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INVESTORS SERVICE

CREDIT OPINION

26 January 2022

Update

Rate this Research

RATINGS

Landesbank Hessen-Thueringen GZ

Domicile	Frankfurt am Main, Germany
Long Term CRR	Aa3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Aa3
Type	Senior Unsecured - Dom Curr
Outlook	Stable
Long Term Deposit	Aa3
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Landesbank Hessen-Thueringen GZ

Update to credit analysis

Summary

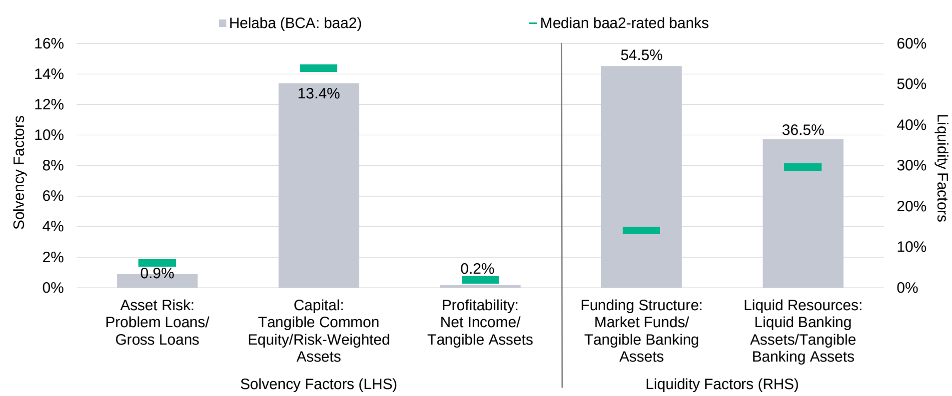
We assign Aa3(stable)/P-1 deposit ratings, Aa3(stable) senior unsecured and A2 junior senior unsecured ratings to Landesbank Hessen-Thueringen GZ (Helaba). We further assign a baa2 Baseline Credit Assessment (BCA), a baa1 Adjusted BCA, and Aa3/P-1 Counterparty Risk Ratings (CRRs).

Helaba's Aa3 deposit and senior unsecured debt ratings reflect its baa2 BCA, a one-notch rating uplift from its membership in the institutional protection scheme of Sparkassen-Finanzgruppe (S-Finanzgruppe, Aa2 stable, a2[1]), the application of our Advanced Loss Given Failure (LGF) analysis to its liabilities, which indicates an extremely low loss given failure and results in three notches of rating uplift, and a one-notch rating uplift resulting from government support, given its membership in systemically relevant S-Finanzgruppe.

The baa2 BCA reflects Helaba's sound capitalisation and solid asset quality; while the bank's loan book contains sizeable commercial real estate (CRE) concentration risks, Helaba's CRE portfolio has a sound history of low credit losses compared with its peers and through a full credit cycle. More constraining factors are the bank's high leverage, modest profitability, and a funding structure that relies on significant market funding access, which, however, is partially balanced by stable funding from the savings bank sector and comfortable liquid resources.

Exhibit 1

Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

» Strong underwriting standards, with an established track record

» Sound capitalisation, which continues to provide Helaba with sufficient headroom to withstand adverse economic developments

» Good access to sector funds, which support its liquidity

Credit challenges

» High sector concentration in the cyclical CRE business, which remains a tail risk for asset quality

» Subdued profitability, which provides a limited buffer in case of adverse developments

» Dependence on confidence-sensitive market funding, which remains significant despite its access to sector funds

Outlook

The stable outlook reflecting our expectation of a broadly unchanged financial profile and liability structure.

Factors that could lead to an upgrade

» An upgrade of Helaba's ratings would be likely in the event of an upgrade of the bank's BCA. Because Helaba's senior unsecured and deposit ratings already benefit from the highest possible rating uplift of three notches, there is no upgrade potential from our Advanced LGF analysis.

» Upward pressure on Helaba's BCA could arise from a sustainably improved Macro Profile and the combination of a significant reduction of the bank's concentration risk, specifically with regard to CRE exposures; a meaningful and sustained improvement in capitalisation, higher profitability and a clear further reduction in Helaba's dependence on market funding.

Factors that could lead to a downgrade

» A downgrade of Helaba's ratings could be triggered by a very significant weakening of its intrinsic strength, resulting in a multi-notch downgrade of the bank's BCA; a joint weakening in the financial strength of Helaba and S-Finanzgruppe; a reduction in our cross-sector support assumption; or if the volume of subordinated or other debt instruments that are designed to be loss-absorbing in resolution decreases substantially and beyond our expectations, compared with the bank's tangible banking assets.

» Downward pressure on the bank's BCA could arise because of a deterioration in the bank's financial strength, especially if followed by an unexpected and sustained weakening in its capital adequacy metrics; a material deterioration in the bank's asset quality; or a significant decline in the bank's liquidity reserves, combined with higher dependence on market funding.

Key indicators

Exhibit 2
Landesbank Hessen-Thueringen GZ (Consolidated Financials) [1]

	06-21[2]	12-20[2]	12-19[2]	12-18[2]	12-17[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	201.8	194.0	185.2	152.4	146.9	9.5[4]
Total Assets (USD Billion)	239.3	237.3	207.9	174.3	176.3	9.1[4]
Tangible Common Equity (EUR Billion)	8.4	8.2	8.1	8.0	7.8	2.1[4]
Tangible Common Equity (USD Billion)	9.9	10.0	9.1	9.1	9.4	1.7[4]
Problem Loans / Gross Loans (%)	0.9	0.7	0.5	0.6	0.8	0.7[5]
Tangible Common Equity / Risk Weighted Assets (%)	13.4	13.5	13.6	14.7	15.6	14.2[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	10.8	8.4	5.8	7.2	8.0	8.0[5]
Net Interest Margin (%)	0.7	0.6	0.7	0.7	0.7	0.7[5]
PPI / Average RWA (%)	1.5	0.8	1.0	0.7	1.0	1.0[6]
Net Income / Tangible Assets (%)	0.2	0.1	0.2	0.2	0.2	0.2[5]
Cost / Income Ratio (%)	63.2	75.7	73.1	80.6	72.6	73.0[5]
Market Funds / Tangible Banking Assets (%)	56.3	54.5	53.2	52.7	51.9	53.7[5]
Liquid Banking Assets / Tangible Banking Assets (%)	37.3	36.5	33.5	32.2	34.0	34.7[5]
Gross Loans / Due to Customers (%)	183.5	179.3	189.1	202.5	189.6	188.8[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Investors Service and company filings

Profile

Helaba is a German universal bank, with a regional focus on the German federal states of Hesse, Thuringia, North Rhine-Westphalia, and Brandenburg. The bank operates as a central institution for the savings banks in the aforementioned four federal states and, thus, covers around 40% of all savings banks in Germany. As of 30 June 2021, the bank reported total consolidated assets of €217 billion and employed about 6,200 staff.

In addition to its role for the regional savings banks, Helaba provides a range of wholesale and retail banking services to corporate and private clients, institutional customers, and central, regional and local public authorities, as well as municipal corporations. The bank distributes its products and services from its twin head offices in Frankfurt am Main and Erfurt; its branch offices in Germany, France, Sweden, the UK and the US; and its representative offices in Brasil, Spain, Russia, China and Singapore. In Switzerland (Zurich), Helaba is represented through its subsidiary Frankfurter Bankgesellschaft (Schweiz) AG.

In May 2019, Helaba announced that it had completed the purchase of Dexia Kommunalbank Deutschland from the French-Belgian winddown bank Dexia Crédit Local for a total consideration of €352 million, which increased Helaba's total assets by €26 billion[2]. At the same time, Helaba also closed a deal to acquire a €1 billion land transport finance portfolio from DVB Bank SE, which increased Helaba's total rolling stock portfolio to €2 billion[3]. Also, in January 2022, Helaba and Landesbank Baden Wuerttemberg (LBBW; Aa3 stable, Aa3 stable, baa2[4]) announced that they will swap certain business activities in order to streamline operations and raise efficiency[5]. Starting in July 2022, Helaba will transfer its interest rate, currency, and commodity management for savings bank customers to LBBW, and as of year-end 2022, Helaba will discontinue its custodian services for special and mutual funds, recommending that customers switch to LBBW instead. Conversely, LBBW will transfer its physical foreign notes and coins and precious metal business to Helaba by 1 January 2023, and LBBW will not provide any new foreign payment or letter of credit business for savings banks after 31 December 2022, recommending to customers that they purchase these services from Helaba thereafter.

For further details, please refer to Helaba's latest Issuer Profile and our German Banking System Profile.

Weighted Macro Profile of Strong (+)

As of 30 June 2021, about two-thirds of Helaba's lending exposures derived from Germany , which has a Strong (+) Macro Profile assigned, while other European countries (Macro Profile of Strong) represented about a quarter of the loan book and North America (Very Strong (-)) accounted for 9%. The weighted average of these lending exposures resulted in a Strong (+) Weighted Macro Profile for Helaba.

Detailed credit considerations

Sound risk management partially mitigates the bank's high exposure to cyclical CRE risks

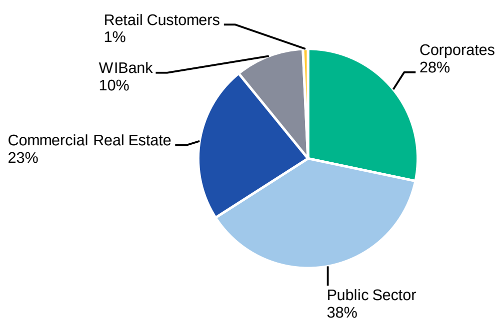
We assign a baa1 Asset Risk score, five notches below the aa2 initial score, taking into account the bank's total loan exposure to the cyclical CRE sector. Furthermore, we consider the bank's exposure to market risk as a driver for the adjustment.

Helaba's commercial real estate (CRE) exposures remain a key driver for Helaba's asset risk, amounting to €35.5 billion in terms of loans and advances and €37.5 billion in terms of business volume as of 30 June 2021, resulting in considerable concentration risk, especially compared with the group's reported Common Equity Tier 1 (CET1) capital of €8.7 billion. As of 30 June 2021, office space exposure dominated the portfolio with a share of 46% of business volume, followed by residential buildings (21%), retail and shopping centres (20%), logistics properties (5%), and other categories (8%). In terms of geography, only 41% of exposures derived from Germany, followed by North America (23%) the UK and France (18% in total), and other European countries (18%). Despite the bank's sizeable concentration risks, Helaba's CRE portfolio has a sound history of low credit losses compared with those of its peers. This is due to Helaba's focus on prime locations and properties with a high level of prearranged rental agreements, combined with limited ticket sizes, which provide risk diversification.

The bank's other main credit risk stems from its well diversified corporate and asset finance book, which amounted to €46.9 billion in terms of business volume as of 30 June 2021, of which corporate loans and lease finance represented 38%, asset backed finance 18%, project finance 17%, structured trade and export finance 9%, acquisition finance 5%, aviation 6%, and land transport 6%. In terms of

Exhibit 3

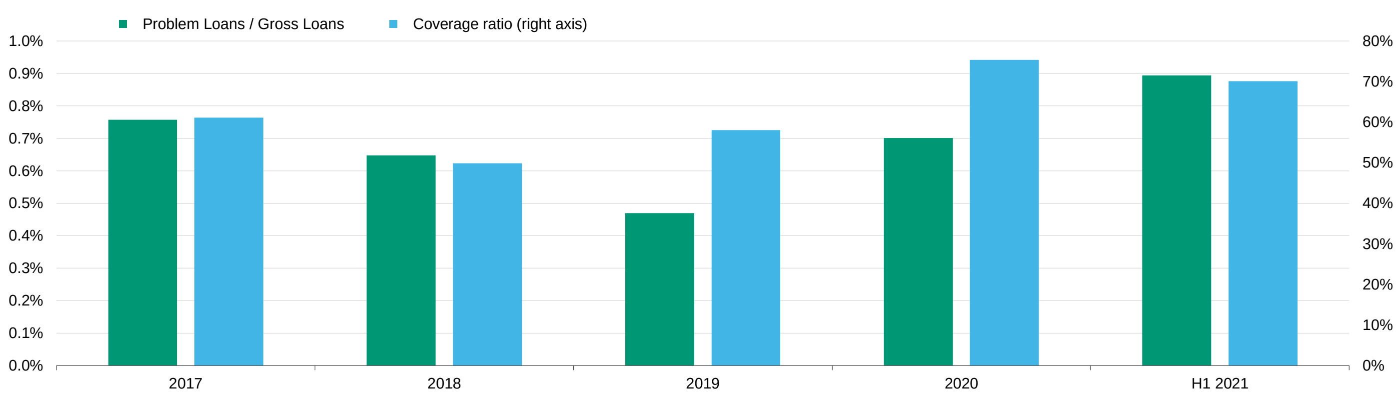
Helaba's customer loan book exhibits some significant sector concentrations
Customer loan book breakdown as of 30 June 2021



Note: Loan book breakdown excludes interbank lending
Source: Company reports, Moody's Investors Service

Exhibit 4

Helaba's problem loan ratio has ticked up in 2020 and H1 2021 due to the pandemic



Problem loan ratio in accordance with Moody's definition.
Source: Company reports, Moody's Investors Service

geography, 54% of exposures were sourced from Germany, 35% from other European countries (10% from the UK), 9% from North America, and 2% from other countries.

Helaba reported a problem loan ratio of 0.89% as of 30 June 2021, a deterioration from the 0.47% as of year-end 2019, reflecting the headwinds of the coronavirus crisis. The takeover of Dexia Kommunalbank in 2019 has not to materially changed the asset-risk profile of Helaba, but the consequent increase of credit volume to public sector entities to €50.0 billion from €33.3 billion during 2019 and a further increase to €71.0 billion by 30 June 2021 has added a significant yet low-risk sector concentration. In addition, given its role as a central institution for a large part of the German savings banks, the bank continues to run a significant derivatives book, mainly driven by the hedging needs for savings banks, the former Dexia Kommunalbank's portfolio, but also offering capital market services to its corporate customers. The potential swings in the related derivative replacement values are reflected in our adjustment.

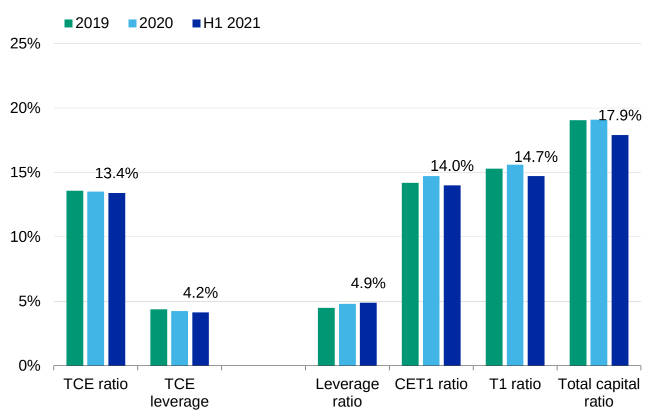
Capitalisation continues to provide a solid loss-absorption buffer

Helaba's assigned Capital score is a3, one notch below the a2 initial score, driven by leverage and reflecting our longer-term expectation regarding the potential negative impact of the upcoming regulatory changes related to the implementation of Basel IV.

During the first half of 2021 (H1 2021), Helaba's leverage exposure decreased by 5% to €185.9 billion from €196.1 billion, mainly because of the first-time exclusion of €4.3 billion of savings bank sector exposures and €5.6 billion of pass-through development bank loans from the calculation of the leverage exposure. The bank also continues to benefit from the temporary deduction of central bank cash holdings, which stood at €34.9 billion as of 30 June 2021. As a result, Helaba's regulatory leverage ratio improved to 4.9% from 4.8% during 1H 2021, while it would have reached 4.2% as of 30 June 2021 including its central bank cash holdings. Our leverage measure, which is based on Tangible Common Equity (TCE) to tangible assets and thus includes intra-sector exposures, pass-through development bank loans, and central bank cash holdings, also reached 4.2% as of 30 June 2021, unchanged from year-end 2020. Since TCE leverage remains well below our 5% baseline expectation, we continue to deduct one notch for leverage from the initial Capital score when positioning the assigned score.

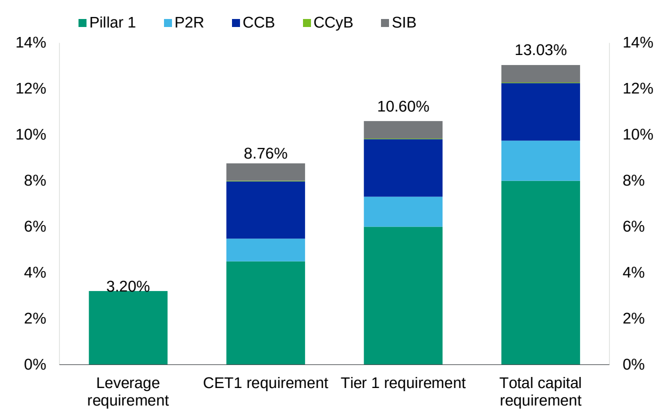
Helaba's Common Equity Tier 1 (CET1) ratio meanwhile declined to 14.0% from 14.7% during H1 2021, reflecting 3.2% growth in risk-weighted assets (RWAs) and a 1.9% decline in CET1 capital. Our measure of risk-based capital based on TCE to RWA softened more moderately to 13.4% from 13.5%[6], and while our measure of leverage should improve again, with excess liquidity being potentially reined in following the repayment of TLTRO III funds and the acquired public-sector portfolio from Dexia Kommunalbank being run-down over time, we expect that the bank's risk-based capital metrics will stay broadly stable in the future. This reflects the bank's limited capital generation capacity even in a benign credit environment, but also the potential negative effects stemming from the implementation of Basel IV, which could - among other effects - result in a material increase in credit risk RWAs given Helaba's sizeable CRE exposures.

Exhibit 5
Helaba's solid levels of capital



TCE = Tangible common equity (Moody's calculation), CET1 = Common Equity Tier 1, T1 = Tier 1
Sources: Company reports, Moody's Investors Service

Exhibit 6
Helaba's CET1 capital requirements in detail



Source: Company reports

Nonetheless, Helaba remains adequately capitalised in comparison to its current regulatory minimum capital requirements, which stood at 8.76% on a CET1 basis as of 30 June 2021, but also in comparison to future, higher capital requirements. These will incorporate a 0.75% countercyclical buffer on domestic risk-weighted exposures as well as a 2.0% systemic risk buffer for risk-weighted exposures collateralised by residential real estate, which banks will have to fulfill by 1 January 2023 as announced by the German regulator BaFin on 12 January 2022. With Helaba's exposure to residential real estate being limited and given that one-third of its loan book represents foreign exposures, Helaba's minimum capital requirement on a CET1 basis will likely stay below the 10% level.

Profitability will remain subdued

We assign a b2 Profitability score, one notch below the b1 initial score, reflecting Helaba's likely earnings run rate in the next 2-3 years.

Central bank measures aimed at mitigating the economic impact of the coronavirus crisis have exacerbated the profitability pressure that many European banks are under, which has been partially offset, though, by the funding cost advantage TLTRO III has conferred to banks. In this context, Helaba's performance metrics will likely remain modest, as the low-yield environment will continue to weigh on the bank's interest income and the benefits of TLTRO III will wear off. While Helaba has partially reduced its dependence on net interest income via a higher share of net fee and commission income over time, potentially higher loan-loss provisions, a relatively sticky cost base, and volatile capital market results will likely challenge the bank's efforts to improve its profitability materially. A high-level strategic project ("Scope"), while aiming at the improvement of organisational efficiency and cost containment, has led to restructuring costs in the short term. Meanwhile, investment needs into digitisation / IT systems remain challenges.

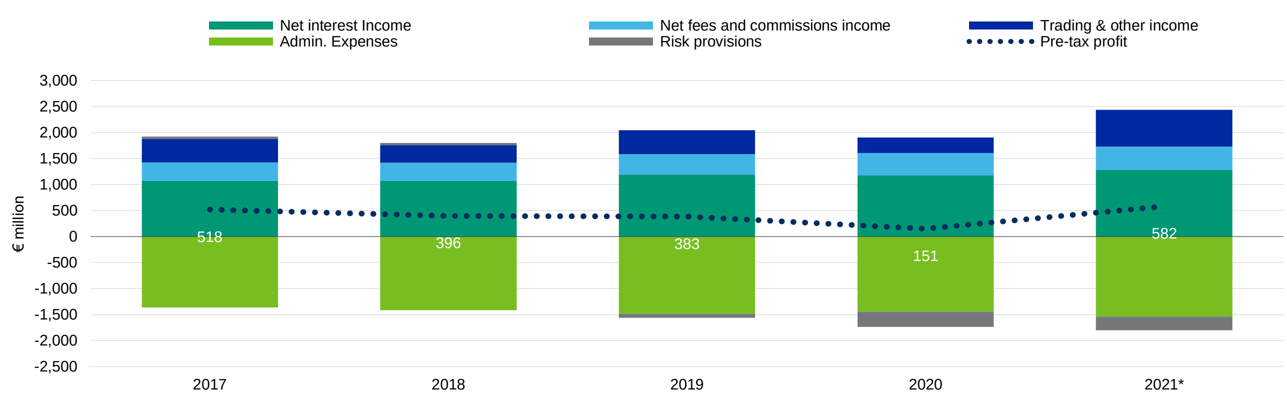
In H1 2021, Helaba reported a Moody's-adjusted pretax profit of €291 million, which incorporated a €45 million year-over-year growth in net interest income to €643 million, bolstered by TLTRO III tender rewards, €12 million higher net fee and commission income of €223 million on the back of an expansion of the bank's asset management activities, and a €186 million fair value and trading result, reflecting lower risk premia across all asset classes, as well as increased demand for capital market products. The bank's operating cost base remained stable at €782 million, with gains from the bank's Scope cost-cutting project being offset by higher personnel expenses due to strategic growth projects at certain subsidiaries, as well as by higher contributions to the Single Resolution Fund. Loan loss provisions, meanwhile, reached €142 million in the period and included €37 million of Stage 3 provisions, a €79 million management adjustment, and a €21 million reversal of provisions built in 2020 on the basis of an improved macroeconomic outlook.

In H1 2020, Helaba had reported a pretax loss of €274 million due to €151 million in loan loss provisions, a €170 million trading loss, and a €133 million loss from hedge accounting. However, as financial markets recovered, volatility reduced, and government support programmes in Germany and elsewhere stabilised the real economy in the second half of the year, Helaba was able to record a Moody's adjusted pretax profit of €151 million for the full-year 2020 (2019: 383 million). The result included €296 million of loan loss provisions (mainly IFRS 9 Stage 2 provisions), while net interest income of €1,172 million and net fee and commission income of €435 million remained resilient, the trading result broke even, and operating costs of €1,442 million declined by 3% year-over-year.

Exhibit 7

Helaba's earnings recovered from the 2020 dip

Trading results drove higher profits



*H1 2021 annualized

Source: Company reports, Moody's Investors Service

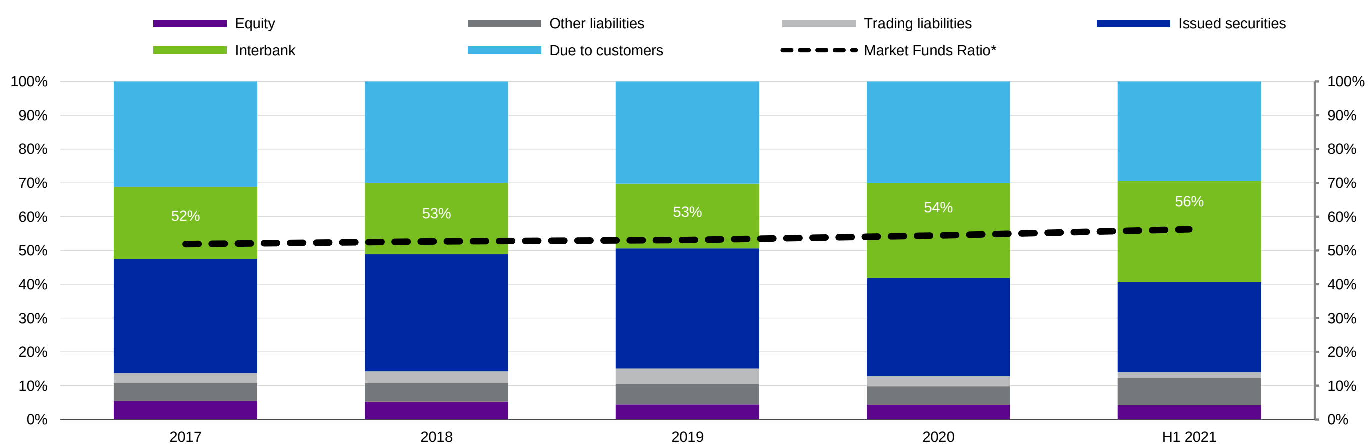
Funding from savings banks mitigates wholesale funding dependence

Our ba2 assigned Funding Structure score stands four notches above the b3 initial score, driven by good access to sector funding, reducing reliance on confidence-sensitive funding sources. A significant portion of Helaba's issued unsecured wholesale debt has been placed with savings banks and their retail clients.

Helaba depends on confidence-sensitive wholesale funding for a part of its lending business and is a net borrower in the interbank market. The bank's proven and recurring access to excess liquidity of the regional savings banks and good access to debt capital markets, even in times of stress, are balancing factors. As of 30 June 2021, the bank's refinancing structure consisted of (1) €60.3 billion of due to financial institutions, which increased materially from the €35.6 billion reported as of year-end 2019, mainly due to the bank's €23.9 billion participation in the TLTRO III, which will be repaid over three years; (2) €59.5 billion of due to customers; (3) €49.3 billion of securitised liabilities, which included €19.7 billion of covered bonds; 4) €4.0 billion of money market instruments; 5) €20.1 billion of trading, derivative, and other liabilities; and 6) €8.6 billion of shareholders' equity.

Helaba typically issues €13 billion to €18 billion in medium- and long-term debt instruments to a broad and diversified investor base per year, of which covered bonds usually account for about a third. In 2020, however, only €5.1 billion of medium- and long-term funding was sourced in the financial markets given the bank's €17.4 billion participation in the TLTRO III in June and September 2020, while we expect that volumes in 2021 might also have dropped somewhat below the usual issuance range given further €6.5 billion of TLTRO III drawings in March 2021 (€5.8 billion of medium- and long-term funding was issued by the bank in the first half of 2021). In the longer-term, however, the bank will likely return to its usual issuance levels, given the bank's aim to broadly match-fund its medium- and long-term lending business.

Exhibit 8
Helaba's mixed dependence on savings banks and wholesale market funding
Composition of market funding sources



*Market funds ratio = market funds/tangible banking assets.
Source: Company reports, Moody's Investors Service

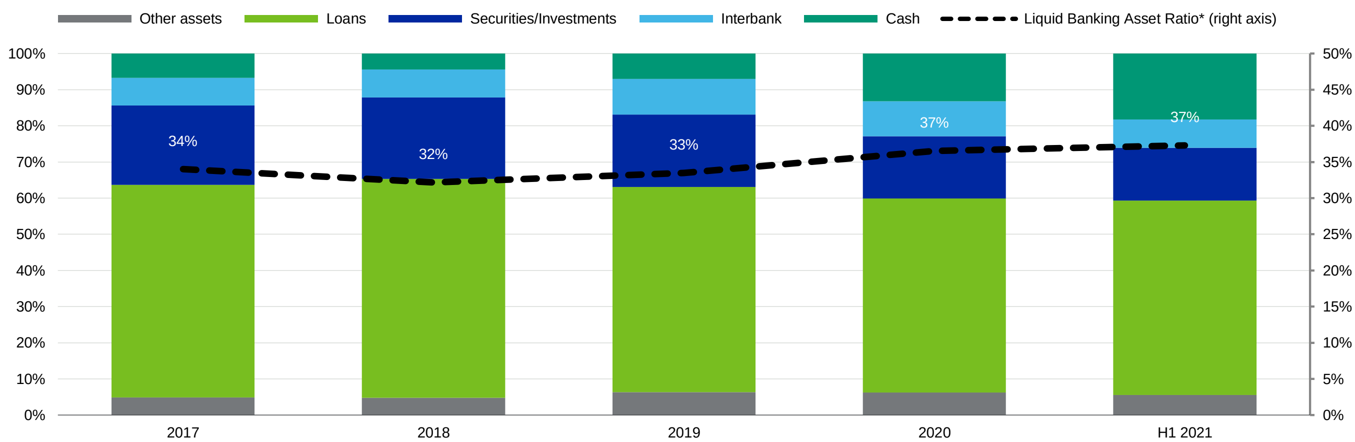
Strong liquidity could be further bolstered by covered bond issuance

The assigned a3 Liquid Resources score is two notches below the a1 initial score, which reflects our consideration of asset encumbrance, intragroup restrictions and the quality of liquid assets.

The bank's strong liquid resources as of 30 June 2021 consisted of (1) €36.8 billion in cash, which was up significantly from the €13.0 billion as of year-end 2019, reflecting higher liquidity balances Helaba built up by participating in the TLTRO III and through other measures in order to safeguard its liquidity during the coronavirus crisis and generate carry income; (2) €15.7 billion of interbank loans; (3) a €17.9 billion securities portfolio; and (4) €4.8 billion in liquid trading assets (excluding derivatives). Given the close link with the savings bank sector, we regard intragroup exposures to the sector as being non-liquid and further take into account Helaba's encumbered liquid assets in our evaluation.

Conversely, additional liquidity could be generated at short notice through the issuance of retained covered bonds that can serve as collateral for additional central bank funding. As of 30 September 2021, Helaba reported an outstanding nominal volume of €8.3 billion and €28.7 billion for its mortgage and public sector covered bond programmes, respectively, against cover pool volumes of €17.6 billion and €32.5 billion. The resulting overcollateralisation of 111.2% and 13.2% give Helaba ample leeway to generate fresh liquidity through covered bond issuance.

Exhibit 9
Helaba's substantial amounts of liquid resources
Composition of liquid assets



*Liquid banking assets ratio = liquid assets/tangible banking assets.
Source: Company reports, Moody's Investors Service

ESG considerations

Helaba's ESG Credit Impact Score is Neutral-to-Low (CIS-2)

Exhibit 10
ESG Credit Impact Score

CIS-2
Neutral-to-Low

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

Helaba's ESG Credit Impact Score is neutral-to-low (**CIS-2**), reflecting the mitigating rating impact of affiliate support from S-Finanzgruppe over Helaba's ESG risk profile. Environmental and social risk factors have a limited impact on the bank's credit profile to date. The bank's corporate governance risks mainly stem from the bank's weak financial strategy, resulting in subdued operational efficiency.

Exhibit 11
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-4	G-3
Moderately Negative	Highly Negative	Moderately Negative

Source: Moody's Investors Service

Environmental
Helaba faces moderate exposure to environmental risks primarily because of its portfolio exposure to carbon transition risk as a large, mostly regional banking group. In line with its peers, Helaba is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, Helaba is actively engaging in optimising its loan portfolio towards less carbon-intensive assets.

Social
Helaba faces high industrywide customer relations risks related to regulatory risk, litigation exposure and high compliance standards in its diversified operations. High cyber and personal data risks are mitigated by technology solutions and organisational measures to prevent data breaches.

Governance
Helaba's governance risks are moderate, reflecting higher risk appetite and concentration risks inherent in its business model as a universal bank. Its strategy, risk management function and organisational structure are in line with industry practices. Management's ability to address the bank's subdued profitability remains a concern because it provides only a limited buffer against adverse developments and limits the bank's capital generation capacity and, hence, growth prospects. Finally, as a public-sector bank, Helaba is partly owned by the federal states of Hesse and Thuringia, which is reflected in the composition of its board of directors, which also includes representatives from S-Finanzgruppe. Germany's developed institutional framework mitigates associated governance risks.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Affiliate support
Helaba benefits from cross-sector support from S-Finanzgruppe. Cross-sector support reduces the probability of default because the support would be available to stabilise a distressed member bank and not just to compensate for losses in resolution. The high support assumption assigned to Helaba, and also to most other Landesbanks, reflects their cross-liability scheme membership, but only partial ownership by S-Finanzgruppe members. Cross-sector support for Helaba provides a one-notch rating uplift from the baa2 BCA, leading to a baa1 Adjusted BCA.

Loss Given Failure (LGF) analysis
Helaba is subject to the EU Bank Recovery and Resolution Directive (BRRD), which we consider to be an Operational Resolution Regime. We therefore apply our Advanced LGF analysis, where we consider the risks faced by the different debt and deposit classes across the liability structure should the bank enter resolution.

In our Advanced LGF analysis, we consider the results of both the formal legal position (pari passu, or 'de jure' scenario), to which we assign a 75% probability, and an alternative liability ranking, reflecting resolution authority discretion to prefer deposits over senior unsecured debt (full depositor preference, or 'de facto' scenario), to which we assign a 25% probability.

We further assume residual TCE of 3% and losses post-failure of 8% of tangible banking assets. In addition, we assume a 26% share of deposits being "junior" wholesale deposits, for which we factor in a 25% run-off before failure, while we assume a 5% run-off in preferred deposits. These ratios are in line with our standard assumptions. The results of our Advanced LGF analysis are:

» For deposits and senior unsecured debt, as well as CRR liabilities, our LGF analysis indicates an extremely low loss given failure, leading us to position their Provisional Rating Assessments at a1, three notches above the baa1 Adjusted BCA.

» For junior senior unsecured debt, our LGF analysis indicates a very low loss given failure, leading us to position its Provisional Rating Assessment at a2, two notches above the baa1 Adjusted BCA.

» For subordinated debt, our LGF analysis indicates a high loss given failure, leading us to position its Provisional Rating Assessment at baa2, one notch below the baa1 Adjusted BCA.

» For Helaba's silent participations (non-cumulative preferred securities), issued by Main Capital Funding Limited Partnership and Main Capital Funding II Limited Partnership, our LGF analysis indicates a moderate loss given failure resulting in no rating uplift, since these instruments rank senior to subordinated debt, but junior to junior senior unsecured debt following the end of their grandfathering as regulatory capital effective 1 January 2022. The Ba1(hyb) ratings of these instruments, three notches below the Helaba's Adjusted BCA, also incorporate additional negative notching, reflecting the instruments' non-cumulative coupon skip mechanisms tied to the breach of a net loss trigger or regulatory interventions, as well as the instruments' principal write-down feature[7].

Government support considerations

Following the introduction of the BRRD, we have lowered our expectations about the degree of support the government might provide to a bank in Germany in the event of need. Because of its size on a consolidated basis, we consider S-Finanzgruppe to be systemically important. We, therefore, attribute a moderate probability of German government support for all members of the sector, in line with support assumptions for other systemically relevant banking groups in Europe. Hence, we still include one notch of government support uplift in our CRRs, senior unsecured debt and deposit ratings for S-Finanzgruppe member banks that are incorporated in Germany, including Helaba. For junior senior debt and subordinated debt instruments, we continue to believe that the likelihood of government support is low and these ratings do not include any related uplift.

Counterparty Risk Ratings (CRRs)

Helaba's CRRs are Aa3/P-1

The CRRs, before government support, are three notches above the bank's baa1 Adjusted BCA, reflecting the extremely low loss given failure from the high volume of instruments that are subordinated to CRR liabilities. Helaba's CRRs also benefit from one notch of rating uplift based on government support, in line with our moderate support assumptions on deposits and senior unsecured debt.

Counterparty Risk (CR) Assessment

Helaba's CR Assessment is Aa3(cr)/P-1(cr)

Helaba's CR Assessment, before government support, is three notches above the baa1 Adjusted BCA, based on the buffer against default provided to the senior obligations represented by the CR Assessment by more subordinated instruments, including junior deposits and (junior) senior unsecured debt. The CR Assessment also benefits from one notch of rating uplift from government support, in line with our moderate support assumptions on deposits and senior unsecured debt.

Because the CR Assessment captures the probability of default on certain senior operational obligations, rather than expected loss, we focus purely on subordination and take no account of the volume of the instrument class.

Methodology and scorecard

Methodology

The principal methodology we used in rating Helaba was Banks Methodology published in July 2021.

About Moody's Bank Scorecard

Our Bank Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 12
Landesbank Hessen-Thueringen GZ

Macro Factors		
Weighted Macro Profile	**Strong +**	**100%**

Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	0.9%	aa2	↔	baa1	Sector concentration	Market risk
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	13.4%	a2	↔	a3	Nominal leverage	Risk-weighted capitalisation
Profitability						
Net Income / Tangible Assets	0.2%	b1	↔	b2	Return on assets	Expected trend
Combined Solvency Score		a3		baa2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	54.5%	b3	↔	ba2	Extent of market funding reliance	Market funding quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	36.5%	a1	↔	a3	Expected trend	Asset encumbrance
Combined Liquidity Score		ba1		baa3		
Financial Profile				baa2		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Aaa		
BCA Scorecard-indicated Outcome - Range				baa1 - baa3		
Assigned BCA				baa2		
Affiliate Support notching				1		
Adjusted BCA				baa1		

Balance Sheet is not applicable.

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	-	-	-	-	-	-	-	3	0	a1
Counterparty Risk Assessment	-	-	-	-	-	-	-	3	0	a1 (cr)
Deposits	-	-	-	-	-	-	-	3	0	a1
Senior unsecured bank debt	-	-	-	-	-	-	-	3	0	a1
Junior senior unsecured bank debt	-	-	-	-	-	-	-	2	0	a2
Dated subordinated bank debt	-	-	-	-	-	-	-	-1	0	baa2

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a1	1	Aa3	Aa3
Counterparty Risk Assessment	3	0	a1 (cr)	1	Aa3(cr)	
Deposits	3	0	a1	1	Aa3	Aa3
Senior unsecured bank debt	3	0	a1	1	Aa3	
Junior senior unsecured bank debt	2	0	a2	0	A2	
Dated subordinated bank debt	-1	0	baa2	0	Baa2	

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 13

Category	Moody's Rating
LANDESBANK HESSEN-THUERINGEN GZ	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Bank Deposits	Aa3/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Issuer Rating -Dom Curr	Aa3
Senior Unsecured -Dom Curr	Aa3
Junior Senior Unsecured -Dom Curr	A2
Junior Senior Unsecured MTN -Dom Curr	(P)A2
Subordinate -Dom Curr	Baa2
Commercial Paper -Dom Curr	P-1
MAIN CAPITAL FUNDING II LIMITED PARTNERSHIP	
Pref. Stock Non-cumulative	Ba1 (hyb)
MAIN CAPITAL FUNDING LIMITED PARTNERSHIP	
Pref. Stock Non-cumulative	Ba1 (hyb)

Source: Moody's Investors Service

Endnotes

1 The ratings shown are S-Finanzgruppe's corporate family rating and outlook, as well as its BCA.

2 Press release: https://www.helaba.com/int/information-for/media-and-public/news/releases/2019/dexia-and-helaba-complete-the-sale-of-dexia-kommunalbank-deutschland.php

3 Press release: https://www.helaba.com/int/information-for/media-and-public/news/releases/2019/helaba-successfully-concludes-acquisition-of-dvb-bank-ses-land-transport-finance-portfolio.php

4 The ratings shown are LBBW's deposit and senior unsecured debt ratings and respective outlook, as well as its BCA.

5 Press release: https://www.helaba.com/int/press/news/releases/2021/helaba-and-lbbw-agree-to-bundle-capabilities.php

6 The difference between our 13.4% TCE ratio and the bank's 14.0% CET1 ratio mainly stems from our inclusion of the remeasurement of Helaba's net defined benefit pension plan liability in TCE, which stood at a negative €616 million as of 30 June 2021.

7 For more information, please refer to our press release published on 5 January 2022.

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Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454