



## RATING ACTION COMMENTARY

# Fitch Places Berlin Hyp's IDRs on RWN on Announced Sale to LBBW

Mon 31 Jan, 2022 - 6:21 AM ET

Fitch Ratings - Frankfurt am Main - 31 Jan 2022: Fitch Ratings has placed Berlin Hyp AG's Long-Term Issuer Default Rating (IDR) of 'A+' and Short-Term IDR of 'F1+' on Rating Watch Negative (RWN). Berlin Hyp's 'bbb+' Viability Rating is not affected by this rating action. A full list of rating actions is detailed below.

The rating action reflects our expectation that, following its acquisition by Landesbank Baden-Wuerttemberg (LBBW, A-/Stable/F1), Berlin Hyp's IDRs will likely be downgraded to 'A-' and 'F1', respectively, aligning them with those of LBBW. This reflects our view that Berlin Hyp's change of ownership will result in weaker shareholder support, which drives the bank's IDRs. We expect to resolve the RWN upon closing of the transaction, which LBBW expects to occur in summer 2022.

## KEY RATING DRIVERS

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

Berlin Hyp's IDRs, SSR and SNP debt ratings are driven by support from the bank's owners.

LBBW announced on 26 January 2022 that it has agreed with Sparkassen-Finanzgruppe (SFG, A+/Stable/F1+), the German savings banks group, to acquire Berlin Hyp, subject to regulatory approvals.

SFG currently collectively owns Berlin Hyp via the latter's immediate parent, Landesbank Berlin Holding AG. SFG is a banking network, whose cohesion is ensured by an institutional support scheme, of which Berlin Hyp is a member. Until the transaction is closed, Berlin Hyp's ratings will continue to reflect our view of an extremely high probability of support from SFG. Therefore, Berlin Hyp's IDRs and senior non-preferred (SNP) debt ratings will be at the same level as those of SFG until closing.

Upon closing of the transaction, we expect to align Berlin Hyp's IDRs with those of LBBW as the latter will at that stage replace SFG as the most likely source of shareholder support for Berlin Hyp. Therefore, we expect to downgrade Berlin Hyp's SSR to 'a-' from 'a+'. The SSR of 'a-' would primarily be driven by our view of LBBW's very high propensity to support Berlin Hyp, and we expect that LBBW's owners would themselves ultimately support LBBW. This is primarily because we expect that LBBW's regulator would favour support in case of need. We also believe that LBBW's reputation would be greatly damaged if, as Berlin Hyp's owner, it fails to provide support, if needed. LBBW expects the transaction to close in summer 2022, but we could maintain the RWN on Berlin Hyp's ratings beyond the typical six-month period if the sale process is delayed.

LBBW's Long-Term IDR is notched down twice from SFG's 'A+' to reflect regulatory restrictions to support, due to state-aid considerations under EU competition rules. The two-notch difference also reflects LBBW's strategic, but not key and integral role, for the bank's 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

Berlin Hyp's long-term senior preferred (SP) debt and deposit ratings are one notch above the bank's Long-Term IDR, due to a large buffer of SNP debt equivalent to 43% of the bank's risk-weighted assets (RWAs) at end-1H21. This buffer provides the bank's preferred creditors with additional protection compared with non-preferred creditors in a resolution. Upon completion of the acquisition, we expect to align Berlin Hyp's long-term preferred ratings with those of LBBW at 'A' as we expect Berlin Hyp's senior preferred creditors to remain protected in a resolution.

Berlin Hyp's short-term SP debt and deposit ratings of 'F1+' are the only options mapping to the bank's respective long-term ratings. Following the closing of the acquisition, we expect to align these ratings with LBBW's short-term SP debt and deposit ratings of 'F1'.

## RATING SENSITIVITIES

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

Following the completion of the transaction, we expect to downgrade Berlin Hyp's IDRs, debt and deposit ratings and align them with LBBW's respective ratings. We also expect to downgrade Berlin Hyp's SSR to 'a-' from 'a+', reflecting support from LBBW.

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

If the acquisition does not materialise, we will reassess SFG's propensity to support Berlin Hyp, depending on SFG's alternative plans for Berlin Hyp's ownership structure. This could result in an affirmation of Berlin Hyp's ratings at their current level. The ratings could also remain on RWN until sufficient clarity on Berlin Hyp's future ownership structure emerges. An upgrade of Berlin Hyp's ratings is highly unlikely as it would require an upgrade of SFG's ratings.

**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.

Upon resolution of the RWN, we expect Berlin Hyp's ratings to be 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](http://www.fitchratings.com/esg)

## RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Berlin Hyp AG	LT IDR	A+ Rating Watch Negative
		Rating Watch On
		A+ Rating Outlook Stable
	ST IDR	F1+ Rating Watch Negative
		Rating Watch On
		F1+
	Shareholder Support	a+
		a+ Rating Watch Negative
		Rating Watch On
Senior non-preferred	LT	A+ Rating Watch Negative
		Rating Watch On
long-term deposits	LT	AA- Rating Watch Negative
		Rating Watch On
Senior preferred	LT	AA- Rating Watch Negative
		Rating Watch On

short-term deposits	ST	F1+ Rating Watch Negative	F1+
		Rating Watch On	

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Senior preferred	ST	F1+ Rating Watch Negative	F1+
		Rating Watch On	

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[VIEW ADDITIONAL RATING DETAILS](#)**FITCH RATINGS ANALYSTS****Markus Glabach**

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## **APPLICABLE CRITERIA**

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

## **ADDITIONAL DISCLOSURES**

[Solicitation Status](#)

[Endorsement Policy](#)

## **ENDORSEMENT STATUS**

Berlin Hyp AG

EU Issued, UK Endorsed

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