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Negative Rating Actions Taken On Multiple German Banks On Deepening COVID-19 Downside Risks

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- Despite governments' measures to contain the COVID-19 pandemic, European economies, including Germany, face an unprecedented challenge.
- We continue to expect the German government's wide-ranging fiscal and related monetary measures to substantially mitigate this extraordinarily sharp, cyclical shock to the economy, and so also support the banking system in its key role as a conduit of fiscal and monetary support.
- Even under our base case of an economic recovery starting in third-quarter 2020, we expect bank earnings, asset quality, and in some cases, capitalization, to weaken meaningfully through year-end 2020 and into 2021.
- Our negative rating actions reflect these factors and our view that downside risks remain substantial. That said, we continue to see differentiated implications for banks in the system.
- We could take further negative rating actions if we expect the cyclical economic recovery to be substantially weaker or delayed, as this would imply a far more negative effect on bank credit strength. Actions could also follow idiosyncratic negative developments at individual banks.

Frankfurt (S&P Global Ratings) April 23, 2020--S&P Global Ratings today took rating actions on various German banking groups and their core operating entities.

Notably, we lowered by one notch the long-term issuer credit on Commerzbank AG. We also lowered by one notch our issue ratings on its senior preferred instruments and its debt including subordinated and hybrid instruments, among them senior nonpreferred debt. We affirmed our short-term issuer credit ratings. The outlook is negative.

We also affirmed the long-and short-term issuer credit ratings on Deutsche Bank AG, Grenke AG, and members of Sparkassen-Finanzgruppe Hessen-Thueringen (SFHT) and:

- Revised to negative from stable the outlook on Deutsche Bank, most of its branches and its core subsidiaries in Europe and the U.S.
- Revised to negative from stable the outlook on Grenke.
- Revised to negative from stable the outlook on members of SFHT including Landesbank Hessen-Thueringen Girozentrale (Helaba).

In addition, we affirmed the long-and short-term issuer credit ratings on Deutsche Pfandbriefbank (pbb). The outlook remains negative.

For Deutsche Bank, Grenke, Helaba and pbb, we also affirmed all issue ratings on senior preferred instruments and subordinated and hybrid instruments, including senior nonpreferred debt.

We have taken these rating actions because we see increased downside risks to various German banks' credit profiles resulting from the economic and financial market implications of the COVID-19 pandemic. We expect this pandemic to cause a severe recession in Germany and in most European countries in 2020. We expect a recovery in 2021, but anticipate it will not immediately and entirely offset the damage caused to the economy, household wealth, and various corporate sectors. We also note that this crisis comes at a time the German banking sector was already suffering from profitability pressure, notably due to the low-interest-rate environment and heavy cost bases. We already reflect these pressures in our negative trends on economic risk and industry risk for the German Banking Industry Country Risk Assessment, or BICRA. The anchor for a domestically-focused German bank remains 'a-'.

Until the start of March, banks in Germany and across Europe were fully engaged with the same two key themes that have been paramount in recent years--harmonizing balance sheet strength with solid investor returns, and identifying how to refine business and operating models in the face of the looming risks and opportunities of the digital era. For the short term at least, the COVID-19 pandemic has changed (almost) everything. In addition to the human cost, large parts of economic activity in Germany and much of the rest of Europe have ground to a halt. With isolation strategies still very much in force, our economists expect a sharp economic contraction in second-quarter 2020, followed by a rebound starting in the third quarter. However, they are now more cautious on the strength of recovery through year-end 2020 and into 2021, envisaging a 6% GDP contraction in Germany (and 7.3% in the eurozone), with a recovery of 4.3% in 2021 (see "Europe Braces For A Deeper Recession In 2020," published April 20, 2020, on RatingsDirect. Even under this base case, the effects of COVID-19 will be evident long after the crisis subsides.

Authorities have delivered unprecedented policy responses in the form of monetary, fiscal, and regulatory support to their economies. The better-capitalized, better-funded, more-liquid banks that have gradually emerged in Germany since the global financial crisis have played an instrumental role as a conduit of the expansion of low-cost credit to affected households and businesses. However, while we expect banks in Germany and across Europe to remain resilient in the face of this short-term cyclical shock, we expect that it will have a meaningful impact on asset quality, revenue, profitability, liquidity, and, potentially, capitalization. We expect very few of these negative trends to be strongly evident in banks' first-quarter results, but consider that they would become increasingly apparent through 2020 and persist into 2021. Banks' asset quality will be key to this outcome.

We are acutely mindful that this base case remains subject to significant downside risks. Although we see German fiscal measures as substantial and quite rapidly deployed, even under our economic base case the policy responses may not be totally successful in avoiding permanent economic damage later. We note also that a significant component of the fiscal support package comprises additional indebtedness--for the sovereign, some households, and many businesses. At best, the easing of physical isolation will not start for some weeks, is likely to be slow, and could be subject to setbacks. The longer the delay in the recovery of economic activity, the less sustainable this extra debt will be.

Among our rating actions across the German banking sector, we have lowered by one notch the ratings on Commerzbank since we believe it will become increasingly challenging for it to deliver on its essential multiyear restructuring amid the cyclical downturn arising from the COVID-19 pandemic. We have affirmed the ratings on Deutsche Bank, SFHT, pbb, and Grenke as we expect them to demonstrate resilience in the face of this short-term cyclical event. However, the outlook on all five entities remains or was revised to negative to reflect the significant downside risks that we see, and our expectation that we could lower the ratings if the economic rebound is delayed, fiscal countermeasures prove ineffective or, for some, restructuring initiatives could fall short, questioning their capacity to return to stronger earnings.

These rating actions follow two that we took already in the past month:

- On March 30, 2020, we revised the outlook on Hamburg Commercial Bank AG (BBB/A-2) to negative, since we expect the COVID-19 pandemic could delay its restructuring progress and ultimately challenge its return to sustainable profitability. The successful execution remains a key assumption for the current rating level. See "Hamburg Commercial Bank AG Outlook Revised To Negative On Challenging Macro Environment; 'BBB/A-2' Ratings Affirmed," for more details.
- On March 27, 2020, we affirmed the 'A-/Negative/A-2' ratings on Volkswagen Bank GmbH after the outlook revision to negative on its parent, German automaker Volkswagen AG (BBB+/A-2). This action reflected rapidly declining auto demand globally, and risk of extended production shutdowns associated with COVID-19 pandemic. The action on Volkswagen AG also led to a outlook revision to negative on its core subsidiary Volkswagen Financial Services AG (BBB+/Negative/A-2). See "VW Bank GmbH 'A-/A-2' Ratings Affirmed Following Parent Volkswagen's Outlook Revision To Negative On COVID-19 Effects," and "Automaker Volkswagen Outlook Revised To Negative On Weaker Revenue Prospects Due To COVID-19; Affirmed At 'BBB+/A-2'."

At this stage, our ratings on a number of German banks remain unaffected in light of increasing COVID-19-related downside risks. They comprise:

- Members of the Cooperative Banking Sector Germany, including DZ Bank AG, Deutsche Apotheker- und Aerztebank AG, DZ HYP AG, and DVB Bank SE, as well as DekaBank Deutsche Girozentrale, a core member of the German savings banks sector. We believe that these banks' membership in diversified and stable banking groups could provide higher resilience and robustness against this economic shock.
- UniCredit Bank AG (BBB+/Negative/A-2), since we believe the main risk to the ratings remains the implementation of a single point of entry resolution strategy for UniCredit group. If considered effective, this could mean we are unable to rate the German subsidiary above the 'bbb' group credit profile (see "UniCredit Bank And UniCredit Austria Affirmed At 'BBB+/A-2' On Changes To The Group's Structure; Outlooks Still Negative," published Dec. 12, 2019).

However, the current negative outlook an all entities mentioned above means that their financial profiles are sensitive to overall expanding economic and industry risks for the German banking sector that we have observed since Sept. 2019.

Our ratings on the core or highly strategic German subsidiaries of foreign banks, and Wuestenrot Bausparkasse AG (WBSK; A-/Stable/A-1) remain driven by our view of the creditworthiness of their broader groups. For example, for WBSK we consider that pressure on its financial profile will be mitigated by resilient earnings from W&W group's stronger insurance subgroup.

Commerzbank AG

We believe that the cyclical downturn arising from the COVID-19 pandemic has led to a weakened economic and operating environment for Commerzbank. In our view, this deterioration will make it increasingly challenging for the bank to deliver on its essential multiyear "Commerzbank 5.0" restructuring program. We also see increased risks in its main markets that are likely to affect revenue and asset quality and moderately weaken capitalization. The negative outlook acknowledges substantial downside risks beyond our already-more negative base case.

We continue to closely monitor management's progress in executing the Commerzbank 5.0 program. The program seeks to improve the efficiency and long-term sustainability of the bank's domestic business model and franchise, and spur digitalization. The extensive nature of the program demonstrates the substantial challenges Commerzbank already faced to sustainably improve its risk-adjusted earnings and capital in the face of strong competition and ultra-low interest rates. We now see the program as more difficult to implement. The intended sale of Commerzbank's Polish subsidiary, mBank, to fund about €1.6 billion of investments in digitalization and restructuring needs has also become more complex, in our view.

Deutsche Bank AG

We believe that the cyclical downturn arising from the COVID-19 pandemic has led to a weakened economic and operating environment for Deutsche Bank. We now expect the bank's earnings, asset quality, and capitalization to be weaker than we previously envisaged through year-end 2020 and into 2021. We have affirmed the ratings on the bank because, even under this revised base case, we consider management's restructuring plan to be fundamentally on track. We believe that management will likely deliver a significantly improved business and operating model, bringing it close to covering its cost of capital by 2022. However, the negative outlook acknowledges substantial downside risks.

Our base case already acknowledges the prospect for significant additional stress on revenues or asset quality that could occur in 2020. A downgrade would therefore reflect more substantive concerns--that the restructuring plan had been fundamentally jeopardized and that a return to stronger earnings was not so much delayed due to the crisis, but rather threatened. This is not our current view. We would reflect these concerns through a revision to the group's 'bbb' stand-alone credit profile.

Grenke AG

The outlook revision reflects our view that Grenke's creditworthiness could be vulnerable to the rapid deterioration of economic conditions that has taken place in recent weeks. The bank is a specialist lender, focusing mainly on small ticket information technology-leasing across many European countries. The COVID-19 pandemic and sudden stop of the global economy have led us to sharply revise our GDP forecasts. We now expect a global recession in 2020, which will materially harm the economies to which Grenke is heavily exposed––particularly Germany, Italy, and France. Furthermore, despite ample fiscal stimulus, credit losses for banks in these markets will likely start to rise through 2020.

We have affirmed our ratings on Grenke because we think it will enter the anticipated recession with solid profitability compared with peers, superior capitalization, and sound asset quality. Although we anticipate much worsened operating credit conditions in Grenke's main markets, we expect a manageable increase in the bank's cost of risk, nonperforming loan (NPL) levels, and similar risk metrics. We view positively the high granularity and collateralization of Grenke's portfolios, and comparably high risk-adjusted margins that provide a substantial buffer to absorb a rise in credit losses. Accordingly, we continue to anticipate that Grenke will maintain its very strong capitalization--we forecast the bank's S&P Global Ratings risk-adjusted capital (RAC) ratio to remain at 15%-16% over the coming 12 to 24 months.

Sparkassen-Finanzgruppe Hessen-Thueringen (SFHT)

We believe that SFHT's profitability prospects have deteriorated because we expect the German and eurozone economies to face a recession this year as a result of the COVID-19 pandemic. We also expect that SFHT's scheduled cost-cutting measures could be delayed in light of the pandemic. This implies that the group's efficiency will remain only moderate compared with international peers'. Finally, we see increasing tail risk to our asset-quality projection given Helaba's sizable exposure to more-cyclical and concentrated segments. Although we expect SFHT to remain resilient, we are revising our outlook on its members to negative from stable.

Deutsche Pfandbriefbank AG (pbb)

We have affirmed our 'A-/A-2' ratings on pbb, and the outlook remains negative. Our ratings on pbb already acknowledge its concentrated business model, which is focused on commercial real estate in Europe and the U.S. This sector is sensitive to economic cycles and lenders' loan books tend to exhibit relatively higher single-name concentrations than other banks. Pbb's performance was stable in recent years, although it has faced steady pressure on already-narrow sector margins in the ultra-low-interest-rate environment. It enters this crisis with a clean portfolio (NPL ratio of 0.9% as of year-end 2019) and strong capitalization, demonstrated by an S&P Global Ratings RAC ratio of 11.8% as of year-end 2019. In our view, this provides buffer to absorb a moderate increase in credit losses.

In the context of the global economic downturn, we now project deteriorating asset quality for pbb. However, the magnitude of stress on pbb's credit portfolio, and so its earnings and capitalization, remains subject to material uncertainty. We consider the bank's lending exposure to hotels (€1.3 billion as of year-end 2019) and retail properties (€4.9 billion), notably large shopping centers, particularly at risk.

Outlook

Downside scenario: We could downgrade pbb in the next 12-24 months if we revise downward our capital projection, for example, because impairments appeared likely to bring our RAC ratio below the 10% threshold. We could also downgrade the bank if we see industry or economic risks in the German banking sector as having risen, leading to a change in the anchor for pbb--the starting point of our bank ratings. A downgrade would affect all of pbb's rated debt, including its senior preferred debt, senior subordinated debt, and capital instruments.

Upside scenario: We could revise the outlook to stable if we considered that both economic and industry trends for the German banking sector had stabilized, and pbb keeps a favorable capital position and asset quality through the downturn. This would also require that we saw reduced downside risks from the COVID-19 pandemic to pbb's financial profile.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019

- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria | Financial Institutions | Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- How COVID-19 Is Affecting Bank Ratings, April 22, 2020
- Europe’s AT1 Market Faces The COVID-19 Test: Bend, Not Break, April 22, 2020
- Europe Braces For A Deeper Recession In 2020, April 20, 2020
- Economic Research: COVID-19 Deals A Larger, Longer Hit To Global GDP, April 16, 2020
- European Banks' First-Quarter Results: Many COVID-19 Questions, Few Conclusive Answers, April 1, 2020
- COVID-19: The Steepening Cost To The Eurozone And U.K. Economies, March 26, 2020
- COVID-19 Countermeasures May Contain Damage To Europe's Financial Institutions For Now, March 13, 2020
- Hamburg Commercial Bank AG Outlook Revised To Negative On Challenging Macro Environment; 'BBB/A-2' Ratings Affirmed, March 30, 2020
- VW Bank GmbH 'A-/A-2' Ratings Affirmed Following Parent Volkswagen's Outlook Revision To Negative On COVID-19 Effects, March 27, 2020
- Automaker Volkswagen Outlook Revised To Negative On Weaker Revenue Prospects Due To COVID-19; Affirmed At 'BBB+/A-2', March 27, 2020
- UniCredit Bank And UniCredit Austria Affirmed At 'BBB+/A-2' On Changes To The Group's

Structure; Outlooks Still Negative, Dec. 12, 2019.

- Banking Industry Country Risk Assessment: Germany, Oct. 1, 2019,
- Outlooks On Various German Banks Revised To Negative On Rising Banking Sector Risks; Ratings Affirmed, Sept. 18, 2019

Ratings List

*** * * * * * * * * * * * * * * Commerzbank AG * * * * * * * * * * * * * * ***		
Downgraded; Ratings Affirmed		
	To	**From**
Commerzbank AG		
Resolution Counterparty Rating	A-/--/A-2	A/--/A-1
Issuer Credit Rating	BBB+/Negative/A-2	A-/Negative/A-2
Senior Unsecured	BBB+	A-
Senior Unsecured	BBB+p	A-p
Senior Subordinated	BBB-	BBB
Subordinated	BB+	BBB-
Preferred Stock	BB-	BB
HT1 Funding GmbH		
Issuer Credit Rating	BBB+/Negative/--	A-/Negative/--
Junior Subordinated	B+	BB-
Dresdner Funding Trust I		
Junior Subordinated	BB-	BB
Dresdner Funding Trust IV		
Subordinated	BB+	BBB-
*** * * * * * * * * * * * * * * Deutsche Bank AG * * * * * * * * * * * * * ***		
Ratings Affirmed; Outlook Action		
Deutsche Bank AG		
Deutsche Bank Trust Corp.		
Deutsche Bank Trust Co. Delaware		
Deutsche Bank Trust Co. Americas		
Deutsche Bank National Trust Co.		
Deutsche Bank Luxembourg S.A.		
Deutsche Bank Securities Inc.		
Issuer Credit Rating	BBB+/Negative/A-2	BBB+/Stable/A-2
*** * * * * * * * * * * * Deutsche Pfandbriefbank AG * * * * * * * * * * * ***		
Ratings Affirmed		
Deutsche Pfandbriefbank AG		
Issuer Credit Rating	A-/Negative/A-2	

* * * * * * * * * * * S-Finanzgruppe Hessen-Thueringen * * * * * * * * * *
Ratings Affirmed; Outlook Action
Frankfurter Sparkasse
Wartburg-Sparkasse
Taunus-Sparkasse
Staedtische Sparkasse Offenbach am Main
Stadtsparkasse Schwalmstadt
Stadtsparkasse Grebenstein
Stadtsparkasse Borken
Stadt- und Kreis-Sparkasse Darmstadt
Sparkasse Wetzlar
Sparkasse Werra-Meissner
Sparkasse Waldeck-Frankenberg
Sparkasse Unstrut-Hainich
Sparkasse Starkenburg
Sparkasse Sonneberg
Sparkasse Rhoen-Rennsteig
Sparkasse Odenwaldkreis
Sparkasse Oberhessen
Sparkasse Mittelthueringen
Sparkasse Marburg-Biedenkopf
Sparkasse Laubach-Hungen
Sparkasse Langen-Seligenstadt
Sparkasse Jena-Saale-Holzland
Sparkasse Hanau
Sparkasse Gruenberg
Sparkasse Giessen
Sparkasse Gera-Greiz
Sparkasse Fulda
Sparkasse Dillenburg
Sparkasse Dieburg
Sparkasse Bensheim
Sparkasse Battenberg
Sparkasse Bad Hersfeld-Rotenburg
Sparkasse Arnstadt-Ilmenau
Sparkasse Altenburger Land
Nassauische Sparkasse
Landesbank Hessen-Thueringen Girozentrale

Kyffhaeusersparkasse		
Kreissparkasse Weilburg		
Kreissparkasse Schwalm-Eder		
Kreissparkasse Schluechtern		
Kreissparkasse Saalfeld-Rudolstadt		
Kreissparkasse Saale-Orla		
Kreissparkasse Nordhausen		
Kreissparkasse Limburg		
Kreissparkasse Hildburghausen		
Kreissparkasse Gross-Gerau		
Kreissparkasse Gotha		
Kreissparkasse Gelnhausen		
Kreissparkasse Eichsfeld		
Kasseler Sparkasse		
Issuer Credit Rating	A/Negative/A-1	A/Stable/A-1
*** * * * * * * * * * * * * * * * Grenke AG * * * * * * * * * * * * * * * ***		
Ratings Affirmed; Outlook Action		
Grenke AG		
Issuer Credit Rating	BBB+/Negative/A-2	BBB+/Stable/A-2