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Bulletin:

Deutsche Pfandbriefbank's Second-Quarter Results Show Strategic Progress Is Coming At A Cost

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Frankfurt (S&P Global Ratings) Aug. 13, 2025--S&P Global Ratings today said that Deutsche Pfandbriefbank's (PBB's) second-quarter results provide a basis for a less cyclical credit profile, but PBB has to show further progress toward its 2027 targets to put the bank on a more solid and diversified footing and operate profitably across the cycle.

The results included material financial and strategic updates, with quantified costs of the U.S. exit and an agreement to acquire a small German asset manager. PBB (BBB-/Stable/A-3) today reported a pretax loss of €249 million for second-quarter 2025, driven by a €314 million charge to reflect the winddown cost of the U.S. book.

This charge is greater than we expected but not enough to materially affect PBB's credit profile. It included additional risk charges on the nonperforming and performing loan book to reflect exit prices. Positively, risk costs excluding the U.S. book were €14 million, indicative of a stabilizing commercial real estate segment in the bank's European core markets. The U.S. risk charge has only a minor impact on our risk-adjusted capital ratio, which we expect to stabilize near 12.5% in 2025 from 12.9% at end-2024. The impact on the common equity Tier 1 ratio is 40 basis points, leading to a ratio of 15.3% for second-quarter 2025, down from 15.7% a quarter earlier. While we expect a net loss for fiscal year 2025, the complete U.S. exit over 2025 and 2026 will lead to capital relief that can be deployed across more stable European markets or distributed to shareholders.

The targeted acquisition of German asset manager Deutsche Investment Group, which has about €3 billion in assets under management, is in line with previous strategic guidance and would contribute to reaching the 2027 goal of generating 10% of operating income from fees. PBB has time to prepare the closing, expected for first-quarter 2026, and plan to integrate the acquisition into its product offering, including implementation of proper governance for deal allocation across its equity and planned debt funds, as well as its own balance sheet. While Deutsche Investment Group has been modestly profitably recently, we note structural profitability pressure, particularly on asset managers with limited scale.

Operating performance in the second quarter appeared solid, with new business volume in core European markets continuing to generate good margins, while funding costs are coming down.

However, PBB will need to establish sufficient business opportunities and franchise strengths in Europe across the cycle to offset the revenue share from the U.S. market.

Related Research

- Deutsche Pfandbriefbank AG 'BBB-/A-3' Ratings Affirmed On U.S. Exit; Outlook Stable, June 24, 2025
- Research Update: Deutsche Pfandbriefbank Outlook Revised To Stable On Stabilizing Asset Quality; 'BBB-/A-3' Ratings Affirmed, March 11, 2025
- Deutsche Pfandbriefbank AG, Jan. 17, 2025
- German Banking Outlook 2025: Resilient In The Face Of Adversity, Jan. 23, 2025
- Deutsche Pfandbriefbank Continues To Navigate Difficult Commercial Real Estate Markets, Aug. 14, 2024
- Deutsche Pfandbriefbank's First Quarter Results Show A Mixed Picture, May 14, 2024