

FITCH AFFIRMS HELABA'S MORTGAGE PFANDBRIEFE AT 'AAA'; OUTLOOK STABLE

Fitch Ratings-Frankfurt/London-09 May 2016: Fitch Ratings has affirmed Landesbank Hessen-Thüringen Girozentrale's (Helaba, A+/Stable/F1+) outstanding mortgage covered bonds at 'AAA' with a Stable Outlook, following a periodic review of the programme.

KEY RATING DRIVERS

The rating is based on Helaba's Long-Term Issuer Default Rating (IDR) of 'A+', an IDR uplift of 2, an unchanged Discontinuity Cap (D-Cap) of 4 (moderate risk) and the 37.0% over-collateralisation (OC) that Fitch relies upon, which provides more protection than the 14.5% 'AAA' breakeven OC. The Stable Outlook mirrors that on Helaba's Long-Term IDR.

Fitch's 'AAA' breakeven OC has decreased over the last 12 months to 14.5% from 17%. It is still driven by a stressed credit loss component, which stands almost unchanged at 13.1% compared with 12.7% previously. In a 'AAA' scenario, Fitch calculated a weighted average (WA) default probability for the cover assets of 86.0% (previously 92.2%) and a WA recovery rate of 86.6% (previously 88.3%). The changes in credit results are driven by updated assumptions, such as the benchmark probability of default for Germany used to stress rental incomes.

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 increased to 9% from 6%, driven by a shift in the tested worst case scenario with zero prepayments compared with 30% a year ago. Lower prepayments increase the programme's liquidity gaps, leading to higher stressed asset sales

The cash flow valuation has decreased significantly to 3.8% from 10%. This is driven by the worst case zero prepayment assumption that increased the available excess spread in the analysis. However, compared with our last analysis, the excess spread is also positively influenced by a continuing favourable funding environment and reduced open FX positions with a tighter gap between USD assets and Pfandbriefe and a smaller exposure to CHF assets (to CHF155m from CHF250m previously)

Fitch applied variations from "Covered Bonds Rating Criteria - Mortgage Liquidity and Refinancing Stress Addendum" published 23 September 2015 for cases where no specific mortgage refinancing stress assumptions for commercial real estate assets were available. For Helaba's mortgage programme this is the case for about 17% of assets located in Belgium, France, Luxembourg, Netherlands, Czech Republic, Austria, the UK and US. For these assets 'AAA' refinance spreads between 424bps and 753bps were applied and are reflected in the asset disposal loss component, with no impact on the rating of Helaba's Pfandbriefe.

In the absence of CMBS guidance assumptions, Fitch assumed market value declines (MVD) in line with the assumptions for German multifamily properties for office, retail and multifamily properties in Austria, Belgium and Sweden for which Fitch is provided with rental information.

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 14.5%. Since the rating is

based on recoveries only, changes solely to the D-cap assessment of the programme would have no impact on the covered bond programme'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, 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 (pub. 11 Mar 2016)

https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=878761

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

Criteria for the Analysis of Commercial Real Estate Loans Securing Covered Bonds (pub. 10 Dec 2015)

https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=874686

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?rpt_id=878760

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