

# Various German Banks Downgraded On Persistent Profitability Challenges And Slow Digitalization Progress

June 24, 2021

- We anticipate that German banks' asset quality and capitalization will likely remain robust, supported by the German economy's resilience amid the COVID-19 pandemic.
- Nevertheless, we believe the pandemic has exacerbated challenges facing the German banking sector, and that German banks are now less competitive relative to global peers' due to slow progress improving revenue diversification, cost structures, and digitalization.
- As a result, we have downgraded a number of Germany-based, non-government-related banks where our ratings did not already reflect these challenges.

FRANKFURT (S&P Global Ratings) June 24, 2021--S&P Global Ratings today said that it has lowered by one notch the long-term issuer credit ratings on the following Germany-based banks:

- The Cooperative Banking Sector Germany and its related core members;
- DekaBank Deutsche Girozentrale;
- Core members of S-Finanzgruppe Hessen-Thuringen including Landesbank Hessen-Thuringen Girozentrale (Helaba) and local savings banks;
- Deutsche Pfandbriefbank AG (pbb); and
- Volkswagen Bank GmbH.

In addition, we affirmed our ratings on Commerzbank AG and UniCredit Bank AG with negative outlooks. We also revised the outlook on Hamburg Commercial Bank AG to developing from negative, and affirmed the ratings. We affirmed our ratings and stable outlook on Wuestenrot Bausparkasse AG. Finally, we revised the outlook on Santander Consumer Bank AG to stable from negative, and affirmed our ratings.

Our ratings on core or highly strategic subsidiaries of foreign banks based in Germany remain unaffected, along with our ratings on Deutsche Bank AG and the various Germany-based financial sector entities that are related to the German government.

## Webinar

S&P Global Ratings will be hosting a live webinar on June 29, 2021 (9:00 a.m. EDT; 2:00 p.m. BST; 3:00 p.m. CEST) to discuss our views on European Banks. For more details, please visit: <https://event.on24.com/wcc/r/3252634/C509A2EA04B74CFC5B846E025A448F8D?partnerref=GMR>

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**We flagged intensifying pressures on German banks back in 2019.** Since April 2020, our negative outlooks on many German banks have reflected dual pressures: the potential economic impact on banks' balance sheets from the pandemic, and the sector's longer term profitability challenges due to poor cost efficiency, rising risks from technology disruption, and low interest rates (see "Negative Rating Actions Taken On Multiple German Banks On Deepening COVID-19 Downside Risks," published April 23, 2020, and "Outlooks On Various German Banks Revised To Negative On Rising Banking Sector Risks; Ratings Affirmed," published Sept. 18, 2019, on RatingsDirect).

**Despite greater confidence in the resilience of German banks' asset quality and capitalization, the downgrades reflect our view that the banking sector's industry risk has increased compared with that of global peers.** We make this analysis through our Banking Industry and Country Risk Assessment (BICRA). We believe German banks operate in a highly competitive and structurally overbanked banking market, with low gross margins, and that banks' progress in improving structural revenue diversification, cost bases, and digitalization is insufficient to keep up with peers. In our view, this has widened the sector's gap with leading banking systems, such as in the Nordics. As a result, we revise downward the anchor that underpins our ratings on domestically focused German banks to 'bbb+' from 'a-', signaling a potential deterioration of banks' stand-alone credit profiles (SACPs) if not offset by individual banks' idiosyncratic factors.

**Structural impediments from the German banking industry's specific three-pillar structure and generally lower-risk lending mean that the sector's standard profitability ratios require in-depth analysis.** The German banking sector's efficiency ratio of 70% compares poorly with that of peers and contributed to an average return on equity (RoE) of just 2% in 2020 after a meager 4% in 2019. We forecast an average RoE for the sector of 3%-4% for 2021-2023. This suggests that German banks are struggling to cover their cost of capital.

This is also the case for German mutual groups and policy institutions. Although their cost of capital is low, they like European peers are prioritizing long-term stability and predictability over returns. The German banking sector's profitability ratios are also undermined by the perennial restructuring and legal costs booked by Commerzbank and Deutsche Bank.

Commercial banks are also facing long-term challenges from the German banking industry's specific three-pillar structure, high competition, and squeezed margins, even on a risk-adjusted basis. In recent years, many commercial banks' business stability has been low as management teams have tried to optimize banks' business mix, products, and operating models to bring returns closer to their cost of capital.

The savings and cooperative banks, which together account for over 50% of the German market by deposits, are also struggling to increase revenue and reduce costs amid an intensifying need to digitalize. Large branch networks and a decentralized structure slow the rollout of new technology and make extensive cost-cutting difficult to implement.

**The COVID-19 pandemic has exacerbated competitive pressure.** Due to the economic fallout from the pandemic, interest rates are likely to remain unsupportive for longer, putting further pressure on German banks' already depressed interest income. Additionally, the pandemic has accelerated the trend toward digital banking services, an area in which we see German banks as lagging peers. While we believe German banks can catch up, the size of the German market and its deep deposit base make it attractive for international players with low-cost models, including big techs, to expand their presence with the help of their fully digital platforms. This will add to price transparency and further weigh on gross margins, in our view. This in turn could impede

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incumbent banks' capacity to invest in developing sustainable business models supported by new technologies, and reduce their capacity to absorb higher credit, market, or operational losses (see "Tech Disruption In Retail Banking: German Banks Have Little Time For Digital Catch-Up," published May 14, 2019).

**German banks face continued headwinds from negative policy rates, after making early progress in passing on costs.** Over the past two years, German banks gradually passed on negative rates to corporate depositors and increasingly to retail depositors, at least for larger deposit sizes. Despite some benefit also from advantageous low-cost TLTRO (targeted longer-term refinancing operation) funding, these efforts remain largely insufficient to offset declining net interest margins as older, higher-yielding loans and securities mature or are refinanced at lower rates.

While banks have gradually increased account fees from structurally low levels in recent years, this is likely to become more challenging in light of a German court ruling in April 2021. The German Supreme Court declared German banks' practice of increase banking fees without explicit customer consent illegal. Although the ruling's consequences are not yet fully clear and may be subject to further considerations, this seems, at best, a setback that could lead to a meaningful one-off repayment to customers.

**We anticipate that German banks' asset quality and domestic risk cost will remain robust supported by Germany's resilient economy.** We now view the economic risk trend as stable, compared with negative previously, to reflect that we have greater confidence German households, corporates, and public finances will remain well-cushioned from negative impacts of the pandemic. The German government provided one of the highest government stimuli globally, and forbearance take-up was limited and is now immaterial. We expect German unemployment will peak at a still-favorable 4.2% in 2021, compared with an estimated 8.2% for the eurozone. Similarly, despite elevated German house price growth in recent years, we consider a rapid correction after a period of rising house prices unlikely in the medium term.

**Successful and speedy regulatory reforms remain essential for maintaining our assessment that the quality of Germany's banking regulation and supervision are roughly in line with that of many Western European peers--albeit at the lower end.** In our view, major deficiencies at the Federal Financial Supervisory Authority (BaFin) surfaced in handling the international financial scandals on the insolvencies of and criminal proceedings against Germany-based Wirecard AG (2020) and Greensill Bank AG (2021). We note the March 2021 appointment of the new BaFin president, arriving from the, in our view, very well-regarded Swiss regulator, and anticipate the prudential supervision of German banks will become more proactive with better orchestrated regulatory actions.

## The Cooperative Banking Sector Germany

Primary analyst: Heiko Verhaag

We downgraded the core group members of the Cooperative Banking Sector Germany, including DZ Bank AG, R+V Versicherung AG, and DVB Bank SE, to reflect the structural challenges from weakening interest margins and increasing competition in digital banking. This could make it harder for the cooperative banks to defend their strong market position. The sector's historically dense branch network will likely decrease further in coming years, triggered by changing customer

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behavior and reducing its competitive advantage of being close to its clients. With increasing availability of digital banking products, already intense pricing competition will likely continue to weigh on risk-adjusted profitability. The sector's decentralized operations, in our view, have led to slower investments into digitalization than at more nimble peers. Nevertheless, we view the sector as having somewhat more time to adapt than other domestic competitors due to its strong retail franchise and a customer base that is less demanding regarding the rapid rollout of digital functionality for services and products.

Combining our view of structural challenges and the sector's need to catch up, and despite our view that the balance sheets of the sector's core banks will remain robust, we conclude that it no longer deserves the highest credit assessment among the largest banks globally. It nevertheless remains the highest rated banking group among non-government-related banks in Germany.

### Outlook

Our stable outlook on the Cooperative Banking Sector Germany, including all core group members, reflects our expectation that while a part of the client base and revenue streams could be lost to competitors, the sector's further investments into its digital competencies will substantially defend its strong market position and avoid material reduction in earnings over the next two years.

**Upside scenario:** We could raise the ratings if we conclude that structural challenges in German retail and small and mid-sized enterprise (SME) banking have eased such that we would raise the anchor for domestic banks to 'a-', or if we believe the sector masters the competitive environment better than peers. This would require material progress in digital banking products and addressing structural weaknesses, such as weak cost efficiency and modest profitability. We could also consider a higher rating if the consolidated capitalization of the sector improves further, leading our risk-adjusted capital (RAC) ratio to sustainably rise above 15%, while at the same time we consider capital to be fungible within the sector to support weaker capitalized primary banks if needed. An upgrade would also depend on peer relativities supporting a higher rating.

**Downside scenario:** While a fairly remote prospect, over time we could lower our ratings on the sector's core members if its market position deteriorates materially, weakening its revenue pool and risk-adjusted profitability, or if competitive pressure leads to material signs of increasing risk appetite.

## Deutsche Apotheker- und Aerztebank eG

Primary analyst: Harm Semder

Our downgrade of Deutsche Apotheker- und Aerztebank eG (Apobank) reflects that our ratings on the bank move in tandem with those on other core members of the Cooperative Banking Sector Germany. This reflects our expectation that Apobank would receive extraordinary group support from the sector under any foreseeable circumstances. Similarly, we revised our assessment of Apobank's SACP to 'bbb' from 'bbb+', reflecting the anchor revision for domestically focused German banks, and our view that competitive pressures hit Apobank considering its leading and niche position in the German medical sector.

## Outlook

Our stable outlook on Apobank mirrors the stable outlook on the Cooperative Banking Sector Germany and its horizon over the next two years, and our expectation that Apobank will remain a core member of the group for the foreseeable future.

**Upside scenario:** We could raise the ratings if we conclude that structural challenges in German retail and SME banking have eased such that we would revised the anchor for domestic banks to 'a-', or if we believe the sector masters the competitive environment better than peers. This would require material progress in digital banking products and addressing structural weaknesses, such as weak cost efficiency and modest profitability. We could also consider a higher rating if the consolidated capitalization of the sector improves further, leading our RAC ratio to sustainably rise above 15%, while at the same time we consider capital to be fungible within the sector to support weaker capitalized primary banks if needed. It would also require that we see peer relativities as supporting a higher rating.

**Downside scenario:** While a fairly remote prospect, over time we could lower our ratings on the sector's core members, including Apobank, if its market position deteriorates materially, weakening its revenue pool and risk-adjusted profitability, or if competitive pressure lead to material signs of increasing risk appetite. We could also consider a negative rating action if, contrary to our base-case expectations, we observe significant weakening of Apobank's strategic importance to the sector, leading us to change our view of its core group status. However, we currently see this scenario as highly unlikely.

## DZ Hyp AG

Primary analyst: Harm Semder

Our downgrade of DZ Hyp reflects that our ratings on the bank move in tandem with those on other core group members of Cooperative Banking Sector Germany. This reflects our expectation that DZ Hyp would receive extraordinary group support from the sector under any foreseeable circumstances. That said, DZ Hyp's SACP remains unchanged at 'bbb-', because we offset the one-notch lowering of its anchor with an improved assessment of its combined risk and capital position. We take into account our view of a stable economic risk trend in Germany and that a German house price correction is unlikely in the medium term. Additionally, we consider DZ Hyp's demonstrated resilience against difficult markets and our view that ultimately the Cooperative Banking Sector Germany would shelter DZ Hyp if unexpected major asset quality or capital problems were to emerge.

## Outlook

Our stable outlook on DZ Hyp mirrors the stable outlook on the Cooperative Banking Sector Germany and its horizon over the next two years, and our expectation that the DZ Hyp will remain a core member of the group for the foreseeable future.

**Upside scenario:** We would likely raise our ratings on DZ Hyp if we raised the ratings on the sector's other core members.

**Downside scenario:** We would likely lower our ratings on DZ Hyp if we lowered the ratings on the sector's other core members. We could also consider a negative rating action if, contrary to our base-case expectations, we observe significant weakening of DZ Hyp's strategic importance to the sector, leading us to change our view of its core group status. However, we currently see this scenario as highly unlikely.

## DekaBank Deutsche Girozentrale

Primary analyst: Benjamin Heinrich

Our ratings on DekaBank are based primarily on its position as a core member of the German savings bank group (DSGV). The downgrade reflects that we revised downward our assessment of DSGV's group credit profile to 'a' from 'a+', since we expect the savings banks will suffer from the structural challenges German banks face from ongoing margin pressure in a negative interest rate environment and from increasing competition from digital players in standard banking services.

We maintain our 'bbb' SACP on DekaBank, since we forecast our RAC ratio will remain above 10% over the next two years. This offsets the lower anchor for DekaBank and reflects its past reduction in securities and corporate lending executed as part of a portfolio-optimization exercise amid the pandemic. This had a positive effect on our risk-weighted asset metric, and we believe the bank's capitalization will remain supported by robust earnings with moderate payout and only moderate growth in our risk-weighted asset metric. This is because we anticipate lower lending growth than pre-COVID-19. We also believe ongoing support through its savings bank owners is an important supportive factor for its current SACP.

## Outlook

The stable outlook on DekaBank reflects our view the German savings banks--the 100% owners of DekaBank--are well placed to withstand the ongoing effects of the COVID-19 pandemic. It also reflects our assumption that a material shift in DekaBank's strategy following its past integration with the German savings banks is unlikely over the next two years.

**Upside scenario:** An upgrade would require the German savings banks to strengthen their competitive position, franchise, and profitability. The former could materialize if fee-based businesses showed stronger earnings contributions, or if the sector's central banks and product providers gave a more unified offering. While less likely, an upgrade could also follow if we see the savings banks sustainably building very strong capitalization.

**Downside scenario:** While quite a remote prospect, we could lower our ratings on DekaBank if the German savings banks' competitiveness and profitability were to erode more materially than we anticipate today, such that it prevented the group from covering its normalized credit losses, or if payouts to the savings banks' public-sector backers were to increase substantially and weaken the group's aggregate capitalization. We could also take a negative rating action if the savings banks deprioritized their sales of DekaBank's products over a prolonged period.

## S-Finanzgruppe Hessen-Thueringen / Landesbank Hessen-Thueringen Girozentrale

Primary analyst: Harm Semder

We lowered our ratings on the core members of S-Finanzgruppe Hessen-Thueringen (SFHT) including Landesbank Hesse-Thueringen (Helaba) and local savings banks because we revised downward its group credit profile to 'a-' from 'a'. The reasons are very similar for our downward revision of DSGV's group credit profile to 'a' from 'a+'. Since SFHT is also a member of DSGV, we expect that SFHT's member banks will be similarly challenged by the structural challenges in Germany, particularly ongoing margin pressure in a sustained negative interest rate environment and from increasing competition from digital players in standard banking services.

### Outlook

Our stable outlook on SFHT's core members reflects our view that over the next two years the group will successfully defend its solid retail market position of the member savings banks in two German states, capitalization will remain robust, and the group will improve its cost efficiency and digitization.

**Upside scenario:** An upgrade would depend on improvement in the industry risk of the German banking industry, or SFHT demonstrating enhanced profitability amid a difficult operating environment and franchise breadth or sustainably very strong capitalization.

**Downside scenario:** While a more remote prospect, we could lower our ratings on SFHT's core members if its profitability were to erode more materially than we anticipate, such that the group's preprovision earnings do not cover its normalized credit losses. A downgrade could also follow if unexpectedly high losses from Helaba's sizable exposure to more cyclical and concentrated lending emerge, or there is a material delay in the group's planned cost and digitization initiatives.

## Deutsche Pfandbriefbank AG

Primary analyst: Michal Selbka

The downgrade reflects the higher risks we see for the banking sector in Germany, where Deutsche Pfandbriefbank AG (pbb) is domiciled and generates half of its business. We are mindful that, while we see stabilized economic risks in Germany, the bank remains almost fully concentrated on volatile through-the-cycle, commercial real estate lending. Moreover, the other half of pbb's lending focuses on comparably riskier geographies.

We believe sound underwriting standards may protect pbb's portfolio quality at least in the short-to-medium term, before the longer-term effects of the pandemic on the retail, hotel, or office real estate segments become more visible. We note the bank also maintains strong capitalization as a buffer. At the same time, we do not think the bank will remain immune to profitability pressures in the market and a possible lack of adequate risk-adjusted new lending opportunities. In our opinion, pbb's net interest margin will drop back below 90 basis points (bps) in the next two years, with our estimated earnings buffer following the same downward trend

toward 30-40 bps.

## **Outlook**

The negative outlook reflects continued uncertainty around the Single Resolution Board (SRB)'s stance on its preferred resolution strategy for pbb and the potential removal of the additional loss-absorbing capacity (ALAC) uplift within the next 12-24 months.

**Downside scenario:** We would likely lower the 'BBB+' long-term issuer credit rating and withdraw the 'A-' long-term resolution counterparty rating if we conclude that pbb would not be targeted for a well-defined bail-in-led resolution that would ensure the full and timely payment on the bank's senior preferred obligations. This would not affect our issue ratings on the bank's senior nonpreferred and other hybrid capital instruments, because they are notched with reference to our 'bbb-' assessment of pbb's SACP.

Although a remote possibility, we could downgrade pbb following a negative revision in our capital projection, for example, because impairments appear likely to bring the bank's RAC ratio below the 10% threshold.

**Upside scenario:** A revision of the outlook to stable would follow if we conclude that the SRB's resolution strategy for pbb would likely ensure full and timely payment on the bank's senior preferred obligations. A stable outlook would also depend on pbb maintaining its existing high ALAC buffer, safely above our 8% threshold in our 24-month forecast horizon. We would also need to be convinced that pbb will sustainably maintain a favorable capital position and asset quality.

## **Volkswagen Bank GmbH**

Primary analyst: Heiko Verhaag

The downgrade reflects that we consider the increased risk from structural challenges for domestic banks as partially pertaining to Volkswagen AG's captive, VW Bank. We expect a gradual shift of car sales to online channels and related digital finance products over the coming years, which could enhance price transparency and slowly reduce risk-adjusted profitability, if not offset by swift investments to improve efficiency. VW Bank is quite reliant on interest income in its lending business, which will likely not benefit from shifting customer preferences to rent rather than own their vehicle. While interest income provides a relatively stable and recurring income stream for the bank, we see it as somewhat susceptible to interest margin pressure in the low-interest-rate environment. The downgrade positions our issuer credit rating on VW Bank on par with that on Volkswagen AG.

## **Outlook**

Our stable outlook indicates our expectations that the bank will maintain fairly steady financial performance over the next two years and very strong capitalization, while continuing to play an important role in Volkswagen's financing solutions.

**Upside scenario:** We would consider an upgrade if an improving credit profile of the parent would indicate stronger capacity to provide extraordinary support to VW Bank if needed.

While more remote, we could also consider an upgrade if VW Bank manages to improve its



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business stability through further diversification or to materially improve its risk-adjusted profitability through more efficient operations.

**Downside scenario:** We consider a downgrade a remote scenario as long as Volkswagen maintains its credit strengths. We would only consider downgrading VW Bank if we observed that its strategic relevance to the group, expressed in its core group status, was weakening, along with its stand-alone creditworthiness. A negative rating action on the parent alone would likely not lead to a downgrade of the bank, reflecting our assessment of it as an insulated entity.

## Commerzbank AG

Primary analyst: Benjamin Heinrich

Our affirmation reflects that the existing rating and negative outlook already capture our view of this bank as in transition in a difficult market, including related downside risks. Although we revised the anchor down one notch to 'bbb+', this was offset by an improvement in Commerzbank's risk profile. The bank significantly reduced nonstrategic and high-risk portfolios over the past years, particularly in foreign commercial real estate and public finance and shipping finance. We believe the bank is appropriately capitalized for the risks it faces, and that its asset quality will compare favorably against similar rated peers.

Commerzbank's structural weak profitability remains its main rating constraint. We see execution risks as management executes its revised multi-year strategy until 2024 amid the continued unsupportive operating environment (see "Commerzbank AG 'BBB+/A-2' Ratings Affirmed On Strategy Announcement; Outlook Remains Negative," published Feb. 26, 2021).

## Outlook

The negative outlook reflects the significant challenges management faces in the next two years to return to more solid and sustainable profitability amid weak operating conditions.

**Downside scenario:** We could lower our ratings if we observe a material setback in the bank's transformation, for example because of a significant delay in anticipated cost savings or increasing uncertainty over whether Commerzbank can widely preserve its revenue base during the restructuring process. While less likely, a downgrade could follow if asset quality was to develop materially weaker than we anticipate.

**Upside scenario:** We could revise our outlook to stable if we saw tangible progress in the restructuring process. This would require improved structural profitability and reduced execution risk.

## Hamburg Commercial Bank AG

Primary analyst: Heiko Verhaag

We revised the outlook on Hamburg Commercial Bank AG (HCOB) to developing from negative and affirmed the ratings. This balances HCOB's progressing transformation and its strong increase in capitalization over 2020 with the increased risk from structural challenges for German banks, indicated in the lower anchor. While HCOB is affected by the weak margins in the German banking

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market, we expect its strict pricing discipline will continue to improve its profitability in new business. We also note the solid progress in reducing operating costs by 20% over 2020, with similar annual reductions of 15%-20% anticipated in 2021 and 2022, as management addresses the legacy cost structure. These improvements should drive the cost income ratio down to 50%-55% by 2023, which would be favorable compared with that of many German peers.

We remain cautious of HCOB's possible increase in risk appetite in international lending activities, where the bank has no historic franchise or track record. We expect this segment will increase to about 10% of total assets. We acknowledge HCOB's current capital strength that will likely persist for a few years. Its common equity tier 1 ratio jumped to 27% in 2020 from 18.5% in 2019 while our RAC ratio jumped to 16% at end-2020 from 12.6% a year before, triggered by the reduction in low-yielding and higher-risk assets. We forecast this ratio will stay above 16% through end-2023.

While the bank's private-equity owners will likely steer toward lower capital ratios in the future, we see potential support to the rating as the bank's funding profile improves. Notably, we see as a key milestone toward year-end 2021 that HCOB gains access to the senior membership of the private deposit protection scheme. Its quantitative funding and liquidity metrics are already in line with peers'. The SRB's stance on its preferred resolution strategy for HCOB remains a key uncertainty on the rating, however.

### Outlook

Our developing outlook reflects two diverging trends over the next two years, namely the possible removal of the ALAC uplift and, the possible removal of the negative adjustment notch. Within this time horizon we expect to update our view on the SRB's stance toward mid-sized banks like HCOB. We also expect the bank's will continue to improve its cost structure such that profitability and efficiency become more in line with peers.

**Downside scenario:** We would likely lower the 'BBB/A-2' ratings and withdraw the 'BBB+' long-term resolution counterparty rating if we conclude that HCOB would not be targeted for a well-defined bail-in-led resolution that would ensure the full and timely payment on the bank's senior preferred obligations.

While a less likely prospect, we could revise downward the SACP and lower all the ratings if HCOB's very strong capitalization deteriorates faster and more significantly than we currently expect, unless this is offset by a more resilient funding profile.

**Upside scenario:** An upgrade hinges on two positive developments. First, if we conclude that the SRB's resolution strategy for HCOB would likely ensure full and timely payment on the bank's senior preferred obligations. This also depends on HCOB maintaining its existing high ALAC buffer. Second, we would need to see further improvements in profitability and efficiency without a further increase in risk appetite. We would consider removing the negative adjustment notch in that case. An increasing risk appetite to offset margin pressure in existing business lines could lead us to maintain the negative differentiation versus similar rated peers.

## UniCredit Bank AG

Primary analyst: Heiko Verhaag

We affirmed our ratings on UniCredit Bank AG (UCB) since we consider the increased risk from structural challenges for domestic banks, indicated in the lower anchor, to be already adequately

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reflected in the ratings. While the bank is affected by dampened risk-adjusted profitability from low interest environment and increasing competition, we think its past transformation effort, as well as its role in the UniCredit group's strategy with a focus on automation and operational efficiency, will stabilize or slightly improve cost efficiency over the coming two years. UCB's asset quality weakened slightly since the start of the pandemic, evidenced by the nonperforming loan ratio increasing to 2.4% at end-2020 from 1.9% a year earlier, while cost of risk rose to 52 bps from -15bps. We do not see UCB as a particular outlier in this regard compared to domestic peers.

### Outlook

The negative outlook continues to reflect the continued uncertainties around the resolution approach for UniCredit Group, and the related mixed implications for UCB. Within the next two years, we expect the strategy to become clear and that the bank will take material steps to implement it.

**Downside scenario:** If we conclude that the preferred resolution approach for UniCredit Group envisages a unified, single process involving all subsidiaries, this would alter our current view that the prospects of stronger subsidiaries would be meaningfully different from those of the weaker parent. As a result, we would no longer rate UCB above the parent, and lower our ratings on the bank by one notch to the level of the 'bbb' group credit profile, all else equal.

**Upside scenario:** We would revise the outlook to stable if it was clear that the SRB would employ separate resolution processes for UCB and its parent. This would support a rating above the group for UCB.

## Wuestenrot Bausparkasse AG

Primary analyst: Harm Semder

We affirmed our ratings on Wuestenrot Bausparkasse AG (WBSK), because although we revised downward our assessment of WBSK's SACP to 'bbb' from 'bbb+' due to increased risk from structural challenges for domestic banks, this is offset by group support from Wuestenrot & Wuerttembergische's (W&W's) stronger insurance subgroup. Wuestenrot Bausparkasse is core member of diversified bank insurance group W&W.

### Outlook

Our outlook on building-savings bank WBSK is stable because we consider that increasing earnings contribution from W&W's stronger insurance subgroup will continue to support W&W's aggregate creditworthiness, which we assess at 'a-'. We see WBSK's main bank product as particularly vulnerable to prolonged period of low interest rates, owing to the Bauspar product's option-like features and difficulty to market it in such an environment.

## Santander Consumer Bank AG

Primary analyst: Michal Selbka

We revised our outlook on Santander Consumer Bank AG (SCB) to stable from negative and

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affirmed the ratings, following a similar rating action on Santander Consumer Finance SA (SCF), the bank's intermediate parent. That said, we revised downward our assessment of SCB's SACP to 'bbb' from 'bbb+'. The latter results from the higher banking sector risks that we see for banks domiciled and active in Germany. We think that SCB, as a relatively small German bank specialized in car financing or consumer finance, is also vulnerable to those risks. Although we expect SCB will remain profitable overall thanks to its specialized focus on higher-margin market segments, we can see SCB's other business areas, such as mortgages or SME/corporates, facing profitability pressures.

### Outlook

The stable outlook mirrors that on SCF. We expect SCB will remain a core subsidiary that is directly affected by its parent's credit profile strengthening or weakening.

**Downside scenario:** As long as we consider SCB to be a core member of SCF, any deterioration in SCB's SACP would be offset by uplift from extraordinary group support. We could nevertheless lower the rating on SCB if we were to lower the rating on SCF. This could be triggered by a similar action on the ultimate parent Banco Santander S.A., or if we believed Santander's commitment to SCF had weakened. In addition, a weakening of SCB's importance to SCF could lead us to lower the rating, although we view this as a remote possibility over the next 24 months.

**Upside scenario:** We could upgrade SCB if we took a similar action on SCF. This could be triggered by a similar action on Banco Santander, or by our upward revision of SCF's status within the Santander group to core.

### Related Criteria

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

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- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

## Related Research

- Economic Outlook Europe Q3 2021: The Grand Reopening, June 24, 2021
- Germany 'AAA/A-1+' Ratings Affirmed; Outlook Stable, March 26, 2021
- Diverse Rating Actions On European Banks Highlight The Importance Of Robust Business Models To Long-Term Resilience, Feb. 26, 2021
- Capital Resilience Alone Won't Stabilize European Bank Ratings In 2021, Feb. 3, 2021
- Low-For-Even-Longer Interest Rates Maintain Margin Pressure On European Banks, Feb. 2, 2021
- Lower And Later: The Shifting Horizon For Bank Credit Losses, Feb. 2, 2021
- Tech Disruption In Retail Banking: German Banks Have Little Time For Digital Catch-Up, May 14, 2019

## BICRA Score Snapshot

### BICRA Score Snapshot -- Germany

	To	From
BICRA group	3	2
Economic risk	1	1
Economic resilience	Very low risk	Very low risk
Economic imbalances	Very low risk	Very low risk
Credit risk in the economy	Low risk	Low risk
Trend	Stable	Negative
Industry risk	4	3
Institutional framework	Intermediate risk	Intermediate risk
Competitive dynamics	High risk	Intermediate risk
Systemwide funding	Very low risk	Very low risk
Trend	Stable	Negative

Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores are on a scale from 1 (lowest risk) to 10 (highest risk). For more details on our BICRA scores on banking industries across the globe, please see "Banking Industry Country Risk Assessment Update," published monthly on RatingsDirect.

## Ratings List

**Ratings Affirmed; Outlook Action**

	To	From
<b>Santander Consumer Bank AG</b>		
Issuer Credit Rating	A-/Stable/A-2	A-/Negative/A-2
Analytical Factors	bbb	bbb+

\*\*\*\*\*Commerzbank AG\*\*\*\*\*

**Ratings Affirmed**

**Commerzbank AG**

Issuer Credit Rating	BBB+/Negative/A-2
Resolution Counterparty Rating	A/--/A-2
Analytical Factors	bbb

## Various German Banks Downgraded On Persistent Profitability Challenges And Slow Digitalization Progress

\*\*\*\*\* Cooperative Banking Sector Germany \*\*\*\*\*

Downgraded; Outlook Action

To

From

\*The ratings list below does not reflect of all the German Cooperative Banking Sector entities. The full hierarchy will be referenced in the commentary.

AKTIVBANK AG

Onstmettinger Bank eG

Nordthueringer Volksbank eG

Muenchner Bank eG

Mendener Bank eG

Mainzer Volksbank eG

Maerkische Bank eG

MKB Mittelstandskreditbank AG

Leipziger Volksbank eG

Landbank Horlofftal eG

LIGA Bank eG

Kurhessische Landbank eG

Kieler Volksbank eG

Huettenberger Bank eG

Huemmlinger Volksbank eG

Heidenheimer Volksbank eG

Heidelberger Volksbank eG

Harzer Volksbank eG

Hannoversche Volksbank eG

Hamburger Volksbank eG

Hagnauer Volksbank eG

HAUSBANK MUENCHEN eG Bank fuer Haus- und Grundbesitz

Grafschafter Volksbank eG

Gladbacher Bank AG von 1922

Genossenschaftsbank eG Muenchen

Genossenschaftsbank Weil im Schoenbuch eG

Genossenschaftsbank Unterallgaeu eG

Genobank Mainz eG

GLS Gemeinschaftsbank eG

GENO BANK ESSEN eG

Freisinger Bank eG Volksbank-Raiffeisenbank

Frankfurter Volksbank eG

Frankenberger Bank, Raiffeisenbank eG

## Various German Banks Downgraded On Persistent Profitability Challenges And Slow Digitalization Progress

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Federseebank eG

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Evenord-Bank eG-KG

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Evangelische Bank eG

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Erfurter Bank eG

---

Emslaendische Volksbank eG

---

Eckernfoerder Bank eG Volksbank - Raiffeisenbank

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Echterdinger Bank eG

---

EDEKABANK AG

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Dortmunder Volksbank eingetragene Genossenschaft

---

Donau-Iller Bank eG

---

Dithmarscher Volks- und Raiffeisenbank eG

---

Deutsche WertpapierService Bank AG

---

Dettinger Bank eG

---

DZB Bank GmbH

---

DZ PRIVATBANK S.A.

---

DKM Darlehnskasse Muenster eG

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CB Bank GmbH

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Budenheimer Volksbank eG

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Bruehler Bank eG

---

Bremische Volksbank eG

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Brandenburger Bank Volksbank-Raiffeisenbank eG

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Bopfinger Bank Sechta-Ries eG

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Bernhauser Bank eG

---

Berliner Volksbank eG

---

Bensberger Bank eG

---

Bayerische BodenseeBank-Raiffeisen-eG

---

Bausparkasse Schwaebisch Hall AG

---

Bank fuer Sozialwirtschaft AG

---

Bank fuer Kirche und Diakonie eG-KD-Bank

---

Bank fuer Kirche und Caritas eG

---

Bank 1 Saar eG

---

BBBank eG

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BANK IM BISTUM ESSEN eG

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BAG BankAG

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Alxing-Brucker Genossenschaftsbank eG

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Allgaeuer Volksbank eG Kempten-Sonthofen

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Abtsgmuender Bank-Raiffeisen-eG

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Aachener Bank eG

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**Various German Banks Downgraded On Persistent Profitability Challenges And Slow Digitalization Progress**

**Volksbank-Raiffeisenbank Amberg eG**

**Volksbank eG Delmenhorst Schierbrok**

**Volksbank Rhein-Erft-Koln eG**

**Volksbank Raiffeisenbank Rhoen-Grabfeld eG**

**Volksbank Kurpfalz eG**

**Volksbank Dresden-Bautzen eG**

**Volksbank - Raiffeisenbank Vilshofen eG**

**VR-Bank Landsberg-Ammersee eG**

**VR Bank Oberfranken Mitte eG**

**Rottaler Raiffeisenbank eG**

**Raiffeisenbank Unteres Inntal eG**

**Raiffeisenbank Steingaden eG**

**Raiffeisenbank Hiltenfingen eG**

**Raiffeisenbank Elsavatal eG**

**Raiffeisenbank Altdorf-Ergolding eG**

**Raiffeisen-Volksbank Hermsdorfer Kreuz eG**

**Deutsche Apotheker- und Aerztebank eG**

**DZ HYP AG**

**DZ BANK AG Deutsche Zentral-Genossenschaftsbank**

**DVB Bank SE**

Issuer Credit Rating	A+/Stable/A-1	AA-/Negative/A-1+
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**R+V Versicherung AG**

**KRAVAG-LOGISTIC Versicherungs AG**

Issuer Credit Rating		
Local Currency	A+/Stable/--	AA-/Negative/--
Financial Strength Rating		
Local Currency	A+/Stable/--	AA-/Negative/--

**Ratings Affirmed**

**DZ HYP AG**

Analytical Factors	bbb-
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**Downgraded**

	To	From
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**Cooperative Banking Sector Germany**

Analytical Factors	a+	aa-
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**Deutsche Apotheker- und Aerztebank eG**

Analytical Factors	bbb	bbb+
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## Various German Banks Downgraded On Persistent Profitability Challenges And Slow Digitalization Progress

\*\*\*\*\* Deutsche Pfandbriefbank AG \*\*\*\*\*

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### Downgraded

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	To	From
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#### Deutsche Pfandbriefbank AG

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Resolution Counterparty Rating	A/--/A-2	A/--/A-1
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### Downgraded; Ratings Affirmed

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	To	From
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Issuer Credit Rating	BBB+/Negative/A-2	A-/Negative/A-2
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	To	From
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Analytical Factors	bbb-	bbb
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## Various German Banks Downgraded On Persistent Profitability Challenges And Slow Digitalization Progress

\*\*\*\*\*S-Finanzgruppe Hessen-Thueringen\*\*\*\*\*

Downgraded; Outlook Action

	To	From
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		

Various German Banks Downgraded On Persistent Profitability Challenges And Slow Digitalization Progress

Landesbank Hessen-Thüringen 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-/Stable/A-2	A/Negative/A-1
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**\*\* DekaBank Deutsche Girozentrale Girozentrale \*\*\*\*\***

**Downgraded; Outlook Action;**

	To	From
Issuer Credit Rating	A/Stable/A-1	A+/Negative/A-1

**Ratings Affirmed**

Analytical Factors	bbb
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**\*\*\*\*\* Hamburg Commercial Bank AG \*\*\*\*\***

**Ratings Affirmed**

Analytical Factors	bbb-
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Resolution Counterparty Rating	BBB+/-/A-2
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**Ratings Affirmed; Outlook Action**

	To	From
Issuer Credit Rating	BBB/Developing/A-2	BBB/Negative/A-2

**Ratings Affirmed**

**UniCredit Bank AG**

Issuer Credit Rating	BBB+/Negative/A-2
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Resolution Counterparty Rating	A/-/A-2
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Analytical Factors	bbb+
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**Various German Banks Downgraded On Persistent Profitability Challenges And Slow Digitalization Progress**

\*\*\*\*\* Volkswagen AG \*\*\*\*\*

**Downgraded; Outlook Action;**

	<b>To</b>	<b>From</b>
<b>Volkswagen Bank GmbH</b>		
Issuer Credit Rating	BBB+/Stable/A-2	A-/Negative/A-2
	<b>To</b>	<b>From</b>
Analytical Factors	bbb+	a-

**Ratings Affirmed**

**Wuestenrot Bausparkasse AG**

Issuer Credit Rating	A-/Stable/A-1	
	<b>To</b>	<b>From</b>
Analytical Factors	bbb	bbb+

\*NB: This does not include all ratings affected.

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