Fitch Affirms Helaba's Public Sector Pfandbriefe at 'AAA' on former Dexia's Pfandbriefe Transfer

Fitch Ratings - Frankfurt am Main - 16 October 2019:

Fitch Ratings has affirmed Landesbank Hessen-Thueringen Girozentrale's (Helaba; A+/Stable) public sector Pfandbriefe at 'AAA' with a Stable Outlook.

The affirmation follows Fitch's assessment of Helaba's Public Sector Pfandbriefe programme after the transfer of cover assets and outstanding public sector Pfandbriefe of KOFIBA-Kommunalfinanzierungsbank, the successor to Dexia Kommunalbank Deutschland (Dexia), to Helaba. Now, Helaba's and former Dexia's outstanding Pfandbriefe rank pari passu and are secured jointly by one cover pool.

RATING ACTIONS

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

KEY RATING DRIVERS

The 'AAA' rating of the 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 reflects overcollateralisation (OC) protection for Pfandbrief holders.

The Pfandbriefe are rated four notches above the bank's IDR. This is out of a maximum achievable uplift of nine notches, consisting of an IDR uplift of two notches, a payment continuity uplift (PCU) of five notches and a recovery uplift of two notches.

Fitch relies on the lowest reported OC over the last 12 months of 21.4% as included in the September 2019 report. This provides more protection than Fitch's 'AAA' breakeven OC of 6%.

The Stable Outlook reflects a five-notch buffer against a downgrade of Heleba's IDR.

Fitch's 'AAA' breakeven OC has decreased to 6% (from 6.5%) since the last review, reflecting an increased share of cover assets directly exposed to or guaranteed by the German sovereign or its federal states. It rose to 40% of cover assets from 30.2%. On the contrary the share of German municipalities, which are associated with higher default expectations in our analysis, has declined to 51.5% from 65.8%.

OC PROTECTION

As Heleba's Short-Term IDR is 'F1+', we rely in our analysis on the lowest available OC of the last 12 months as per our criteria.

UPLIFTS

The IDR uplift of two notches granted to the programme is unchanged. This is because Heleba's Long-Term IDR is based on the bank's participation in a mutual support scheme; Pfandbriefe are exempt from bail-in in a resolution; Fitch does not expect resolution of Heleba to result in the direct enforcement of recourse to the cover pool; and the risk of under-collateralisation at the point of resolution is assessed as low.

The five-notch PCU reflects principal liquidity protection provided by the mandatory inclusion of liquid assets in the cover pool matching the maximum negative accumulated balance of cash flows for the next 180 days under the Pfandbrief law.

The recovery uplift for the programme is two notches as the rating floor is in the investment-grade range and we did not identify specific limitations to recovery expectations.

RATING SENSITIVITIES

The 'AAA' rating would be vulnerable to downgrade if Helaba's IDR is downgraded to 'BB+' or below or if the relied-upon OC provides less protection than Fitch's 'AAA' breakeven OC.

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

Due to the dynamic nature of the covered bond programme, the Fitch breakeven OC to maintain the covered bond rating cannot be assumed to remain stable over time.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The covered bond rating is driven by the credit risk of the issuing financial institution as measured by its Long-Term IDR.

Helaba's public sector Pfandbrief rating remains credit-linked to Germany (AAA/Stable/F1+) reflecting the 91.4% exposure to German debtors.

Additional information is available on www.fitchratings.com

Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018)
Structured Finance and Covered Bonds Country Risk Rating Criteria (pub. 23 Oct 2018)
Fitch Ratings Interest Rate Stress Assumptions for Structured Finance and Covered Bonds (pub. 08 Mar 2019)
Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 18 Apr 2019)
Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 18 Apr 2019)
Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 27 Jun 2019)
CLOs and Corporate CDOs Rating Criteria (pub. 03 Jul 2019)
Covered Bonds Rating Criteria (pub. 24 Jul 2019)
Fitch's Foreign-Currency Stress Assumptions for Residual Foreign-Exchange Exposures in Covered Bonds and Structured Finance (Excel) (pub. 24 Jul 2019)

Covered Bonds and CDOs Public Entities' Asset Analysis Rating Criteria (pub. 14 Oct 2019)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form
Solicitation Status
Endorsement Policy

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