



RATING ACTION COMMENTARY

Fitch Affirms HSBC Trinkaus & Burkhardt AG at 'AA-/Negative

Tue 06 Jul, 2021 - 09:13 ET

Fitch Ratings - Frankfurt am Main - 06 Jul 2021: Fitch Ratings has affirmed HSBC Trinkaus & Burkhardt AG's (HSBC Germany) Long-Term Issuer Default Rating (IDR) at 'AA-' with a Negative Outlook. A full list rating actions is below.

KEY RATING DRIVERS

IDRS, SUPPORT RATING (SR) AND DEPOSIT RATINGS

HSBC Germany's support-driven IDRs and SR reflect Fitch's view of an extremely high likelihood of support from the bank's parent, HSBC Bank plc (HSBC Bank, AA-/Negative/F1+) and, indirectly, from ultimate parent, HSBC Holdings plc (HSBC, A+/Negative/F1+), if needed.

HSBC Germany's IDRs are equalised with those of HSBC Bank, which itself benefits from a single-notch uplift above HSBC's Long-Term IDR. This reflects our expectation that the HSBC group's resolution plans are likely to result in HSBC Germany's external senior creditors being protected and avoiding default if the group fails. HSBC Germany's strategic value for the HSBC group lies in its access to large and medium-sized export-driven German companies as well as its stable revenue contribution from its capital-light securities services business.

The Negative Outlook on HSBC Germany mirrors that on HSBC Bank's and HSBC (see Fitch Affirms HSBC Holdings at 'A+'; Outlook Negative', published on 29 May 2020).

Fitch does not assign a Viability Rating to HSBC Germany as the bank no longer maintains a standalone franchise without being part of the HSBC group.

The ability of HSBC Germany to offer HSBC's wide range of advisory and financing products as well as its global reach provide a competitive advantage in the German corporate-banking market. HSBC's global network positively influences HSBC Germany's business model and strategy, which focuses on German companies operating internationally. This enables the bank to act as a conduit by referring these clients to other HSBC entities. Its size is modest in the group's context (1% of HSBC's total assets and equity), even though its reported profits substantially understate its contribution to group profits.

HSBC Germany's profitability consistently and comfortably exceeds the low average of the German banking sector, which suffers from intense competition. In 2020, the bank's operating profit/risk-weighted assets (RWAs) remained robust and increased to 1.2% (0.9% in 2019), despite loan impairment charges (LICs) rising to 80bp of average loans, from 41bp in 2019 in an already weakening operating environment pre-Covid-19. Favourable market conditions boosted trading revenues in 2020, confirming its above-average ability to navigate high market volatility, similar to previous crises. Fee income was supported by a large transaction in the bank's capital-financing division.

HSBC Germany's gross impaired loan (stage 3) ratio rose to 3.8% at end-2020 from 2% at end-2019. This increase reflects the bank's focus on unsecured lending to medium-sized companies that remain vulnerable to the pandemic. Impaired loans could rise when state-support measures are phased out.

HSBC Germany's common equity Tier 1 (CET1) ratio increased to 13.9% at end-2020 (12.6% at end-2019) on lower RWAs, as a result of a 21% loan book contraction in 2020. As the bank continues to optimise its RWAs in line with the group's strategy, we expect it to further reduce exposures with less attractive risk-return profiles to achieve more efficient capital usage.

HSBC Germany's deposit ratings are aligned with the bank's IDRs. The bank's debt buffers do not afford any obvious incremental benefit over and above the support benefit already factored into the bank's IDRs. Therefore, we do not provide uplift to these ratings above the bank's Long-Term IDR.

RATING SENSITIVITIES

IDRs, SR AND DEPOSIT RATINGS

HSBC Germany's IDRs, SR and deposit ratings are primarily sensitive to changes in HSBC Bank's ability to support. HSBC Germany's ratings are also sensitive to changes in our assumptions around HSBC Bank's propensity to provide timely support.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

An upgrade of HSBC Bank's IDRs would lead to an upgrade of HSBC Germany's IDRs and deposit ratings.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

A downgrade of HSBC Bank's IDRs or of HSBC Germany's SR, in the unlikely scenario of HSBC Germany's perceived diminishing importance for the group, would result in a downgrade of HSBC Germany's IDRs and deposit ratings. We could also notch HSBC Germany's IDRs down from HSBC Bank's IDRs on lower intragroup fungibility of capital and liquidity, weaker integration, or adverse changes to the group's resolution strategy.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond 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, visit

<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

HSBC Germany's ratings are linked to those of HSBC Bank and HSBC.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, 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 the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
HSBC Trinkaus & Burkhardt AG	LT IDR	AA- Rating Outlook Negative	Affirmed	AA- Rating Outlook Negative
	ST IDR	F1+	Affirmed	F1+
	Support	1	Affirmed	1
● long-term deposits	LT	AA-	Affirmed	AA-
● short-term deposits	ST	F1+	Affirmed	F1+

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

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

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HSBC Trinkaus & Burkhardt AG

EU Issued, UK Endorsed

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Banks Europe Germany
