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INVESTORS SERVICE

CREDIT OPINION
12 January 2021

Update

Rate this Research

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.

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Landesbank Hessen-Thueringen GZ

Update to credit analysis

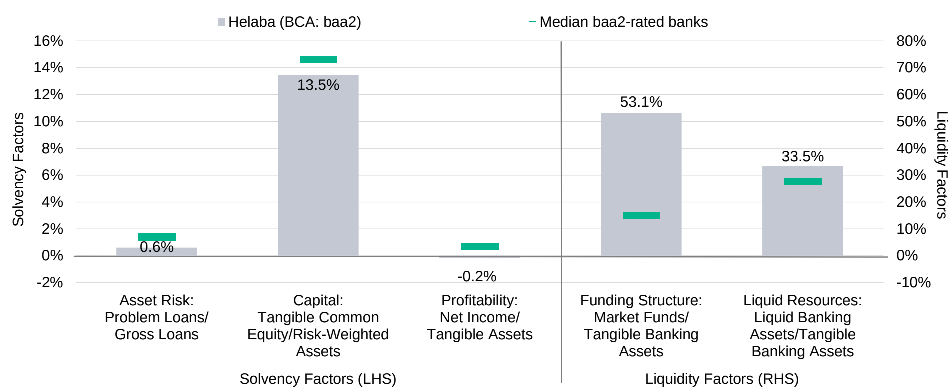
Summary

We assign Aa3(stable)/P-1 deposit ratings, Aa3(stable) senior unsecured and A2 junior senior unsecured ratings to Landesbank Hessen-Thueringen GZ (Helaba). We further assign a baa2 Baseline Credit Assessment (BCA), a baa1 Adjusted BCA, and Aa3/P-1 Counterparty Risk Ratings (CRR).

Helaba's deposit and senior unsecured debt ratings reflect its baa2 BCA, one notch rating uplift from its membership in the institutional protection scheme of Sparkassen-Finanzgruppe (S-Finanzgruppe, Aa2 negative, a2[1]), the application of our Advanced Loss Given Failure (LGF) analysis to its liabilities, which results in an extremely low loss-given-failure, and one notch government support, given its membership in systemically relevant S-Finanzgruppe.

The baa2 BCA reflects Helaba's strong capitalisation and solid asset quality; while the bank's loan book contains sizeable commercial real estate (CRE) concentration risks, Helaba's CRE portfolio has a sound history of low credit losses compared with its peers and through a full credit cycle. More constraining factors are the bank's high leverage, modest profitability, and a funding structure that relies on significant market funding access, which, however, is partially balanced by stable funding from the savings bank sector and comfortable liquid resources.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

» Sound underwriting standards, with an established track record

» Solid 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, which remains a tail risk for asset quality

» 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 funds

Outlook

The stable outlook reflecting our expectation of a broadly unchanged financial profile and liability structure.

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. Because Helaba's senior unsecured and deposit ratings already benefit from the highest possible rating uplift of three notches, there is no upgrade potential from our Advanced LGF analysis.

» Upward pressure on Helaba's BCA could arise from a sustainably improved Macro Profile and the combination of a significant reduction of the bank's concentration risk, specifically with regard to CRE exposures; a meaningful and sustained improvement in capitalisation, higher profitability and a clear further reduction in Helaba's dependence on market funding.

Factors that could lead to a downgrade

» A downgrade of Helaba's ratings could be triggered by a very significant weakening of its intrinsic strength, resulting in a multi-notch downgrade of the bank's BCA; a joint weakening in the financial strength of Helaba and S-Finanzgruppe; a reduction in our cross-sector support assumption; or if the volume of subordinated or other debt instruments that are designed to be loss-absorbing in resolution decreases substantially and beyond our expectations, compared with the bank's tangible banking assets.

» Downward pressure on the bank's BCA could arise because of a deterioration in the bank's financial strength, especially if followed by 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.

Key indicators

Exhibit 2

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

	06-20[2]	12-19[2]	12-18[2]	12-17[2]	12-16[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	201.3	185.2	152.4	146.9	149.9	8.8[4]
Total Assets (USD Billion)	226.1	207.9	174.3	176.3	158.1	10.8[4]
Tangible Common Equity (EUR Billion)	8.5	8.7	8.4	8.2	7.5	3.7[4]
Tangible Common Equity (USD Billion)	9.6	9.8	9.6	9.9	7.9	5.6[4]
Problem Loans / Gross Loans (%)	0.5	0.5	0.6	0.8	1.3	0.7[5]
Tangible Common Equity / Risk Weighted Assets (%)	13.5	14.6	15.5	16.5	14.2	14.8[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	6.1	5.5	6.9	7.6	14.2	8.1[5]
Net Interest Margin (%)	0.6	0.7	0.7	0.7	0.8	0.7[5]
PPI / Average RWA (%)	-0.4	1.0	0.7	1.0	1.5	0.7[6]
Net Income / Tangible Assets (%)	-0.2	0.2	0.2	0.2	0.2	0.1[5]
Cost / Income Ratio (%)	119.0	72.6	80.6	72.6	64.8	81.9[5]
Market Funds / Tangible Banking Assets (%)	53.5	53.1	52.7	51.9	53.1	52.9[5]
Liquid Banking Assets / Tangible Banking Assets (%)	38.0	33.5	32.2	34.0	34.7	34.5[5]
Gross Loans / Due to Customers (%)	169.9	188.4	202.5	189.6	193.4	188.8[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 2020, the bank reported total consolidated assets of €228 billion and employed about 6,200 staff.

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, Russia, China and Singapore. In Switzerland (Zurich), Helaba is represented through its subsidiary Frankfurter Bankgesellschaft (Schweiz) AG.

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].

For further details, please refer to Helaba's Issuer Profile and our German Banking System Profile.

Weighted Macro Profile of Strong (+)

As of 30 June 2020, about two-thirds of Helaba's lending exposures derived from Germany , which has a Strong (+) Macro Profile assigned, while other European countries (Macro Profile of Strong) represented about a quarter of the loan book and North America (Very Strong (-)) accounted for 10%. The weighted average of these lending exposures resulted in a Strong (+) Weighted Macro Profile for Helaba.

Recent developments

The coronavirus pandemic is causing an unprecedented shock to the global economy and the full extent of the economic downswing will be unclear for some time. In Europe, the pandemic adds to late-cycle risks for banks and will weigh on banks' asset quality and profitability. We expect fiscal policy measures, as implemented by a variety of euro-area governments, to mitigate the economic contraction caused by the pandemic. However, in the current pandemic-induced recession and its aftermath, capital levels will be a key differentiator of credit profiles among banks. Generally, banks are facing a sharp deterioration in asset quality and reductions in profitability from already low levels, while central banks are providing extraordinary levels of liquidity, and governments have strong incentives to support banking systems to foster an eventual recovery. Thus, when comparing a bank with its peers, the level of capital with which it entered this recession and its ability to retain capital throughout the next several years take on particular importance.

The European Central Bank (ECB) announced a series of measures to help European Union (EU) economies weather the widening effects of the pandemic, temporarily increasing banks' liquidity provisions, as well as lowering regulatory capital and liquidity requirements. As part of these temporary measures, the ECB increased its targeted long-term refinancing operations (TLTRO III) under more favorable terms, as well as its financial asset purchase programme, while refraining from lowering the ultralow interest rates further. The temporary suspension of buffer requirements for regulatory capital and the liquidity coverage ratio (LCR) gives banks greater flexibility and additional leeway to absorb the economic impacts, such as asset-quality declines. Overall, the package aims to help the banks continue to finance corporates and small and medium-sized enterprises (SMEs) suffering from the effects of the pandemic. We believe that the ECB's measures will provide limited relief for banks and their borrowers, and that it will require significant fiscal policy measures by the EU and its member states to avert higher default rates in banks' lending books.

Germany launched a large stimulus package, and the government's support is crucial for corporate borrowers in industries immediately hurt by the pandemic like airlines, tourism, retail and the shipping sector, as well as smaller companies experiencing weak liquidity and high leverage. The scale of the support package is unprecedented and is far larger than the support provided during the 2008-09 financial crisis. At the same time, the government made it easier to access its furlough scheme and extended it to a broader pool of workers, which will limit the spike in unemployment and the fall in domestic consumption. The measures, which are adapted according to the evolution of the economic effects of the pandemic, add to Germany's already expansionary fiscal policy stance, as well as to automatic stabilizers that support household incomes when unemployment increases.

Detailed credit considerations

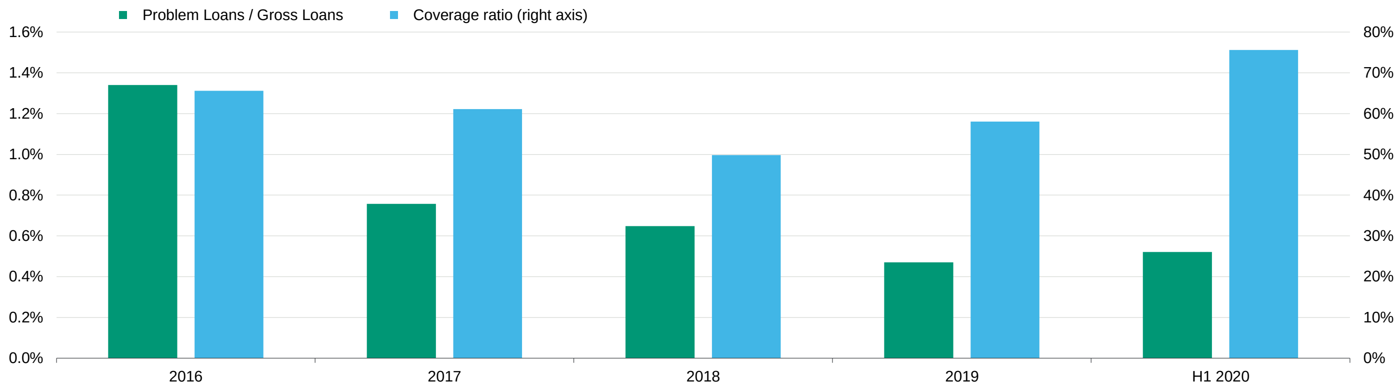
Sound risk management partially mitigates the bank's high exposure to cyclical CRE risks

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

Helaba's commercial real estate (CRE) exposures remain a key driver for Helaba's asset risk, amounting to €34.5 billion in terms of loans and advances and €37.0 billion in terms of business volume as of 30 June 2020, resulting in considerable concentration risk, especially compared with the group's reported Common Equity Tier 1 (CET1) capital of €8.4 billion. Office space exposure dominated the portfolio with a share of 46% of business volume, followed by residential buildings (21%), retail and shopping centres (20%), and other categories (8%). In terms of geography, only 42% of exposures derived from Germany, followed by North America (25%) 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 €50.2 billion in terms of business volume as of 30 June 2020, of which corporate loans and lease finance represented 40%, asset backed finance 18%, project finance 17%, structured trade and export finance 7%, acquisition finance 6%, aviation 6%, and land transport 6%. In terms of geography, 55% of exposures were sourced from Germany, 32% from other European countries (6% from the UK), 10% from North America, and 3% from other countries.

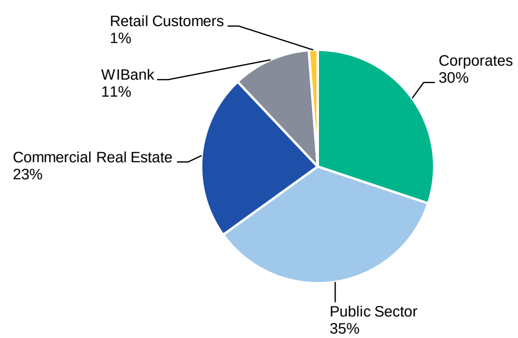
Exhibit 3
Helaba successfully reduced its problem loan ratio in recent years



Problem loan ratio in accordance with Moody's definition.
Sources: Company reports, Moody's Investors Service

Helaba reported a problem loan ratio of 0.52% as of 30 June 2020, a marginal deterioration from the 0.47% as of year-end 2019 (year-end 2018: 0.65%). 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 by year-end 2019 from €33.3 billion a year earlier 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.

Exhibit 4
Helaba's loan book exhibits some significant sector concentrations
Loan book breakdown as of 30 June 2020



Source: Company reports, Moody's Investors Service

Capitalisation continues to provide a solid loss-absorption buffer for the time being

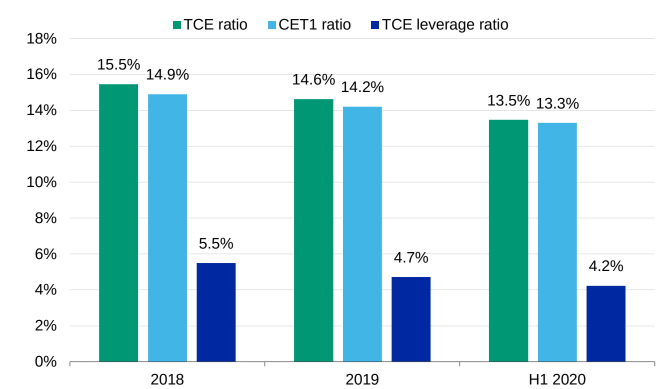
We position our Capital score at a3, one notch below the a2 initial score, driven by leverage and reflecting our longer-term expectation regarding the potential negative impact of the upcoming regulatory changes related to the implementation of Basel IV.

During the first half of 2020, Helaba's leverage exposure increased by 10% to €226 billion from €205 billion mainly because of the bank's participation in the ECB's targeted long-term refinancing operations III (TLTRO III), drawdowns of committed credit lines by corporate customers, and higher replacement values of derivatives. As a result, the bank's regulatory leverage ratio dropped to 4.0% as of 30 June 2020 from 4.5% as of year-end 2019, while our leverage measure based on Tangible Common Equity (TCE) to tangible assets reduced to 4.2% from 4.7% during the period. Since TCE leverage remains well below our 5% baseline expectation, we continue to deduct one notch for leverage from the initial Capital score when positioning the assigned score.

With Helaba reporting a net loss in the first half of 2020 and risk-weighted assets (RWA) also swelling by 6% on the back of the bank's balance sheet expansion, the regulatory capital ratios were also strained with the Common Equity Tier 1 (CET1) ratio declining to 13.3% from 14.2% and the total capital ratio reducing to 17.7% from 19.0%. Despite this decline, regulatory capital ratios remained comfortably above the regulatory minimum requirements, which stood at 8.99% and on a CET1 ratio basis as of 30 June 2020 (9.87% as of year-end 2019) and at 13.26% on a total capital ratio basis (13.37% as of year-end 2019). Hence despite the weakening of the bank's capital base, Helaba, for the time being, continues to operate with sufficient headroom to be able to deal with potential rating migrations and further losses from its operations should the credit environment deteriorate further as a result of the second coronavirus-related lockdowns.

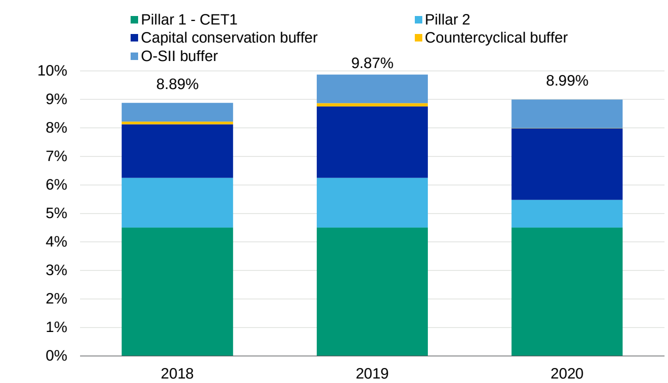
Our measure of risk-based capital based on TCE to RWA, meanwhile fell to 13.5% from 14.6% during the first half of 2020. While leverage should improve somewhat again, with excess liquidity being potentially reined in again and the acquired public-sector portfolio from Dexia Kommunalbank is run-down over time, the bank's risk-based capital metrics will likely remain under pressure. This is due to the bank's limited capital generation capacity even in a benign credit environment and potential negative effects stemming from the implementation of Basel IV, which could result in a material increase in credit risk RWAs given Helaba's sizeable CRE exposures.

Exhibit 5
Helaba's solid levels of capital



TCE = Tangible common equity (Moody's calculation), CET1 = Common Equity Tier 1 (fully loaded since 2018).
Sources: Company reports, Moody's Investors Service

Exhibit 6
Helaba's CET1 capital requirements in detail



Source: Company reports

Profitability is low and declining

We assign a b2 Profitability, two notches above the caa1 initial score, reflecting Helaba's likely earnings run rate during the more difficult operating environment that we will likely witness in the next 2-3 years.

Central bank measures aimed at mitigating the economic impact of the coronavirus crisis can exacerbate the profitability pressure that many European banks are under, particularly when combined with higher credit risk spreads. In this context, Helaba's performance metrics will likely remain modest, as the low-yield environment will continue to weigh on the bank's net interest income. While Helaba partially reduced its dependence on net interest income via a higher share of net fee and commission income over time, higher loan-loss provisions, driven by the coronavirus crisis, a sticky cost base, and volatile capital market results, 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. Meanwhile, investment needs into digitisation / IT systems remain challenges.

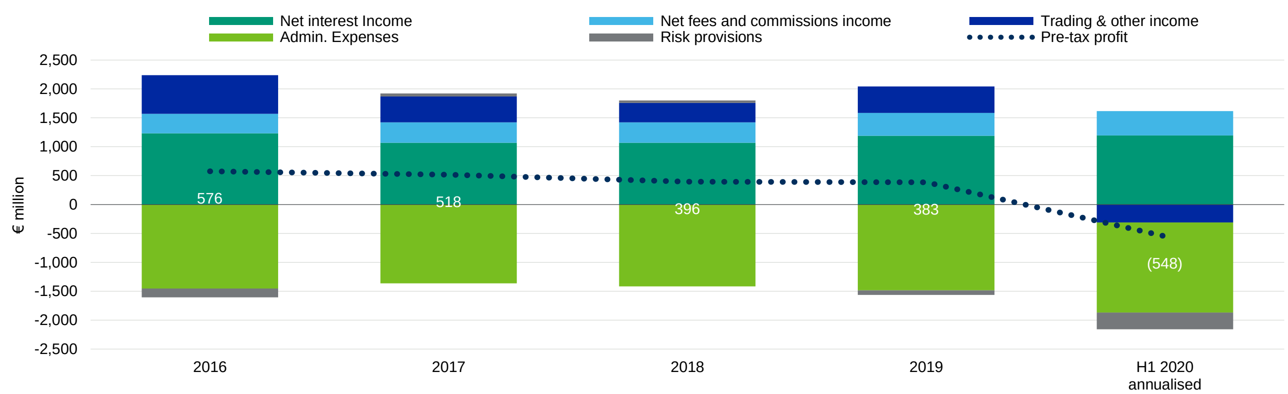
During the first half of 2020 (1H20), Helaba reported a pretax loss of €274 million compared to a pretax income of €325 million in the corresponding 2019 period. The pretax loss was driven by (1) higher loan loss provisions (€151 million in 1H20 compared to €34 million in 1H19), mainly reflecting additional IFRS 9 Stage 2 provisions to account for likely future problem loan additions due to the coronavirus crisis; (2) higher trading losses (€170 million in 1H20 compared to €27 million in 1H19) on the back of credit spread widening impacting unhedged public sector exposures; (3) a net loss of €133 million in 1H20 from hedge accounting and other fair valued financial instruments compared to a net gain of €105 million in 1H19, also reflecting credit spread widening and interest rate movements; and (4) a lower other income result (€42 million in 1H20 compared to €195 million in 1H19), largely due to a one-off gain having been recorded in 1H19 from the acquisition of Dexia Kommunalbank. Helaba's net interest income (€598 million in 1H20 compared to €557 million in 1H19) and net fee and commission income (€211 million compared to €186 million), however, were resilient in 1H20, while operating costs remained stable at €778 million.

In the second half of 2020, we expect that Helaba will have mostly offset the losses generated in 1H20, as financial markets have recovered, volatility has reduced, and government support programmes in Germany have stabilised the real economy for the time being. However, in 2021, we expect provisioning requirements to stay elevated, as risks related to Helaba's CRE and corporate and asset finance exposures materialise, putting a dent on the bank's profitability outlook.

Exhibit 7

Helaba's earnings are under pressure

Negative fair value results and provisioning drives pretax loss in first half of 2020



Sources: Company reports, Moody's Investors Service

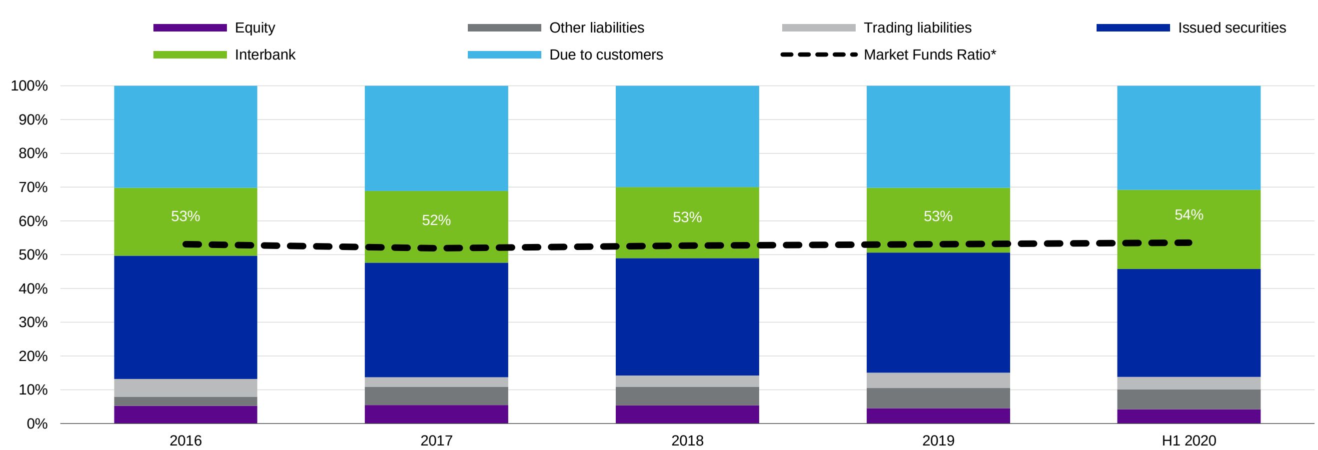
Funding from savings banks mitigates wholesale funding dependence

Our ba2 assigned Funding Structure score stands four notches above the b3 initial score, driven by good access to sector funding, reducing reliance on confidence-sensitive funding sources. A significant portion of Helaba's issued unsecured wholesale debt has been placed with savings banks and their retail clients.

Exhibit 8

Helaba's mixed dependence on savings banks and wholesale market funding

Composition of market funding sources



*Market funds ratio = market funds/tangible banking assets.

Sources: Company reports, Moody's Investors Service

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 and good access to debt capital markets, even in times of stress, are balancing factors. As of 30 June 2020, the bank's refinancing structure consisted of (1) €47.1 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 €8.8 billion participation in the TLTRO III, which will be repaid over three years; (2) €62.0 billion of due to customers; (3) €53.6 billion of securitised liabilities, which included €24.2 billion of covered bonds; 4) €10.5 billion of money market instruments; 5) €19.6 billion of trading, derivative, and other liabilities; and 6) €8.5 billion of shareholders' equity.

Helaba typically issues €13 billion to €18 billion in medium- and long-term debt instruments to a broad and diversified investor base per year (2019: €18.0 billion, 2020 planned: €17.0 billion), of which covered bonds usually account for about a third (2019: €6.7 billion, 2020 planned: €6.5 billion). 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. In 2021, however, funding volumes might drop somewhat below the usual issuance range given some prefunding undertaken via the bank's participation in the TLTRO III.

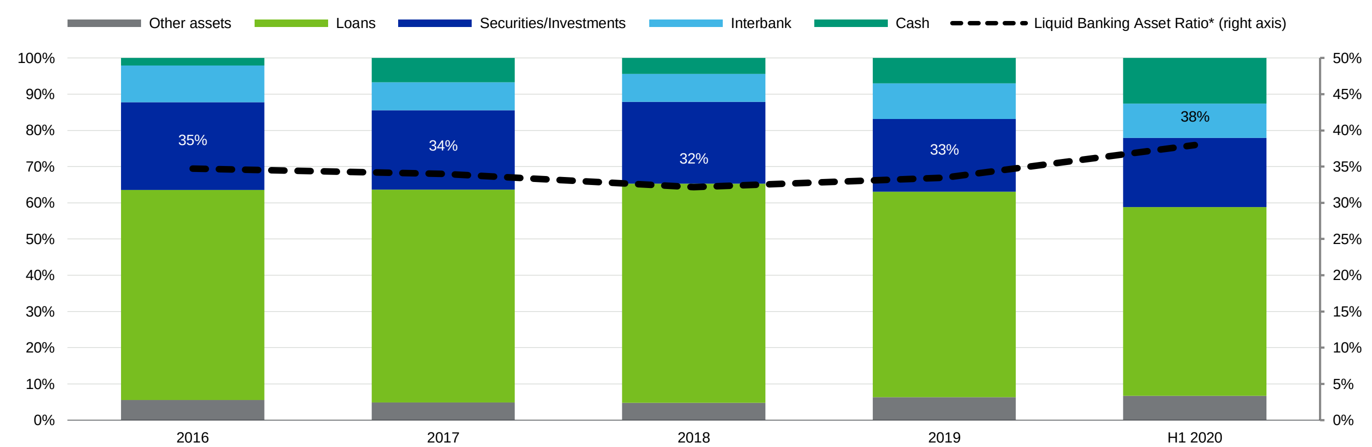
Strong liquidity could be further bolstered by covered bond issuance

The assigned a3 Liquid Resources score is one notch below the a2 initial score, which reflects our consideration of asset encumbrance, intragroup restrictions and the quality of liquid assets.

The bank's strong liquid resources as of 30 June 2020 consisted of (1) €25.3 billion in cash, which was up significantly from the €13.0 billion as of year-end 2019, reflecting higher liquidity balances Helaba built up to by participating in the TLTRO III and through other measures in order to safeguard its liquidity during the coronavirus crisis and generate carry income; (2) €19.2 billion of interbank loans; (3) a €24.3 billion securities portfolio; and (4) €7.7 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 in our evaluation.

Conversely, 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 September 2020, Helaba reported an outstanding nominal volume of €12.1 billion and €28.3 billion for its mortgage and public sector covered bond programmes, respectively, against cover pool volumes of €17.6 billion and €33.0 billion. The resulting overcollateralisation of 45.2% and 16.5% give Helaba ample leeway to generate fresh liquidity through covered bond issuance.

Exhibit 9
Helaba's substantial amounts of liquid resources
Composition of liquid assets



*Liquid banking assets ratio = liquid assets/tangible banking assets.
Sources: Company reports, Moody's Investors Service

Environmental, social and governance considerations

In line with our general view on the banking sector, Helaba has a low exposure to environmental risks (see our Environmental risks heat map[4] for further information).

For social risks, we also place Helaba in line with our general view for the banking sector, which indicates a moderate exposure (see our Social risk heat map[5]). This includes considerations in relation to the rapid and widening spread of the coronavirus outbreak, given the substantial implications for public health and safety and deteriorating global economic outlook, creating a severe and extensive credit shock across many sectors, regions and markets.

Governance is highly relevant for Helaba, as it is to all participants in the banking industry. Governance risks are largely internal, rather than externally driven, and for Helaba, we do not have any particular governance concern[6]. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

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.

» 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

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. We, therefore, still include one notch of government support uplift in our CRR, 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

Counterparty Risk Ratings (CRR) are opinions of the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event such liabilities are not honoured. CRR are distinct from ratings assigned to senior unsecured debt instruments and from issuer ratings because they reflect that, in a resolution, CRR liabilities might benefit from preferential treatment compared with senior unsecured debt. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivatives transactions and the uncollateralised portion of liabilities under sale and repurchase agreements.

Helaba's CRR are positioned at Aa3/P-1

The CRR, before government support, are positioned 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 CRR also benefit from one notch of rating uplift based on government support, in line with our assumptions on deposits and senior unsecured debt.

Counterparty Risk Assessment

The Counterparty Risk Assessment (CR Assessment) is an opinion of how counterparty obligations are likely to be treated if a bank fails and is distinct from debt and deposit ratings in that it (1) considers 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) applies 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)/P-1(cr)

Helaba's CR Assessment, before government support, is positioned three notches above the Adjusted BCA of baa1, 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.

Methodology and scorecard

Methodology

The principal methodology we used in rating Helaba was Banks Methodology published in November 2019.

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 10

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	0.6%	aa2	↔	baa1	Sector concentration	Market risk
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	13.5%	a2	↔	a3	Nominal leverage	Risk-weighted capitalisation
Profitability						
Net Income / Tangible Assets	-0.2%	caa1	↔	b2	Return on assets	Expected trend
Combined Solvency Score		a3		baa2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	53.1%	b3	↔	ba2	Extent of market funding reliance	Market funding quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	33.5%	a2	↔	a3	Stock of liquid assets	Asset encumbrance
Combined Liquidity Score		ba2		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 11

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
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 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 Environmental risks can be defined as environmental hazards encompassing the impact of air pollution, soil/water pollution, water shortages, and natural and man-made hazards (physical risks). Additionally, regulatory or policy risks, such as the impact of carbon regulation or other regulatory restrictions, including related transition risks such as policy, legal, technology and market shifts, that could impair the evaluation of assets are an important factor. Certain banks could face a higher risk from concentrated lending to individual sectors or operations exposed to the aforementioned risks.

5 Social risk considerations represent a broad spectrum, including customer relations, human capital, demographic and societal trends, health and safety, and responsible production. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which is partly mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct is a further social risk. Societal trends are also relevant in a number of areas, such as shifting customer preferences towards digital banking services increasing information technology costs, ageing population concerns in several countries affecting the demand for financial services or socially driven policy agendas that may translate into regulations that affect banks' revenue bases.

6 Corporate governance is a well-established key driver for banks and related risks are typically included in our evaluation of banks' financial profiles. Corporate governance weaknesses can lead to a deterioration in a bank's credit quality, while governance strengths can benefit its credit profile. Further, factors such as specific corporate behaviour, key person risk, insider and related-party risk, strategy and management risk factors, and dividend policy may be captured in individual adjustments to the BCA.

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