



RATING ACTION COMMENTARY

Fitch Downgrades Berlin Hyp to 'A-' on Sale to LBBW; Outlook Stable

Fri 01 Jul, 2022 - 11:24 AM ET

Fitch Ratings - Frankfurt am Main - 01 Jul 2022: Fitch Ratings has downgraded Berlin Hyp AG's Long-Term Issuer Default Rating (IDR) to 'A-' from 'A+' and Short-Term IDR to 'F1' from 'F1+' and removed the IDRs from Rating Watch Negative (RWN). The Outlook on the Long-Term IDR is Stable. A full list of rating actions is below.

The rating actions follow Berlin Hyp's acquisition by Landesbank Baden-Wuerttemberg (LBBW, A-/Stable/F1) and align its IDRs with those of LBBW. This reflects our view that Berlin Hyp's change of ownership results in weaker shareholder support, which drives the bank's IDRs. Berlin Hyp's Viability Rating is unaffected by this rating action.

KEY RATING DRIVERS

IDRs, SHAREHOLDER SUPPORT RATING (SSR), SENIOR NON-PREFERRED DEBT RATINGS

LBBW closed the acquisition of Berlin Hyp on 30 June 2022, taking effect on 1 July 2022. We now align Berlin Hyp's IDRs with those of LBBW as the latter replaced Sparkassen-Finanzgruppe (A+/Stable/F1+), the seller of Berlin Hyp, as the most likely source of shareholder support for Berlin Hyp. Therefore, we have downgraded Berlin Hyp's SSR to 'a-' from 'a+'. The SSR of 'a-' is primarily driven by our view that LBBW would have a very high propensity to support Berlin Hyp. This is primarily because we believe LBBW's reputation would be greatly damaged if, as Berlin Hyp's owner, it failed to provide support if ever needed.

LBBW's Long-Term IDR is notched down twice from SFG's 'A+' IDR to reflect regulatory restrictions to support due to the requirement for state-aid examination under EU competition rules. The two-notch difference also reflects LBBW's strategic, but not key and integral role, for its owners, the federal state of Baden-Wuerttemberg, the City of Stuttgart and the savings banks association of Baden-Wuerttemberg.

SENIOR PREFERRED (SP) DEBT AND DEPOSIT RATINGS

Fitch has downgraded Berlin Hyp's long-term senior preferred (SP) debt and deposit ratings to 'A' from 'AA-' one notch above its Long-Term IDR. The ratings are aligned with the respective ratings of LBBW, due to its large buffer of SNP debt equivalent to about 40% of the bank's risk-weighted assets (RWA) at end-2021. We expect Berlin Hyp to become part of LBBW's single-point-of-entry resolution perimeter.

We have downgraded Berlin Hyp's short-term preferred debt ratings to 'F1' from 'F1+', aligned with LBBW's ratings. LBBW's short-term SP debt and deposit ratings of 'F1' are the lower of two options that map to its 'A' long-term SP debt and deposit ratings. This is because we believe that despite the owners' very high propensity to support LBBW, there are potential impediments to the prompt flow of funds that are not commensurate with 'F1+' short-term ratings, given the lengthy process required to support a Landesbank.

RATING SENSITIVITIES

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

A downgrade of LBBW's IDRs, a change in the ownership structure or in the owner's strategic commitment to Berlin Hyp could lead to a downgrade of its IDRs and SSR.

Berlin Hyp's senior debt and deposit ratings are sensitive to LBBW's IDRs or if the sum of SNP and more junior debt falls below 10% of RWA.

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

An upgrade of the IDRs and SSR would require an upgrade of LBBW's ratings.

An upgrade of the IDRs would trigger an upgrade of the senior debt and deposit ratings, unless its resolution buffers decrease below 10% of its 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 shareholder support from LBBW.

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

RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡	PRIOR ⚡
Berlin Hyp AG	LT IDR A- Rating Outlook Stable Downgrade	A+ Rating Watch Negative
	ST IDR F1 Downgrade	F1+ Rating Watch Negative

	Shareholder Support	a-	Downgrade	a+ Rating Watch Negative
long-term deposits	LT	A	Downgrade	AA- Rating Watch Negative
Senior preferred	LT	A	Downgrade	AA- Rating Watch Negative
Senior non-preferred	LT	A-	Downgrade	A+ Rating Watch Negative
short-term deposits	ST	F1	Downgrade	F1+ Rating Watch Negative
Senior preferred	ST	F1	Downgrade	F1+ Rating Watch Negative

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Bank Rating Criteria \(pub. 12 Nov 2021\) \(including rating assumption sensitivity\)](#)

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Berlin Hyp AG

EU Issued, UK Endorsed

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