

# Landesbank Hessen-Thüringen Girozentrale

## Mortgage Pfandbriefe Update

### Ratings

Mortgage Pfandbriefe	AAA/Stable Outlook
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### Rating Rationale

IDR/Outlook	A+/Stable
IDR Uplift	2 notches

D-Cap	4 notches (Moderate risk)
Tested rating on a PD basis	AA
Recovery given default uplift	2 notches
Covered Bond Rating	AAA
'AAA' Breakeven OC (%)	14.5
OC Fitch considers in its analysis (%)	37.0

IDR – Long-Term Issuer Default Rating  
PD – Probability of default  
OC – Overcollateralisation

### Discontinuity Analysis

Asset segregation	Low
Liquidity gap and systemic risk	Moderate
Systemic alternative management	Low
Cover pool-specific alternative management	Moderate
Privileged derivatives	Very Low

### Key Data

	Dec 15
Asset type	Residential and Commercial Mortgages
Cover assets (EURbn)	12.0
Pfandbriefe (EURbn)	8.6
Weighted-average life assets (years) <sup>a</sup>	3.4
Weighted-average life Pfandbriefe (years)	3.9

<sup>a</sup>based on worst-case prepayment rates

### Related Research

[Fitch Affirms Helaba's Mortgage Pfandbriefe at 'AAA'; Outlook Stable \(May 2016\)](#)

[Fitch Affirms S- Finanzgruppe Hessen-Thüringen at 'A+'; Outlook Stable \(January 2016\)](#)

[Fitch: D-Cap Unchanged for 18 German Covered Bond Programmes \(December 2016\)](#)

[Breaking Down Breakeven Overcollateralisation \(July 2014\)](#)

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### Key Rating Drivers

**Recovery-Based Rating:** Landesbank Hessen-Thüringen Girozentrale's (Helaba) Issuer Default Rating (IDR) of 'A+' adjusted by the unchanged IDR uplift of two notches results in a floor for the Pfandbrief rating at 'AA', irrespective of the actual overcollateralisation (OC) available. Fitch Ratings calculated the expected recovery given the default of the mortgage Pfandbrief programme, which exceeds 91% and allows for a two-notch recovery uplift. We did not model for timely payment because our breakeven OC is based on recoveries.

**Credit Loss Drives OC:** The stressed credit loss remains the largest breakeven OC component and is almost unchanged at 13.1% (from 12.7% at the previous review). In a 'AAA' scenario, Fitch has calculated a weighted-average (WA) default probability for the cover assets of 86.0% (92.2%) and a WA recovery rate of 86.6% (88.3%), resulting in a WA credit loss of 11.5% (10.8%). The changes in credit results are driven by updated assumptions, such as the benchmark probability of default for Germany used to stress rental incomes.

**Favourable Funding, Reduced FX Positions:** The decrease in breakeven OC to 14.5% from 17% is solely driven by improved cash flow valuation, which fell significantly to 3.8% from 10%. The latter fall is mainly due to improved excess spread, which has been positively influenced by a favourable funding environment. Open foreign-exchange (FX) positions also narrowed to about 5% from 8%, following reductions in US dollar and Swiss franc positions.

**Increased Asset Disposal Loss:** As Helaba's mortgage covered bonds rating is based on recoveries, the asset disposal loss reflects a stressed valuation of the full cover pool. This component increased to 9.0% from 6.0%, as Fitch identified a scenario with no prepayments as the worst-case scenario, whereas the worst-case prepayment assumption was 30% a year ago. This increased the discount applied for the stressed valuation of the cover pool.

### Programme Highlights

**Concentrated Commercial Portfolio:** Helaba's mortgage Pfandbriefe programme almost entirely consists mostly of loans to real-estate investment companies (REICs, 99%) with a small share of residential mortgages (below 1%). Germany remains the dominant property location (72%), but there is a clear trend for increasing share of non-German properties, which have grown to 28% from 19% over the past 12 months. Helaba's commercial real-estate sub-pool has significant concentrations, with top 20 borrowers accounting for 24% (top three: 6%).

**Market Mismatches Unhedged:** Helaba's mortgage Pfandbriefe are denominated in five different currencies, with open FX positions mainly in Swedish kronor (1.6%), British pounds (1.5%) and Swiss francs (1.4%). Fitch considers the overall open FX position of 5% as residual.

The programme also exhibits a notable open-interest-rate position, as about 48% of the cover assets pay a floating interest rate, which compares with about 18% of outstanding floating Pfandbriefe. No hedges in the form of privileged derivatives are in place. This makes the programme vulnerable to low-interest-rate scenarios.

**Criteria Variations:** Please see Page 3 of this document for a detailed explanation on the criteria variations applied in the analysis for Helaba's mortgage Pfandbriefe.

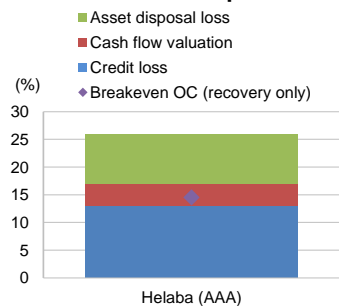
## Cover Pool Characteristics: December 2015

<b>Total balance (EURbn)</b>	<b>12.0</b>
Commercial REIC <sup>a</sup> (EURbn)	11.6
Commercial OpCom <sup>b</sup> (EURbn)	0.1
Residential (EURbn)	0.1
Substitute assets (EURbn)	0.2
<b>Borrowers CRE (x)<sup>c</sup></b>	<b>512</b>
Thereof	
REIC	502
OpCom	10
<b>Borrowers Residential (x)<sup>c</sup></b>	<b>1291</b>
WA CP LTV commercial (%) <sup>c</sup>	60
WA WL LTV commercial (%) <sup>c</sup>	44
WA DSCR commercial (x) <sup>c</sup>	2.43
<b>Borrower concentration (%)<sup>c</sup></b>	
Top 20	24.3
Top 5	8.5
Top 3	5.8
<b>Rate type</b>	
Floating assets (%)	48.1
Floating Pfandbriefe (%)	17.6
<b>Repayment type (%)</b>	
Instalment	32.9
Bullet	47.0
Annuity	20.1

Currency breakdown (EURbn)	Assets	Pfandbriefe
EUR	10.6	8.3
USD	0.8	0.3
SEK	0.2	
GBP	0.3	
CHF	0.1	

<sup>a</sup> REICs – Real Estate Investment Companies  
<sup>b</sup> OpCom – Operating Company  
<sup>c</sup> As of Sep-2015  
 Source: Fitch/Helaba

## Breakeven OC Components

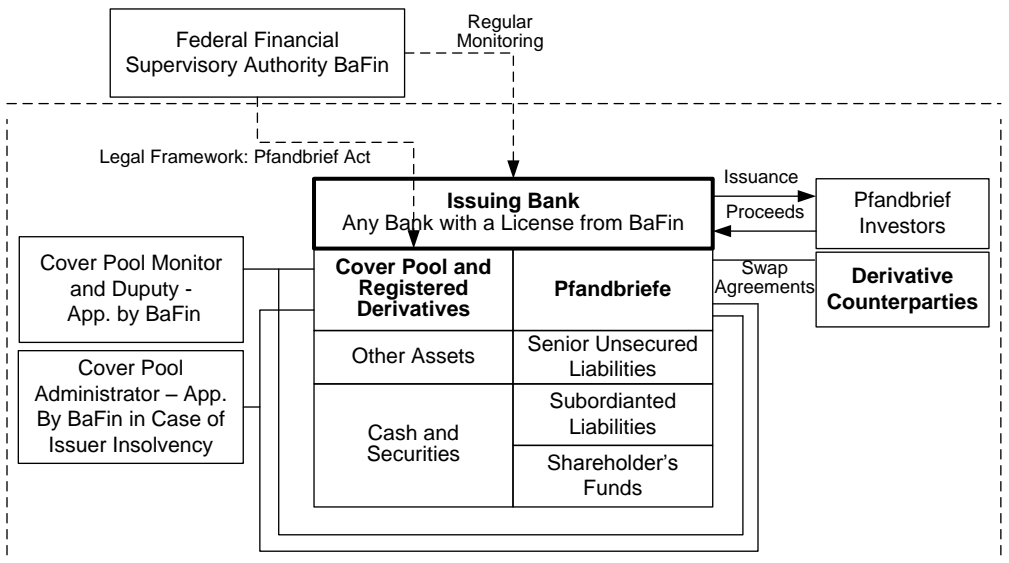


Source: Fitch

## Related Criteria

- [Covered Bonds Rating Criteria \(March 2016\)](#)
- [Criteria for Interest Rate Stresses in Structured Finance Transactions and Covered Bonds \(May 2016\)](#)
- [Criteria for Sovereign Risk in Developed Markets for Structured Finance and Covered Bonds \(February 2015\)](#)
- [Criteria for the Analysis of Commercial Real Estate Loans Securing Covered Bonds \(December 2015\)](#)
- [Fitch's Foreign Currency Stress Assumptions for Residual Foreign Exchange Exposures in Covered Bonds - Excel file \(March 2016\)](#)
- [Covered Bonds Rating Criteria – Mortgage Liquidity and Refinancing Stress Addendum \(September 2015\)](#)
- [Counterparty Criteria for Structured Finance and Covered Bonds \(July 2016\)](#)
- [Global Bank Rating Criteria \(July 2016\)](#)

## Diagram of a Pfandbrief Issuance



Source: Fitch

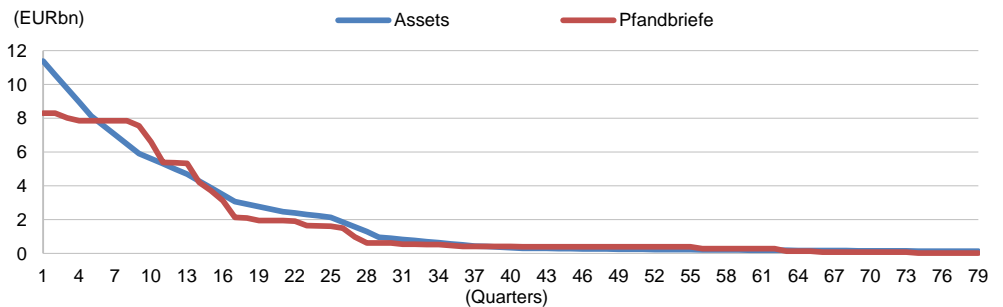
## Fitch Default Model Output (%)

Rating level	AAA	AA+	AA
Rating default rate	86.0	83.6	81.1
Rating recovery rate	86.6	88.9	91.3
Rating loss rate	11.6	9.3	7.1

Source: Fitch

## Amortisation Profile

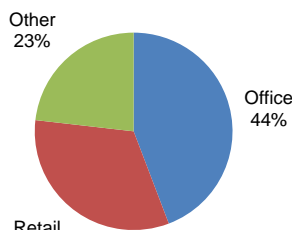
(As of Sep 15)



Source: Fitch/Helaba

## Commercial Real Estate - Property Type

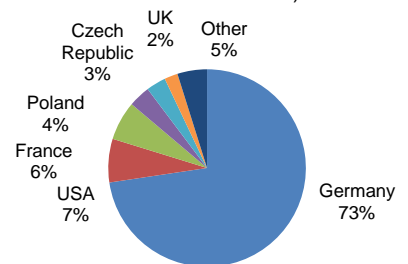
(% of commercial real estate assets)



Source: Fitch/Helaba

## Commercial Real Estate - Property Location

(% of commercial real estate assets)



Source: Fitch/Helaba

**Criteria Variations:**

Fitch applied variations from “Covered Bonds Rating Criteria – Mortgage Liquidity and Refinancing Stress Addendum”, published on 23 September 2015, for cases where no specific mortgage refinancing stress assumptions for commercial real-estate assets were available. For Helaba’s mortgage programme, this is the case for about 17% of assets located in Belgium, France, Luxembourg, the Netherlands, the Czech Republic, Austria, the UK and the US. For these assets, ‘AAA’ refinance spreads between 424bp and 753bp were applied and are reflected in the asset-disposal loss component, with no impact on the rating of Helaba’s Pfandbriefe.

In the absence of CMBS guidance assumptions, Fitch assumed market value declines in line with the assumptions for German multifamily properties for office, retail and multifamily properties in Austria, Belgium and Sweden for which Fitch is provided with rental information.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

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