

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 - 25 May 2023: Fitch Ratings has affirmed Die Sparkasse Bremen AG's (SkBremen; A+/Stable/F1+) EUR752 million mortgage Pfandbriefe at 'AA+'. The Outlook is Stable.

KEY RATING DRIVERS

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 also considers the programme's over-collateralisation (OC) protection for the covered bondholders. Fitch has granted a payment continuity uplift (PCU) of six notches to the programme.

As the mortgage Pfandbriefe are rated based on Fitch's limited rating uplift approach, the rating is directly linked to SkBremen's IDR. As a result, 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 39.0%.

Fitch rates the Pfandbriefe based on the limited rating uplift approach as data provided by SkBremen does not enable the agency to perform a full analysis. For this reason, Fitch does not test for timely payment and limits the recovery uplift to one notch.

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 the recoveries on the Pfandbriefe remain sufficient to grant a single notch of recovery uplift.

As of end-March 2023, SkBremen's EUR752 million outstanding mortgage Pfandbriefe were secured by EUR1.099 billion of cover assets, resulting in nominal OC of 46.2%. The cover assets consist of residential mortgage loans (63.3%), commercial mortgage loans (34.6%) and substitute assets (2.1%). All the properties are located within Germany.

Uplifts

The resolution uplift of two notches reflects that SkBremen's Long-Term IDR is based on the bank's 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 bank would not result in the direct enforcement of recourse against the cover pool and a low risk of under-collateralisation at the point of resolution.

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

The recovery uplift is limited to one notch as the Pfandbriefe are rated based on the limited rating uplift approach.

ESG Governance: The programme has an ESG Relevance Score of '5' for Data Transparency & Privacy as data provided by SkBremen does not enable Fitch to perform a full analysis. For this reason, Fitch rates the programme based on the limited rating uplift approach.

RATING SENSITIVITIES

Factors That Could, Individually or Collectively, Lead To Positive Rating Action/Upgrade

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

Factors That Could, Individually or Collectively, Lead To Negative Rating Action/Downgrade

The direct link between the rating of the Pfandbriefe and SkBremen's Long-Term IDR given Fitch's application of the limited rating uplift approach means the Pfandbriefe rating would be downgraded if SkBremen'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 decreased to the legal minimum OC of 2%.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

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. For this reason, Fitch rates the programme on a limited rating uplift approach, without testing for timely payment and limiting the recovery uplift to one notch.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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

[SME Balance Sheet Securitisation Rating Criteria \(pub. 19 Oct 2021\) \(including rating assumption sensitivity\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum \(pub. 01 Aug 2022\)](#)

[Bank Rating Criteria - Effective from 8 September 2022 to 1 September 2023 \(pub. 07 Sep 2022\) \(including rating assumption sensitivity\)](#)

[Covered Bonds Ratings Criteria - Effective from 22 November 2022 to 5 June 2023 \(pub. 22 Nov 2022\) \(including rating assumption sensitivity\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria \(pub. 14 Mar 2023\)](#)

[European RMBS Rating Criteria - Effective from 29 March 2023 to 21 June 2023 \(pub.](#)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

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Die Sparkasse Bremen AG

EU Issued, UK Endorsed

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