



## Fitch Affirms S - Finanzgruppe Hessen Thuringen and Helaba at 'A+' / Stable

### Link to Fitch Ratings' Report(s):

Sparkassen-Finanzgruppe Hessen-Thuringen - Rating Action Report

Fitch Ratings - Frankfurt am Main - 18 September 2019:

Fitch Ratings has affirmed German banking group S-Finanzgruppe Hessen Thuringen's (SFG-HT) Long-Term Issuer Default Rating (IDR) at 'A+' with a Stable Outlook, and Viability Rating (VR) at 'a+'. Fitch has also affirmed the IDRs of the 49 savings banks members of SFG-HT's mutual support scheme and its central institution, Landesbank Hessen-Thuringen Girozentrale (Helaba).

A full list of the group's rated savings banks is available at [www.fitchratings.com](http://www.fitchratings.com) or via the link above.

### Key Rating Drivers

#### IDRS, VR, HELABA'S SENIOR UNSECURED AND SENIOR NON-PREFERRED DEBT

SFG-HT is not a legal entity but a network of savings banks in Hessen and Thuringen whose cohesion is supported by a mutual support scheme and which forms a common economic unit together with Helaba. Fitch assigns "group" ratings to SFG-HT and its member banks. The IDRs apply to each individual member bank in accordance with Annex 4 of Fitch's criteria for rating banking structures and are based on the group's VR.

The group's ratings are underpinned by an integrated business model. SFG-HT's cohesion is higher than at Sparkassen-Finanzgruppe (SFG; A+/Stable/F1+), the nationwide network of savings banks in Germany. This is demonstrated by SFG-HT's common business and risk strategy, common risk monitoring, own regional reserve fund and voluntary provision of consolidated IFRS accounts. Nevertheless its IDRs and VR are closely aligned with those of SFG because SFG-HT's savings banks members are also part of the German savings banks' nationwide mutual support scheme, which is designed as an institutional protection scheme (IPS) and recognised by the regulator as a deposit guarantee scheme.

SFG-HT's VR and IDRs reflect the group's diversified and strong regional retail franchise, complemented by Helaba's domestic and international wholesale activities, sound asset quality, strong capitalisation and solid deposit-driven funding and liquidity. The profitability of the group is moderating from declining interest rates.

SFG-HT's capitalisation is a rating strength and materially stronger than the German banking sector average. The group's Tier 1 ratio was 19.3% at end-2018, driven by sound profit retention. It enables the group to implement its loan growth strategy and absorb the impact of a deteriorating economic environment in Germany. The revised Basel III framework is likely to inflate risk-weighted assets (RWAs) more than for other domestic retail-focused peers, due to Helaba's use of internal ratings. However, the long phasing-in will provide time to react. The group's tangible common equity-to-asset ratio of 8.5% is strong both in a domestic and international context.

SFG-HT's credit risk is sound, driven by conservative underwriting standards, strong collateral and low concentrations except for Helaba's wholesale business, particularly the bank's commercial real estate lending. The group's interest rate risk due to unhedged maturity mismatches remains elevated and makes the group vulnerable to interest rate shocks. However, this is mitigated by Helaba's long-term debt issuance and the savings banks' use of derivatives.

The group's non-performing loan ratio (NPL) dropped below 1.2% at end-2018 and the loan portfolio did not require impairment charges. Asset quality is still driven by strong consumer fundamentals and healthy SME and corporate balance sheets, which Fitch expects to gradually weaken through 2019 on the back of a weakening economy.

We believe SFG-HT's financial performance has weakened, reflecting a drop in net interest income in recent years and lower pre-tax profits despite strong loan growth. Lower trading results and revaluation losses at Helaba also weighed on group profits in 2018. The operating profit/RWA ratio decreased to 0.9% in 2018 (1.4% in 2017). However, we expect the group's profitability to stabilise at moderately lower levels but also see continued challenges from low interest rates. So far SFG-HT's savings banks have resisted charging negative interest rates to a broad range of clients.

The savings banks' large and growing retail deposit base strongly supports the group's sound funding and liquidity profile, underpinning the 'F1+' Short-Term IDR, which is the higher of two options mapping to an 'A+' Long-Term IDR. Helaba pursues a strategy of matched funding of new business, and its wholesale funding benefits from an established domestic and international investor base. The group reported an aggregated average liquidity coverage ratio of 139% at end-2018.

#### GUARANTEED SENIOR UNSECURED AND SUBORDINATED NOTES AND OTHER SUBORDINATED NOTES

The 'AAA' rating of Helaba's guaranteed senior unsecured and subordinated Tier 2 debt is based on Fitch's view that the guarantors would honour the statutory grandfathered guarantee by the State of Hessen and the Free State of Thuringen. The rating reflects Fitch's view of the creditworthiness of these states.

#### DERIVATIVE COUNTERPARTY RATING (DCR), DEPOSIT RATINGS AND HELABA'S SENIOR PREFERRED RATING

The Deposit Ratings of SFG-HT's member banks and Helaba, as well as Helaba's Derivative Counterparty Rating and preferred debt ratings are one notch above SFG-HT's Long-Term IDR. This reflects our view that, in the event of a resolution of SFG-HT, its consolidated layer of subordinated, senior non-preferred and vanilla senior debt would likely be sufficient to recapitalize member banks. It should also be sufficient to restore viability and prevent default on senior preferred liabilities, including deposits, upon resolution. However, we believe this would only occur if SFG's dedicated deposit insurance scheme fails.

Subordinated Tier 2 notes that do not benefit from the grandfathered guarantee are notched down once from SFG-HT's VR to reflect higher loss severity.

#### HELABA ASSET SERVICES

The IDRs of Helaba Asset Services, which is not a member of SFG-HT's mutual support scheme, are equalised with its parent's IDRs to reflect our view that institutional support would be forthcoming. Helaba Asset Services benefits from a declaration of backing by Helaba, and we believe that Helaba would face reputational risk if Helaba Asset Services defaults on its obligations. Helaba Asset Services' status as a private unlimited company also means that Helaba is fully liable for any shortfall in its assets in case of liquidation.

#### SUPPORT RATING (SR) AND SUPPORT RATING FLOOR (SRF)

SFG-HT's SR and SRF reflect Fitch's view that extraordinary sovereign support for EU banks is possible but cannot be relied upon due to the Bank Recovery and Resolution Directive and the Single Resolution

Mechanism's resolution tools and mechanisms. It is likely that senior creditors will be required to participate in losses, if necessary, instead of, or ahead of, the group receiving sovereign support.

## **Rating Sensitivities**

### **IDRS, VR, HELABA'S SENIOR UNSECURED AND SENIOR NON-PREFERRED DEBT**

A potentially longer period of low interest rates and profitability pressure make a higher VR unlikely in the short-term. Downward pressure could result from a severe and prolonged domestic recession that would impair the group's growth prospects and weaken its asset quality and capital generation. The IDRs, the senior unsecured and Helaba's senior non-preferred are sensitive to changes in the group's VR.

SFG-HT's ratings are sensitive to changes in those of SFG. This is because SFG-HT's savings banks members are also part of the savings banks' nationwide mutual support mechanism, and would be affected by a material weakening of the overall savings bank sector's credit profile.

### **GUARANTEED SENIOR UNSECURED AND SUBORDINATED NOTES AND OTHER SUBORDINATED NOTES**

The rating of Helaba's guaranteed senior unsecured and subordinated Tier 2 debt is primarily sensitive to a change in Fitch's view of the creditworthiness of the guarantor. The ratings of subordinated Tier 2 notes that do not benefit from the grandfathered guarantee are primarily sensitive to the changes in SFG-HT's VR.

### **DCR, DEPOSIT RATINGS AND HELABA'S SENIOR PREFERRED RATING**

The Deposit Ratings of the member banks and Helaba's DCR and senior non-preferred debt rating are primarily sensitive to changes in SFG-HT's IDRs. They are also sensitive to a potential reduction in the volume of consolidated buffers of subordinated, senior preferred and senior vanilla debt to below 8% of SFG-HT's RWAs. Regulation-driven long-term RWA inflation could also weigh on the rating uplift if it is not accompanied by an increase in the size of the debt buffer needed to recapitalize the banks upon failure.

### **HELABA ASSET SERVICES**

Helaba Asset Services IDRs are equalised with and primarily sensitive to a change in Helaba's IDRs.

### **SUPPORT RATING AND SUPPORT RATING FLOOR**

An upgrade of the SR and upward revision of the SRF would be contingent on a positive change in Fitch's view of the sovereign's propensity to support its systemically important banks. While not impossible, in Fitch's opinion, this is highly unlikely.

### **VIEW ADDITIONAL RATING DETAILS**

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

## **FITCH RATINGS ANALYSTS**

Primary Rating Analyst  
Markus Glabach  
Director  
+49 69 768076 195  
Fitch Deutschland GmbH

Neue Mainzer Strasse 46 - 50  
Frankfurt am Main D-60311

Secondary Rating Analyst  
Roger Schneider  
Director  
+49 69 768076 242

Committee Chairperson  
Olivia Perney  
Managing Director  
+33 1 44 29 91 74

## **MEDIA CONTACTS**

Louisa Williams  
London  
+44 20 3530 2452  
louisa.williams@thefitchgroup.com

## **Applicable Criteria**

Non-Bank Financial Institutions Rating Criteria (pub. 12 Oct 2018)  
Bank Rating Criteria (pub. 12 Oct 2018)  
Short-Term Ratings Criteria (pub. 02 May 2019)

## **Additional Disclosures**

Dodd-Frank Rating Information Disclosure Form  
Solicitation Status  
Endorsement Policy

## **DISCLAIMER**

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT [WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

## **COPYRIGHT**

Copyright © 2019 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are

retail clients within the meaning of the Corporations Act 2001  
Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

## **SOLICITATION STATUS**

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

## **Endorsement Policy**

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

## **Fitch Updates Terms of Use & Privacy Policy**

We have updated our Terms of Use and Privacy Policies which cover all of Fitch Group's websites. [Learn more.](#)