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Deutsche Pfandbriefbank AG

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Ratings Score Snapshot

Global Scale Ratings
Issuer Credit Rating
BBB/Negative/A-2
Resolution Counterparty Rating
BBB+/--/A-2

SACP: bbb- → **Support: +1** → **Additional factors: 0**

Anchor	bbb+	
Business position	Constrained	-2
Capital and earnings	Strong	+1
Risk position	Moderate	-1
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment		0

Support	
ALAC support	+1
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
BBB/Negative/A-2
Resolution counterparty rating
BBB+/A-2

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Overview	
Key strengths	**Key risks**
Large additional loss-absorbing capacity (ALAC) buffers protect senior creditors in the event of a resolution.	Monoline business with a focus on CRE financing and a sizeable exposure to the U.S. market.
Strong risk-adjusted capital (RAC) buffers and a relatively low average loan-to-value (LTV) ratio mitigate concentration risks in the credit portfolio.	Pressure on new business and revenue generation in a higher interest rate environment and competitive pressures for prime or near-prime real estate assets.
Sound franchise in commercial real estate (CRE) financing.	Focus on wholesale funding profile somewhat mitigated by a high share of refinancing in significantly more stable covered bonds.

Given difficult CRE markets, we expect Deutsche Pfandbriefbank AG (pbb) will face elevated risk costs and a further deterioration in asset quality. We expect pbb's nonperforming loan (NPL) ratio has deteriorated further to 4.1% of total loans at year-end 2023, from 3.3% in the third quarter of 2023 and 2.2% at year-end 2022. We anticipate difficult CRE market conditions will continue through June 2024, particularly in the office, retail, and hotel segments. These account for about 65% of pbb's total real estate finance portfolio, particularly in the U.S., which represents 15% of the bank's total CRE portfolio. The potential deterioration in market conditions is particularly relevant in secondary locations, where a likely increase in average vacancy rates could weigh further on market valuations, and comes on

top of some clients' reduced debt-servicing capacity that resulted from rapidly rising interest rates. We are also mindful of pbb's real estate exposure of 11%, which is related to development financings, which typically lead to materially higher credit losses in times of stress. We forecast pbb's net new loan loss provisions could average 20 basis points (bps) of customer loans in 2024, after an estimated 45 bps in full-year 2023, 36 bps as of June 30, 2023, and a very low 11 bps in 2022. We consider such elevated loan loss levels generally manageable, considering pbb's high capitalization.

We forecast that revenue can cover risk cost increases and RAC buffers and that it will remain a rating strength. In our base case, we forecast pbb's RAC ratio will remain at a still strong 12%-13% until 2025, after 13.3% at year-end 2022. This should help mitigate pbb's very high concentration risks in the CRE market, as well as other downside risks stemming from the challenging macroeconomic and geopolitical environment. Following elevated loan-loss provisions and pbb's slow net interest income improvement, we anticipate a pre-tax return on average common equity of only about 2.5% for full-year 2023, after 3.3% at the end of the third quarter of 2023 and 6.0% at year-end 2022. While we forecast ongoing margin improvements on pbb's new CRE loan underwritings, we also note that portfolio margins will take time to improve due to average loan terms of four to five years and muted new business in difficult market conditions. Overall, we expect pbb's return on average common equity will recover to 5%-6% only by 2025.

We expect that, in a stress scenario, pbb would be subject to a resolution action that prioritizes full and timely payment to senior preferred creditors. We think this scenario is more likely than liquidation and therefore continue to add one notch of ALAC uplift to the 'bbb-' stand-alone credit profile (SACP). We expect pbb can maintain a sizable ALAC buffer, equivalent to 7%-9% of S&P Global Ratings' risk-weighted assets (RWA) by year-end 2025, compared with 9.7% on Dec. 31, 2022. We include one notch of ALAC uplift in the long-term issuer credit rating on pbb rather than the two notches that are common for banks with ALAC ratios comfortably above 6%. This considers pbb's resolution measures to ensure the continuity of its operations and its overall creditworthiness, relative to higher-rated banks.

Outlook

The negative outlook reflects our view of the risk that deteriorating CRE markets, particularly in the U.S., could further increase pbb's risk cost in its highly concentrated CRE portfolio beyond our base case expectations in the next two years. We currently forecast that pbb will remain reasonably profitable and maintain its high capitalization, thereby sufficiently weathering difficult CRE markets. This is indicated, for example, by our forecast of our RAC ratio staying well above 10% and the ALAC ratio above 6% of S&P Global Ratings' RWAs.

Downside scenario

We could lower our ratings over the next two years if CRE markets remain challenging for an extended period and further weaken pbb's loan portfolio quality and capital position. This could happen, for example, if loan loss impairments were to increase significantly, causing material annual losses, indicating accelerated poor asset quality.

Upside scenario

We could revise our rating outlook to stable over the next two years if pbb remains solidly profitable and demonstrated that its asset quality can remain resilient to the difficult CRE market environment. Currently, outside our base-case expectations, we could upgrade pbb and related senior unsecured debt if the bank keeps its ALAC ratio well above 6% and we have greater certainty that resolution strategies for the bank, in case of failure, would support full and timely payment to senior preferred creditors under all foreseeable circumstances. This could lead us to add a second ALAC notch to the long-term issuer credit rating.

Key Metrics

Deutsche Pfandbriefbank AG--Key ratios and forecasts*

	--Fiscal year ends Dec. 31--				
(%)	**2021a**	**2022a**	**2023f**	**2024f**	**2025f**
Growth in operating revenue	11.7	-10.2	0.0-(5.1)	0.0-4.2	0.0-4.2
Growth in customer loans	-1.3	-2.6	1.8-2.2	3.6-4.4	3.6-4.4
Net interest income/average earning assets (NIM)	1.0	1.0	0.9-1.0	0.9-1.0	0.9-1.0
Cost to income ratio	45.3	51.6	55.9-58.8	51.7-54.3	48.3-50.8
Return on average common equity	7.5	6.0	2.3-2.6	4.2-4.7	5.6-6.2
New loan loss provisions/average customer loans	0.2	0.1	0.4-0.5	0.2-0.2	0.1-0.1
Gross nonperforming assets/customer loans	1.5	2.2	3.9-4.3	3.6-4.0	3.2-3.6
Risk-adjusted capital ratio	12.6	13.3	12.4-13.0	12.3-13.0	12.5-13.1
ALAC buffer	15.7	11.0	8.2-11.2	7.5-10.5	7.1-9.1

*All figures adjusted by S&P Global Ratings. a--Actual. f--Forecast. NIM--Net interest margin. ALAC--Additional loss-absorbing capacity.

Anchor: 'bbb+', Based On The Economic Risk In pbb's Main Geographies Of Operation And The Banking Industry Risk In Germany

Our weighted-average economic risk score is below '3', which reflects the fact that about 60% of pbb's core lending activities are in countries with economic assessments equal to or weaker than Germany. The weighted-average economic risk score is higher than the economic risk score of '2' for banks that only focus on Germany but does not impair the anchor of 'bbb+'. The industry risk score of '4' is based solely on pbb's home market, Germany. We view the trends for economic risk and industry risk as stable (see "Banking Industry Country Risk Assessment: Germany," published June 6, 2023).

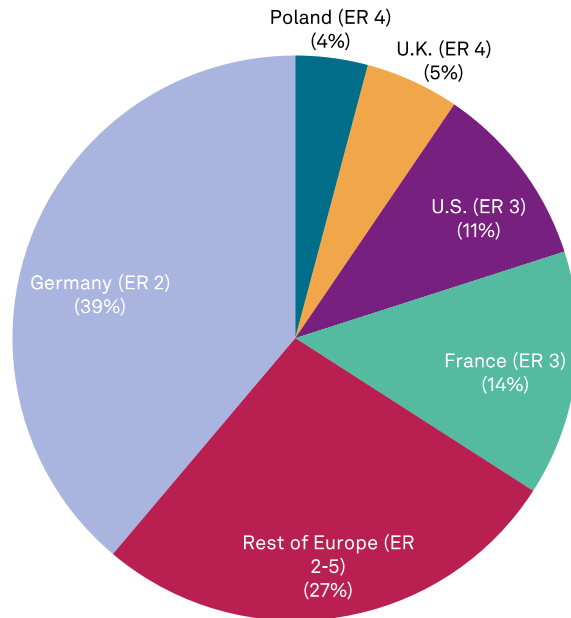
Our economic risk assessment considers that the German economy has a demonstrated ability to absorb large economic and financial shocks, based on its wealth and the government's ample flexibility for countercyclical measures, including substantial fiscal stimulus and additional wide-ranging support. Accordingly, our base-case scenario considers that economic risks for German banks are fairly limited by global standards, as German households, companies, and public finances should be largely cushioned against the fallout from geopolitical stresses. The stable economic risk trend signals our expectation that German banks will not only benefit from economic resilience but also improved balance sheets and higher capital buffers to weather a potential economic deterioration.

In our industry risk assessment of Germany, we consider that the recent inflation-induced jump in interest rates has helped boost banks' net interest margins. Yet, we expect competition will remain high and weigh on the sector's longer-term profitability. We believe German banks operate in a highly competitive and structurally overbanked market. While pressure on net interest margins has abated for now, we believe German banks still lag peers in terms of revenue diversification, cost efficiency, and digitalization.

Chart 1

We expect about 40% of pbb's lending will remain in Germany

pbb's loan portfolio by country as of June 30, 2023



ER--Economic risk. Source: S&P Global Ratings.

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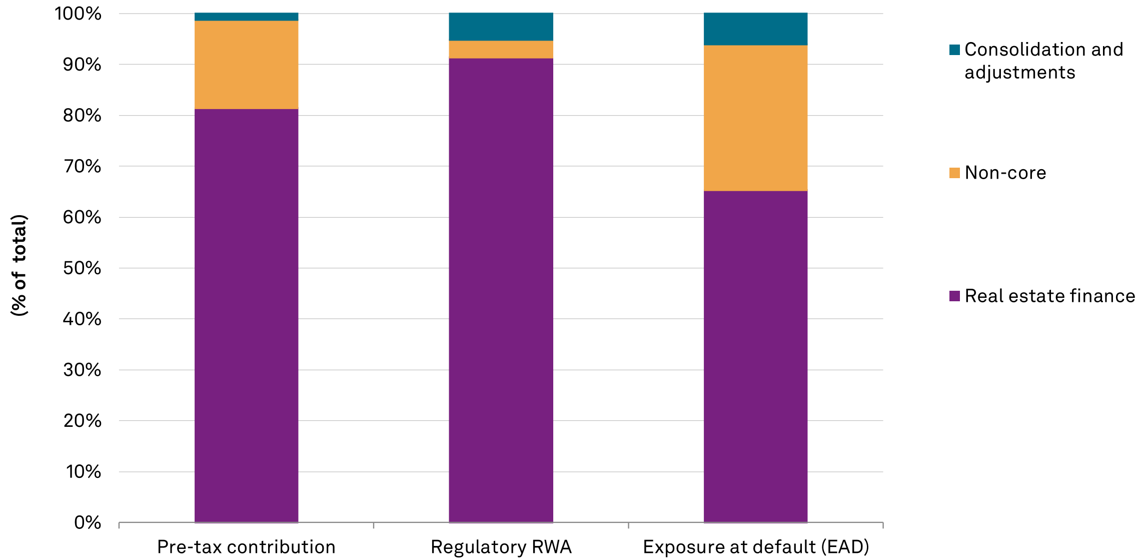
Business Position: Significantly Concentrated On CRE Financing

We anticipate that pbb's concentrated wholesale-oriented business profile will remain its main rating weakness. The bank's CRE portfolio is internationally diversified but largely opportunistic and not clearly linked to a particular client franchise or competitive advantage. CRE finance, which is cyclical, is a core earnings contributor and accounted for about 70% of financing volume at June 30, 2023. It mainly includes financing real estate transactions for offices, residential and logistics properties, retail--including shopping centers--and hotels. The nonstrategic portfolio accounts for 30% of financing volume and mainly covers low-yielding budget financing, such as investments in government bonds. It also includes the bank's public investment finance business (e.g. infrastructure projects), which adds some risk diversification but has only marginally contributed in terms of profitability. Overall, the non-strategic portfolio remains in a run-off mode, after it accounted for 49% of financing volume at year-end 2013.

Chart 2

Real estate finance accounts for most earnings and regulatory RWAs
Data as of June 30, 2023



RWA--Risk-weighted asset. Source: S&P Global Ratings.

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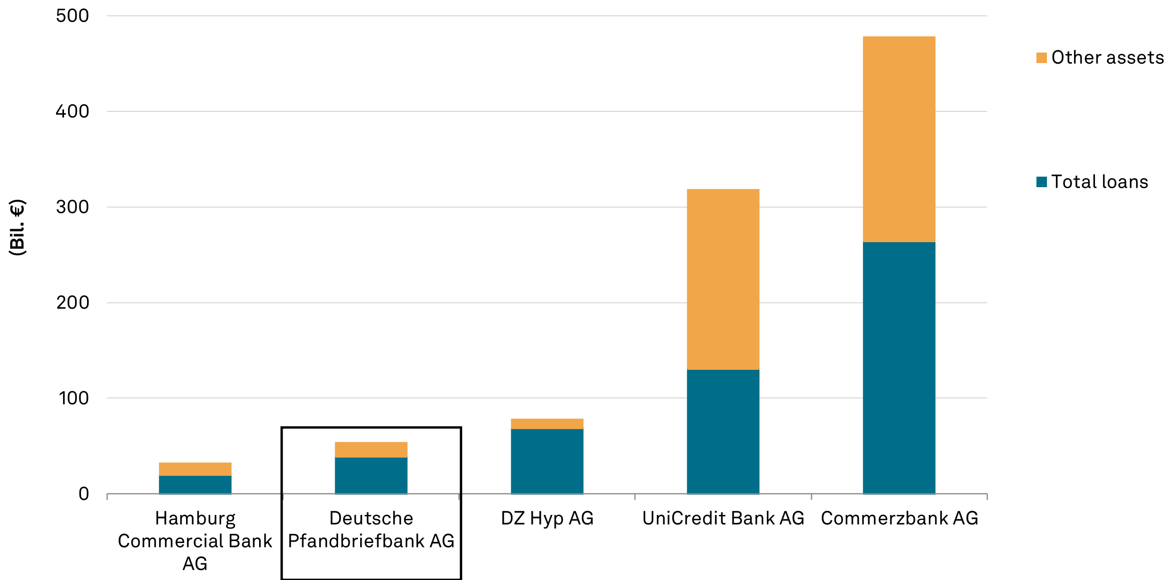
We expect pbb's narrow mix of business lines and revenue will remain mediocre, compared with that of many peers. This is because most peers, such as Commerzbank AG or Erste Group Bank AG, have a broader business model with a better diversified and less cyclical business mix and a materially higher retail share, which we generally consider positive for earnings stability. pbb's expansion into real estate asset management products, which began in 2023, may support revenue diversification over the medium term but it will take time, considering high competition and margin pressures in the segment.

Chart 3

pbb remains a mid-sized bank, compared with peers
Data as of year-end 2022



Source: S&P Global Ratings, based on company disclosures.
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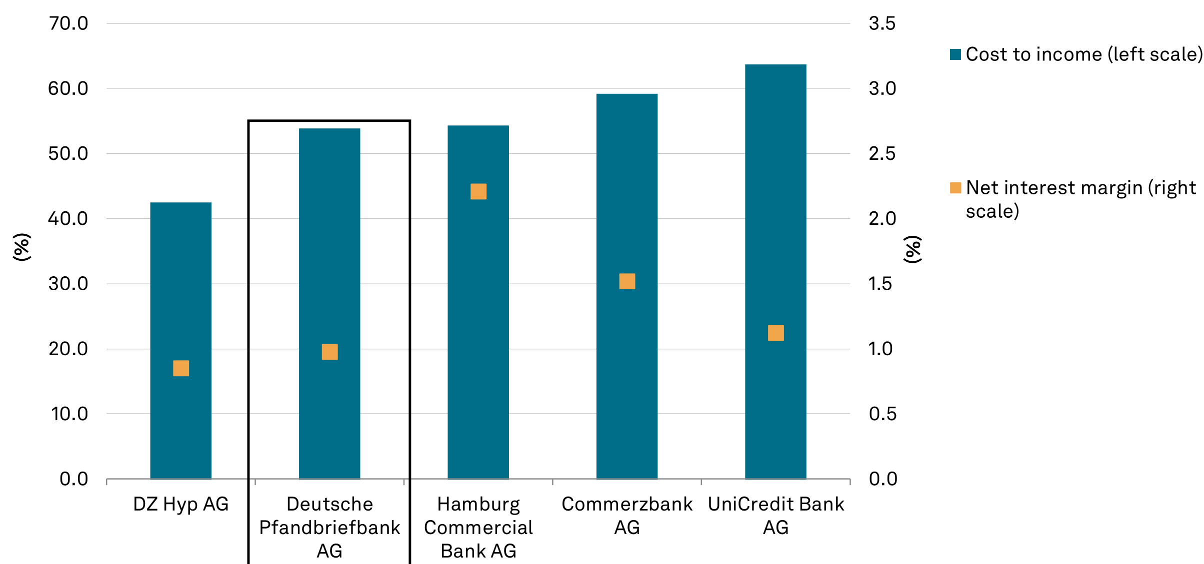
Similarly, we expect pbb's risk-adjusted profitability will remain mediocre. This is demonstrated by a reported average return on equity of about 5.5% over the past five years that barely covers pbb's cost of capital. Apart from comparatively low benefits from the higher interest rate environment, this also reflects that the effect of pbb's high one-time early repayment fees is minor amid increased interest rates. However, pbb's cost cutting programs and strict cost control support its relatively stable cost-to-income ratio of 53% as of Sept. 30, 2023.

Chart 4

pbb has a high operating efficiency, even though it has one of the lowest net interest margins among peers

Data as of year-end 2022



Note: Net interest income to average earning assets. Source: S&P Global Ratings.

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Capital And Earnings: Strong RAC Buffers Mitigate Concentration Risks In CRE

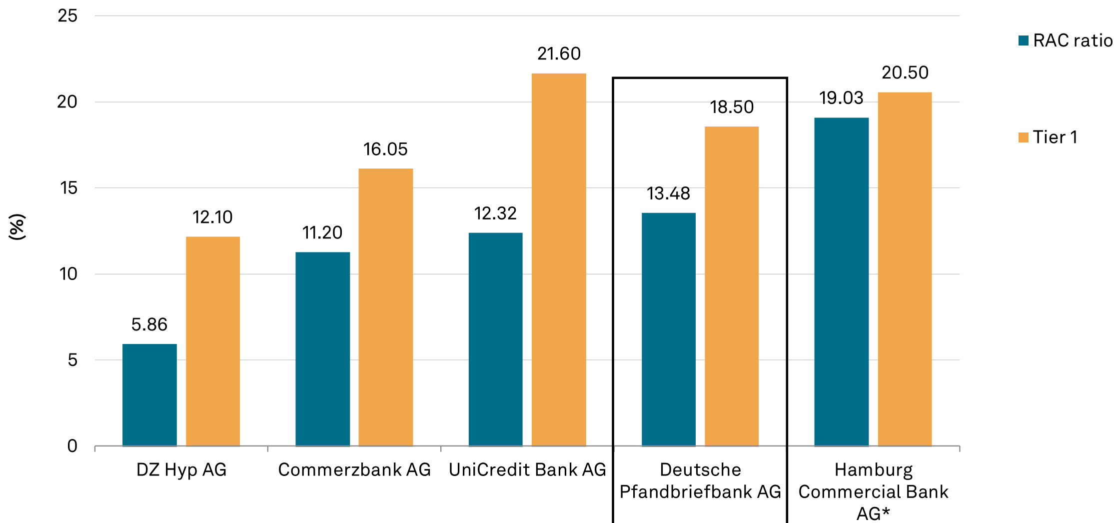
We expect pbb's capitalization will remain its key rating strength and counterbalance increasing pressures from its CRE exposures. This is indicated by our forecast that the bank's RAC ratio will remain strong at 12%-13% over the next two years, compared with 13.3% at year-end 2022. Given difficult market conditions, our base-case projection incorporates an only muted increase in new CRE loans at about 2% this year, before recovering slightly thereafter. We also expect an increase in NPLs and stricter regulatory charges on market and counterparty risks, which will affect our RWA metric. We expect pbb will pay out 50%-75% of net income after coupon payments on additional tier 1 (AT1) issuances over the next two years but this may change if its results weaken. pbb's regulatory tier 1 capital ratio was comfortable at 16.8% on Sept. 30, 2023, down from 18.5% at year-end 2022.

The quality of pbb's capital and earnings, as well as its earnings capacity, will remain relative weaknesses, in our view. Given its wholesale business model and the sensitivity of its funding costs to market perceptions, pbb's net interest income has only improved slowly. This stands in sharp contrast to larger, more diversified retail-deposit-led universal banks, many of which are expected to post improving profits for 2023. Among others, pbb's mediocre capital and earnings quality is evidenced by its comparatively weak earnings buffer (S&P Global Ratings' metric that quantifies

the capacity of earnings to absorb through-the-credit-cycle losses) of 0.35%-0.55% over 2023-2025.

Chart 5

We expect pbb's capitalization will remain higher than that of most peers
S&P Global Ratings risk-adjusted capital versus tier 1 ratios as of December 2022



RAC--Risk-adjusted capital. *RAC ratio as of year-end 2021. Source: S&P Global Ratings.
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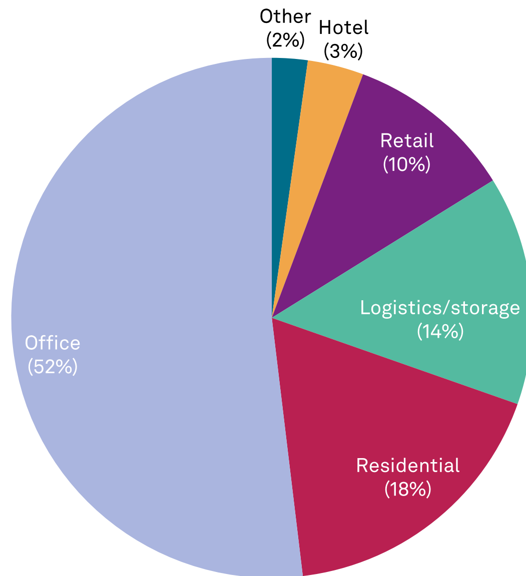
Risk Position: Downside Risks From High Concentrations In Cyclical Sectors With Macroeconomic Headwinds

pbb's business model will remain structurally exposed to high sector and single-name concentrations, with risks stemming particularly from the bank's CRE exposures to the U.S. market. We expect pbb's risk profile will remain a negative rating factor. This is because CRE markets' high cyclicality and pbb's concentrations in its real estate lending portfolio continue to represent material tail risk to the bank's capital and earnings buffer. In our view, heightened short- and medium-term risks include pbb's exposure to office, retail, and hotel segments, which make up the bulk of pbb's real estate finance portfolio.

Chart 6

13% of pbb's CRE loan book remains exposed to retail and hotels
pbb's real estate finance lending by property type as of June 30, 2023



CRE--Commerical real estate. Source: S&P Global Ratings.
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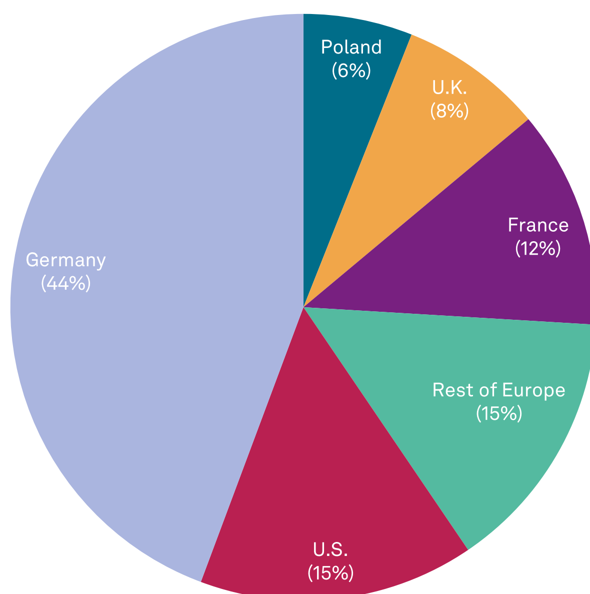
Furthermore, while over 40% of pbb's real estate lending is concentrated in Germany, the bank still has a sizeable exposure to the troubled U.S. market, where uncertainty surrounding CRE valuations is particularly high.

Chart 7

Exposure to U.S. property markets remains sizeable at about 15% of total real estate financing

pbb's real estate finance lending by country as of June 30, 2023



Source: S&P Global Ratings.

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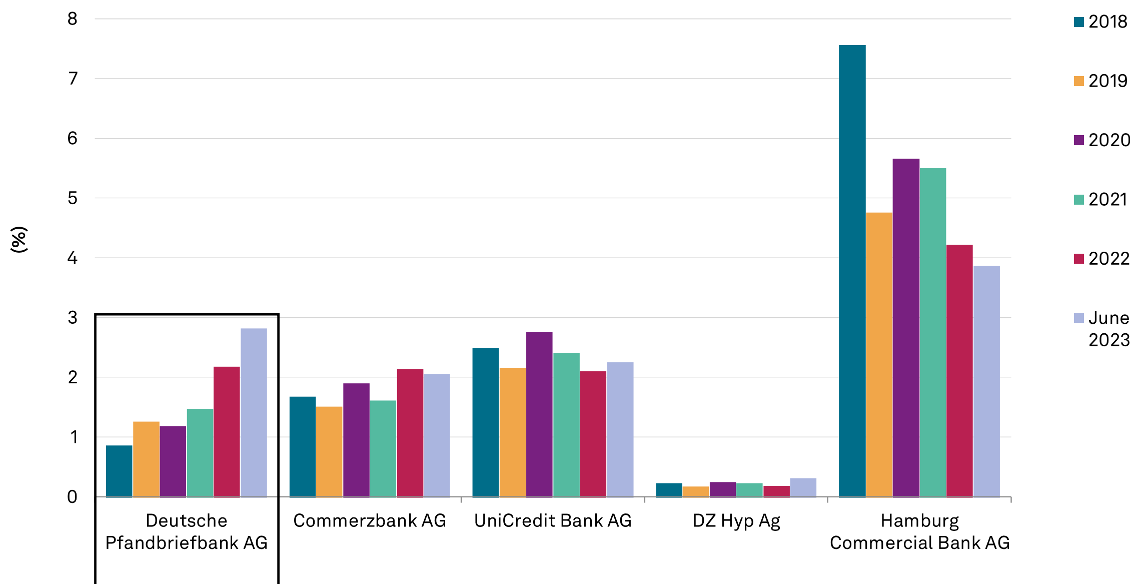
The challenging global geopolitical situation, particularly secondary effects from the Russia-Ukraine war, also pose downside risks in Europe, where 90% of pbb's loan portfolio is located. Our assessment reflects that some of pbb's peers, such as the Cooperative Banking Sector Germany, have a high share of generally less risky retail mortgages or a higher diversification. We also see further potential for tail risks due to low risk weights for pbb's still sizeable public finance book and a credit spread risk in the future.

Rising loan-loss provisions and NPLs will be counterbalanced by generally sound risk management, as well as geographic and property-type diversification. Even though pbb's provisioning levels and NPLs have increased faster than peers', we believe geographic diversification and exposure to different property types will continue to mitigate some downside risks to asset quality. Furthermore, we recognize pbb's generally sound risk management and underwriting standards. These include high collateralization, with a stable LTV ratio of 52%, as well as sound interest coverage and buffers. Crucially, pbb's internal guideline of capping its relative exposure to development financing further limits downside risks from this particularly volatile segment of the CRE lending space.

Chart 8



*Adjusted nonperforming assets/customer loans + other real estate owned. Source: S&P Global Ratings.

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Funding And Liquidity: Strong Reliance On Wholesale Funding Balanced By Resilient German Covered Bonds Markets

We anticipate pbb's funding and liquidity profile will remain a neutral rating factor. We expect that pbb will continue to balance heightened investor confidence risks, in terms of cost and access, from its heavy wholesale funding structure. We consider the bank's good track record of sound funding and liquidity management--including underlying solid metrics--its well-established broad wholesale funding franchise, and its focus on covered bond markets, which have demonstrated remarkable stability through market crises. The bank remains one of the largest covered bond issuers in Germany, with public-sector covered bonds forming about 17% of the funding base and mortgage covered bonds 32% at mid-year 2023. The rest of the funding mainly includes customer deposits and long-term debt. pbb markedly increased its direct (term) retail deposits by 64% to €5.9 billion as of Sept. 30, 2023, versus €3.6 billion as of the end of the third quarter of 2022. While this is currently cheaper than wholesale refinancing costs, we note that it adds limited stability due to pbb's lack of a broad retail franchise.

By year-end 2022, pbb had an adequate net stable funding ratio of 102%, indicating appropriate matching of assets and liabilities. pbb has a liquidity ratio of 1.2x, indicating coverage of short-term wholesale funding by broad liquid

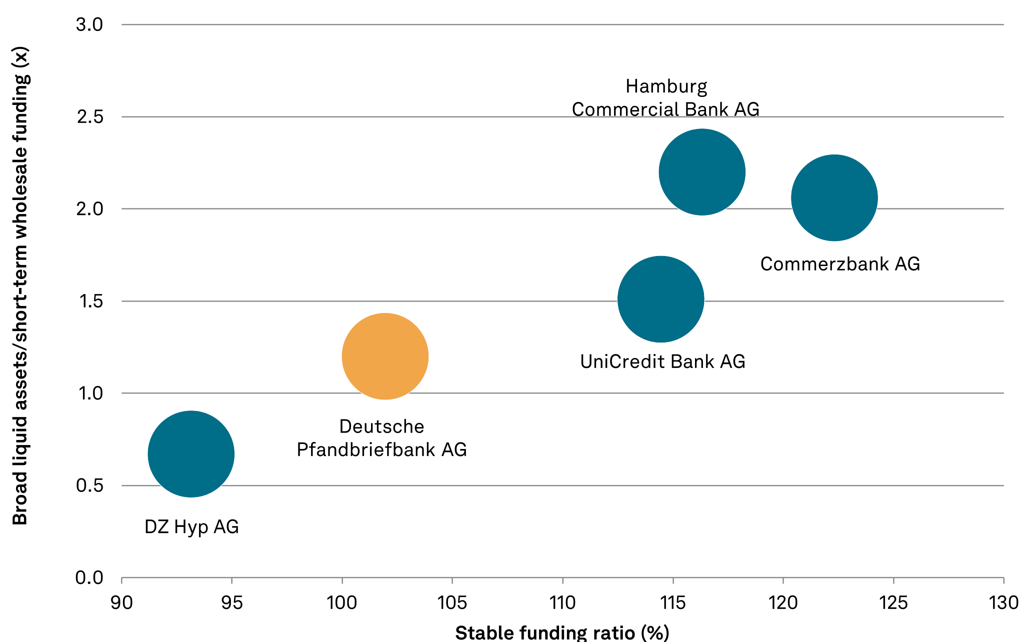
assets. The bank's regulatory liquidity coverage ratio of 171% at year-end 2022 also underlined its healthy balance sheet structure. Accordingly, we believe the bank could operate for more than six months without access to market funding in an adverse scenario. We see the bank's liquidity stress testing capabilities as adequate.

pbb has largely finalized its funding replacement for the European Central Bank's targeted longer-term refinancing operations (TLTRO) III. The bank took opportunistic advantage of TLTRO, taking on up to €8.4 billion of funding to benefit from favorable pricing conditions until mid-year 2022. Following the repayment of another tranche of €1.8 billion in June 2023, pbb still has a residual liability that totals €0.9 billion and is due this year. Overall, we note that replacing previous TLTRO financing has not been an issue for the bank.

Chart 9

We expect pbb's key liquidity and funding metrics will remain sound and in line with those of its main peers

Funding and liquidity profiles as of Dec. 31, 2022



Source: S&P Global Ratings.

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Support: Ratings Uplift Due To Strong Buffers Of Subordinated Capital For Bail-In Resolution

We do not consider any government support in our ratings on pbb. Since 2015, we have regarded the prospect of extraordinary government support for any commercial German bank as uncertain, considering the well advanced and effective resolution regime, which operates within the EU institutional and legislative frameworks.

The one notch of ALAC uplift reflects our expectation that, if it failed, pbb would be subject to a resolution action that ensures full and timely payment to all senior preferred creditors. We continue to think this scenario is more likely than liquidation and assume that the authorities' first choice would be to try to sell the entire business. Recapitalizing the bank through a bail-in would be the second option. We expect that pbb will maintain a sizable ALAC buffer of 7%-9% by year-end 2025, compared with 9.7% on Dec. 31, 2022. This is supported by pbb's intention to maintain a bail-in buffer of at least 8% of total liabilities and own funds, in line with its binding regulatory minimum requirement for own funds and eligible liabilities (MREL). It must meet its MREL using only subordinated instruments, which is not the case across the whole European banking sector.

We see some potential to include a second notch of ALAC uplift in the issuer credit rating but not in the near term. We grant pbb only one notch of ALAC uplift, instead of the two notches typical for banks with ALAC ratios comfortably above 6%. We are now more confident that a share transfer could, in principle, lead to the continued full and timely payment of senior preferred liabilities. Yet, we consider pbb is a more nuanced case in terms of resolution measures to ensure the continuity of its operations and in light of its overall creditworthiness, relative to higher-rated banks. Notably, we take into account the Single Resolution Board's (SRB's) changing opinions about pbb's resolution plan in the past and that its ultimate decision at the point of nonviability may prove to be borderline about the orderly resolution or liquidation of the bank. pbb's business is concentrated in CRE financing. The predominance of wholesale funding means that it has a small presence in the deposit market that regulators find sensitive from a financial stability standpoint. We also note that, even without the use of resolution tools, the German Pfandbrief Act provides strong protection for covered bond investors (covered bonds comprise 50%-60% of pbb's funding base). The highly cyclical nature of CRE assets and the associated high regulatory capital requirements may additionally hamper the SRB's ability to quickly sell pbb on acceptable terms.

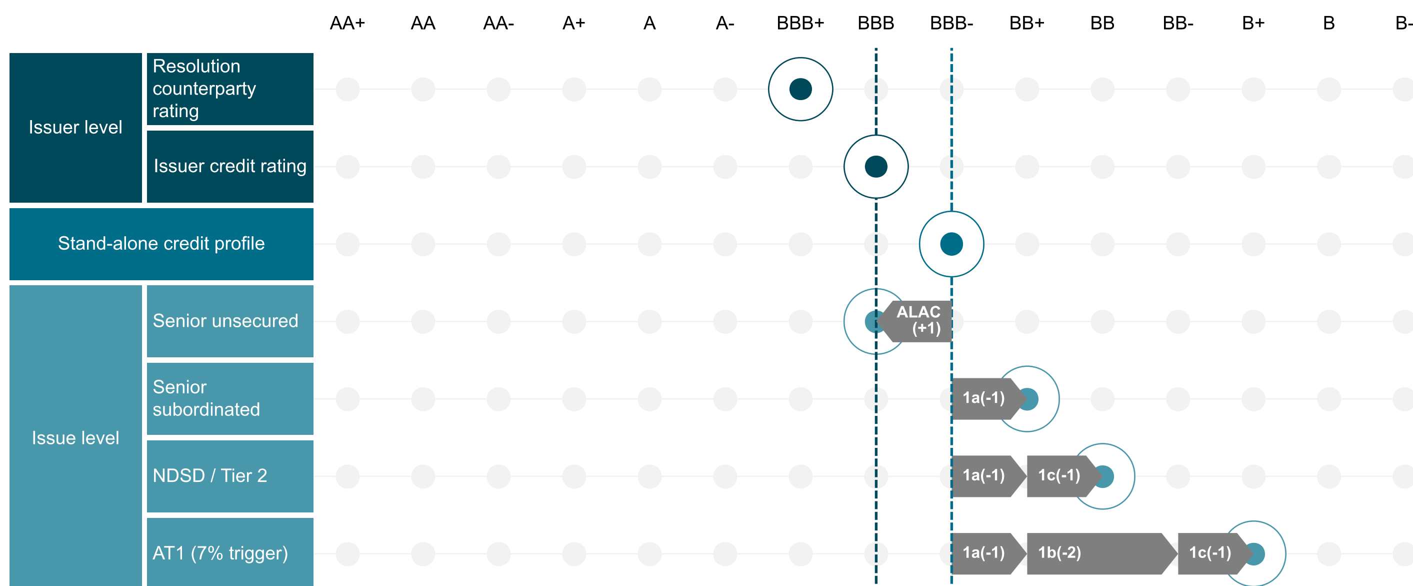
Environmental, Social, And Governance

The effect of ESG considerations on pbb is similar to that on its industry and domestic peers. We note that the bank has developed green concepts for its funding instruments and a green lending framework in relation to properties with high environmental standards. We believe the environmental specifications of buildings have become increasingly important to investors and tenants. The incorporation of energy efficiency measures should help justify rent levels and protect properties' market value over the longer term.

Group Structure, Rated Subsidiaries, And Hybrids

We notch down our ratings on regulatory capital instruments and senior nonpreferred debt from pbb's 'bbb-' SACP.

Deutsche Pfandbriefbank AG: Notching



Key to notching

- ---- Issuer credit rating
- ----- Stand-alone credit profile
- ALAC Additional loss-absorbing capacity buffer
- 1a Contractual subordination
- 1b Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital
- 1c Mandatory contingent capital clause or equivalent

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 2 of our "Hybrid Capital: Methodology And Assumptions" criteria, published on March 2, 2022.
The nonoperating holding company (NOHC) issuer credit rating and senior unsecured debt ratings are notched from the group stand-alone credit profile (SACP) under our criteria. Since ALAC notching does not benefit NOHCs, for simplicity the diagram above is stylized to show the positioning of these ratings with reference to the group SACP.
AT1--Additional Tier 1.
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Resolution Counterparty Ratings (RCRs)

The 'BBB+/A-2' long- and short-term RCRs on pbb consider our forward-looking opinion that certain senior liabilities are explicitly protected from default through an effective bail-in resolution process for the issuing financial institution.

Key Statistics

Table 1

Deutsche Pfandbriefbank AG--Key figures

	--Fiscal year ended Dec. 31--					
(Mil. €)	**September 2023**	**2022**	**2021**	**2020**	**2019**	**2018**
Adjusted assets	48,111.0	52,958.0	58,360.0	58,841.0	56,783.0	57,732.0
Customer loans (gross)	39,048.0	38,658.0	39,710.0	40,219.0	41,128.0	41,236.0

Table 1

Deutsche Pfandbriefbank AG--Key figures (cont.)

	--Fiscal year ended Dec. 31--					
(Mil. €)	**September 2023**	**2022**	**2021**	**2020**	**2019**	**2018**
Adjusted common equity	3,072.0	3,135.0	2,910.0	2,863.0	2,834.8	2,706.9
Operating revenues	415.0	531.0	591.0	529.0	506.0	471.0
Noninterest expenses	220.0	274.0	268.0	249.0	244.0	221.0
Core earnings	77.0	187.0	228.0	117.0	176.5	198.5

Table 2

Deutsche Pfandbriefbank AG--Business position

	--Fiscal year ended Dec. 31--					
	September 2023	**2022**	**2021**	**2020**	**2019**	**2018**
Total revenues from business line (mil. €)	415.0	531.0	591.0	529.0	509.0	471.0
Return on average common equity (%)	3.3	6.0	7.5	3.9	6.1	6.2

Table 3

Deutsche Pfandbriefbank AG--Capital and earnings

	--Fiscal year ended Dec. 31--					
(%)	**September 2023**	**2022**	**2021**	**2020**	**2019**	**2018**
Tier 1 capital ratio	16.8	18.5	18.9	17.8	16.9	20.5
S&P Global Ratings’ RAC ratio before diversification	N/A	13.5	12.6	11.9	12.3	11.3
S&P Global Ratings’ RAC ratio after diversification	N/A	12.0	11.3	10.7	10.7	10.1
Adjusted common equity/total adjusted capital	91.2	91.3	90.7	90.6	90.5	90.1
Net interest income/operating revenues	83.9	92.1	83.6	90.6	90.5	95.5
Fee income/operating revenues	0.7	1.5	1.4	1.1	1.2	1.3
Market-sensitive income/operating revenues	11.3	6.6	15.4	4.2	7.7	4.3
Cost to income ratio	53.0	51.6	45.4	47.1	48.2	46.9
Preprovision operating income/average assets	0.5	0.5	0.6	0.5	0.5	0.4
Core earnings/average managed assets	0.2	0.3	0.4	0.2	0.3	0.3

N/A--Not applicable.

Table 4

Deutsche Pfandbriefbank AG--Risk-adjusted capital framework data

(Mil. €)	**Exposure***	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global Ratings' RWA**	**Average S&P Global Ratings' RW (%)**
Credit risk					
Government and central banks	17,457.3	583.6	3.3	1,232.9	7.1
Of which regional governments and local authorities	5,273.5	456.4	8.7	340.1	6.4
Institutions and CCPs	1,220.0	314.9	25.8	300.9	24.7
Corporate	30,544.2	14,143.0	46.3	21,899.9	71.7
Retail	0.1	0.0	63.2	0.0	21.8
Of which mortgage	0.1	0.0	63.2	0.0	21.8

Table 4

Deutsche Pfandbriefbank AG--Risk-adjusted capital framework data (cont.)					
Securitization	0.0	0.0	0.0	0.0	0.0
Other assets	946.6	546.4	57.7	1,388.9	146.7
Total credit risk	50,168.3	15,588.0	31.1	24,822.5	49.5
Credit valuation adjustment					
Total credit valuation adjustment	--	146.3	--	0.0	--
Market risk					
Equity in the banking book	2.5	30.9	1,244.0	0.2	9.0
Trading book market risk	--	31.3	--	47.0	--
Total market risk	--	62.2	--	47.2	--
Operational risk					
Total operational risk	--	959.3	--	993.2	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings' RWA**	**% of S&P Global Ratings' RWA**
Diversification adjustments					
RWA before diversification	--	17,017.3	--	25,862.9	100.0
Total diversification/concentration adjustments	--	--	--	3,272.2	12.7
RWA after diversification	--	17,017.3	--	29,135.1	112.7
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings' RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		3,141.0	18.5	3,433.0	13.3
Capital ratio after adjustments (5)		3,141.0	18.5	3,433.0	11.8

*Exposure at default. Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. CCP--Central counterparty. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2022, S&P Global Ratings.

Table 5

Deutsche Pfandbriefbank AG--Risk position						
	--Fiscal year ended Dec. 31--					
(%)	**September 2023**	**2022**	**2021**	**2020**	**2019**	**2018**
Growth in customer loans	1.4	(2.7)	(1.3)	(2.2)	(0.3)	0.6
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	12.7	11.4	11.0	14.5	12.5
Total managed assets/adjusted common equity (x)	15.7	16.9	20.1	20.6	20.0	21.3
New loan loss provisions/average customer loans	0.4	0.1	0.2	0.3	0.1	0.0
Net charge-offs/average customer loans	N.M.	N.M.	(0.0)	(0.0)	(0.0)	(0.0)
Gross nonperforming assets/customer loans + other real estate owned	3.4	2.2	1.5	1.2	1.2	0.8
Loan loss reserves/gross nonperforming assets	36.3	46.2	58.6	51.5	24.3	30.7

N.M.--Not meaningful. N/A--Not applicable.

Table 6

Deutsche Pfandbriefbank AG--Funding and liquidity						
	--Fiscal year ended Dec. 31--					
(%)	September 2023	2022	2021	2020	2019	2018
Core deposits/funding base	19.2	15.0	11.9	12.9	13.9	15.2
Customer loans (net)/customer deposits	467.3	534.9	629.1	590.1	591.5	532.1
Long-term funding ratio	82.6	80.0	88.9	90.9	86.6	85.1
Stable funding ratio	90.2	102.0	119.8	119.9	105.7	104.7
Short-term wholesale funding/funding base	18.8	21.4	11.8	9.6	14.3	15.8
Broad liquid assets/short-term wholesale funding (x)	0.7	1.2	2.5	2.8	1.5	1.4
Net broad liquid assets/short-term customer deposits	(58.8)	45.2	232.1	255.8	106.5	80.1
Short-term wholesale funding/total wholesale funding	23.0	25.0	13.3	11.0	16.5	18.5
Narrow liquid assets/3-month wholesale funding (x)	2.7	1.4	4.6	7.2	3.0	4.0

Deutsche Pfandbriefbank AG--Rating component scores	
Issuer credit rating	**BBB/Negative/A-2**
SACP	bbb-
Anchor	bbb+
Economic risk	2
Industry risk	4
Business position	Constrained
Capital and earnings	Strong
Risk position	Moderate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	+1
ALAC support	+1
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

GRE--Government-related entity. ALAC--Additional loss-absorbing capacity. SACP--Stand-alone credit profile.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019

- 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: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Research Update: Deutsche Pfandbriefbank Ratings Lowered To 'BBB' On Risk Cost Acceleration In Difficult CRE Markets; Outlook Negative, Nov. 17, 2023
- Research Update: Deutsche Pfandbriefbank 'BBB+/A-2' Ratings Affirmed On Ability To Manage CRE Market Challenges; Outlook Stable, Oct. 6, 2023
- Banking Industry Country Risk Assessment: Germany, June 29, 2023
- Banking Industry Country Risk Assessment: Germany, June 6, 2023
- Bulletin: Deutsche Pfandbriefbank AG's Strategic Step Into Asset Management Could Improve Earnings But Comes With Risk, Dec. 21, 2022
- Deutsche Pfandbriefbank AG, Dec. 16, 2022

Ratings Detail (As Of January 23, 2024)*	
Deutsche Pfandbriefbank AG	
Issuer Credit Rating	BBB/Negative/A-2
Resolution Counterparty Rating	BBB+/--/A-2
Commercial Paper	
Local Currency	A-2
Junior Subordinated	B+
Senior Subordinated	BB+
Senior Unsecured	BBB
Subordinated	BB
Issuer Credit Ratings History	
17-Nov-2023	BBB/Negative/A-2
18-Mar-2022	BBB+/Stable/A-2
24-Jun-2021	BBB+/Negative/A-2
15-Dec-2020	A-/Negative/A-2
15-Sep-2020	A-/Watch Neg/A-2
Sovereign Rating	
Germany	AAA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings’ credit ratings on the global scale are comparable across countries. S&P Global Ratings’ credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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