FitchRatings

Sparkassen-Finanzgruppe Hessen-Thueringen

ESG Relevance:

Banks
Ratings Navigator

Banks Ratings Navigator

Navigator date:	February 2019
Last rating action:	27 Nov 2018

Sector Details:

Bank sector:	Universal Commercial
Region:	DM Europe
Country:	Germany
Country IDR:	AAA Stable
Last action:	25 Jan 19 Affirmed
Country ceiling:	AAA
Macro prudential indicator:	1
Bank systemic indicator:	a

Bank Rating History

Viability Rating (VR)

27 Nov 18	a+	Affirmed
13 Dec 17	a+	Affirmed
05 Jan 17	a+	Affirmed

Issuer Default Rating (IDR)

27 Nov 18	A+	Stable	Affirmed
13 Dec 17	A+	Stable	Affirmed
05 Jan 17	A+	Stable	Affirmed

Support Rating Floor (SRF)

27 Nov 18	NF	Affirmed
13 Dec 17	NF	Affirmed
05 Jan 17	NF	Affirmed

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

Peer Ratings bars = Count of banks

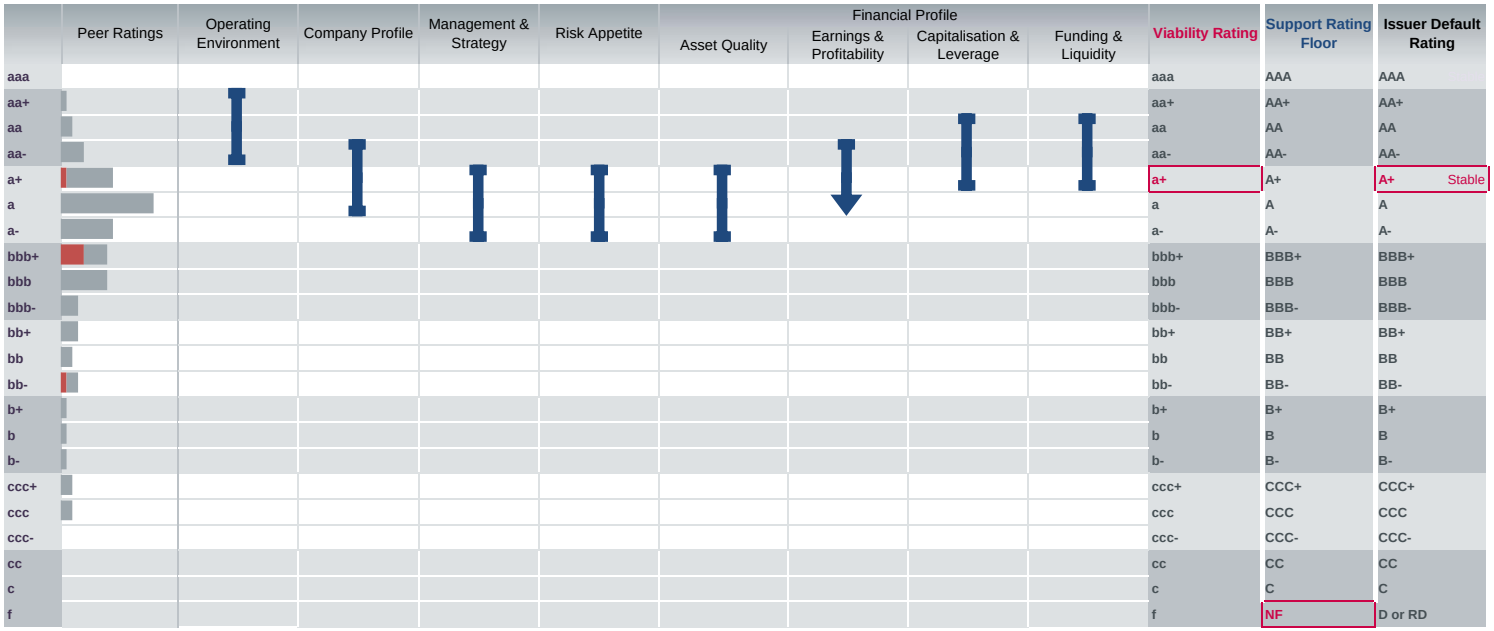
- 75 DM Europe Universal Commercial
- 6 Germany Universal Commercial

Relevant Criteria & References

- Bank Rating Criteria (Oct 2018)
- Macro-Prudential Risk Monitor (Sep 2018)

Analysts

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	Viability Rating	Support Rating Floor	Issuer Default Rating
aaa	aaa	AAA	AAA
aa+	aa+	AA+	AA+
aa	aa	AA	AA
aa-	aa-	AA-	AA-
a+	a+	A+	A+ Stable
a	a	A	A
a-	a-	A-	A-
bbb+	bbb+	BBB+	BBB+
bbb	bbb	BBB	BBB
bbb-	bbb-	BBB-	BBB-
bb+	bb+	BB+	BB+
bb	bb	BB	BB
bb-	bb-	BB-	BB-
b+	b+	B+	B+
b	b	B	B
b-	b-	B-	B-
ccc+	ccc+	CCC+	CCC+
ccc	ccc	CCC	CCC
ccc-	ccc-	CCC-	CCC-
cc	cc	CC	CC
c	c	C	C
f	NF	D or RD	

Support Rating Floor	Value
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)	A+ to A-
Actual country D-SIB SRF	NF
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		✓	
Policy banks			
Policy role			
Funding guarantees and legal status			
Government ownership			

Drivers & Sensitivities

Mutual Support Drives Group Ratings	Fitch assigns group ratings to S - Finanzgruppe Hessen-Thueringen (SFG-HT), its 49 member banks and its central institution, Landesbank Hessen-Thueringen Girozentrale (Helaba), based on a mutual support scheme, its regional reserve fund, and a common business and risk strategy.
Ratings Closely Aligned With SFG's	SFG-HT ratings are driven by its strong regional retail franchise, supplemented with Helaba's wholesale business. The ratings are closely aligned with those of Sparkasssen-Finanzgruppe (SFG) as SFG-HT's savings banks are in the savings banks' nationwide mutual support scheme.
Robust Capitalisation	SFG-HT is well capitalised given its fairly low-risk profile, with a fully loaded common equity Tier 1 ratio of 20.6% at end-2017, well above the German banking sector average. SFG-HT's capitalisation provides for its growth objectives while maintaining a solid loss-absorbing buffer.
Sound Asset Quality, Higher Concentration Than SFG	The group's non-performing loan ratio declined below 1.5% at end-2017 thanks to solid consumer and corporate fundamentals, but also reflecting a conservative risk appetite and solid underwriting standards. Helaba's commercial real estate exposure results in a higher concentration than at SFG.
Weakening Profitability	SFG-HT faces revenue pressure on the back of the low interest-rate environment. Fee income benefits moderately from the repricing of customer services and has been rising for several years, but offsetting net interest income erosion will become increasingly challenging.
Strong Funding, Liquidity Profile	The savings banks' large and growing retail deposit base supports the group's strong funding and liquidity profile. Helaba pursues a strategy of matched funding of new business, and its wholesale funding benefits from an established domestic and international investor base.
Sensitive to Profitability Deterioration	SFG-HT's ratings are sensitive to a material deterioration of profitability, which could be triggered by rising loan loss provisions, particularly from the real estate sector. A sharp rise in interest rates could crystallise losses from the group's exposure to interest-rate risk.
Sensitive to SFG Ratings	Sustainably improving profitability could lead to an upgrade. SFG-HT's ratings are also sensitive to changes in SFG's ratings as SFG-HT savings banks would be affected by a material weakening of the overall savings bank sector's credit profile.

FitchRatings

Sparkassen-Finanzgruppe Hessen-Thueringen

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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.

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

Overall ESG Scale

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	1	n.a.	n.a.
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.
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

E Scale

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
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
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
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy
Employee Wellbeing	1	n.a.	n.a.
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

S Scale

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Management & Strategy
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
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy

G Scale

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 left-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 the [number of] general 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 and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

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.

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