

# MOODY'S

## RATINGS

### **Rating Action: Moody's upgrades Berlin Hyp AG's long-term deposit and senior unsecured ratings; stable outlook**

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19 Mar 2024

#### **Review for upgrade extended for Berlin Hyp's junior senior unsecured debt ratings**

Frankfurt am Main, March 19, 2024 -- Moody's Ratings (Moody's) has today upgraded Berlin Hyp AG's (Berlin Hyp) long-term deposit, issuer, and senior unsecured ratings to Aa2 from Aa3 with a stable outlook. Previously the ratings were on review for upgrade. At the same time, the rating agency upgraded the bank's long-term Counterparty Risk Ratings (CRR) to Aa2 from Aa3, the long-term senior unsecured MTN program rating to (P)Aa2 from (P)Aa3, and the subordinate MTN program rating to (P)Baa1 from (P)Baa2. Concurrently Moody's affirmed the bank's short-term CRR, deposit, issuer and Commercial Paper ratings at P-1.

In addition, Moody's affirmed Berlin Hyp's Baseline Credit Assessment (BCA) at ba1, upgraded its Adjusted BCA to a3 from baa1, upgraded the long-term Counterparty Risk Assessment (CR Assessment) to Aa2(cr) from Aa3(cr), and affirmed the short-term CR Assessment at P-1(cr).

Berlin Hyp's A2 junior senior unsecured debt ratings and the bank's (P)A2 junior senior unsecured MTN program rating have been reviewed in the rating committee and remain unchanged, because the rating agency extended the review for upgrade for these instruments. For all other rated liabilities of Berlin Hyp, this rating action concludes the rating review Moody's initiated on 9 February 2024, where applicable.

#### **RATINGS RATIONALE**

##### **-- AFFIRMATION OF BERLIN HYP'S BCA**

Berlin Hyp's standalone credit profile as expressed in the ba1 BCA continues to reflect the bank's exposure to extremely high concentration risk in commercial real estate (CRE) lending because of its highly focused business model, which is mitigated by

good capital ratios. It also incorporates the bank's profitability, which still provides a sufficient buffer for increased credit costs because of weakening credit performance in the European CRE markets; and a continued high reliance on confidence-sensitive market funding and substantial asset encumbrance, although the bank has good access to stable funding sources within Sparkassen-Finanzgruppe (S-Finanzgruppe; Corporate Family Rating Aa2 stable, BCA a2) and is increasingly integrated within the Landesbank Baden-Wuerttemberg (LBBW, Aa2/Aa2 stable, baa2).

#### -- UPGRADE OF THE ADJUSTED BCA

The upgrade of Berlin Hyp's Adjusted BCA to a3 from baa1 reflects the upgrade of LBBW's Adjusted BCA and the rating agency's assumption of affiliate-backed support provided by LBBW for its significant and strategically-fitting subsidiary, in case of need. This assumption is supported by strong contractual links between LBBW and Berlin Hyp and the expectation of an increasingly aligned risk management and treasury of the two entities.

Moody's increased its assumption of LBBW receiving support based on the strengthened institutional protection scheme (IPS) of S-Finanzgruppe, whose statutes were updated earlier in 2024[1]. The revised statutes result in a more rule-based IPS that implements an early intervention system with clearly identified triggers and timely escalation of decision-making steps as well as increased ex-ante funds over time, which, in the view of the rating agency, has increased the likelihood and timeliness of support for Landesbanks.

#### --UPGRADE OF RATINGS

The upgrade of Berlin Hyp's long-term ratings, where applicable, follows the upgrade of the bank's Adjusted BCA and incorporates unchanged results from Moody's Advanced Loss Given Failure (LGF) analysis and unchanged assumptions for government support.

Because Moody's expects Berlin Hyp to be included in the resolution perimeter of its parent, LBBW's high share of capital market funding and the resulting meaningful volume of bail-in-able debt instruments, the rating agency's Advanced LGF analysis continues to yield three notches of rating uplift for CR exposures, deposits, and senior unsecured debt. Because the subordinate MTN programme does not benefit from protection beyond equity and face a high loss severity, it is rated one notch below the Adjusted BCA

The unchanged moderate government support assumption for liabilities ranking above junior senior unsecured debt and the resulting one notch of rating uplift reflects the bank's membership in the systemically important S-Finanzgruppe.

#### -- EXTENSION OF RATINGS REVIEW FOR JUNIOR SENIOR UNSECURED DEBT

Berlin's A2 junior senior unsecured debt ratings remain under review for upgrade.

During the extended rating review, Moody's will update its forward-looking expectations, in particular whether future issuance plans of the parent will continue to support a two-notch uplift for this debt class.

## -- AFFIRMATION OF SHORT-TERM RATINGS

Because Berlin Hyp's short-term ratings were already at the highest possible level prior to the upgrade of the respective long-term ratings, the short-term ratings were affirmed at P-1.

## OUTLOOK

The stable outlook on the long-term deposit, issuer and senior unsecured ratings reflects the stable outlook of S-Finanzgruppe. The stable outlook further incorporates the rating agency's expectation of a broadly unchanged liability structure of LBBW.

## FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade of Berlin Hyp's long-term ratings could be triggered by an improvement in the financial strength of S-Finanzgruppe. Berlin Hyp's subordinated MTN ratings could potentially also be upgraded if the parent were to issue substantial additional volumes of Tier 2 or Tier 1 instruments. In addition, as indicated by the extended review for upgrade, Berlin Hyp's junior senior unsecured liabilities may be upgraded if the parent's future issuance plan will continue to support a two-notch uplift for this debt class based on an expected increase in the stock of bail-in-able liabilities.

An upgrade of the BCA could result from a sustainably strengthened financial profile, in particular an improved business diversification, reduced concentration risks in the loan book, and a significant reduction in market funding. However, an upgrade of Berlin Hyp's BCA would not result in an upgrade of its Adjusted BCA or its ratings.

Berlin Hyp's ratings would be downgraded following a downgrade of the Adjusted BCA, either as a result of a deterioration in the financial strength of S-Finanzgruppe, or caused by a significantly weaker BCA of LBBW. Furthermore, a shift in the liability structure towards non-bail-in-able instruments, such that it increases the loss severity for a respective debt class and results in reduced rating uplift from Moody's Advanced LGF analysis, could exert downwards ratings pressure.

Berlin Hyp's BCA could be downgraded if capital ratios weaken as a result of a sustained and significant deterioration in asset quality beyond Moody's expectation, or if profitability declines from historical levels on a sustained basis.

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moody.com/rmc-documents/409852>.

Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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## REFERENCES/CITATIONS

[1] Statutes of the institutional protection scheme of Sparkassen-Finanzgruppe (Rahmensatzung für das institutsbezogene Sicherungssystem der Sparkassen-Finanzgruppe), Deutscher Sparkassen- und Giroverband 22-Jan-2024

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