

Sparkasse Hannover

Mortgage Pfandbriefe Update

Rating/Outlook

Mortgage Pfandbriefe	AAA/Stable
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Rating Rationale

IDR/Outlook	A+/Stable
IDR uplift	2 Notches
Payment continuity uplift	4 Notches
Rating floor	AA
Recovery given default uplift	2 Notches
Covered bond rating	AAA
OC Fitch considers in analysis (%)	54.6
'AAA' breakeven OC (%)	15

Key Data

	Jun 18
Asset type	Mortgage
Cover assets (EURm)	982
Pfandbriefe (EURm)	573
Nominal OC (%)	71.3

Related Research

[Fitch Affirms Sparkasse Hannover's Mortgage Pfandbriefe at 'AAA'; Outlook Stable \(August 2018\)](#)

[Covered Bonds Surveillance Snapshot \(July 2018\)](#)

[Covered Bonds Surveillance Snapshot - Excel File \(July 2018\)](#)

[Fitch Affirms Sparkassen-Finanzgruppe at 'A+'; Outlook Stable \(December 2017\)](#)

['B' Portfolio Loss Rates for Covered Bonds \(September 2018\)](#)

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Key Rating Drivers

Four-notch Downgrade Buffer: Sparkasse Hannover's (SkH) mortgage Pfandbrief rating is based on the Long-Term Issuer Default Rating (IDR) of 'A+', an IDR uplift of two notches and a two-notch recovery uplift. The over-collateralisation (OC) Fitch Ratings relies on comprises 54.6% and reflects the lowest OC level of the last 12 months. This provides more protection than the 'AAA' breakeven OC of 15%. The Stable Outlook on the rating reflects a four-notch buffer against an IDR downgrade, due to the different uplift factors above the bank's IDR.

Credit Loss Drives OC: The unchanged 'AAA' credit loss of 15.2% reflects the covered bonds being secured by 54% low-risk private residential mortgage loans and 46% commercial loans, associated with higher loss expectations. Fitch carried forward the previous asset model results, reflecting the stable cover pool composition and the OC we rely on being more than twice the previously determined breakeven OC for the assigned rating.

Assigned Uplifts Unchanged: The two-notch IDR uplift reflects that the IDR is based on the issuer's participation in a mutual support scheme and that Pfandbriefe are exempt from bail-in in a resolution scenario. The payment continuity uplift of four notches reflects the mandatory inclusion of liquid assets in the cover pool, matching the maximum negative accumulated balance of cash flows for the 180 days. We do not expect downside risks to recoveries while the OC relied on covers the credit loss allowing for a two-notch recovery uplift.

Programme Highlights

High Geographical Concentration: About 97% of borrowers are based in the economically strong state of Lower Saxony. However, an unexpected shock in the region would severely affect the performance of the whole portfolio. Fitch therefore adjusted the default risk and loss severity for the pool's high regional concentration.

Stable Pool Composition: Key cover pool characteristics, such as portfolio seasoning and remaining time to maturity of assets, remain broadly unchanged from last year's analysis. The portfolio's low weighted average loan-to-market value (LTV) decreased slightly to 44% from 45%.

Residential Use Dominant: Single-family houses comprise almost half of the collateral and are mostly owner-occupied. The second largest part of the portfolio (25%) consists of multi-family houses. These are predominantly investment properties, despite the residential use. Fitch therefore classified borrowers having loans with collateral property values above EUR1 million as belonging to the commercial sub-portfolio.

Low Risk Residential Sub-Pool: Compared to peers the granular residential sub-pool exhibits a below-average risk profile. This is due to a small average loan size of EUR122,000 and a low LTV ratio of 45%.

Granular Commercial Sub-Pool: The small average financing volume of EUR276,000 and the absence of non-recourse special-purpose vehicles in the cover pool indicate that rental income is not the sole income source for such exposures. Consequently, Fitch applied its approach for operating companies and small and medium-sized enterprises to SkH's commercial real estate portfolio. The LTV ratio is below the residential sub-pool level and comprises 43%.

Cover Pool

Characteristics: June 2018

Residential cover pool

Size (EURm)	509
Number of borrowers	4,045
Weighted-average LTV (%)	45.3
Average loan balance (EUR 000)	122

Commercial cover pool

Size (EURm)	439
Number of borrowers	748
Weighted-average LTV (%)	42.8
Average loan balance (EUR 000)	276

Total cover pool

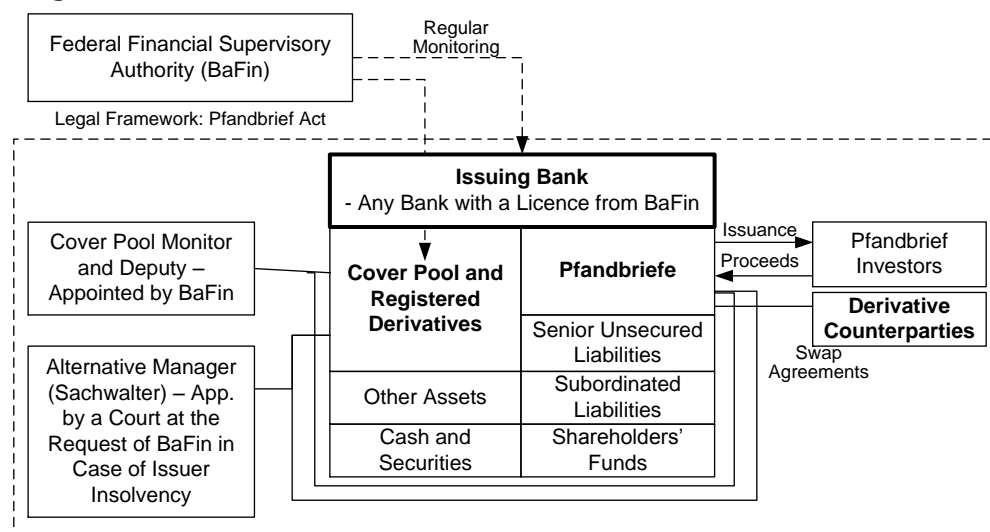
Fixed-rate assets (%)	93.2
Variable-rate assets (%)	6.8
WAL of assets (years)	15.9
WAL of liabilities (years)	9.6

Geographical breakdown (% of total pool)

Lower Saxony	96.7
City of Hannover	46.8
Rest of Germany	3.2

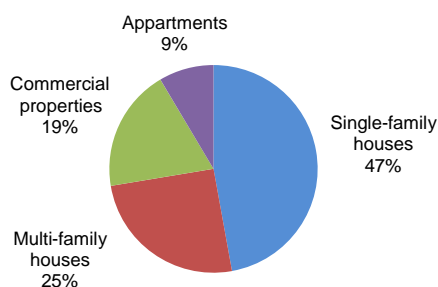
Source: SkH/Fitch

Diagram of a Pfandbrief Issuance



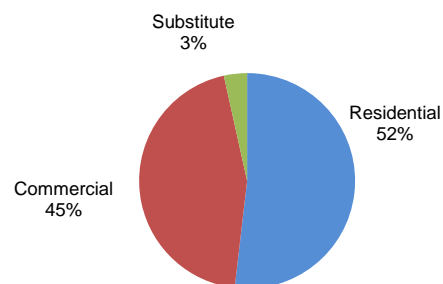
Source: Fitch

Collateral Property Type



Source: Vdp/SkH

Asset Type Distribution

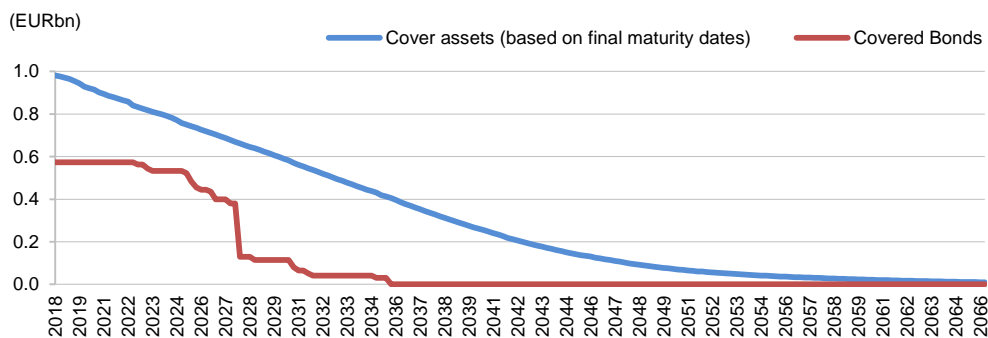


Source: SkH/Fitch

Related Criteria

- [Bank Rating Criteria \(June 2018\)](#)
- [Covered Bonds Rating Criteria \(August 2018\)](#)
- [EMEA CMBS and CRE Loan Rating Criteria \(June 2018\)](#)
- [EMEA RMBS Rating Criteria \(August 2018\)](#)
- [Germany Residential Mortgage Rating Criteria Addendum \(May 2018\)](#)
- [SME Balance Sheet Securitisation Rating Criteria \(February 2018\)](#)
- [Structured Finance and Covered Bonds Counterparty Rating Criteria \(August 2018\)](#)
- [Commercial Real Estate Loans Securing Covered Bonds Rating Criteria \(November 2017\)](#)

Unstressed Amortization Profiles



Source: SkH

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