



RATING ACTION COMMENTARY

Fitch Affirms Landesbank Hessen-Thueringen Girozentrale's Public Sector Pfandbriefe at 'AAA'/Stable

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Fitch Ratings - Frankfurt am Main - 28 Oct 2021: Fitch Ratings has affirmed Landesbank Hessen-Thueringen Girozentrale's (Helaba; A+/Stable/F1+) public sector Pfandbriefe at 'AAA' with a Stable Outlook. The affirmation follows Fitch's periodic review of the programme and the update of its Covered Bonds and CDOs Public Entities Asset Analysis Criteria published on 24 September 2021.

KEY RATING DRIVERS

The 'AAA' rating of the public sector Pfandbriefe is based on Helaba's Long-Term Issuer Default Rating (IDR) of 'A+' and the various uplifts above the IDR granted to the programme. It also considers over-collateralisation (OC) protection for covered bond holders.

The public sector Pfandbriefe are rated four notches above the bank's IDR. This is out of a maximum achievable uplift of 10 notches, consisting of a resolution uplift of two notches, a payment continuity uplift (PCU) of six notches and a two-notch recovery uplift. The Stable Outlook reflects that on Helaba's IDR and a six-notch buffer against an IDR downgrade.

As Helaba's Short-Term IDR is 'F1+' (above 'F3') and the issuer is not in wind-down, Fitch relies, in its analysis, on the lowest available OC of the last 12 months of 9.7%, which

provides more protection than Fitch's 'AAA' breakeven OC of 3.5%.

'AAA' BREAK-EVEN OC

The 'AAA' break-even OC of 3.5% is based on the 'AAA' credit loss for the cover pool, as the rating is based on a two-notch recovery uplift above the resolution reference point of 'AA', without testing the covered bonds for timely payments.

The cover pool is made up of sovereign-linked and public-entity exposures mainly concentrated in Germany (92.8% of the cover pool as of June 2021), with a significant exposure to the German federal states (AAA/Stable). The decline of the credit loss to 3.5% from 4.1% reflects mostly the update of Fitch's Covered Bonds and CDOs Public Entities Asset Analysis Criteria. Fitch has lowered the pairwise default correlation assumption between public entities following the revision of the long-term default rates for corporate entities, as detailed in Fitch's recently updated CLO and Corporate CDO Rating Criteria.

Also, a marginally lower percentage (6.1% vs 6.4%) of the pool are now defined as large obligors for applying additional default and recovery stresses. This has a positive effect on the expected loss. In addition, the share of German assets, which are either guaranteed or credit linked to the German sovereign, has increased.

UPLIFTS

The two-notch resolution uplift reflects that collateralised Pfandbriefe in Germany are exempt from bail-in, that Fitch deems the risk of under-collateralisation at the point of resolution as sufficiently low, and that a resolution of Helaba, should it happen, is not likely to result in the direct enforcement of the recourse against the cover pool. The two-notch resolution uplift also takes into account that Helaba's Long-Term IDR is based on the bank's participation in a mutual support scheme and equalised with the IDR of Sparkassen Finanzgruppe Hessen-Thüringen, of which Helaba is part.

The six-notch PCU reflects the principal liquidity protection provided by the 12-month maturity extension feature. The mandatory inclusion of liquid assets in the cover pool matching the maximum negative accumulated balance of cash flow for the next 180 days also provides effective protection for interest payments and senior expenses.

The recovery uplift for the programme is two notches, as the programme's 'AA' resolution reference point is in the investment-grade category and no material downside risk to recoveries has been identified.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-The Pfandbriefe are rated 'AAA', which is the highest level on Fitch's scale, and therefore cannot be upgraded.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

-Helaba's public sector covered bonds' rating would be vulnerable to a downgrade if the bank's IDR is downgraded by seven notches to 'BB' or below; or if the OC considered by Fitch in its analysis provides less protection than Fitch's 'AAA' breakeven OC. Fitch's 'AAA' breakeven OC is likely to increase in the event of an IDR downgrade as we would test for timely payments in our cash flow model. However, we expect the relied-upon OC to offer protection that is commensurate with the 'AAA' rating even in that scenario.

-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 a one-notch recovery uplift. As a result, the rating would likely be downgraded to 'AA+', one notch above Helaba's Long-Term IDR as adjusted by the resolution uplift.

-Fitch's 'AAA' break-even OC is likely to increase to cover for wider credit losses if Germany (AAA/Stable/F1+) is downgraded. This is because in tested rating scenarios above the sovereign rating to which the programme is credit linked, the sovereign can default.

Fitch's break-even OC for the covered bond rating will be affected by, among other factors, 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 break-even OC to maintain the covered bond rating cannot be assumed to remain stable over time.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit

<https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

Helaba's public sector Pfandbrief rating remains credit linked to Germany as 42.3% is made up of exposures to or guaranteed by the German sovereign, while in the analysis of the German sub-sovereign exposure, which represents 50.6% of total cover assets, the sovereign is not assumed to default.

The Pfandbriefe rating is driven by the credit risk of Helaba as measured by its Long-Term IDR.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit

www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
Landesbank Hessen- Thuringen Girozentrale		
● senior secured, Public Sector Covered Bonds, Public Sector Pfandbriefe	LT AAA Rating Outlook Stable	Affirmed AAA Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Sebastian Seitz, CFA, CAIA

Director

Primary Rating Analyst

+49 69 768076 267

sebastian.seitz@fitchratings.com

Fitch Ratings – a branch of Fitch Ratings Ireland Limited

Neue Mainzer Strasse 46 - 50 Frankfurt am Main D-60311

Thomas Kaber

Associate Director

Secondary Rating Analyst

+49 69 768076 172

thomas.kaber@fitchratings.com

Cosme de Montpellier

Senior Director

Committee Chairperson

+44 20 3530 1407

cosme.demontpellier@fitchratings.com

MEDIA CONTACTS

Athos Larkou

London

+44 20 3530 1549

athos.larkou@thefitchgroup.com

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

[Structured Finance and Covered Bonds Counterparty Rating Criteria \(pub. 29 Jan 2020\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum \(pub. 29 Jan 2020\)](#)

[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

[Structured Finance and Covered Bonds Country Risk Rating Criteria \(pub. 23 Sep 2020\)](#)

[Covered Bonds Rating Criteria \(pub. 02 Jun 2021\) \(including rating assumption sensitivity\)](#)

[Fitch's Foreign-Currency Stress Assumptions for Residual Foreign-Exchange Exposures in Covered Bonds and Structured Finance - Supplementary Data File \(pub. 02 Jun 2021\)](#)

[Fitch's Covered Bonds Refinancing Spread Level \(RSL\) Assumptions - Supplementary Data File \(pub. 02 Jun 2021\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Portfolio Credit Model, v2.14.0 ([24 Sep 2021](#), [17 Sep 2021](#))

ADDITIONAL DISCLOSURES

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