

Research Update:

Outlook On German Landesbank Helaba And 50 Savings Banks To Stable On Resilience In A Difficult Market; 'A/A-1' Affirmed

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Overview

- In our view, Germany-based Landesbank Hessen-Thüringen Girozentrale (Helaba) and the 50 regional savings banks, which together form the Sparkassen-Finanzgruppe Hessen-Thüringen (SFHT), continue to demonstrate resilience against the economic recession.
- We observe that the recovery in German markets appears more robust than we previously anticipated.
- We are therefore revising our outlooks on Helaba and the 50 savings banks to stable from negative and affirming our 'A/A-1' ratings.
- The stable outlook on SFHT reflects our expectation that Helaba's and the savings banks' financial profiles will remain relatively robust.

Rating Action

On Sept. 16, 2010, Standard & Poor's Ratings Services revised its outlook on Germany-based Landesbank Hessen-Thüringen Girozentrale (Helaba) and the 50 savings banks in Hesse and Thuringia, which together form the Sparkassen-Finanzgruppe Hessen-Thüringen (SFHT), to stable from negative. At the same time, the 'A/A-1' long- and short-term counterparty credit ratings on all institutions were affirmed.

Rationale

The outlook revision reflects our increasing confidence that Helaba's and the savings banks' financial profiles will continue to cope relatively well with the very difficult global economic and financial market conditions. In addition, we see that the recovery in German markets appears robust.

Specifically, we believe that SFHT's aggregate credit losses may be lower than we initially anticipated for 2009-2011 and, as we expected, compare much more favorably with our loss assumptions in the German banking sector from late 2009. Consequently, we don't expect any material bottom-line losses at Helaba in 2010 and 2011 and anticipate a more buoyant earnings buffer from the regional savings banks. Our reassessment stems from our view of a more robust German market recovery, including the absence of domestic house price inflation, unprecedented fiscal and monetary easing, and the absence of large corporate defaults. Moreover, Helaba's credit losses on riskier international commercial real estate and corporate financings since 2007, despite substantial increases, are lower than many peers', particularly Landesbanks.

This we see as a sign of Helaba's generally more prudent underwriting and conservative risk culture.

The rating affirmations are based on our opinion that difficult market conditions only moderately affect the SFHT's aggregate financial profile, which remains consistent with the rating. In our view, this reflects, in particular, the savings banks' strong capitalization, relatively stable revenue streams, and strong retail funding capacity. We base the ratings on SFHT's core group members on the aggregate creditworthiness and expected solidarity support among member banks under emerging stress. Moreover, the ratings on Helaba incorporate our assessment of its ties to its 10% owner, the State of Hesse (AA/Stable/A-1+), and our view of Helaba's high systemic importance to Germany. The combination of implicit ownership support from the regional savings banks and the State of Hesse continues to grant the long-term counterparty credit rating on Helaba a three-notch uplift from our assessment of Helaba's stand-alone credit profile.

We believe that Helaba would likely receive extraordinary government support from Hesse if needed. However, this potential support is reflected in the ratings and does not raise our counterparty credit ratings on Helaba above the ratings on the SFHT. This is because we believe that explicit extraordinary government measures would only be granted to stabilize Helaba's stand-alone creditworthiness if an unexpected severe stress were to overstretch the regional savings banks' resources. In addition, such government support measures may, in our view, be temporary; subject to compensation arrangements, as required by the European Commission; or severely change existing group or ownership structures on which we base our current ratings.

Outlook

The stable outlook on SFHT reflects our expectation that Helaba's and the savings banks' financial profiles will stay resilient to difficult market conditions and our view that the recovery on German markets is robust. The ratings incorporate ongoing pressure on asset quality and earnings from economic slowdown, but we do not expect Helaba to post material bottom-line losses in 2010 and 2011, however.

Under our base-case expectations, we don't expect Helaba or the savings banks to play an important role in a possible consolidation of Germany's Landesbank sector that would materially weaken its business or financial profile. Should this occur, we would need to reassess key rating elements, in particular, the ownership structures and ties between Helaba, the regional savings banks, and the State of Hesse, and Helaba's financial and risk profile, which we regard as generally more conservative than that of other Landesbanks.

The ratings could be lowered if we see unexpected material asset-quality or profitability problems, or if the savings banks' margins and market position were to erode materially. We will also monitor the savings banks' commitment to strengthening Helaba's stand-alone credit profile, if for example, contrary

to our base-case expectations, Helaba were to require material support.

Positive rating actions are unlikely, considering Helaba's sizable business and wholesale concentrations within the SFHT.

Related Criteria And Research

- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Assumptions For Credit Stress Testing German Banks, Aug. 21, 2009
- Group Methodology, April 22, 2009
- Principles Of Corporate And Government Ratings, June 26, 2007

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Landesbank Hessen-Thueringen Girozentrale		
Counterparty Credit Rating	A/Stable/A-1	A/Negative/A-1
Senior Unsecured	A	A
Commercial Paper	A-1	A-1
Certificate Of Deposit	A/A-1	A/A-1

Wartburg-Sparkasse
Taunus-Sparkasse
Staedtische Sparkasse Offenbach am Main
Stadtsparkasse Schwalmstadt
Stadtsparkasse Grebenstein
Stadtsparkasse Felsberg
Stadtsparkasse 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 Dieburg
Sparkasse Bensheim
Sparkasse Battenberg
Sparkasse Bad Hersfeld-Rotenburg
Sparkasse Arnstadt-Ilmenau
Sparkasse Altenburger Land
Nassauische Sparkasse
Naspa Dublin
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
Helaba Dublin Landesbank Hessen-Thueringen International
Frankfurter Sparkasse
Bezirkssparkasse Dillenburg
Counterparty Credit Rating A/Stable/A-1 A/Negative/A-1
Certificate Of Deposit A/A-1 A/A-1

NB: This list does not include all the ratings affected.

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