



## RATING ACTION COMMENTARY

# Fitch Places German and Austrian Banks Under Criteria Observation

Wed 04 Mar, 2020 - 15:10 ET

Fitch Ratings - Frankfurt am Main - 04 Mar 2020: Fitch Ratings has placed Austrian and German banks' Long-Term (LT) Issuer Default Ratings (IDRs), Derivative Counterparty Ratings (DCR), debt ratings and Deposit Ratings under criteria observation (UCO).

The rating actions follow the publication on 28 February 2020 of Fitch's updated bank and non-bank financial institution rating criteria that include changes to the way the agency notches senior and junior ratings from their IDR or Viability Rating (VR) anchors.

The updated criteria better reflect continuing developments in bank resolution, notably developments in bank resolution plans, the build-up of 'bail-in' debt buffers that protect more senior creditors and their

implication for default risk and recovery prospects for senior and junior liability classes. Fitch has also reduced the base case notching for non-performance on additional tier 1 (AT1) instruments, narrowing the relative gap between Tier 2 and AT1 instruments where Fitch has reappraised its baseline treatment of non-performance risk.

Ratings designated as being UCO will be reviewed and resolved as soon as practical and in any case within six months.

## **KEY RATING DRIVERS**

Fitch has placed UCO the IDRs, DCRs, senior debt, deposit, subordinated debt and hybrid debt ratings of the various issuers as outlined in the rating sensitivities section below. The rating actions reflect the possibility that these ratings will be upgraded or downgraded as a result of the publication of our new Bank Rating Criteria on 28 February 2020, as outlined in more detail in the Rating Sensitivities section of this rating action commentary.

HSBC Trinkaus & Burkhardt's (HSBC Germany) LT IDR is underpinned by our view that support for the bank would come from its ultimate parent HSBC Holdings plc (HSBC) through its intermediate parent HSBC Bank plc (HSBC Bank), for which it is a key subsidiary. Aareal Bank AG's LT IDR is notched up once from its VR due to its sizeable qualifying junior debt buffer.

The senior debt ratings, DCRs and Deposit Ratings of the affected banks are equalised with the banks' IDRs, with the exception of Aareal's LT deposit and senior preferred (SP) debt ratings, which are notched up from the bank's LT IDR to reflect the bank's large senior non-preferred debt (SNP) buffer.

The Tier 2 subordinated debt is notched down once from the banks' VRs to reflect below-average recovery expectations. AT1 debt with fully flexible coupons is notched down five times from the banks' VRs (twice for loss severity and three times for incremental non-performance risk).

## **RATING SENSITIVITIES**

We have placed UCO HSBC Germany's support-driven LT IDR and LT Deposit Rating. Both ratings could be upgraded by one notch to 'AA-' if HSBC Bank's LT IDR is upgraded to 'AA-' and if we conclude that resolution plans are likely to result in HSBC Germany's external senior creditors being protected and avoiding default if the group fails. This assumes that the group's resolution plans identify HSBC Germany as a key foreign subsidiary benefitting from intra-group resources.

We have placed UCO Aareal's LT IDR, which could be downgraded under the new criteria if we conclude that the bank is unlikely to hold Tier 2 and AT1 debt buffers sustainably in excess of 10% of its risk-weighted assets (RWAs).

## **OTHER DCRS**

Aareal's DCR has been placed UCO because the rating could be downgraded if its equally ranking SP debt is downgraded.

We have placed UCO the DCRs of eight other issuers to reflect the protection that could accrue to the (preferred) DCR creditors from the build-up of bank resolution debt and equity buffers. The eight issuers are Bayerische Landesbank (BayernLB), Deutsche Bank Securities Inc., Erste Group Bank AG (Erste), Landesbank Baden-Wuerttemberg (LBBW), Landesbank Saar, Norddeutsche Landesbank Girozentrale (NORD/LB), Santander Consumer Bank AG (SCB AG), and UniCredit Bank AG.

## **LT SP DEBT**

Aareal's LT SP debt has been placed UCO because it would be downgraded if the bank's LT IDR is downgraded.

The SP debt of BayernLB, Berlin Hyp, Erste, LBBW, NORD/LB, NORD/LB Luxembourg S.A. Covered Bond Bank, SCB AG, and UniCredit Bank AG has been placed UCO to reflect a possible upgrade

under the new criteria because of the protection that could accrue to preferred debt from more junior resolution debt and equity buffers.

#### LT SNP DEBT

We have placed UCO Erste's SNP debt to reflect a possible downgrade under the new criteria due to the risk of below-average recoveries arising from the use of more senior debt to meet resolution buffer requirements and buffers of AT1, Tier 2 and SNP debt being unlikely to exceed 10% RWA.

#### SENIOR UNSECURED DEBT

The senior unsecured debt class of the banks listed below contains all senior unsecured instruments issued before 21 July 2018. Therefore, this debt class may contain non-structured senior unsecured debt and certain instruments with simple structures that in resolution rank pari passu with SNP instruments issued after 21 July 2018, as well as structured notes that rank pari passu with SP instruments issued after the same date.

Berlin Hyp's, BayernLB's, LBBW's and NORD/LB's senior unsecured debt class has been placed UCO to reflect the possibility that any structured notes included in this debt class may be upgraded under the new criteria.

Aareal's senior unsecured debt class has been placed UCO to mirror the IDR's UCO, which indicates a potential one-notch downgrade. The ratings of structured notes included in the senior unsecured debt class may be affirmed under the new criteria if we estimate that they qualify as SP debt under the German resolution regime.

#### LT DEPOSITS

We have placed UCO Aareal's LT Deposit Rating because it would be downgraded if the bank's LT IDR is downgraded.

We have placed UCO the LT Deposit Ratings of eight other banks to reflect a potential upgrade under the new criteria because of the

protection that could accrue to them from more junior bank resolution debt and equity buffers. The affected banks are Berlin Hyp, BayernLB, HSBC Germany, Landesbank Saar, LBBW, NORD/LB, SCB AG, and UniCredit Bank AG.

#### SHORT-TERM (ST) DEBT AND DEPOSITS

We have placed UCO Aareal's ST debt and Deposit Ratings to reflect a potential downgrade if the equivalent LT senior debt and Deposit Ratings are downgraded. This is because the highest ST rating corresponding to a LT rating of 'A-' is 'F2'.

We have placed UCO five other banks' ST debt and deposit ratings, because they could be upgraded if their respective LT senior debt and Deposit Ratings are upgraded, making a higher equivalent ST rating possible. The affected banks are BayernLB, Landesbank Saar, LBBW, NORD/LB, and SCB AG.

#### TIER 2 DEBT

We have placed UCO 12 banks' Tier 2 subordinated debt because it could be downgraded to reflect the switch to a baseline notching of two notches for loss severity from the banks' respective VRs under the new criteria (from one notch under previous criteria). The 12 banks are Aareal, BayernLB, BAWAG Group AG, Commerzbank, Deutsche Bank AG, Deutsche Bank London Branch, Dresdner Funding Trust IV (Commerzbank), Erste, Landesbank Hessen-Thüringen Girozentrale, LBBW, NORD/LB, and UniCredit Bank AG.

#### AT1 DEBT

We have placed UCO Aareal's and Deutsche Bank AG's AT1 debt ratings. These bonds have fully flexible coupons and are notched five times from the banks' respective VRs. They could be upgraded to reflect a notching of four times under the new criteria to reflect a reduction in incremental non-performance risk notching.

## **PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS**

Berlin Hyp's, Bayerische Landesbank's, Landesbank Baden-Wuerttemberg's, Landesbank Saar's and NordLB's ratings are driven by potential support from the banks' ultimate parent, Sparkassen-Finanzgruppe (SFG).

Nord/LB Luxembourg S.A. Covered Bond Bank's ratings are linked to NordLB.

Landesbank Hessen-Thueringen Girozentrale (Helaba) is part of Sparkassen-Finanzgruppe Hessen-Thueringen (SFG-HT). SFG-HT is not a legal entity but a network of savings banks in Hessen and Thueringen whose cohesion is supported by a mutual support scheme and which forms a common economic unit together with Helaba. Fitch assigns "group" ratings to SFG-HT and its member banks.

Deutsche Bank Securities, Inc.'s and Deutsche Bank London Branch's ratings are linked to Deutsche Bank AG.

Dresdner Funding Trust I and IV are funding vehicles that issue sub-debt and hybrid securities, for which Commerzbank's VR is used as an anchor rating.

HSBC Germany's ratings are linked to those of HSBC and HSBC Bank.

Santander Consumer Bank AG's ratings are linked to Banco Santander, S.A. and Santander Consumer Finance, S.A.

Unicredit Bank AG's ratings are linked to Unicredit SPA.

### **[VIEW ADDITIONAL RATING DETAILS](#)**

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

## **APPLICABLE CRITERIA**

[Non-Bank Financial Institutions Rating Criteria \(pub. 28 Feb 2020\)](#)

## Bank Rating Criteria (pub. 28 Feb 2020)

### ADDITIONAL DISCLOSURES

[Solicitation Status](#)

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### ENDORSEMENT STATUS

Aareal Bank AG	EU Issued
BAWAG P.S.K.	EU Issued
Bayerische Landesbank	EU Issued
Berlin Hyp AG	EU Issued
Commerzbank AG	EU Issued
Deutsche Bank AG	EU Issued
Deutsche Bank AG, London Branch	EU Issued
Deutsche Bank Securities, Inc.	EU Issued
Dresdner Funding Trust I (Commerzbank)	EU Issued
Dresdner Funding Trust IV (Commerzbank)	EU Issued
Erste Group Bank AG	EU Issued
HSBC Trinkaus & Burkhardt AG	EU Issued
Landesbank Baden-Wuerttemberg	EU Issued
Landesbank Hessen-Thueringen Girozentrale	EU Issued
Landesbank Saar	EU Issued
NORD/LB Luxembourg S.A. Covered Bond Bank	EU Issued
Norddeutsche Landesbank Girozentrale	EU Issued
Santander Consumer Bank AG	EU Issued
UniCredit Bank AG	EU Issued

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US Public Finance      Structured Finance: Structured Credit

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Infrastructure and Project Finance

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