MOODY'S
INVESTORS SERVICE

CREDIT OPINION
8 December 2022

Update

Send Your Feedback

Landesbank Hessen-Thueringen GZ

Update following affirmation of ratings

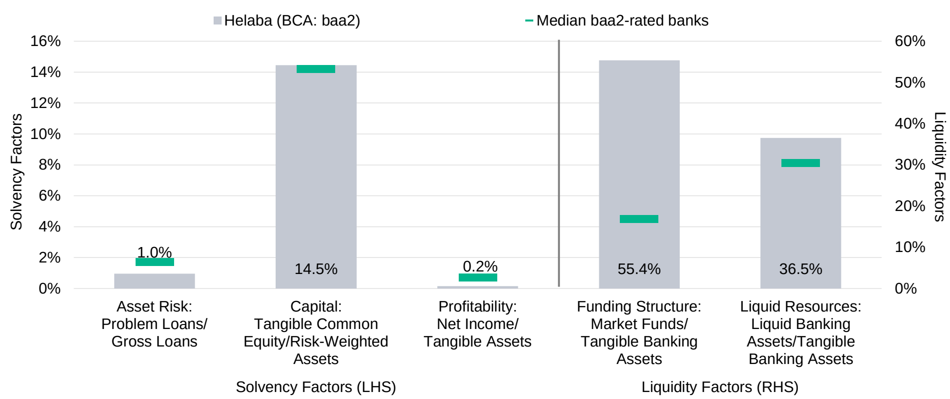
Summary

On 29 November 2022, we affirmed the ratings of Landesbank Hessen-Thueringen GZ (Helaba), including its Aa3 (stable) deposit and senior unsecured debt ratings, its A2 junior senior unsecured debt rating, and its Baa2 subordinate debt rating. Concurrently, we affirmed Helaba's baa2 Baseline Credit Assessment (BCA) and its baa1 Adjusted BCA.

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 results in three notches of rating uplift, and a one-notch rating uplift resulting from government support, given its membership in the systemically relevant S-Finanzgruppe.

The baa2 BCA takes into account that the bank's creditworthiness has remained resilient during the pandemic as reflected in broadly unchanged key financial ratios over the past couple of years, but it also considers the risks from the deteriorated operating environment, which could result in a material uptick in problem loans and weakened capitalisation and profitability despite the tailwinds from higher interest rates. Helaba's solid capitalisation is an important mitigant for sector concentrations in commercial real estate (CRE) as well as for other corporate exposures towards the manufacturing, energy, and transportation industries.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Investors Service and company filings

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.

Contacts

Goetz Thurm, CFA +49.69.70730.773
VP-Senior Analyst
goetz.thurm@moodys.com

Alexander Hendricks, CFA +49.69.70730.779
Associate Managing Director
alexander.hendricks@moodys.com

Carola Schuler +49.69.70730.766
MD-Banking
carola.schuler@moodys.com

» Contacts continued on last page

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 as well other corporate exposures towards the manufacturing, energy, and transportation industries, which are particularly exposed to higher energy prices

» 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 and development bank funding

Outlook

The stable outlook reflects our view that Helaba’s BCA and Adjusted BCA remain resilient despite a more challenging environment from economic headwinds. We also consider that Helaba will maintain sufficient volumes of bail-in-able liabilities safeguarding the currently assigned rating uplift resulting from our Advanced LGF analysis.

Factors that could lead to an upgrade

» An upgrade of Helaba's ratings could result from an upgrade of its baa2 BCA and baa1 Adjusted BCA.

» Upward pressure on Helaba's BCA could arise from the combination of a significant reduction of the bank's concentration risks, specifically with regard to CRE exposures, a meaningful and sustained improvement in capitalisation, higher profitability, and a reduction in Helaba's dependence on market funding. An upgrade of the BCA would likely result in an upgrade of the Adjusted BCA as long as our current support assumption from and the assessed creditworthiness of S-Finanzgruppe remain unchanged.

» Helaba's junior senior unsecured and subordinate debt ratings could potentially also be upgraded if the bank were to issue substantial additional volumes of Additional Tier 1 or Tier 2 debt, which would reduce the loss given failure for junior senior unsecured and subordinate debt. However, this is highly unlikely. Helaba’s deposit and senior unsecured debt ratings already incorporate the maximum rating uplift resulting from our Advanced LGF analysis.

Factors that could lead to a downgrade

» A downgrade of Helaba's ratings could be triggered by a downgrade of the bank's baa1 Adjusted BCA or as a result of fewer notches of rating uplift from our Advanced LGF analysis.

» Downward pressure on the bank's BCA could arise because of 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. However, a downgrade of Helaba’s BCA may not translate into a downgrade of the bank's ratings as long as our current support assumption from and the assessed creditworthiness of S-Finanzgruppe remain unchanged.

» Helaba’s deposit, senior unsecured, and junior senior unsecured debt ratings could be downgraded if the combined volume of junior senior unsecured and subordinated liabilities declines materially, which would lead to lower rating uplift from our Advanced LGF analysis.

Key indicators

Exhibit 2

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

	06-22[2]	12-21[2]	12-20[2]	12-19[2]	12-18[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	200.9	194.3	194.0	185.2	152.4	8.2[4]
Total Assets (USD Billion)	210.0	220.1	237.3	207.9	174.3	5.5[4]
Tangible Common Equity (EUR Billion)	9.2	8.7	8.2	8.1	8.0	4.3[4]
Tangible Common Equity (USD Billion)	9.7	9.9	10.0	9.1	9.1	1.6[4]
Problem Loans / Gross Loans (%)	1.0	1.0	0.7	0.5	0.6	0.8[5]
Tangible Common Equity / Risk Weighted Assets (%)	14.5	13.6	13.5	13.6	14.7	14.0[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	10.6	12.0	8.4	5.8	7.2	8.8[5]
Net Interest Margin (%)	0.6	0.6	0.6	0.7	0.7	0.7[5]
PPI / Average RWA (%)	1.1	1.0	0.8	1.0	0.7	0.9[6]
Net Income / Tangible Assets (%)	0.2	0.2	0.1	0.2	0.2	0.2[5]
Cost / Income Ratio (%)	70.6	70.2	75.7	73.1	80.6	74.0[5]
Market Funds / Tangible Banking Assets (%)	56.9	55.4	54.5	53.2	52.7	54.5[5]
Liquid Banking Assets / Tangible Banking Assets (%)	37.8	36.5	36.5	33.5	32.2	35.3[5]
Gross Loans / Due to Customers (%)	178.0	178.9	179.3	189.1	202.5	185.6[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 2022, the bank reported total consolidated assets of €213.8 billion and employed about 6,300 staff. As of the same date, the bank's share capital was 8.1% owned by the State of Hesse and 4.05% by the Free State of Thuringia, with the remainder being owned by several savings banks' entities.

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, China and Singapore. In Switzerland (Zurich), Helaba is represented through its subsidiary Frankfurter Bankgesellschaft (Schweiz) AG. Moreover, Helaba contains Wirtschafts- und Infrastrukturbank Hessen (WIBank), a regional development bank, which benefits from a direct statutory refinancing guarantee from the State of Hesse.

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]. Furthermore, 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]. As of July 2022, Helaba had transferred 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. Conversely, LBBW will transfer its physical foreign notes and coins and precious metal business to Helaba by 1 January 2023. In addition, 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 2022, about two-thirds of Helaba's exposures derived from Germany, which has a Strong (+) Macro Profile assigned, while other European countries (Macro Profile of Strong) represented almost a quarter and North America (Very Strong (-)) accounted for 9%. The weighted average of these 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

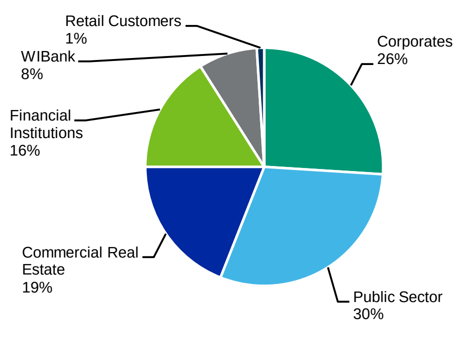
We assign a baa1 Asset Risk score, five notches below the aa2 initial score, taking into account the bank's total exposure to the cyclical CRE sector as well as other exposures towards energy-intensive industries. Furthermore, we consider the bank's exposure to market risk as a driver for the adjustment.

Helaba's CRE exposures remain a key driver for Helaba's asset risk, amounting to €35.7 billion in terms of loans and advances and €37.8 billion in terms of business volume as of 30 June 2022, resulting in considerable concentration risk, especially compared with the group's reported Common Equity Tier 1 (CET1) capital of €8.9 billion. As of the same date, office space exposure dominated the portfolio with a share of 50% of business volume, followed by residential buildings (22%), retail and shopping centres (16%), logistics properties (5%), and other categories (7%). In terms of geography, only 41% of exposures derived from Germany, followed by North America (26%) the UK and France (17% in total), and other European countries (16%). 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 €53.2 billion in terms of business volume as of 30 June 2022, of which corporate loans and lease finance represented 37%, asset backed finance 17%, project finance 17%, structured trade and export finance 10%, acquisition finance 5%, aviation 5%, and land transport 8%. In terms of geography, 55% of business volume was sourced from Germany, 34% from other European countries (including 8% from the UK), 8% from North America, and 3% from other countries. Within the bank's corporate exposures, Helaba had extended €5.4 billion of loans to manufacturing companies, €6.6 billion to electricity, gas, steam and air-conditioning providers, and €5.2 billion to customers in the transportation and storage industries as of year-end 2021. Part of these sectors are particularly exposed to higher energy prices and could therefore lead to rising problem loans in 2023[6].

Exhibit 3

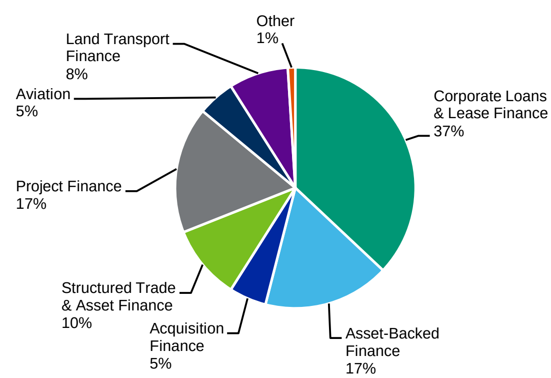
Helaba's exposures exhibit some significant sector concentrations
Business volume by customer group as of 30 June 2022



Source: Moody's Investors Service and company filings

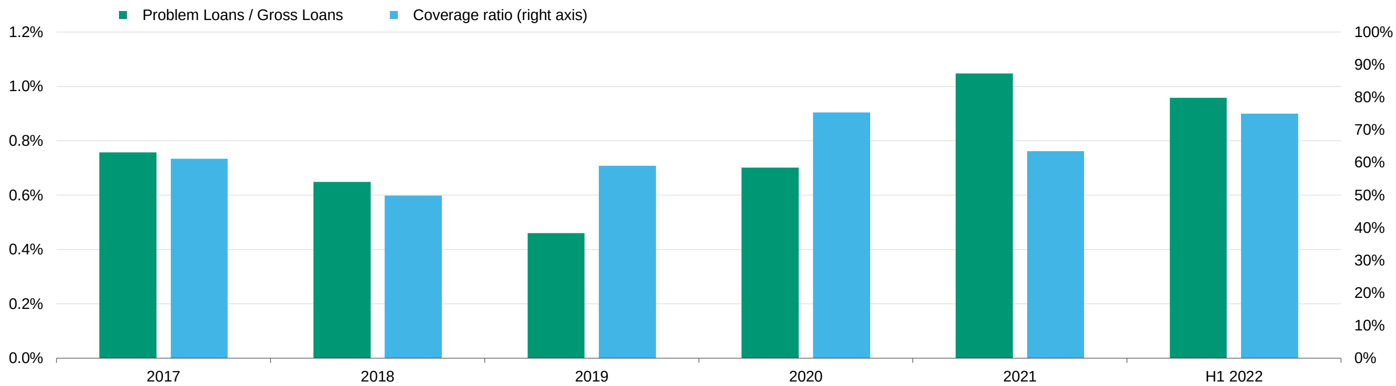
Exhibit 4

Corporate banking book is diversified but contains exposures to higher-risk sectors
Corporate banking and asset finance business volume by product area as of 30 June 2022



Source: Moody's Investors Service and company filings

Exhibit 5
Helaba's problem loan ratio slightly declined in the first half of 2022



Problem loan ratio in accordance with Moody's definition.
Source: Moody's Investors Service and company filings

Helaba reported a problem loan ratio of 0.96% as of 30 June 2022, a deterioration from the 0.46% as of year-end 2019, but slightly lower than at year-end 2021 (1.05%), 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 €71.6 billion by 30 June 2022 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.

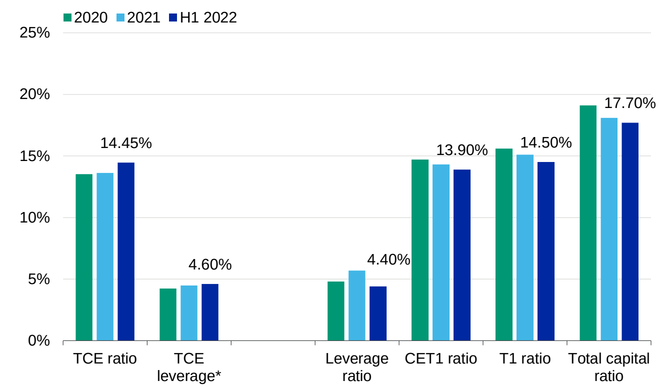
Capitalisation continues to provide a solid loss-absorption buffer

Helaba's assigned Capital score is a3, two notches below the a1 initial score, reflecting our longer-term expectation regarding the potential negative impact of the upcoming regulatory changes related to the implementation of Basel IV as well as negative rating migrations due to the deteriorated credit environment.

In the first half of 2022 (H1 2022), Helaba's leverage exposure increased by 23.0% to €208.5 billion, mainly due to the end of the exclusion of central bank cash holdings in the calculation, which amounted to €38.5 billion as of 30 June 2022. Accordingly, Helaba's regulatory leverage ratio fell to 4.43% from 5.67% in H1 2022. 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, has remained broadly stable at 4.60% during the period. In the future, we expect an improvement in the bank's leverage since Helaba will repay its TLTRO III drawings, which amounted to €24.2 billion as of 30 June 2022, and which is expected to reduce central bank cash holdings in a similar amount. In addition, the acquired public-sector portfolio from Dexia Kommunalbank will be run-down over time. Hence, our TCE leverage ratio is expected to move above our 5% baseline expectation, and we therefore do not negatively adjust for leverage in the positioning of our assigned score.

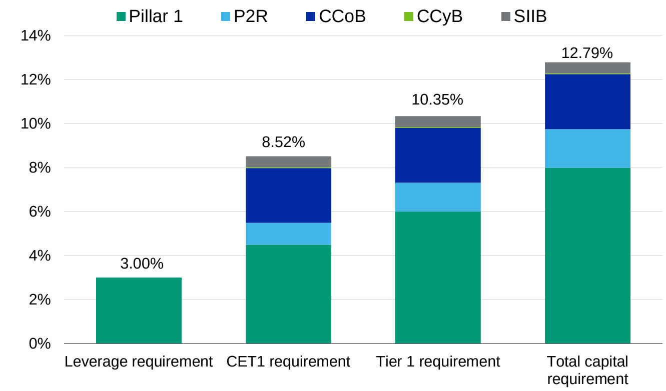
Helaba's CET1 ratio meanwhile reduced to 13.9% from 14.3% in H1 2022, reflecting a decline in CET1 capital of 2.9% during the period due to negative own debt valuation effects, as well as stable risk-weighted assets (RWA). Conversely, our measure of risk-based capital based on TCE to RWA increased noticeably to 14.5% from 13.6% in H1 2022[7], but we expect that the bank's TCE ratio will soften again 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. Furthermore, the deteriorated credit environment will likely result in further negative rating migrations, thereby increasing the bank's risk-density as measured by RWA to tangible assets, which stood at 31.8% as of 30 June 2022.

Exhibit 6
Helaba's solid capitalisation



TCE = Tangible common equity (Moody's calculation), CET1 = Common Equity Tier 1, T1 = Tier 1 capital; TCE leverage compares TCE with tangible banking assets
Sources: Moody's Investors Service and company filings

Exhibit 7
Helaba's capital requirements as of 30 June 2022



Source: Moody's Investors Service and company filings

Nonetheless, Helaba remains adequately capitalised in comparison to its current regulatory minimum capital requirements, which stood at 8.52% on a CET1 basis as of 30 June 2022, 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 well below the 10% level.

Profitability will likely remain subdued despite tailwinds from higher interest rates

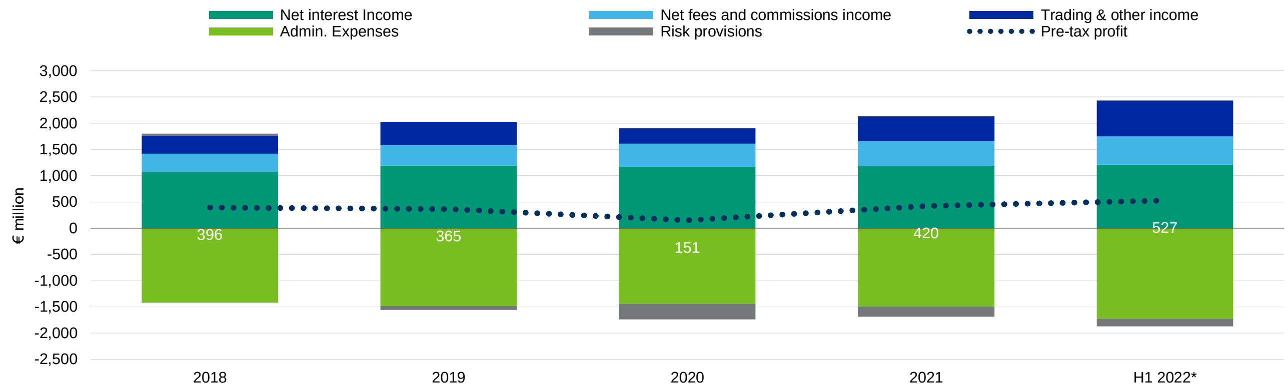
We assign a b1 Profitability score, in line with the initial score, reflecting Helaba's likely earnings run rate in the next 2-3 years, which is expected to result in a return on assets that continues to fall within the 0.125% to 0.250% bracket, which is commensurate with a b1 score.

The fade-out of the low-rate environment of recent years, which has subdued Helaba's profitability, generally presents a chance of higher earnings in the medium-term future as net interest margins expand. However, the Russian military assault on Ukraine generally and the ensuing economic uncertainty pertaining to energy supply in Germany in particular have increased the risk of a recession in Germany and Europe. This has elevated both the risk of deteriorations in loan performance and volatility in financial markets, weighing on Helaba's performance prospects for 2023. Furthermore, the funding cost advantage of TLTRO III will wear off. Therefore, potentially higher loan-loss provisions, a relatively sticky cost base, and volatile capital market results could challenge the bank's efforts to improve its profitability. 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 and is expected to be offset by inflationary pressures in the future. Furthermore, investment needs into digitisation / IT systems remain challenges.

In 2021, Helaba reported a Moody's-adjusted pretax profit of €419 million (2020: €151 million), which incorporated a €7 million year-over-year growth in net interest income to €1,179 million, €50 million higher net fee and commission income of €485 million on the back of an expansion of the bank's asset management activities, and a €186 million fair value and trading result (2020: €5 million), reflecting lower risk premia across all asset classes, as well as increased demand for capital market products. The bank's operating cost base increased to €1,496 million (2020: €1,442 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 €190 million in the period (2020: €296 million) and included €113 million of additional management overlays.

In H1 2022, Helaba achieved a slightly increased Moody's-adjusted pretax profit of €264 million (H1 2021: €229 million), which incorporated net interest income of €606 million (€581 million), net fee and commission income of €269 million (€223 million), and a net profit on trading activities of €129 million (€186 million), while the operating cost base reached €860 million (€769 million).

Exhibit 8
Helaba's earnings recovered from the 2020 dip



*annualised
Source: Moody's Investors Service and company filings

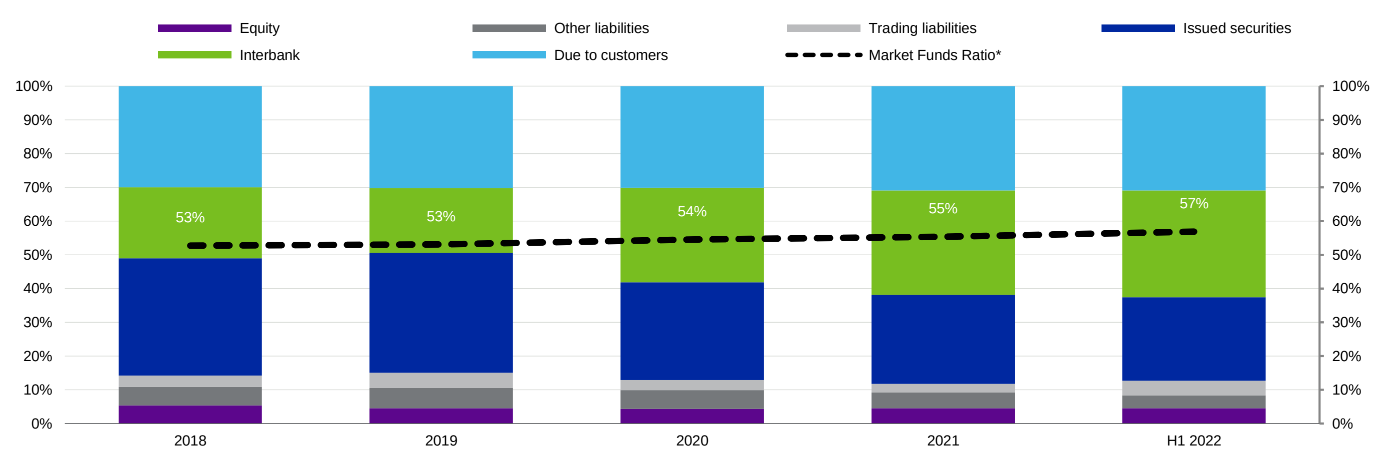
Loan loss provisions were markedly lower at €76 million, down from €131 million in H1 2021, despite a further build-up of management overlays, which reached more than €400 million as of 30 June 2022. For the full-year 2022, Helaba continues to guide for a pretax profit of more than €500 million.

Funding from savings banks mitigates wholesale funding dependence

Our ba1 assigned Funding Structure score stands five notches above the b3 initial score. The positive adjustment reflects that our initial calculation of market funds includes sector and development bank funding, as well as the bank's TLTRO III drawings, which are not confidence-sensitive funding sources. Conversely, we consider promissory notes, registered bonds and structured products sold to customers as market funding.

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, development bank funding[8], and good access to debt capital markets, even in times of stress, are balancing factors. As of 30 June 2022, the bank's refinancing structure consisted of (1) €63.6 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 €24.2 billion participation in the TLTRO III, which will be repaid by 2024 at the latest; (2) €62.2 billion of due to customers; (3) €45.7 billion of securitised liabilities, which included €16.1 billion of covered bonds; 4) €3.6 billion of money

Exhibit 9
Helaba's liability structure and market funds ratio



*Market funds ratio = market funds/tangible banking assets.
Source: Moody's Investors Service and company filings

market instruments; 5) €16.2 billion of trading, derivative, and other liabilities; and 6) €9.5 billion of shareholders' equity and additional tier 1 capital.

In the past, Helaba typically issued €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 accounted 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 €17.5 billion participation in the TLTRO III in June and September 2020. Furthermore, in 2021, only €11.0 billion of medium- and long-term funding was raised, which consisted entirely of unsecured funding, reflecting further €6.7 billion of TLTRO III drawings in March and June 2021. In the future, however, the bank will likely return to its usual issuance levels, given its aim to broadly match-fund its asset base. This became apparent in H1 2022 already, during which Helaba sourced €8.4 billion of medium- and long-term funding, of which €2.3 billion were covered bonds.

Liquidity could be bolstered by covered bond issuance

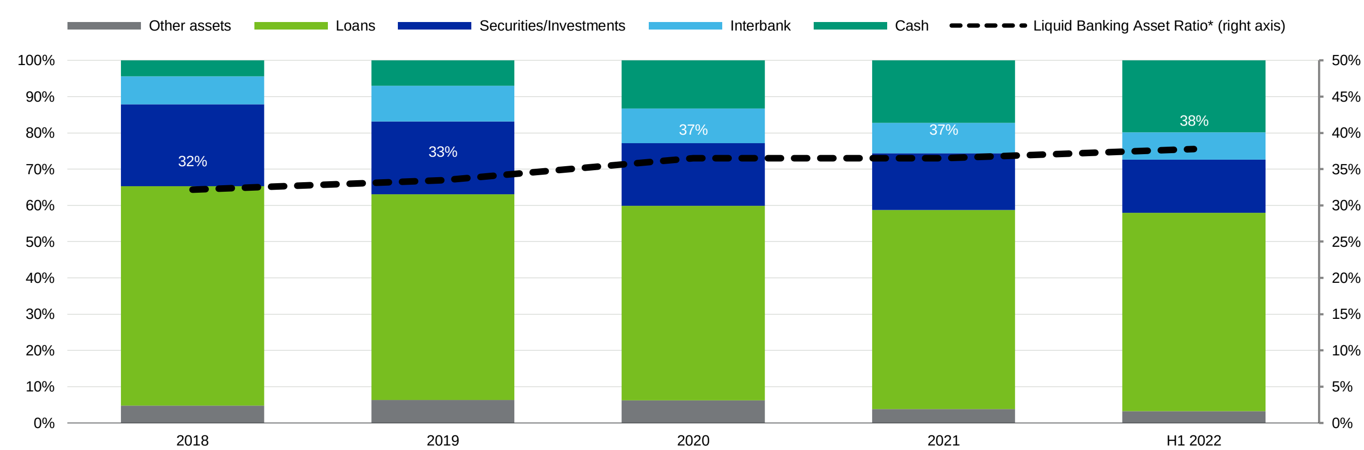
The assigned baa1 Liquid Resources score is positioned three notches below the a1 initial score, which reflects our consideration of asset encumbrance, intragroup restrictions, the quality of liquid assets, and the repayment of TLTRO III funds. Conversely, we also take into account the bank's retained covered bond potential.

The bank's liquid resources as of 30 June 2022 consisted of (1) €39.9 billion in cash, which was up significantly from the €13.0 billion as of year-end 2019, mainly reflecting higher liquidity balances Helaba built up by participating in the TLTRO III to generate carry income; (2) €15.0 billion of interbank loans; (3) a €16.9 billion securities portfolio; and (4) €3.9 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 and illiquid Level 3 assets in our evaluation. In addition, we expect that liquid resources will decline again following the repayment of TLTRO III funds by 2024 at the latest. This will be partly offset by lower asset encumbrance and by Helaba potentially expanding its securities portfolio again, which has declined by €6.8 billion between year-end 2019 and 30 June 2022.

Furthermore, 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 June 2022, Helaba reported an outstanding nominal volume of €8.2 billion and €28.2 billion for its [mortgage](#) and [public sector](#) covered bond programmes, respectively, against cover pool volumes of €16.2 billion and €33.6 billion. The resulting over-collateralisation of 97.8% and 19.2% give Helaba leeway to generate fresh liquidity through covered bond issuance if required.

Exhibit 10

Helaba's asset structure and liquid banking assets ratio

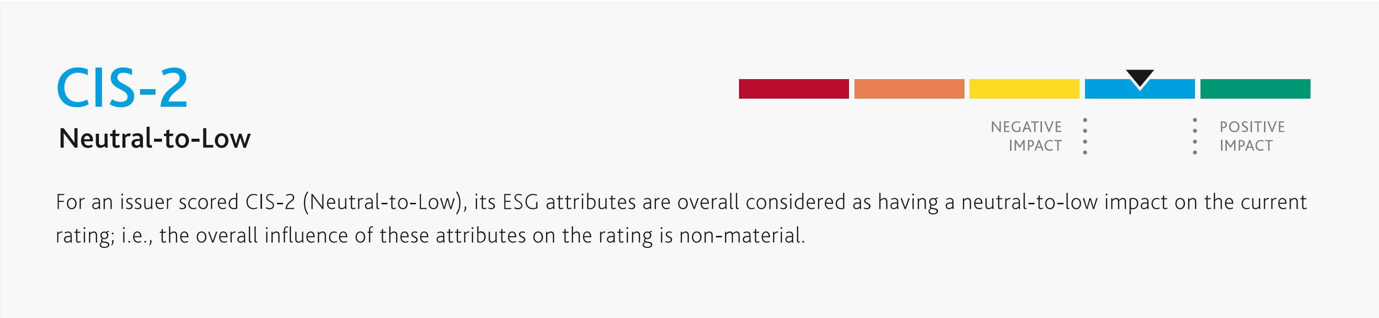


*Liquid banking assets ratio = liquid banking assets/tangible banking assets.
Source: Moody's Investors Service and company filings

ESG considerations

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

Exhibit 11
ESG Credit Impact Score



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 Sparkassen-Finanzgruppe (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 12
ESG Issuer Profile Scores

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.

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 13

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	1.0%	aa2	↓↓	baa1	Sector concentration	Market risk
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	14.5%	a1	↓	a3	Expected trend	Risk-weighted capitalisation
Profitability						
Net Income / Tangible Assets	0.2%	b1	↔	b1	Expected trend	Return on assets
Combined Solvency Score		a2		baa2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	55.4%	b3	↔	ba1	Extent of market funding reliance	Expected trend
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	36.5%	a1	↓	baa1	Asset encumbrance	Additional liquidity resources
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 14

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

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 For more information on Helaba's exposures towards energy-intensive industries, please refer to our peer report on the three largest German Landesbanks: BayernLB, Helaba and LBBW - German Landesbanks can avoid pitfalls as recession looms.

7 The difference between our 14.5% TCE ratio and the bank's 13.9% CET1 ratio mainly stems from our inclusion of the H1 2022 net profit in TCE as well as several other factors.

8 Helaba's development bank funding is sourced via its own development bank WIBank as well as from other German development banks.

REPORT NUMBER 1331564

Contacts

Johannes Riehm +49.69.70730.917
Associate Analyst
johannes.riehm@moodys.com

CLIENT SERVICES

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

MOODY'S
INVESTORS SERVICE