

10 Jan 2020 | Affirmation

## Fitch Affirms Berlin Hyp's Long-Term IDR at 'A+'; VR at 'bbb'

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Fitch Ratings-Frankfurt am Main-10 January 2020:

Fitch Ratings has affirmed Berlin Hyp AG's Long-Term Issuer Default Rating (IDR) at 'A+' with a Stable Outlook, and the bank's Viability Rating (VR) at 'bbb'.

A full list of rating actions is detailed below.

### Key Rating Drivers

#### IDRS, SUPPORT RATING AND SENIOR UNSECURED/NON-PREFERRED DEBT RATINGS

Berlin Hyp's IDRs, Support Rating (SR) and senior unsecured/non-preferred debt ratings are underpinned by support from the bank's ultimate parent, Sparkassen-Finanzgruppe (Sparkassen) (SFG, A+/Stable/F1+), the German savings banks group, which collectively owns Berlin Hyp's immediate parent, Landesbank Berlin Holding AG. In Fitch's view, Berlin Hyp benefits from an extremely high probability of support from the savings banks, if required. Therefore, Berlin Hyp's IDRs are equalised with those of SFG.

In our view, the savings banks' reputation and their mutual support scheme's credibility would be greatly damaged if SFG fails to support Berlin Hyp. Therefore, we believe that SFG has a very high propensity to support Berlin Hyp. SFG is not a legal entity but a banking network, whose cohesion is ensured by a mutual support scheme. This could increase the complexity of devising extraordinary support measures, but we expect the savings banks to be able to coordinate adequate and timely support measures if needed. Given Berlin Hyp's small size relative to SFG, any required support would be immaterial for SFG.

The bank's 'F1+' Short-Term IDR corresponds to the higher of the two options mapping to an 'A+' Long-Term IDR and is equalised with that of SFG.

### VR

The VR of Berlin Hyp reflects its strong asset quality despite a concentrated loan book inherent in its business model as a specialised lender focused on the cyclical commercial real-estate (CRE)

sector, predominantly in Germany. This concentration is mitigated by the bank's resilient performance and sound risk appetite. The bank's capitalisation is moderate in absolute terms but provides a sufficient buffer over regulatory requirements and is adequate in light of the bank's sound asset quality. Its funding and liquidity are sound despite its wholesale-funded profile.

Berlin Hyp's sound asset quality indicators are stronger than those of most peers and of the German banking sector. This reflects its prudent underwriting standards, particularly for lending outside Germany. Its non-performing loans (NPL) ratio has steadily declined over the past decade, underpinned by a benign domestic economic environment. However, the bank's inherently high single-borrower concentration constrains our assessment of the bank's asset quality. We expect loan impairment charges to normalise in the medium-term but do not expect a sudden increase in the short-term.

Berlin Hyp's profitability is adequate and commensurate with the level of risk the bank takes. Its operating profit peaked in 2018, and we believe it will decline to more sustainable levels as several effects that drove its sound average operating return on risk-weighted assets (RoRWA) of 2% since 2017 will not recur. This will limit the bank's ability to offset the impact of a low interest-rate environment and competitive pressure while its revenue mix has become increasingly reliant on net interest income (NII). Early repayments of higher-margin loans weigh on profits, although these are declining. Most old, long-dated own debt carrying high coupons has already matured. A cooling economy and a low stock of NPLs make releases of loan loss reserves, which have supported the bank's profitability in recent years, and strong loan growth increasingly unlikely.

We expect SFG to ensure that Berlin Hyp will maintain its prudent risk appetite despite the considerable margin pressure that is affecting the German CRE lending market. We expect low margins to continue to weigh on the bank's performance in the medium term because its domestic business is likely to continue to dominate the bank's new business in the medium term.

Berlin Hyp's fully loaded common equity Tier 1 (CET1) reached 13.1% at end-3Q19, which we view as adequate for the bank's risk profile. Berlin Hyp has stabilised its CET1 ratio in the past few years by retaining almost half of its operating profits to match the RWA inflation triggered by the bank's partial shift to CRE loans from public-sector loans and securities. In our view, the bank will continue to retain a large share of its profits to mitigate the RWA inflation from the revised Basel III regime, to which its monoline CRE lending model is particularly exposed. Berlin Hyp's leverage ratio improved to 4.5% at end-3Q19, but remains at the lower end of peers'.

Funding and liquidity are sound. Berlin Hyp sources its purely wholesale funding (unsecured debt and mortgage Pfandbriefe) from a diversified institutional investor base, including other members of the savings banks sector. Its membership in SFG's mutual support scheme ensures a 0%

regulatory risk weight for its intragroup unsecured debt issuance and, consequently, privileged access to SFG's vast excess liquidity.

#### SENIOR PREFERRED DEBT AND DEPOSIT RATINGS

Berlin Hyp's senior preferred debt ratings and deposit ratings are aligned with the bank's IDRs. We have not given any uplift to the senior preferred debt ratings and deposit ratings. This is because we do not see the bank's debt buffers providing any incremental probability of default benefit over and above the support benefit already factored into Berlin Hyp's IDRs, which results in a four-notch uplift to the Long-Term IDR from the VR. 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 UNSECURED/NON-PREFERRED DEBT RATINGS

Berlin Hyp's IDRs, SR and senior debt ratings are primarily sensitive to changes in the bank's ownership structure or contractual relationship with the savings banks, including the bank's membership in the mutual support scheme. A 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 SFG's ratings as Berlin Hyp's IDRs are equalised with those of the group.

##### VR

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

#### SENIOR PREFERRED DEBT AND DEPOSIT RATINGS

Berlin Hyp's senior preferred debt ratings and deposit ratings are primarily sensitive to changes in the bank's IDRs.

#### Public Ratings with Credit Linkage to other ratings

Berlin Hyp's ratings are driven by potential support from the bank's ultimate parent, SFG.

#### ESG Considerations

Unless otherwise stated 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 to the way in which they are being managed by the entity.

For more information on our ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

Berlin Hyp AG; Long Term Issuer Default Rating; Affirmed; A+; RO:Sta  
; Short Term Issuer Default Rating; Affirmed; F1+  
; Viability Rating; Affirmed; bbb  
; Support Rating; Affirmed; 1  
----senior unsecured; Long Term Rating; Affirmed; A+  
----long-term deposits; Long Term Rating; Affirmed; A+  
----Senior preferred; Long Term Rating; Affirmed; A+  
----Senior non-preferred; Long Term Rating; Affirmed; A+  
----short-term deposits; Short Term Rating; Affirmed; F1+  
----Senior preferred; Short Term Rating; Affirmed; F1+

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

### **Applicable Criteria**

[Bank Rating Criteria \(pub. 12 Oct 2018\)](#)

[Short-Term Ratings Criteria \(pub. 02 May 2019\)](#)

### **Additional Disclosures**

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