FitchRatings

Banks
Universal Commercial Banks
Germany

Sparkassen-Finanzgruppe Hessen-Thueringen

Update

Ratings

Foreign Currency	
Long-Term IDR	A+
Short-Term IDR	F1+
Viability Rating	a+
Support Rating	5
Support Rating Floor	NF

Sovereign Risk	
Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA

Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

Fitch Revises Outlook on Sparkassen-Finanzgruppe Hessen Thueringen to Stable; Affirms at 'A+' (June 2021)

Sparkassen-Finanzgruppe Hessen Thueringen (July 2021)

Global Economic Outlook –June 2021

Analysts

Markus Glabach
+49 69 768076 195
markus.glabach@fitchratings.com

Roger Schneider
+49 69 768076 242
roger.schneider@fitchratings.com

Key Rating Drivers

Mutual Support Drives Group Ratings: Sparkassen-Finanzgruppe Hessen-Thueringen's (SFG-HT) ratings are based on a mutual support scheme shared by its 49 savings banks and Landesbank Hessen-Thueringen Girozentrale (Helaba), its central institution and largest member.

These 50 members form an economic unit whose cohesion is ensured by a common business and risk strategy. SFG-HT's Issuer Default Ratings (IDRs) apply to each member bank, but the Viability Rating (VR) applies only to SFG-HT, based on Annex 4 of Fitch Ratings' Bank Rating Criteria, which applies to banking structures backed by mutual support schemes.

Outlook Stabilised: We revised the Outlook on SFG-HT's IDR and Asset Quality score to Stable from Negative at end-1H21 as large pandemic-driven credit losses are increasingly unlikely and we expect the group's strong capitalisation, funding and liquidity to support its VR despite earnings pressure. A stabilisation of the profitability score would require an operating profit/risk-weighted assets (RWAs) sustainably recovering at least to its pre-pandemic level.

Well Capitalised: SFG-HT is much better capitalised than the banking sector average. More modest loan growth than pre-crisis and full retention of its modest profit stabilised its common equity Tier 1 (CET1) ratio at a high 18.6% at end-2020. However, the savings banks and Helaba's CET1 ratios declined by 70bp in 1H21, as sub-par capital generation did not offset more robust loan growth. Some pressure could remain in the short term, but capital buffers will remain large.

Robust Asset Quality: We expect that SFG-HT's non-performing loan (NPL) ratio will have remained stable at end-1H21 as the group strongly benefitted from state support to the economy. The group's NPL ratio could rise moderately in 2H21 as some corporate sectors may struggle to recover from the pandemic, but we expect it to peak below 2% by end-2022.

Helaba Weighs on Profits: SFG-HT's profit stabilised in 1H21 after a decline in 2020 that was driven by pandemic-related management adjustments, which strongly inflated Helaba's loan impairment charges (LICs). Helaba's low-margin wholesale activities and large size relative to SFG-HT will continue to dilute the savings banks' earnings. SFG-HT's earnings potential is therefore weaker than Sparkassen-Finanzgruppe's (SFG), the nationwide savings banks group.

Strong Funding and Liquidity: The savings banks' large, stable and growing retail deposit base and leading collective market share in the regional retail deposit market underpin SFG-HT's funding and liquidity profile. Helaba has a strategy of matched-funding new business, and its wholesale funding benefits from its established international investor base.

Rating Sensitivities

Weak Financial Performance: We could downgrade SFG-HT's ratings if we expect its NPL ratio to durably exceed 3%. This could notably result from unexpected pandemic-driven disruptions that could derail the current swift economic recovery and trigger large single losses in Helaba's concentrated loan book. The ratings would also come under pressure if SFG-HT's operating profits/RWAs ratio does not sustainably recover from the 0.5% achieved in 2020.

Upgrade Unlikely: An upgrade of SFG-HT's ratings is unlikely in light of the lasting adverse interest-rate environment and margin pressure in the German banking sector. An upgrade would require materially improving earnings generation and better cost efficiency, reflecting a strengthening of the group's business model and lifting its operating profit/RWAs ratio sustainably above 1.5%, while maintaining a low impaired loans ratio and strong capitalisation.

Debt Ratings

Helaba's Derivative Counterparty Rating and its long-term senior preferred (SP) debt and deposit ratings are one notch above its Long-Term IDR to reflect the protection of preferred creditors by the bank's large resolution buffers of senior non-preferred (SNP) and more junior debt. Helaba's SNP debt rating is aligned with the bank's Long-Term IDR for the same reason.

The 'AAA' rating of Helaba's guaranteed senior unsecured and subordinated Tier 2 debt reflects the extremely high ability and propensity of the states of Hesse and Thuringia to honour their grandfathered statutory guarantees. We believe the guarantees similarly protect senior and subordinated debt because the statutory guarantor's liability (Gewaehrtraegerhaftung) does not differentiate between the seniority of debt classes. In our view, the EU bail-in and state aid regulations do not constrain state support for grandfathered debt.

Helaba's non-guaranteed subordinated Tier 2 notes are notched down twice from SFG-HT's VR to reflect Fitch's baseline notching for loss-severity, and the assumption that extraordinary support from SFG-HT would be forthcoming to support these junior instruments, if needed.

The savings banks' long-term deposit ratings are one notch below those of Helaba to reflect their lower protection in a resolution. As long as SFG-HT is not recognised as a regulatory resolution group including the savings banks, the authorities are likely to favour a single-point-of-entry bail-in for Helaba and standard insolvency procedures for each savings bank as the likeliest resolution approach. We therefore do not expect savings banks' depositors to benefit from a bail-in of Helaba's resolution buffers in the highly unlikely event that SFG-HT or SFG's mutual support schemes would fail to protect the viability of SFG-HT's members.

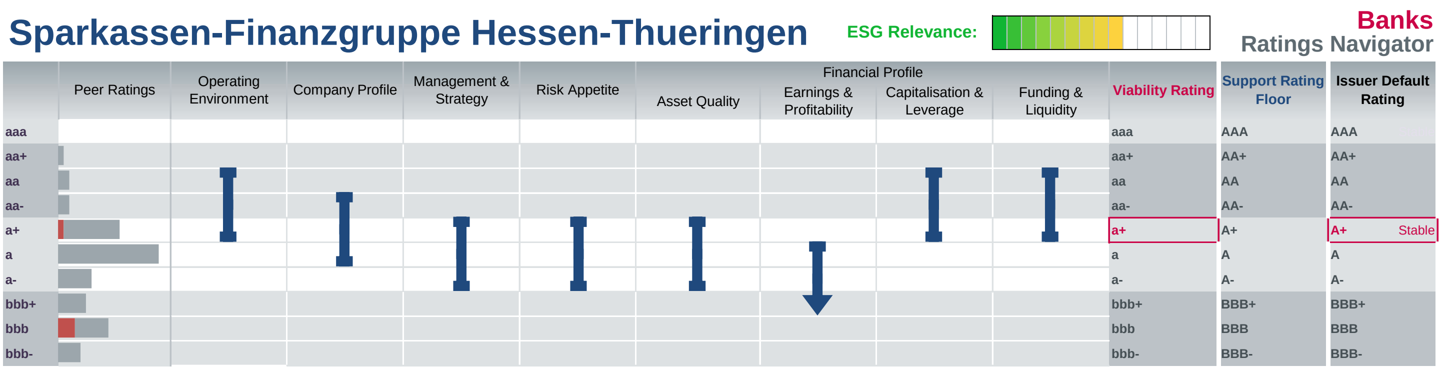
SFG-HT, Helaba and the savings banks' Short-Term IDRs of 'F1+' are the higher of two options mapping to their Long-Term IDRs of 'A+', in line with the group's 'aa-' Funding & Liquidity score.

Debt Rating Classes

Rating Level	Helaba	Savings banks
Deposit ratings	AA-/F1+	A+/F1+
SP debt	AA-	
SNP debt	A+	
Guaranteed debt	AAA	
Tier 2 debt	A-	

Source: Fitch Ratings

Ratings Navigator



Significant Changes

Resilience to Pandemic Likely to Continue in 2021, but so Is Interest Margin Erosion

SFG-HT's solid regional business model ensured that operating profit was broadly resilient in 1H21 thanks to the savings banks' robust loan growth across all businesses. After a loss of EUR274 million in 1H20, Helaba swung to a net profit of EUR293 million in 1H21, thanks to adequate operating performance and fair-value gains driven by recovering financial markets. However, LICs at Helaba and the savings banks remained above their pre-pandemic average, due to management overlays rather than actual defaults. Helaba's asset quality was strong, with an NPL ratio below 1%, and the savings banks' ratio is likely to have remained slightly above 1%.

SFG-HT expects the savings banks' pre-impairment and operating profits to fall by about 5% in 2021. This seems realistic, as the low-rate environment continues to erode the banks' net interest income, and higher administrative costs partly offset their progress in raising fee income. Significant relief from lower LICs is unlikely in 2H21, as the savings banks front-loaded fewer provisions for expected credit losses than larger peers in 2020. However, we expect SFG-HT's 2021 performance to be reasonably close to its pre-pandemic average as Helaba's profit should rise materially, given the positive momentum in 1H21, which should continue in 2H21.

Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colors – Influence on final VR

- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ▫ Stable

Operating Environment Score Stabilised as Risk from Pandemic Has Subsided

We revised the outlook on SFG-HT's Operating Environment score in June 2021 to stable from negative as we now expect economic conditions to improve further in 2H21 and 2022. Germany's GDP declined by 4.8% in 2020 and its economy was more resilient than most large European economies. Fitch expects it to recover close to its pre-pandemic level by end-2021.

Large state programmes to support companies and households affected by the pandemic have indirectly protected German banks by supporting demand for credit and containing credit losses. Regulatory forbearance for the classification of loan payment holidays and NPLs have strongly mitigated banks' negative rating migration, RWA inflation and provisioning needs since 2Q20. LICs were generally low in 1H21 despite fewer LIC releases than at many European peers.

The extensive use of furlough schemes since 2Q20 has protected household income and contained the German unemployment rate at 4.2% at end-2020. This has strongly supported borrowers' ability to service their loans. The use of loan moratoria has been much lower than in most European countries. Consequently, consumer spending declined less in Germany than in other European economies in 2020, with a contraction of 6.1%, compared with 11% in the UK and 8% on average in the eurozone.

The government suspended the legal obligation for companies that qualify for state support to file for bankruptcy until end-April 2021. This kept corporate insolvencies very low until end-1Q21, and we do not expect them to peak before 2022. The protective effect of these measures is diminishing, but SFG-HT can sustain this pressure as the economic recovery gathers pace.

The German banking sector's high fragmentation, intense competition, as well as vulnerable business models including limited foreign diversification and untested strategic orientations at most large banks, have kept the sector's profits remarkably low. This is despite years of strong economic environment before the pandemic. We expect this unfavourable market structure to persist, ruling out a higher score within the 'aa' range.

We expect German banks to restore more adequate profits in 2021 given the economic recovery, the increasing penetration of negative rates on deposits, and several large banks' restructuring progress. However, a more disciplined and sustainable focus on risk-adjusted pricing, instead of following pre-crisis strategies of low-margin lending to gain market shares, is necessary for the sector to close its wide profitability gap relative to the European average.

Sovereign Support Assessment

SFG-HT's Support Rating and Support Rating Floor reflect our view that, due to the EU's resolution framework, senior creditors cannot rely on full extraordinary state support.

Support Rating Floor:			NF
Support Factors	Positive	Neutral	Negative
Sovereign ability to support system			
Size of banking system relative to economy			✓
Size of potential problem	✓		
Structure of banking system		✓	
Liability structure of banking system		✓	
Sovereign financial flexibility (for rating level)	✓		
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in			✓
Track record of banking sector support		✓	
Government statements of support			✓
Sovereign propensity to support bank			
Systemic importance		✓	
Liability structure of bank		✓	
Ownership		✓	
Specifics of bank failure		✓	

Summary Financials and Key Ratios

	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017
	EURm	EURm	EURm	EURm
Summary Income Statement				
Net interest and dividend income	2,895	2,935	2,954	3,001
Net fees and commissions	1,177	1,114	1,029	1,025
Other operating income	321	782	229	926
Operating costs	3,339	3,302	3,258	3,601
Loan and other impairment charges	400	188	-4	-100
Operating profit	654	1,341	958	1,451
Other non-operating items (net)	70	130	0	-10
Net income	555	1,148	652	1,002
Summary Balance Sheet				
Gross loans	188,434	183,935	162,203	155,474
- of which impaired	2,000	1,653	1,900	2,200
Loan loss allowances	1,124	824	803	922
Interbank	17,053	15,558	9,929	9,603
Derivatives	23,467	19,417	11,738	12,341
Other securities and earning assets	62,864	66,303	60,670	58,737
Cash and due from banks	37,307	20,051	11,683	13,293
Other assets	4,232	4,525	3,356	3,323
Total assets	**332,233**	**308,965**	**258,776**	**251,849**
Customer deposits	163,859	152,595	134,405	128,825
Interbank and other short-term funding	63,368	51,052	36,609	32,470
Other long-term funding	48,925	49,914	46,066	48,883
Trading liabilities and derivatives	26,854	26,959	14,956	14,488
Other liabilities	5,016	4,878	4,210	4,292
Preference shares and hybrid capital	630	591	543	916
Total equity	23,581	22,976	21,987	21,975
Total liabilities and equity	**332,233**	**308,965**	**258,776**	**251,849**
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	0.5	1.1	0.9	1.4
Non-interest expense/gross revenue	76.4	68.9	77.9	74.4
Net income/average equity	2.4	5.1	3.0	4.7
Asset quality				
Impaired loans ratio	1.1	0.9	1.2	1.4
Growth in gross loans	2.5	13.4	4.3	-0.6
Loan loss allowances/impaired loans	56.2	49.9	42.3	41.9
Loan impairment charges/average gross loans	0.2	0.1	0.0	-0.1
Capitalisation				
Common equity Tier 1 ratio	18.6	18.6	19.3	20.6
Total Capital Ratio	21.4	21.6	22.6	24.1
Tangible common equity/tangible assets	6.9	7.2	8.5	8.7
Funding and liquidity				
Loans/customer deposits	115	121	121	121
Liquidity coverage ratio	194	204	139	n.a.
Customer deposits/funding	58.1	58.2	60.4	59.8

Source: Fitch Ratings, Fitch Solutions, SFG-HT

Environmental, Social and Governance Considerations

The highest level of ESG credit relevance for SFG-HT is a score of '3' in line with most German banks. SFG-HT's governance structure is not a key rating driver and is not constrained by SFG's score of '4' for group structure, even though SFG-HT's savings banks are also part of the nationwide savings banks' organisation. This is because SFG-HT statutorily operates as one economic unit, which is a key pillar of its corporate culture. This commitment makes its decision-making processes more effective and fosters a materially stronger cohesion than within SFG.

The score of '3' means ESG issues are credit neutral or have only a minimal credit impact on SFG-HT, either due to their nature or to the way in which they are being managed. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

FitchRatings **Sparkassen-Finanzgruppe Hessen-Thueringen**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Sparkassen-Finanzgruppe Hessen-Thueringen has 5 ESG potential rating drivers

- Sparkassen-Finanzgruppe Hessen-Thueringen has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

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.

DISCLAIMER & DISCLOSURES

All Fitch Ratings (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. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. 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. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

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.