Rating Action: **Moody's upgrades Landesbank Hessen-Thueringen Girozentrale's long-term deposit and senior unsecured ratings; stable outlook**

15 Mar 2024

Frankfurt am Main, March 15, 2024 -- Moody's Ratings (Moody's) has today upgraded Landesbank Hessen-Thueringen Girozentrale's (Helaba) long-term deposit, long-term issuer, and senior unsecured ratings to Aa2 from Aa3 with a stable outlook. Previously, the ratings were on review for upgrade. At the same time, the rating agency upgraded the bank's long-term Counterparty Risk Ratings (CRR) to Aa2 from Aa3, the senior unsecured MTN rating to (P)Aa2 from (P)Aa3, the junior senior unsecured rating to A1 from A2, the junior senior unsecured MTN rating to (P)A1 from (P)A2, the subordinate rating to Baa1 from Baa2, and the subordinate MTN rating to (P)Baa1 from (P)Baa2. Concurrently Moody's affirmed the bank's short-term CRR, short-term deposit, Commercial Paper, and Deposit Note/CD Program ratings at P-1.

In addition, Moody's affirmed Helaba's Baseline Credit Assessment (BCA) at baa2, upgraded its Adjusted BCA to a3 from baa1, upgraded the long-term Counterparty Risk Assessment (CR Assessment) to Aa2(cr) from Aa3(cr), and affirmed the short-term CR Assessment at P-1(cr).

Furthermore, Moody's upgraded the long-term deposit rating of Landesbank Hessen-Thueringen GZ, NY Branch (Helaba NY) to Aa2 from Aa3 with a stable outlook. Previously, the rating was on review for upgrade. In addition, the rating agency upgraded Helaba NY's long-term CRR to Aa2 from Aa3 and the long-term CR Assessment to Aa2(cr) from Aa3(cr), while the short term CRR and Commercial Paper rating were affirmed at P-1 and the short-term CR Assessment was affirmed at P-1(cr).

Finally, Moody's affirmed Helaba's backed senior unsecured, backed junior senior unsecured, and backed subordinate ratings at Aaa. The outlook on the backed senior unsecured rating remains stable.

This rating action concludes the review initiated on 9 February 2024.

RATINGS RATIONALE

-- AFFIRMATION OF THE BCA

The affirmation of Helaba's baa2 BCA considers the materially weakened asset quality in the bank's commercial real estate portfolio as well as Helaba's exposure to the strained German economy. At the same time, the BCA incorporates the bank's improved capitalisation, which provides Helaba with headroom to withstand continued adverse economic developments. Furthermore, Helaba's improved net interest income in the higher interest rate environment enables the bank to absorb increased loan loss provisions.

The BCA also takes into account Helaba's elevated market funding dependence, which remains significant despite the bank's access to funding from the savings bank sector and development banks. Helaba's ample liquid resources continue to provide a strong mitigant against any potential funding challenges, however.

-- UPGRADE OF THE ADJUSTED BCA

The upgrade of Helaba's Adjusted BCA to a3 from baa1 reflects the affirmation of the bank's BCA and the very high probability of cross-sector support from Sparkassen-Finanzgruppe (S-Finanzgruppe; Corporate Family Rating Aa2 stable, BCA a2) in case of need, which results in two notches of rating uplift from affiliate support. Previously, a high support assumption was assumed, which yielded one notch of rating uplift.

Moody's believes that the probability of Helaba receiving such support has risen following the strengthening of the institutional protection scheme (IPS) of S-Finanzgruppe, whose statutes were updated earlier in 2024[1]. The revised statutes result in a more rule-based IPS that implements an early intervention system with clearly identified triggers and timely escalation of decision-making steps as well as increased ex-ante funds over time, which, in the view of the rating agency, increase the likelihood and timeliness of support for Helaba. In its assessment, the rating agency considers the likelihood of support based on the new and improved governance structure of the IPS, the economic rationale to improve sector cohesion through swift and positive support decisions, and the capacity of the sector in different scenarios, including a situation in which a number of larger members require capital support concurrently.

-- UPGRADE OF LONG-TERM RATINGS

The upgrade of Helaba's long-term ratings follows the upgrade of Helaba's Adjusted BCA and incorporates unchanged results from Moody's Advanced Loss Given Failure (LGF) analysis and unchanged assumptions for government support.

Because of Helaba's high share of capital market funding and the resulting meaningful volume of bail-in-able debt instruments, the rating agency's Advanced LGF analysis continues to yield three notches of rating uplift for the CRR, the CR Assessment, deposits, and senior unsecured debt, and two notches of rating uplift for junior senior unsecured liabilities. Because subordinate debts do not benefit from protection beyond equity and face a high loss severity, they are rated one notch below the Adjusted BCA.

The unchanged moderate government support assumption for liabilities ranking above junior senior unsecured debt and the resulting one notch of rating uplift reflects the bank's membership in the systemically important S-Finanzgruppe.

-- AFFIRMATION OF SHORT-TERM RATINGS

Because Helaba's short-term ratings were already at the highest possible level prior to the upgrade of the respective long-term ratings, the short-term ratings were affirmed at P-1.

-- AFFIRMATION OF BACKED RATINGS

The affirmation of Helaba's backed ratings at Aaa continues to reflect Moody's interpretation of the deficiency guarantee that was granted by the bank's owners at the time of issuance and its assessment of the capacity, likelihood, willingness, and timeliness of support by the guarantor(s).

OUTLOOK

The stable outlook on Helaba's long-term deposit, long-term issuer, and senior unsecured ratings reflects the stable outlook of S-Finanzgruppe. The stable outlook further incorporates the rating agency's expectation of a broadly unchanged liability structure of Helaba.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade of Helaba's long-term ratings could be triggered by an improvement in the financial strength of S-Finanzgruppe. Helaba's junior senior unsecured and subordinate ratings could potentially also be upgraded if the ban were to issue substantial additional volumes of capital instruments, such that it reduces the loss severity for these instrument classes.

An upgrade of the BCA could result from a sustainably strengthened financial profile, in particular an improved business diversification, reduced concentration risks in the loan book, and a significant reduction in market funding. However, an upgrade of Helaba's BCA would not result in an upgrade of its Adjusted BCA or its ratings.

Helaba's ratings would be downgraded following a downgrade of the Adjusted BCA, either as a result of a deterioration in the financial strength of S-Finanzgruppe or caused by a significantly weaker BCA of Helaba. Furthermore, a shift in the liability structure towards non-bail-in-able instruments, such that it increases the loss severity for a respective debt class and results in reduced rating uplift from Moody's Advanced LGF analysis, could result in a downgrade.

The BCA could be downgraded in case of a further material weakening of Helaba's asset quality, a concurrent decline in capitalisation and profitability, and a deterioration of the bank's combined liquidity profile.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at https://ratings.moodys.com/rmc-documents/409852. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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REFERENCES/CITATIONS

[1] Statutes of the institutional protection scheme of Sparkassen-Finanzgruppe (Rahmensatzung für das institutsbezogene Sicherungssystem der Sparkassen-Finanzgruppe), Deutscher Sparkassen- und Giroverband 22-Jan-2024

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