



Fitch Affirms Helaba's Mortgage Pfandbriefe at 'AAA'; Outlook Stable Ratings

Endorsement Policy

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Fitch Ratings-Frankfurt/London-13 May 2015: Fitch Ratings has affirmed Landesbank Hessen-Thüringen Girozentrale's (Helaba, A+/Stable/F1+) EUR6.9bn outstanding mortgage covered bonds at 'AAA'. The Outlook is Stable.

The affirmation follows the implementation of Fitch's Criteria for the Analysis of Commercial Real Estate Loans Securing Covered Bonds.

KEY RATING DRIVERS

The covered bonds' rating is based on Helaba's Long-term Issuer Default Rating (IDR) of 'A+', an IDR uplift of 2 and the 42.5% over-collateralisation (OC) that Fitch takes into account, which provides more protection than the 17% 'AAA' breakeven OC. Helaba's Discontinuity-Cap (D-Cap) of 4 (moderate risk) remains unchanged. The Stable Outlook on the mortgage Pfandbriefe mirrors that on Helaba's Long-term IDR.

Fitch's 'AAA' breakeven OC has decreased to 17% from 23% compared with our last analysis and is still driven by the stressed credit loss component. In a 'AAA' scenario, Fitch has calculated a weighted average (WA) default probability for the cover assets of 92.2% (previously 80.3%) and a WA recovery rate of 88.3% (previously 83.1%), resulting in a WA credit loss of 10.8% (previously 13.6%).

The increase in the WA default probability is mainly due to the application of the updated criteria, in particular driven by the removal of explicit diversity credit granted for granular commercial real estate portfolios and the modified borrower definition. This altered classification led to a decrease in the share of SME borrowers in the portfolio to 0% from 33% of the commercial assets. Fitch now generally defines the borrower type based on the owner occupancy status. Under the old criteria, Fitch relied upon the issuer's classification.

The increase in the recovery rate is mainly driven by the alignment with CMBS criteria and the reflection of accrued interest during the workout period.

Fitch notes the stable portfolio composition and asset-liability mismatches compared with its analysis 12 months ago. Accordingly the cash flow valuation remained almost unchanged at 10.0% (9.6% previously).

As Helaba's mortgage Pfandbrief rating is based on recoveries, the asset disposal loss reflects a stressed valuation of the full cover pool. This component has decreased to 6.0% from 9.8%, driven by higher prepayments tested opposed to last analysis.

In its cash flow analysis Fitch tested for annual prepayments from 0% up to 30% with the worst case being 30% prepayments.

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 remaining small open foreign currency positions in four different currencies were stressed ranging from 0.5x to 3.5x the current exchange spot rate in a 'AAA' scenario. These tested scenarios show vulnerability of the programme to changes in exchange rates and were not intended to test explicit forecasts.

RATING SENSITIVITIES

The 'AAA' rating would be vulnerable to downgrade if any of the following occurs: (i) the IDR is downgraded by five notches or more to 'BBB-' or lower; or (ii) the combined number of notches represented by the IDR uplift and the D-Cap is reduced to 1 or lower; or (iii) the OC that Fitch considers in its analysis drops below Fitch's 'AAA' breakeven level of 17%.

If the OC that Fitch considers in its analysis drops to the legal minimum requirement of 2% on a net present value basis, it would be insufficient to allow for outstanding recoveries above 91% in a 'AAA' stress scenario. As a result, the covered bond rating would likely be downgraded to 'AA+', because this level of OC would limit the covered bond rating to one-notch above the IDR as adjusted by the IDR uplift.

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

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Applicable criteria 'Covered Bonds Rating Criteria' dated 8 August 2014, 'Criteria for Interest Rate Stresses in Structured Finance Transactions and Covered Bonds' dated 19 December 2014, 'Criteria for Sovereign Risk in Developed Markets for Structured Finance and Covered Bonds' dated 20 February 2015, 'Criteria for the Analysis of Commercial Real Estate Loans Securing Covered Bonds' dated 12 May 2015, 'Covered Bonds Rating Criteria - Mortgage Liquidity and Refinancing Stress Addendum' dated 16 February 2015 are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Covered Bonds Rating Criteria
Criteria for Interest Rate Stresses in Structured Finance Transactions and Covered Bonds
Criteria for Sovereign Risk in Developed Markets for Structured Finance and Covered Bonds
Criteria for the Analysis of Commercial Real Estate Loans Securing Covered Bonds
Covered Bonds Rating Criteria – Mortgage Liquidity and Refinancing Stress Addendum

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