



Fitch Rates DB Privat- und Firmenkundenbank 'BBB+'; Withdraws Postbank's Ratings

Fitch Ratings-London-28 May 2018: Fitch Ratings has assigned DB Privat- und Firmenkundenbank AG (PFK) a Long-Term Issuer Default Rating (IDR) of 'BBB+', Short-Term IDR of 'F2' and Viability Rating (VR) of 'bbb+'. The Outlook on the Long-Term IDR is Stable.

The rating actions follow the merger of Deutsche Postbank AG into Deutsche Bank Privat- und Geschäftskunden Aktiengesellschaft, the two legal entities hosting Deutsche Bank AG's (BBB+/Stable/F2/bbb+) domestic private and commercial clients business. The merger was completed on 25 May 2018 and the legal successor was renamed PFK. Following the merger, Fitch has withdrawn the issuer ratings of Deutsche Postbank AG as it no longer exists.

A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS

IDRS, VR, SENIOR DEBT, DEPOSIT RATINGS

PFK's IDR is driven by its VR. Fitch has assigned PFK a common VR with its parent Deutsche Bank AG to reflect the high degree of management and operational integration between parent and subsidiary and PFK's large size relative to its parent. Consequently, we consider that the credit profiles of the two entities cannot be meaningfully disentangled.

PFK's contribution to group income, profit and the balance sheet should increase further over time as the group progresses with the strategic shift towards a higher proportion of income from the private and commercial banking in its business mix.

Fitch expects that capital and liquidity will be fungible between PFK and Deutsche Bank AG, which is a further indication of the high degree of integration. The bank plans to integrate products and IT further over the coming years, which if successful will contribute to improving the cost efficiency of the combined entity.

The common VR of PFK and Deutsche Bank reflects continued pressure on earnings, combined with prolonged implementation of the group's strategy, which was recently revised. We no longer expect revenue to demonstrate any clear signs of franchise recovery and we expect further restructuring costs to continue to erode

net income. Consequently, we expect it to take some time before the bank will be able to deliver on earnings targets. These pressures are mitigated by reasonable capitalisation relative to risk-weighted assets following a rights issue completed in 2017, and the bank's ability to maintain a large pool of liquid assets, which supports liquidity.

PFK's Short-Term IDR is mapped from its Long-Term IDR.

Fitch has upgraded Postbank's long-term deposit rating to 'A-', one notch above the Long-Term IDR and in line with Deutsche Bank AG's long-term deposit rating, and reassigned them to PFK. PFK's long-term deposit rating is one notch above the IDR because deposits have preferential status over the bank's consolidated large buffer of qualifying junior debt and statutorily subordinated senior debt, which Fitch estimates at about 22% at end-1Q18. The short-term deposit rating of 'F2' is the lower of the two short-term ratings that map to the 'A-' long-term rating as there are no clear liquidity enhancements at instrument level. Fitch has affirmed the senior debt issuance, commercial paper and certificate of deposit programmes of Postbank at the level of the IDRs and assigned them to PFK, to which they were transferred at the time of the merger.

SUPPORT RATING AND SUPPORT RATING FLOOR

Fitch has assigned PFK a Support Rating (SR) of '5' and Support Rating Floor (SRF) of 'No Floor', in line with Deutsche Bank AG. The SR and SRF reflect our view that senior creditors cannot rely on receiving full extraordinary support from the sovereign in the event that it becomes non-viable, as for most other commercial banks in the European Union.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Legacy Tier 1 securities issued by Deutsche Postbank Funding Trust I, II and III are rated four notches below Deutsche Bank AG's VR, reflecting higher-than-average loss severity (two notches), as well as high risk of non-performance (an additional two notches) given partial discretionary coupon omission. We have affirmed these ratings following the securities' transfer to Deutsche Bank AG.

GUARANTEED DEBT

Fitch has also affirmed the rating of the guaranteed notes issued by the former DSL Bank (which had been merged into Postbank). The rating reflects their grandfathered deficiency guarantee from Germany (AAA/Stable). The notes are rated two notches below the guarantor's Long-Term IDR as Fitch sees some uncertainty around the timeliness of payments under the guarantee given its deficiency language, but the uncertainty is small due to the high reputational risk Germany would face if debtholders incurred losses.

RATING SENSITIVITIES

IDRS, VR, SENIOR DEBT AND DEPOSIT RATINGS

PFK's VR and IDRs share the same sensitivities as Deutsche Bank AG's. The VR would come under pressure if the implementation of Deutsche Bank's strategic plan suffers a notable setback that threatens the group's capacity to generate earnings and maintain sound capitalisation. Substantial litigation or restructuring costs in addition to those already incurred, which would prevent the group from retaining target capitalisation would also be negative for the ratings.

A successful completion of the restructuring together with a significant and sustainable improvement in group earnings could result in an upgrade provided risk appetite does not increase or the liquidity profile does not weaken significantly to achieve this. We do not expect this in the near term given the expected timescale of the implementation of its strategy. Deutsche Bank AG's management has stated that it aims to deliver on its earnings targets, including a return on tangible equity of around 10% in what it calls a 'normalised business environment' only from 2021.

PFK's deposit and debt ratings are primarily sensitive to changes in the Long-Term IDR. In addition, the deposit ratings are sensitive to the amount of subordinated and senior non-preferred debt buffers relative to the recapitalisation amount likely to be needed by the group to restore viability and prevent default on more senior obligations.

SUPPORT RATING

An upgrade of PFK's SR and upward revision of the SRF would be contingent on a positive change in the sovereign's propensity to support banks' senior creditors in full. While not impossible, this is highly unlikely, in our view.

SUBORDINATED DEBT AND OTHER HYBRID SECURITIES

Subordinated hybrid securities are primarily sensitive to a change in Deutsche Bank AG's VR, from which they are notched. The securities' ratings are also sensitive to a change in their notching, which could arise if Fitch changes its assessment of the probability of their non-performance relative to the risk captured in the respective issuers' VRs.

GUARANTEED DEBT

The guaranteed notes issued by the former DSL Bank are primarily sensitive to the Long-term IDR of the guarantor.

The rating actions are as follows:

DB Privat- und Firmenkundenbank AG

Long-Term IDR: assigned at 'BBB+'; Outlook Stable

Short-Term IDR: assigned at 'F2'

Viability Rating: assigned at 'bbb+'

Support Rating: assigned at '5'

Support Rating Floor: assigned at 'NF'

Deutsche Postbank AG

Long-Term IDR: 'BBB+' withdrawn

Short-Term IDR: 'F2' withdrawn

Support Rating: '2' withdrawn

Long-term deposit rating: upgraded to 'A-', from 'BBB+', removed from Rating Watch Positive, reassigned to PFK

Short-term deposit rating: affirmed at 'F2', reassigned to PFK

Senior debt issuance programme ratings, including ECP programme: affirmed at 'BBB+'/'F2', reassigned to PFK

Guaranteed senior unsecured bonds issued by the former DSL Bank: affirmed at 'AA', reassigned to PFK

Deutsche Postbank Funding Trust I, II and III

Preferred securities: ratings affirmed at 'BB'

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Applicable Criteria

Bank Rating Criteria (pub. 23 Mar 2018)

(<https://www.fitchratings.com/site/re/10023430>)

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