardised IT system and risk-management processes. The approvals of lending and credit monitoring are linked to the level of the individual risk. Corresponding credit competencies are defined depending on the volume and creditworthiness of the borrowers, so that credit decisions are always made at the appropriate level depending on the risk. On average, newly originated loans have an LTV of 76.9% (as per 2020 data); high LTVs are only allowed given excellent credit history and sufficient income. Several internally developed scorecards and check-lists are used to ensure a complete and consistent approach.

About 95% of the valuations are conducted by a qualified in-house appraiser and include a physical inspection of the property. Around 5% of valuations are conducted by external appraisers, usually for financings not within the direct business district of the bank.

Servicing

The covered bond programme is managed with market standard software, allowing for a daily pool registration of new loans. For all newly-originated mortgage loans, specialists check loan and property cover pool eligibility. Selection criteria are based on the Pfandbrief Act and internal guidelines. Loans are registered to the pool after cover pool eligibility has been confirmed for each loan by dedicated assistants to the cover pool monitor. The cover pool monitor additionally performs regular sample checks on a monthly basis. For de-registration of loans cover pool monitor consent is required.

Regardless of loan size or delinquency amount, an automatic dunning letter is sent to the borrower 30 days after a payment has been missed and a second dunning letter after 45 days. After 60 days, a third dunning letter is sent. The Sparkasse does not take possession of real estate. Rather, the credit commitment is terminated immediately after the statutory period of 14 days from the third dunning letter has expired. After all statutory prerequisites are met the initiation of liquidation measures (foreclosure auction) are initiated, provided the debtor does not consent to a direct sale. Due to the high demand in the region, debtors are generally able to sell properties on the open market in a short time frame and at a reasonable price, limiting or avoiding losses for the savings bank and the borrower.

Business Continuity

SkBremen has business continuity plans in place, supported by back-up data centres. Fitch believes the issuer's business continuity plans are sufficiently robust to allow for the resumption of operations at alternative locations without any significant interruption.

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.