



Rating Action: Moody's affirms Landesbank Hessen-Thüringen GZ's Aa3 long-term deposit and senior unsecured debt ratings; outlook remains stable

29 Nov 2022

Frankfurt am Main, November 29, 2022 -- Moody's Investors Service (Moody's) has today affirmed the ratings of Landesbank Hessen-Thüringen GZ (Helaba), including its Aa3 long-term deposit and senior unsecured debt ratings, its A2 junior senior unsecured debt rating, and its Baa2 subordinate debt rating. The outlook on the long-term deposit and senior unsecured debt ratings remains stable. Concurrently, the rating agency affirmed Helaba's baa2 Baseline Credit Assessment (BCA) and its baa1 Adjusted BCA.

Helaba's Aaa rated backed senior unsecured, backed junior senior unsecured, and backed subordinated debt obligations that qualify for 'grandfathering' under the public law guarantee ('Gewährträgerhaftung') were unaffected by today's rating action.

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

RATINGS RATIONALE

-- AFFIRMATION OF HELABA'S BASELINE CREDIT ASSESSMENT

The affirmation of Helaba's baa2 BCA takes into account that the bank's creditworthiness has remained resilient during the pandemic, but it also considers the risks from the deteriorated operating environment, which could result in a material uptick in problem loans and weakened capitalisation and profitability despite the tailwinds from higher interest rates.

With a problem loan ratio of 1.0% as of 30 June 2022, Helaba continues to exhibit strong asset-quality. Helaba's lending portfolio, however, contains material sector concentration risks with regards to commercial real estate (CRE) exposures and the bank is exposed to the energy, transport, and manufacturing sectors, which are under strain from elevated energy prices. Furthermore, the bank faces market risks in its capital markets as well as asset and wealth management operations.

The bank's sound risk-weighted capitalization, as expressed in a tangible common equity (TCE) to risk-weighted assets (RWA) ratio of 14.5% as of 30 June 2022, provides some protection against these asset risks, while the bank's profitability remains subdued with a return on assets of 0.2% in 2021 and the first half of 2022. In 2023, higher interest rates will support Helaba's net interest income, but potentially higher loan loss provisions and a higher cost base due to inflationary pressures will result in continued weak profitability in an international context.

Helaba's BCA also incorporates the bank's heightened market funding dependence, which is only partly mitigated by access to non-confidence-sensitive funding from the savings bank sector and from development banks, as well as by Helaba's liquid resources, which consider the overcollateralization of its Pfandbrief cover pools that would enable the bank to generate

substantial additional liquidity at short notice if required. With Helaba having drawn down €24.2 billion of attractively priced central bank funding in 2020 and 2021, which the bank will repay by 2024 at the latest, Moody's expects that Helaba will partly replace this funding source with additional medium and long-term market funding in order to expand its investment portfolio again and to continue to report sound regulatory liquidity metrics.

-- AFFIRMATION OF SHORT-TERM AND LONG-TERM RATINGS

The affirmation of Helaba's ratings follows the affirmation of the bank's baa1 Adjusted BCA, which incorporates one notch of affiliate support uplift from the baa2 BCA, assuming a high likelihood of cross-sector support from Sparkassen-Finanzgruppe (S-Finanzgruppe, Corporate Family Rating Aa2 stable, BCA a2) in case of need.

Furthermore, the affirmation reflects the unchanged results of Moody's Advanced Loss Given Failure (LGF) analysis, which takes into account the severity of loss in resolution for Helaba's different liability classes, and which continues to indicate an extremely low loss given failure for deposits and the senior unsecured rating class, resulting in three notches of rating uplift, a very low loss given failure for junior senior unsecured debt, resulting in two notches of rating uplift, and a high loss given failure for the subordinate rating class, resulting in a one notch deduction from the bank's baa1 Adjusted BCA because of its higher loss severity.

Finally, the affirmation incorporates an unchanged assumption of a moderate likelihood of sovereign government support for deposits and the senior unsecured rating class, resulting in one notch of rating uplift, and a low likelihood for junior senior unsecured debt and the subordinate rating class, resulting in no further rating uplift. The moderate support assumption for deposits and the senior unsecured rating class reflects Helaba's membership in the systemically important S-Finanzgruppe, while junior senior unsecured debt and the subordinate rating class do not benefit from government support because these instruments are designed to absorb losses in resolution.

-- OUTLOOK REMAINS STABLE

The stable outlook on the bank's long-term deposit and senior unsecured debt ratings reflects Moody's view that Helaba's BCA and Adjusted BCA, and hence its long-term ratings, remain resilient despite a more challenging environment from economic headwinds. Moody's also considers that Helaba will maintain sufficient volumes of bail-in-able liabilities safeguarding the currently assigned rating uplift resulting from the rating agency's Advanced LGF analysis.

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

An upgrade of Helaba's ratings could result from an upgrade of its baa2 BCA and baa1 Adjusted BCA.

Upward pressure on Helaba's BCA could arise from the combination of a significant reduction of the bank's concentration risks, specifically with regard to CRE exposures, a meaningful and sustained improvement in capitalisation, higher profitability, and a reduction in Helaba's dependence on market funding. An upgrade of the BCA would likely result in an upgrade of the Adjusted BCA as long as Moody's current support assumption from and the assessed creditworthiness of S-Finanzgruppe remain unchanged.

Helaba's junior senior unsecured and subordinate debt ratings could potentially also be upgraded if the bank were to issue substantial additional volumes of Additional Tier 1 or Tier 2 debt, which would reduce the loss given failure for junior senior unsecured and subordinate debt. However,

this is highly unlikely. Helaba's deposit and senior unsecured debt ratings already incorporate the maximum rating uplift resulting from Moody's Advanced LGF analysis.

A downgrade of Helaba's ratings could be triggered by a downgrade of the bank's baa1 Adjusted BCA or as a result of fewer notches of rating uplift from Moody's Advanced LGF analysis.

Downward pressure on the bank's BCA could arise because of 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. However, a downgrade of Helaba's BCA may not translate into a downgrade of the bank's ratings as long as Moody's current support assumption from and the assessed creditworthiness of S-Finanzgruppe remain unchanged.

Helaba's deposit, senior unsecured, and junior senior unsecured debt ratings could be downgraded if the combined volume of junior senior unsecured and subordinated liabilities declines materially, which would lead to lower rating uplift from Moody's Advanced LGF analysis.

LIST OF AFFECTED RATINGS

Issuer: Landesbank Hessen-Thüringen GZ

..Affirmations:

....Long-term Counterparty Risk Ratings, affirmed Aa3

....Short-term Counterparty Risk Ratings, affirmed P-1

....Long-term Bank Deposits, affirmed Aa3, outlook remains Stable

....Short-term Bank Deposits, affirmed P-1

....Short-term Deposit Note/CD Program, affirmed P-1

....Long-term Counterparty Risk Assessment, affirmed Aa3(cr)

....Short-term Counterparty Risk Assessment, affirmed P-1(cr)

....Long-term Issuer Rating, affirmed Aa3, outlook remains Stable

....Baseline Credit Assessment, affirmed baa2

....Adjusted Baseline Credit Assessment, affirmed baa1

....Senior Unsecured Regular Bond/Debenture, affirmed Aa3, outlook remains Stable

....Senior Unsecured Medium-Term Note Program, affirmed (P)Aa3

....Junior Senior Unsecured Regular Bond/Debenture, affirmed A2

....Junior Senior Unsecured Medium-Term Note Program, affirmed (P)A2

....Subordinate Regular Bond/Debenture, affirmed Baa2

....Subordinate Medium-Term Note Program, affirmed (P)Baa2

....Commercial Paper, affirmed P-1

..Outlook Action:

....Outlook remains Stable

Issuer: Landesbank Hessen-Thuringen GZ, NY Branch

..Affirmations:

....Long-term Counterparty Risk Ratings, affirmed Aa3

....Short-term Counterparty Risk Ratings, affirmed P-1

....Long-term Bank Deposits, affirmed Aa3, outlook remains Stable

....Long-term Counterparty Risk Assessment, affirmed Aa3(cr)

....Short-term Counterparty Risk Assessment, affirmed P-1(cr)

....Commercial Paper, affirmed P-1

..Outlook Action:

....Outlook remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/api/rmc-documents/71997>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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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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