

Landesbank Hessen-Thüringen Girozentrale

Public Sector Pfandbriefe Update

Ratings

Public Sector Pfandbriefe	AAA/Stable Outlook
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Rating Rationale

IDR/Outlook	A+/Stable
D-Cap	5 notches (Low risk)
IDR Uplift (notches)	2
Tested rating on a PD Basis	'AA'
Covered Bond Rating	'AAA'
Recovery given default uplift (notches)	2
OC Fitch considers in analysis (%)	11.4
'AAA' Breakeven OC (%)	4.0

IDR – Long-term Issuer Default Rating
PD – Probability of default
OC – Overcollateralisation

Discontinuity Analysis

Asset segregation	Low
Liquidity gap and systemic risk	Low
Systemic alternative management	Very Low
Cover pool-specific alternative management	Low
Privileged derivatives	Very Low

Key Data

	April 15
Asset type	Public Sector
Cover assets (EURbn)	23.5
Pfandbriefe (EURbn)	21.5
Weighted-average life assets (years)	6.4
Weighted-average life Pfandbriefe (years)	5.4

Related Research

[Fitch Affirms Helaba's Public Sector Pfandbriefe at 'AAA'; Outlook Stable \(June 2015\)](#)

[Covered Bonds Surveillance Snapshot \(July 2015\)](#)

[Breaking Down Breakeven Overcollateralisation \(July 2014\)](#)

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Key Rating Drivers

Credit Loss Drives OC: Fitch affirmed Landesbank Hessen-Thüringen Girozentrale's (Helaba, A+/Stable/F1+) public sector Pfandbrief programme's 'AAA' rating based on a breakeven overcollateralisation (OC) of 4%. The main constituent continues to be the credit loss component which increased to 7.4% from 5.6% previously.

Recovery-based Rating: Fitch's breakeven OC is based on recoveries, thus Fitch did not model for timely payment, but calculated the expected recovery given default of the Pfandbrief programme which exceeds 91% and allows for two notches recovery uplift. Helaba's IDR of 'A+' adjusted by the IDR uplift of two notches results in a floor for the Pfandbrief rating at 'AA', irrespective of the actual OC available.

Issuer Outlook Supports Pfandbriefe: The Stable Outlook on Helaba's Long-Term Issuer Default Rating (IDR) of 'A+' supports the Stable Outlook on the 'AAA' Pfandbrief rating in combination with the sound performance of the cover pool assets.

Programme Highlights

Credit Link Determines Losses: The credit loss component increased to 7.4% from 5.6% previously. The increase is mainly because a 'BBB-' floor assumption has been applied for unrated German municipalities, whereas an individual score for single municipalities was used in the previous analysis instead. The calculated credit loss excludes about 20% of the cover assets, because these assets are either directly exposed or guaranteed by the German sovereign or its federal states. Thus the programme rating is credit-linked to Germany.

Stable and Low Mismatches: The cash flow valuation component increased slightly to 3.3% from 3%, previously, mainly driven by the notable open interest rate position, with 20% of the assets generating floating rate income compared to 8% floating rate Pfandbriefe outstanding. The programme only has limited open foreign exchange positions which account for about 2% and small maturity mismatches (one year difference between weighted average lives of assets and Pfandbriefe). No hedges in the form of registered derivatives are in place.

Altered Prepayment Assumptions Increase Sales: The asset disposal loss component increased slightly to 3.6% from 3%. As Helaba's Pfandbrief rating is based on recoveries, the asset disposal loss component reflects the stressed valuation of the full cover pool rather than the volume of forced asset sales to bridge maturity mismatches in a probability of default scenario.

Stable Cover Pool Development: As of March 2015, the cover pool comprises 22,899 assets with an average loan amount of EUR1.03m. The portfolio is geographically concentrated in Germany (94% of cover assets), mainly including German municipalities (64% of cover assets). The programme shows some concentrations on top of the distribution, but becomes granular at the end of the distribution. The pool remained relatively stable with an unchanged share of German assets and a slight increase of French exposure (1% of cover assets).

Neutral Effect Of Pool Changes Expected: About 10% of the cover assets will mature in the course of 2015, which are mainly assets backed by a statutory guarantee of the German sovereign or its federal states. However, Fitch does not expect a worsening of the calculated cover pool credit loss.

Figure 1
**Cover Pool Characteristics:
April 2015**

General	
Number of assets	22,899
Average loan amount (EURm)	1.03
Cover Assets by country (%)	
Germany	94
Spain	2
UK	1
Switzerland	1
France	1
Other countries	1
German exposure breakdown ¹ (%)	
Hesse	44
North-Rhine Westphalia	31
Lower-Saxony	4
Rhineland-Palatinate	4
Thuringia	3
Baden-Wuerttemberg	3
Berlin	3
Hamburg	2
Bavaria	2
Schleswig-Holstein	1
Saarland	1
Other	2
Asset Type (%)	
Bond	59
Loan	41
Rate type	
Floating assets (%)	20
Floating Pfandbriefe (%)	8
Repayment type (%)	
Annuity	55
Bullet	33
Instalment	12

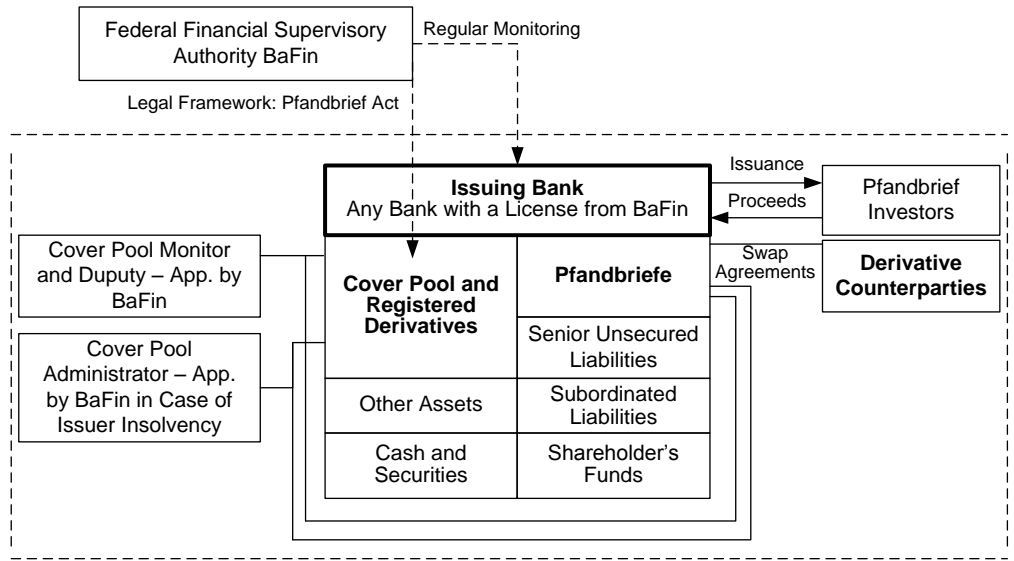
Currency	Breakdown (EURbn)	
	Assets	Pfandbriefe
EUR	22.5	20.9
CHF	0.6	-
USD	0.4	0.6
JPY	0	-
CAD	0	-

¹ excluding Euler Hermes guaranteed assets

Related Criteria

- [Covered Bonds Rating Criteria \(July 2015\)](#)
- [Criteria for Interest Rate Stresses in SF Transactions and Covered Bonds \(Dec 2014\)](#)
- [Counterparty Criteria for Structured Finance and Covered Bonds \(May 2014\)](#)
- [Covered Bonds Rating Criteria – Public Sector Liquidity and Refinancing Stress Addendum \(January 2015\)](#)
- [Asset Analysis Criteria for Covered Bonds of European Public Entities \(Feb 2015\)](#)
- [Criteria for Sovereign Risk in Developed Markets for Structured Finance and Covered Bonds \(Feb 2015\)](#)

Figure 2
Diagram of a Pfandbrief Issuance



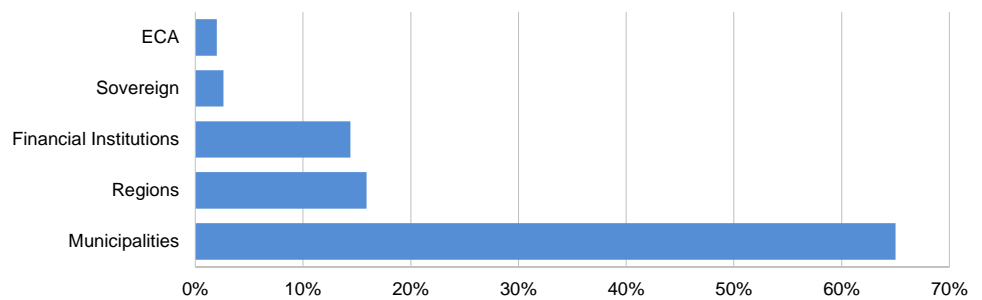
Source: Fitch

Figure 3
Fitch Default Model Output (%)

Rating level	'AAA'	'AA+'	'AA'
WA frequency of foreclosure (WAFF)	16.1	14.3	13.2
WA recovery rate (WARR)	57.1	65.0	65.9

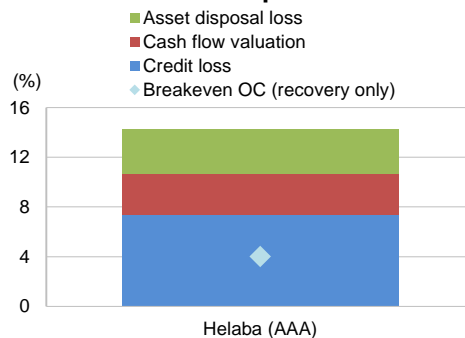
Source: Fitch

Figure 4
**Distribution by Exposure type
(% of cover assets)**



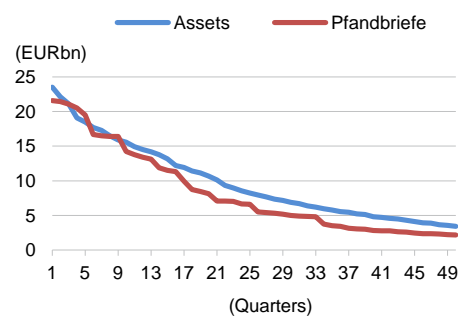
Source: Fitch/Helaba

Figure 5
Breakeven OC Components



Source: Fitch

Figure 6
**Amortisation Profile
(As of March 2015)**



Source: Fitch/Helaba

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