

Rating Action: Moody's affirms Landesbank Hessen-Thuringen's Aa3 deposit and A1 senior debt ratings

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Baseline Credit Assessment upgraded to baa2

Frankfurt am Main, September 12, 2017 -- Moody's Investors Service (Moody's) has today affirmed Landesbank Hessen-Thuringen GZ's (Helaba) Aa3 deposit and senior senior unsecured debt ratings, and its A1 senior unsecured debt ratings. The outlook on the ratings is stable. Concurrently, the rating agency upgraded Helaba's baseline credit assessment (BCA) to baa2 from baa3 and affirmed the bank's baa1 adjusted BCA and its Aa3(cr)/P-1(cr) Counterparty Risk Assessment (CR Assessment). Further, Moody's affirmed Helaba's P-1 short-term program, commercial paper and deposit ratings, as well as the bank's Baa2 subordinated debt ratings and the Ba1(hyb) non-cumulative preferred stock ratings of Main Capital Funding Limited Partnership and Main Capital Funding II Limited Partnership.

The BCA upgrade reflects the continued strengthening of the bank's solvency, in particular the improvement of its capitalization and asset quality, but also Moody's assessment of stable profitability despite the pressures from the low interest rate environment. The stable outlook on the long-term ratings reflects Moody's expectation that Helaba will be able to sustain its more solid credit metrics as well as its liability structure which inform Moody's Advanced Loss Given Failure (LGF) analysis going forward.

Helaba's Aaa rated guaranteed senior unsecured and subordinated debt obligations that qualify for 'grandfathering' under the public law guarantee ('Gewährtraegerhaftung') remain unaffected.

A full list of affected ratings and rating inputs can be found at the end of this press release.

RATINGS RATIONALE

-- UPGRADE OF HELABA'S BASELINE CREDIT ASSESSMENT

The upgrade of the BCA to baa2 from baa3 reflects the bank's reduced asset risk in combination with a significant increase in capitalization. Over the past credit cycle Helaba has established a track record of cautious risk management, including its higher risk exposures like commercial real estate (CRE), which however remains a key concentration risk, and has materially improved its capitalisation, due to a combination of earnings retention during the past years and a reduction in the bank's balance sheet and risk-weighted assets.

The bank's problem loan ratio improved to 1.3% as of year-end 2016 (1.8% as of year-end 2015), and risk-related charges declined further to low levels, also reflecting a benign point in the credit cycle in Germany. Despite the bank's sizeable CRE concentration risks (with a CRE lending volume leverage of more than four times its equity) Helaba's CRE portfolio has a sound history of low credit losses compared with its peers and through a full credit cycle. Moreover, the group's corporate finance loan book is well diversified.

Over the past year Helaba has accelerated the strengthening of its capitalization, an important risk mitigant. The bank increased its fully Tangible Common Equity (TCE) ratio to 15.2% as of 30 June 2017, up from 14.2% at year-end 2016 and 13.7% as of 30 June 2016. The improvement reflects the bank's improving credit quality, which resulted in an 5% reduction of risk-weighted assets and an increase of 1.3% in capital due to earnings retention.

Helaba's BCA remains constrained by its wholesale-dependent funding profile and low risk-adjusted (yet stable) profitability. Moody's believes that Helaba continues to face challenges to its profitability because of the bank's high dependence on interest income, which is under pressure from persistent low interest rates, as well as general cost inflation pressure.

-- AFFIRMATION OF RATINGS

The affirmation of Helaba's long-term ratings follows the affirmation of the bank's baa1 adjusted BCA,

incorporating Moody's unchanged assessment of a high probability of Helaba receiving affiliate support from Sparkassen-Finanzgruppe (S-Finanzgruppe, Corporate Family Rating Aa2 stable, BCA a2). However, the rating uplift is reduced to one from two notches, despite unchanged support assumptions as Helaba's higher BCA is converging more towards that of S-Finanzgruppe.

The affirmation also reflects the unchanged results of Moody's Advanced Loss Given Failure (LGF) analysis, which provides three notches of uplift to the bank's deposit and senior senior unsecured debt ratings and two notches of uplift to its senior unsecured debt ratings from its adjusted BCA; and the rating agency's unchanged assumption of "moderate" government support, resulting in one notch of additional rating uplift for Helaba's senior and deposit ratings. In combination, these assumptions result in four notches of uplift to Helaba's deposit and senior senior unsecured debt ratings and three notches of uplift to the bank's senior unsecured debt ratings from its adjusted BCA.

-- RATIONALE FOR THE STABLE OUTLOOK

The outlook on the bank's long-term ratings is stable, reflecting Moody's expectation of only moderate changes to the bank's financial profile and its liability structure over the outlook horizon.

WHAT WOULD MOVE THE RATING UP / DOWN

An upgrade of Helaba's ratings would be likely in the event of an upgrade of the bank's BCA. Helaba's debt ratings could also experience upward rating pressure if the volume of the bank's subordinated instruments increases meaningfully relative to the bank's tangible banking assets, which could result in one additional notch uplift from our LGF analysis. The deposit and senior senior ratings already benefit from the maximal possible rating uplift from the LGF analysis.

Upward pressure on Helaba's baa2 BCA could arise from a sustainably improved Macro Profile, and/or a combination of (1) a significant reduction of the bank's concentration risk, specifically with regard to CRE exposures; (2) a significant and sustained improvement in capitalisation, and (3) a further reduction in Helaba's dependence on debt capital markets as a result of more funds being available from, and cooperation with, a larger number of savings banks.

A downgrade of Helaba's ratings could be triggered following (1) a double-notch downgrade of the bank's BCA; (2) a change in the bank's ownership structure, as well as a deterioration in the implied creditworthiness of S-Finanzgruppe; (3) weakening cross-sector support assumptions; or (4) a reduction in rating uplift as a result of our LGF analysis.

Downward pressure on the bank's BCA could occur because of (1) a deterioration in the bank's financial strength, especially if followed by an unexpected and sustained weakening in its capital adequacy metrics; or (2) a material deterioration in the bank's asset quality, or a decline in liquidity reserves.

The principal methodology used in these ratings was Banks published in January 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

LIST OF AFFECTED RATINGS

Upgrades:

..Issuer: Landesbank Hessen-Thuringen GZ

.... Baseline Credit Assessment, Upgraded to baa2 from baa3

Affirmations:

..Issuer: Landesbank Hessen-Thuringen GZ

.... LT Bank Deposits, Affirmed Aa3 Stable

.... ST Bank Deposits, Affirmed P-1

.... Senior Unsecured Regular Bond/Debenture, Affirmed A1 Stable

.... Senior Senior Unsecured Regular Bond/Debenture, Affirmed Aa3 Stable

... Subordinate Regular Bond/Debenture, Affirmed Baa2
... Senior Unsecured MTN, Affirmed (P)A1
... Senior Senior Unsecured MTN, Affirmed (P)Aa3
... Subordinate MTN, Affirmed (P)Baa2
... ST Deposit Note/CD Program, Affirmed P-1
... Commercial Paper, Affirmed P-1
... Adjusted Baseline Credit Assessment, Affirmed baa1
... Counterparty Risk Assessment, Affirmed Aa3(cr)
... Counterparty Risk Assessment, Affirmed P-1(cr)
..Issuer: Landesbank Hessen-Thuringen GZ, NY Branch
... LT Bank Deposits, Affirmed Aa3 Stable
... Counterparty Risk Assessment, Affirmed Aa3(cr)
... Counterparty Risk Assessment, Affirmed P-1(cr)
... Commercial Paper, Affirmed P-1
..Issuer: Main Capital Funding II Limited Partnership
... Pref. Stock Non-cumulative, Affirmed Ba1 (hyb)
..Issuer: Main Capital Funding Limited Partnership
... Pref. Stock Non-cumulative, Affirmed Ba1 (hyb)

Outlook Actions:

..Issuer: Landesbank Hessen-Thuringen GZ
...Outlook, Remains Stable
..Issuer: Landesbank Hessen-Thuringen GZ, NY Branch
...Outlook, Remains Stable

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