Research Update:

Germany-Based Real Estate Lender Berlin Hyp AG Assigned 'A-1' Short-Term Ratings

August 9, 2021

Overview

- Germany-based Berlin Hyp AG is a commercial real estate lender whose activities are predominately funded by covered bonds (Pfandbriefe).
- We consider Berlin Hyp's financial risk profile is intertwined with that of Landesbank Berlin AG because of a profit-loss-transfer mechanism established through their direct owner, a non-operating holding company, Landesbank Berlin Holding (LBH).
- We further consider Berlin Hyp and the consolidated LBH group as core members of the German savings banks network (DSGV), reflecting their full, ultimate ownership through savings banks; membership in the sector's institutional protection scheme; and integration and importance for the sector.
- Based on the savings banks' ownership, we equalized our ratings on Berlin Hyp with our 'a' group credit profile (GCP) on the DSGV and assigned our 'A-1' short-term issuer credit rating to Berlin Hyp.
- We also assigned our 'A-1' short-term rating to the company's commercial paper program, which reflects our expectation that notes issued under the program would be senior unsecured obligations, with a maximum tenor of up to one year.

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Rating Action

On Aug. 9, 2021, S&P Global Ratings assigned its 'A-1' short-term issuer credit rating to Germany-based Berlin Hyp AG.

Rationale

The rating reflects Berlin Hyp's full ownership by the German savings banks and the likelihood to receive support. We equalize our ratings on Berlin Hyp with our 'a' group credit profile (GCP) on the German savings banks network (DSGV). This reflects 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 therefore expect it to receive extraordinary support under any foreseeable scenario from the DSGV as long as the ownership prevalent.

We consider Berlin Hyp linked to Berliner Sparkasse through its shared holding company, Landesbank Berlin Holding AG. We see Berlin Hyp's financial risk profile as intertwined with that of Landesbank Berlin Holding (LBH), a non-operating holding company ultimately owned by the saving banks. LBH has full ownership in Berlin Hyp and Landesbank Berlin AG (LBAG), which predominately operates as Berliner Sparkasse, the local savings bank in the Berlin area. We consider LBH group an integrated subgroup of the DSGV, reflecting the profit and loss transfer mechanism between Berlin Hyp and LBAG through the holding. The group also relies on uniform risk management policies and the subsidiaries partly share risk management capacities. Lastly, the subsidiaries' strategy and capital management is approved and monitored by LBH's board, which comprise members of Berlin Hyp's and LBAG's management team. This implies LBBH is in control over the group members' strategy and the disposition of its cash flows.

Berlin Hyp acts as the sector's commercial real estate (CRE) servicer, which supports its integration into the DSGV. Berlin Hyp and the LBH group are integrated into the DSGV's business strategy. Berlin Hyp is a monoline CRE lender whose activities are predominantly funded by covered bonds and senior unsecured funding. It operates nationally and, to a limited extent, internationally; and collaborates with savings banks by allowing them to participate in CRE lending outside their core regions, mainly in the form of syndicated loans. At the same time, the local savings banks transfer lending to Berlin Hyp if the lending exceeds their own capacity, and they channel excess liquidity to Berlin Hyp by purchasing the bank's debt instruments because they do not incur any risk charge within the sector. Berlin Hyp offers the local savings bank additional services relating to its core CRE activity, such as guarantees, derivatives, and appraisal services, which supports its integration into the savings banks sector. We also see Berlin Hyp as positive for the sector's profitability. It has been relatively successful in recent years, despite a material increase in credit loss provisioning in 2020 because of the pandemic and margin pressure in the ultra-low interest rate environment. Like other savings banks, LBAG/Berliner Sparkasse's operations primarily focus on retail, small and midsize enterprises, and corporate customers in Berlin. It also has majority ownership in S-Kreditpartner GmbH, the specialized alliance partner for the car and consumer credit business within DSGV. Given its integration into the DSGV, we do not assign individual stand-alone credit profiles to either Berlin Hyp or the LBH group.

We believe that the bank is fully integrated into the savings bank's protection scheme and will receive support. We consider Berlin Hyp and the LBH group core members of DSGV and expect them to receive support under any foreseeable scenario. Our assessment considers that Berlin Hyp and the group are tied together with DSGV through various mechanisms, including the common full ownership by the German savings banks. Both operating entities and LBH are members of the Landesbanken guarantee fund, with the primary goal of avoiding a default of its member institutions. If this pot was exhausted, to allow for additional support, this would trigger nationwide overflow mechanism between 13 pots predominately linked to regional savings banks associations. To prevent material reputation risk for other savings banks given that they share a common brand, we believe the savings banks would support the group (which includes the savings bank operations in Berlin) and Berlin Hyp under any circumstances through the German savings banks. This also reflects the relative smaller size of the LBH group compared with the overall DSGV, estimated at about 6% of total assets, which facilitates the decision about support. Moreover, all entities' supervisory boards include representatives of German savings banks and their regional associations, who are ultimately in charge of deciding, on behalf of the German savings banks' institutional protection scheme, whether support should be granted. We therefore believe that the German savings banks can detect problems early and organize support, as appropriate, in a timely fashion.

Unless we revise our view of the integral role of Berlin Hyp to the LBH group and DSGV in particular or the prospects that it would receive support in case of need, the ratings on Berlin Hyp will move in tandem with our GCP on DSGV.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, 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
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Various German Banks Downgraded On Persistent Profitability Challenges And Slow Digitalization Progress, June 24, 2021
- Banking Industry Country Risk Assessment: Germany, Nov. 11, 2020

Ratings List

New Rating	
Berlin Hyp AG	
Issuer Credit Rating	--/--/A-1
Commercial Paper	A-1

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors,