FitchRatings

RATING ACTION COMMENTARY

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

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Fitch Ratings - Frankfurt am Main - 02 Nov 2021: Fitch Ratings has affirmed Landesbank Hessen-Thueringen Girozentrale's (Helaba, A+/Stable/F1+) outstanding mortgage Pfandbriefe at 'AAA' with a Stable Outlook.

KEY RATING DRIVERS

The 'AAA' rating of the Pfandbriefe is based on Landesbank Hessen Thüringen's (Helaba) Long-Term Issuer Default Rating (IDR) of 'A+' and the various uplifts above the IDR granted to the programme. It also considers over-collateralisation (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 10 notches, consisting of a resolution uplift of two notches, a payment continuity uplift (PCU) of six notches and a recovery uplift of two notches. Fitch relies on the lowest reported OC over the last 12 months of 45.2%, which provides more protection than Fitch's 'AAA' break-even OC of 21.5% (up from 19.5% previously).

The Stable Outlook reflects a six-notch buffer against a downgrade of Heleba's IDR.

'AAA' BREAK-EVEN OC

The 21.5% 'AAA' break-even OC is based on the 'AAA' credit loss for the cover pool, as the rating is based on a two-notch recovery uplift above the resolution reference point of

'AA', without testing the covered bonds for timely payments.

The increase of Fitch 'AAA' break-even OC mirrors a 1.9pp deterioration in the 'AAA' credit loss component. The share of US assets, for which Fitch applies larger credit loss rates than for the rest of the cover pool, has increased to 20% (as of June 2021) of the cover pool from 17% in June 2020. The credit loss for the US loans has in addition widened, due to lower expected recoveries driven mainly by reduced rental income and higher observed loan-to-value ratios for these assets.

As Helaba's Short-Term IDR is 'F1+', it is deemed a highly rated issuer and therefore no foreign-exchange (FX) stresses are applied for the analysis of its Pfandbrief programme.

Currently the difference between the sum of FX cover assets and the sum of FX covered bonds is greater than Fitch's limit of 10% of total assets (at 26.7% as of end-June 2021) as per its Covered Bonds Rating Criteria. Given the high OC buffer of 23.7% (between the OC relied upon and the 'AAA' break-even OC) and Helaba being a highly rated issuer the open FX position had no impact on the current analysis.

UPLIFTS

The two-notch 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 as sufficiently low, and that a resolution of Helaba, should it happen, is not likely to result in the direct enforcement of the recourse against the cover pool. The two-notch resolution uplift also takes into account that Helaba's Long Term IDR is based on the bank's participation in a mutual support scheme and equalised with the IDR of Sparkassen Finanzgruppe Hessen-Thueringen, of which Helaba is part.

The six-notch PCU reflects the principal liquidity protection provided by a 12-month maturity extension feature. The mandatory inclusion of liquid assets in the cover pool matching the maximum negative accumulated balance of cash flows for the next 180 days also effectively covers interest payments and senior expenses.

The recovery uplift for the programme is two notches, as the programme's 'AA' resolution reference point is in the investment-grade category and no material downside risk to recoveries have been identified.

RATING SENSITIVITIES

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

The covered bonds are rated 'AAA', which is the highest level on Fitch's scale, and therefore cannot be upgraded.

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

Helaba's mortgage Pfandbriefe rating would be vulnerable to a downgrade if the bank's IDR is downgraded by seven notches to 'BB' or below; or if the OC considered by Fitch in its analysis provides less protection than Fitch's 'AAA' break-even OC. Fitch's 'AAA' break-even OC is likely to increase in the event of an IDR downgrade as we would test for timely payments in our cash-flows 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 rating would likely be downgraded to 'AA+', one notch above Helaba's Long-Term IDR as adjusted by the resolution uplift.

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 break-even 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

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-Thueringen 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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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. 07 Apr 2021) (including rating assumption sensitivity)

Covered Bonds Rating Criteria (pub. 02 Jun 2021) (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. 02 Jun 2021)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 20 Sep 2021)

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)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Landesbank Hessen-Thueringen Girozentrale	EU,UK Endorsed

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Structured Finance: Covered Bonds Structured Finance Banks Europe Germany