Berlin Hyp AG (/gws/en/esp/issr/86873938)

FitchRatings

Fitch Affirms Berlin Hyp's IDR at 'A+' & VR at 'bbb'

Fitch Ratings-Frankfurt/London-02 February 2018: Fitch Ratings has affirmed Berlin Hyp AG's (Berlin Hyp) Long-Term Issuer Default Rating (IDR) at 'A+' with a Stable Outlook, Short-Term IDR at 'F1+' and Support Rating at '1'. The IDRs and Support Rating are driven by institutional support from the German savings banks (Sparkassen-Finanzgruppe (Sparkassen), A+/Stable/F1+/a+). At the same time, Fitch has affirmed Berlin Hyp's Viability Rating (VR) at 'bbb'.

KEY RATING DRIVERS
IDRS, SENIOR DEBT AND SUPPORT RATING
Berlin Hyp AG's IDRs, senior debt and Support Ratings are based on support from the German savings banks, which fully own the bank's parent, Landesbank Berlin Holding AG (LBBH). Berlin Hyp's IDRs are equalised with the bank's ultimate owners', reflecting Fitch's view of an extremely high probability of support from the savings banks for Berlin Hyp, if needed.

We believe that the savings banks have a very high propensity to support Berlin Hyp, primarily because failure to do so would lead to significant reputational damage to the savings banks and support within the group. In our opinion, Berlin Hyp's small size relative to the savings banks means that any required support would be immaterial to the savings bank group and that the savings banks would be able to put in place adequate support measures.

Access to the savings banks' strong liquidity supports Berlin Hyp's 'F1+' Short-Term IDR, which corresponds to the higher of the two possible Short-Term IDRs for a 'A+' Long-Term IDR.

VR
BerlinHyp's VR reflects strong asset quality, despite concentration risk inherent in its business model, adequate risk-adjusted profitability and its sound performance to 9M17. Berlin Hyp's capitalisation provides a sufficient buffer given the bank's risk profile as a mono-line real estate lender. It funding and liquidity is sound despite its wholesale funded profile, but its market risk is elevated.

Berlin Hyp's asset-quality indicators are sound and stronger than most of its peers. This reflects Berlin Hyp's prudent underwriting standards, particularly for lending outside Germany, primarily in Poland and France. Its legacy portfolio has been wound down in recent years. Non-performing loans (NPLs) have declined further and coverage has increased. Net credit exposure in its bad loan book amounted to a low EUR2 million at end-3Q17. However, our assessment of asset quality also reflects high single borrower concentration risk

We expect the bank to maintain its risk appetite despite pressure on margins, as risk appetite is driven by its owners, the savings banks. The share of foreign business is likely to remain between 25% and 30% of the bank's total new business in the medium term. However, interest rate risk in the banking book increased in 2017, highlighting Berlin Hyp's vulnerability to rising rates.

Berlin Hyp's profitability is adequate and commensurate with the level of risk it takes. The bank's operating performance in 2016 and 9M17 proved resilient in light of low rates and margins thanks to exceptionally low loan impairment charges. Berlin Hyp demonstrated good cost management and benefited from strong new business generation. Nevertheless, we expect the bank to face challenges from strong competition and potentially further pressure on margins. We believe that a cost/income ratio of around 40% is appropriate for a monoliner operating in the CRE business.

Berlin Hyp's fully loaded Common Equity Tier 1 (CET1) reached 12.6% at end-3Q17. We view this ratio as being in line with peers and expect Berlin Hyp to continue building capital. However, Berlin Hyp's leverage ratio is at the lower end of peers, despite recent improvements.

Berlin Hyp's funding and liquidity are adequate. Berlin Hyp is wholesale-funded and has a diversified base of domestic and foreign institutional investors. It also benefits from the Sparkassen sector's strong liquidity and from funding it receives from other members of the sector.

DEPOSIT RATINGS
Berlin Hyp's Deposit Ratings are aligned with the bank's IDRs. We have not given any Deposit Rating uplift, as in Fitch's opinion, the bank's debt buffers do not afford any incremental probability of default benefit over and above the support benefit already factored into Berlin Hyp's IDRs. We have also not assigned any uplift for above-average recovery prospects in the event of default because of the limited visibility into recovery levels in such circumstances.

RATING SENSITIVITIES

IDRS, SUPPORT RATING AND SENIOR DEBT

Berlin Hyp's IDRs, Support Rating and senior debt ratings are primarily sensitive to changes in the bank's ownership structure or contractual relationship with the Sparkassen, including the bank's membership in the mutual support scheme. Any weakening in the owners' propensity to provide support would put pressure on the IDRs and SR. The ratings are also sensitive to a change in the Sparkassen's ratings as Berlin Hyp's IDRs are equalised with those of its ultimate parents.

VR

We currently see limited upside for Berlin Hyp's VR given the bank's business model. Significant stress in property markets that affect profitability and, ultimately, capitalisation would put downside pressure on its VR.

DEPOSIT RATING

Berlin Hyp's Deposit Ratings are primarily sensitive to changes in the bank's IDRs.

The rating actions are as follows:

Berlin Hyp AG:
Long-Term IDR: affirmed at 'A+', Outlook Stable
Short-Term IDR: affirmed at 'F1+'
Viability Rating: affirmed at 'bbb'
Long-Term Deposit Ratings: affirmed at 'A+'
Short-Term Deposit Rating: affirmed at 'F1+'
Support Rating: affirmed at '1'
Senior unsecured notes: affirmed at 'A+'

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Applicable Criteria

Global Bank Rating Criteria (pub. 25 Nov 2016) (https://www.fitchratings.com/site/re/891051)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form (https://www.fitchratings.com/site/dodd-frank-disclosure/10019283)
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Solicitation Status

Fitch Ratings was paid to determine each credit rating announced in this Rating Action Commentary (RAC) by the obligatory being rated or the issuer, underwriter, depositor, or sponsor of the security or money market instrument being rated, except for the following: