



RATING ACTION COMMENTARY

Fitch Rates Sparkasse Hannover's Public Sector Pfandbriefe 'AAA(EXP)'; Outlook Stable

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Fitch Ratings - Frankfurt am Main - 15 Nov 2023: Fitch Ratings has assigned Sparkasse Hannover's (SkH; A+/Stable/F1+) public-sector Pfandbriefe an expected 'AAA(EXP)' rating. The Outlook is Stable, reflecting that on the bank.

The assignment of final ratings is contingent on the receipt of final documents conforming to information already reviewed.

KEY RATING DRIVERS

The 'AAA(EXP)' rating of the public-sector Pfandbriefe is based on SkH's Long-Term Issuer Default Rating (IDR) of 'A+', the various uplifts above the IDR granted to the programme and the over-collateralisation (OC) protection for Pfandbrief holders that Fitch relies on.

The public-sector Pfandbriefe are rated at a maximum four notches above the bank's IDR. This uplift consists of two notches each for resolution and recovery. Fitch has also assigned a payment continuity uplift (PCU) of six notches, but this is not used as the timely payment rating level is capped at the resolution reference point of 'AA', which is equal to the IDR adjusted by the two-notch resolution uplift. Due to the cap, the rating is directly linked to SkH's IDR and there is no buffer against an IDR downgrade.

The rating is capped at this level due to high cover pool concentration. This is because in a default of the largest obligors, we expect good recoveries but assume the recovery timing at three years, which is longer than the 12 months extendible maturity foreseen in the Pfandbrief law. Therefore, Fitch does not test for timely payments on the covered bonds in its analysis and factors in two notches of recovery uplift.

As SkH IDRs are 'A+/'F1+', Fitch relies on the lowest reported OC over the last 12 months of 71.5% (including a new EUR 250m issuance), which provides more protection than Fitch's 'AAA(EXP)' break-even OC of 26%.

'AAA(EXP)' Break-even OC

Fitch's 'AAA(EXP)' break-even OC of 26% supports a two-notch recovery uplift above the 'AA' resolution reference point to 'AAA'. The 'AAA(EXP)' break-even OC is driven by the 'AAA(EXP)' credit loss of 26%. The pool shows a high regional concentration in Lower Saxony and around Hannover with more than half of the cover pool concentrated in the 10 largest borrower groups.

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. 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 the 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 risks to recoveries have been identified.

RATING SENSITIVITIES

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

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

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

The public sector Pfandbriefe's 'AAA(EXP)' rating would be vulnerable to a downgrade on a downgrade of SkH's 'A+' Long-Term IDR or if the OC Fitch relies on decreases below the 'AAA(EXP)' break-even OC of 26%.

Fitch's 'AAA(EXP)' break-even OC is likely to increase to cover wider credit losses if Germany (AAA/Stable/F1+) is downgraded. This is because in tested rating scenarios

above the sovereign rating to which the programme is credit-linked, the sovereign can default in our model's simulation.

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 a 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 break-even OC for the Pfandbriefe rating will be affected, among other factors, by the profile of the cover assets relative to outstanding Pfandbriefe, which can change over time, even in the absence of new issuance. Therefore, the break-even OC to maintain the Pfandbriefe 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

SkH's public-sector Pfandbrief rating is credit-linked to Germany, while in the analysis of the German sub-sovereign exposure, the sovereign is assumed not to default.

The Pfandbriefe rating is also linked to SkH's 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>.

RATING ACTIONS

ENTITY / DEBT ↕

RATING ↕

Sparkasse Hannover

senior secured, Public
Sector Covered Bonds,
Public Sector Pfandbriefe

LT AAA(EXP) Rating Outlook Stable

Expected Rating

[VIEW ADDITIONAL RATING DETAILS](#)**FITCH RATINGS ANALYSTS****Sebastian Seitz, CFA, CAIA**

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APPLICABLE CRITERIA

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

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

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

[Bank Rating Criteria \(pub. 01 Sep 2023\) \(including rating assumption sensitivity\)](#)

[Covered Bonds Rating Criteria \(pub. 09 Oct 2023\) \(including rating assumption sensitivity\)](#)

[Covered Bonds and CDOs Public Entities' Asset Analysis Rating Criteria \(pub. 16 Oct 2023\) \(including rating assumption sensitivity\)](#)

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](#))

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Sparkasse Hannover

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