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Ratings

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Sparkassen-Finanzgruppe Hessen-Thueringen / Landesbank Hessen-Thueringen Girozentrale

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Table Of Contents

Major Rating Factors

Outlook

Rationale

Related Criteria

Related Research

Sparkassen-Finanzgruppe Hessen-Thueringen / Landesbank Hessen-Thueringen Girozentrale

SACP	a
Anchor	a-	
Business Position	Adequate	0
Capital and Earnings	Strong	+1
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Adequate	

+

Support	0
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

+

Additional Factors	0

Issuer Credit Rating
A/Stable/A-1

Major Rating Factors

Strengths:	Weaknesses:
• Strong level of solidarity and cooperation between group members based on ownership and mutual protection scheme. • Solid retail market position by member savings banks in two German states, and a risk-averse relationship-based business approach by its central bank Landesbank Hessen-Thueringen (Helaba). • Strong capitalization from sound earnings retention.	• High cost base. • Revenue margin pressure on deposit-funded business model. • Concentration risk in commercial real estate (CRE) lending by Helaba.

Outlook: Stable

The outlook is stable because we assume continued stability of Sparkassen-Finanzgruppe Hessen-Thueringen's (SFHT's) group credit profile, despite the negative economic and industry risk trends we observe in Germany. We consider that SFHT's balanced business mix of the savings banks' strong market position in retail banking and Landesbank Hessen-Thüringen Girozentrale (Helaba)'s prudent relationship-based strategy in wholesale banking will largely offset the ongoing competitive pressure in the low-interest-rate environment.

Downside scenario

We could lower our ratings on all of SFHT's member banks over the next 24 months, if economic and competitive headwinds weigh more on the group than we anticipate. Although unlikely, this might happen if, for example, there were a substantial and sustained weakening of the savings banks' competitive position or a sharp decline in capitalization.

We could also lower our ratings if we see a material decline in Helaba's asset quality, especially in commercial real estate and corporate finance, implying a less risk-averse stance than at present. Similarly, we might downgrade SFHT if the group materially increased business in foreign markets with much higher economic risk in a worsening credit cycle, or if efficiency ratios further decline under continued pressure on revenues.

Upside scenario

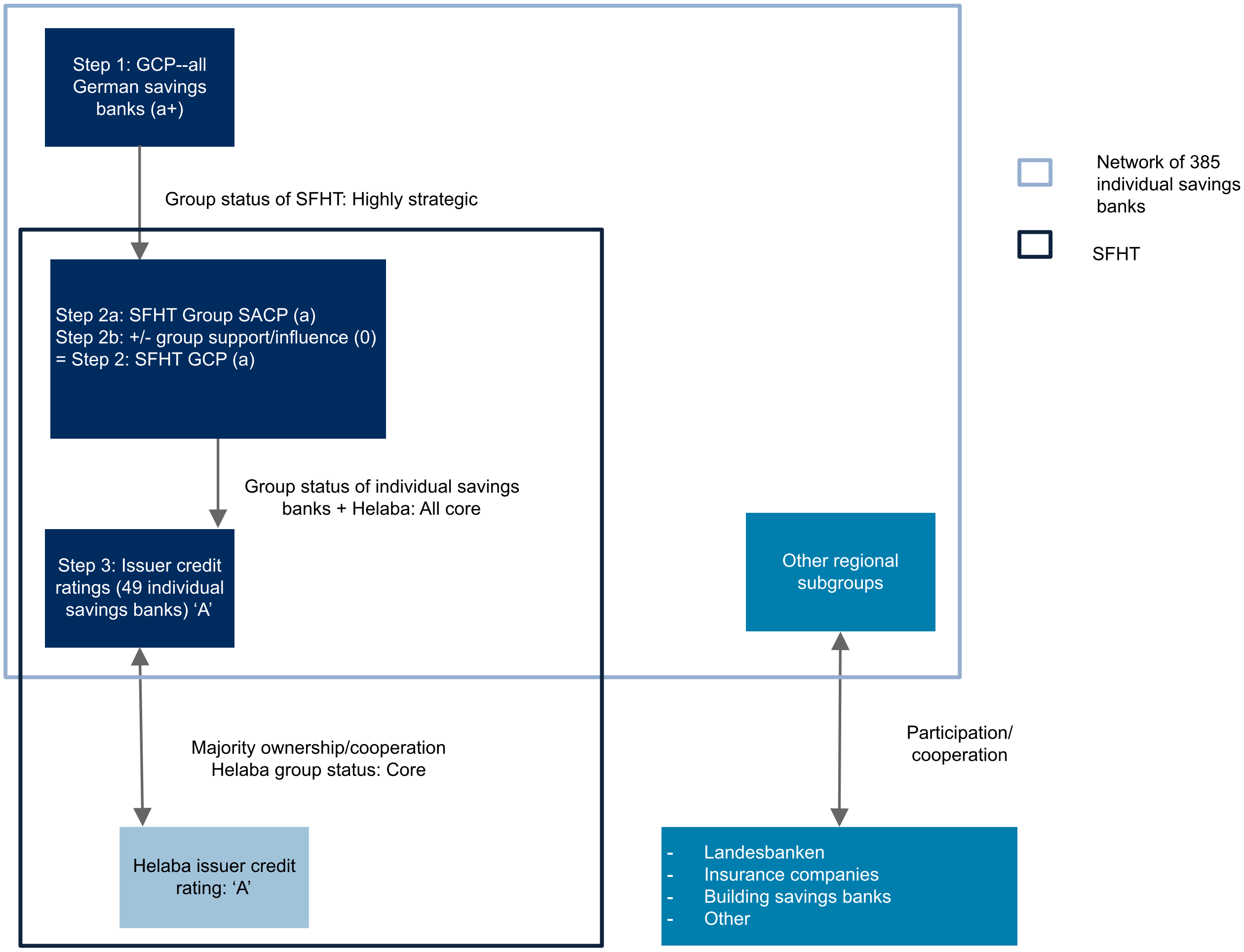
We regard an upgrade over the next 24 months as unlikely, owing to the ongoing strain on the group's earnings from low interest rates, and signs of economic downturn in Germany and other parts of the world.

Rationale

We equalize our ratings on each savings bank and Helaba with our view of SFHT's GCP at 'a'. The equalization with the GCP reflects the core group status of member savings banks and Helaba within SFHT. SFHT is a member of the nationwide German Savings Banks Association (DSGV), but its GCP is neither enhanced nor constrained by our assessment of DSGV's GCP at 'a+' and our view that SFHT, including Helaba, is a highly strategic subgroup of the German savings banks. The 'a' at the regional level means that we consider SFHT to be a strong subgroup of the German savings banks network (see chart 1).

Chart 1

S-Finanzgruppe Hessen-Thueringen--Savings Banks



GCP--Group credit profile. SACP--Stand-alone credit profile. SFHT--Sparkassen-Finanzgruppe Hessen-Thueringen.

SFHT's business profile comprises mainly retail banking-oriented regional savings banks and a material share of wholesale banking activities through majority-owned Helaba. We therefore base our ratings on our view that SFHT's member banks will maintain a strong business focus on Germany, supporting the 'a-' anchor. Our ratings also reflect the group's solid aggregate business position, supported by the savings banks' dominant position in regional retail banking and complemented by Helaba's function as its central institution, and by its more wholesale-oriented businesses. Rating constraints include the relatively high cost base, and the savings banks' revenues' sensitivity to a prolonged low-interest-rate environment.

We anticipate that the group's aggregated capitalization will remain a rating strength, based on our forecast that aggregate risk-adjusted capital (RAC) ratio will remain at about 14% over the next 18-24 months.

In our assessment of SFHT's risk profile, we view positively Helaba's and the savings banks' risk-averse culture and relationship-based strategies, which partly mitigate their sizable exposure to CRE markets.

We also factor in SFHT's refinancing availability from its large regional retail branch network, close relationships with domestic corporate clients, and funding diversification courtesy of Helaba.

We consider Helaba to be a core member of SFHT and include it in SFHT's GCP. This reflects its majority ownership by, and continued integration with, the savings banks, and its ability to benefit from an additional regional reserve fund, which was set up by Helaba and the region's savings banks to support each other, if needed. Helaba also acts as the central institution for about 40% of all savings banks in Germany.

Anchor: 'a-' reflecting lending exposure predominantly to Germany

Our bank criteria use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating (ICR). Our anchor for banks operating mainly in Germany is 'a-'.

Our 'a-' anchor for SFHT reflects the group entities' domicile in Germany, where they are regulated, and our view of the blended economic risk of the markets in which the group operates. About 80% of the group's exposure to the private sector and to local and regional governments is domestic. This has a favorable impact on the anchor, because we view Germany as having the lowest economic risk of all banking systems globally. About 20% of SFHT's credit exposure is in countries with higher economic risks, due to Helaba's activities abroad—mainly in CRE lending and corporate finance. We project no material changes to country composition, and expect that savings banks' balance sheets will grow in line with Helaba's. Helaba is slightly increasing the share of foreign corporate exposures, but its corporate exposures account for only about 40% of the group's total private sector and regional government exposures. This implies that the anchor is sensitive to a potential downward revision of industry risk but not economic risk--both of which we consider to be on a negative trend for Germany.

Despite strengthening headwinds for Germany's economy from the ongoing trade war and a potentially disruptive Brexit, we maintain our view of Germany's economy as highly diversified, competitive, and resilient. A strong fiscal and sizable net external creditor position provides important buffers in a shock. That said, the high degree of openness, with exports accounting for almost 50% of GDP in 2018, greatly exposes Germany to external risks. Moreover, risks of economic imbalances are starting to emerge. Real house price growth returned to 6.3%, from 3.9% in 2017, and price pressures remain high thanks to low unemployment levels and rising wages, very high levels of net immigration, and supply shortages. Given the emerging pockets of weakness in Germany's corporate sector, we expect the very favorable cycle of minimal- or non-existing-risk costs will end, although overall private-sector debt remains low, at 107% of GDP in 2018.

As is the case for many European banking industries, industry risk in Germany is intermediate, in our view. However, returns in the German banking industry are trailing the Northern and Eastern European banking industries. In addition, the low-for-longer interest rate environment and very strong competition will continue to weigh on profitability, while progress in cost- reducing and efficiency-enhancing measures has been slow to translate into meaningful savings. The need for significant investment in core banking systems and digital customer services will keep cost pressure high. Overall, German banks compare poorly in terms of cost efficiency with their European peers, and are increasingly exposed to the risks of tech disruption.

Well-funded and strongly capitalized savings and cooperative banking groups that have about 50% of the market in this segment will continue to dominate Germany's retail banking market. Large banks typically carry riskier concentration and business risk, but have become significantly less vulnerable to economic risks thanks to substantial deleveraging, de-risking, and recapitalization in recent years. We continue to consider the institutional framework for the German banking system as intermediate, because regulatory reforms and expected progress are resolving major deficiencies and improving accountability and transparency in the German banking system.

Table 1

S-Finanzgruppe Hessen-Thueringen--Key Figures

	--Year ended Dec. 31--				
(Mil. €)	**2018**	**2017**	**2016**	**2015**	**2014**
Adjusted assets	258,693.0	251,779.0	256,510.0	260,162.0	264,203.0
Customer loans (gross)	161,949.0	155,474.0	156,472.0	154,147.0	150,038.0
Adjusted common equity	18,786.0	17,983.9	17,154.7	17,304.0	16,292.0
Operating revenues	4,116.0	4,940.0	5,228.0	5,164.0	5,356.0
Noninterest expenses	3,236.0	3,512.0	3,494.0	3,461.0	3,590.0
Core earnings	608.7	1,076.9	1,183.4	1,066.6	1,188.6

Business position: Dominant retail franchise in Hesse and Thuringia

In our assessment of SFHT's business position, we view positively the highly predictable business volumes of the member savings banks. We take a similar view of the prudent and relationship-based strategy of Helaba's wholesale banking, which is active in business lines that we consider to be more cyclical. These benefits are partly offset by a relatively high cost base and the savings banks' sensitivity to a prolonged ultra-low-interest-rate environment. Also, given SFHT's focus on the two German states of Hesse and Thuringia, the group does not benefit from the same degree of diversification and strong nationwide market position as its higher scored peer, Cooperative Banking Sector Germany. The savings banks' business contributes about 60%-70% (see table 1) to the group's pretax profit based on SFHT's segment reporting. Helaba's other commercial activities contribute the remainder, of which more than half is from its CRE activities.

Table 2

S-Finanzgruppe Hessen-Thueringen--Segment Pretax Profit Composition

	2018	**2017**
Real estate	242	254
Corporate finance	121	263
Promotion-related business	19	19
Retail and asset management	754	1,168
Other / consolidation	(178.0)	(331.0)
Total	958	1,373

We anticipate that the savings banks within SFHT will continue to maintain strong market penetration in retail banking and the small and midsized enterprise (SME) corporate banking products with a demonstrably loyal customer base in their home region. This results in revenues with a high annuity character, mainly from interest income. Market shares range between approximately 30% and 45% in areas such as accounts, deposits, and mortgage products, based on a dense network of branches and self-service centers, and very positive recognition of the nationwide savings banks' brand. At the same time, SFHT's member savings banks increasingly open digital channels to their client base, with product development often centralized at the national level, to reflect changes in customer behavior in retail banking. However, benefits are partly offset by the savings banks' revenue concentration in interest income from commoditized banking products, coupled with a relatively large and inflexible cost base at all member banks. This leads to an above-average sensitivity of the savings banks' profitability to the prolonged low-interest-rate environment.

Helaba complements the savings banks' business as SFHT's central institution, and fully owns the largest savings bank in the region, Frankfurter Sparkasse. However, it sources its earnings mainly from activities in CRE (where it is one of the largest players in Germany), corporate finance, financial markets business, and asset management--all both domestically and abroad. We consider such wholesale banking activities generally to be cyclical. However, Helaba has built a track record of prudently managing these activities. Helaba's cost-income ratio stands at a high 80%, and it recently announced an efficiency program that will include downsizing of employees to tackle its sub-par efficiency compared with international peers with a projected median efficiency ratio in 2020 of about 62%. We consider this particularly important because we expect pressure on Helaba's revenues to increase, as we are approaching less favorable conditions than in previous years.

Since the acquisition of the former WestLB's business with savings banks in 2012, Helaba took over the central institution role for the savings banks in the German states of North Rhine-Westphalia and Brandenburg. It is the designated central institution for about 40% of savings banks across Germany. This supports its high importance to the nationwide savings banks sector, and adds stability and diversity to Helaba's business profile by providing access to these customers and business volumes. It also has improved its access to stable funding from the savings banks in these large regions.

Helaba recently completed the acquisition of public lender Dexia Kommunalbank Deutschland (DKD). The acquired public sector portfolio has a high concentration in Germany, funded by stable Pfandbriefe (covered bonds). We do not see material changes to SFHT's financial profile, as we expect Helaba to run down the portfolio swiftly in order to realize equity reserves. We do not anticipate increased focus on public lending. In 2019, Helaba also took over a land transport portfolio from DVB Bank, with both transactions demonstrating that Helaba is actively looking for market opportunities to offset some of the pressure on its revenues.

Overall, we believe there is good collaboration between SFHT member banks, as well as strategic coordination and oversight within the group. This mitigates the sector's inherent strategic difficulties, of being a group of separate legal entities with independent management--which tends to slow down decision-making, in our view. However, SFHT's decentralized group structure and high cost base with strong reliance on physical branches increases the risk that its retail activities could be subject to tech disruption, especially if the open banking trend were to accelerate.

Still, some of the member savings banks appear to be less effective at exploiting their full market potential. We assume that peer pressure and oversight will support these banks in improving their effectiveness, as the low-interest-rate environment continues to eat into banks' interest margins. We understand that countermeasures will also include additional branch closures. However, even after such closures, SFHT member banks would still maintain by far the largest retail banking franchise in their regions.

Table 3

S-Finanzgruppe Hessen-Thueringen--Business Position					
	--Year ended Dec. 31--				
(%)	2018	2017	2016	2015	2014
Total revenue from business line (currency in millions)	4,212.0	4,940.0	5,228.0	5,164.0	5,358.0
Commercial banking/total revenues from business line	10.4	9.1	9.5	10.0	9.5
Retail banking/total revenues from business line	46.1	46.5	44.7	46.9	45.3
Commercial & retail banking/total revenues from business line	56.4	55.5	54.2	56.9	54.8
Corporate finance/total revenues from business line	9.1	6.3	6.2	6.5	5.2
Other revenues/total revenues from business line	34.4	38.2	39.6	36.6	40.0
Investment banking/total revenues from business line	9.1	6.3	6.2	6.5	5.2
Return on average common equity	3.1	5.2	6.2	5.9	6.8

Capital and earnings: Strong capital buffers due to ongoing earnings retention

We base our assessment of capital and earnings primarily on our expectation that SFHT's consolidated RAC ratio will remain at strong levels and at about 14% over the next 18-24 months. This year's ratio decreased by about 1% to 13.8%, because of a combination of weaker-than-expected net income and relatively higher customer loan growth in asset classes that attract larger risk weights. In particular, after years of stagnation, we saw Helaba's corporate portfolio increase again, in particular in its CRE and project finance activities, which generally attract higher risk weights than most business originating from savings banks. Overall, our risk-weighted asset (RWA) metrics increased by about 6% from last year.

In our capital projection, we anticipate that growth in SFTH's customer portfolio will widely offset positive capital effects from retained earnings and the acquisition of the former DKD. Our projection also considers that earnings remain under ongoing pressure from the ultra-low interest-rate environment, leading to further reduction in net interest income. This forecast includes our revised interest-rate scenario, which assumes unchanged, very-low rate levels by at least 2021. We also include a gradual reversal of credit-loss provisioning requirements to levels more in line with historical averages, as downside risks to the German and global economy increase. We also assume that the ownership structure will continue to support high earnings retention. Overall, we expect our RAC ratio to stabilize at the current strong levels.

The very low economic risk in Germany generally benefits our RAC ratio, and leads to lower risk weights for domestic exposure by the savings banks, compared with the banks' regulatory standardized approach. This is more than offset by the higher risk weights that we apply to Helaba's corporate exposures. We continue to deduct the equity stakes--mainly in SV SparkassenVersicherung and other banking entities--of the savings banks sector from total adjusted capital (TAC), instead of applying risk charges on the investments.

Our assessment also reflects our view that the savings banks and Helaba will be able to comply with current and future regulatory capital requirements coming into effect under Basel III. Member banks' capital levels have increased substantially over the past decade, based on earnings retention that has outpaced low growth rates in risk assets. SFHT's consolidated regulatory core equity Tier 1 ratio under Basel III fully loaded rules stood at a very high 19.3% at year-end 2018. This ratio is based on equity determined by using International Financial Reporting Standards (IFRS) accounting rules. For Helaba alone, its fully loaded common equity Tier 1 ratio was 14.9% on the same reporting. This ratio is favorable, but will likely fall because of new rules from the Basel committee designed to reduce the volatility of regulatory RWAs, in particular by the introduction of risk-weight floors for banks, such as Helaba, that apply internal ratings-based approaches.

We assess the quality of capital and earnings as neutral because adjusted common equity represents 91% of TAC with an increasing trend. The remainder consists of the former silent partnership (Stille Einlagen) from the State of Hesse, which was converted some years ago for regulatory reasons, and which we consider government-owned hybrids in our TAC calculation. The ownership structure with generally lower dividend payout requirements also supports our capital quality assessment. On the other side, our assessment is mitigated by, in our view, limitation to fungibility of capital within the group that consists of legally independent entities. The ratio for Helaba on a stand-alone basis slightly decreased to 8.9% and remains substantially lower than for SFHT as a whole and shows that capital is unevenly split among SFHT members.

Table 4

S-Finanzgruppe Hessen-Thueringen--Capital And Earnings

	--Year ended Dec. 31--				
(%)	**2018**	**2017**	**2016**	**2015**	**2014**
S&P Global Ratings' RAC ratio before diversification	13.8	14.8	13.8	13.7	12.7
S&P Global Ratings' RAC ratio after diversification	13.0	14.3	13.3	14.3	13.5
Adjusted common equity/total adjusted capital	90.6	90.4	89.9	90.0	89.5
Net interest income/operating revenues	66.7	56.4	56.7	59.1	56.2
Fee income/operating revenues	25.0	20.7	18.5	18.3	16.5
Market-sensitive income/operating revenues	(4.4)	6.2	8.2	6.6	7.8
Noninterest expenses/operating revenues	78.6	71.1	66.8	67.0	67.0
Preprovision operating income/average assets	0.3	0.6	0.7	0.6	0.7
Core earnings/average managed assets	0.2	0.4	0.5	0.4	0.5

RAC--Risk-adjusted capital.

Table 5

S-Finanzgruppe Hessen-Thueringen--Risk-Adjusted Capital Framework Data

(Mil. €)	**Exposure***	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global Ratings RWA**	**Average S&P Global Ratings RW (%)**
Credit risk					
Government & central banks	69,351.6	2,221.6	3.2	2,166.6	3.1
Of which regional governments and local authorities	41,655.3	1,918.9	4.6	1,547.6	3.7
Institutions and CCPs	39,020.7	4,774.7	12.2	7,772.4	19.9
Corporate	104,928.9	57,805.4	55.1	68,575.4	65.4
Retail	46,027.9	21,375.3	46.4	17,328.3	37.6
Of which mortgage	25,583.9	7,927.5	31.0	5,121.5	20.0
Securitization§	275.5	36.5	13.2	108.2	39.3
Other assets†	3,913.0	2,611.1	66.7	5,260.2	134.4
Total credit risk	263,517.7	88,824.5	33.7	101,211.1	38.4

Table 5

S-Finanzgruppe Hessen-Thueringen--Risk-Adjusted Capital Framework Data (cont.)					
Credit valuation adjustment					
Total credit valuation adjustment	--	681.7	--	1,946.1	--
Market Risk					
Equity in the banking book	10,034.8	9,017.0	89.9	37,021.9	368.9
Trading book market risk	--	3,650.2	--	5,454.4	--
Total market risk	--	12,667.2	--	42,476.3	--
Operational risk					
Total operational risk	--	8,452.1	--	4,309.0	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	110,625.6	--	149,942.5	100.0
Total diversification/ concentration adjustments	--	--	--	9,884.1	6.6
RWA after diversification	--	110,625.6	--	159,826.6	106.6
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		22,012.0	19.9	20,731.0	13.8
Capital ratio after adjustments‡		22,012.0	19.8	20,731.0	13.0

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2018, S&P Global Ratings.

Risk position: Benefiting from a high share of granular retail loans and lower risk appetite

SFHT's loss track record through the recent financial and sovereign debt crisis has been better than that of peers in Germany with similar geographic and business profiles. (see For German Landesbanken In 2019, The Risk Is Down, But Long-Term Questions Remain, published Sept. 26, 2019 on RatingsDirect). In our opinion, the group will be able to manage the increasingly difficult economic environment in Germany, in particular in the corporate sector, given both the savings banks' and Helaba's prudent risk appetite. We balance the savings banks' highly granular retail loan portfolios in Germany against Helaba's well-managed, but more cyclical and concentrated, exposures. We also consider that capital is not fully fungible within the group, since the banks are legally independent and separately regulated.

SFHT's group-wide risk discipline benefits from joint risk-management guidelines, harmonized rating and scoring systems, monitoring by SFHT's audit department for the savings banks, and risk-reward contributions to the protection scheme. The group also benefits from a high proportion of collateralized, granular domestic residential mortgage loans and overall still widely stable housing markets in Germany. Domestic credit losses have been very low over the past few years, even close to historical lows, and this resulted in releases of €4 million in provisions in 2018 and €53 million in 2017. Given the signs of an economic worsening in SFTH's core market, Germany, we anticipate a gradual reversal of risk costs over the coming years. Because the savings banks operate only in their own regions and are constrained by individual regulatory limits on single loans, the single-name concentration risk for the group from individual savings banks is negligible.

In our view, SFHT's exposure to the CRE sector through Helaba represents the biggest industry concentration risk. After years of muted growth with material amounts of prepayments, Helaba's credit volume in this segment slightly increased again to about €32 billion in 2018 from €31 billion in 2017. About 58% of this exposure is outside Germany, mainly the U.S., the U.K., and France. These risks are partly mitigated by what we see as the savings banks' and Helaba's risk-averse cultures. Helaba's credit losses on international CRE and corporate financing have been materially lower than those of many other specialized peers. We see this as an illustration of Helaba's generally more prudent underwriting and conservative risk culture. Helaba's exposure to CRE in the U.K. is about €3.2 billion, mainly in London and Southern England. Although exposure quality might suffer following the U.K.'s expected departure from the EU in early 2020, we believe that the effect on Helaba and SFHT should be immaterial to our ratings. The loan-to-value ratios are almost entirely below 70%, with the vast majority (78% in total) below 60%. The exposure to financial institutions tenants is minimal. We also consider Helaba's traditional focus on strong sponsors with long-standing relationships as ratings positive.

In addition to the acquisition of DKD, Helaba also took over a €2 billion land transport portfolio from German peer DVB Bank SE in 2019. Helaba can already build on in-house expertise in this segment, and we do not anticipate material changes in Helaba's risk profile from this acquisition, and especially not for SFHT as a whole.

Table 6

S-Finanzgruppe Hessen-Thueringen--Risk Position

	--Year ended Dec. 31--				
(%)	**2018**	**2017**	**2016**	**2015**	**2014**
Growth in customer loans	4.2	(0.6)	1.5	2.7	0.7
Total diversification adjustment/S&P Global Ratings' RWA before diversification	6.6	3.7	4.3	(4.2)	(5.6)
Total managed assets/adjusted common equity (x)	13.8	14.0	15.0	15.0	16.2
New loan loss provisions/average customer loans	(0.0)	(0.1)	0.1	0.1	0.0

RWA--Risk-weighted assets.

Funding and liquidity: Benefit from SFHT's sizable regional retail deposit franchise

We anticipate that SFHT's funding and liquidity will remain neutral for the rating, given that these two factors are in line with other large European peers. We view positively the group's refinancing availability from its large regional retail branch network, its close relationships with domestic retail and corporate clients, and its franchise for issuing longer-term Pfandbriefe. In our view, however, funding and liquidity are not fully fungible within the group. The savings banks are very well funded and have a strong granular retail deposit base, which creates sizable surplus liquidity. SFHT's strong regional franchise and broad branch network support the stability of its customer deposits. Moreover, their liquidity benefits from sizable high-quality securities eligible for sale-and-repurchase transactions. The banks' excess funding is channelled mainly to Helaba.

Helaba contributes to SFHT's funding access and diversity, but to a significant degree it is wholesale funded (including covered bonds, which proves beneficial in the low-rate environment as Helaba is able to refinance covered bonds at negative rates in today's environment). However, it also exposes Helaba to potentially tighter funding access and higher financing costs under stressed conditions. That said, Helaba has for many years applied a largely matched funding policy to mitigate funding and liquidity risks, which we regard as ratings positive. A high level of covered bonds issuance and good access to refinancing in Germany's Pfandbriefe market support its franchise, and Helaba's wholesale funding sources are generally very diverse. We also regard Helaba's access to funding from the savings banks in North Rhine-Westphalia and Brandenburg, through its role as their central institution, as ratings positive. Moreover, Helaba owns Frankfurter Sparkasse, which affords it direct access to granular retail deposits. We continue to view as positive Helaba's prudent liquidity management.

SFHT's aggregate loan-to-deposit ratio was about 120% at year-end 2018, reflecting that Helaba's operations are not fully deposit funded such as those of the savings banks. However, our stable funding ratio of above 100% demonstrates the overall balanced funding profile of the group. SFHT's broad liquid assets to short-term wholesale funding ratio of 1.19x as of year-end 2018 underpins our adequate view of the group's liquidity position. The savings banks and Helaba's large securities portfolio, including substantial amounts of liquid assets bolsters this ratio, in our view. Considering all aspects, we expect SFHT could operate for more than six months without access to market funding in an adverse scenario.

Table 7

S-Finanzgruppe Hessen-Thueringen--Funding And Liquidity

	--Year ended Dec. 31--				
(%)	**2018**	**2017**	**2016**	**2015**	**2014**
Core deposits/funding base	60.3	59.9	57.4	55.8	53.3
Customer loans (net)/customer deposits	119.9	120.0	125.1	123.9	125.7
Long-term funding ratio	81.1	80.3	78.8	75.6	74.1
Stable funding ratio	102.4	100.7	98.1	96.2	95.4
Short-term wholesale funding/funding base	20.8	21.7	23.3	26.6	28.1
Broad liquid assets/short-term wholesale funding (x)	1.2	1.1	1.0	1.0	1.0
Net broad liquid assets/short-term customer deposits	7.9	5.1	1.2	(1.9)	(1.9)
Short-term wholesale funding/total wholesale funding	51.2	52.9	53.5	59.0	59.2

External support: Individual banks' ratings based on core group status

Our ratings are based on SFHT's member banks' aggregate strength, given that we consider them to be a group of integrated, albeit legally independent institutions (see "An Update On How We Rate German Savings Banks," published Sept. 26, 2019 on RatingsDirect). We consider SFHT, including Helaba, to be a highly strategic subgroup to the nationwide network of German savings banks, to which we assign a GCP of 'a+'. This is neutral to the GCP of SFHT, however, given that we already consider SFHT's unsupported GCP at 'a', which means that no uplift is possible for being a member of the nationwide network. Since we regard all SFHT savings banks and Helaba to be core members to SFHT, we equalize our ratings on each bank with the 'a' GCP on SFHT.

We also regard Helaba as a core group member and include it in our GCP on SFHT. This reflects that the savings banks in Hesse and Thuringia own 68.85% in Helaba and are actively involved in the supervision of its strategies. In addition, SFHT savings banks and Helaba strengthened their ties by creating a regional reserve fund in 2004 on top of the German savings banks' nationwide institutional protection scheme. The size of the regional reserve fund was €555 million at year-end 2018 and its goal is to prevent the insolvency of member institutions while also protecting depositors. It underscores the savings banks' commitment to each other and to Helaba. It differs from the nationwide mutual protection scheme of the German savings banks association by tying Helaba directly to its associated savings banks. Under the national scheme, Landesbanks are expected to support each other under a separate pillar that excludes savings banks, although they might ultimately receive support from savings banks under certain conditions.

Since June 2015, we have regarded the prospect of extraordinary government support for German banks as uncertain, in view of the authorities' clear intent to avoid taxpayer bail-outs of failing banks, and the well-advanced and effective resolution framework. At the same time, we view the German resolution regime as effective under our additional loss-absorbing capacity (ALAC) criteria. This contains a well-defined bail-in process under which authorities would permit nonviable systemically important banks to continue critical functions as going concerns following a bail-in of eligible liabilities.

However, our assessment of SFHT's GCP does not include ALAC support. We believe that regulators would apply a resolution framework to individual institutions in SFHT and not to the group as a whole. 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
- 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: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Outlooks On Various German Banks Revised To Negative On Rising Banking Sector Risks; Ratings Affirmed, Sept. 18, 2019
- An Update On How We Rate German Savings Banks, Sept. 26, 2019
- For German Landesbanken In 2019, The Risk Is Down, But Long-Term Questions Remain, Sept. 26, 2019
- Banking Industry Country Risk Assessment: Germany, Oct. 1, 2019

Anchor Matrix

Industry Risk	Economic Risk									
	1	**2**	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	**a-**	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of December 10, 2019)*

Landesbank Hessen-Thueringen Girozentrale		
Issuer Credit Rating		A/Stable/A-1
Commercial Paper		
Foreign Currency		A-1
Senior Subordinated		A-
Senior Unsecured		A
Issuer Credit Ratings History		
14-Aug-2019	*Foreign Currency*	A/Stable/A-1
21-Aug-2018		A/Positive/A-1
16-Sep-2010		A/Stable/A-1
14-Aug-2019	*Local Currency*	A/Stable/A-1
21-Aug-2018		A/Positive/A-1
16-Sep-2010		A/Stable/A-1
Sovereign Rating		
Germany		AAA/Stable/A-1+

Ratings Detail (As Of December 10, 2019)*(cont.)	
Related Entities	
Frankfurter Sparkasse	
Issuer Credit Rating	A/Stable/A-1
Kasseler Sparkasse	
Issuer Credit Rating	A/Stable/A-1
Kreissparkasse Eichsfeld	
Issuer Credit Rating	A/Stable/A-1
Kreissparkasse Gelnhausen	
Issuer Credit Rating	A/Stable/A-1
Kreissparkasse Gotha	
Issuer Credit Rating	A/Stable/A-1
Kreissparkasse Gross-Gerau	
Issuer Credit Rating	A/Stable/A-1
Kreissparkasse Hildburghausen	
Issuer Credit Rating	A/Stable/A-1
Kreissparkasse Limburg	
Issuer Credit Rating	A/Stable/A-1
Kreissparkasse Nordhausen	
Issuer Credit Rating	A/Stable/A-1
Kreissparkasse Saale-Orla	
Issuer Credit Rating	A/Stable/A-1
Kreissparkasse Saalfeld-Rudolstadt	
Issuer Credit Rating	A/Stable/A-1
Kreissparkasse Schluechtern	
Issuer Credit Rating	A/Stable/A-1
Kreissparkasse Schwalm-Eder	
Issuer Credit Rating	A/Stable/A-1
Kreissparkasse Weilburg	
Issuer Credit Rating	A/Stable/A-1
Kyffhaeusersparkasse	
Issuer Credit Rating	A/Stable/A-1
Nassauische Sparkasse	
Issuer Credit Rating	A/Stable/A-1
Sparkasse Altenburger Land	
Issuer Credit Rating	A/Stable/A-1
Sparkasse Arnstadt-Ilmenau	
Issuer Credit Rating	A/Stable/A-1
Sparkasse Bad Hersfeld-Rotenburg	
Issuer Credit Rating	A/Stable/A-1
Sparkasse Battenberg	
Issuer Credit Rating	A/Stable/A-1
Sparkasse Bensheim	
Issuer Credit Rating	A/Stable/A-1

Ratings Detail (As Of December 10, 2019)*(cont.)	
Sparkasse Dieburg	
Issuer Credit Rating	A/Stable/A-1
Sparkasse Dillenburg	
Issuer Credit Rating	A/Stable/A-1
Sparkasse Fulda	
Issuer Credit Rating	A/Stable/A-1
Sparkasse Gera-Greiz	
Issuer Credit Rating	A/Stable/A-1
Sparkasse Giessen	
Issuer Credit Rating	A/Stable/A-1
Sparkasse Gruenberg	
Issuer Credit Rating	A/Stable/A-1
Sparkasse Hanau	
Issuer Credit Rating	A/Stable/A-1
Sparkasse Jena-Saale-Holzland	
Issuer Credit Rating	A/Stable/A-1
Sparkasse Langen-Seligenstadt	
Issuer Credit Rating	A/Stable/A-1
Sparkasse Laubach-Hungen	
Issuer Credit Rating	A/Stable/A-1
Sparkasse Marburg-Biedenkopf	
Issuer Credit Rating	A/Stable/A-1
Sparkasse Mittelthueringen	
Issuer Credit Rating	A/Stable/A-1
Sparkasse Oberhessen	
Issuer Credit Rating	A/Stable/A-1
Sparkasse Odenwaldkreis	
Issuer Credit Rating	A/Stable/A-1
Sparkasse Rhoen-Rennsteig	
Issuer Credit Rating	A/Stable/A-1
Sparkasse Sonneberg	
Issuer Credit Rating	A/Stable/A-1
Sparkasse Starkenburg	
Issuer Credit Rating	A/Stable/A-1
Sparkasse Unstrut-Hainich	
Issuer Credit Rating	A/Stable/A-1
Sparkasse Waldeck-Frankenberg	
Issuer Credit Rating	A/Stable/A-1
Sparkasse Werra-Meissner	
Issuer Credit Rating	A/Stable/A-1
Sparkasse Wetzlar	
Issuer Credit Rating	A/Stable/A-1
Stadtsparkasse Borken	
Issuer Credit Rating	A/Stable/A-1

Ratings Detail (As Of December 10, 2019)*(cont.)	
Stadtsparkasse Grebenstein	
Issuer Credit Rating	A/Stable/A-1
Stadtsparkasse Schwalmstadt	
Issuer Credit Rating	A/Stable/A-1
Stadt- und Kreis-Sparkasse Darmstadt	
Issuer Credit Rating	A/Stable/A-1
Staedtische Sparkasse Offenbach am Main	
Issuer Credit Rating	A/Stable/A-1
Taunus-Sparkasse	
Issuer Credit Rating	A/Stable/A-1
Wartburg-Sparkasse	
Issuer Credit Rating	A/Stable/A-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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