Press Release

Date of Release: June 23, 2017

DBRS Confirms Deutsche Pfandbriefbank AG at BBB, Stable Trend

Industry: Fin.Svc.--Banks & Trusts

DBRS Ratings Limited (DBRS) has today confirmed the Issuer and Senior Unsecured Long-Term Debt & Deposit ratings of Deutsche Pfandbriefbank AG (pbb or the Bank) at BBB and the Bank's Short-Term Debt and Deposit rating at R-2 (high). pbb's intrinsic assessment (IA) remains at BBB and the Bank's Subordinated Debt has been confirmed at BB (high).

The confirmation of the ratings reflects the Bank's concentrated core franchise, pbb's solid albeit slowing new business generation and its track-record as one of Germany's largest Pfandbrief issuers. The Stable Trend reflects DBRS view that the ratings are well-placed at the current level, taking into account the cyclicality of pbb's monoline business model against the background of high competition and margin pressure.

The Bank reported 1Q17 net income of EUR 38 million based on consolidated IFRS figures. The 1Q17 result was mainly driven by i) significantly lower net other operating expenses of EUR 8 million in 1Q17 (Q1 2016: EUR 14 million), driven partly by EUR 7 million higher positive net one-offs mainly from the sale of assets from the non-strategic value portfolio ii) higher administrative expenses in 1Q17 of EUR 50 million (Q1 2016: EUR 45 million) due to both higher personnel expenses and increased project related costs, particularly with regard to increasing regulatory burdens and iii) higher but still minor impairment levels of EUR 2 million (Q1 2016: EUR 0 million) as pbb continues to benefit from historically low default rates.

Lending margins on new real estate business have reduced slightly YoY in 1Q17. Loan to value ratios (LTVs) in the strategic Commercial Real Estate portfolio, in which the Bank finances commercial real estate properties, mainly in Germany, Great Britain and France, have remained solid at around 56%. pbb's sound asset quality as of 1Q17 is reflected in a problem loan ratio at a low of 0.6% (1Q16: 1.0%) against the background of the benign point in the credit cycle in its core market Germany and in other Northern European markets.

DBRS recognises the Bank's efforts on maintaining a cost-income ratio (CIR) around 50% through ongoing cost discipline on underlying expenses despite one off expense items and increased costs for regulatory compliance.

DBRS considers the Bank's funding and liquidity profile as largely aligned with its business model. The balance sheet is predominantly wholesale funded via secured mortgage and public sector Pfandbriefe. Unsecured issues also account for a significant funding component, although the Bank has also initiated an online platform for retail deposits back in 2013 which, with a volume of EUR 3.4 billion as of 1Q17 accounted for approximately 5.6% of total liabilities. Overall the Bank remains dependent upon access to unsecured wholesale funding. DBRS notes that pbb issued EUR 5.6 billion of long-term funding in 2016 (roughly 50% through Pfandbriefe; 50% unsecured).

DBRS views pbb's capitalisation as generally good, supported by fully loaded Basel III Common Equity Tier 1 (CET1) of 19.2% at end-1Q17, and a fully loaded leverage ratio of 4.3%. Regulatory ratios have been strengthened over the previous years, while DBRS notes that the increase reflects mainly a reduction in risk-weighted assets through deleveraging in the Bank's non-strategic Value Portfolio, and improved internal ratings. DBRS notes that the Bank's RWA density (RWA as a proportion of total assets) is currently at a low level of around 21% due to the mix of its assets. In DBRS' view pbb needs to retain a prudent dividend distribution policy and a cautious approach on regulatory capital buffers in view of the current regulatory uncertainty surrounding the recalibration of asset risk weights under the upcoming Basel IV regime and the ECB's TRIM (Targeted Review of Internal Models) initiative. The Bank's SREP requirement for 2017 is 9.00% CET1, leaving the Bank well positioned on its capital levels for 2017.

Concurrently DBRS has today discontinued the ratings on Trust Preferred Securities issued by Hypo Real Estate International Trust I (ISIN XS0303478118) as the notes were redeemed on 14 June 2017.

RATING DRIVERS

A material strengthening of the Bank's financial position, accompanied by the maintenance of strict credit discipline, the successful run down of the value portfolio and greater portfolio diversification could exert positive rating pressure on the BBB Intrinsic Assessment.

The ratings could be negatively impacted by factors such as deterioration in credit quality standards, an adverse weakening of the liquidity profile, alterations in the business model or the financial profile and/or targets, or a weakening of the capitalisation.

Notes:
All figures are in EUR unless otherwise noted.

The principal applicable methodology is the Global Methodology for Rating Banks and Banking Organisations (May 2017). This can be found can be found at:
http://www.dbrs.com/about/methodologies

The sources of information used for this rating include SNL Financial and company reports. DBRS considers the information available to it for the purposes of providing this rating was of satisfactory quality.

DBRS does not audit the information it receives in connection with the rating process, and it does not and cannot independently verify that information in every instance.

For further information on DBRS historic default rates published by the European Securities and Markets Administration ("ESMA") in a central repository, see:
http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

Ratings assigned by DBRS Ratings Limited are subject to EU regulations only.

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Initial Rating Date: July 19, 2006
Most Recent Rating Update: June 9, 2017

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Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Deutsche Pfandbriefbank AG	Issuer Rating	Confirmed	BBB	Stb	Jun 23, 2017

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Deutsche Pfandbriefbank AG	Senior Unsecured Long-Term Debt & Deposit	Confirmed	BBB	Stb	Jun 23, 2017
Deutsche Pfandbriefbank AG	Short-Term Debt & Deposit	Confirmed	R-2 (high)	Stb	Jun 23, 2017
Deutsche Pfandbriefbank AG	Subordinated Debt	Confirmed	BB (high)	Stb	Jun 23, 2017
Hypo Real Estate International Trust I	Trust Preferred Securities	Discontinued - Repaid	Discontinued	--	Jun 23, 2017

For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

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