



RATING ACTION COMMENTARY

Fitch Affirms Helaba's Mortgage Pfandbriefe at 'AAA'; Outlook Stable

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Fitch Ratings - Frankfurt am Main - 03 Dec 2020: Fitch Ratings has affirmed Landesbank Hessen-Thüringen Girozentrale's (Helaba, A+/Negative/F1+) outstanding mortgage Pfandbriefe at 'AAA' with a Stable Outlook.

KEY RATING DRIVERS

The 'AAA' rating of the mortgage Pfandbriefe is based on Helaba's 'A+' Long-Term Issuer Default Rating (IDR) and the various uplifts above the IDR granted to the programme. It also considers overcollateralisation (OC) protection for covered bond holders.

The Pfandbriefe are rated four notches above the bank's IDR. This is out of a maximum achievable uplift of eight notches, consisting of a resolution uplift of two notches, a payment continuity uplift (PCU) of four notches and a recovery uplift of two notches. Fitch relies on the lowest reported OC over the last 12 months of 26.2%, which provides more protection than Fitch's 'AAA' break-even OC of 19.5% (up from 19% previously).

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

Uplifts

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, should it happen, is not likely to result in direct enforcement of recourse against the cover pool.

The two-notch resolution uplift reflects that Helaba's IDR of 'A+' is based on the bank's participation in the mutual support scheme of the Sparkassen-Finanzgruppe Hessen Thüringen (SFG-HT) and its equalisation with the group's IDR.

The PCU of four notches 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 German mortgage Pfandbriefe.

Helaba's Pfandbriefe are eligible for a two-notch recovery uplift, as the OC given credit to offsets credit losses modelled in a 'AAA' stress scenario and we did not identify any material risks to recovery expectations.

'AAA' Break-even OC

Fitch's 'AAA' break-even OC has increased to 19.5% from 19%. This is driven by slightly reduced recovery prospects for the cover pool in a 'AAA' rating scenario. The share of European commercial real-estate assets (71% of total assets), for which Fitch has recently updated its market value decline (MVD) assumptions (see: Fitch Updates Commercial Real Estate Assumptions in Covered Bonds Rating Criteria), has a slightly lower expected recovery rate as a result of the updated MVD's. The US share of assets, for which Fitch applies a generally more conservative approach, has decreased since the last analysis (to 17% from 19% of total assets), somewhat counteracting the MVD effect. Should the share of US assets increase, this would result in a higher break-even OC.

Currently the difference between the sum of foreign exchange (FX) cover assets and the sum of FX covered bonds is greater than Fitch's limit of 10% of total assets (at 15% as of end-June 2020) as per its Covered Bonds Rating Criteria. Helaba has, however, indicated its intention to reduce the open FX position below the threshold.

RATING SENSITIVITIES

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

The Pfandbriefe rating is 'AAA', which is the highest level on Fitch's rating scale. The rating therefore cannot be upgraded.

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

The 'AAA' rating would be vulnerable to downgrade if the bank's IDR is downgraded by five notches or more to 'BBB-' or lower. In addition, the 'AAA' rating would be vulnerable to downgrade if the relied-upon OC drops below Fitch's 'AAA' break-even level of 19.5%. Fitch's 'AAA' break-even OC of Helaba's mortgage 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 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 resolution uplift.

Fitch expects coronavirus containment measures to negatively impact the performance of mortgage loans. However, the Pfandbriefe rating benefits from a significant cushion between the OC that Fitch relies upon in its analysis (26.2%) and Fitch's 'AAA' break-even OC (19.5%). In addition, Helaba's mortgage Pfandbriefe rating is well-protected by the four-notch buffer against a downgrade of Helaba's Long-Term IDR. The dual-recourse nature of covered bonds means the bank is liable to pay the bonds irrespective of the performance of the cover pool. Nevertheless, the agency expects the OC cushion to reduce as a consequence of the coronavirus crisis.

When Fitch performed a downside sensitivity scenario stress to the programme by increasing the cover pool's loss expectations, the relied-upon OC still provided sufficient protection for the 'AAA' rating. Helaba also has eligible mortgage loans on its balance sheet, allowing it to replenish the cover pool with performing loans if need be. Based on these mitigating factors, we believe the programme has the capacity to support the 'AAA' rating.

Fitch's break-even OC for the covered bond rating will be affected, among other factors, 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.

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

Heleba 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

The covered bond rating is driven by Heleba's Long-Term IDR.

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
Landesbank Hessen- Thuringen Girozentrale		
● senior secured, Mortgage Covered Bonds, Mortgage Pfandbriefe	LT AAA Rating Outlook Stable	Affirmed AAA Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

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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 \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)[U.S. and Canadian Multiborrower CMBS Rating Criteria \(pub. 16 Apr 2020\) \(including rating assumption sensitivity\)](#)[Fitch's Foreign-Currency Stress Assumptions for Residual Foreign-Exchange Exposures in Covered Bonds and Structured Finance - Supplementary Data File \(pub. 30 Jun 2020\)](#)[Structured Finance and Covered Bonds Country Risk Rating Criteria \(pub. 23 Sep 2020\)](#)[Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria \(pub. 13 Nov 2020\)](#)**APPLICABLE MODELS**

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

Covered Bonds Commercial Real Estate Model, v1.0.1 (1)

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Landesbank Hessen-Thueringen Girozentrale

EU Issued

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Structured Finance: Covered Bonds Structured Finance Banks Europe Germany
