Press Release

Creditreform Rating

Rated entity:

Public Sector Covered Bond Program issued by Landesbank Hessen-Thüringen Girozentrale

Rating:

AA+

Rating outlook / watch:

Outlook stable

Rating summary:

This monitoring report covers our analysis of the public sector covered bond program issued under German law by Landesbank Hessen-Thüringen Girozentrale („Landesbank Hessen-Thüringen"). As of 31 December 2021, the total covered bond issuance had an outstanding value of EUR 28,237.00 m, backed by a cover pool with a nominal value of EUR 32,468.60 m. This corresponds to a nominal overcollateralization of 14.99%. The cover assets mainly include German public sector assets as well as obligations of regional and local authorities in Germany.

Based on the cover pool as of 31 December 2021, CRA determined a default rate of 9.20%, a recovery rate of 45.10%, and therefore an expected loss of 5.05% for the A+ base-case scenario. At the same time, CRA assumed an asset-sale discount of 10.36% and a yield spread of 0.27%. While performing the break-even OC analysis, we took rating-level specific stressed outcomes into account. Based on these analyses, the maximum OC required for the relevant A+ rating level during the whole period is 14.25%.

Taking into consideration the issuer rating, our analysis of the regulatory framework, liquidity and refinancing risks, as well as our cover pool assessment and results of the cash flow analysis with credit metrics as of 20 April 2022 and overall monitoring results, Creditreform Rating AG ("Creditreform Rating" or "CRA") downgrades the covered bond program from AAA to AA+ due to more asset-liability risk and a lower interest rate margin in combination with a lower overcollateralization level compared to the previous years. The outlook of the covered bond program will be changed from negative to stable. The AA+ rating represents a very high credit rating and very low risk of default.

Risk Factor	Result
Issuer rating	A- (rating as of 24 September 2021)
+ Legal and regulatory framework	+4 Notches
+ Liquidity and refinancing risk	+1 Notch
= Rating after 1st uplift	AA+
Cover pool & cash flow analysis	A+ (credit metrics as of 20 April 2022)
+ 2nd rating uplift	+/-0 Notch
= Rating covered bond program	**AA+**

Primary key rating driver:

+ Covered Bonds are subject to strict German legal framework (PfandBG)

+ Covered Bond holders have full recourse to the issuer.

+/- Covid-19 can lead to sustained changes in the cover pool or the issuer rating

- More asset-liability risk and a lower interest rate margin in combination with a lower overcollateralization level

- Even before Corona, comparatively low inherent profitability with high cost income ratio of the issuer

Rating sensitivities:

Best-case scenario: In this scenario, the base case assumptions remained stable, resulting in a cover pool rating of A+.

Worst-case scenario: In this scenario, we (ceteris paribus) reduced recoveries by 50% and increased credit risk by 50%, resulting in a cover pool rating of BBB. However, this would have no effect on the secondary rating uplift and consequently the final rating, which remains AA+.

ESG-criteria:

CRA generally takes ESG-relevant factors (environmental, social and governance) into account when assessing Covered Bond ratings. Overall, ESG factors have a significant impact on the current rating of this Covered Bond program. CRA identifies governance factors, in particular, to have a highly significant impact on Covered Bond ratings. Since Covered Bonds are subject to strict legal requirements, regulatory risk plays an important role in assessing the credit rating.

The German covered bond legislation (PfandBG) defines clear rules to mitigate risks in particular regarding: insolvency remoteness, asset segregation, investor's special claim vis-à-vis other creditors, the role and appointment of a special administrator, among other provisions. Additionally, Risk management and internal controls as well as the macroeconomic factors such as hedging strategies, interest rates and yield curve are considered to have a highly significant impact on the assessment of the credit rating. Other individual factors with a potential key rating influence were not identified, and therefore did not affect the final rating.

On the subject of ESG (environment, social and governance), Creditreform Rating AG has published the basic document ("The Impact of ESG Factors on Credit Ratings"), which is available on the homepage under the following link:

https://creditreform-rating.de/en/about-us/regulatory-requirements.html

Rating Date / disclosure to rated entity / maximum validity:

April 20, 2022 / April 20, 2022 / January 1, 2050

Between the disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

Initial rating date / rating:

November 9, 2018 / AAA - Outlook stable

Lead-analyst – position / Person approving (PAC):

Philip Michaelis (Lead) – Senior Analyst

Christian Konieczny (PAC) – Senior Analyst

Name & address of legal entity:

Creditreform Rating AG, Europadamm 2-6, 41460 Neuss, Germany

Status of solicitation:

The rating is an unsolicited rating. The degree of participation was as follows:

With Rated Entity or Related Third Party Participation: No

With Access to Internal Documents: No

With Access to Management: No

Rating methodology / Version / Date of application / Link:

Rating Criteria and Definitions, Version 1.3, January 2018

Technical Documentation Portfolio Loss Distributions, Version 1.4, July 2018

Rating Methodology Covered Bonds, Version 1.1, April 2022

Information on the meaning of a rating category, definition of default and sensitivity analysis of relevant key rating assumptions can be found at “Creditreform Rating AG, Rating Criteria and Definitions”.

https://creditreform-rating.de/en/about-us/regulatory-requirements.html

Endorsement:

Creditreform Rating did not endorse the rating according Article 4 (3), CRA-Regulation.

Regulatory requirements:

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks. In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report of the issuer.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our policy “Rating Committee,” all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity. To prepare this credit rating, CRA has used following substantially material sources:

1. Transaction structure and participants

2. Transaction documents

3. Issuing documents

4. Other rating relevant documentation

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRA website. Furthermore, CRA considers the quality and extent of information available on the rated entity as satisfactory. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.