

Landesbank Hessen-Thueringen Girozentrale (/gws/en/esp/issr/81203656)**Fitch Affirms Helaba's Public-Sector Pfandbriefe at 'AAA'; Outlook Stable**

Fitch Ratings-Frankfurt/London-09 June 2017: Fitch Ratings has affirmed Landesbank Hessen-Thueringen Girozentrale's (Helaba; A+/Stable/F1+) public sector Pfandbriefe at 'AAA'. The Outlook is Stable.

KEY RATING DRIVERS

The rating is based on Helaba's Long-Term Issuer Default Rating (IDR) of 'A+', an unchanged IDR uplift of two notches, an unchanged payment continuity uplift (PCU) of five notches and the 11.2% overcollateralisation (OC) that Fitch takes into account, which provides more protection than the 6.0% 'AAA' breakeven OC. The Stable Outlook mirrors that on Helaba's Long-Term IDR.

In contrast to the previous analysis, the programme's rating is now based on a 'AA+' rating on a tested probability of default basis and one-notch recovery uplift. This rating composition leads to the lowest protection needed for a 'AAA' Pfandbrief rating. Previously, it was based on an assessment of recoveries given default.

Fitch's 'AAA' breakeven OC has decreased to 6.0% from 7.0%. The credit loss of 4.1% continues to be the largest component of the breakeven OC. It slightly improved as the share of cover assets directly exposed or guaranteed by the German sovereign or its federal states increased by 4pp to about 26%. Consequently, Helaba's public sector Pfandbrief rating remains credit-linked to Germany (AAA/Stable/F1+).

The asset disposal loss component of 1.4% partly underlines the costs of minimal forced asset sales to bridge liquidity shortfalls and partly re-investment costs in case of temporary excess cash.

The cash flow valuation of 0.6% reflects the generated excess spread as well as a notable open interest rate position of around 5% and a small open foreign currency position of 2.5%, well below Fitch's 10% threshold. No hedges in form of registered privileged derivatives are in place. We have not applied our interest rate and foreign exchange stresses in our cash flow analysis given that the issuer is highly rated at 'F1+'.

RATING SENSITIVITIES

The 'AAA' rating would be vulnerable to downgrade if any of the following occurs: Helaba's IDR is downgraded to 'BB+' or lower; (ii) the combined number of notches represented by the IDR uplift and the PCU is reduced to 1 or lower; or (iii) the OC that Fitch considers in its analysis drops below its 'AAA' breakeven level of 6.0%; 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 2% on a net present value basis, the programme could only achieve a one-notch recovery uplift. As a result, the covered bond rating would likely be downgraded to 'AA+', one notch above Helaba's IDR as adjusted by the IDR uplift.

The Fitch breakeven OC for the covered bond rating will be affected by 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 to maintain the covered bond rating cannot be assumed to remain stable over time.

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Applicable Criteria

Asset Analysis Criteria for Covered Bonds and CDOs of Public Entities (pub. 05 Jan 2017)

(<https://www.fitchratings.com/site/re/892367>)

Covered Bonds Rating Criteria (pub. 26 Oct 2016) (<https://www.fitchratings.com/site/re/888874>)

Criteria for Country Risk in Global Structured Finance and Covered Bonds (pub. 26 Sep 2016)

(<https://www.fitchratings.com/site/re/881269>)

Fitch's Cover Assets Refinancing Spread Level (RSL) Assumptions - Excel file (pub. 20 Jan 2017)

(<https://www.fitchratings.com/site/re/893377>)

Fitch's Interest Rate Stress Assumptions for Structured Finance and Covered Bonds - Excel File (pub. 17 Feb 2017)

(<https://www.fitchratings.com/site/re/894478>)

Fitch's Foreign-Currency Stress Assumptions for Residual Foreign-Exchange Exposures in Covered Bonds and Structured

Finance – Excel File (pub. 26 Oct 2016) (<https://www.fitchratings.com/site/re/888865>)

Global Bank Rating Criteria (pub. 25 Nov 2016) (<https://www.fitchratings.com/site/re/891051>)

Global Rating Criteria for CLOs and Corporate CDOs (pub. 09 Sep 2016) (<https://www.fitchratings.com/site/re/887497>)

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 23 May 2017)

(<https://www.fitchratings.com/site/re/898537>)

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 23 May 2017)

(<https://www.fitchratings.com/site/re/898538>)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 17 Feb 2017)

(<https://www.fitchratings.com/site/re/893890>)

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