



NON-RATING ACTION COMMENTARY

German Public Sector Pfandbriefe See Greater Buffer Against Issuer Downgrade

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Related Fitch Ratings Content: [German Public Sector Pfandbrief Programmes – Peer Review](#)

Fitch Ratings-Frankfurt am Main-14 December 2021: The German public sector Pfandbrief programmes included in this peer review are rated 'AAA', despite the different default risk of the issuing financial institutions, with Long-Term Issuer Default Ratings (IDR) ranging between 'A-' and 'A+'. The three Fitch-rated Pfandbrief programmes are issued by Landesbank Hessen-Thuringen Girozentrale (Helaba), Bayerische Landesbank (BayernLB) and Landesbank Saar (SaarLB).

Following the first set of amendments to the Pfandbrief Act (PfandBG) in July 2021, which introduced a 12-month maturity extension feature, all Pfandbrief programmes rated by Fitch now benefit from six notches of payment continuity uplift (PCU), up from five notches previously.

The six notches of PCU are in line with Fitch's covered bonds rating criteria for programmes secured by standard asset types if they benefit from 12-month liquidity protection for principal payments and at least three months for interest payments. As all three Pfandbrief programmes included here are already at the maximum 'AAA' rating, the higher PCU leads to an increased buffer of now three to six notches for the three

programmes, protecting against a possible issuer downgrade. This supports greater stability of the Pfandbrief ratings in case of an IDR downgrade.

Following the update of Fitch's Covered Bonds and CDOs Public Entities Asset Analysis Criteria the credit loss component for all three programmes has improved. Fitch has lowered the pairwise default correlation assumption between public entities, following a revision of the long-term default rates for corporate entities, as detailed in its recently updated CLO and Corporate CDO Rating Criteria.

More detailed information on the three public sector Pfandbrief programmes and how they compare with the average of the currently active public sector Pfandbrief programmes is available in the report "German Public Sector Pfandbrief Programmes – Peer Review" at www.fitchratings.com or by clicking the link above.

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