FitchRatings

NON-RATING ACTION COMMENTARY

Postbank Takeover Litigation Costs Will Be Neutral to Deutsche Bank's Credit Profile

Mon 29 Apr, 2024 - 1:01 PM ET

Fitch Ratings-Paris-29 April 2024: Deutsche Bank's announcement that it will make EUR1.3 billion provisions in 2Q24 to offset possible litigation claims is neutral for Fitch Ratings' assessment of the bank's credit profile and medium-term financial prospects. The provisions will have a limited negative impact on the capital ratios, and Fitch views this cost as a large one-off that will only affect 2024 net profit. The claims relate to Deutsche Bank's takeover of Postbank in 2010. The remaining potential provisions for legacy litigations reported by the bank are less significant and should therefore not materially drag on the bank's profits.

No provisions had previously been made as the courts had so far ruled in favour of Deutsche Bank. However, at a preliminary hearing last Friday, the Higher Regional Court of Cologne stated that it leans towards the position of the plaintiffs on several matters. This increases the likelihood of a future payment relating to this case, hence leading to provisioning.

At the hearing, the Higher Regional Court of Cologne assessed the claims of some former Postbank shareholders that a higher offer price should have been paid for the takeover. In particular, the plaintiffs claim that the control of Postbank had transferred to Deutsche Bank in 2008 and that the bank was obliged to make a mandatory takeover offer at that time, at a much higher price than the offer made in 2010. The full claim amount, including statutory interests, has been reflected in Deutsche Bank's off-balance-sheet contingent liability disclosure since 2018.

The provision will affect 2Q24 and full-year profit and capital ratios. Deutsche Bank estimates a 20bp impact of the full provision on its common equity Tier 1 (CET1) ratio, which would have resulted in a pro-forma CET1 ratio of 13.25% at end-March 2024. Similarly, the impact on the leverage ratio would be less than 10bp (end-March 2024: 4.5%).

Fitch views this provision as a one-off that does not affect its assessment of the bank's core operating profit. Moreover, Deutsche Bank's 1Q24 performance was ahead of Fitch's full-year forecast, due to sound underlying business performance and operating leverage. We now expect the provision to lead to a pre-tax profit in 2024 only slightly below our forecast, and still consistent with the 'A-'/Stable Long-Term Issuer Default Rating. Fitch also already assesses Deutsche Bank's capitalisation on its strategic targets of a CET1 ratio of about 13% and a leverage ratio above 4.5%, and the estimated impact from this litigation cost does not materially change the medium-term ratio trajectory.

The provision does not affect Deutsche Bank's revenue and cost targets for 2024–2025. We believe that the provision reduces the likelihood of a second share buyback in 2024, but that the bank remains committed to its plan to distribute more than EUR8 billion for financial years ending 2021–2025.

Contingent liabilities for civil litigation and regulatory enforcement are expected to decline to EUR560 million (based on 1Q24 report), from EUR1.9 billion, at end-March 2024 following the EUR1.3 billion provision booking for the Postbank takeover litigation, with the other legal cases included in contingent liabilities being less material. The EUR1.3 billion provision is also based on the maximum plaintiffs' claims, but there is uncertainty regarding the final outcome with regard to the amount and the timing. The final court decision is expected for 21 August 2024 but could be appealed by Deutsche Bank if in favour of the plaintiffs. The parties could also reach a settlement.

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