FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Helaba's, BayernLB's and HVB's Public Sector Pfandbriefe at 'AAA', Outlook Stable

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Fitch Ratings - Frankfurt am Main - 03 Dec 2020: Fitch Ratings has affirmed Landesbank Hessen-Thueringen Girozentrale's (Helaba; A+/Negative/F1+), Bayerische Landesbank's (BayernLB; A-/Negative/F1) and UniCredit Bank AG's (HVB; BBB/Negative/F2) public sector Pfandbriefe at 'AAA' with Stable Outlooks.

The affirmations follow the update of Fitch's Covered Bonds and CDOs Public Entities Asset Analysis Criteria published on 16 October 2020.

KEY RATING DRIVERS

The 'AAA' rating of Helaba's public sector Pfandbriefe is based on the bank's Long-Term Issuer Default Rating (IDR) of 'A+', the various uplifts above the IDR granted to the programme and the overcollaterialisation (OC) protection for Pfandbriefe holders. The public sector Pfandbriefe are rated four notches above the bank's Long-Term IDR. This is out of a maximum achievable uplift of nine notches, consisting of a resolution uplift of two notches, a payment continuity uplift (PCU) of five notches and a recovery uplift of two notches. As the 'AAA' rating is based on a recovery only basis we did not test for timely payments in our cash flow model.

The 'AAA' rating of BayernLB's public sector Pfandbriefe is based on the bank's Long-Term IDR of 'A-' and the various uplifts above the IDR granted to the programme. It also considers the OC protection for Pfandbrief' holders. The public sector Pfandbriefe rating is six notches above the bank's Long-Term IDR. The maximum achievable uplift of eight notches consists of a resolution uplift of one notch, a PCU of five notches and a recovery uplift of two notches.

HVB's Long-Term IDR of 'BBB', the various uplifts above the IDR granted to the programme and the OC protection for Pfandbrief holders are the basis for the 'AAA' rating of its public sector Pfandbriefe. The maximum achievable uplift of nine notches consists of a resolution uplift of two notches, a PCU of five notches and a recovery uplift of two notches.

As the issuers' Short-Term IDRs are above 'F3', we rely in our analysis on the lowest available OC of the last 12 months (Helaba: 16.5%; BayernLB: 22.1%; HVB: 44.5%). This provides more protection than Fitch's 'AAA' breakeven OC (Helaba: 4.5%; BayernLB: 12.0%; HVB: 13.0%).

The 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 Helaba, BayernLB or HVB, should it happen, is not likely to result in the direct enforcement of the recourse against the cover pool.

The two-notch resolution uplift granted to Helaba's public sector Pfandbriefe also takes into account that Helaba's IDR is based on the bank's participation in a mutual support scheme and equalised with the IDR of Sparkassen Finanzgruppe Hessen-Thueringen, which Helaba is part of. The resolution uplift for BayernLB's public sector Pfandbriefe is limited to one notch as BayernLB's IDR is support-driven. The two-notch resolution uplift granted to HVB's public sector Pfandbriefe reflects that the IDR is not driven by institutional or state support.

The five-notch PCU reflects principal liquidity protection provided by the mandatory inclusion of liquid assets in the cover pool matching the maximum negative accumulated balance of cash flows for the next 180 days under the Pfandbriefe law.

The recovery uplift for the programmes is two notches, as their timely payment rating levels are in the investment-grade category and no material downside risk to recoveries has been identified.

Fitch's 'AAA' breakeven OC for Helaba's public sector Pfandbriefe has decreased to 4.5% (from 6.0%). The reduction stems from a lower credit loss component of 4.3%

(6.2% previously) reflecting the update of Fitch's Covered Bonds and CDOs Public Entities Asset Analysis Criteria, in particular a revised assumption for exposure at sovereign default for public entities of 'AAA' and 'AA' category rated sovereigns to 40%, from 80% previously. In total, this assumption is applied to 6.5% of the cover pool.

Fitch's 'AAA' breakeven OC for BayernLB's public sector Pfandbriefe remains 12.0%, consisting of a credit loss of 3.9% (down from 4.2%) and an ALM loss of 7.9% (unchanged). The very slight decline of the credit loss reflects the exposure to municipalities from 'AAA' and 'AA' category rated sovereigns (3.2%), which are modelled with a lower conditional default rate (default following sovereign default) following the update of Fitch's Covered Bonds and CDOs Public Entities Asset Analysis Criteria.

Fitch's 'AAA' breakeven OC for HVB's public sector Pfandbriefe declined to 13.0% (from 14.0%). The ALM loss increased to 8.9% (from 8.2%), while the credit loss reduced to 4.2% (from 5.9%). The decrease in the credit loss component reflects the reduced share of Austrian (AA+/Stable/F1+) sovereign assets to 0.8% from 4.1%. For these assets, the very low sovereign recoveries of only 15% in a 'AAA' scenario are applied.

The Stable Outlooks reflect the five-notch (Helaba), two-notch (BayernLB) and one-notch (HVB) buffer against an issuer downgrade, due to the different uplift factors above the banks' Long-Term IDRs.

RATING SENSITIVITIES

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

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

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

The public sector Pfandbriefe rating would be vulnerable to a downgrade if the bank's Long-Term IDR was downgraded to 'BB+' or below for Helaba's and HVB's public sector Pfandbriefe and 'BBB-' or below for BayernLB's public sector Pfandbriefe, respectively; or if the OC considered by Fitch in its analysis provides less protection than Fitch's 'AAA' breakeven OC. Fitch's 'AAA' breakeven OC for Helaba's public sector Pfandbriefe is likely to increase in the event of an IDR downgrade as we would test for timely payments in our cash-flow model.

If the OC that Fitch considers in its analysis drops to the legal minimum requirement of 2% on a net present value basis, the programmes could only achieve a one-notch recovery uplift. As a result, Helaba's public sector Pfandbriefe rating would likely be downgraded to 'AA+', one notch above the bank's Long-Term IDR as adjusted by the resolution uplift (downgrades to 'A+' for BayernLB's and 'A' for HVB's public sector Pfandbriefe, respectively).

Fitch expects the coronavirus containment measures to negatively impact the performance of public sector assets. However, the public sector Pfandbriefe ratings benefit from a significant cushion between the OC that Fitch relies upon in its analysis and Fitch's 'AAA' breakeven OC. In addition, the public sector Pfandbriefe ratings are well protected by the buffer against a downgrade of the issuer's Long-Term IDR. The dual-recourse nature of Pfandbriefe means the issuer is liable to pay the bonds irrespective of the performance of the cover pool. Nevertheless, the agency expects the OC cushion and the buffer against an issuer downgrade to reduce as a consequence of the coronavirus crisis.

Fitch's 'AAA' breakeven OC is likely to increase if Germany (AAA/Stable/F1+) was downgraded, to cover increased credit losses. In tested rating scenarios above the credit-linked sovereign rating the sovereign is assumed to default. While the Outlooks on some sovereign ratings have been revised to Negative in 2020 reflecting risks from the pandemic, only two sovereigns represented in the cover pool have been downgraded in 2020: Canada by one notch to 'AA+'/Stable from 'AAA' and the UK by one notch to 'AA-'/Negative from 'AA'.

Fitch performed a downside sensitivity scenario stress by increasing the credit loss, as well as increasing the cost to refinance the cover pool. The additional stresses would lead to an increase of the 'AAA' breakeven OC. However, the current level of OC Fitch relies upon provides sufficient protection for the 'AAA' ratings.

Fitch's breakeven 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 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]

SOURCES OF INFORMATION

The issuer has informed Fitch that not all relevant underlying information used in the analysis of the rated bonds is public.

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

Helaba's, BayernLB's and HVB's public sector Pfandbrief rating remains credit-linked to Germany as a significant share of cover assets are made up of exposures to or guaranteed by the German sovereign (Helaba: 41.4%; BayernLB: 45.0%; HVB: 43.6%; representing a part of the total German exposure in the pools), according to Fitch's classification, while in the analysis of the German sub-sovereign exposure, the sovereign is not assumed to default.

The Pfandbriefe rating is driven by the credit risk of Helaba, BayernLB and HVB, respectively, as measured by their respective Long-Term IDRs.

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

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Bayerische Landesbank				
● senior secured, Public Sector Covered Bonds, Public Sector Pfandbriefe	LT	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable
Landesbank Hessen-Thueringen Girozentrale				

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Jan Philipp Hans
Analyst
Primary Rating Analyst
+49 69 768076 148
Fitch Ratings – a branch of Fitch Ratings Ireland Limited
Neue Mainzer Strasse 46 - 50 Frankfurt am Main D-60311

Matthew Aitken
Associate Director
Primary Rating Analyst
+49 69 768076 165
Fitch Ratings – a branch of Fitch Ratings Ireland Limited
Neue Mainzer Strasse 46 - 50 Frankfurt am Main D-60311

Thomas Kaber
Associate Director

Secondary Rating Analyst
+49 69 768076 172

Cosme de Montpellier
Senior Director
Committee Chairperson
+44 20 3530 1407

MEDIA CONTACTS

Athos Larkou
London
+44 20 3530 1549
athos.larkou@thefitchgroup.com

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 29 Jan 2020)

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 29 Jan 2020)

Bank Rating Criteria (pub. 28 Feb 2020) (including rating assumption sensitivity)

Fitch's Foreign-Currency Stress Assumptions for Residual Foreign-Exchange Exposures in Covered Bonds and Structured Finance - Supplementary Data File (pub. 30 Jun 2020)

Fitch's Covered Bonds Refinancing Spread Level Assumptions - Supplementary Data File (pub. 30 Jun 2020)

Structured Finance and Covered Bonds Country Risk Rating Criteria (pub. 23 Sep 2020)

CLOs and Corporate CDOs Rating Criteria (pub. 16 Oct 2020) (including rating assumption sensitivity)

APPLICABLE MODELS

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

Covered Bonds Cash Flow Model, v1.27.2 (1)

Portfolio Credit Model, v2.11.0 (1, 2)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Bayerische Landesbank	EU Issued
Landesbank Hessen-Thueringen Girozentrale	EU Issued
UniCredit Bank AG	EU Issued

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