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

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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/Positive/A-1

Major Rating Factors

Strengths:

- 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 Landesbank Hessen-Thueringen (Helaba).
- Strong capitalization from sound earnings retention.

Weaknesses:

- High cost base of member savings banks.
- Revenue margin pressure on deposit-funded business model.
- Concentration risk in commercial real estate (CRE) lending by Helaba.

Outlook: Positive

The core member banks of Germany-based Sparkassen-Finanzgruppe Hessen-Thueringen (SFHT) include the 49 regional savings banks and their 69%-owned central institution Landesbank Hessen-Thueringen Girozentrale (Helaba).

The positive outlook reflects that we could raise the issuer credit ratings on the SFHT entities by one notch over the next 12-24 months if we are certain that SFHT's risk-adjusted capital (RAC) ratio has demonstrably and sustainably passed the 15% threshold. An upgrade would also require that the group continue to demonstrate favorable asset quality and Helaba keep its risk-averse culture, especially in its CRE and corporate finance activities. We could also raise the ratings if we were to revise upward our view of SFHT's group status within the German savings banks sector. If we were to raise the issuer credit ratings on the SFHT entities, we would expect also raise our issue credit ratings on the senior subordinated instruments, but not the grandfathered 'AA'-rated instruments.

Downside scenario

We could revise the outlook to stable if we were to see SFHT's RAC ratio retreating from, rather than approaching, the 15% threshold, or if we see the improving capitalization being counterbalanced by doubts over the group's exposure to unexpected losses of, for example, the riskier activities undertaken by Helaba.

SFHT's highly strategic group status effectively puts an 'A' floor on the long-term ratings on individual SFHT savings banks and Helaba, given our current assessment of an 'a+' group credit profile (GCP) for the German savings banks' sector. We also assume that the level of cohesion and cooperation within the German savings banks sector will remain high and that the aggregate creditworthiness of the German network of savings banks will remain stable.

A downgrade would require a combination of a weaker assessment of the German savings banks' nationwide network or SFHT's links with it, and of the unsupported GCP of SFHT member banks. While we consider this unlikely, both might occur if profitability were to erode, such that it prevented SFHT or nationwide savings banks from covering their normalized credit losses.

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's GCP is neither enhanced nor constrained by our assessment of the nationwide German savings banks' GCP of '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.

SFHT's business profile differs from other mainly retail banking-oriented regional savings banks groups because its GCP includes 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. They 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. A rating constraint remains the sensitivity of the savings banks' revenues to a prolonged low-interest-rate environment.

We anticipate that the group will maintain strong capital and earnings based on our forecast that the aggregate RAC ratio will slightly improve to 14.5%-15% over the next 18-24 months.

We assess the group's aggregate risk position as a neutral rating factor thanks to Helaba's and the savings banks' risk-averse culture and relationship-based strategies partly compensating 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 that it can benefit from an additional regional reserve fund, which was set up by Helaba and the savings banks in the region to support each other, if needed. Helaba also acts as 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). The anchor 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 that the portfolio composition will remain broadly stable, given that the purely domestic savings banks' balance sheets are likely to grow faster than Helaba's. Helaba is slightly increasing the share of foreign corporate exposures, but its corporate exposures account only for about 40% of the group's total private sector and regional government exposures.

Germany's highly diversified, competitive, and flexible economy continues to perform well against the backdrop of a broader European recovery. The country's high degree of openness exposes it to downside risks from the external environment, but Germany's important buffers, such as a sizable net external creditor position and fiscal surpluses, should allow its economy to absorb external shocks and remain resilient. We expect Germany's strong house price growth will continue to cool, and increasing supply, falling demand, and gradually rising interest rates will ease price pressures. Moreover, dynamic house price increases were not the result of strong mortgage growth, and we still consider a nationwide housing bubble unlikely over the next few years. Domestic nonperforming loans and associated credit loss provisions have bottomed out since their 2010 peak, but we expect they will remain in a favorable credit cycle for some time.

As for many European banking industries, industry risk in Germany is intermediate, in our view. Returns in the German banking industry are broadly in line with many European peers' owing to low domestic credit losses and stability from granular earnings generation, but low interest rates and strong competition drag on profitability. Rising interest rates, which we expect from the second half of 2019, should increase German banks' profitability, while cost-reducing and efficiency-enhancing measures will improve German banks' unfavorable cost efficiency and fee generation ability. Generally sound underwritings practices should protect German banks' profitability from a rise in risk cost that typically accompanies material interest rates increases.

Well-funded and strongly capitalized savings and cooperative banking groups will continue to dominate Germany's retail banking market. Large banks, which carry riskier concentration and business risk, have become less vulnerable to economic risks due to deleveraging, de-risking, and recapitalization. The German banking system's institutional framework benefits from implemented and expected regulatory reforms resolving major deficiencies and improving accountability and transparency. The likelihood of the German government providing extraordinary support to systemic domestic banks is uncertain.

Table 1

S-Finanzgruppe Hessen-Thueringen -- Key Figures

	--Year ended Dec. 31--				
(Mil. €)	**2017**	**2016**	**2015**	**2014**	**2013**
Adjusted assets	251,779	256,510	260,162	264,203	261,342
Customer loans (gross)	155,474	156,472	154,147	150,038	148,958
Adjusted common equity	17,984	17,155	17,304	16,292	15,738
Operating revenues	4,940	5,228	5,164	5,356	5,193
Noninterest expenses	3,512	3,494	3,461	3,590	3,583
Core earnings	1,077	1,183	1,067	1,189	1,063

Business position: Dominant retail franchise in Hesse and Thuringia

In our assessment of SFHT's business position, we consider positively the highly predictable business volumes of the member savings banks. We also view positively 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 the savings banks' sensitivity to a prolonged 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% to the group's pretax profit based on SFHT's segment reporting. Helaba's other commercial activities contribute the remainder, of which currently more than half is from its CRE activities.

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 about 2,000 branches and self-service centers, and very positive recognition of the nationwide savings banks' brand. The savings banks' public-law status and regional roots, coupled with strong capitalization, also reinforce clients' confidence. Accordingly, the banks have benefited from a "flight to quality" since the onset of the financial and sovereign debt crisis in 2007. These 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. This leads to an above-average sensitivity of the savings banks' profitability to the prolonged low-interest-rate environment. That said, we positively note that the savings banks' net fee and commission income increased by over 8% in 2017, albeit from a relatively low base.

Table 2

Segment Pretax Profit Composition S-Finanzgruppe Hessen-Thueringen

	--Year-ended Dec. 31--	
(Mil. €)	**2017**	**2016**
Commercial real estate	377	401
Corporate finance	95	(51)
Financial markets	5	114
Public sector promotion and infrastructure	19	22
Retail, SME, savings banks	1,031	1,073
Other/consolidation	(86)	37
Total	1,441	1,596

SME--Small and midsize enterprise.

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. What's more, its relationship-based approach appears to have benefited the bank's market position, while several peers have been subject to business restructurings.

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

Overall, we believe there is good collaboration between SFHT member banks, as well as strategic coordination and oversight within the group. This mitigates the inherent strategic challenges for the sector of being a group of separate legal entities with independent management, which tends to slow down decision-making, in our view. 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 increasingly eats 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--				
(x)	2017	2016	2015	2014	2013
Total revenues from business line (mil. €)	4,940.0	5,228.0	5,164.0	5,358.0	5,193.0
Commercial banking/total revenues from business line	9.1	9.5	10.0	9.5	9.9
Retail banking/total revenues from business line	46.5	44.7	46.9	45.3	47.2
Commercial & retail banking/total revenues from business line	55.5	54.2	56.9	54.8	57.1
Corporate finance/total revenues from business line	6.3	6.2	6.5	5.2	4.8
Other revenues/total revenues from business line	38.2	39.6	36.6	40.0	38.1
Investment banking/total revenues from business line	6.3	6.2	6.5	5.2	4.8
Return on average common equity	5.2	6.2	5.9	6.8	6.5

Capital and earnings: Strong capital buffers due to earnings retention

We base our assessment of capital and earnings primarily on our projection that SFHT's consolidated RAC ratio will increase toward, but to remain slightly below, 15%, and therefore below the benchmark that is commensurate with our very strong assessment. This year's RAC ratio for SFHT (before adjustments) improved to 14.8% from 13.8% one year before, exceeded our expectation, mainly because of ongoing sound earnings retention in combination with overall negative loan growth of about 0.6% over the last year.

While the savings banks demonstrated moderate loan growth numbers, broadly in line with the German market, Helaba's customer portfolio shrunk over 2017, in particular in its CRE and project finance activities, which generally attract higher risk weights than most business originated by savings banks. Overall, our risk-weighted asset (RWA) metrics decreased by about 3% from last year.

However, in our projection we anticipate that Helaba's customer portfolio will return to growth, which will limit further material improvements in our RAC ratio over the coming years. The 2017 increase in our RAC ratio was also supported by decreasing, but still sound, profitability, despite pressure from the low-interest-rate environment, and by a €100 million release of credit loss provisions in 2017.

Our projection also considers that earnings remain under pressure from the low-interest-rate environment leading to further reduction in net interest income. This forecast includes our assumptions of annual loan growth of about 2%-4% and total pretax profits of €1,150 million-€1,250 million compared with €1,450 million for 2017. We also include a gradual reversal of credit loss provisioning requirements to levels more in line with historical averages as downside risks to the economy tend to increase. We also assume that the ownership structure will continue to support high earnings retention. Overall, we anticipate that aggregate capital levels will continue to improve slightly but at a diminishing pace over the next two years.

Our RAC ratio generally benefits from the very low economic risk in Germany, which leads to lower risk weights for domestic exposure by the savings banks than under the banks' regulatory standardized approach. This is more than offset by 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, which is a beneficial treatment for entities with RAC ratios significantly above 8%.

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 10 years, 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 20.6% at year-end 2017. 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 15.2% 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, as, on the one side, 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 we take into account as 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 improved to 9.3% but 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--				
(Mil. €)	**2017**	**2016**	**2015**	**2014**	**2013**
S&P Global Ratings' RAC ratio before diversification	14.8	13.8	13.7	12.7	11.3
S&P Global Ratings' RAC ratio after diversification	14.3	13.3	14.3	13.5	12.8
Adjusted common equity/total adjusted capital	90.4	89.9	90.0	89.5	89.1
Net interest income/operating revenues	56.4	56.7	59.1	56.2	57.1
Fee income/operating revenues	20.7	18.5	18.3	16.5	16.4
Market-sensitive income/operating revenues	6.2	8.2	6.6	7.8	8.4
Noninterest expenses/operating revenues	71.1	66.8	67.0	67.0	69.0
Preprovision operating income/average assets	0.6	0.7	0.6	0.7	0.6
Core earnings/average managed assets	0.4	0.5	0.4	0.5	0.4

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 and central banks	67,884	2,090	3	2,359	3

Table 5

S-Finanzgruppe Hessen-Thueringen Risk-Adjusted Capital Framework Data (cont.)					
Of which regional governments and local authorities	45,078	1,823	4	1,737	4
Institutions and CCPs	36,941	4,310	12	7,362	20
Corporate	98,523	53,702	55	64,151	65
Retail	44,926	20,621	46	16,607	37
Of which mortgage	25,694	8,050	31	5,143	20
Securitization§	269	113	42	202	75
Other assets†	3,896	2,768	71	4,991	128
Total credit risk	297,517	83,603	28	95,671	32
Credit valuation adjustment					
Total credit valuation adjustment	--	759	--	2,097	--
Market risk					
Equity in the banking book	8,930	7,532	84	27,406	307
Trading book market risk	--	3,036	--	4,608	--
Total market risk	--	10,567	--	32,014	--
Operational risk					
Total operational risk	--	8,695	--	4,730	--
		Basel III RWA		**S&P Global Ratings' RWA**	**% of S&P Global Ratings' RWA**
Diversification adjustments					
RWA before diversification		103,624		134,511	100
Total Diversification/Concentration Adjustments		--		5,010	4
RWA after diversification		103,624		139,522	104
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings' RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		21,968	21.2	19,904	14.8
Capital ratio after adjustments‡		21,968	21.2	19,904	14.3

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Other assets includes Deferred Tax Assets (DTAs) not deducted from ACE. ‡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, 2017, S&P Global.

Risk position: Benefits from a high share of granular retail loans, lower risk appetite, and support from the German economy

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. We expect this will continue to be the case, 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. In our opinion, the group will continue to benefit from a robust economic environment in Germany over the next two years. We also consider that capital is not fully fungible within the group, since the banks are legally independent and separately regulated.

SFHT's groupwide 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 stable housing markets in Germany. This has reduced domestic credit losses to historical lows and resulted in the release of €100 million in provisions in 2017 after posting net provisions of €97 million in 2016, in both years significantly supported by the release of some portfolio-based provisions with reserving character made at Helaba in 2015. 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. Helaba's credit volume in this segment decreased to about €30 billion in 2017 from €33 billion in 2016. About 57% of this exposure is outside Germany, mainly the U.S. and the U.K. 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 referendum decision to leave the EU, we believe that the impact on Helaba and SFHT should be immaterial to our ratings. The exposures' loan-to-value ratios are almost entirely below 70%, of which the vast majority (84% in total), are 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.

Helaba's shipping exposure further reduced to about €0.6 billion after €0.9 billion one year ago. While about half of the portfolio remains problematic, we consider it is well provisioned and would not materially impact our capital figures for Helaba, and especially not for SFHT as a whole.

Table 6

S-Finanzgruppe Hessen-Thueringen -- Risk Position

	--Year ended Dec. 31--				
(x)	**2017**	**2016**	**2015**	**2014**	**2013**
Growth in customer loans (%)	(0.6)	1.5	2.7	0.7	0.1
Total diversification adjustment/S&P Global Ratings' RWA before diversification	3.7	4.3	(4.2)	(5.6)	(11.7)
Total managed assets/adjusted common equity	14.0	15.0	15.0	16.2	16.6
New loan loss provisions/average customer loans	(0.1)	0.1	0.1	0.0	0.2

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 (covered bonds). 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 mainly channeled to Helaba.

Helaba contributes to SFHT's funding access and diversity, but it is to a significant degree wholesale funded (including covered bonds) and exposed to potentially tighter access to funding 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 Pfandbrief market support its franchise, and Helaba's wholesale funding sources are generally very diverse. We also regard Helaba's improved 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 a 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 2017, 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 1.12x as of year-end 2017 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.

Table 7

S-Finanzgruppe Hessen-Thueringen -- Funding And Liquidity

	--Year ended Dec. 31--				
(Mil. €)	**2017**	**2016**	**2015**	**2014**	**2013**
Core deposits/funding base	59.9	57.4	55.8	53.3	51.2
Customer loans (net)/customer deposits	120.0	125.1	123.9	125.7	127.5
Long-term funding ratio	80.3	78.8	75.6	74.1	71.7
Stable funding ratio	100.7	98.1	96.2	95.4	93.2
Short-term wholesale funding/funding base	21.7	23.3	26.6	28.1	30.6
Broad liquid assets/short-term wholesale funding (x)	1.1	1.0	1.0	1.0	0.9
Net broad liquid assets/short-term customer deposits	5.1	1.2	(1.9)	(1.9)	(6.7)
Short-term wholesale funding/total wholesale funding	52.9	53.5	59.0	59.2	61.6

External support: Individual bank's 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 "Credit FAQ: How We Rate German Savings Banks," published Aug. 19, 2016). 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 consider SFHT's unsupported GCP at 'a' already, 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 €518 million at year-end 2017 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.

Grandfathered debt ratings

The 'AA' ratings on several of Helaba's obligations are supported by the grandfathered statutory guarantees (Gewährträgerhaftung) of its government owners, the States of Hesse (AA+/Stable/A-1+) and Thuringia (not rated). The savings banks also guarantee Helaba's grandfathered obligations.

Because the grandfathering guarantee does not explicitly state that any payment will be on time, we continue to believe that timeliness of payment hinges on the owners' strong ongoing commitment. We regard Hesse as the strongest guarantor of Helaba's debt instruments. In our view, the grandfathered debt benefits from an extremely high likelihood of extraordinary government support from Hesse, based on our assessment of Helaba's critical role for and very strong link with the state.

Any future rating action on the grandfathered debt would most likely be based on the following factors:

- Developments that could lead us to change our assessment of Helaba's role for or link with the respective owner states with regard to grandfathered debt; or
- Positive or negative rating actions on the guarantors.

Related Criteria

- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017

- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
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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 November 30, 2018)	
Landesbank Hessen-Thueringen Girozentrale	
Issuer Credit Rating	A/Positive/A-1

Ratings Detail (As Of November 30, 2018) (cont.)		
Commercial Paper		
Foreign Currency		A-1
Senior Subordinated		A-
Issuer Credit Ratings History		
21-Aug-2018	*Foreign Currency*	A/Positive/A-1
16-Sep-2010		A/Stable/A-1
06-May-2009		A/Negative/A-1
21-Aug-2018	*Local Currency*	A/Positive/A-1
16-Sep-2010		A/Stable/A-1
06-May-2009		A/Negative/A-1
Sovereign Rating		
Germany		AAA/Stable/A-1+
Related Entities		
DekaBank Deutsche Girozentrale		
Issuer Credit Rating		A+/Stable/A-1
Commercial Paper		
Local Currency		A-1
Senior Subordinated		A
Senior Unsecured		A+
Short-Term Debt		A-1
Frankfurter Sparkasse		
Issuer Credit Rating		A/Positive/A-1
Kasseler Sparkasse		
Issuer Credit Rating		A/Positive/A-1
Kreissparkasse Eichsfeld		
Issuer Credit Rating		A/Positive/A-1
Kreissparkasse Gelnhausen		
Issuer Credit Rating		A/Positive/A-1
Kreissparkasse Gotha		
Issuer Credit Rating		A/Positive/A-1
Kreissparkasse Gross-Gerau		
Issuer Credit Rating		A/Positive/A-1
Kreissparkasse Hildburghausen		
Issuer Credit Rating		A/Positive/A-1
Kreissparkasse Limburg		
Issuer Credit Rating		A/Positive/A-1
Kreissparkasse Nordhausen		
Issuer Credit Rating		A/Positive/A-1
Kreissparkasse Saale-Orla		
Issuer Credit Rating		A/Positive/A-1
Kreissparkasse Saalfeld-Rudolstadt		
Issuer Credit Rating		A/Positive/A-1

Ratings Detail (As Of November 30, 2018) (cont.)	
Kreissparkasse Schluechtern	
Issuer Credit Rating	A/Positive/A-1
Kreissparkasse Schwalm-Eder	
Issuer Credit Rating	A/Positive/A-1
Kreissparkasse Weilburg	
Issuer Credit Rating	A/Positive/A-1
Kyffhaeusersparkasse	
Issuer Credit Rating	A/Positive/A-1
Nassauische Sparkasse	
Issuer Credit Rating	A/Positive/A-1
Sparkasse Altenburger Land	
Issuer Credit Rating	A/Positive/A-1
Sparkasse Arnstadt-Ilmenau	
Issuer Credit Rating	A/Positive/A-1
Sparkasse Bad Hersfeld-Rotenburg	
Issuer Credit Rating	A/Positive/A-1
Sparkasse Battenberg	
Issuer Credit Rating	A/Positive/A-1
Sparkasse Bensheim	
Issuer Credit Rating	A/Positive/A-1
Sparkasse Dieburg	
Issuer Credit Rating	A/Positive/A-1
Sparkasse Dillenburg	
Issuer Credit Rating	A/Positive/A-1
Sparkasse Fulda	
Issuer Credit Rating	A/Positive/A-1
Sparkasse Gera-Greiz	
Issuer Credit Rating	A/Positive/A-1
Sparkasse Giessen	
Issuer Credit Rating	A/Positive/A-1
Sparkasse Gruenberg	
Issuer Credit Rating	A/Positive/A-1
Sparkasse Hanau	
Issuer Credit Rating	A/Positive/A-1
Sparkasse Jena-Saale-Holzland	
Issuer Credit Rating	A/Positive/A-1
Sparkasse Langen-Seligenstadt	
Issuer Credit Rating	A/Positive/A-1
Sparkasse Laubach-Hungen	
Issuer Credit Rating	A/Positive/A-1
Sparkasse Marburg-Biedenkopf	
Issuer Credit Rating	A/Positive/A-1
Sparkasse Mittelthueringen	
Issuer Credit Rating	A/Positive/A-1

Ratings Detail (As Of November 30, 2018) (cont.)	
Sparkasse Oberhessen	
Issuer Credit Rating	A/Positive/A-1
Sparkasse Odenwaldkreis	
Issuer Credit Rating	A/Positive/A-1
Sparkasse Rhoen-Rennsteig	
Issuer Credit Rating	A/Positive/A-1
Sparkasse Sonneberg	
Issuer Credit Rating	A/Positive/A-1
Sparkasse Starkenburg	
Issuer Credit Rating	A/Positive/A-1
Sparkasse Unstrut-Hainich	
Issuer Credit Rating	A/Positive/A-1
Sparkasse Waldeck-Frankenberg	
Issuer Credit Rating	A/Positive/A-1
Sparkasse Werra-Meissner	
Issuer Credit Rating	A/Positive/A-1
Sparkasse Wetzlar	
Issuer Credit Rating	A/Positive/A-1
Stadtsparkasse Borken	
Issuer Credit Rating	A/Positive/A-1
Stadtsparkasse Grebenstein	
Issuer Credit Rating	A/Positive/A-1
Stadtsparkasse Schwalmstadt	
Issuer Credit Rating	A/Positive/A-1
Stadt- und Kreis-Sparkasse Darmstadt	
Issuer Credit Rating	A/Positive/A-1
Staedtische Sparkasse Offenbach am Main	
Issuer Credit Rating	A/Positive/A-1
Taunus-Sparkasse	
Issuer Credit Rating	A/Positive/A-1
Wartburg-Sparkasse	
Issuer Credit Rating	A/Positive/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.