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Fitch Affirms Sparkasse Hannover's Mortgage Pfandbriefe at 'AAA'; Outlook Stable

Fitch Ratings - Frankfurt am Main - 05 Jan 2024: Fitch Ratings has affirmed Sparkasse Hannover's (SkH; A+/Stable/F1+) mortgage Pfandbriefe at 'AAA' with Stable Outlook. The affirmation follows Fitch's periodic review of the programme.

KEY RATING DRIVERS

Four Notches Above IDR: The 'AAA' rating of the mortgage Pfandbriefe is based on SkH's 'A+' Long-Term Issuer Default Rating (IDR), the various uplifts above the IDR granted to the programme and the over-collateralisation (OC) protection provided to the bondholders. The Stable Outlook on the programme reflects that on SkH's IDR and a six-notch buffer against an IDR downgrade.

SkH's Pfandbriefe are rated four notches above the bank's IDR. This is out of a maximum achievable uplift of 10 notches, consisting of a resolution uplift of two notches, a payment continuity uplift (PCU) of six notches and a recovery uplift of two notches. As SkH's IDRs are 'A+'/'F1+', Fitch relies on the lowest reported OC over the last 12 months of 49.6%, which provides more protection than Fitch's updated 'AAA' break-even OC of 8.5%.

Credit Loss Drives Break-Even OC: Fitch's 'AAA' break-even OC of 8.5% supports a timely payment rating level of 'AA' and a two-notch recovery uplift to 'AAA'. The 'AAA' break-even OC remains driven by the 'AAA' credit loss of 8.4%, which has been rounded off to the nearest 0.5%, in line with Fitch's Covered Bonds Rating Criteria.

As of end-September 2023, SkH's EUR1.9 billion outstanding mortgage Pfandbriefe were secured by EUR2.9 billion of cover assets, resulting in a nominal OC of 52.3%. The cover assets consist of a granular pool of private residential mortgage loans (79.7%), commercial mortgage loans (16.6%) and substitute assets (3.7%). All properties are located within Germany.

SME Balance Sheet Securitisation Criteria: The rating analysis applies Fitch's SME Balance Sheet Securitisation Rating Criteria under which the benchmark default rate assumption for SkH's commercial loans has remained at 1%, with a minimum default rate of 0.5%. Fitch has applied its rating approach for operating companies to SkH's commercial real estate portfolio, which includes multi-family houses with market values exceeding EUR1.5 million.

Two-notch Resolution Uplift: The resolution uplift of two notches reflects that SkH's Long-Term IDR is based on the bank's participation in a mutual support scheme and that collateralised Pfandbriefe in Germany are exempt from bail-in in a resolution. The resolution uplift takes also into account Fitch's assessment that a 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.

Six-notch PCU: The six-notch PCU 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 provides effective protection of interest payments and senior expenses in excess of a minimum of three months under Fitch's criteria.

Two-notch Recovery Uplift: The two-notch recovery uplift of the programme reflects that no material downside risk to recoveries has been identified.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

The covered bonds' 'AAA' rating is the highest level on Fitch' scale and therefore cannot be upgraded.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

SkH's mortgage covered bonds' rating would be vulnerable to a downgrade if the bank's IDR is downgraded by seven notches to 'BB' or below; or if the OC considered by Fitch in its analysis provides less protection than Fitch's 'AAA' break-even OC of 8.5%.

If the OC that Fitch considers in its analysis drops to the legal minimum requirement of 2%, the programme could only achieve a two-notch resolution uplift and one-notch recovery uplift above the bank's IDR. As a result, the Pfandbriefe rating would likely be downgraded to 'AA+'.

Fitch's break-even OC for the covered bond rating will be affected, among other factors, by the profile of the cover assets relative to outstanding covered bonds, which can change over time, even in the absence of new issuance. Therefore, the break-even OC to maintain the covered bond rating cannot be assumed to remain stable over time.

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 driven by SkH's credit risk as measured by its Long-Term IDR.

ESG Considerations

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>.

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Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Sparkasse Hannover			
<ul style="list-style-type: none"> senior secured, Mortgage Covered Bonds, Mortgage Pfandbriefe 	LT	AAA	Affirmed
			AAA

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

- [Bank Rating Criteria \(pub.01 Sep 2023\) \(including rating assumption sensitivity\)](#)
- [Covered Bonds European CRE MVD Assumptions – Supplementary Data File \(pub.09 Oct 2023\)](#)
- [Covered Bonds Rating Criteria \(pub.09 Oct 2023\) \(including rating assumption sensitivity\)](#)
- [European RMBS Rating Criteria \(pub.21 Jun 2023\) \(including rating assumption sensitivity\)](#)
- [SME Balance Sheet Securitisation Rating Criteria \(pub.19 Oct 2021\) \(including rating assumption sensitivity\)](#)
- [Structured Finance and Covered Bonds Counterparty Rating Criteria \(pub.28 Nov 2023\)](#)

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub.28 Nov 2023)

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

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Portfolio Credit Model, v2.16.2 (1)

ResiGlobal Model: Europe, v1.8.9 (1)

Additional Disclosures

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