

# **FITCH AFFIRMS BAYERNLB, HELABA AND HVB PUBLIC SECTOR PFANDBRIEFE AT 'AAA'; OUTLOOK STABLE**

Fitch Ratings-Frankfurt/London-05 December 2018: Fitch Ratings has affirmed three German public sector covered bonds programmes, as follows:

- Bayerische Landesbank's (BayernLB, A-/Stable/F1) public sector covered bonds programme affirmed at 'AAA'; Outlook Stable
- Landesbank Hessen-Thüringen Girozentrale's (Helaba, A+/Stable/F1+) public sector covered bonds programme affirmed at 'AAA'; Outlook Stable
- Unicredit Bank AG's (HVB; BBB+/Negative/F2) public sector covered bonds programme affirmed at 'AAA'; Outlook Stable

## **KEY RATING DRIVERS**

### **BayernLB**

The 'AAA' rating is based on BayernLB's Long-Term Issuer Default Rating (IDR), an IDR uplift of one notch, a payment continuity uplift (PCU) of five notches, a two-notch recovery uplift and the 27.2% overcollateralisation (OC) Fitch relies upon, which provides more protection than the 'AAA' breakeven (BE) OC of 10%.

### **Helaba**

The 'AAA' rating of the covered bonds is based on Helaba's Long-Term IDR, an IDR uplift of two notches, a two-notch recovery uplift and the overcollateralisation (OC) Fitch relies upon of 25.2%, which provides more protection than the unchanged 'AAA' breakeven OC of 6.5%. The PCU of five notches is unchanged.

### **HVB**

The 'AAA' rating is based on HVB's Long-Term IDR, an IDR uplift of two notches, PCU of five notches, two notches recovery uplift and the 22.8% overcollateralisation (OC) Fitch relies upon, which provides more protection than the unchanged 'AAA' breakeven OC of 9%. The Outlook is Stable despite the Negative Outlook on HVB's IDR, given that a potential one-notch downgrade of its ultimate parent's IDR (UniCredit SpA; BBB/Negative/F2) would not result in a downgrade of the covered bonds.

### **Credit Loss**

The credit loss component for all three German public-sector Pfandbrief programmes remains low (BayernLB: 3.8%, Helaba: 6.5%, HVB: 4.7%) mirroring the geographical concentration to Germany, which accounts for 94% of BayernLB's cover pool, 95% of Helaba's cover pool, and 96% of HVB's cover pool. The programmes continue to be credit-linked to the German sovereign rating (AAA/Stable/F1+).

For all programmes the cover pool composition, such as borrower type and geographical distribution, as well as guarantors' concentration, remains broadly unchanged. In addition, for each programme the OC we rely upon in our analysis is more than twice the previously determined breakeven OC for the rating. Therefore we carried forward the previous asset model outputs.

### **ALM Loss**

The ALM loss component represents the non-credit loss component of the breakeven OC for the rating and reflects the modelled maturity, interest rate and FX mismatches.

BayernLB's 'AAA' breakeven OC has decreased to 10.0% from 10.5% due to a slightly improved ALM loss (6.1% down from 6.7%). This reflects a significant bond redemption in 3Q318, now allowing for cash accumulation, reducing the modelled asset sales.

As the weighted average life (WAL) of BayernLB's cover assets exceeds eight years, the exposure is above the stress period considered in Fitch's FX stresses. To account for this, we treated the EUR/GBP currency pair as a category 3 instead of category 2 under Fitch's FX stress assumptions. The impact is minimal given the small relative volumes of sterling-denominated assets in the cover pool (2.6%).

HVB's ALM loss component is unchanged at 4.3%, mirroring the programme's relatively low maturity mismatches. We do not apply any FX stresses since all assets and liabilities are euro-denominated.

Helaba's Public Sector Pfandbrief rating is based on a 'AA' rating floor and a two-notch recovery uplift. This enables the programme to reach the 'AAA' rating on a recovery basis and we do not seize for ALM loss.

### RATING SENSITIVITIES

BayernLB: BayernLB's public sector Pfandbrief 'AAA' rating would be vulnerable to downgrade if any of the following occurs: (i) BayernLB's Long-Term Issuer Default Rating (IDR) is downgraded by three or more notches to 'BBB-' or below; or (ii) the OC that Fitch considers in its analysis drops below Fitch's 'AAA' breakeven level of 10%; or (iii) the German sovereign is downgraded to 'AA+' or below. If the OC that Fitch considers in its analysis drops to the legal minimum requirement, the rating would likely be downgraded to 'A+'.

Helaba: The 'AAA' rating would be vulnerable to downgrade if Helaba's IDR is downgraded to 'BB+' or below; or (ii) the combined number of notches represented by the IDR uplift and the payment continuity uplift is reduced to one or lower; (iii) the OC that Fitch considers in its analysis drops below Fitch's 'AAA' breakeven level of 6.5%; or (iv) the German sovereign is downgraded to 'AA+' or below. If the OC that Fitch considers in its analysis drops to the legal minimum requirement of 0%, the rating would likely be downgraded to 'AA+'.

HVB: The 'AAA' rating would be vulnerable to downgrade if any of the following occurs: (i) HVB's Long-Term IDR is downgraded by three or more notches to 'BB+' or below; or (ii) the German sovereign is downgraded to 'AA+' or below; or (iii) the OC that Fitch considers in its analysis drops below Fitch's 'AAA' breakeven level of 9%. If the OC that Fitch considers in its analysis drops to the legal minimum requirement of 0%, the rating would likely be downgraded to 'A+'.

Fitch's breakeven OC for a given covered bond rating will be affected by, among other factors, 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 breakeven OC for a covered bonds rating cannot be assumed to remain stable over time.

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#### Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018)

<https://www.fitchratings.com/site/re/10044408>

Covered Bonds Rating Criteria (pub. 08 Oct 2018)

<https://www.fitchratings.com/site/re/10047240>

Covered Bonds and CDOs Public Entities' Asset Analysis Criteria (pub. 09 Nov 2018)

<https://www.fitchratings.com/site/re/10049366>

Fitch's Interest Rate Stress Assumptions for Structured Finance and Covered Bonds - Excel File  
(pub. 02 Feb 2018)

<https://www.fitchratings.com/site/re/10018863>

Fitch's Foreign-Currency Stress Assumptions for Residual Foreign-Exchange Exposures in Covered Bonds and Structured Finance – Excel File (pub. 30 Oct 2017)

<https://www.fitchratings.com/site/re/10008156>

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 01 Aug 2018)

<https://www.fitchratings.com/site/re/10039504>

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 01 Aug 2018)

<https://www.fitchratings.com/site/re/10039505>

Structured Finance and Covered Bonds Country Risk Rating Criteria (pub. 23 Oct 2018)

<https://www.fitchratings.com/site/re/10047041>

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 02 Feb 2018)

<https://www.fitchratings.com/site/re/10018549>

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