

Commerzbank And Pfandbriefbank Outlooks Stay Negative, Despite Stable Economic Risk Trend In Germany; 'A-/A-2' Affirmed

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OVERVIEW

- In our view, the economic risk trend for Germany's banking industry over the next 24 months is stable rather than negative, with banks' profitability and asset quality benefitting from supportive economic and credit conditions.
- We have reviewed Commerzbank and Deutsche Pfandbriefbank (PBB), in particular, because we had indicated that the previous negative economic risk trend could have led to a downgrade.
- We are affirming our 'A-/A-2' ratings on Commerzbank and PBB.
- The negative outlook on Commerzbank indicates that we might lower our ratings within the next two years if the bank's capitalization and earnings do not improve to what we would regard as strong levels.
- The negative outlook on PBB indicates that we might lower our ratings within the next two years if the bank does not sustain strong capitalization and robust asset quality, thereby avoiding additional pressure on its already low earnings.

FRANKFURT (S&P Global Ratings) Oct. 11, 2017--S&P Global Ratings said today that it has affirmed its 'A-/A-2' long- and short-term counterparty credit ratings on Germany-based Commerzbank AG and Deutsche Pfandbriefbank AG (PBB). The outlooks on both banks remain negative.

We've affirmed the ratings in light of our view that the economic risk trend for the German banking industry is now stable rather than negative, and will remain so over the next 24 months. We are more confident that the profitability and asset quality of German banks' domestic operations will benefit from more-supportive credit conditions in the short-to-medium term. In our opinion, this will partly offset the continuous low-yield environment and intense competition. All German banks' domestic operations will benefit to varying degrees from the improved economic environment. However, we have reviewed Commerzbank and Pfandbriefbank only because we had previously indicated that a negative economic risk trend was a trigger for a potential downgrade.

We now anticipate real GDP growth of 2% in 2017 and 1.7% in 2018, fueled by robust domestic demand, with historically low unemployment trending toward 3.4% in 2018 from 4.1% at year-end 2016. Another equally important factor, due to Germany's structural dependence on exports and developments in other European countries, is that the eurozone economy is set to expand beyond its potential in 2017 and 2018, across geographies and sectors, with GDP growth about on par with Germany's.

We also believe that a nationwide credit-led housing bubble has become less likely in light of limited credit growth and historically favorable affordability ratios, which suggest house-price undervaluation in Germany through to 2020. We forecast that house price growth will soften to below 2% in 2019-2020, staying roughly on par with expected GDP growth. This is after a stronger increase in 2017-2018, which we estimate at about 4.6%, amid recent years of favorable conditions, including robust economic fundamentals, strong national and international demand, tight housing supply in Germany's economic centers, a buoyant labor market, high net immigration, and low interest rates.

We continue to see very low economic risk in our Banking Industry Country Risk Assessment on Germany. This mainly reflects our view that Germany has a highly diversified, wealthy, competitive, and robust economy. We also believe that the impact of the U.K.'s eventual exit from the EU will have only a limited negative effect on the German economy.

We continue to regard industry risk for German banks as intermediate, in line with many European banking industries. The banking industry benefits from Germany's extensive funding market, banks' domestic funding surpluses, and material strengthening of banking regulation and supervision, given ongoing EU-wide regulatory harmonization and convergence under Basel III. Returns in the German banking industry have compared well with those of many European banking industries in recent years, due to continuously low credit losses. However, we believe the low-interest-rate environment and stiff competition remain a drag on profitability. This is partly compensated by banks' progress in improving cost efficiency and fee generation, which are currently lower than peers'.

COMMERZBANK AG

Our negative outlook on Commerzbank continues to indicate that we might lower our ratings within the next two years if the bank's capitalization and earnings fail to improve to strong levels, as shown by our forecast of a risk-adjusted capital (RAC) ratio above 10%. We could revise the outlook to stable if we observed strengthening of the bank's capital and additional loss absorbing (ALAC) buffers that exceeds our base-case assumptions.

DEUTSCHE PFANDBRIEFBANK

Our negative outlook on PBB continues to reflect that we might lower our ratings within the next two years if the bank does not sustain strong capitalization, with the RAC ratio forecast to exceed 10%, particularly if PBB were to follow a more aggressive credit expansion in regions with higher economic risk than Germany. We consider robust asset quality particularly important for PBB to avoid additional pressure on its earnings, which are lower than those of other banks we rate 'A-'.

We could revise the outlook to stable if PBB's earnings and capital position increase to those of similarly rated international peers. In particular, this would need to be supported by PBB maintaining a very substantial ALAC buffer in the coming years, underpinning the two-notch uplift in our long-term rating.

BICRA SCORE SNAPSHOT*

Germany	To	From
BICRA Group	2	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	3	3
Institutional framework	Intermediate	Intermediate
Competitive dynamics	Intermediate	Intermediate
Systemwide funding	Very low risk	Very low risk
Trend	Stable	Stable

*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 SCORE SNAPSHOT

Commerzbank AG	
Issuer Credit Rating	A-/Negative/A-2
SACP	bbb+
Anchor	a-
Business Position	Moderate (-1)
Capital and Earnings	Strong (+1)
Risk Position	Moderate (-1)
Funding and	Average and (0)
Liquidity	Adequate
Support	+1
ALAC Support	+1
GRE Support	0
Group Support	0
Sovereign Support	0
Additional Factors	0

Deutsche Pfandbriefbank AG

Issuer Credit Rating	A-/Negative/A-2
SACP	bbb
Anchor	a-
Business Position	Weak (-2)
Capital and Earnings	Strong (+1)
Risk Position	Moderate (-1)
Funding and	Average and (0)
Liquidity	Adequate
Support	+2
ALAC Support	+2
GRE Support	0
Group Support	0
Sovereign Support	0
Additional Factors	0

RELATED CRITERIA

- 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
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- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment 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

RATINGS LIST

* * * * * Commerzbank AG * * * * *

Ratings Affirmed

Commerzbank AG	
Counterparty Credit Rating	A-/Negative/A-2
Senior Unsecured	A-
Senior Unsecured	A-p
Subordinated	BBB
Subordinated	BBB-
Commercial Paper	A-2

Commerzbank U.S. Finance Inc.	
Commercial Paper	A-2

Dresdner Funding Trust I	
Junior Subordinated	BB

Dresdner Funding Trust IV	
Subordinated	BBB-

HT1 Funding GmbH	
Junior Subordinated	BB-

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

Ratings Affirmed

Deutsche Pfandbriefbank AG

Counterparty Credit Rating	A-/Negative/A-2
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Senior Unsecured	A-
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Subordinated	BB+
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Subordinated	BBB-
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Commercial Paper	A-2
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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