

FITCH AFFIRMS LANDESBANK HESSEN-THUERINGEN GIROZENTRALE'S MORTGAGE PFANDBRIEFE AT 'AAA'

Fitch Ratings-Frankfurt/London-08 May 2017: Fitch Ratings has affirmed Landesbank Hessen-Thueringen Girozentrale's (Helaba, A+/Stable/F1+) outstanding mortgage Pfandbriefe at 'AAA' with a Stable Outlook, following a periodic review of the programme.

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 four notches and the 'AAA' breakeven overcollateralisation (OC) of 16.5%. The affirmation also reflects the issuer's intention to maintain at least a level of OC in line Fitch's 'AAA' breakeven OC level. The current nominal OC is 18.8%. The Stable Outlook on the Pfandbriefe mirrors that on Helaba's Long-Term IDR.

Fitch's breakeven OC has increased to 16.5% from 13% over the last 12 months, reflecting increased credit risk. 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 provides the lowest protection needed for a 'AAA' Pfandbriefe rating. Previously it was based on an assessment of recoveries given default.

Credit loss has risen to 14.6% (from 13.1% previously) and still constitutes the main driver of the breakeven OC. The increase has mainly been driven by the continuing decrease in the share of German cover assets to about 62% in the end-December 2016 cover pool from about 78% reported at end-September 2015, and significant growth in the US and Polish cover assets (to about 15% and 7% from about 4.5% and 4%, respectively, over the same period).

The second-largest breakeven OC component, the asset disposal loss of 5%, reflects losses from forced asset sales with only marginal negative carry from excess cash holdings in the modelled low prepayments scenario.

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+'. Combined with the low prepayments scenario and a significant portion of higher-yielding assets, non-application of stresses contributes to the high excess spread generation in the programme, resulting in a negative cash flow valuation component of minus 3%.

Fitch applied a variation from the Criteria for Analyzing Multiborrower U.S. and Canadian Commercial Mortgage Transactions, published on 6 March 2017. Fitch applied stressed capitalisation rates and respective multiples from these criteria for commercial real estate loans secured by properties located in the US to calculate the properties' stressed market values and recovery rates instead of applying generic market value decline assumptions (80% in 'AAA' scenario) stipulated in Criteria for the Analysis of Commercial Real Estate Loans Securing Covered Bonds. Without applying this variation credit loss would increase by a maximum of 3 pp for this programme.

Fitch applied two variations from Criteria for the Analysis of Commercial Real Estate Loans Securing Covered Bonds, published on 17 November 2016. Firstly, in the absence of respective country default benchmarks for loans to operating companies for France and Poland in Criteria for Rating Granular Corporate Balance-Sheet Securitisations (SME CLOs) as a representative default rate assumption for tenants, Fitch assumed default assumptions for the French and Polish tenants to

be in line with the assumptions for the Netherlands (4%) and Italy (4.75%), respectively. Without applying this variation credit loss would increase by a maximum of 2pp for this programme.

Secondly, in the absence of CMBS guidance assumptions for the length of the foreclosure process (recovery timing) for the US, Austria, Belgium, Luxembourg, Sweden and Czech Republic, Fitch assumed recovery timings for these jurisdictions to be in line with the available agency's assumptions for several property markets based on their level of liquidity, ranging from 24 to 60 months. Without applying this variation credit loss would increase by a maximum of 3pp for this programme.

RATING SENSITIVITIES

The 'AAA' rating would be vulnerable to downgrade if Helaba's IDR is downgraded to 'BBB-' or below; or (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 Fitch's 'AAA' breakeven level of 16.5%. 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.

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Applicable Criteria

Covered Bonds Rating Criteria (pub. 26 Oct 2016)

<https://www.fitchratings.com/site/re/888874>

Criteria for Analyzing Multiborrower U.S. and Canadian Commercial Mortgage Transactions (pub. 06 Mar 2017)

<https://www.fitchratings.com/site/re/895002>

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

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

Criteria for the Analysis of Commercial Real Estate Loans Securing Covered Bonds (pub. 17 Nov 2016)

<https://www.fitchratings.com/site/re/890302>

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>

Rating Criteria for Commercial Mortgage-Backed Securities (CMBS) and Loans in EMEA (pub. 23 Dec 2016)

<https://www.fitchratings.com/site/re/892422>

SME Balance Sheet Securitisation Rating Criteria (pub. 03 Mar 2017)

<https://www.fitchratings.com/site/re/894773>

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 20 Mar 2017)

<https://www.fitchratings.com/site/re/894432>

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 20 Mar 2017)

<https://www.fitchratings.com/site/re/894433>

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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