

RATING ACTION COMMENTARY

Fitch Revises HSBC Trinkaus & Burkhardt GmbH's Outlook to Stable; Affirms at 'AA-'

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Fitch Ratings - Frankfurt am Main - 11 Oct 2022: Fitch Ratings has revised HSBC Trinkaus & Burkhardt GmbH's (HSBC Germany) Outlook to Stable from Negative and affirmed its Long-Term Issuer Default Rating (IDR) at 'AA-'. A full list of ratings is detailed below.

The rating action follows recent similar rating actions on HSBC Holdings plc (see 'Fitch Revises HSBC Holdings' Outlook to Stable; Affirms at 'A+') and HSBC Bank plc (see 'Fitch Affirms HSBC's UK Subsidiaries at 'AA-' Following UK Sovereign Rating Action; Outlook Stable') available at www.fitchratings.com.

KEY RATING DRIVERS

Parent Support Drives Ratings: HSBC Germany's support-driven IDRs and Shareholder Support Rating (SSR) are based on Fitch's view of an extremely high likelihood of support by the bank's intermediate parent, HSBC Bank plc (HSBC Bank, AA-/Stable/F1+) and by its ultimate parent, HSBC Holdings plc (HSBC, A+/Stable /F1+), if needed. The Stable Outlook on HSBC Germany mirrors that on HSBC Bank and HSBC.

Buffers Protect Senior Creditors: HSBC Bank's Long-Term IDR is one notch above HSBC's Long-Term IDR. This reflects our expectation that HSBC'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 HSBC 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.

Close Integration: HSBC Germany derives its competitive advantage in the fragmented German corporate- banking market by offering its customers HSBC's wide range of financing and advisory products and access to the group's global reach. In addition, the bank's business model, management and strategy are strongly influenced by its parent and by its integration into HSBC's global network. Therefore, we do not assign a Viability Rating to HSBC Germany as the bank does not maintain a standalone franchise and can only be analysed in the context of the group.

Conversion into Branch of HBCE: HSBC plans to convert HSBC Germany into a branch of the France-based HSBC Continental Europe S.A. (HBCE), the group's main operating entity in the EU, by end-2023. Before this, HSBC Germany's ownership will be transferred from HSBC Bank to HBCE. The expected transfer of the bank's ownership will not affect HSBC Germany's ratings because we expect its IDRs to be equalised with those of its new parent.

We expect to withdraw HSBC Germany's ratings when materially all of its assets and liabilities have been transferred to HBCE and when HSBC Germany ceases to undertake banking business, most likely in 1H23.

Weakening in Asset Quality Likely: HSBC Germany's focus on unsecured lending to medium-sized companies leaves it vulnerable to recessionary pressure in the domestic market. Fitch expects HSBC Germany's impaired loans ratio to deteriorate modestly in 2023, mainly from loans to industries (such as transport and energy) exposed to potential second-order effects of the Ukrainian conflict.

Robust Profits: The bank's 2021 pre-tax profit (excluding exceptional items) rose 13%, due to a 92% decrease in loan impairment charges (LICs) and strong performance by its capital markets and securities business. Despite its small size (1% of HSBC's equity and assets), HSBC Germany's contribution to group profits exceeds the levels reported in its own statements, by referring internationally active German clients to other HSBC entities.

In the coming quarters profitability is likely to come under pressure from a challenging operating environment in Germany, triggered by a Russian gas cut-off. This is likely to weaken loan demand and could lead to higher LICs, which will only be partially offset by earnings from rising interest rates.

Adequate Capitalisation: HSBC Germany's common equity Tier 1 (CET1) capital ratio increased to 15.7% at end-2021 from 13.4% at end-2020, helped by lower risk-weighted assets (RWAs), as the bank aims to reduce its exposure to clients with less attractive risk-return profiles to use capital more efficiently.

RATING SENSITIVITIES

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

HSBC Germany's IDRs and SSR are primarily sensitive to unfavourable changes in our assumptions around HSBC Bank's propensity or ability to provide timely support. A downgrade of HSBC Bank's IDRs would result in a downgrade of HSBC Germany's IDRs and SSR. HSBC Germany's ratings would also be downgraded if HSBC Germany is no longer a beneficiary of intragroup resources or if the bank's role and integration with the group diminishes, which Fitch does not expect.

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.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

HSBC Germany's deposit ratings are aligned with the bank's IDRs because its debt buffers do not provide any additional protection over and above the support benefit already factored into the IDRs.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

HSBC Germany's deposit ratings are sensitive to changes in its IDRs.

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 GmbH	LT IDR	AA- Rating Outlook Stable		AA- Rating Outlook Negative
	Affirmed			
	ST IDR	F1+	Affirmed	F1+
	Shareholder Support	aa-	Affirmed	aa-
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 \(pub. 07 Sep 2022\) \(including rating assumption sensitivity\)](#)

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HSBC Trinkaus & Burkhardt GmbH

EU Issued, UK Endorsed

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