RATING ACTION COMMENTARY

Fitch Affirms Helaba at 'A+'; Outlook Stable

Fri 13 Jun, 2025 - 12:39 PM ET

Fitch Ratings - Frankfurt am Main - 13 Jun 2025: Fitch Ratings has affirmed Landesbank Hessen-Thueringen Girozentrale's (Helaba) Long-Term Issuer Default Rating (IDR) at 'A+' with a Stable Outlook. Fitch has also affirmed Helaba's Shareholder Support Rating (SSR) at 'a+' and Viability Rating (VR) at 'bbb'. A full list of rating actions is below.

KEY RATING DRIVERS

SFG's Support Drives IDRs: Helaba's IDRs are aligned with those of Sparkassen-Finanzgruppe (Sparkassen) (SFG, A+/Stable/F1+), the German savings bank network. This reflects our view there is very high probability that SFG, 66% owner of Helaba, would provide timely support if needed, due to Helaba's membership in SFG's institutional protection scheme (IPS). The Outlook on Helaba's Long-Term IDR mirrors that on SFG. The IPS covers savings banks and Landesbanken, and its aim is to safeguard members' liquidity and solvency, and prevent them entering insolvency or resolution. It has an impeccable record of comprehensive protection to depositors and investors.

We believe support would also be available from the states of Hesse and Thuringia, but Helaba's SSR does not factor in support from the states as it is based on the lowest of the owners' ratings. Fitch uses SFG's Long-Term IDR as the anchor rating because support would need to be forthcoming from SFG and the states to avoid triggering state-aid considerations and resolution under the German Recovery and Resolution Act if Helaba fails.

Helaba's VR reflects the bank's mainly wholesale-driven business model, large exposure to cyclical asset classes, which has recently resulted in a deterioration of its asset quality, and weaker profitability than international peers. This is mitigated by its adequate capitalisation and access to the savings banks' excess liquidity.

German Corporate Bank: Helaba focuses on corporate and asset-based lending, including commercial real estate (CRE) financing, and institutional clients. This is balanced by the bank's close cooperation with the savings banks. Earnings in Helaba's regional retail franchise, asset management, and rents from a portfolio of residential investment properties provide additional revenue diversification. Intense competition in most of Helaba's product areas limits pricing power and affects profitability, as for German peers.

Significant Sector Concentrations: Helaba is largely exposed to cyclical asset classes, mainly CRE and export-oriented corporates. Underwriting standards and risk monitoring are broadly in line with market practice, but the exposure to CRE development, office properties and CRE in the US is higher than at its peers. Market risk is adequately hedged.

Above-Average Impaired Loans: The impaired loans ratio increased to 3.4% at end-2024 (end-2022: 0.8%), above that of its German peers, mainly driven by defaults in the CRE portfolio. We project the ratio to increase at a significantly slower rate in 2025, as new CRE and corporate defaults should be mostly offset by workouts. We expect loan impairment charges (LICs) to remain above their historical average in 2025.

Improved Profitability Behind Peers: Helaba's profits benefited from the increase in interest rates, which more than offset higher LICs. However, its average profitability is structurally weaker than at most peers, burdened by lower margins and higher costs. The operating profit/risk-weighted assets (RWAs) ratio remained stable at 1.2% in 2024, as lower LICs and the non-recurrence of impairment losses in the residential investment property portfolio offset higher costs and weaker fair value gains. We expect Helaba's operating profit to remain above 1% of RWAs in the next two years.

Adequate Capitalisation: The common equity Tier 1 ratio (end-2024: 14.2%) is adequate given the bank's business model and risk profile. In the next two years, we expect earnings retention and RWA optimisation measures to mitigate higher credit risk in the CRE and corporate portfolios. However, we believe capital ratios offer room for organic and inorganic growth.

Sound Funding and Liquidity: Helaba is primarily wholesale funded, which is reflected in a moderately higher loans/deposits ratio than commercial bank peers. However, the bank benefits from moderate capital-market funding requirements due to its privileged placement capacity within the savings bank sector. Its liquidity is sound, underpinned by a large portfolio of cash and liquid securities, and low encumbrance of collateral pools eligible for covered bonds.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A downgrade of SFG's IDRs would lead to a downgrade of Helaba's IDRs and SSR.

Helaba's VR would likely be downgraded if the impaired loans ratio increased above 5% for an extended period, or if heightened LICs weighed on operating profitability, lowering its operating profit/RWAs ratio below 0.5% in the longer term.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of SFG's Long-Term IDR would lead to an upgrade of Helaba's Long-Term IDR and SSR.

An upgrade of the VR would be contingent on a durable lowering of the impaired loans ratio below 3% and maintaining the operating profit/RWAs ratio above 1%. An upgrade would also require the common equity Tier 1 ratio to remain above 14%.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

Helaba's Derivative Counterparty Rating (DCR), long-term deposit ratings and senior preferred debt ratings are one notch above the bank's Long-Term IDR. This reflects the protection of preferred creditors arising from the bank's large resolution buffers, including senior non-preferred and more junior debt. For the same reason, the senior non-preferred and legacy senior unsecured debt ratings are in line with the bank's Long-Term IDR.

Helaba's short-term deposit and senior preferred debt ratings are the only short-term ratings mapping to the long-term deposit and senior preferred ratings, respectively.

The 'AAA' ratings of Helaba's grandfathered state-guaranteed senior unsecured and Tier 2 subordinated notes reflect our view of the creditworthiness of the federal states of Hesse and Thuringia, which is closely linked to that of Germany (AAA/Stable), and our expectation that Hesse and Thuringia will honour their guarantees. Fitch believes that the senior and subordinated instruments are equally protected because the guarantee does not differentiate between seniorities.

The rating of Helaba's non-guaranteed Tier 2 subordinated bond is notched down twice from Helaba's Long-Term IDR to reflect poor recoveries in case of non-performance. Fitch uses Helaba's Long-Term IDR rather than its VR as the anchor rating because we expect shareholder support from SFG to be extended to the bank's Tier 2 instruments under the IPS statutes, which we believe has reduced the likelihood of regulatory resolution measures at Helaba.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

Helaba's DCR, deposit, senior preferred and non-preferred debt ratings are sensitive to changes to Helaba's IDR. In addition, we could downgrade Helaba's DCR and long-term senior preferred debt and deposit ratings if we expected Helaba's senior non-preferred and more junior debt buffer to durably fall below 10% of RWAs.

Helaba's guaranteed senior unsecured and subordinated Tier 2 debt ratings are primarily sensitive to a weakening of the guarantors' ability to provide support as assessed by Fitch. The ratings of Helaba's non-guaranteed Tier 2 notes are primarily sensitive to changes in SFG's IDR. The subordinated debt could also be downgraded if Fitch no longer believed that shareholder support would be extended to subordinated creditors, or that such support were moderately less likely for subordinated creditors than for senior creditors.

VR ADJUSTMENTS

The business profile score of 'bbb' has been assigned below the 'a' implied category score due to the following adjustment reason: business model (negative).

The asset quality score of 'bbb' has been assigned below the 'a' implied category score due to the following adjustment reason: concentrations (negative).

The capitalisation & leverage score of 'bbb+' has been assigned below the 'a' implied category score due to the following adjustment reasons: business model and risk profile (negative).

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

Helaba's IDRs are linked to SFG's IDRs. Helaba's grandfathered state-guaranteed senior unsecured and Tier 2 subordinated notes are linked to Fitch's assessment of the State of Hesse and the Free State of Thueringen's creditworthiness and, by extension, to Germany's ratings.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process;

they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Landesbank Hessen-Thueringen Girozentrale	LT IDR	A+	Affirmed	A+
	ST IDR	F1+	Affirmed	F1+
	Viability	bbb	Affirmed	bbb
	DCR	AA-(dcr)	Affirmed	AA-(dcr)
	Shareholder Support	a+	Affirmed	a+
senior unsecured	LT	AAA	Affirmed	AAA
senior unsecured	LT	A+	Affirmed	A+
subordinated	LT	AAA	Affirmed	AAA
long-term deposits	LT	AA-	Affirmed	AA-
Senior preferred	LT	AA-	Affirmed	AA-

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VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 21 Mar 2025) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Landesbank Hessen-Thueringen Girozentrale	EU Issued, UK Endorsed

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