

## Ratings Affirmed On Various German Savings Banks, Helaba, And DekaBank On Capital Strengthening And Integration

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OVERVIEW

- German savings banks are continuing to strengthen their capitalization despite earnings pressure from ultra-low interest rates.
- They are also benefitting from sound economic conditions in Germany, leading to low credit losses and a strong inflow of stable retail deposits.
- We are affirming our ratings on members of regional subgroups of savings banks in Westphalia-Lippe, and in Hesse and Thuringia including the central bank Landesbank Hessen-Thuringen, and on DekaBank Deutsche Girozentrale.
- The outlook on DekaBank remains positive, reflecting the potential for stronger integration into the German savings banks. The outlooks on the other entities are stable.

FRANKFURT (S&P Global Ratings) Aug. 19, 2016--S&P Global Ratings today affirmed its ratings on two regional subgroups of Germany's savings banks sector, including their central bank, and on DekaBank Deutsche Girozentrale, the sector's investment product and securities services provider. The outlooks on these banks remain unchanged. The affirmations follow our regular surveillance reviews of these entities in light of the recent publication of aggregate financial data by German regional and national savings banks associations.

Specifically, we took the following actions:

- We affirmed the 'A+/A-1' long- and short-term credit ratings on 68 savings banks in Westphalia-Lippe (collectively Savings Banks Westphalia-Lippe; SWL). The outlooks are stable.
- We affirmed the 'A/A-1' long- and short-term credit ratings on 50 savings banks in Hesse and Thuringia as well as their majority-owned central bank Landesbank Hessen-Thuringen Girozentral (Helaba), collectively Sparkassen-Finanzgruppe Hessen-Thuringen (SFHT). The outlooks are stable.
- We affirmed the 'A/A-1' long- and short-term credit ratings on DekaBank Deutsche Girozentrale (DekaBank). The outlook is positive.

The affirmations reflect that the banks' financial performance has been largely in line with our expectations. Although the low-interest-rate environment, digitalization, and demographic changes pose significant challenges to their deposit-funded and branch-based business model, the banks are gradually adapting their network size and commercial strategies, which should soften the impact. Moreover, we believe that the savings banks in aggregate should continue to slightly strengthen their already strong or very strong capital levels over the next 18-24 months and be able to cover normalized losses with operating profits. This also reflects their limited loan growth and marginal earnings payout requirements. In the case of Helaba, the rating affirmation also reflects our expectation that it remains an integral part of the SFHT. In the case of DekaBank, the affirmation also reflects the bank's continued strategy to further integrate with the network of German savings banks. As part of our review, we have made minor revisions to rating assumptions and updated the key outlook drivers (for details see the group-specific sections below).

SWL, SFHT, and DekaBank are subgroups of the network of 409 independent and regionally active savings banks in Germany. Therefore, their prospects might be affected by developments at the national level. Further, in addition to their company-specific factors, the outlooks on all three subgroups reflect our expectation that the level of cohesion and cooperation within the German savings banks sector remains high and that the aggregate creditworthiness of the German network of savings banks remains stable. For further details of our rating approach for German savings banks see "Credit FAQ: How We Rate German Savings Banks," published today on RatingsDirect.

We assess the group credit profile (GCP) of the nationwide network of German savings banks as 'a+'. This reflects our assessment that the nationwide sum of regional savings banks subgroups is typically stronger than individual subgroups alone. Our assessment benefits from the network banks' focus on Germany, which we view as having the lowest economic risk of banking systems globally. The assessment is also supported by the banks':

- Strong capitalization, with low credit and market risks and low dividend pay-outs;
- High market shares in retail banking and lending to small and midsize companies;
- A high volume of stable retail funding, underpinned by a deposit market share of 37.4% at year-end 2015; and
- Sound levels of liquid assets.

These strengths are partly offset by:

- The sensitivity of the banks' earnings to ultra-low interest rates, given their deposit surplus funding and a high and stable cost-to-income ratio of about 69% on aggregate;
- Sizable stakes in their wholesale-oriented and typically less well-capitalized central institutions (Landesbanks); and
- The more fragmented nature of their associated central product providers and central banks compared with the main peer, the German Cooperative Banking Sector. This makes coordination more difficult and limits the sector's potential to exploit its full market potential.

#### SAVINGS BANKS WESTPHALIA-LIPPE (SWL)

We equalize our ratings on each savings bank with our view of SWL's GCP at 'a+', which is neither enhanced nor constrained by our assessment of the nationwide sector and our view that SWL is a highly strategic subgroup. The 'a+' at the regional level means that we consider SWL to be a very strong subgroup of the German Savings Banks network.

The key strength to the ratings remains the banks' very strong aggregate risk-adjusted capitalization. It is underpinned by an improved risk-adjusted capital (RAC) ratio of 16.8% at year-end 2015, after 16.6% one year earlier. The ratio might decline slightly in 2016 following the banks' €150 million capital injection into their regional building savings bank, LBS West. However, we expect that the underlying capital generation will remain positive and project that the ratio will subsequently drift upward within the 16.5%-17.0% range over the next 18-24 months.

Positively, we believe the likelihood has become more remote that the savings banks would require additional reserves beyond their existing buffer of taxed hidden reserves to cover their contingent exposure to Erste Abwicklungsanstalt (EAA). This reflects an updated business plan by EAA, which is the workout unit for assets generated by the former central bank, WestLB.

The ratings also continue to be supported by the banks' domicile and exclusive focus on Germany, their highly predictable business volumes and high regional market shares in retail banking, and strong access to insured retail deposits and a sizable stock of unencumbered high-quality securities. These factors are partly offset by the sensitivity of the banks' revenues to a sustained low-interest-rate environment, and our view that their strategic effectiveness is weaker than that of retail banking peers in Germany.

The stable outlook reflects our view of a low likelihood of a material change in Germany's economic and banking industry risks over the next 18-24 months, and our view that the network will continue to adapt to ensure that it retains a strong franchise and remains comfortably profitable.

We could lower the ratings if profitability were to erode faster than we currently assume, such that it prevented the group from covering its normalized credit losses, or if payouts to the savings banks' public-sector

backers were to increase substantially. These developments could lead us to revise our view of SWL's capitalization, in particular if our projected RAC ratio were to fall below 15%. We could also lower the ratings if similar trends were to erode the earnings or capital of the nationwide network of savings banks.

An upgrade is remote, since it would require improvements both at the level of SWL and the nationwide network. The savings banks are targeting a stronger contribution from fee-based businesses, such as securities sales or foreign trade. This could enhance profitability and franchise breadth over time, but we believe swift progress is unlikely. Also, the prospects for stronger coordination or consolidation of central banks and product providers are limited.

#### SPARKASSEN-FINANZGRUPPE HESSEN-THUERINGEN (SFHT)

We equalize our ratings on each savings bank in SFHT and on Helaba with our view of SFHT's GCP at 'a', which is neither enhanced nor constrained by our assessment of the nationwide sector and our view that SFHT is a highly strategic subgroup. The 'a' at the regional level means that we consider SFHT to be a strong subgroup of the German Savings Banks network. The difference in its GCP level compared with that for SWL reflects that, although SFHT is well capitalized, we see capitalization as a particular strength of SWL.

The SFHT's earnings performance in 2015 was stronger than we anticipated, partly driven by Helaba's wholesale banking activities. Overall, the SFHT's consolidated RAC ratio improved to 13.7% at year-end 2015 from 13.0% one year earlier. We anticipate that the group's capital generation will remain positive but will slow down such that the RAC ratio remains between 13.5% and 14.0% over the next 18-24 months.

The ratings also continue to be supported by our assumption of a continued strong business focus on Germany, highly predictable business volume and high market shares of the SFHT savings banks, and Helaba's prudent risk management and relationship-based strategy in its wholesale banking activities. This is partly offset by Helaba's sizable exposure to commercial real estate markets, and the sensitivity of the savings banks' revenues to a sustained low-interest-rate environment. We also factor in SFHT's refinancing availability from its large regional retail branch network, and funding diversification courtesy of Helaba.

We consider Helaba to be a core member of SFHT and include it in the 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 bank for about 40% of all savings banks in Germany.

The stable outlook reflects both our assumption of continued stability in SFHT's GCP and that we are unlikely to change our view of its highly strategic group status to the German savings banks network. It also reflects our

assumption of continued earnings stability and prudent risk profile of Helaba's wholesale banking activities, given that Helaba contributes approximately 40% to the group's pretax profit and capital.

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 highly unlikely, both might occur if profitability were to erode such that it prevented the SFHT or nationwide savings banks from covering their normalized credit losses, or if capitalization were to weaken below a projected RAC ratio of 10%. We might also revise downward our assessment of SFHT's unsupported GCP if we saw that the group was focusing more materially on foreign markets with higher economic risk. This might lower the share of domestic lending to about 70%, from 78% currently. This reflects that the group's 'a-' anchor is more exposed to changes in the economic risk of Germany given that, through Helaba, it is already active in markets with higher economic risk.

We would consider an upgrade over the next 12-24 months should earnings generation continue to exceed our projections, such that the SFHT's RAC ratio were to surpass the 15% benchmark sustainably. However, in light of diminishing earnings retention capacity compared with projected loan growth, we believe this has a low likelihood over the next 18-24 months.

#### DEKABANK DEUTSCHE GIROZENTRALE

The ratings on DekaBank benefit from three notches of uplift from its 'bbb' stand-alone credit profile (SACP). This is based on its highly strategic group status to its 100% owners, the German savings banks.

The affirmation reflects DekaBank's strategic continuity in strengthening its product offering and its integration with the German savings banks. It also reflects the stable SACP.

The group status is underpinned by DekaBank's increasing strategic alignment with the interests of the savings banks, and that DekaBank and the German savings banks rely on each other in the production and distribution of retail mutual funds. In light of pressure on interest income, the generation of commission income (for example, from securities and mutual funds) is becoming more important for savings banks to stabilize their earnings. Also, DekaBank's strategy is to support savings banks holistically around their entire securities investment and advisory production chain in light of growing regulatory and customer requirements.

The 'bbb' SACP reflects our assumption that DekaBank will maintain its sound position as one of largest asset managers in Germany, our projection that it will maintain adequate capitalization, and that DekaBank will continue to prudently manage its funding and liquidity risk. This is partly offset by its limited presence in asset management outside Germany; and its below-average market position in commercial banking activities with concentration in commercial segments with generally higher risk, such as shipping. Furthermore,

its capital ratios could underestimate its exposure to reputational and operational risks from asset management.

The outlook is positive, reflecting the potential that we might reassess DekaBank as a core member of the group of German savings banks in the next 12 months, which would lead to a one-notch upgrade.

Such an upgrade would require a continued track record of DekaBank's strategic initiatives enhancing its product penetration with the savings banks. Indicators would be if the German savings banks further strengthened the share of mutual funds-related business with their retail customers, taking into account that 2015 was an exceptionally strong year. This would ultimately also be reflected in a continued positive trend of the commission income earned by the savings banks from sales of DekaBank's products. Continued strategic stability, a sound financial risk profile, and robust investment performance in its fund business would also be conditions for an upgrade.

Conversely, we could consider revising the outlook to stable if we concluded that DekaBank's strategic initiatives had not borne fruit and therefore had not materially changed its current level of integration into the German savings banks sector.

#### RELATED CRITERIA AND RESEARCH

##### Related criteria

- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity - April 27, 2015
- General Criteria: Group Rating Methodology - November 19, 2013
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions - January 29, 2015
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17, 2013
- Criteria - Financial Institutions - Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework - June 22, 2012
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions - November 09, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions - December 06, 2010
- Criteria - Financial Institutions - Banks: Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks - May 04, 2010
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks - March 23, 2004
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

##### Related research

- How We Rate German Savings Banks, Aug. 19, 2016

RATINGS LIST

\*\*\*\*\* DekaBank Deutsche Girozentrale \*\*\*\*\*

Ratings Affirmed

DekaBank Deutsche Girozentrale

Counterparty Credit Rating

A/Positive/A-1

\*\*\*\*\* Banks belonging to Sparkassen-Finanzgruppe Hessen-Thueringen \*\*\*\*\*

Ratings Affirmed

Landesbank Hessen-Thueringen Girozentrale

Wartburg-Sparkasse

Taunus-Sparkasse

Staedtische Sparkasse Offenbach am Main

Stadtparkasse Schwalmstadt

Stadtparkasse Grebenstein

Stadtparkasse Felsberg

Stadtparkasse Borken

Stadt- und Kreis-Sparkasse Darmstadt

Sparkasse Wetzlar

Sparkasse Werra-Meissner

Sparkasse Waldeck-Frankenberg

Sparkasse Unstrut-Hainich

Sparkasse Starkenburg

Sparkasse Sonneberg

Sparkasse Rhoen-Rennsteig

Sparkasse Odenwaldkreis

Sparkasse Oberhessen

Sparkasse Mittelthueringen

Sparkasse Marburg-Biedenkopf

Sparkasse Laubach-Hungen

Sparkasse Langen-Seligenstadt

Sparkasse Jena-Saale-Holzland

Sparkasse Hanau

Sparkasse Gruenberg

Sparkasse Giessen

Sparkasse Gera-Greiz

Sparkasse Fulda

Sparkasse Dillenburg

Sparkasse Dieburg

Sparkasse Bensheim

Sparkasse Battenberg

Sparkasse Bad Hersfeld-Rotenburg

Sparkasse Arnstadt-Ilmenau

Sparkasse Altenburger Land

Nassauische Sparkasse  
Kyffhaeusersparkasse  
Kreissparkasse Weilburg  
Kreissparkasse Schwalm-Eder  
Kreissparkasse Schluechtern  
Kreissparkasse Saalfeld-Rudolstadt  
Kreissparkasse Saale-Orla  
Kreissparkasse Nordhausen  
Kreissparkasse Limburg  
Kreissparkasse Hildburghausen  
Kreissparkasse Gross-Gerau  
Kreissparkasse Gotha  
Kreissparkasse Gelnhausen  
Kreissparkasse Eichsfeld  
Kasseler Sparkasse  
Frankfurter Sparkasse

Counterparty Credit Rating

A/Stable/A-1

\*\*\*\*\*Banks belonging to Savings Banks Westphalia-Lippe \*\*\*\*\*

Ratings Affirmed

Herner Sparkasse  
Vereinigte Sparkasse im Maerkischen Kreis  
VerbundSparkasse Emsdetten Ochtrup  
Staedtische Sparkasse zu Schwelm  
Stadtsparkasse Wetter(Ruhr)  
Stadtsparkasse Versmold  
Stadtsparkasse Sprockhoevel  
Stadtsparkasse Schwerte  
Stadtsparkasse Schmalleberg  
Stadtsparkasse Rheine  
Stadtsparkasse Rahden  
Stadtsparkasse Porta Westfalica  
Stadtsparkasse Lengerich (Westfalen)  
Stadtsparkasse Hilchenbach  
Stadtsparkasse Herdecke  
Stadtsparkasse Haltern am See  
Stadtsparkasse Gladbeck  
Stadtsparkasse Gevelsberg  
Stadtsparkasse Dortmund  
Stadtsparkasse Delbrueck  
Stadtsparkasse Bottrop  
Stadtsparkasse Bocholt  
Stadtsparkasse Blomberg/Lippe  
Stadtsparkasse Bad Oeynhausen  
Sparkasse im Kreis Herford  
Sparkasse der Stadt Iserlohn  
Sparkasse an der Lippe  
Sparkasse Wittgenstein

Sparkasse Witten  
Sparkasse Westmuensterland  
Sparkasse Werl  
Sparkasse Vest Recklinghausen  
Sparkasse Soest  
Sparkasse Siegen  
Sparkasse Rietberg  
Sparkasse Paderborn-Detmold  
Sparkasse Olpe-Drolshagen-Wenden  
Sparkasse Muensterland Ost  
Sparkasse Minden-Luebbecke  
Sparkasse Meschede  
Sparkasse Maerkisches Sauerland Hemer-Menden  
Sparkasse Luedenscheid  
Sparkasse Lippstadt  
Sparkasse Lemgo  
Sparkasse Kierspe-Meinerzhagen  
Sparkasse Hoexter  
Sparkasse Hochsauerland  
Sparkasse Hattingen  
Sparkasse Hamm  
Sparkasse Hagen  
Sparkasse Guetersloh  
Sparkasse Geseke  
Sparkasse Gelsenkirchen  
Sparkasse Froendenberg  
Sparkasse Finnentrop  
Sparkasse Erwitte-Anroechte  
Sparkasse Ennepetal-Breckerfeld  
Sparkasse Burbach-Neunkirchen  
Sparkasse Bochum  
Sparkasse Bielefeld  
Sparkasse Bergkamen-Boenen  
Sparkasse Beckum-Wadersloh  
Sparkasse Attendorn-Lennestadt-Kirchhundem  
Sparkasse Arnsberg-Sundern  
Kreissparkasse Wiedenbrueck  
Kreissparkasse Steinfurt  
Kreissparkasse Halle (Westf.)  
Kreis- und Stadtparkasse Unna-Kamen  
Counterparty Credit Rating A+/Stable/A-1

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