



## Correction: Fitch Affirms S - Finanzgruppe Hessen Thueringen and Helaba at 'A+' / Stable

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

Sparkassen-Finanzgruppe Hessen-Thueringen - Rating Action Report

Fitch Ratings - Frankfurt am Main - 27 September 2019:

This rating action commentary replaces the version published on 18 September 2019 to include the full list of rating actions on Sparkassen-Finanzgruppe Hessen-Thueringen and ESG considerations.

Fitch Ratings has affirmed German banking group S-Finanzgruppe Hessen Thueringen'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-Thueringen 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 Thueringen 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 recapitalise 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 recapitalise 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.

### ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity.

For more information on our ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

The rating actions are as follows:

### SFG-HT

Long-Term IDR affirmed at 'A+'; Outlook Stable

Short-Term IDR affirmed at 'F1+'

VR affirmed at 'a+'

Support Rating affirmed at '5'

Support Rating Floor affirmed at 'No Floor'

Helaba

Long-Term IDR affirmed at 'A+'; Outlook Stable

Short-Term IDR affirmed at 'F1+'

Non-guaranteed senior debt affirmed at 'A+'/'F1+'

Non-guaranteed subordinated Tier 2 debt affirmed at 'A'

Guaranteed senior and subordinated Tier 2 notes affirmed at 'AAA'

Senior preferred debt affirmed at 'AA-'/'F1+'

Senior non-preferred debt affirmed at 'A+'

Deposit Ratings affirmed at 'AA-'/'F1+'

Derivative Counterparty Rating affirmed at 'AA-'(dcr)

Helaba Asset Services

Long-Term IDR affirmed at 'A+'; Outlook Stable

Short-Term IDR affirmed at 'F1+'

Support Rating affirmed at '1'

49 savings banks members of SFG-HT's mutual support scheme

IDRs affirmed at 'A+'/'F1+'; Outlook Stable

Deposit Ratings affirmed at 'AA-'/'F1+'

VIEW ADDITIONAL RATING DETAILS

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

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## **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)

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