

# Landesbank Hessen-Thüringen Girozentrale

## Public Sector Pfandbriefe

### Update

#### Rating/Outlook

Public-Sector Pfandbriefe	AAA/Stable
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#### Rating Rationale

IDR/Outlook	A+/Stable
IDR uplift	2 notches
Payment continuity uplift	5 notches
Tested Rating on a probability of default basis	AA+
Recovery given default uplift	1 notch
Covered bond rating	AAA
OC Fitch considers in analysis (%)	11.2
'AAA' breakeven OC (%)	6.0

#### Key Data

	Jan 17
Asset type	Public sector
Cover assets (EURbn)	21.0
Pfandbriefe (EURbn)	18.2
Nominal OC (%)	15.3
WAL of assets (years)	6.1
WAL of liabilities (years)	5.3

#### Key Rating Drivers

**Rating Rationale:** The rating of Landesbank Hessen-Thüringen Girozentrale's (Helaba) covered bonds is based on the bank's Long-Term Issuer Default Rating (IDR) of 'A+', an unchanged IDR uplift of two notches, an unchanged payment continuity uplift (PCU) of five notches, a recovery uplift of one notch and the 11.2% overcollateralisation (OC) that Fitch Ratings takes into account, which provides more protection than the 6.0% 'AAA' breakeven OC. The Stable Outlook mirrors that on Helaba's Long-Term IDR.

**Credit Loss Drives Breakeven OC:** The credit loss of 4.1% continues to be the largest component of the breakeven OC. It slightly improved as the share of cover assets directly exposed to or guaranteed by the German sovereign or its federal states increased by 4pp to about 26%. Helaba's public-sector Pfandbrief rating remains credit-linked to Germany (AAA/Stable/F1+) as a result.

**Two-Notch IDR Uplift:** An unchanged IDR uplift of two notches has been assigned to Helaba's public-sector programme. This is because the bank's Long-Term IDR is based on its participation in a mutual support scheme, Pfandbriefe are exempt from bail-in in a resolution scenario, Fitch does not expect resolution of the issuer to result in the direct enforcement of recourse against the cover pool and the risk of undercollateralisation at the point of resolution is assessed as low.

**PCU of Five Notches:** The unchanged PCU of five notches reflects the mandatory inclusion of liquid assets in the cover pool matching the maximum negative accumulated balance of cash flows for the next 180 days, which provides effective protection for interest and principal payments for standard German public-sector Pfandbriefe.

**New 'AAA' Rating Composition:** 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 leads to the lowest protection needed for a 'AAA' Pfandbrief rating. It was previously based on an assessment of recoveries given default.

#### Programme Highlights

**Cover Pool Composition:** The cover pool comprised 20,012 assets with 1,189 final guarantors at January 2017. The granular portfolio is geographically concentrated in Germany (93.5% of cover assets), mainly in Hesse. International exposure is mostly to highly rated countries, but the cover pool includes 1.8% exposure to Spanish regions.

**Unstressed Open Foreign-Exchange Position:** The low cash flow valuation of 0.6% reflects the generated excess spread as well as a notable open interest-rate position of about 5% and a small open foreign-currency position of 2.5%, well below Fitch's 10% threshold. There are no hedges in the form of registered privileged derivatives. We have not applied our interest-rate and foreign-exchange stresses in our cash flow analysis as the issuer is highly rated at 'F1+'.

**Low Maturity Mismatches:** The asset disposal loss component of 1.4% partly reflects the costs of minimal forced asset sales to bridge liquidity shortfalls and partly reinvestment costs in case of temporary excess cash.

#### Related Research

Fitch Affirms Helaba's Public-Sector Pfandbriefe at 'AAA'; Outlook Stable (June 2017)

S - Finanzgruppe Hessen-Thüringen (February 2017)

2017 Outlook: Covered Bonds (December 2016)

Covered Bonds Surveillance Snapshot (April 2017)

'B' Portfolio Loss Rates for Covered Bonds (September 2016)

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## Cover Pool

### Characteristics: Jan 17

General	
Number of assets	20,012
Final obligors	1,189

German exposure breakdown (%) <sup>a</sup>	
Hesse	41.8
North Rhine-Westphalia	27.7
Berlin	5.5
Rhineland-Palatinate	2.7
Thuringia	2.6
Hamburg	2.4
Lower Saxony	2.3
Baden-Wuerttemberg	2.1
Bremen	1.3
Other	5.2

Instrument type (%)	
Promissory notes	60.7
Loans	36.1
Bonds	3.2

Rate type	
Fixed assets (%)	89.5
Fixed Pfandbriefe (%)	94.7

Redemption type (%)	
Annuity	55.3
Bullet	28.7
Instalment	16.0

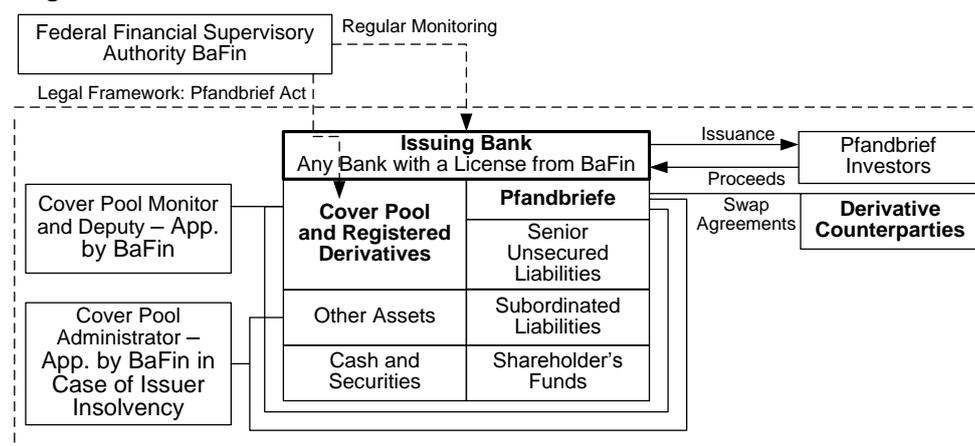
Currency breakdown (EURbn)		
	Assets	Pfandbriefe
EUR	20.5	17.6
USD	0.3	0.6
CHF	0.2	-
JPY	0.0	-

<sup>a</sup> German sovereign and ECA exposure mapped to Berlin  
Source: Fitch/Helaba

## Related Criteria

- [Covered Bonds Rating Criteria \(October 2016\)](#)
- [Asset Analysis Criteria for Covered Bonds and CDOs of Public Entities \(January 2017\)](#)
- [Criteria for Country Risk in Global Structured Finance and Covered Bonds \(September 2016\)](#)
- [Structured Finance and Covered Bonds Counterparty Rating Criteria \(May 2017\)](#)
- [Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum \(May 2017\)](#)
- [Global Bank Rating Criteria \(November 2016\)](#)
- [Fitch's Cover Asset Refinancing Spread Level \(RSL\) Assumptions – Excel File \(January 2017\)](#)
- [Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria \(February 2017\)](#)
- [Fitch's Interest Rate Stress Assumptions for Structured Finance and Covered Bonds – Excel File \(February 2017\)](#)
- [Fitch's Foreign-Currency Stress Assumptions for Residual Foreign-Exchange Exposures in Covered Bonds and Structured Finance – Excel File \(October 2016\)](#)
- [Global Rating Criteria for CLOs and Corporate CDOs \(September 2016\)](#)

## Diagram of a Pfandbrief Issuance



Source: Fitch

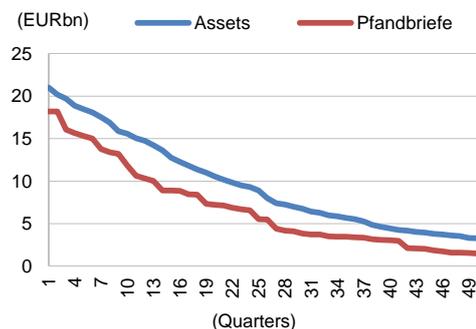
## Fitch Default Model Output (%)

Rating level	AAA	AA+	AA
Rating default rate (RDR)	17.4	15.7	14.7
Rating recovery rate (RRR)	65.5	75.2	74.8
Rating loss rate (RLR)	6.0	3.9	3.7

Source: Fitch

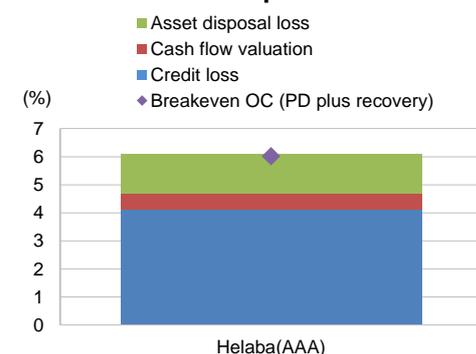
## Amortisation Profile

(As of Jan 17)



Source: Fitch/Helaba

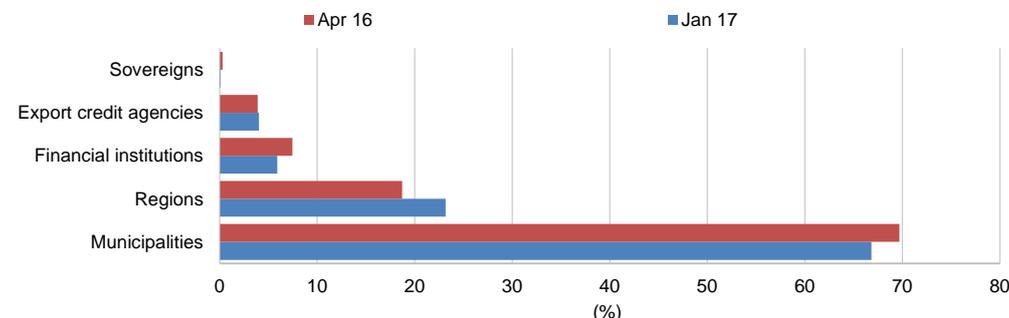
## Breakeven OC Components



Source: Fitch

## Distribution by Exposure Type

(% of cover assets)



Source: Fitch/Helaba

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