FITCH AFFIRMS HELABA'S PUBLIC SECTOR PFANDBRIEFE AT 'AAA'; OUTLOOK STABLE

Fitch Ratings-frankfurt-18 May 2018: Fitch Ratings has affirmed Landesbank Hessen-Thueringen Girozentrale's (Helaba, A+/Stable/F1+) outstanding public sector Pfandbriefe at 'AAA' with a Stable Outlook.

KEY RATING DRIVERS
The 'AAA' rating of the covered bonds is based on Helaba'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 on of 23.1%, which provides more protection than the 'AAA' breakeven OC of 6.5%. 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.

The breakeven OC rose to 6.5% (from 6% a year ago), mainly reflecting lower weighted average spread generated by the cover assets. 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 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.

The programme's rating is now based on the 'AA' rating floor and two-notch recovery uplift. This rating composition provides the lowest protection needed for the 'AAA' rating. Previously it was based on a 'AA+' rating on a tested probability of default (PD) basis and a single-notch recovery uplift.

RATING SENSITIVITIES
The 'AAA' rating would be vulnerable to downgrade if Helaba's IDR is downgraded to 'BB+' or below; or (ii) the combined number of notches represented by the IDR uplift and the payment continuity uplift is reduced to one or lower; (iii) the OC that Fitch considers in its analysis drops below Fitch's 'AAA' breakeven level of 6.5%; 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 0%, the rating would likely be downgraded to 'AA+'.

The Fitch breakeven OC for the covered bond rating will be affected, among others, 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.

Contact:
Primary Analyst
Timo Dums
Associate Director
+49 69 768076 132
Fitch Deutschland GmbH
Neue Mainzer Str. 46-50
D-60311 Frankfurt am Main

Secondary Analyst
Thomas Kaber
Associate Director

+49 69 768076 172

Committee Chairperson
Rebecca Holter
Senior Director
+49 69 7680 76 261

Media Relations: Athos Larkou, London, Tel: +44 203 530 1549, Email:
athos.larkou@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria
Bank Rating Criteria (pub. 23 Mar 2018)
https://www.fitchratings.com/site/re/10023430
CLOs and Corporate CDOs Rating Criteria (pub. 23 Feb 2018)
https://www.fitchratings.com/site/re/10020715
Covered Bonds Rating Criteria (pub. 02 Mar 2018)
https://www.fitchratings.com/site/re/10021721
Covered Bonds and CDOs Public Entities' Asset Analysis Rating Criteria (pub. 21 Dec 2017)
https://www.fitchratings.com/site/re/911872
Fitch's Interest Rate Stress Assumptions for Structured Finance and Covered Bonds - Excel File (pub. 02 Feb 2018)
https://www.fitchratings.com/site/re/10018863
Fitch's Foreign-Currency Stress Assumptions for Residual Foreign-Exchange Exposures in Covered Bonds and Structured Finance – Excel File (pub. 30 Oct 2017)
https://www.fitchratings.com/site/re/10008156
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 Country Risk Rating Criteria (pub. 18 Sep 2017)
https://www.fitchratings.com/site/re/903496
Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 02 Feb 2018)
https://www.fitchratings.com/site/re/10018549