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CREDIT OPINION
8 November 2017

Update

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RATINGS

Landesbank Hessen-Thueringen GZ

Domicile	Frankfurt am Main, Germany
Long Term Debt	A1
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 following BCA upgrade and rating affirmation with stable outlook

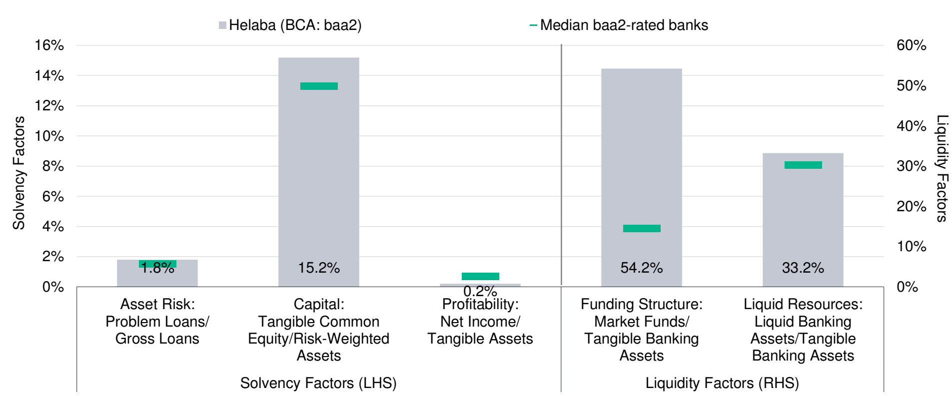
Summary

We assign Aa3/P-1 deposit ratings, A1 senior unsecured debt and issuer ratings to Landesbank Hessen-Thueringen GZ (Helaba). Further, we assign a baa2 Baseline Credit Assessment (BCA), a baa1 Adjusted BCA and a Aa3(cr)/P-1(cr) Counterparty Risk Assessment (CR Assessment). The outlook on the ratings is stable.

The ratings reflect (1) the bank's baa2 BCA; (2) it's baa1 Adjusted BCA, incorporating one notch of rating uplift based on affiliate support from Sparkassen-Finanzgruppe (S-Group; Aa2 stable, a2)[1]; (3) the result of our Advanced Loss Given Failure (LGF) analysis, taking into account the loss severity faced by the different liability classes in resolution, which provides three notches of rating uplift for deposits and two notches for senior debt; and (4) a moderate likelihood of government support, resulting in one notch of rating uplift.

The baa2 BCA reflects Helaba's sound capitalisation and leverage ratios, its moderate asset risk profile, and its comfortable liquid resources. Further, the BCA reflects the bank's substantial exposure to international commercial real-estate (CRE) markets, its modest though stable profitability, and a funding structure that relies on significant market funding access.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Banking Financial Metrics

Credit strengths

» Sound risk management with established track record

» Solid and improved capitalisation, which has improved the bank's ability to withstand a certain degree of adverse environment

» Good access to sector funds, which supports the bank's liquidity profile

Credit challenges

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

» Level of risk-weighted profitability is stable, but low- providing a limited cushion in case of adverse development

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

Outlook

» The outlook on the bank's long-term ratings is stable, reflecting our view of a broadly stable liability structure over the 12-18 month outlook horizon as well as an only moderately changing financial profile and unchanged sector relationships, leading to unchanged high affiliate support by S-Group.

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. 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.

Factors that could lead to a downgrade

» 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.

Key indicators

Exhibit 2

LANDESBANK HESSEN-THUERINGEN GZ (Consolidated Financials) [1]

	6-17[2]	12-16[2]	12-15[2]	12-14[2]	12-13[3]	CAGR/Avg.[4]
Total Assets (EUR billion)	158	157	163	170	170	-2.1[5]
Total Assets (USD billion)	181	165	178	205	235	-7.2[5]
Tangible Common Equity (EUR billion)	7.6	7.5	7.3	7.0	7.0	2.5[5]
Tangible Common Equity (USD billion)	8.7	7.9	8.0	8.4	9.6	-2.9[5]
Problem Loans / Gross Loans (%)	1.6	1.3	1.8	2.2	3.2	2.0[6]
Tangible Common Equity / Risk Weighted Assets (%)	15.2	14.2	13.4	12.9	12.9	13.9[7]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	18.3	14.2	20.4	25.6	36.1	22.9[6]
Net Interest Margin (%)	0.7	0.8	0.8	0.8	0.7	0.7[6]
PPI / Average RWA (%)	1.0	1.5	1.7	1.4	1.5	1.4[7]
Net Income / Tangible Assets (%)	0.2	0.2	0.3	0.2	0.2	0.2[6]
Cost / Income Ratio (%)	76.1	64.8	60.1	65.4	63.0	65.9[6]
Market Funds / Tangible Banking Assets (%)	52.6	54.2	55.3	58.5	61.2	56.4[6]
Liquid Banking Assets / Tangible Banking Assets (%)	34.9	33.2	36.5	39.1	41.5	37.0[6]
Gross Loans / Due to Customers (%)	185.3	198.8	195.3	201.0	207.3	197.5[6]

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel III - fully-loaded or transitional phase-in; IFRS [3] Basel II; IFRS [4] May include rounding differences due to scale of reported amounts [5] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime [6] Simple average of periods presented for the latest accounting regime. [7] Simple average of Basel III periods presented

Source: Moody's Financial Metrics

Profile

Landesbank Hessen-Thueringen GZ (Helaba) is a German universal bank with a regional focus on its core centres in the German federal states of Hesse, Thuringia, North Rhine-Westphalia and Brandenburg. The bank operates as a central bank for 159 savings banks in the aforementioned four federal states.

Helaba provides a range of wholesale and retail banking services to corporate and private clients, institutional customers, 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; through branch offices in Germany, France, the UK and the US; and representative offices in Spain, Sweden, Russia, China and Singapore. In Switzerland (Zurich), Helaba is represented through its subsidiary Frankfurter Bankgesellschaft (Schweiz) AG[2].

Detailed credit considerations

Sound risk management partially mitigates high exposure to cyclical CRE risks

The bank reported an improved problem loan ratio of 1.3% as of year-end 2016 (1.8% as of year-end 2015), and risk-related charges declined further to very low levels, reflecting a benign point in the credit cycle. Helaba's total loan exposure to the CRE sector amounted to €33.0 billion as of year-end 2016 (€32.6 billion as of half-year 2017), resulting in considerable concentration risk, especially when compared with the group's reported Common Equity Tier 1 (CET1) capital of €7.5 billion as of 2016. We take into consideration the related risks, as well as the bank's exposure to market risk, by adjusting our Asset Risk score down to baa1.

Despite this adjustment for the bank's sizeable concentration risks, Helaba's CRE portfolio has a sound history of low credit losses compared with its peers. These low credit losses are because of Helaba's focus on (1) prime locations; and (2) properties with a high level of pre-arranged rental agreements, combined with limited ticket sizes, which provide risk diversification. ,The group's corporate finance loan book is well diversified and includes (1) equal-sized lending activities with multinational corporates, (2) asset-based lending focused on aircraft and (to a limited degree) ship finance, and (3) structured and project finance, and leasing.

Helaba is predominantly active in Germany. The very high economic, institutional and governmental financial strengths, as well as the very low susceptibility to event risk, support the bank's BCA. However, operating conditions for the German banking system are constrained by high fragmentation in an over-saturated market, low fee income generation and intensifying competition for domestic business. Helaba's Strong+ Macro Profile also captures exposures to international corporate and CRE lending activities in countries with weaker Macro Profiles than Germany. An improvement of the bank's Macro Profile may positively affect its financial profile, all other things being equal.

Capitalisation is on an upward trend, providing a solid loss-absorption buffer

The bank benefits from sound capitalisation, as reflected in our a2 assigned Capital score and further displayed by its fully loaded Basel III CET1 and total capital ratios of 14.9% and 21.6%, respectively, as of half-year 2017 (year-end 2016: 13.8% and 20.5%, respectively). Drivers of the upward trend, that is providing an increasing cushion to investors, are both profit retention and measures to contain risk weighted assets, as reflected in a significant reduction of trading activities in recent years.

The bank's CET1 ratio is significantly above the required CET1 ratio of 7.43%, which the regulator determined following the Supervisory Review and Evaluation Process. We additionally take into consideration the bank's balance sheet leverage ratio (4.7% as of half-year 2017, stable vs year-end 2016), as well as our expectations regarding upcoming challenges for capitalisation from upcoming regulatory changes.

Level of risk-weighted profitability is low, yet stable

We expect Helaba to continue to show fairly stable operating performance and profitability levels because of positive effects from the integration of the Verbundbank (central bank business of former WestLB for savings banks in North-Rhine Westphalia and Brandenburg), despite exposure to market volatility. However, regulation-related expenses will continue to burden Helaba's operating costs, while the low-yield environment strains the bank's interest income. Helaba's performance metrics will continue to remain modest (as a result of the group's statutory obligation to perform promotional banking activities, which are run on a cost-coverage basis rather than on return targets) but will provide a stable revenue source. A one notch upward adjustment to ba3 has been assigned to the bank's Profitability score based on Helaba's resilient, stable and relatively high-quality earnings over the past several years.

For half-year 2017, Helaba reported a pre-tax profit of €238 million (IFRS), down 14.7% from the same period a year earlier. Driven by the low interest rate environment, net interest income significantly declined 11.3% to €542 million. However, the benign risk situation, with loan-loss provisions of €2 million (€75 million in the same period in 2016), provided a stabilizing factor, along with higher fee and commission income (slightly up at €180 million). More volatile profit contributors such as fair value changes on financial instruments and derivatives (-€102 million compared with a positive contribution of €116 million for half-year 2016) further strained the results, while customer driven trading income was higher (€168 million compared with a €13 million loss for half-year 2016).

Strong liquidity and funding from savings banks mitigate wholesale funding dependence

Helaba partially depends on confidence-sensitive wholesale funding for a part of its lending business and is presently a net lender in the interbank market. Balancing factors are the bank's proven and recurring access to the considerable excess liquidity of the regional savings banks and good access to debt capital markets, even in times of stress.

Notably, funding requirements are likely to remain stable over the foreseeable future, given the bank's broadly matched funding profile for its medium- and long-term lending business. The bank typically issues around €12 billion-€15 billion in medium- and long-term debt instruments per year (2016: €17.2 billion), placed with a broad and diversified investor base. Covered bonds will account for €6 billion of the planned issuance in 2017, with senior unsecured bons accounting for €9 billion. A growing portion of Helaba's unsecured wholesale debt issued has been placed with savings banks and their retail clients. To capture these benefits, we have positively adjusted our Funding Structure score to ba2.

The bank's liquid resources consist of €18.3 billion in cash as of year-end 2016, a €25.5 billion securities portfolio and €8.2 billion in liquid trading assets. Our considerations regarding asset encumbrance, intragroup restrictions and the quality of liquid assets are reflected in our assigned Liquid Resources score of a3.

Support and structural considerations

Affiliate support

Helaba benefits from cross-sector support from S-Group, which reduces the probability of default. As such, support would be available to stabilise a distressed member bank and not just to compensate for losses in resolution. The unchanged high support assumption assigned to Helaba reflects its prominent service function for the sector, its majority ownership by S-Group members and the bank's cross-liability scheme. As a result, cross-sector support provides one-notch of rating uplift to Helaba's debt, senior-senior, deposit and subordinated instrument ratings.

Loss Given Failure analysis

Helaba is subject to the German Bank Recovery and Resolution Directive, which we consider an operational resolution regime. We, therefore, apply our Advanced LGF analysis, considering the risks faced by the different debt and deposit classes across the liability structure at failure. We revised this analysis to reflect changes in protection resulting from the subordination of certain senior unsecured debt obligations relative to other senior liabilities, including deposits. In line with the new German insolvency legislation that will effectively subordinate senior unsecured bonds and notes to deposits and senior senior debt in resolution from January 2017, we base our calculation on the assumption that deposits and senior-senior unsecured bonds are preferred to senior unsecured bonds. We continue to assume residual tangible common equity of 3% and losses post-failure of 8% of tangible banking assets, a 25% run-off in junior wholesale deposits, a 5% run-off in preferred deposits and, following the legislative changes, a 100% probability of certain deposits being preferred to senior unsecured debt, according to our EU Full Deposit Preference waterfall.

For Helaba, our LGF analysis indicates an extremely low loss-given-failure for deposits and a very low loss-given-failure for senior unsecured debt, leading us to position their ratings three and two notches above the Adjusted BCA respectively. For senior-senior unsecured debt, our LGF analysis indicates an extremely low loss-given-failure, leading us to position its rating three notches above the Adjusted BCA.

Our LGF analysis indicates a high loss-given-failure for subordinated debt classes, leading us to position the instrument's ratings one notch below the bank's baa1 adjusted BCA. Subordinated debt instruments do not benefit from any government support.

Helaba's silent participations (non-cumulative preferred securities) issued by Main Capital Funding Limited Partnership and Main Capital Funding II Limited Partnership are rated Ba1(hyb), three notches below the bank's Adjusted BCA, reflective of the instruments' net loss triggers.

Government support considerations

Given its size on a consolidated basis, we consider S-Group to be domestically systemically relevant. We, therefore, attribute a Moderate likelihood of German government support for all members of the sector, in line with support assumptions for other systemically relevant banking groups in Europe. For Helaba, this results in one notch of additional government support uplift for its senior debt and deposit ratings.

Counterparty Risk Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (e.g., swaps), letters of credit, guarantees and liquidity facilities.

Helaba's CR Assessment is positioned at Aa3(cr)/Prime-1 (cr)

For Helaba, our LGF analysis indicates an extremely low loss-given-failure for the CR Assessment, leading us to position its PRA three notches above the adjusted BCA.

About Moody's Bank Scorecard

Our 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 3

LANDESBANK HESSEN-THUERINGEN GZ

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

Factor	**Historic Ratio**	**Macro Adjusted Score**	**Credit Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	1.8%	a1	↓	baa1	Sector concentration	Market risk
Capital						
TCE / RWA	15.2%	aa3	←→	a2	Nominal leverage	Expected trend
Profitability						
Net Income / Tangible Assets	0.2%	b1	←→	ba3	Earnings quality	Expected trend
Combined Solvency Score		a3		baa1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	54.2%	b3	←→	ba2	Market funding quality	Expected trend
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	33.2%	a2	←→	a3	Quality of liquid assets	Asset encumbrance
Combined Liquidity Score		ba2		baa3		
Financial Profile				baa2		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint:				Aaa		
Scorecard Calculated BCA 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 Assessment	--	--	--	--	--	--	--	3	0	a1 (cr)
Senior senior unsecured bank debt	--	--	--	--	--	--	--	3	0	a1
Deposits	--	--	--	--	--	--	--	3	0	a1
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 Assessment	3	0	a1 (cr)	1	Aa3 (cr)	--
Senior senior unsecured bank debt	3	0	a1	1	Aa3	--
Deposits	3	0	a1	1	Aa3	Aa3
Senior unsecured bank debt	2	0	a2	1	A1	--
Dated subordinated bank debt	-1	0	baa2	0	Baa2	--

Source: Moody's Financial Metrics

Ratings

Exhibit 4

Category	Moody's Rating
LANDESBANK HESSEN-THUERINGEN GZ	
Outlook	Stable
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	A1
Senior Unsecured -Dom Curr	A1
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 rating shown is S-Group's corporate family rating and outlook, and its BCA.

2 For further details please refer to Helaba's Company profile and the German Banking System Profile

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