

Research Update:

Berlin Hyp AG 'A-1' Short-Term Ratings Placed On CreditWatch Negative On Risk Of Weakening Group Support

January 7, 2022

Overview

- We now consider it likely that the anticipated repositioning of German-lender Berlin Hyp AG could weaken its integration into the German savings banks network (DSGV) and the likelihood of receiving parental support in times of stress.
- Notably, Landesbank Baden-Wuerttemberg confirmed that it is in final negotiations to purchase Berlin Hyp, which indicates that the savings banks are willing to give up full ownership.
- We therefore placed our 'A-1' short-term issuer credit ratings on Berlin Hyp on CreditWatch with negative implications.
- The CreditWatch placement reflects that we could lower the short-term rating on Berlin Hyp if we consider its creditworthiness less underpinned by expected future support from the DSGV or a new owner outside the central DSGV group.

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Rating Action

On Jan. 7, 2022, S&P Global Ratings placed its 'A-1' short-term issuer credit rating on Berlin Hyp AG on CreditWatch with negative implications. We also placed our 'A-1' short-term rating on the bank's commercial paper program on CreditWatch negative.

Rationale

Under our previous base case, we assumed that Berlin Hyp's integration into the German savings bank network (DSGV) would not weaken following its likely repositioning. We understand the regulator demanded changes to the holding company that directly owns Berlin Hyp, but until now we expected that this would not affect its integral role to the DSGV (see "Potential Repositioning Of Berlin Hyp AG Within The German Savings Bank Sector Should Not

Affect Its Integral Role," published Sept. 1, 2021, on RatingsDirect). We base our current ratings on Berlin Hyp's full, ultimate ownership through the German savings banks, membership in the sector's institutional protection scheme, and integration and importance within the German savings banks sector. We have therefore equalized our ratings on Berlin Hyp with our 'a' group credit profile (GCP) on DSGV.

We now expect the repositioning could weaken Berlin Hyp's ties to the savings banks and the likelihood of receiving support in times of stress. Landesbank Baden-Wuerttemberg (LBBW; unrated) confirmed that it is in final negotiations to purchase Berlin Hyp from the savings banks. Although there is no confirmation from the DSGV, we believe this announcement indicates that the savings banks are willing to give up full ownership of Berlin Hyp. A sale to LBBW would imply that Berlin Hyp remains a member of the sector's institutional protection scheme and can likely continue to act as a sector servicer and partner in commercial real estate lending. However, LBBW is majority-owned by public shareholders and the savings banks in its home region only hold a 40% stake in LBBW. We view LBBW analytically as, in effect, outside of the central DSGV group that comprises the 367 individual savings banks.

We are uncertain about the future role of Berlin Hyp and the level of group support it can rely on. Our current ratings positively reflect Berlin Hyp's integration into DSGV's business strategy. This is because it helps owner savings banks participate in commercial real estate lending outside their core regions. However, we are uncertain how this collaboration would evolve over the medium term if many savings banks have sold their shares. We would also need to understand LBBW or any other successful buyer's plans for Berlin Hyp, and whether assumed group support from a new owner could help maintain our current ratings on Berlin Hyp. Even under the scenario that Berlin Hyp is sold to another entity within the central DSGV group, we would need to determine whether its role and the level of inferred support from DSGV remain unchanged.

CreditWatch

We expect to resolve the CreditWatch within the next few months, once we know the result of Berlin Hyp's repositioning, the likely implications for its franchise, and the expected level of future group support through DSGV or a new owner.

We would very likely lower the 'A-1' short-term ratings by one notch to 'A-2' if we conclude that Berlin Hyp's creditworthiness has weakened. This could be, for example, if we consider its prospects of receiving parental support in times of stress to have reduced or if it is sold to a weaker parent.

We would affirm the ratings if we conclude that the repositioning would not change our view of group support from DSGV, or if we consider the influence of the new owner equally supportive for our current ratings on the bank.

Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10,

2021

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Berlin Hyp AG, Oct 12, 2021
- Potential Repositioning Of Berlin Hyp AG Within The German Savings Bank Sector Should Not Affect Its Integral Role, Sept. 1, 2021
- Proposed Overhaul Of Institutional Protection Scheme Could Benefit German Savings Banks Sector Integration, Aug. 27, 2021

Ratings List

Ratings Affirmed; CreditWatch Action

	To	From
Berlin Hyp AG		
Issuer Credit Rating	--/Watch Neg/A-1	A-1
Berlin Hyp AG		
Commercial Paper	A-1/Watch Neg	A-1

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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