

Deutsche Postbank AG (/gws/en/esp/issr/80360687)



Fitch Affirms Deutsche Postbank AG's Mortgage Pfandbriefe at 'AAA'; Outlook Stable

Fitch Ratings-Frankfurt/London-03 November 2017: Fitch Ratings has affirmed Deutsche Postbank AG's (PB, BBB+/Stable/F2) EUR 3.76 billion mortgage Pfandbriefe at 'AAA' with Stable Outlook.

KEY RATING DRIVERS

The rating is based on PB's Long-Term Issuer Default Rating (IDR) of 'BBB+', an unchanged IDR uplift of two notches and an unchanged payment continuity uplift (PCU) of four notches as well as the publicly stated over-collateralisation (OC) commitment of 16.5%, which provides sufficient protection for the 16.5% break-even OC. Nominal over-collateralisation (OC) currently stands at 40%.

The breakeven OC has remained stable, driven by two opposing effects. The cash flow valuation component has increased to 6.3% from 5.8% previously. This follows PB's IDR downgrade to 'BBB+' (see Fitch Downgrades Deutsche Bank to 'BBB+'; Outlook Stable, dated 29 September 2017 on www.fitchratings.com) as we now assume commingling loss will occur just prior to issuer default.

This is offset by the change in the asset disposal loss component which remains the main driver of the breakeven OC. The programme continues to be vulnerable to a low prepayments stress scenario, as lower modelled incoming cash flows trigger higher asset sales. Fitch updated its low prepayment stresses to 2% from 0%, leading to a 40bps decrease of this component to 8.1%. As going forward no new issuances are expected, the weighted average life of bonds will continue to decline, allowing for less cash accumulation, triggering rising asset sales in the future.

The credit loss component has remained unchanged at 2.1%, reflecting the stable pool composition with minimal replenishment taking place. The low credit loss is mainly attributable to the high seasoning and low current weighted average loan-to-value ratio of the pool of about 43%, allowing for exceptional recoveries.

As the programme continues to be classified as dormant, Fitch relies on the publicly stated level of OC of PB of 16.5%. This level of OC supports a 'AA' rating on a tested probability of default basis and allows for a two-notch recovery uplift as the OC that Fitch relies upon offsets credit losses modelled in a 'AAA' stress scenario. The public OC commitment is only valid for PB's residential mortgage Pfandbrief programme (cover pool D) and features a one-month notice period.

RATING SENSITIVITIES

The 'AAA' rating would be vulnerable to downgrade if any of the following occurs: (i) the IDR is downgraded by two or more notches to 'BBB-' or below; or (ii) the number of notches represented by the PCU is reduced by two or more; or (iii) the OC that Fitch considers in its analysis decreases below Fitch's 'AAA' breakeven level of 16.5%.

If the OC that Fitch considers in its analysis drops to the legal minimum requirement of 2% on a net present value basis, it would not sustain timely payment in scenarios above the IDR adjusted by the IDR uplift, and would support recoveries given default commensurate with one further notch. As a result, the covered bond rating would likely be downgraded to 'A+'.

The Fitch breakeven OC for the covered bond rating will be affected, among others, by the profile of the cover assets relative to outstanding covered bonds, which can change over time, even in the absence of new issuance. Therefore the breakeven OC to maintain the covered bond rating cannot be assumed to remain stable over time.

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Additional information is available on www.fitchratings.com

Applicable Criteria

Covered Bonds Rating Criteria (pub. 30 Oct 2017) (<https://www.fitchratings.com/site/re/905567>)

EMEA RMBS Rating Criteria (pub. 27 Oct 2017) (<https://www.fitchratings.com/site/re/905358>)

Fitch's Cover Assets Refinancing Spread Level (RSL) Assumptions - Excel File (pub. 30 Oct 2017)

(<https://www.fitchratings.com/site/re/10008155>)

Fitch's Interest Rate Stress Assumptions for Structured Finance and Covered Bonds - Excel File (pub. 17 Feb 2017)

(<https://www.fitchratings.com/site/re/894478>)

Germany Residential Mortgage Rating Criteria Addendum (pub. 17 May 2017) (<https://www.fitchratings.com/site/re/898262>)

Global Bank Rating Criteria (pub. 25 Nov 2016) (<https://www.fitchratings.com/site/re/891051>)

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 23 May 2017)

(<https://www.fitchratings.com/site/re/898537>)

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 23 May 2017)

(<https://www.fitchratings.com/site/re/898538>)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 17 Feb 2017)

(<https://www.fitchratings.com/site/re/893890>)

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