

# Landesbank Hessen-Thüringen Girozentrale

## Public Sector Pfandbriefe

### Update

#### Rating/Outlook

Public Sector Pfandbriefe	AAA/Stable
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#### Rating Rationale

IDR/Outlook	A+/Stable
IDR uplift	2 notches
Payment continuity uplift	5 notches
Tested rating on a probability of default basis	AA
Recovery given default uplift	2 notches
Covered bond rating	AAA
OC Fitch considers in analysis (%)	23.1
'AAA' breakeven OC (%)	6.5

#### Key Data

	Dec 17
Asset type	Public sector
Cover assets (EURbn)	20.6
Pfandbriefe (EURbn)	16.3
Nominal OC (%)	26.5
WAL of assets (years)	7.2
WAL of liabilities (years)	5.6

#### Key Rating Drivers

**Stable 'AAA' Rating:** The rating of Landesbank Hessen-Thüringen Girozentrale's (Helaba) covered bonds is based on the bank's Long-Term Issuer Default Rating (IDR) of 'A+', an IDR uplift of two notches, a two-notch recovery uplift and the overcollateralisation (OC) Fitch relies upon of 23.1%, which provides more protection than the 'AAA' breakeven OC of 6.5%. The agency further assigned a payment continuity uplift (PCU) of five notches.

The Stable Outlook on the rating reflects a five-notch buffer against an IDR downgrade due to the different uplift factors above the bank's IDR.

**Credit Loss Driving:** The 'AAA' credit loss of 6.5% now drives the breakeven OC. It increased slightly as the share of assets issued or guaranteed by the German sovereign (AAA/Stable/F1+) or its federal states fell by 2pp to about 24% at December 2017. At the same time, the share of German municipalities, associated with higher default expectations, increased by 4pp. The programme continues to be credit-linked to Germany.

**Two-Notch IDR Uplift:** The IDR uplift mirrors that the bank's Long-Term IDR is based on its participation in a mutual support scheme, Pfandbriefe are exempt from bail-in in a resolution scenario, Fitch Ratings does not expect resolution of the issuer to result in the direct enforcement of recourse against the cover pool and the risk of undercollateralisation at the point of resolution is assessed as low.

**PCU of Five Notches:** The PCU reflects the mandatory inclusion of liquid assets in the cover pool matching the maximum negative accumulated balance of cash flows for the next 180 days, which provides effective protection for interest and principal payments for standard German public sector Pfandbriefe.

**New 'AAA' Rating Composition:** The programme's rating is now based on the 'AA' rating floor and a two-notch recovery uplift. This rating composition provides the lowest protection needed for the 'AAA' rating. It was previously based on a 'AA+' rating on a tested probability of default (PD) basis and one-notch recovery uplift.

#### Programme Highlights

**Low-Risk Cover Pool:** Helaba's 'AAA' credit loss of 6.5% is the lowest compared with peers. The granular cover pool comprised 19,921 assets with 1,199 final guarantors at December 2017. The portfolio is geographically concentrated in Germany (94.6% of cover assets), mainly in Hesse. International exposure is mostly to highly rated countries. The high share of municipal exposure leads to strong 'AAA' recovery expectations as Fitch assumes recovery rates of up to 70% for subnational public entities in this rating scenario.

**Limited Market Risk:** The covered bond programme has a small initial open interest-rate position as 90.9% of assets but 95.4% of covered bonds pay fixed interest rates. The open foreign-currency position of 1.8% is well below Fitch's 10% threshold. There are no hedges in the form of registered privileged derivatives. We have not applied our interest-rate and foreign-currency stresses in our cash flow analysis as the issuer is highly rated at 'F1+'.

#### Related Research

[Fitch Affirms Helaba's Public Sector Pfandbriefe at 'AAA'; Outlook Stable \(May 2017\)](#)

[S - Finanzgruppe Hessen-Thüringen \(February 2018\)](#)

[Fitch 2018 Outlook: Covered Bonds \(December 2017\)](#)

[Covered Bonds Surveillance Snapshot \(April 2018\)](#)

['B' Portfolio Loss Rates for Covered Bonds \(September 2017\)](#)

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## Cover Pool

Characteristics: Dec 17

General	
Number of assets	19,921
Final obligors	1,199

German exposure breakdown (%)	
Hesse	44.4
North Rhine-Westphalia	30.7
Berlin	5.2
Lower Saxony	3.2
Rhineland-Palatinate	2.8
Thuringia	2.7
Hamburg	2.7
Baden-Wuerttemberg	1.9
Saarland	1.6
Other	4.8

Instrument type (%)	
Promissory notes	62.4
Loans	35.0
Bonds	2.5

Rate type (%)	
Fixed assets	90.9
Fixed Pfandbriefe	95.4

Redemption type (%)	
Annuity	56.6
Bullet	26.0
Instalment	17.5

\*Totals may not add up to 100% due to rounding

Currency breakdown (EURbn)		
	Assets	Pfandbriefe
EUR	20.0	15.7
USD	0.3	0.5
CHF	0.2	-
JPY	0.0	-
GBP	0.0	-

Source: Fitch/Helaba

## Related Criteria

[Covered Bonds Rating Criteria \(March 2018\)](#)

[Bank Rating Criteria \(March 2018\)](#)

[Covered Bonds and CDOs Public Entities' Asset Analysis Rating Criteria \(December 2017\)](#)

[Structured Finance and Covered Bonds Country Risk Rating Criteria \(September 2017\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria \(May 2017\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum \(May 2017\)](#)

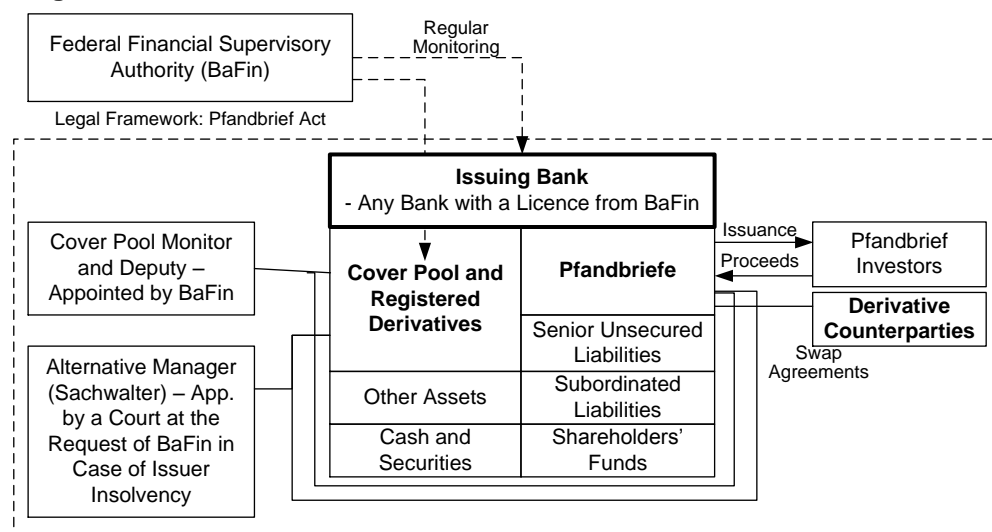
[Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria \(February 2018\)](#)

[Fitch's Interest Rate Stress Assumptions for Structured Finance and Covered Bonds – Excel File \(February 2018\)](#)

[Fitch's Foreign-Currency Stress Assumptions for Residual Foreign-Exchange Exposures in Covered Bonds and Structured Finance – Excel File \(October 2017\)](#)

[CLOs and Corporate CDOs Rating Criteria \(February 2018\)](#)

## Diagram of a Pfandbrief Issuance



Source: Fitch

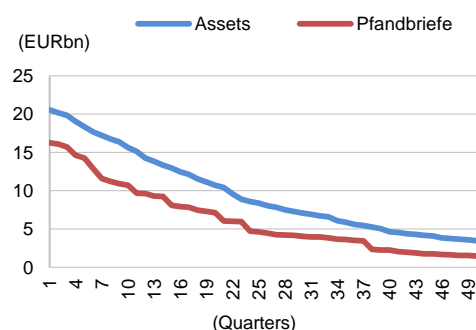
## Fitch Default Model Output (%)

Rating level	AAA	AA+	AA
Rating Default Rate (RDR)	18.4	16.6	15.5
Rating Recovery Rate (RRR)	66.8	76.5	76.8
Rating Loss Rate (RLR)	6.1	3.9	3.6

Source: Fitch

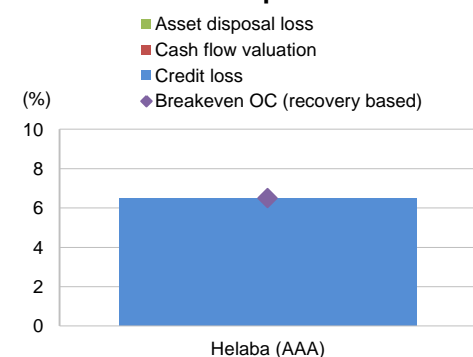
## Amortisation Profile

(As of Dec 17)



Source: Fitch/Helaba

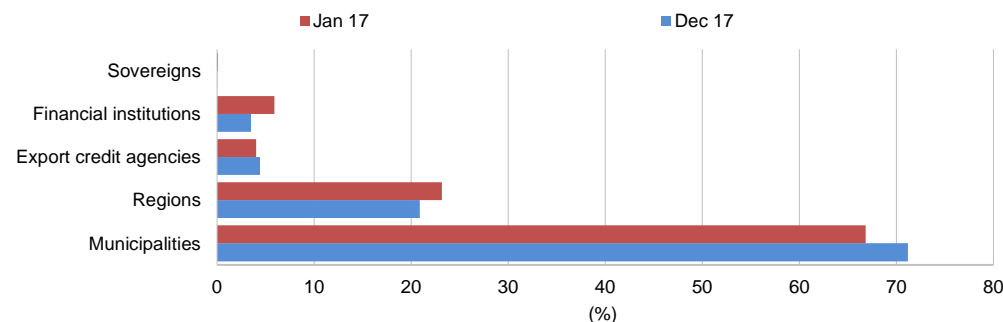
## Breakeven OC Components



Source: Fitch

## Distribution by Exposure Type

(% of cover assets)



Source: Fitch/Helaba

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