



## RATING ACTION COMMENTARY

# Fitch Revises Berlin Hyp's Outlook to Negative on Coronavirus Disruption; Affirms IDR at 'A+'

Mon 30 Mar, 2020 - 6:26 AM ET

Fitch Ratings - Frankfurt am Main - 30 Mar 2020: Fitch Ratings has revised Berlin Hyp AG's Outlook to Negative from Stable, while affirming the bank's Long-Term Issuer Default Rating (IDR) at 'A+'. A full list of rating actions is detailed below.

The revision of Berlin Hyp's Outlook follows a similar action on the bank's ultimate parent, Sparkassen-Finanzgruppe (SFG, A+/Negative/F1+), to Negative (see 'Fitch Takes Actions on 6 German Banking Groups on Coronavirus Uncertainties'). Berlin Hyp's IDRs are driven by institutional support from SFG, the German savings banks group, which collectively owns Berlin Hyp's immediate parent, Landesbank Berlin Holding AG.

## KEY RATING DRIVERS

Unless noted below, the key rating drivers for Berlin Hyp are those outlined in our Rating Action Commentary published in January 2020 (Fitch Affirms Berlin Hyp's Long-Term IDR at 'A+'; VR at 'bbb').

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

Berlin Hyp's IDRs, Support Rating (SR) and senior unsecured/non-preferred debt ratings are underpinned by Fitch's view of an extremely high probability of support from the savings banks, if required. Therefore, Berlin Hyp's IDRs are equalised with those of SFG and the Outlook mirrors that of SFG.

The bank's 'F1+' Short-Term IDR, short-term senior preferred debt rating and short-term deposit rating correspond to the higher of the two options mapping to an 'A+' Long-Term IDR as they are driven by support from SFG. The bank's senior non-preferred debt is rated in line with the bank's Long-Term IDR because Berlin Hyp's resolution buffer requirements determined by resolution authorities are expected to be met with senior non-preferred debt and more junior liabilities.

Fitch placed Berlin Hyp's long-term senior unsecured debt, senior preferred debt and deposit ratings Under Criteria Observation (UCO) on 4 March 2020 (see "Fitch Places German and Austrian Banks Under Criteria Observation") following the publication of Fitch's updated Bank Rating Criteria on 28 February 2020. These ratings remain UCO. The ratings will be reviewed and the UCO status resolved as soon as practical and in any case within six months.

#### Viability Rating (VR)

We expect Berlin Hyp to face additional risks as Germany's operating environment, where the bank is primarily active, is weakening. This could result in a weakening of the bank's asset quality, earnings and profitability and capitalisation and leverage relative to when we last reviewed the bank's ratings.

Fitch has affirmed Berlin Hyp's VR despite the potential pressure on these VR factors because we believe that the bank will show some resilience to the economic shock at the current rating level and because its VR is supported by sound funding and liquidity, adequate capitalisation and asset quality as well as experienced management.

## **RATING SENSITIVITIES**

### **IDRs, SUPPORT RATING, SENIOR UNSECURED/NON-PREFERRED DEBT, SENIOR PREFERRED DEBT AND DEPOSIT RATINGS**

Berlin Hyp's IDRs are primarily sensitive to a change in SFG's IDRs, with which they are equalised. An upgrade of SFG's IDRs could result in an upgrade of Berlin Hyp's IDRs.

A downgrade of SFG's IDRs would result in a downgrade of Berlin Hyp's IDRs. The IDRs are also sensitive to changes in the bank's ownership structure or contractual relationship with the savings banks, which we do not expect in the short-term.

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

The long-term senior preferred debt and deposit ratings could be upgraded by one notch and removed from UCO because of the protection that could accrue to preferred creditors from more junior resolution debt and equity buffers. Certain senior unsecured bonds could be upgraded if they are structured notes and if we conclude that they rank pari passu with senior preferred liabilities.

## **VR**

Berlin Hyp's VR would likely come under pressure if the economic and financial market fallout arising from the coronavirus outbreak persists for a longer period as this would likely result in a weakening of asset quality and weaker earnings if the domestic commercial real-estate sector comes under pressure.

## **BEST/WORST CASE RATING SCENARIO**

### **Best/Worst Case Rating Scenarios - Financial Institutions:**

Ratings of financial institutions 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 <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.

## ESG CONSIDERATIONS

ESG issues are credit neutral or have only a minimal credit impact on the entity(ies), either due to their nature or the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

## RATING ACTIONS

ENTITY/DEBT	RATING		
Berlin Hyp AG	LT IDR	A+	Affirmed
	ST IDR	F1+	Affirmed
	Viability	bbb	Affirmed
	Support	1	Affirmed
● senior unsecured	LT	A+	Under Criteria Observation
● long-term deposits	LT	A+	Under Criteria Observation

[VIEW ADDITIONAL RATING DETAILS](#)

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

**APPLICABLE CRITERIA**

[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

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Berlin Hyp AG

EU Issued

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