



## RATING ACTION COMMENTARY

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

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Fitch Ratings - Frankfurt am Main - 08 Mar 2022: 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 Long-Term Issuer Default Rating (IDR) of 'A+' and the various uplifts above the IDR granted to the programme. It also considers the programme's over-collateralisation (OC) protection for Pfandbrief holders.

The mortgage 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. The Stable Outlook reflects that on SkH's IDR and a six-notch buffer against an IDR downgrade.

As SkH's Short-Term IDR is 'F1+', Fitch relies on the lowest reported OC over the last 12 months of 34.1%, which provides more protection than Fitch's unchanged 'AAA' break-even OC of 10.5%.

'AAA' Break-even OC

Fitch's '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% is driven by the 'AAA' credit loss in the same amount. This reflects the covered bonds being secured by 70% low-risk private residential mortgage loans and 30% commercial loans.

The affirmation follows the publication of an updated version of 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 EUR2.1 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 such exposures. The portfolio includes multi-family houses with market values exceeding EUR1.5 million.

### Uplifts

The two-notch resolution uplift reflects that collateralised Pfandbriefe in Germany are exempt from bail-in, that Fitch deems the risk of under-collateralisation at the point of resolution to be sufficiently low, and that a resolution of SkH is not likely to result in the direct enforcement of recourse to the cover pool. The two-notch resolution uplift also takes into account that SkH's Long-Term IDR is based on the bank's participation in a mutual support scheme.

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 risks to recovery expectations were identified by Fitch.

### **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 therefore cannot be upgraded.

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

SkH's 'AAA' Pfandbriefe rating would be vulnerable to a downgrade if the bank's IDR is downgraded by seven or more notches to 'BB' or below; or if the relied-upon OC provides less protection than Fitch's 'AAA' break-even OC.

If the OC that Fitch considers in its analysis drops to the legal minimum requirement of 2% on a net present value basis, the programme could only achieve 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.

### **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 the credit risk of SkH 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](http://www.fitchratings.com/esg)

## RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Sparkasse Hannover		
senior secured, Mortgage Covered Bonds, Mortgage Pfandbriefe	LT AAA Rating Outlook Stable Affirmed	AAA Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

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**APPLICABLE CRITERIA**

[Covered Bonds Rating Criteria \(pub. 02 Jun 2021\) \(including rating assumption sensitivity\)](#)

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

[Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria \(pub. 20 Sep 2021\)](#)

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

[Structured Finance and Covered Bonds Country Risk Rating Criteria \(pub. 28 Oct 2021\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum \(pub. 04 Nov 2021\)](#)

[Covered Bonds Rating Criteria: Derivative Addendum \(pub. 04 Nov 2021\)](#)

**APPLICABLE MODELS**

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

Portfolio Credit Model, v2.14.0 (1)

ResiGlobal Model: Europe, v1.7.4 (1)

**ADDITIONAL DISCLOSURES**

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Sparkasse Hannover

EU,UK Endorsed

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