FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Helaba's Mortgage Pfandbriefe at 'AAA'; Outlook Stable

Thu 03 Dec, 2020 - 10:20 AM ET

Fitch Ratings - Frankfurt am Main - 03 Dec 2020: Fitch Ratings has affirmed Landesbank Hessen-Thueringen Girozentrale's (Helaba, A+/Negative/F1+) outstanding mortgage Pfandbriefe at 'AAA' with a Stable Outlook.

KEY RATING DRIVERS

The 'AAA' rating of the mortgage Pfandbriefe is based on Helaba's 'A+' Long-Term Issuer Default Rating (IDR) and the various uplifts above the IDR granted to the programme. It also considers overcollateralisation (OC) protection for covered bond holders.

The Pfandbriefe are rated four notches above the bank's IDR. This is out of a maximum achievable uplift of eight notches, consisting of a resolution uplift of two notches, a payment continuity uplift (PCU) of four notches and a recovery uplift of two notches. Fitch relies on the lowest reported OC over the last 12 months of 26.2%, which provides more protection than Fitch's 'AAA' break-even OC of 19.5% (up from 19% previously).

The Stable Outlook on the rating reflects the four-notch buffer against an IDR downgrade due to the different uplift factors above the bank's IDR.

Uplifts

The resolution uplift reflects that collateralised Pfandbriefe in Germany are exempt from bail-in, that Fitch deems the risk of under-collateralisation at the point of resolution to be sufficiently low, and that a resolution of Helaba, should it happen, is not likely to result in direct enforcement of recourse against the cover pool.

The two-notch resolution uplift reflects that Helaba's IDR of 'A+' is based on the bank's participation in the mutual support scheme of the Sparkassen-Finanzgruppe Hessen Thüringen (SFG-HT) and its equalisation with the group's IDR.

The 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 German mortgage Pfandbriefe.

Helaba's Pfandbriefe are eligible for a two-notch recovery uplift, as the OC given credit to offsets credit losses modelled in a 'AAA' stress scenario and we did not identify any material risks to recovery expectations.

'AAA' Break-even OC

Fitch's 'AAA' break-even OC has increased to 19.5% from 19%. This is driven by slightly reduced recovery prospects for the cover pool in a 'AAA' rating scenario. The share of European commercial real-estate assets (71% of total assets), for which Fitch has recently updated its market value decline (MVD) assumptions (see: Fitch Updates Commercial Real Estate Assumptions in Covered Bonds Rating Criteria), has a slightly lower expected recovery rate as a result of the updated MVD's. The US share of assets, for which Fitch applies a generally more conservative approach, has decreased since the last analysis (to 17% from 19% of total assets), somewhat counteracting the MVD effect. Should the share of US assets increase, this would result in a higher break-even OC.

Currently the difference between the sum of foreign exchange (FX) cover assets and the sum of FX covered bonds is greater than Fitch's limit of 10% of total assets (at 15% as of end-June 2020) as per its Covered Bonds Rating Criteria. Heleba has, however, indicated its intention to reduce the open FX position below the threshold.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

The Pfandbriefe rating is 'AAA', which is the highest level on Fitch's rating scale. The rating therefore cannot be upgraded.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

The 'AAA' rating would be vulnerable to downgrade if the bank's IDR is downgraded by five notches or more to 'BBB-' or lower. In addition, the 'AAA' rating would be vulnerable to downgrade if the relied-upon OC drops below Fitch's 'AAA' break-even level of 19.5%. Fitch's 'AAA' break-even OC of Helaba's mortgage Pfandbriefe is likely to increase in the event of an IDR downgrade as we would test for timely payments in our cash-flow model.

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

Fitch expects coronavirus containment measures to negatively impact the performance of mortgage loans. However, the Pfandbriefe rating benefits from a significant cushion between the OC that Fitch relies upon in its analysis (26.2%) and Fitch's 'AAA' break-even OC (19.5%). In addition, Helaba's mortgage Pfandbriefe rating is well-protected by the four-notch buffer against a downgrade of Heleba's Long-Term IDR. The dual-recourse nature of covered bonds means the bank is liable to pay the bonds irrespective of the performance of the cover pool. Nevertheless, the agency expects the OC cushion to reduce as a consequence of the coronavirus crisis.

When Fitch performed a downside sensitivity scenario stress to the programme by increasing the cover pool's loss expectations, the relied-upon OC still provided sufficient protection for the 'AAA' rating. Helaba also has eligible mortgage loans on its balance sheet, allowing it to replenish the cover pool with performing loans if need be. Based on these mitigating factors, we believe the programme has the capacity to support the 'AAA' rating.

Fitch's break-even OC for the covered bond rating will be affected, among other factors, 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.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [https://www.fitchratings.com/site/re/10111579]

SOURCES OF INFORMATION

Heleba has informed Fitch that not all relevant underlying information used in the analysis of the rated bonds is public.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The covered bond rating is driven by Heleba's Long-Term IDR.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Landesbank Hessen-Thueringen Girozentrale				
• senior secured, Mortgage Covered Bonds, Mortgage Pfandbriefe	LT	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Jan Philipp Hans
Analyst
Primary Rating Analyst
+49 69 768076 148
Fitch Ratings – a branch of Fitch Ratings Ireland Limited
Neue Mainzer Strasse 46 - 50 Frankfurt am Main D-60311

Thomas Kaber
Associate Director
Primary Rating Analyst
+49 69 768076 172
Fitch Ratings – a branch of Fitch Ratings Ireland Limited
Neue Mainzer Strasse 46 - 50 Frankfurt am Main D-60311

Jan Philipp Hans
Analyst
Secondary Rating Analyst
+49 69 768076 148

Thomas Kaber
Associate Director
Secondary Rating Analyst
+49 69 768076 172

Cosme de Montpellier
Senior Director
Committee Chairperson
+44 20 3530 1407

MEDIA CONTACTS

Athos Larkou
London
+44 20 3530 1549
athos.larkou@thefitchgroup.com

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 29 Jan 2020)

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 29 Jan 2020)

Bank Rating Criteria (pub. 28 Feb 2020) (including rating assumption sensitivity)

U.S. and Canadian Multiborrower CMBS Rating Criteria (pub. 16 Apr 2020) (including rating assumption sensitivity)

Fitch's Foreign-Currency Stress Assumptions for Residual Foreign-Exchange Exposures in Covered Bonds and Structured Finance - Supplementary Data File (pub. 30 Jun 2020)

Structured Finance and Covered Bonds Country Risk Rating Criteria (pub. 23 Sep 2020)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 13 Nov 2020)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Covered Bonds Commercial Real Estate Model, v1.0.1 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Landesbank Hessen-Thueringen Girozentrale	EU Issued

DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, THE FOLLOWING HTTPS://WWW.FITCHRATINGS.COM/RATING-DEFINITIONS-DOCUMENT DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

READ LESS

COPYRIGHT

Copyright © 2020 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from

independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular

investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.
For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001
Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

READ LESS

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is

provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Structured Finance: Covered Bonds Structured Finance Banks Europe Germany