Landesbank Hessen-Thueringen Girozentrale

Public Sector Pfandbriefe

Update

Ratings

Public Sector Pfandbriefe	AAA/Stable Outlook

Rating Rationale

IDR/Outlook	A+/Stable
D-Cap	5 notches (low risk)
IDR uplift	2 notches
Tested rating on a PD Basis	AA
Recovery given default uplift (notches)	2
Covered Bond Rating	AAA
OC Fitch considers in analysis (%)	7.6
AAA breakeven OC (%)	3.5

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	Low
Cover pool-specific alternative management	Low
Privileged derivatives	Very low

Key Data

	Apr 16
Asset type	Public sector
Cover assets (EURbn)	21.8
Pfandbriefe (EURbn)	19.2
Weighted-average life assets (years)	7.0
Weighted-average life Pfandbriefe (years)	5.2

Related Research

Fitch Affirms Helaba's Public-Sector Pfandbriefe at 'AAA'; Outlook Stable (June 2016)

Fitch Affirms 5 Pfandbriefe at 'AAA'; Outlook Stable (April 2016)

S - Finanzgruppe Hessen-Thueringen - Ratings Navigator (February 2016)

2016 Outlook: Covered Bonds (December 2015)

Fitch: D-Cap Unchanged for 18 German Covered Bond Programmes (December 2015)

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Key Rating Drivers

Rating Rationale: The ‘AAA’ rating of Landesbank Hessen-Thueringen Girozentrale’s (Helaba, A+/Stable/F1+) public-sector Pfandbriefe is based on Helaba’s Long-Term Issuer Default Rating (IDR) of ‘A+’, an unchanged IDR uplift of two notches and an unchanged Discontinuity Cap (D-Cap) of five notches (low risk). It also reflects the 7.6% overcollateralisation (OC) that Fitch Ratings takes into account, which provides more protection than the 3.5% ‘AAA’ breakeven OC.

Lowered Breakeven OC: The ‘AAA’ breakeven OC has decreased to 3.5% from 4% in the previous analysis. This is driven by the slightly improved credit loss of 7% (7.4% previously), still constituting the largest component of the breakeven OC. The improvement reflects higher recoveries as an increased share of municipalities is assumed to default in an ‘AAA’ scenario, for which the agency expects higher recoveries.

Stable Cash Flow Valuation: The second-largest contributor, the cash flow valuation component, was fairly stable at 3.0% (3.3% previously). The small improvement reflects the classification of Helaba as a highly rated issuer, due to its sufficiently high Short-Term rating of ‘F1+’. Fitch relies on the issuer to manage any interest-rate or currency mismatches between cover assets and covered bonds. The agency did not apply any interest-rate or currency stresses in its cash flow analysis as a result.

Rating Based on Recoveries: As Helaba’s Pfandbrief rating is based on recoveries, the asset-disposal loss component of 3.8% (3.6% previously) represents a stressed valuation of the entire cover pool after an assumed covered bond default. This component mainly reflects negative carry on the excess cash resulting from the high prepayment scenario constituting the worst-case scenario.

Programme Highlights

Significant Municipal Exposure: The cover pool characteristics remained stable, despite a decrease in Helaba’s cover pool volume by EUR1.6bn. The programme has the highest municipal exposure among peers at about 70% of cover assets, the majority being German municipalities (68%). The rating is credit-linked to Germany (AAA/Stable/F1+) as 22% of the cover assets are either directly exposed to or guaranteed by the German sovereign or its federal states. This share remained fairly stable from the last analysis.

Moderate Market Risks: Helaba’s pool exhibits moderate open-interest-rate positions as about 12% of the cover assets are floating rate, compared with only 6% of Pfandbriefe. The programme also contains small foreign-exchange mismatches, mainly arising from open US dollar and Swiss franc positions, amounting to about 2% of the cover pool. No hedges in the form of registered derivatives are in place.

Cushion Against IDR Downgrade: The ‘AAA’ rating would be vulnerable to downgrade if any of the following occurs: the IDR is downgraded to ‘BB+’ or lower; the OC that Fitch considers in its analysis drops below its ‘AAA’ breakeven level of 3.5%; or the German sovereign is downgraded to ‘AA+’ or below.

Criteria Variations: See Page 3 of this report for a detailed explanation on the criteria variation applied in the analysis for Helaba’s public-sector Pfandbriefe.

Cover Pool Characteristics: Apr 16

General	
Number of assets	22,706
Average loan amount (EUR)	960,426
Cover assets by country (%)	
Germany	93
Spain	2
France	2
UK	2
Other	1
German exposure breakdown (%)[a]	
Hesse	48
North Rhine-Westphalia	29
Berlin	4
Rhineland-Palatinate	3
Thuringia	3
Lower-Saxony	2
Hamburg	2
Bavaria	2
Schleswig-Holstein	2
Other	5
Instrument type (%)	
Promissory notes	54
Loans	43
Bonds	3
Rate type (%)	
Floating assets	12
Floating Pfandbriefe	6
Redemption type (%)	
Annuity	52
Bullet	29
Instalment	19

Currency breakdown (EURbn)

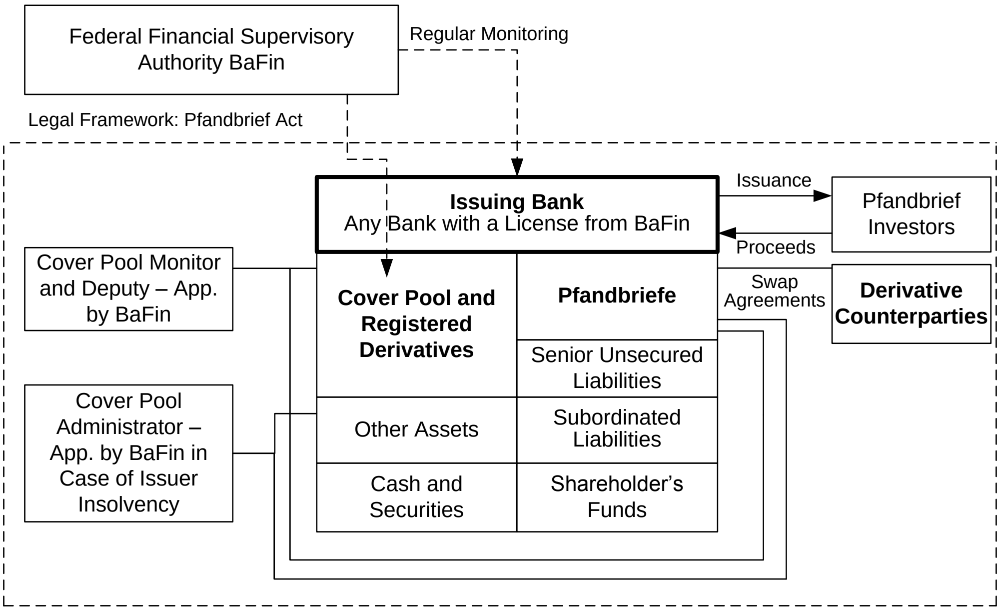
	Assets	Pfandbriefe
EUR	21.3	18.6
CHF	0.2	0
USD	0.3	0.6
JPY	0.0	-
GBP	0.0	-

[a] Excluding Euler Hermes guaranteed assets
Source: Fitch/Helaba

Related Criteria

Covered Bonds Rating Criteria (March 2016)
Exposure Draft: Covered Bonds Rating Criteria (June 2016)
Asset Analysis Criteria for Covered Bonds and CDOs of European Public Entities (January 2016)
Covered Bonds Rating Criteria - Public Sector Liquidity and Refinancing Stress Addendum (January 2015)
Counterparty Criteria for Structured Finance and Covered Bonds (May 2014)
Criteria for Sovereign Risk in Developed Markets for Structured Finance and Covered Bonds (February 2015)
Criteria for Interest Rate Stresses in Structured Finance Transactions and Covered Bonds (May 2016)
Exposure Draft: Counterparty Criteria for Structured Finance and Covered Bonds (April 2016)
Exposure Draft: Counterparty Criteria for Structured Finance and Covered Bonds - Derivative Addendum (April 2016)
Global Bank Rating Criteria (July 2016)

Diagram of a Pfandbrief Issuance



Source: Fitch

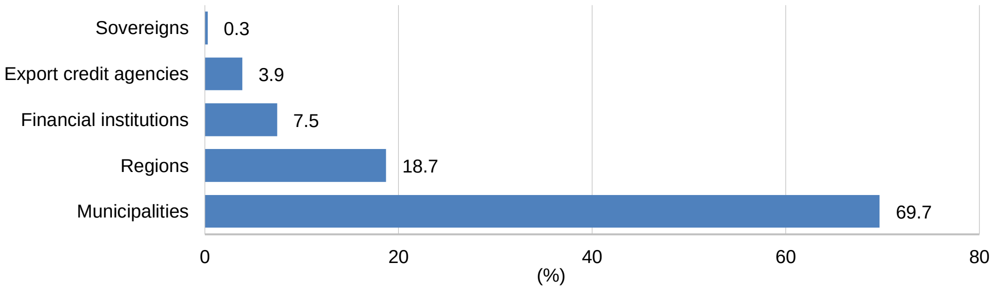
Fitch Default Model Output (%)

Rating level	AAA	AA+	AA
Rating Default Rate (RDR)	18.8	16.7	15.5
Rating Recovery Rate (RRR)	65.3	74.3	74.2

Source: Fitch

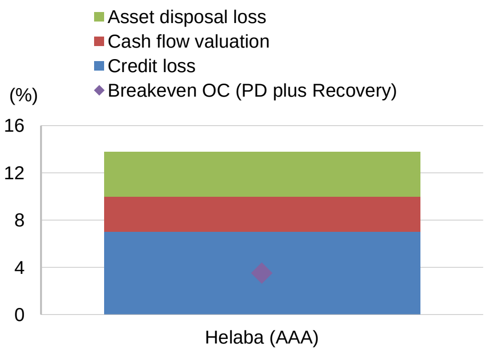
Distribution by Exposure Type

(% of cover assets)



Source: Fitch/Helaba

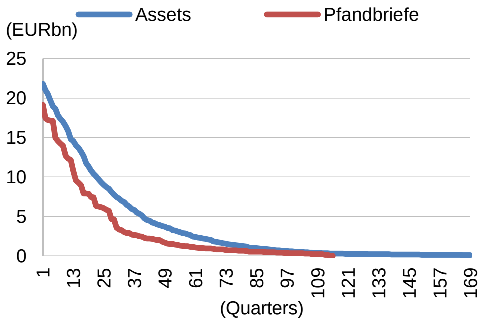
Breakeven OC Components



Source: Fitch

Amortisation Profile

(As of April 2016)



Source: Fitch/Helaba

Criteria Variation

Fitch applied a variation from its *Counterparty Criteria for Structured Finance and Covered Bonds: Derivative Addendum*, published on 14 May 2014. The agency did not stress any unhedged interest rate or currency mismatches in its cash flow analysis, in line with its *Exposure Draft: Counterparty Criteria for Structured Finance and Covered Bonds*, dated 14 April 2016. This is because Helaba's Short-Term rating meets the proposed eligibility threshold to be considered a highly rated issuer under the exposure draft ('AA-' or 'F1+').

This variation is mainly reflected in the cash flow valuation component of the breakeven OC for the rating, which would otherwise have increased. If Fitch does not vary from its criteria in this aspect, the programme's rating is likely to be downgraded by one notch. In the event that this aspect is not converted into the criteria, the programme will be subject to further review.

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