

**RATING ACTION COMMENTARY**

# Fitch Revises Berlin Hyp's Outlook to Stable after Similar Action on Sparkassen-Finanzgruppe

Fri 02 Jul, 2021 - 10:30 AM ET

Fitch Ratings - Frankfurt am Main - 02 Jul 2021: Fitch Ratings has revised the Outlook on Berlin Hyp AG's Long-Term Issuer Default Rating (IDR) to Stable from Negative and affirmed the IDR at 'A+'. A full list of rating actions is detailed below.

The Outlook revision follows the revision of the Outlook on Berlin Hyp's ultimate provider of support, Sparkassen-Finanzgruppe (SFG; see 'Fitch Revises SFG Outlook to Stable, Affirms IDR at 'A+' on 30 June 2021). Berlin Hyp's IDRs are based on Fitch's assessment of institutional support from SFG. Berlin Hyp's 'bbb' Viability Rating (VR) is unaffected by the rating action.

**KEY RATING DRIVERS****IDRs, SUPPORT RATING (SR) AND SENIOR NON-PREFERRED (SNP) DEBT RATINGS**

Unless noted below, the key rating drivers for Berlin Hyp are those outlined in our Rating Action Commentary published in November 2020 (see 'Fitch Affirms Berlin Hyp's Long-Term IDR at 'A+' / Negative; VR at 'bbb').

Berlin Hyp's IDRs, SR and SNP debt ratings are underpinned by institutional support from the bank's ultimate parent, SFG, the German savings banks group that collectively owns Berlin Hyp's immediate parent, Landesbank Berlin Holding AG. In Fitch's view, Berlin Hyp benefits from an extremely high probability of support from the savings banks, if required. Therefore, Berlin Hyp's IDRs are aligned with those of SFG.

The Stable Outlook on Berlin Hyp's Long-Term IDR mirrors that on SFG's Long-Term IDR.

In our view, the savings banks' reputation and their mutual support scheme's credibility would be greatly damaged if SFG failed to support Berlin Hyp, which is part of the scheme, when the need arises. Therefore, we believe that SFG has a very high propensity to support Berlin Hyp. SFG is not a legal entity but a banking network, whose cohesion is ensured by a mutual support scheme. This could increase the complexity of devising extraordinary support measures, but we expect the savings banks to be able to coordinate adequate and timely support measures if needed. Given Berlin Hyp's small size relative to SFG, any required support would be immaterial for SFG.

## SENIOR PREFERRED (SP) DEBT AND DEPOSIT RATINGS

Berlin Hyp's long-term SP debt and deposit ratings are one notch above its Long-Term IDR due to its large buffer of SNP debt equivalent to 45% of risk-weighted assets (RWA) at end-2020. We believe that this buffer provides the bank's preferred creditors with considerable additional protection compared with senior-non-preferred creditors in a resolution. The bank has started to replace maturing legacy SNP debt with cheaper SP debt, but Fitch believes that Berlin Hyp will retain a comfortable buffer over its MREL.

The short-term SP debt and deposit ratings of 'F1+' are the only options mapping to the respective long-term ratings.

## RATING SENSITIVITIES

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

An upgrade of Berlin Hyp's IDRs and SNP debt ratings would require an upgrade of SFG's ratings.

Unless Berlin Hyp includes SP debt in its resolution buffer and the sum of its senior non-preferred and more junior debt buffers falls below 10% of RWA, the bank's long-term SP debt and deposit ratings would be upgraded if its Long-Term IDR was upgraded.

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

A downgrade of SFG's ratings would trigger a downgrade of Berlin Hyp's IDRs and SNP debt ratings, which are also sensitive to a weakening of the owners' propensity to support. This could result from changes in Berlin Hyp's ownership structure or contractual relationship with the savings banks, in particular, Berlin Hyp's membership in SFG's mutual support scheme.

Berlin Hyp's SP debt and deposit ratings are primarily sensitive to changes in the bank's IDRs. The long-term SP debt and deposit ratings would be downgraded if Berlin Hyp's Long-Term IDR was downgraded or if we expect the bank to include SP debt in its resolution buffer and if the sum of senior non-preferred and more junior debt buffers falls below 10% of RWA.

## **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**

Berlin Hyp's ratings are driven by potential support from SFG.

## **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)

## RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Berlin Hyp AG	LT IDR	A+ Rating Outlook Stable	Affirmed	A+ Rating Outlook Negative
	ST IDR	F1+	Affirmed	F1+
	Support	1	Affirmed	1
● Senior non-preferred	LT	A+	Affirmed	A+
● long-term deposits	LT	AA-	Affirmed	AA-
● Senior	LT	AA-	Affirmed	AA-

[VIEW ADDITIONAL RATING DETAILS](#)

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### **APPLICABLE CRITERIA**

[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

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Berlin Hyp AG

EU Issued, UK Endorsed

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