

Germany-Based Landesbank Hessen-Thuringen Girozentrale's Senior Nonpreferred Notes Rated 'BBB+'

June 29, 2021

- Landesbank Hessen-Thuringen Girozentrale (Helaba) issued senior nonpreferred notes, which contractually rank below its senior unsecured debt, but above its subordinated debt and junior instruments.
- We understand that, in a resolution, the notes will be subject to conversion or write-down after junior instruments but before more senior obligations, including senior preferred notes.
- We are assigning our 'BBB+' issue rating to the notes.
- The issue rating is one notch lower than our issuer credit rating on Helaba, which in turn mirrors the combined creditworthiness S-Finanzgruppe Hessen-Thuringen, owing to our view that the notes benefit from group support, are subordinated to more senior obligations, and do not carry additional default risk.

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FRANKFURT (S&P Global Ratings) June 29, 2021--S&P Global Ratings today said it assigned its 'BBB+' issue rating to the senior nonpreferred notes that Germany-based Landesbank Hessen-Thuringen Girozentrale (Helaba; A-/Stable/A-2) issued under its €35 billion debt issuance program, according to the current terms and conditions.

The rating is one notch below the 'A-' long-term issuer credit rating (ICR) on Helaba, which in turn reflects the combined creditworthiness of S-Finanzgruppe Hessen-Thuringen (SFHT). This follows our standard notching for investment-grade (higher than 'BB+') entities issuing an instrument contractually or statutorily subordinated to preferred senior unsecured debt.

In most cases, when rating subordinated and hybrid instruments, we notch down from the issuer stand-alone credit profile because we believe this approach better reflects the instruments' risks. However, for Helaba, we use our ICR as the starting point for the notching, because we believe that SFHT's group support will extend to Helaba's subordinated and hybrid issues.

In our view, holders of senior nonpreferred notes face a higher default risk than holders of senior preferred notes and other senior liabilities, because the former would be bailed in before more senior debt in a resolution.

The rating on the notes reflects our view that:

- They will convert into equity or be written off only in a resolution scenario and not before the bank reaches the point of nonviability.
- The resolution authority will have the power to convert or write down the notes only after

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subordinated liabilities and shareholders' equity have absorbed losses in full.

- Unlike regulatory capital instruments, the proposed notes would be excluded from burden-sharing under EU state-aid rules.
- The notes' write-down or conversion in resolution would not cause the default of the bank or more senior instruments.

Therefore, we have not applied further notching from the ICR because we believe that these notes do not carry any additional default risk relative to that represented by our ICR.

We consider extraordinary government support for the German banking sector uncertain following the country's full implementation of the EU Bank Recovery and Resolution Directive, including bail-in powers, in June 2015. We consider the country's bank resolution framework effective, which generally allows us to include uplift for additional loss-absorbing capacity (ALAC) in our ratings on individual systemically important banks.

In our view, the issuance has no impact on the overall group ICR. We typically consider these instruments to represent ALAC, provided the relevant authorities also regard them as eligible for inclusion in minimum requirement for own funds and eligible liabilities. However, our assessment of the ICR does not incorporate ALAC support. We believe that regulators would apply a resolution framework to individual institutions in SFHT and not the whole group. Apart from Helaba, it is unlikely that individual savings banks would be subject to a well-defined bail-in resolution process, given their small size, limited complexity, and low systemic importance in Germany as stand-alone entities. We believe that group support is the strongest external support element for member institutions, including Helaba.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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