



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

**Link to Fitch Ratings' Report:** S-Finanzgruppe Hessen-Thueringen - Rating Action Report ([https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=877023](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=877023))

Fitch Ratings-Frankfurt/London-25 January 2016: Fitch Ratings has affirmed German S-Finanzgruppe Hessen Thueringen's (SFG-HT) Long-term Issuer Default Rating (IDR) at 'A+' with a Stable Outlook and its Group Viability Rating (VR) at 'a+'. In addition, the agency has affirmed the IDRs of the 50 Sparkassen members of SFG-HT's mutual support scheme and its central institution Landesbank Hessen-Thueringen Girozentrale (Helaba). The IDR of Helaba's Irish subsidiary Helaba Asset Services has been affirmed at 'A+' and equalised with Helaba's IDR.

A full list of the group's rated Sparkassen is available at [www.fitchratings.com](http://www.fitchratings.com) or via the link above. A full list of rating actions is at the end of this rating action commentary.

The affirmation of the IDRs and VRs primarily reflects SFG-HT's entrenched franchise in the regions of Hessen and Thueringen, which has produced stable and predictable results supported by Germany's healthy economic environment. The Stable Outlook primarily reflects Fitch's view that growth forecasts for Germany suggests a stable operating performance.

### KEY RATING DRIVERS

#### IDRS, VR AND SENIOR DEBT RATING

The IDRs of SFG-HT and its members are based on the group's VR. The group's VR is underpinned by its diversified and leading regional franchise. The group concentrates on retail and SME lending in its home region, and its activities are complemented by Helaba's domestic and international wholesale banking expertise and services provided to the Sparkassen. SFG-HT's ratings are closely aligned with that of Sparkassen-Finanzgruppe (SFG; A+/ Stable/F1+) because SFG-HT's members are also part of Germany's nationwide savings bank mutual support group.

We believe that SFG-HT's risk appetite is moderate and reflects a consistent long-term growth strategy, which is helped by the group's good knowledge of the local economies and their customers. Risks of individual member banks are monitored centrally by the group, and risk controls should enable SFG-HT to detect any rise in risk exposure in a member bank at a reasonably early stage.

Fitch considers SFG-HT's exposure to interest rate risk in the banking book higher than at many other German banks. The group's interest rate risk is mitigated by Helaba's lower interest rate risk. Helaba is the largest member of the group.

We believe that the challenge of managing this risk is increasing as sight deposits are growing in a low-interest rate environment.

The group's asset quality is strong, supported by the strong macroeconomic performance in 2014/15, a positive trend in corporate and small businesses insolvencies and improving SME and corporate balance sheets. Nevertheless, the group's aggregate commercial real estate exposure forms a significant part of the loan portfolio and is vulnerable to a deterioration of market fundamentals. Non-performing loans declined further at the Sparkassen and Helaba in 2014 and to 3Q15. However, we believe that loan impairment charges (LICs) reached a cyclical bottom, when they amounted to a low EUR71m at end-2014, and that LICs will rise moderately over the coming years.

After a strong performance in 2014, we expect SFG-HT's 2015 profit to be moderately below the previous year. Helaba, which reported a good net profit of EUR485m for 9M15, continues to perform well. In our view, income from Helaba's foreign business adds diversity to the group's income sources. Helaba also benefits from better margins than the Sparkassen, which are almost exclusively focussed on the domestic market. However, we expect pressure on net interest income to intensify, which we believe will result in pressure on earnings.

SFG-HT's capitalisation and leverage are strong. Driven by profit retention and a rise in valuation reserve the group's core capital increased to EUR17.2bn at end-2014, when the group reported 16.98% phase-in Tier 1 ratio.

The group's funding and liquidity profile is sound due to the group's structural excess liquidity. This is driven by the Sparkassen's large retail deposits base with a rising share of sight deposits. Helaba's funding and liquidity benefit from a diversified pool of funding sources and access to a wide range of investors including international ones. The group's sound funding and liquidity underpins the 'F1+' Short-term IDR, which corresponds to the higher of the two possible Short-term IDRs for an 'A+' Long-term IDR.

#### SUPPORT RATING AND SUPPORT RATING FLOOR

SFG-HT's Support Rating (SR) and Support Rating Floor (SRF) reflect our view that legislative, regulatory and policy initiatives have substantially reduced the likelihood of sovereign support for banks in the European Union. The BRRD-Umsetzungsgesetz, which requires a 'bail in' of creditors in banks under resolution before an insolvent bank can be recapitalised with state funds came into force on 1 January 2015 and the Single Resolution Mechanism (SRM) providing resolution tools and mechanisms started on 1 January 2016. As a result, Fitch believes that extraordinary external support from the sovereign in the event that SFG-HT becomes non-viable - while possible - can no longer be relied upon.

SFG-HT could benefit from institutional support from SFG in cooperation with Helaba's state owners Hessen and Thuringen. Combined with Fitch's view that Helaba is one of the strongest Landesbanken, the overlap of the savings banks in SFG-HT with SFG makes it unclear under what circumstances institutional support for SFG would become necessary. Therefore, while possible, institutional support beyond the mutual support mechanism cannot be relied upon.

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

The 'AAA' rating on Helaba's guaranteed senior unsecured and subordinated debt is based on the statutory grandfathered guarantee by the State of Hessen and the Free State of Thuringen and reflects Fitch's view of the creditworthiness of the states, underpinned by the stability of the German solidarity system linking the states' creditworthiness to that of the Federal Republic of Germany (AAA/Stable).

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

#### SUBSIDIARY

The IDRs of Helaba Asset Services, which is not a member of the SFG-HT, 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 its parent would face reputational risk if Helaba Asset Services were to default on its obligations. Helaba Asset Services' status as a private unlimited company also means that its owner is fully liable for any shortfall in its assets in case of liquidation.

#### RATING SENSITIVITIES

##### IDRs, VR AND SENIOR DEBT RATING

SFG-HT's IDRs and VR are primarily sensitive to a material deterioration of its asset quality or a structural weakening of profitability, both of which could result from a prolonged domestic recession

or a continuation of low interest rates or further declines. The VR could also come under pressure in the unlikely event of a sharp rise in interest rates if this results in losses from the group's exposure to interest rate risk in the banking book. The group's ratings are also sensitive to significant regulatory changes or changes in the group's strategy affecting its cohesiveness, neither of which we expect.

SFG-HT's VR and IDRs are also sensitive to changes in Sparkassen-Finanzgruppe's (A+/F1+/a+) IDRs and VR as SFG-HT is part of the savings banks' nationwide mutual support mechanism and would therefore be affected by a material weakening of the overall savings bank sector's credit profile.

#### SUPPORT RATING AND SUPPORT RATING FLOOR

An upgrade of the SR and an 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, this is highly unlikely.

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

The rating of Helaba's guaranteed senior unsecured and subordinated debt is primarily sensitive to a change in Fitch's view of the creditworthiness of the state.

The ratings of subordinated debt instruments that do not benefit from the grandfathered guarantee are primarily sensitive to changes in SFG-HT's VR, from which they are notched.

#### SUBSIDIARY

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

The rating actions are as follows:

#### SFG-HT

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

Short-term IDR affirmed at 'F1+'

Viability Rating 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+'

Senior debt affirmed at 'A+'/'F1+'

Subordinated debt affirmed at 'A'

Senior and subordinated guaranteed obligations affirmed at 'AAA'

#### Helaba Asset Services

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

Short-term IDR affirmed at 'F1+'

Support Rating affirmed at '1'

50 savings banks: IDRs affirmed at 'A+' and 'F1+'; Outlook Stable

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### **Applicable Criteria**

Global Bank Rating Criteria (pub. 20 Mar 2015)

([https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=863501](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=863501))

### **Additional Disclosures**

Dodd-Frank Rating Information Disclosure Form

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