



## RATING ACTION COMMENTARY

# Fitch Affirms Sparkassen-Finanzgruppe Hessen-Thueringen at 'A+'; Outlook Stable

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Fitch Ratings - Frankfurt am Main - 15 Jun 2022: Fitch Ratings has affirmed Sparkassen-Finanzgruppe Hessen-Thueringen's (SFG-HT) Long-Term Issuer Default Rating (IDR) at 'A+' with a Stable Outlook, Short-Term IDR at 'F1+' and Viability Rating (VR) at 'a+'. A full list of rating actions is below.

Fitch has withdrawn SFG-HT's Support Rating and Support Rating Floor as they are no longer relevant to its coverage following the publication of its updated Bank Rating Criteria on 12 November 2021. In line with the updated criteria, we have assigned SFG-HT a Government Support Rating (GSR) of 'no support' (ns).

## KEY RATING DRIVERS

**Regional Retail and Commercial Banking Group:** SFG-HT's ratings are underpinned by the savings banks' strong local retail franchises, complemented by Landesbank Hessen-Thueringen Girozentrale's (Helaba; the group's central institution) wholesale activities, the group members' close integration, sound asset quality and strong capitalisation.

**Mutual Support:** SFG-HT is not a legal entity but a network of 49 savings banks in Hessen and Thuringia 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 and Helaba and are based on the group's VR.

**Conservative Risk Profile:** Through the pandemic and historically, SFG-HT's asset quality has been sound, based on its prudent underwriting standards, high share of collateralised lending and standardised product offering. The savings banks' long-standing business relationships with clients and their limited business complexity also contribute to the group's sound risk profile. SFG-HT is significantly exposed to commercial real estate, mainly through Helaba, leaving it vulnerable to a real estate crisis. However, strong collateralisation backed on prudent valuation mitigates risks.

**Robust Asset Quality:** Given SFG-HT's primary focus on Germany, we expect no significant short-term direct asset quality impact from the Ukrainian conflict. However, we expect a modest deterioration in SFG-HT's asset quality in the next two years, due to an expected economic slowdown, rising interest rates and inflationary pressure. We expect SFG-HT's impaired loans ratio will remain below 2% in the medium term.

**Profitability under Pressure:** The group's stable operating revenue reflects its strong regional market position, but Helaba's low-margin wholesale activities and large size relative to SFG-HT dilute the savings banks' earnings contribution. We expect that SFG-HT will continue to generate a moderate operating profit of 0.8%-1% of risk-weighted assets (RWA) on a sustained basis, which is reflected in the revision of the outlook on SFG-HT's earnings and profitability score to stable from negative.

**Well Capitalised:** SFG-HT's capitalisation is a rating strength. Based on preliminary data, SFG-HT's common equity Tier 1 (CET1) ratio moderately declined in 2021, owing to a further RWA increase, driven by strong loan growth outpacing profit retention. We expect SFG-HT to strengthen capital reserves through healthy internal capital generation, which should result in the CET1 ratio remaining above 16% in the medium term.

**Strong Funding and Liquidity:** The savings banks' large and granular retail deposit base strongly supports the group's funding and liquidity profile. The 'F1+' Short-Term IDR is the higher of two options mapping to the 'A+' Long-Term IDR and reflects the group's 'aa-' score for funding and liquidity. Helaba diversifies the group's funding profile by providing access to the unsecured and secured funding markets.

**No Sovereign Support Assumed:** SFG-HT's GSR reflects Fitch's view that the EU's resolution framework is likely to require senior creditors participating in losses, if necessary, instead or ahead of a bank receiving sovereign support.

## **RATING SENSITIVITIES**

### **Factors that could, individually or collectively, lead to negative rating action/downgrade:**

SFG-HT's, the savings banks' and Helaba's ratings could be downgraded if we expect the group's operating profit/RWA ratio to durably fall below 0.5% and if SFG-HT's impaired loans ratio durably exceeds 3%. This could result from large single losses in Helaba's concentrated loan portfolio and large commercial real estate exposure.

SFG-HT's Short-Term IDR is sensitive to changes in the Long-Term IDR and to a revision of the funding and liquidity score below 'aa-'.

SFG-HT's GSR is at the bottom of Fitch's rating scale.

### **Factors that could, individually or collectively, lead to positive rating action/upgrade:**

SFG-HT's, the savings banks' and Helaba's ratings are sensitive to changes in the group's VR. An upgrade of the VR would require a material improvement in earnings generation and better cost efficiency and lifting the group's operating profit/RWA ratio above 1.5% on a sustained basis, while maintaining a low impaired loans ratio and strong capitalisation.

An upgrade of the GSR would require a more positive assessment of the sovereign's propensity to support systemically important banks. In Fitch's opinion, this is highly unlikely.

## **OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS**

### **DEPOSIT RATINGS AND HELABA'S DERIVATIVE COUNTERPARTY RATING (DCR) AND SENIOR DEBT RATINGS**

Helaba's DCR, deposit ratings and preferred debt ratings are one notch above the bank's Long-Term IDR because of the protection provided by Helaba's sustainable resolution buffers to these preferred creditors. Helaba forms a resolution group that does not include SFG-HT's savings banks. Helaba is subject to minimum requirements for own funds and eligible liabilities, and we expect that the bank's junior and senior non-preferred debt buffer will continue to sustainably exceed 10% of its RWA.

Helaba's senior unsecured and senior non-preferred debt ratings are aligned with its IDRs.

The deposit ratings of SFG-HT's savings banks are in line with their IDRs because each savings bank's junior and senior non-preferred debt buffers, when available, are insufficient to warrant a rating uplift. We do not expect the savings banks to build up significant buffers because SFG-HT is not regulated as a single resolution group, which means that in an extremely unlikely scenario where the mutual support mechanism would fail to protect its members' viability, the preferred resolution strategy for each savings bank would be insolvency procedures.

## **HELABA'S STATE-GUARANTEED SENIOR UNSECURED AND SUBORDINATED NOTES**

The 'AAA' ratings on Helaba's guaranteed senior unsecured and subordinated Tier 2 debt are based on Fitch's view of the State of Hesse and the Free State of Thuringia's extremely high ability and propensity to honour their statutory grandfathered guarantee. Fitch believes that the protection provided by the guarantee is similar for senior and subordinated debt because the statutory guarantor's liability (Gewahrtraegerhaftung) does not differentiate between the seniority of various classes of liabilities. In our view, regulatory and EU state aid frameworks do not constrain the level of support for grandfathered debt.

## **HELABA'S NON-GUARANTEED SUBORDINATED DEBT**

Helaba's subordinated Tier 2 notes that do not benefit from the state guarantee 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.

## **OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES**

### **Factors that could, individually or collectively, lead to negative rating action/downgrade:**

Helaba's DCR and senior debt ratings as well as all members' deposit ratings are sensitive to a downgrade of the group's IDRs. In addition, we could downgrade Helaba's DCR and long-term senior preferred debt and deposit ratings if we expect Helaba's junior and senior non-preferred debt buffer to durably fall below 10% of its RWA.

The ratings of Helaba's guaranteed senior unsecured and subordinated Tier 2 debt 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 a downgrade of SFG-HT's VR.

**Factors that could, individually or collectively, lead to positive rating action/upgrade:**

Helaba's DCR and senior debt ratings as well as all members' deposit ratings are sensitive to an upgrade of the group's IDRs. The long-term deposit ratings of SFG-HT's savings banks could also be upgraded if all members of SFG-HT become regulated as a single resolution group with bail-in as the preferred resolution strategy.

Helaba's guaranteed senior unsecured and subordinated Tier 2 debt ratings are at the highest level on Fitch's rating scale and cannot be upgraded.

The ratings of the non-guaranteed subordinated Tier 2 notes could be upgraded if the VR was upgraded.

**SUBSIDIARIES & AFFILIATES: KEY RATING DRIVERS**

The IDRs of Helaba Asset Services, which is not a member of SFG-HT's mutual support scheme, are aligned with those of its parent, Helaba, to reflect our view that shareholder support would be forthcoming. This is reflected in Helaba Asset Services' newly-assigned Shareholder Support Rating (SSR) of 'a+'. Helaba Asset Services benefits from Helaba's declaration of backing, and we believe Helaba would face significant reputational risk if Helaba Asset Services defaults on its obligations.

Helaba Asset Services is a private unlimited company, which means that Helaba is fully liable for any asset shortfall in case of liquidation. Fitch has withdrawn Helaba Asset Services' Support Rating as it is no longer relevant to its coverage following the publication of its updated Bank Rating Criteria on 12 November 2021.

**SUBSIDIARIES AND AFFILIATES: RATING SENSITIVITIES****Factors that could, individually or collectively, lead to negative rating action/downgrade:**

Helaba Asset Services' IDRs and SSR are primarily sensitive to a downgrade of Helaba's IDRs.

**Factors that could, individually or collectively, lead to positive rating action/upgrade:**

Helaba Asset Services' IDRs would be upgraded if Helaba's IDRs were upgraded.

**VR ADJUSTMENTS**

The earnings & profitability score of 'a-' has been assigned above the category implied score of 'bbb' due to the following adjustment reason: risk-weight calculation (positive).

The funding & liquidity score of 'aa-' has been assigned above the category implied score of 'a' due to the following adjustment reason: deposit structure (positive).

## **BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

## **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 Asset Services is a subsidiary of Helaba.

## **ESG CONSIDERATIONS**

Unless otherwise disclosed in this section, 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 the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

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Frankfurter Sparkasse

EU Issued, UK Endorsed



Helaba Asset Services UC	EU Issued, UK Endorsed
Kasseler Sparkasse	EU Issued, UK Endorsed
Kreissparkasse Eichsfeld	EU Issued, UK Endorsed
Kreissparkasse Gelnhausen	EU Issued, UK Endorsed
Kreissparkasse Gotha	EU Issued, UK Endorsed
Kreissparkasse Gross-Gerau	EU Issued, UK Endorsed
Kreissparkasse Hildburghausen	EU Issued, UK Endorsed
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Kreissparkasse Nordhausen	EU Issued, UK Endorsed
Kreissparkasse Saale-Orla	EU Issued, UK Endorsed
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Kreissparkasse Schluechtern	EU Issued, UK Endorsed
Kreissparkasse Schwalm-Eder	EU Issued, UK Endorsed
Kreissparkasse Weilburg	EU Issued, UK Endorsed
Kyffhaeusersparkasse Artern-Sondershausen	EU Issued, UK Endorsed
Nassauische Sparkasse	EU Issued, UK Endorsed
Sparkasse Altenburger Land	EU Issued, UK Endorsed
Sparkasse Arnstadt-Ilmenau	EU Issued, UK Endorsed
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