Landesbank Hessen-Thueringen Girozentrale

Mortgage Pfandbriefe

Update

Rating/Outlook

Mortgage Pfandbriefe	AAA/Stable

Rating Rationale

IDR/Outlook	A+/Stable
IDR uplift	2 notches
Payment continuity uplift	4 notches
Tested Rating on a probability of default (PD) basis	AA+
Recovery given default uplift	1 notch
Covered bond rating	AAA
OC Fitch considers in analysis (%)[a]	18.8
'AAA' Breakeven OC (%)	16.5

[a] As of May 2017

Key Data

	March 2017
Asset type	Mortgage
Cover assets (EURbn)	14.1
Pfandbriefe (EURbn)	12.1
Nominal OC (%)	16.2
WAL of assets (years)[a]	4.1
WAL of liabilities (years)[a]	3.3

[a] As of December 2016

Related Research

Fitch Affirms Landesbank Hessen-Thueringen Girozentrale's Mortgage Pfandbriefe at 'AAA' (May 2017)

Covered Bonds Surveillance Snapshot (April 2017)

Fitch Affirms S- Finanzgruppe Hessen-Thueringen at 'A+'; Outlook Stable (January 2017)

2017 Outlook: Covered Bonds (December 2016)

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

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Key Rating Drivers

Rating Rationale: The 'AAA' rating of Landesbank Hessen-Thueringen Girozentrale's (Helaba) Pfandbriefe is based on the bank's Long-Term Issuer Default Rating (LT IDR) of 'A+', an unchanged IDR uplift of two notches, an unchanged payment continuity uplift (PCU) of four notches and the 'AAA' breakeven overcollateralisation (OC) of 16.5%. The Stable Outlook on the Pfandbriefe mirrors that on Helaba's LT IDR. The issuer intends to maintain a level of OC at least in line with Fitch Ratings' breakeven OC level of 'AAA'.

Credit Loss Increased: Credit loss, calculated from end-2016 data, has risen to 14.6% (from 13.1% based on end-September 2015 data) and still constitutes the main driver of the breakeven OC. The increase has been driven by the continuing increase in the share of non-German cover assets, in particular those secured by US and Polish properties.

Low Prepayments Drive Sales Losses: The second-largest breakeven OC component, the asset disposal loss of 5%, reflects losses from forced asset sales with only marginal negative carry from excess cash holdings in the modelled low prepayments scenario.

Excess Spread Positive for OC: No interest-rate and foreign-exchange stresses were applied in the cash flow analysis given that the issuer is highly rated at 'F1+'. Combined with the low prepayments scenario and a significant portion of higher-yielding assets, non-application of stresses contributes to the high excess spread generation in the programme, resulting in a negative cash flow valuation component of minus 3%.

IDR Uplift of Two Notches: The IDR uplift remains at two notches as Pfandbriefe are exempt from bail-in in a resolution scenario and 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 Four Notches: The unchanged PCU of four 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 mortgage Pfandbriefe.

One-Notch Recovery Uplift: The programme's rating is based on a 'AA+' rating on a tested probability of default basis and one-notch recovery uplift, as this rating composition provides the lowest protection needed for a 'AAA' Pfandbriefe rating. The rating was previously based on an assessment of recoveries given default.

Programme Highlights

Concentrated Commercial Portfolio: Helaba's mortgage Pfandbriefe programme almost entirely (99%) consists of loans to real-estate investment companies. The cover pool exhibits significant concentrations with the top 10 borrowers accounting for about 13%. The share of German cover assets continued to fall during 2016, reaching about 62% at end-December 2016 from about 78% at end-September 2015.

Criteria Variations: Please refer to Page 3 for a detailed explanation on the criteria variations applied in the analysis of Helaba's mortgage Pfandbriefe.

Cover Pool Characteristics: Mar 17

Total balance (EURbn)	**14.1**
Commercial	13.1
Residential (excl. MFH)	0.1
Substitute assets	0.9
Number of loans	3,840
Number of borrowers	1,946
Interest rate type (%)	
Fixed rate	50.5
Floating rate	49.5
Repayment type (%)	
Bullet/interest only	50.9
Amortising	49.1
Seasoning (years)	4.5
Top 10 exposures (%)	12.8

Currency Breakdown (%)

	Assets	Pfandbriefe
EUR	81.1	88.4
CHF	0.7	0.0
GBP	1.9	0.0
SEK	1.0	1.3
USD	15.3	10.3

Source: Fitch

Related Criteria

Covered Bonds Rating Criteria (October 2016)

Criteria for Analyzing Multiborrower U.S. and Canadian Commercial Mortgage Transactions (March 2017)

Criteria for Country Risk in Global Structured Finance and Covered Bonds (September 2016)

Criteria for the Analysis of Commercial Real Estate Loans Securing Covered Bonds (November 2016)

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 Bank Rating Criteria (November 2016)

Rating Criteria for Commercial Mortgage-Backed Securities (CMBS) and Loans in EMEA (December 2016)

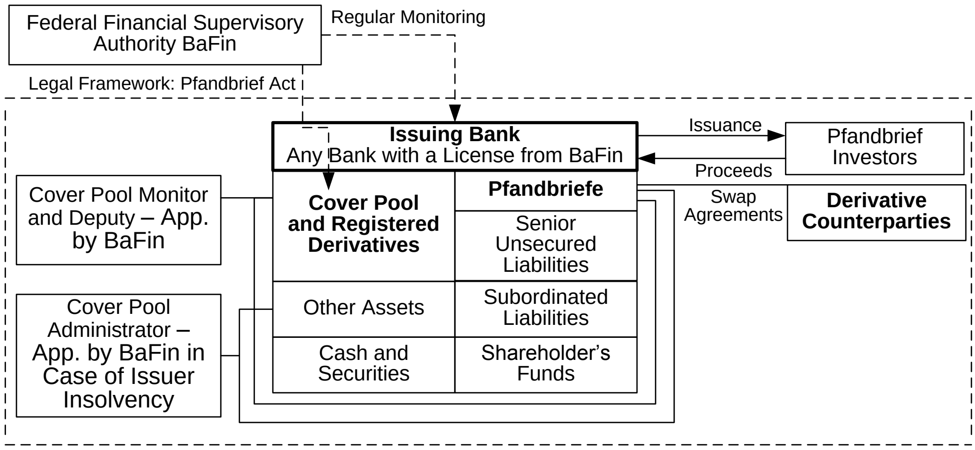
SME Balance Sheet Securitisation Rating Criteria (March 2017)

Structured Finance and Covered Bonds Counterparty Rating Criteria (March 2017)

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (March 2017)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (February 2017)

Diagram of a Pfandbrief Issuance



Source: Fitch

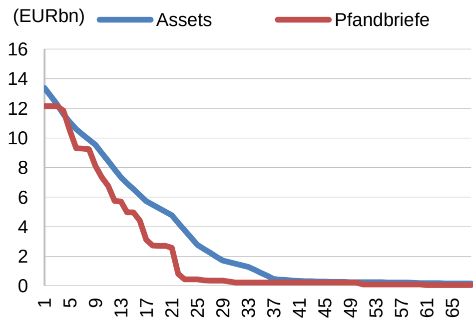
Fitch Default Model Output (%)

Rating level	AAA	AA+	AA
Rating default rate (RDR)	91.4	88.7	85.9
Rating recovery rate (RRR)	83.3	85.6	88.0

Source: Fitch

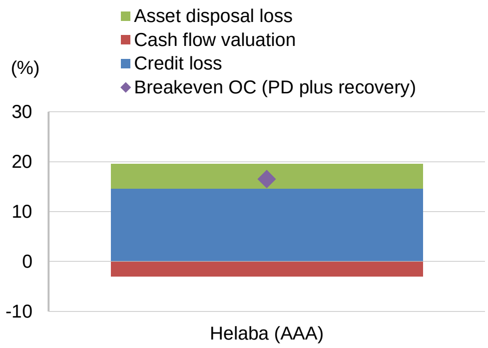
Amortisation Profile

(As of Dec 16)



Source: Fitch/Helaba

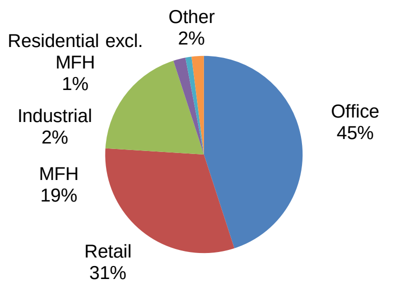
Breakeven OC Components



Source: Fitch

Property Type

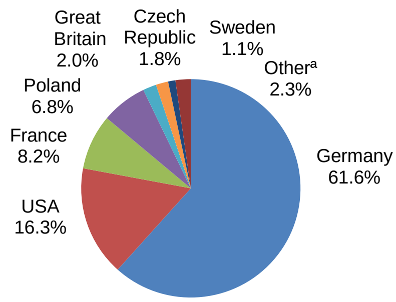
(%)



Source: Fitch/Helaba

Property Location

(%)



[a] Austria, Netherlands, Luxembourg and Belgium
Source: Fitch/Helaba

Criteria Variations

Fitch applied a variation from the *Criteria for Analyzing Multiborrower U.S. and Canadian Commercial Mortgage Transactions*, published on 6 March 2017. Fitch applied stressed capitalisation rates and respective multiples from these criteria for commercial real estate loans secured by properties located in the US to calculate the properties' stressed market values and recovery rates instead of applying generic market value decline assumptions (80% in ‘AAA’ scenario) stipulated in Criteria for the Analysis of Commercial Real Estate Loans Securing Covered Bonds. Without applying this variation credit loss would increase by a maximum of 3pp for this programme.

Fitch applied two variations from *Criteria for the Analysis of Commercial Real Estate Loans Securing Covered Bonds,* published on 17 November 2016. Firstly, in the absence of respective country default benchmarks for loans to operating companies for France and Poland in Criteria for Rating Granular Corporate Balance-Sheet Securitisations (SME CLOs) as a representative default rate assumption for tenants, Fitch assumed default assumptions for the French and Polish tenants to be in line with the assumptions for the Netherlands (4%) and Italy (4.75%), respectively. Without applying this variation credit loss would increase by a maximum of 2pp for this programme.

Secondly, in the absence of CMBS guidance assumptions for the length of the foreclosure process (recovery timing) for the US, Austria, Belgium, Luxembourg, Sweden and Czech Republic, Fitch assumed recovery timings for these jurisdictions to be in line with the available agency's assumptions for several property markets based on their level of liquidity, ranging from 24 to 60 months. Without applying this variation credit loss would increase by a maximum of 3pp for this programme.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.