MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns definitive Aaa ratings to Landesbank Hessen-Thueringen GZ -- Mortgage Covered Bonds

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Frankfurt am Main, December 22, 2021 -- Moody's Investors Service ("Moody's") has today assigned definitive Aaa long-term ratings to the mortgage covered bonds (Hypothekenpfandbriefe or covered bonds) issued by Landesbank Hessen-Thueringen GZ (the issuer/Helaba, deposits/senior unsecured rating Aa3 stable; adjusted baseline credit assessment baa1; counterparty risk (CR) assessment Aa3(cr)) which are governed by the German Pfandbrief Act.

RATINGS RATIONALE

A covered bond benefits from (1) the issuer's promise to pay interest and principal on the bonds; and (2) following a CB anchor event, the economic benefit of a collateral pool (the cover pool). The ratings therefore reflect the following factors:

(1) The credit strength of Helaba and a CB anchor of CR assessment plus 1 notch.

(2) Following a CB anchor event the value of the cover pool. The stressed level of losses on the cover pool assets following a CB anchor event (cover pool losses) for this transaction is 19.9%.

Moody's considered the following factors in its analysis of the cover pool's value:

a) The credit quality of the assets backing the covered bonds. The mortgage covered bonds are backed primarily by German commercial mortgage loans. The collateral score for the cover pool is 10.4%.

b) The legal framework. Notable aspects of the German Pfandbrief legislation include:

(i) a relatively low loan-to-value (LTV) threshold for mortgage-backed assets of 60%, together with conservative valuation requirements for the underlying property;

(ii) a continuous net present value (NPV) test incorporating material interest-rate and currency-risk stresses, a 180 day liquidity reserve for interest and principal payments, and optional extension of covered bond maturities by 12 months after issuer default;

(iii) strong independent oversight from the cover pool monitor (Treuhaender), before issuer default, and management by an independent cover pool administrator (Sachwalter) after issuer default, with considerable flexibility to refinance the covered bonds. After a split from the issuer, the programme is eligible for a separate banking license;

(iv) continuous strong oversight from the regulator (BaFin).

c) The exposure to market risk, which is 12.9% for this cover pool.

d) The over-collateralisation (OC) in the cover pool is 76.5% on a present value basis, of which Helaba provides 2.0% on a "committed" basis (see Key Rating Assumptions/Factors, below).

The TPI assigned to this transaction is High. Moody's TPI framework does not constrain the rating.

At present, the total value of the assets included in the cover pool is approximately EUR 16.8 billion, comprising 2,465 commercial mortgage loans, 5,524 residential mortgage loans and substitute assets. The commercial mortgage loans have a weighted-average (WA) seasoning of 51 months and a WA LTV ratio of 59.0%. The residential mortgage loans have a WA seasoning of 45 months and a WA LTV ratio of 58.2%. The WA LTV ratio is calculated on an eligible loan part basis.

KEY RATING ASSUMPTIONS/FACTORS

Moody's determines covered bond ratings using a two-step process: an expected loss analysis and a TPI framework analysis.

EXPECTED LOSS: Moody's uses its Covered Bond Model (COBOL) to determine a rating based on the expected loss on the bond. COBOL determines expected loss as (1) a function of the probability that the issuer will cease making payments under the covered bonds (such cessation, a CB anchor event); and (2) the estimated losses that will accrue to covered bondholders should a CB anchor event occur. We express the probability of a CB anchor event as a point on our alpha-numeric rating scale (i.e. the CB anchor), which is typically one notch higher than the issuer's CR assessment.

The CB anchor for this programme is the CR assessment of Helaba plus 1 notch.

The cover pool losses for Helaba's mortgage covered bonds are 19.9%. This is an estimate of the losses Moody's currently models following a CB anchor event. Moody's splits cover pool losses between market risk of 12.9% and collateral risk of 7.0%. Market risk measures losses stemming from refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral risk measures losses resulting directly from cover pool assets' credit quality. Moody's derives collateral risk from the collateral score, which for this programme is currently 10.4%.

The over-collateralisation in the cover pool is 76.5%, of which Helaba provides 2.0% on a "committed" basis. Under Moody's COBOL model, the minimum OC consistent with the Aaa rating is 1.5%, of which 0% needs to be in "committed" form to be given full value (numbers in present value terms). These numbers show that Moody's is relying on "uncommitted" OC in its expected loss analysis.

The cover pool losses are an estimate of the losses Moody's currently models following a CB anchor event. Moody's splits cover pool losses between market risk and collateral risk. Market risk measures losses stemming from refinancing risk and risks related to interest-rate and currency mismatches (these losses may also include certain legal risks). Collateral risk is derived from the collateral score, which measures losses resulting directly from the cover pool assets' credit quality.

For further details on cover pool losses, collateral risk, market risk, collateral score and TPI Leeway across covered bond programmes rated by Moody's please refer to " Covered Bonds Sector Update ", published quarterly.

TPI FRAMEWORK: Moody's assigns a "timely payment indicator" (TPI), which is our assessment of the likelihood of timely payment of interest and principal to covered bondholders following a CB anchor event. TPIs are assessed as Very High, High, Probable-High, Probable, Improbable or Very Improbable. The TPI framework limits the covered bond rating to a certain number of notches above the CB anchor.

For Helaba's mortgage covered bonds, Moody's has assigned a TPI of High.

RATING METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating Covered Bonds" published in December 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBS_1307630. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

FACTORS THAT WOULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS:

The CB anchor is the main determinant of a covered bond programme's rating robustness. A change in the level of the CB anchor could lead to an upgrade or downgrade of the covered bonds. The TPI Leeway measures the number of notches by which Moody's might lower the CB anchor before the rating agency downgrades the covered bonds because of TPI framework constraints.

Based on the current TPI of "High", the TPI Leeway for this programme is 5 notches. This implies that Moody's might downgrade the covered bonds because of a TPI cap if it lowers the CB anchor by 6 notches all other variables being equal.

A multiple-notch downgrade of the covered bonds might occur in certain circumstances, such as (1) a country ceiling or sovereign downgrade capping a covered bond rating or negatively affecting the CB anchor and the TPI; (2) a multiple-notch downgrade of the CB anchor; or (3) a material reduction of the value of the cover pool.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

Moody's did not use any stress scenario simulations in its analysis.

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