FitchRatings

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

Fitch Ratings-Frankfurt/London-30 June 2015: Fitch Ratings has affirmed Landesbank Hessen-Thueringen Girozentrale's (Helaba; A+/Stable/F1+) public sector Pfandbriefe at 'AAA'. The Outlook is Stable.

KEY RATING DRIVERS

The rating of Helaba's public sector Pfandbriefe is based on Helaba's Long-term Issuer Default Rating (IDR) of 'A+' and an unchanged IDR uplift of 2 notches, resulting in a rating floor of 'AA', irrespective of the overcollateralisation (OC) available for the outstanding Pfandbriefe. The Discontinuity Cap (D-Cap) remains unchanged at '5' (low risk). The 11.4% OC that Fitch takes into account in its analysis provides more protection than the 'AAA' breakeven OC of 4%.

Fitch has not applied stresses to test for timely payments, because the IDR, adjusted by a two-notch uplift, leads to a floor of 'AA' for the Pfandbrief rating on a probability of default (PD) basis, regardless of the level of OC. The rating is thus based on recoveries only, considering two notches for outstanding recoveries given default (91%).

A credit loss component of 7.4% reflects the large proportion of low-risk German assets in the cover pool. The programme's rating is credit-linked to Germany (AAA/Stable/F1+) as about 20% of the cover assets are either directly exposed to or guaranteed by the German sovereign or its federal states. This component increased from our previous analysis of 5.6%, mainly driven by the application of a 'BBB-' floor assumption for unrated German municipalities. In the previous analysis an individual score for municipalities was applied instead.

Fitch also tested for upcoming changes to the pool composition in the course of 2015 as about 10% of the cover assets will mature. Although these assets are mainly backed by a statutory guarantee of the German sovereign or its federal states, the calculated cover pool credit loss is not expected to get larger.

The cash flow valuation component of the 'AAA' breakeven OC increased slightly to 3.3% (3% previously), mainly reflecting open interest rate positions. The programme exhibits only small maturity mismatches as Fitch modelled prepayments of up to 5% p.a., which reduce the weighted average (WA) life of assets to 4.7 years. This compares with a WA life of the Pfandbriefe of 5.4 years.

The asset disposal loss component of 3.6% represents the stressed valuation of the entire cover pool after an assumed covered bond default. To ensure better comparability between different programme metrics, Fitch applies an asset disposal loss component that is consistent with 100% recoveries (instead of the tested 91% recoveries sufficient to grant a two-notch recovery uplift) by adjusting this component accordingly.

Fitch tested for adverse interest rate and currency movements in its cash flow analysis. For residual interest rate risk, Fitch applied its published interest rate stresses. The open foreign currency positions in four different currencies were stressed ranging from 1.4x to 3x the current exchange spot rate in a 'AAA' scenario. These tested scenarios are not intended to conform to exact probabilities of occurrence and do not represent explicit forecasts but rather show vulnerability of the covered bond programme to changes in foreign currency exchange rates.

RATING SENSITIVITIES

The 'AAA' rating would be vulnerable to downgrade if any of the following occurs: (i) the Issuer Default Rating is downgraded to 'BB' or below; or (ii) the overcollateralisation that Fitch considers in its analysis drops below Fitch's 'AAA' breakeven level of 4%; or (iii) the German sovereign is downgraded to 'AA+' or below.

Since the rating is based on recoveries only, changes to Fitch's Discontinuity Cap assessment for this programme would have no impact on the covered bond's rating, assuming all other factors remain unchanged.

The Fitch breakeven overcollateralisation 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 overcollateralisation to maintain the covered bond rating cannot be assumed to remain stable over time.

Contact:

Primary Analyst
Timo Dums
Analyst
+49 69 768 076 132
Fitch Deutschland GmbH
Neue Mainzer Strasse 46-50
D-60311Frankfurt am Main

Secondary Analyst
Mathias Pleissner
Director
+49 69 768 076 133

Committee Chairperson
Susanne Matern
Managing Director
+49 69 768076 237

Media Relations: Christian Giesen, Frankfurt am Main, Tel: +49 69 768076 232, Email: christian.giesen@fitchratings.com.

Additional information is available on www.fitchratings.com.

Applicable Criteria
Asset Analysis Criteria for Covered Bonds of European Public Entities (pub. 16 Feb 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=861460
Counterparty Criteria for Structured Finance and Covered Bonds (pub. 14 May 2014)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=744158
Counterparty Criteria for Structured Finance and Covered Bonds: Derivative Addendum (pub. 14 May 2014)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=744175
Covered Bonds Rating Criteria (pub. 08 Aug 2014)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=753052
Covered Bonds Rating Criteria - Public Sector Liquidity and Refinancing Stress Addendum (pub. 29 Jan 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=860409

Criteria for Interest Rate Stresses in Structured Finance Transactions and Covered Bonds (pub. 19 Dec 2014)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=838868
Criteria for Sovereign Risk in Developed Markets for Structured Finance and Covered Bonds (pub. 20 Feb 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=862115
Fitch's Interest Rate Stress Assumptions for Structured Finance and Covered Bonds - Excel File (pub. 22 Dec 2014)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=840189