

07 Mar 2019 | Rating Watch

Fitch Places HSBC France's and HSBC Germany's Long-Term IDRs on RWN

Fitch Ratings-Paris/Frankfurt-08 March 2019: Fitch Ratings has placed the 'AA-' Long-Term Issuer Default Ratings (IDRs) of HSBC France and HSBC Trinkaus & Burkhardt AG's (HSBC Germany), which are driven by institutional support from their ultimate parent, HSBC Holdings plc (HSBC, AA-/RWN/F1+), on Rating Watch Negative (RWN).

The rating actions follow a recent similar rating action on HSBC's Long-Term IDR (see "Fitch Places Long-Term IDRs of 19 UK Banking Groups on RWN" dated 1 March 2019). HSBC France's and HSBC Germany's other ratings are not affected by the rating action.

The RWNs mirror that on HSBC's Long-Term IDR and reflect Fitch's view that a change in HSBC's Long-Term IDR would be mirrored in a change in HSBC France's and HSBC Germany's Long-Term IDRs. The RWN on HSBC's Long-Term IDR reflects the heightened uncertainty over the ultimate outcome of the Brexit process and the increased risk that a disruptive 'no-deal' Brexit, where the UK leaves the EU without a withdrawal agreement in place, either in March or at the end of a short extension, could result in a negative rating action on HSBC, most likely with a Negative Outlook being assigned to its 'AA-' Long-Term IDR.

KEY RATING DRIVERS

IDRs

The RWNs on HSBC France's and HSBC Germany's Long-Term IDRs mirror that on the parent's.

HSBC France's and HSBC Germany's IDRs reflect Fitch's view that support from HSBC through HSBC Bank plc (AA-/RWN/F1+) would be extremely likely, if ever needed. HSBC France's and HSBC Germany's roles in HSBC are important factors that, in our opinion, mean that support would be forthcoming.

HSBC France accounted for 4% of HSBC group's equity at end-June 2018 (or about 10% of group's assets). It is the group's trading and market-making platform for euro-denominated sovereign, supranational, agency (SSA) and covered bonds, as well as structured interest rate derivatives. HSBC France combines a fairly successful corporate bank and selected capital markets activities with a small retail and private banking franchise in France. HSBC France will hold nearly all HSBC's EU-based business once the UK leaves the EU. It acquired two entities of HSBC Bank plc in 2018 and will receive the business of seven European branches of HSBC Bank plc in 1Q19, increasing its size and importance to the wider group.

Despite its modest size (about 1% of HSBC group's equity and total assets), HSBC Germany provides the group with access to strategic German corporate and institutional clients. The significant and growing business volumes originated by various HSBC entities globally from referrals of German clients reflects HSBC Germany's established distribution franchise. As a result, German clients' contribution to group profits significantly exceeds that captured on HSBC Germany's own statements. HSBC Germany's profitability has

been reliably solid in recent years.

RATING SENSITIVITIES

IDRs

HSBC France's and HSBC Germany's Long-Term IDRs are primarily sensitive to a change in HSBC's or HSBC Bank's Long-Term IDRs. The RWNs reflect Fitch's view that a disruptive 'no-deal' Brexit would result in Negative Outlooks on HSBC's or HSBC Bank's Long-Term IDRs and consequently on HSBC France's and HSBC Germany's Long-Term IDRs. HSBC France's and HSBC Germany's Long-Term IDRs would be affirmed if the parents' Long-Term IDRs are affirmed.

Fitch does not believe that the HSBC group's propensity to support HSBC France and HSBC Germany is likely to diminish. Our expectation is therefore that HSBC France's and HSBC Germany's IDRs will remain equalised and will continue to move in line with those of HSBC and HSBC Bank. We could notch down HSBC France's and HSBC Germany's Long-Term IDRs from the parent's if we expect that their roles or importance within the group to diminish, which we view as unlikely.

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Applicable Criteria

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

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