

FITCH AFFIRMS HSBC TRINKAUS & BURKHARDT AT 'AA-' /STABLE; WITHDRAWS VR

Fitch Ratings-Frankfurt/London-11 October 2017: Fitch Ratings has affirmed HSBC Trinkaus & Burkhardt AG's (HSBC Trinkaus) Long-Term Issuer Default Rating (IDR) at 'AA-' with a Stable Outlook. Fitch has also affirmed HSBC Trinkaus's Viability Rating (VR) at 'a-' and subsequently withdrawn the VR.

The withdrawal of the VR reflects our view that HSBC Trinkaus no longer has the strategy to maintain a standalone franchise that could exist without the ownership of its parent. Therefore maintaining these ratings is no longer considered to be relevant to the agency's coverage. This is mainly because the bank is now firmly positioned as the German arm of the HSBC Group and therefore concentrates on exploiting the significant growth potential in the German market while utilising its parent's global network and infrastructure.

A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS

IDRs AND SUPPORT RATING

HSBC Trinkaus's IDRs and Support Ratings reflect Fitch's view that support from HSBC Holdings plc (AA-/Stable/F1+) via HSBC Bank plc (AA-/Stable/F1+) would be extremely likely in case of need. HSBC Trinkaus's role within the HSBC Group is to improve the group's coverage of internationally active German large and medium-sized corporate clients, by offering additional HSBC financing and lending products among other things.

We believe that HSBC Trinkaus materially benefits from being a key and integral part of a large global banking group with a robust franchise and a solid financial structure. The close integration into the HSBC Group's global network, the group's geographic diversification and the marketing of HSBC products are key factors determining HSBC Trinkaus's business model and are a clear competitive advantage for a bank operating in the saturated German corporate banking market.

Despite its modest size (1% of HSBC Group's equity), HSBC Trinkaus provides its parent with reliable and robust operating return on equity (RoE), ranging between 11% and 16% since 2012, as well as access to strategic German corporate and institutional clients. The significant referrals of clients to other HSBC entities reflects HSBC Trinkaus's strong distribution franchise and suggests that the total contribution to group profits is higher than that captured by its RoE, underpinning the bank's role as a key and integral part of the HSBC Group.

The Stable Outlook is aligned with the Stable Outlook on HSBC Bank's and HSBC Holding's IDRs and reflects our view that HSBC Trinkaus's importance within the HSBC Group is unlikely to change in the foreseeable future.

VR

The VR reflects the bank's sound financial fundamentals. After pursuing a strategy focused mainly on expanding its corporate banking business in the last few years, HSBC Trinkaus is now transitioning towards increasing its profitability by deepening relationships with its expanded client base. This ongoing development against a backdrop of intense competition in the German market makes Fitch believe that growth will be less pronounced in the coming years.

Despite its recent investment in growth, in particular in the form of a workforce expansion in the mid-market corporate segment, HSBC Trinkaus continues to significantly outperform most of its direct domestic peers and exceeds the German banking sector's average profitability. We expect the bank's revenues to increase by a single-digit percentage in 2017 and profitability to gradually increase in the medium term as its cost base stabilises. We also expect that the bank's risk profile, balance sheet structure and capitalisation will remain sound.

We believe that the bank remains committed to cautious underwriting and disciplined pricing. This mitigates the rapid expansion of the bank's credit exposure to German mid-market corporates (including in the non-investment grade area) during a period of low interest rates and fierce competition from domestic and foreign banks.

The bank's capitalisation is managed at its parent group level, and we expect capitalisation to be maintained with a sufficient buffer above minimum capital requirements. HSBC Trinkaus's common equity Tier 1 (CET1) ratio increased to 11.1% at end-1H17 after reaching a low of 9.4% at end-1H16. We expect that HSBC Bank plc will continue to inject capital to support the bank's development, if needed.

RATING SENSITIVITIES

IDRs AND SUPPORT RATING

We believe that the HSBC Group's propensity to provide support is unlikely to diminish in light of the group's current strategy. Our expectation is therefore that HSBC Trinkaus's IDRs will continue to move in line with those of HSBC Bank plc and HSBC Holdings.

This assessment would change - and potentially result in a notching differential between HSBC Trinkaus and HSBC Holdings - if the importance of the German subsidiary within the group diminishes. A notching differential could also result from tighter national regulations leading to weaker integration or from lower fungibility of capital and liquidity across the group, which we currently view as highly unlikely.

VR

Not applicable as the VR has been withdrawn.

The rating actions are as follows:

Long-Term IDR affirmed at 'AA-'; Outlook Stable

Short-Term IDR affirmed at 'F1+'

Viability Rating: affirmed at 'a-' and withdrawn

Support Rating: affirmed at '1'

Deposit Ratings: affirmed at 'AA-'/F1+'

Contact:

Primary Analyst

Patrick Rioual

Senior Director

+49 69 76 80 76 123

Fitch Deutschland GmbH

Neue Mainzer Strasse 46-50

60311 Frankfurt am Main

Secondary Analyst

Patrick Golling

Analyst

+44 20 3530 1772

Committee Chairperson
Christian Scarafia
Senior Director
+44 20 3530 1012

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email:
peter.fitzpatrick@fitchratings.com.

Additional information is available on www.fitchratings.com

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

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2017 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001