

Fitch Ratings

Fitch Affirms Helaba's Public-Sector Pfandbriefe at 'AAA'; Outlook Stable

Fitch Ratings-London/Frankfurt-28 June 2016: Fitch Ratings has affirmed Landesbank Hessen-Thüringen Girozentrale's (Helaba; A+/Stable/F1+) public-sector Pfandbriefe at 'AAA'. The Outlook is Stable.

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 Discontinuity Cap (D-Cap) of five notches (low risk) and the 7.6% overcollateralisation (OC) that Fitch takes into account, which provides more protection than the 3.5% 'AAA' breakeven OC. The Stable Outlook mirrors that on Helaba's Long-Term IDR.

Fitch's 'AAA' breakeven OC has decreased to 3.5% from 4%. This is mainly driven by the improved credit loss of 7% (7.4% previously), still constituting the largest component of the breakeven OC. The improvement reflects higher recoveries as an increased share of municipalities is assumed to default in a 'AAA' scenario, for which the agency expects higher recoveries.

The second-largest contributor, the cash flow valuation component, remained fairly stable at 3.0% (3.3% previously). The small improvement reflects the classification of Helaba as a highly rated issuer, due to its sufficiently high Short-Term rating of 'F1+'. Fitch relies on the issuer to manage any interest rate or currency mismatches between cover assets and covered bonds. Consequently, the agency did not apply any interest rate or currency mismatches in its cash flow analysis.

As Helaba's Pfandbrief rating is based on recoveries, the asset-disposal loss component of 3.8% (3.6% previously) represents a stressed valuation of the entire cover pool after an assumed covered bond default. This component mainly reflects negative carry on the excess cash resulting from the high prepayment scenario constituting the worst case.

As Fitch did not conduct a detailed analysis of loans to religious organisations, unrated Austrian and Spanish municipal and regional exposures, which together constitute about 0.4% of Helaba's cover pool, the agency has applied a conservative 'CCC' assumption. This assumption did not affect the credit loss component.

The public-sector Pfandbrief rating of Helaba is credit-linked to Germany (AAA/Stable/F1+), as about 22% of the cover assets are either directly exposed or guaranteed by the German sovereign or its federal states.

Fitch applied a variation from its "Counterparty Criteria for Structured Finance and Covered Bonds: Derivative Addendum", published on 14 May 2014. The agency did not stress any unhedged interest rate or currency mismatches in its cash flow analysis, in line with its "Exposure Draft: Counterparty Criteria for Structured Finance and Covered Bonds", dated 14 April 2016. This is because Helaba's Short-Term rating meets the proposed eligibility threshold to be considered as highly rated issuer under the exposure draft ('AA-' or 'F1+').

This variation is mainly reflected in the cash flow valuation component of the breakeven OC for the rating, which would otherwise have increased. If Fitch does not vary from its criteria in this aspect, the programme's rating is likely to be downgraded by one notch. In the event that this aspect is not converted into criteria, the programme will be subject to further review.

RATING SENSITIVITIES

The 'AAA' rating would be vulnerable to downgrade if any of the following occurs: the IDR is downgraded to 'BB+' or lower; the OC that Fitch considers in its analysis drops below its 'AAA' breakeven level of 3.5%; or the German sovereign is downgraded to 'AA+' or below.

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

If the OC that Fitch considers in its analysis drops to the legal minimum requirement of 2% on a net present value basis, the programme could only achieve one-notch recovery uplift. As a result, the covered bond rating is likely to be downgraded to 'AA+', one notch above Helaba's IDR as adjusted by the IDR uplift.

The Fitch breakeven OC for the covered bond rating will be affected 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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Additional information is available on www.fitchratings.com.

Applicable Criteria

Asset Analysis Criteria for Covered Bonds and CDOs of European Public Entities (pub. 20 Jan 2016) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=876457&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOiJlE0NjcXNDY4MDIsInNlc3Npb25LZXkiOiJVU0ZURDc3UEE1WFdGWEZUTFIKQ1JXTkVWQkl0MkdQSUFBVUtYTU5MIn0.IbJFNiCx12ZHmG9MTHrmAbTDT6blxu2Hq8rCqjmdm5o)
Counterparty Criteria for Structured Finance and Covered Bonds (pub. 14 May 2014) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=744158&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOiJlE0NjcXNDY4MDIsInNlc3Npb25LZXkiOiJVU0ZURDc3UEE1WFdGWEZUTFIKQ1JXTkVWQkl0MkdQSUFBVUtYTU5MIn0.IbJFNiCx12ZHmG9MTHrmAbTDT6blxu2Hq8rCqjmdm5o)
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&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOjE0Njc3NDY4MDIsInNlc3Npb25LZXkiOiJVU0ZURDc3UEE1WFdGWEZUTFIKQ1JXTkVWQkl0MkdQSUFBVUtYTU5MIn0.IbJFNiCx12ZHmG9MTHrmAbTDT6blxu2Hq8rCqjmdm5o)

Covered Bonds Rating Criteria (pub. 11 Mar 2016)

([https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=744175&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOjE0Njc3NDY4MDIsInNlc3Npb25LZXkiOiJVU0ZURDc3UEE1WFdGWEZUTFIKQ1JXTkVWQkl0MkdQSUFBVUtYTU5MIn0.IbJFNiCx12ZHmG9MTHrmAbTDT6blxu2Hq8rCqjmdm5o)

rpt_id=878761&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOjE0Njc3NDY4MDIsInNlc3Npb25LZXkiOiJVU0ZURDc3UEE1WFdGWEZUTFIKQ1JXTkVWQkl0MkdQSUFBVUtYTU5MIn0.IbJFNiCx12ZHmG9MTHrmAbTDT6blxu2Hq8rCqjmdm5o)

Covered Bonds Rating Criteria - Public Sector Liquidity and Refinancing Stress Addendum (pub. 29 Jan 2015) ([https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=878761&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOjE0Njc3NDY4MDIsInNlc3Npb25LZXkiOiJVU0ZURDc3UEE1WFdGWEZUTFIKQ1JXTkVWQkl0MkdQSUFBVUtYTU5MIn0.IbJFNiCx12ZHmG9MTHrmAbTDT6blxu2Hq8rCqjmdm5o)

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Criteria for Interest Rate Stresses in Structured Finance Transactions and Covered Bonds (pub. 17 May 2016) ([https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=860409&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOjE0Njc3NDY4MDIsInNlc3Npb25LZXkiOiJVU0ZURDc3UEE1WFdGWEZUTFIKQ1JXTkVWQkl0MkdQSUFBVUtYTU5MIn0.IbJFNiCx12ZHmG9MTHrmAbTDT6blxu2Hq8rCqjmdm5o)

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Exposure Draft: Counterparty Criteria for Structured Finance and Covered Bonds (pub. 14 Apr 2016) ([https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=879815&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOjE0Njc3NDY4MDIsInNlc3Npb25LZXkiOiJVU0ZURDc3UEE1WFdGWEZUTFIKQ1JXTkVWQkl0MkdQSUFBVUtYTU5MIn0.IbJFNiCx12ZHmG9MTHrmAbTDT6blxu2Hq8rCqjmdm5o)

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Exposure Draft: Counterparty Criteria for Structured Finance and Covered Bonds - Derivative Addendum (pub. 14 Apr 2016) ([https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=878412&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOjE0Njc3NDY4MDIsInNlc3Npb25LZXkiOiJVU0ZURDc3UEE1WFdGWEZUTFIKQ1JXTkVWQkl0MkdQSUFBVUtYTU5MIn0.IbJFNiCx12ZHmG9MTHrmAbTDT6blxu2Hq8rCqjmdm5o)

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Fitch's Foreign Currency Stress Assumptions for Residual Foreign Exchange Exposures in Covered Bonds - Excel file (pub. 11 Mar 2016)

([https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=878499&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOjE0Njc3NDY4MDIsInNlc3Npb25LZXkiOiJVU0ZURDc3UEE1WFdGWEZUTFIKQ1JXTkVWQkl0MkdQSUFBVUtYTU5MIn0.IbJFNiCx12ZHmG9MTHrmAbTDT6blxu2Hq8rCqjmdm5o)

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Fitch's Interest Rate Stress Assumptions for Structured Finance and Covered Bonds - Excel File (pub. 17 May 2016) ([https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=878760&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOjE0Njc3NDY4MDIsInNlc3Npb25LZXkiOiJVU0ZURDc3UEE1WFdGWEZUTFIKQ1JXTkVWQkl0MkdQSUFBVUtYTU5MIn0.IbJFNiCx12ZHmG9MTHrmAbTDT6blxu2Hq8rCqjmdm5o)

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Global Bank Rating Criteria (pub. 20 Mar 2015)

([https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=880522&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOjE0Njc3NDY4MDIsInNlc3Npb25LZXkiOiJVU0ZURDc3UEE1WFdGWEZUTFIKQ1JXTkVWQkl0MkdQSUFBVUtYTU5MIn0.IbJFNiCx12ZHmG9MTHrmAbTDT6blxu2Hq8rCqjmdm5o)

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