

S - Finanzgruppe Hessen-Thuringen

Update

Ratings

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

Sovereign Risk

Local-Currency Long-Term Rating	AAA
Foreign-Currency Long-Term IDR	AAA

Outlooks

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

Financial Data

S - Finanzgruppe Hessen-Thuringen

	31 Dec 15	31 Dec 14
Total assets (USDm)	283,411	321,301
Total assets (EURm)	260,313	264,356
Total equity (EURm)	20,085	19,290
Operating profit (EURm)	1,485	1,689
Published net income (EURm)	1,063	1,162
Comprehensive income (EURm)	898	1,378
Operating ROAA (%)	0.6	0.6
Operating ROAE (%)	7.5	9.0
Internal capital generation (%)	5.3	6.0
Fitch Core Capital/risk-weighted assets (%)	19.1	18.8
Tier 1 regulatory capital ratio (%)	17.1	16.7
Loan/customer deposits	125.3	127.3

Key Rating Drivers

Diversified Leading Regional Franchise: S - Finanzgruppe Hessen-Thuringen's (SFG-HT) ratings are based on mutual support within the group of 50 savings banks and its central institution, Landesbank Hessen-Thuringen Girozentrale (Helaba). The ratings reflect the group's diversified and leading regional franchise with a focus on retail and SME lending supplemented by Helaba's domestic and international wholesale business. It includes Helaba's cooperation with Sparkassen in the states of North Rhine-Westphalia and Brandenburg.

Aligned with Sparkassen Finanzgruppe: 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.

Risk Appetite Remains Moderate: We expect SFG-HT's risk appetite to remain moderate despite planned stronger loan growth to counter pressure on its profitability and material commercial real-estate (CRE) concentrations in Helaba's loan portfolio. Interest-rate risk in the banking book is a key market risk for the group's Sparkassen, but Helaba's match-funded profile of long-term financing lowers the group's overall vulnerability to interest-rate shocks.

Improved Asset Quality: The group's asset quality improved due to the favourable environment for SMEs and the quality of the group's real-estate lending, which comprises a significant part of the loan portfolio. Loan impairment charges (LICs) have remained moderate, but we believe a cyclical trough of non-performing loans (NPLs) has been reached. However, we expect any increase in NPLs to be gradual and moderate.

Pressure on Profitability: Fitch Ratings expects pressure on SFG-HT's profitability from persistently low interest rates, but profitability has remained good. The group has managed to control operating costs well, but further efficiency gains will be difficult unless the group makes significant cuts to the branch network of its local savings banks and staffing levels, which we do not expect.

Strong Capitalisation and Leverage: SFG-HT's capitalisation and leverage is a rating strength and commensurate with the level of risks that the group assumes.

Sound Funding and Liquidity: The group's sound funding and liquidity underpin the 'F1+' Short-Term Issuer Default Rating (IDR), which corresponds to the higher of the two possible Short-Term IDRs for an 'A+' Long-Term IDR.

Rating Sensitivities

Vulnerable to Cyclical Deterioration: SFG-HT's ratings are primarily sensitive to a material deterioration of its asset quality, which we believe would only occur if there is a prolonged domestic recession. The group's ratings could also come under pressure if profitability deteriorates materially and weakens internal capital generation, or if a sharp rise in interest rates crystallises losses from exposure to interest-rate risk in the banking book. Any upgrade of the Viability Rating (VR) would require a further strengthening of the group's capitalisation.

Savings Banks Sector Developments: SFG-HT's VR and IDRs are also sensitive to changes in SFG's IDRs and VR as SFG-HT is part of the savings banks' nationwide mutual support mechanism and would therefore be affected by a change to the credit profile of the overall savings bank sector. Given the close links between SFG and SFG-HT, the VR for SFG-HT would not be rated above those of SFG's.

Related Research

[S - Finanzgruppe Hessen-Thuringen - Ratings Navigator \(January 2017\)](#)

[2017 Outlook: German Banks \(December 2016\)](#)

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Related Criteria

[Global Bank Rating Criteria \(November 2016\)](#)