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

Fitch Ratings - Frankfurt am Main - 07 Feb 2023: Fitch Ratings has affirmed Sparkasse Hannover's (SkH; A+/Stable/F1+) mortgage Pfandbriefe at 'AAA'. The Outlook is Stable.

KEY RATING DRIVERS

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 the Outlook 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 38.9%, which provides more protection than Fitch's 'AAA' break-even OC of 10.5%.

'AAA' Break-even OC

Fitch's unchanged 'AAA' break-even OC of 10.5% supports a timely payment rating level of 'AA' and a two-notch recovery uplift to 'AAA'. The 'AAA' break-even OC of 10.5% remains driven by the 'AAA' credit loss in the same amount. In accordance with its Covered Bonds Rating Criteria, Fitch carried forward the results of its asset models, as the asset-liability characteristics have not changed materially since the last annual review in March 2022 and the relied upon OC is more than twice the break-even OC for the rating.

As of end-December 2022, SkH's EUR1.398 billion outstanding mortgage Pfandbriefe were secured by EUR2.617 billion of cover assets, resulting in a nominal OC of 87.2%. The cover assets consist of a granular pool of private residential mortgage loans (77.3%), commercial mortgage loans (18.6%) and other assets (4.1%). All properties are located within Germany.

The rating analysis applies Fitch's SME Balance Sheet Securitisation Rating Criteria under which the benchmark default rate for SkH's commercial loans has been assumed 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. The fairly small average financing volume per borrower of about EUR2.4 million and the absence of

non-recourse special-purpose vehicles in the cover pool indicate that rental income is not the sole income source for these exposures. The portfolio includes multi-family houses with market values exceeding EUR1.5 million.

Uplifts

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 scenario. 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.

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.

The two-notch recovery uplift of the programme reflects that no material downside risk to recoveries have been identified.

RATING SENSITIVITIES

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

The Pfandbriefe are rated 'AAA', which is the highest level on Fitch's scale and cannot be upgraded.

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

SkH's mortgage Pfandbriefe' rating would be vulnerable to a downgrade if the bank's IDR was 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' breakeven OC.

If the OC that Fitch considers in its analysis drops to the legal minimum requirement of 2%, on a net present value or nominal value basis, the programme could only achieve two notches of resolution uplift and one-notch recovery uplift above SkH's IDR as adjusted by the resolution uplift. As a result, the Pfandbriefe rating would likely be downgraded to 'AA+'.

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

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

ESG Considerations

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

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Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Sparkasse Hannover			
• senior secured, Mortgage Covered LT Bonds, Mortgage Pfandbriefe	AAA 	Affirmed	AAA 

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Bank Rating Criteria \(pub.07 Sep 2022\) \(including rating assumption sensitivity\)](#)

[Covered Bonds Ratings Criteria \(pub.22 Nov 2022\) \(including rating assumption sensitivity\)](#)

[European RMBS Rating Criteria \(pub.16 Dec 2022\) \(including rating assumption sensitivity\)](#)

[Fitch's Covered Bonds European CRE MVD Assumptions – Supplementary Data File \(pub.02 Jun 2021\)](#)

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

[Structured Finance and Covered Bonds Country Risk Rating Criteria \(pub.15 Jul 2022\)](#)

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub.29 Jul 2022)

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

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