

Credit Opinion: Landesbank Hessen-Thüringen GZ

Global Credit Research - 17 Feb 2012

Frankfurt am Main, Germany

Ratings

Category	Moody's Rating
Outlook	Rating(s) Under Review
Bank Deposits	*A1/P-1
Bkd Bank Deposits	Aa1/P-1
Bank Financial Strength	*C-
Bkd Issuer Rating	Aa1
Senior Unsecured	*A1
Subordinate -Dom Curr	*Baa1
Jr Subordinate -Dom Curr	*Baa2 (hyb)
Commercial Paper -Dom Curr	P-1

Main Capital Funding II

Limited Partnership

Outlook	Rating(s) Under Review
Pref. Stock Non-cumulative	*Ba1 (hyb)

Main Capital Funding Limited

Partnership

Outlook	Rating(s) Under Review
Pref. Stock Non-cumulative	*Ba1 (hyb)

* Placed under review for possible downgrade on February 16, 2012

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Key Indicators

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

[2]6-11 [2]12-10 [2]12-09 [2]12-08 [2]12-07 Avg.

Total Assets (EUR million)	157,724.0	166,244.0	169,895.3	184,522.4	173,777.4	[3]-2.4
Total Assets (USD million)	228,675.0	223,023.6	243,755.7	256,494.9	254,071.7	[3]-2.6
Tangible Common Equity (EUR million)	4,599.9	4,289.6	3,931.9	3,535.1	3,740.8	[3]5.3
Tangible Common Equity (USD million)	6,669.1	5,754.7	5,641.2	4,913.9	5,469.2	[3]5.1
Net Interest Margin (%)	0.6	0.6	0.6	0.6	0.6	[4]0.6
PPI / Avg RWA (%)	1.6	1.2	1.6	-0.1	0.4	[5]0.9
Net Income / Avg RWA (%)	1.0	0.6	0.6	-0.1	0.5	[5]0.5
(Market Funds - Liquid Assets) / Total Assets (%)	25.8	26.7	26.2	26.2	23.6	[4]25.7
Core Deposits / Average Gross Loans (%)	46.2	46.3	46.8	48.9	50.7	[4]47.8
Tier 1 Ratio (%)	11.1	9.6	8.8	8.3	6.5	[5]8.9
Tangible Common Equity / RWA (%)	8.8	7.5	6.4	5.6	4.8	[5]6.6
Cost / Income Ratio (%)	58.2	63.8	56.2	103.8	79.8	[4]72.4
Problem Loans / Gross Loans (%)	--	3.0	2.7	2.9	--	[4]2.9
Problem Loans / (Equity + Loan Loss Reserves) (%)	--	47.0	46.1	56.8	--	[4]50.0

Source: Moody's

[1] All ratios are adjusted using Moody's standard adjustments [2] Basel II; IFRS [3] Compound Annual Growth Rate based on IFRS reporting periods [4] IFRS reporting periods have been used for average calculation [5] Basel II & IFRS reporting periods have been used for average calculation

Opinion

RECENT CREDIT DEVELOPMENTS

On 15 February 2012, we placed on review for downgrade Landesbank Hessen-Thüringen GZ's (Helaba) C- bank financial strength rating (BFSR), which maps to Baa2 on the long-term scale. Simultaneously, the A1 long-term debt and deposit ratings and Baa1 subordinated debt ratings were placed on review for downgrade. The C- BFSR could be lowered to the higher D+ category, i.e., to Baa3 on the long-term scale, and the fully supported debt and deposit ratings may be lowered by up to one notch. The short-term Prime-1 rating was affirmed.

The initiation of these rating reviews follows our announcement on the same day to place a number of European banks on review for downgrade, reflecting the multiple challenges that we consider these banks face, notably (i) a weakening macroeconomic environment; (ii) costly and constrained market funding; and (iii) pressure on profits. These challenges may lead us to adjust downward our assessment of several important rating factors, notably economic stability, franchise value, risk positioning, liquidity, profitability and capital. Moreover, some governments are becoming more constrained in their willingness and ability to provide support for banks over the medium term. Consequently, European banks face immediate pressures centred on their ability to retain the confidence of investors. For more details please see our reports "Why Global Bank Ratings Are Likely To Decline In 2012", "Euro Area Debt Crisis Weakens Bank Credit Profiles" and "European Banks: How Moody's Approach Reflects Evolving Challenges", all published on 19 January 2012.

The review of Helaba's standalone credit strength will focus on the challenges to its franchise and risk positioning, due to the inherent concentration risks in its partly wholesale-based banking activities and the declining creditworthiness of European banks. The review will also assess its future earnings power and capital against its risk-weighted and total assets under our scenario of stressed earnings and capital levels. Considerations of support will not form part of this review, as the rating pressure from the weakening support environment in Germany was factored into Helaba's fully supported ratings in a previous rating action on 16 November 2011.

SUMMARY RATING RATIONALE

We assign a BFSR of C-, on review for downgrade, to Helaba, which maps to a Baa2 baseline credit assessment (BCA) on the long-term rating scale. The C- BFSR is underpinned by the group's relatively strong client franchise (when compared with many other wholesale banks), which also includes retail operations via Frankfurter Sparkasse (FraSpa), and a conservative approach to risk taking. At the same time, the standalone rating is constrained by the bank's modest financial performance given Helaba's business model that includes banking services run in the interest of its public-sector owners on a zero-profit basis.

Helaba's long-term global local currency (GLC) deposit rating is A1, on review for downgrade. The rating is based on the bank's standalone credit strength and our assumption of a very high probability of external support, which implies that Helaba would likely benefit from multiple sources of support (in particular from its majority owners, the regional savings banks association, and additionally cross-sector support from Germany's public sector banks (Haftungsverbund), regional government support from the federal states of Hesse and Thuringia and systemic support). In our opinion, these levels of support are closely interlinked for public sector banks and our unified approach of applying support uplift from multiple sources anticipates concerted support solutions in case of need.

Under our joint default analysis (JDA) methodology, our support assessments give Helaba's GLC deposit rating a four-notch uplift from its standalone credit rating. An adjusted standalone credit strength of A3 is the anchor rating for Helaba's subordinated instruments and reflects our estimate of support that is likely to be made available as "going concern support". This principally applies to support from the cross-sector joint liability scheme (Haftungsverbund), which we believe is available for the benefit of all cases of debt.

The bank's rating for obligations qualifying for the grandfathering of "Gewährträgerhaftung" (a joint Guarantee Obligation of the owners, i.a. the Federal state of Hesse) is Aa1.

Credit Strengths

- Prudent risk management and sound asset quality
- Coherent wholesale banking strategy complemented by stable retail banking through FraSpa
- Close co-operation with the savings banks in and outside the home region, implying that Helaba is firmly embedded in the mutually supportive Sparkassen-Finanzgruppe (C+, Aa2 stable)
- Implicit support by and benefits deriving from the state of Hesse that, despite only holding a small stake of 10%, has far reaching financial and strategic interests in the group

Credit Challenges

- Low level of risk-weighted profitability by a global comparison, partly because the public sector development and the "Verbund-"business (i.e., with the regional savings banks), dilute margins and efficiency ratios
- Prudent decision making in the context of the contemplated takeover of parts of WestLB that could entail a dilution of earnings and efficiency metrics
- Strong competition in Helaba's core wholesale banking business
- Relatively high industry and single borrower concentrations, especially relating to the cyclical global commercial real estate (CRE) markets

Rating Outlook

The outlook on all ratings is stable, underpinned by Helaba's stable business and financial profile and strong

commitment of current stakeholders for the foreseeable future.

What Could Change the Rating - Up

There is currently limited upward pressure on the C- BFSR, as reflected by the review for downgrade. This applies in view of: (i) Helaba's constraints to improving risk-weighted profitability; (ii) a level of uncertainty stemming from the contemplated takeover of parts of WestLB and possible implications for its ownership structure; and (iii) the persistent fragility in the European financial markets. However, if the recent improvement in the bank's underlying performance is sustained and Helaba achieves higher independence from debt capital markets (that could result from higher funds available from and cooperation with a larger number of savings banks), this could result in upward pressure on the C-/Baa2 standalone rating.

Upward pressure on the bank's A1 senior unsecured debt and deposit ratings could result from an increase of the standalone financial strength rating or a stronger positioning of Helaba at the core of the Sparkassen-Finanzgruppe.

What Could Change the Rating - Down

The C- BFSR is currently under pressure from the persistent turbulence in the European debt markets. At the same time we recognise mitigating factors, such as the group's low risk appetite, sound asset quality and improving capitalisation. We also note positively that Helaba has only a modest exposure to the smaller, more pressured countries in Europe's periphery.

A downgrade of Helaba's A1 long-term debt and deposit ratings may be triggered by a downgrade of its BFSR. A change in Helaba's ownership structure, deterioration in the implied creditworthiness of its owners, and weakening cross-sector support mechanisms could principally have a negative effect on the long-term ratings, but is currently not expected.

Recent Results and Company Events

HELABA HAS IMPROVED QUALITY OF ITS CAPITAL

On 1 November 2011, the federal state of Hesse affirmed its earlier commitment to change the terms and conditions on EUR 1.92 billion of silent participations in Helaba to the effect that they will continue to be recognised as core Tier 1 capital under Basel III. As a result, Helaba's core Tier 1 ratio is expected to rise to 10%. This measure, which was implemented in December 2011, has not only improved the quality of capital, but also enhanced Helaba's financial flexibility, because payments on these capital contributions will become discretionary rather than mandatory.

GOOD EARNINGS OUTLOOK FOR 2011

Helaba reported a result of EUR 371 million before tax for the first nine months of 2011, representing a material improvement over the EUR 284 million reported for the same period in 2010 (+31%). Unlike many other banks in Europe, Helaba recorded a profit for the third quarter (EUR 38 million pre-tax), in spite of the extremely hostile market conditions, in particular high volatility and widening credit spreads, as well as the need to write down at least 50% on exposure to Greece.

The positive trend for the nine-month period was underpinned by a modestly positive development of core revenues (+2.6%), lower costs (-6.8%) and considerably lower risk provisions (-55.3%). Considering that the result included EUR 43 million in write-downs on Greek debt, major valuation losses on derivatives, a EUR 31 million first-time contribution to the German bank levy fund and adverse effects from the deconsolidation of a former leasing business, we consider the result to be good.

DETAILED RATING CONSIDERATIONS

Detailed considerations for Helaba's currently assigned ratings are as follows:

Bank Financial Strength Rating

Franchise Value

Helaba has been enhancing its franchise value by building capabilities and expertise in products and services for institutional clients at home and increasingly abroad, based on a coherent strategy in wholesale banking, which it has consistently followed over the past decade.

Since 2005, the group has been pursuing a strategy of shaping its profile towards that of a universal bank, by achieving a more balanced mix of wholesale and retail banking activities. However, its core wholesale activities --in particular CRE, Corporate Finance and Financial Markets -- continue to contribute the large majority of the group's revenues and earnings. The performance of its savings bank subsidiary, FraSpa, has been somewhat volatile in recent years; however, its results for 2010 have shown a material improvement. FraSpa has a dominant position in and around the City of Frankfurt and the business is complemented by its direct banking operations under the "1822direct" brand, targeting retail clients across Germany. Furthermore, Helaba has recently expanded and repositioned its private banking and wealth management activities (that offer services to savings banks across Germany) under the 100%-held Frankfurter Bankgesellschaft in Frankfurt and Zurich.

Its other activities include the business with the 50 regional savings banks ("Verbundgeschaeff") as well as development banking under its Public Development & Infrastructure division. These services, which represent 14% of total assets and 17% of total costs, generate very low returns (nil in 2010) as they are run as less profit-oriented business segments. That said, they also reflect the strong ties between Helaba and its public sector owners. In this context, we note that Helaba is currently building business relationships with savings banks nationwide, which follows its strategy of entrenching its position as a preferred service partner within the Sparkassen-Finanzgruppe. While we agree that this can be seen as the basis for a long-term membership in this mutually supportive group, we consider that growing business activities and volumes must eventually translate into visible returns in order to truly support Helaba's franchise value.

Notwithstanding the relative weakness of several segments, we view earnings stability at the group level as adequate, taking into account the relative stability of pre-provision income over the past five years (although this was negative in 2008), improving earnings diversification and increasingly adequate and steady contributions from retail banking and asset management.

Risk Positioning

Helaba has a track record of prudent risk management and we consider its risk management and monitoring capabilities as well as its established controls and compliance procedures to be sound. Unlike many other banks, Helaba did not follow an over-ambitious growth strategy prior to the financial crisis, and did not compromise its underwriting standards in order to maximise returns. That said, we consider that the group's high balance sheet leverage and dependence on market funding require careful risk management in order to minimise potential for unexpected losses.

Helaba's quality of financial reporting and transparency improved with the introduction of IFRS in financial year 2007 and the group also reports on its quarterly performance, although information is limited. We further note positively that Helaba is not among those banks that are presently undertaking fundamental restructuring of their business models and altering their risk-taking behaviour, implying that its historical risk profile and performance track record are an adequate gauge of its future performance.

The loan book contains some risk concentration to single borrower groups, which is a result of the bank's wholesale focus. Moreover, the bank's total exposure to the real estate sector (apart from the banking sector) is large in proportion to Tier 1 capital, resulting in considerable concentration risks. We note positively, however, that Helaba has managed such concentrated exposures very carefully in the past.

Helaba's market risk appetite is very moderate. The capital allocated to its market risk at the end of 2010

was less than 10% of its EUR 5.75 billion Tier 1 capital, which is quite low compared with its peers. Helaba proactively reduced market risk in 2009 and 2010 through a reduction of trading assets.

Profitability

Helaba generally displays a fairly stable operating performance, but reports low profitability levels, which are due to its relatively high cost base. High costs are largely the result of the group's preferential lending operations and the "Verbund" business, which are run on the basis of cost-coverage rather than on return targets. This results in performance metrics below the bank's international peers and a weak score for profitability.

We consider revenue diversification to be satisfactory. NII represented 50% of the group's EUR 2.0 billion operating revenues in 2010 (2009: 46%; numbers and ratios are based on our applied standard adjustments). Another 38% (2009: 32%) was contributed by FCI and stable income from real estate rentals and leases as well as other regular non-banking services, while the contribution from trading profits was below 8%. That being said, Helaba's most profitable segments have traditionally been the wholesale-focused international CRE, Corporate Finance and Financial Markets businesses. We note positively, however, that FraSpa's retail operations generate increasing profits and we understand that the Financial Markets segment results partly represent regular income from business with savings banks and other "Verbund"-members.

In our view, the results over the past three years reflect Helaba's relative operational resilience during challenging times, but also its relatively weak underlying profitability. It is important to note that, until 2009, both pre-provision income and net income either contained a diluting effect from the initially underperforming FraSpa and several items of one-off restructuring charges, or were influenced by valuation losses, as was the case in 2007 and 2008.

Going forward, we believe that the ongoing repositioning of the bank's operations coupled with a reduction of risks should yield a gradual improvement of risk-adjusted returns. Besides, risk charges that remained somewhat above Helaba's run rate in 2010 (i.e., average risk costs through the cycle) will likely be lower in 2011 and 2012. However, any higher revenues and efficiency gains may partly be offset by additional expenses, in particular by higher costs of capital and the new bank levy that must be paid from 2011 (i.e., EUR 36 million) for a newly established bank rescue fund.

Liquidity

Helaba primarily depends on wholesale funding, and is a net borrower in the interbank market. This is complemented by sizeable (and broadly stable) customer deposits, which contributed around EUR 41 billion at the end of 2010, with roughly one half stemming from retail customers. Market funds (including interbank and subordinated debt) accounted for roughly EUR 77 billion or 46% of the balance sheet at the end of last year. Helaba's funding mix has been increasingly evolving towards less credit and rating-sensitive sources; almost 25% of the group's EUR 40.4 billion issued debt as of year-end 2010 was raised through covered bonds (Pfandbriefe).

More importantly, the group pursues a strategy of ensuring a high degree of matched funding for its medium to long-term lending activities. Accordingly, EUR 89 billion of its funding at year-end 2010 was medium to long term (up from EUR 84 billion), representing a slightly improved maturity profile. During 2011, the positive trend continued, given that client deposits remained stable while bonds and notes issued as well as net borrowings from the interbank market gradually reduced.

Helaba typically issues EUR 10 billion to EUR 15 billion in medium and long-term debt instruments per year (EUR 11 billion in 2010), and we note positively that Helaba has not faced any major disruption in accessing debt capital markets over recent years and continues to place its secured and unsecured debt with a broad, diversified investor base. As the group is presently reducing its portfolio of public sector finance assets along with other fixed income investments, current requirements are at the lower end of this range. We also

note positively that a growing portion of Helaba's unsecured wholesale debt issued is placed with savings banks and their retail clients. Helaba does not typically use the ECB repo facilities.

Liquidity reserves are sizeable enough to allow the bank to continue to grow its loan book without accessing debt capital markets for approximately one year.

Capital Adequacy

Helaba's capitalisation is considered satisfactory and underpins the C- BFSR. We note positively that the historically weak quality of its capital is currently being addressed. Importantly, we forecast further improvement in regulatory ratios over the next few quarters and expect that Helaba will be able to comply with the stricter requirements of Basel III in a timely fashion.

At the end of September 2011, Helaba reported satisfactory Tier 1 and total capital ratios at the group level of 10.8% and 16.4% respectively (up from 9.6% and 14.4% at the end of 2010).

Given that Helaba transferred EUR 70 million to its undisclosed, fully taxed reserves under 340f of the German Commercial Code, conservatively treated as Tier 2 capital under local regulation, we understand that Helaba has a slightly higher Tier 1 ratio, if calculated based on IFRS accounting.

MEASURES TO IMPROVE CAPITAL QUALITY WILL SUPPORT COMPLIANCE WITH BASEL III

As mentioned above, Helaba's owners, who represent the main investors in Helaba's hybrid capital, have addressed the group's weak quality of capital by restructuring EUR 1.92 billion of Tier 1 hybrids in a way that will ensure compliance with the minimum criteria for core Tier 1 capital under Basel III. Almost EUR 3.0 billion (or 52%) of the Tier 1 capital was still formed by silent participations at the end of 2010.

Following the restructuring of these hybrids, we understand that future coupon payments may be higher than in the past, but will not be mandatory (which they previously were as long as no triggers were breached), nor do they have cumulative coupon-deferral features. Instead, payments have to be at the full discretion of the bank's management, offering a higher degree of financial flexibility during difficult periods, which is credit positive. We also expect that these measures, coupled with further RWA reduction driven by the sale of non-strategic participations (its stake in DekaBank has meanwhile been sold) will enable Helaba to comply with the stricter regulatory capital requirements under Basel III.

The recently announced measures are also important for compliance with the 3% core-Tier-1-leverage ratio (disclosure from 2015, effective from 2018) which was a weak 1.7% at the end of 2010. With the restructuring of the EUR 1.92 billion Tier 1 hybrids into non-voting capital contributions -- and eligibility as core Tier 1 capital --, the ratio should improve to roughly 3% without any capital increase.

EBA STRESS TEST PASSED

As these measures were recognised upon implementation, i.e. following the stress test conducted by the European Banking Authority (EBA) in Q4 2011, that simulated certain losses on country exposures charged against core Tier 1 capital, Helaba passed the test (i.e., with no shortfall calculated by the EBA) at current capital levels.

ECONOMIC CAPITAL METRICS REFLECT IMPROVING TREND

Helaba gradually improved its tangible common equity (TCE) ratio over the past few years from 4.8% in 2007 to 7.5% in 2010, which is now more in line with the C-/Baa2 standalone rating level. For the calculation of TCE, we exclude intangibles and silent participations and add back a proportion of these hybrids, according to their individually calculated equity credits. In Helaba's case, we do not fully add the calculated equity credit, which is capped at one fourth of this ratio. We will revisit the calculation of equity credit once the amendment of silent participations is finalised.

Asset Quality

The asset profile of Helaba reflects the global focus of its lending business with corporate and institutional clients, although the lion's share of its total exposure is still in Germany. The risk is mostly driven by the group's EUR 37.8 billion global real estate exposure (also see paragraph below) and its EUR 33.9 billion diversified corporate finance exposure. The latter includes lending activities with multi-national corporates (roughly EUR 12 billion), asset-based lending focused on ship and aircraft finance (EUR 8.2 billion), structured and project finance with a focus on energy (EUR 7.1 billion), and leasing. The group has further portfolios of structured trade and commodity finance (EUR 1.2 billion), acquisition finance (EUR 2.0 billion) as well as structured credit products (EUR 3.5 billion); however, none of these portfolios represent any undue concentration risk and, by and large, have a focus on the bank's own clientele.

Helaba's total exposure to the sovereigns of Greece, Ireland and Portugal of just EUR 163 million (as of 31 September 2011) is small, and exposures to the banking systems of these three countries (below EUR 0.8 billion) are also considered to be manageable. The modest exposure to Greece of previously EUR 83 million was written down to EUR 43 million in the nine-month 2011 results.

At EUR 37.8 billion at the end of December 2010, the exposure to the real estate and construction sectors represents the highest industry concentration. Of this amount, roughly 80% is exposure to CRE and roughly half of the exposure is to markets outside Germany, with a focus on the US.

Helaba underwrote comparatively large amounts in the years preceding the financial crisis (almost EUR 33 billion in the two years 2006 and 2007), i.e., near to or at the peak of the global CRE markets. As many property markets currently recover only very slowly, with persistent weakness observed in large parts of the US, the roll-over of these loans at adequate risk-return parameters currently remains challenging. Driven by rising vacancies and sharp drops in rents, office markets in the US and London were the most affected by the severe deterioration in 2008-09, and we are concerned that some mainland-European office markets will continue to face similar challenges for some time. That said, Helaba's European portfolio focuses on France, Scandinavia and Central Europe, - i.e., areas currently less affected by low growth and fiscal austerity. Moreover, the total portfolio has a relatively sound history of low credit losses in comparison with the bank's peers, owing to Helaba's focus on prime locations and properties with a high level of pre-arranged rental agreements. We note positively the trend of reducing risk charges for this segment in 2010 (-21% year-on-year).

We estimate that almost half of Helaba's EUR 2.6 billion non-performing loans (NPLs, which include performing exposure more than 90 days past due) at year-end 2010 related to the real estate sector, although the sector exposure accounted for only roughly 21% of the total. That being said, total NPLs rose only 12% year-on-year, implying a trend far better than our earlier expectations, as Helaba's average asset quality indicators benefitted from the strong upswing in the credit cycle for corporates in Germany. We note that the EUR 2.6 billion in NPLs mentioned above does not include EUR 0.5 billion in impairments on financial instruments.

Problem loans as a proportion of gross loans were a low 3.0% at year-end 2010, up from 2.7% a year earlier, which is considerably below its peers and very satisfactory, given Helaba's asset mix. Even when excluding EUR 15 billion of public sector lending from gross loans, the ratio was a sound 3.6% (up from 3.2%).

Problem loans as a percentage of shareholders' equity + loan loss reserves remained fairly high at 47% at year-end 2010; however, we note that (i) shareholders' equity represent only three quarters of the group's loss absorbing equity & hybrid instruments; and (ii) a large proportion of its loan book is collateralised, although for reasons of consistency this has not been considered in the scorecard.

Global Local Currency Deposit Rating (Joint Default Analysis)

We assign a long-term global local currency (GLC) deposit rating of A1, on review for downgrade, to

Helaba. The rating is supported by the group's standalone Baa2 rating, also on review for downgrade, and a very high probability of external support from multiple sources as a public sector bank (the cross-sector support alliance for public sector banks as well as its majority owner, the Sparkassen und Giroverband Hessen-Thüringen (Savings Banks & Giro Association), the two regional governments, i.e., the federal states of Hesse and Thuringia as well as systemic support).

Notching Considerations

SENIOR SUBORDINATED DEBT

Helaba's senior subordinated debt is rated Baa1, on review for downgrade, one notch below the bank's adjusted standalone credit strength of A3. The adjusted BCA reflects a bank's standalone credit strength, including parental and/or cooperative support, as applicable (but excluding systemic support expectations).

HYBRIDS

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), on review for downgrade, four notches below the adjusted standalone rating, reflecting their non-cumulative coupon skip mechanism that has a net loss trigger.

One EUR 300 million Genussschein (junior subordinated debt) is rated Baa2(hyb), on review for downgrade, i.e., two notches below the adjusted BCA, reflecting its cumulative coupon deferral feature with a balance sheet trigger, which is considered a soft trigger in comparison with the net loss trigger of the Tier 1 instruments.

Helaba serviced all hybrid and subordinated capital instruments for the years 2009 and 2010. Ratings are in line with our revised Guidelines for Rating Bank Hybrids and Subordinated Debt published in November 2009.

Foreign Currency Deposit Rating

Our foreign currency deposit ratings for Helaba are A1(on review for downgrade)/Prime-1, (affirmed).

Foreign Currency Debt Rating

Our foreign currency debt ratings for Helaba are A1(on review for downgrade)/Prime-1, (affirmed).

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Our Bank Financial Strength Ratings (BFSRs) represent our opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by our Bank Deposit Ratings. BFSRs do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of BFSRs include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSRs exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the BFSR as well as our opinion of any external support. Specifically, our Bank Deposit Ratings are opinions of a bank's ability to repay punctually

its deposit obligations. As such, they are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, which includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Our Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to our joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of external elements of support into the bank's Baseline Credit Assessment. In calculating the Global Local Currency Deposit rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, our assessment of the probability of systemic support for the bank in the event of a stress situation and the degree of dependence between the issuer rating and the Local Currency Deposit Ceiling.

National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable with our globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on our National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Our ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Our bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by our analysts to ensure consistency of approach across banks and regions. The model 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 Factors

Landesbank Hessen-Thüringen GZ

Rating Factors [1]	A	B	C	D	E	Total Score	Trend
Qualitative Factors (50%)						C	
Factor: Franchise Value						C-	Neutral
Market Share and Sustainability			x				
Geographical Diversification		x					
Earnings Stability					x		
Earnings Diversification [2]							
Factor: Risk Positioning						C	Neutral
Corporate Governance [2]							
- Ownership and Organizational Complexity							
- Key Man Risk							
- Insider and Related-Party Risks							
Controls and Risk Management		x					
- Risk Management			x				
- Controls	x						
Financial Reporting Transparency		x					
- Global Comparability	x						
- Frequency and Timeliness		x					
- Quality of Financial Information			x				
Credit Risk Concentration							
- Borrower Concentration					x		
- Industry Concentration					x		
Liquidity Management	x						
Market Risk Appetite	x						
Factor: Operating Environment						B	Neutral
Economic Stability			x				
Integrity and Corruption		x					
Legal System	x						
Financial Factors (50%)						C-	
Factor: Profitability						D	Neutral
PPI / Average RWA - Basel II				0.88%			
Net Income / Average RWA - Basel II				0.33%			
Factor: Liquidity						B-	Neutral
(Mkt funds-Liquid Assets) / Total Assets					28.53%		
Liquidity Management	x						
Factor: Capital Adequacy						B	Improving
Tier 1 Ratio - Basel II		8.90%					
Tangible Common Equity / RWA - Basel II		6.52%					
Factor: Efficiency						D	Neutral
Cost / Income Ratio				75.36%			
Factor: Asset Quality						D+	Neutral
Problem Loans / Gross Loans			2.85%				

Problem Loans / (Equity + LLR)				49.96%			
Lowest Combined Score (15%)							D
Economic Insolvency Override							Neutral
Aggregate Score							C
Assigned BFSR							C-

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information [2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral



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