S&P Global Ratings

RatingsDirect®

Deutsche Pfandbriefbank AG

Primary Credit Analyst:
Benjamin Heinrich, CFA, FRM, Frankfurt + 49 693 399 9167; benjamin.heinrich@spglobal.com

Secondary Contacts:
Harm Semder, Frankfurt (49) 69-33-999-158; harm.semder@spglobal.com
Michal Selbka, Frankfurt +49 (0) 69-33999-300; michal.selbka@spglobal.com

Table Of Contents

Major Rating Factors

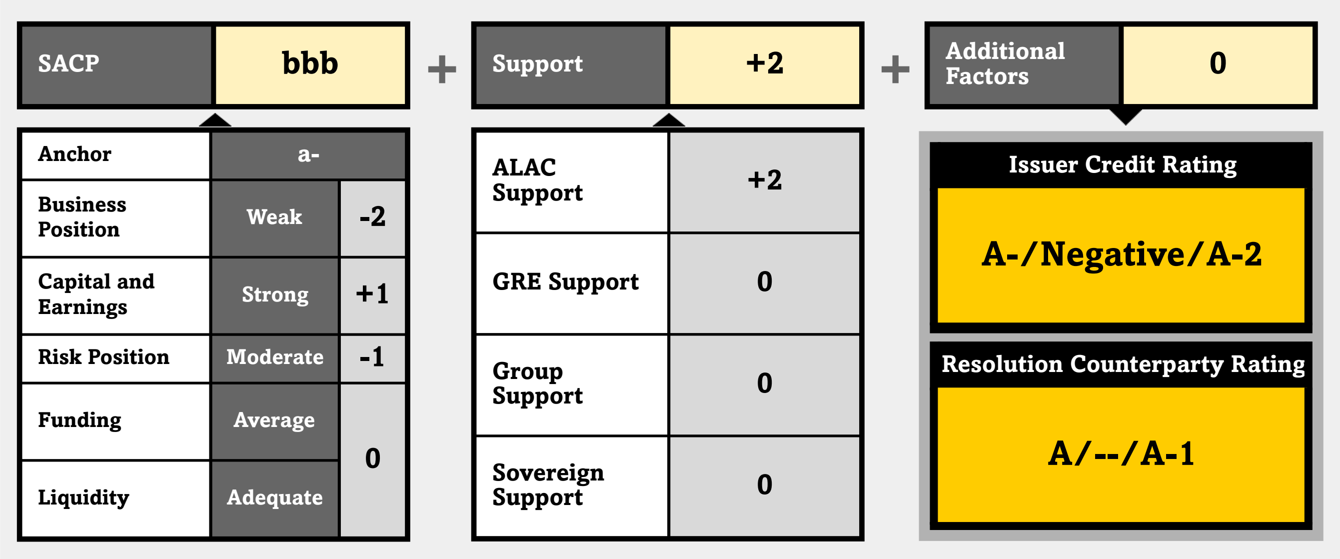
Outlook

Rationale

Related Criteria

Related Criteria

Deutsche Pfandbriefbank AG



Major Rating Factors

Strengths:	Weaknesses:
• Substantial levels of additional loss-absorbing capital to protect senior creditors in the event of a resolution. • Strong risk-adjusted capital (RAC) levels that help to mitigate risks from its concentrated credit portfolio in the wake of COVID-19. • Solid business franchise in commercial real estate (CRE) financing in most of its markets it operates.	• Being effectively a monoliner by providing financing to the CRE markets. • Still to demonstrate a track record of performance and asset quality through the coming less supportive economic environment. • Material exposure to the retail and hotel segments that we expect to suffer among the worst in the corona pandemic.

Outlook: Negative

The negative outlook reflects our view of rising economic and industry risks for the German banking sector. In the context of the COVID-19 pandemic, we project deteriorating asset quality for Deutsche Pfandbriefbank (pbb) and might lower the ratings within the next two years if pbb does not sustain strong capitalization, robust asset quality, and risk-adjusted earnings.

Downside scenario

We could downgrade pbb in the next 12-24 months if we revise downward our capital projection, for example, because impairments appeared likely to bring our RAC ratio below the 10% threshold. We could also downgrade the bank if we see industry or economic risks in the German banking sector as having risen, leading to a change in the anchor for pbb--the starting point of our bank ratings. A downgrade would affect all of pbb's rated debt, including its senior preferred debt, senior subordinated debt, and capital instruments.

Upside scenario

We could revise the outlook to stable if we considered that both economic and industry trends for the German banking sector had stabilized, and pbb keeps a favorable capital position and asset quality through the downturn. This would also require that we saw reduced downside risks from the COVID-19 pandemic to pbb's financial profile.

Rationale

Our ratings on pbb are constrained by the bank's concentrated business model, which is focused on providing lending to the commercial real estate market. The bank's strong capitalization supports our rating, on the other hand, and, despite our view of increasing risk costs, we expect that its RAC ratio will remain at about 11% over the coming two years. We consider strong capital buffers necessary to mitigate intrinsically high concentration risks in a sector that we consider as particularly sensitive to the COVID-19-induced economic downturn.

The bank relies strongly on wholesale funding. In our assessment, we balance its funding costs' sensitivity to market perceptions against its position as one of the biggest domestic covered bonds issuers, with sound metrics. As a result, funding and liquidity are neutral to our ratings. Overall, we assess the bank's stand-alone credit profile (SACP) at 'bbb'.

We add two notches of uplift to arrive at the long-term issuer credit rating (ICR) on pbb to reflect its very high buffers of bail-in-able debt instruments. Specifically, we forecast that the bank will maintain its buffers above 15% of risk-weighted assets (RWAs) over the next two years.

We set the resolution counterparty ratings (RCRs) on pbb one notch above our 'A-' long-term ICRs.

Anchor:'a-', reflecting economic risk for the international operations, and German banking industry risk.

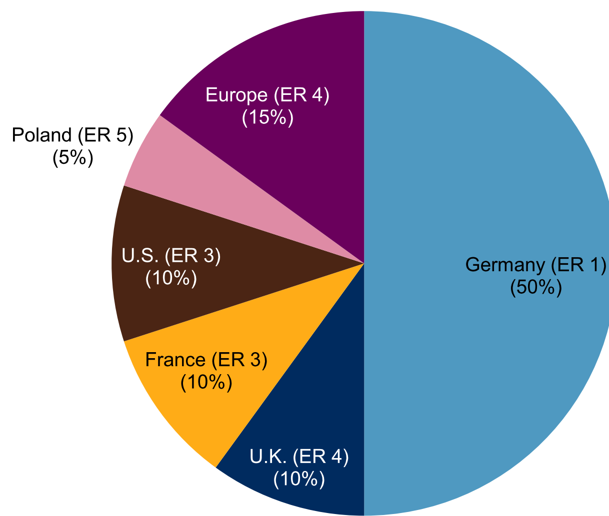
Our bank criteria use our Banking Industry Country Risk Assessment economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an ICR. The anchor for banks operating mainly in Germany is 'a-'.

Reflecting pbb's geographic diversification in its loan book, with about 50% of core lending activities in countries with a weaker economic assessment than Germany, we take into account the blended economic risk of the countries in which the bank operates (see chart 1).

We calculate a weighted-average economic risk score for pbb's mix of exposures of '2' (rounded from 2.3) on a scale of 1-10 (1 reflects the lowest risk and 10 the highest). It is weaker than the '1' score for banks operating in Germany only, but not to the extent that it negatively affects the anchor. Considering that the trend on economic risk in Germany and most of its markets is now negative, partly due to COVID-19, if the weighted average score were to deteriorate toward '3', this could affect the anchor. This could also happen if pbb pursues a growth strategy in countries with higher economic risk than Germany, as for instance the U.S.

Chart 1

pbb's Loan Portfolio By Countries (EAD)
As of year-end 2019



EAD--Exposure at default. Source: S&P Global Ratings.
Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

Our assessment of economic risk considers the strengths from Germany's highly diverse and competitive economy, with a demonstrated ability to absorb economic and financial shocks. Due to COVID-19, we expect a sharp German 6.2% real GDP contraction in 2020, which will be compensated by a strong rebound with 4.4% expansion in 2021, and 2.6% in 2022. We see the damage to the economy, household wealth, and various corporate sectors from COVID-19, but anticipate that Germany's ample fiscal and monetary measures will mitigate the cyclical shock to the economy, the banking system, and both retail and corporate customers, as well as limit German banks' credit losses. That said, the

high degree of openness, with exports accounting for 50% of GDP, which makes the trajectory of recovery also dependent on broad-based international developments. Reviving housing demand and sector-specific challenges, for example in the automotive industry, will also continue to represent a downside risk to growth post-COVID-19. Our negative trend on economic risk signals that there is some risk a weaker recovery could drive credit losses higher than we currently expect.

Our assessment of industry risk considers the material improvements that have been made to improve transparency and harmonize banking supervision and regulation. However, we note that German banks entered the crisis already suffering from pressure on profitability, due to intense competition, low interest rates, and a relatively high cost base. Challenges to profitability could intensify further as a result of COVID-19 pressures, as reflected in our negative trend on industry risk. In addition to expected increasing--but manageable--risk cost, we see cost pressures from the imperative for the German banking industry to significantly invest in core banking systems and digital customer services that are essential to avoiding the risks of tech disruption and franchise damage from cyber-attacks and customer data mismanagement.

Table 1

Deutsche Pfandbriefbank AG--Key Figures

	--Year ended December 31--				
(Mil. €)	**2020***	**2019**	**2018**	**2017**	**2016**
Adjusted assets	56,542.0	56,783.0	57,732.0	57,958.0	62,605.0
Customer loans (gross)	40,885.0	41,128.0	41,236.0	40,980.0	41,926.0
Adjusted common equity	2,855.8	2,713.8	2,706.9	2,646.1	2,545.8
Operating revenues	110.0	506.0	471.0	462.0	462.0
Noninterest expenses	74.0	244.0	221.0	274.0	267.0
Core earnings	2.0	176.5	198.5	163.2	123.5

*Data as of March 31.

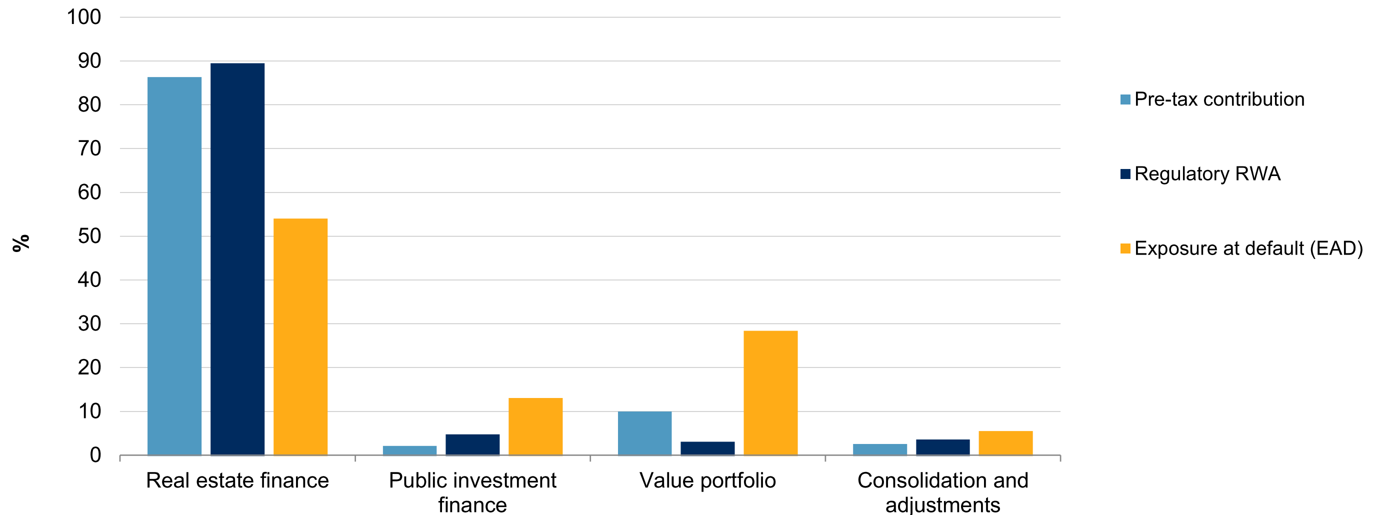
Business position: Concentrated CRE business model.

pbb's concentrated and wholesale-oriented business profile is the main weakness for its ratings. It primarily operates in two business segments: CRE finance (60% of financing volume at year-end 2019) for financing real estate transactions in office, retail including shopping centers, residential, hotel, and logistics properties; and public investment finance (14%) for financing public-sector investment, predominantly in infrastructure projects. While its second business line adds some diversification benefits, public finance activities only contribute marginally in terms of profitability (see chart 2). In addition, the share of more cyclical exposure should further increase because pbb has announced not to grow its public investment finance operations anymore.

The bank's nonstrategic portfolio, which remains in a passive run-off mode, makes up the remaining exposure and accounts for 26% of financing volume at year-end 2019, compared with 48% at year-end 2013. These are mainly budget financing such as investment in government bonds, which pbb is not pursuing further under its updated strategy.

Chart 2

Segment Reporting Full Year 2019
Dominated by real estate financing



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

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

The narrow mix of business lines and revenues, compared with those of most peers, remains a key weakness, in our view. We expect the sudden drop in global economic activity in the wake of COVID-19 to have weakened the prospects of pbb, reflecting our view of high sensitivity of CRE markets to the economic cycle and the bank's international operations, including wider Europe and the U.S. given the global scale of the pandemic.

For peer comparison we look at banks with more diverse business models such as Landesbank Hessen-Thueringen, Commerzbank AG, or Erste Group Bank AG. Most of these peers show a better diversified business mix and a material share of retail, which we see as a superior base for revenue stability. We generally compare pbb with peer banks operating in Germany and other countries with similar industry risk, like France, Netherlands, Austria, and the Nordic nations.

The bank's portfolio is internationally diversified, but largely opportunistic, and not clearly linked to a particular client franchise or competitive advantage. We anticipate that management will remain cautious in new business generation during this crisis, anticipating further tightening underwriting standards particularly in segments such as hotels, retail, and office. Focus remains on business that are eligible to back covered bond issuance in selected European markets and the U.S. market.

Table 2

Deutsche Pfandbriefbank AG--Business Position

	--Year ended December 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Total revenues from business line (currency in millions)	110.0	509.0	471.0	495.0	595.0
Return on average common equity	0.3	6.1	6.2	6.4	7.1

*Data as of March 31.

Capital and earnings: Strong capital buffers.

pbb's capitalization is its key rating strength, in our opinion. Despite the COVID-19, we project the bank's RAC ratio will remain at around 11.0% over the next two years, after 11.8% at year-end 2019. Our forecasts incorporate that credit risk costs will increase materially, constraining the potential for internal capital generation. At the same time, we project our RWA figures to grow by about 5% in 2020, despite an anticipated decrease in pbb's loan portfolio book after business generation in the CRE segment slowed down significantly. We project increased recognition of non-performing loans and increasing regulatory charges on market and counterparty risks compared with last year. In our opinion, the further wind-down of the nonstrategic portfolio will not compensate for those effects as we consider this business less risky and capital consuming.

pbb has withdrawn its dividend proposal for the 2019 financial year, following European Central Bank (ECB) recommendation. However, in our capital forecast we include that pbb will payout the dividend later this year, if situation allows. Overall, we expect that the bank will stick to its announced dividend strategy and will continue to pay out 75% of net income after coupon payments on AT1 issuances (50% regular plus 25% supplementary dividend) over the next two years.

However, we expect pbb's profitability will deteriorate materially compared with previous years, mainly because of fair value adjustments and increasing credit costs reflecting the pandemic-induced economic downturn. In our base case, we expect that pbb will remain only slightly profitable for full-year 2020, but also acknowledge that risks to our forecast remain skewed to the downside. For the first quarter of 2020, profit before tax already fell to €2 million (Q1 2019: €48 million) because of increased loss provisioning and negative fair value adjustments mainly due to the credit spread widening in the light of COVID-19.

pbb's regulatory Tier-1 capital ratio at 18.0% as of March 31, 2020 remains at comfortable levels but decreased year-on-year from 20.9%. This mainly reflects that in its regulatory risk weight calculation, pbb already applied European Banking Authority guidelines on probability of default and loss given default modeling and to a certain degree forthcoming Basel rules. We expect this will reduce the volatility of regulatory RWAs and the future sensitivity to the phasing in of input and output floors for pbb, that applies predominately to internal ratings-based approaches.

The quality of pbb's capital and earnings, as well as its earnings capacity, remains a relative weakness, in our view. As is the case for many largely wholesale-funded peers, the bank's funding costs are materially sensitive to market perception, which, amid high concentration risks in cyclical sectors, weighs on our assessment of pbb's earnings.

Table 3

Deutsche Pfandbriefbank AG--Capital And Earnings

	--Year ended December 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Tier 1 capital ratio	18.0	16.9	20.5	17.6	19.0
S&P Global Ratings' RAC ratio before diversification	N/A	11.8	11.3	10.1	9.9
S&P Global Ratings' RAC ratio after diversification	N/A	10.3	10.1	8.8	9.2
Adjusted common equity/total adjusted capital	90.6	90.1	90.1	100.0	100.0
Net interest income/operating revenues	100.9	90.5	95.5	94.2	87.4
Fee income/operating revenues	1.8	1.2	1.3	1.7	1.7
Market-sensitive income/operating revenues	(3.6)	7.7	4.2	(2.2)	0.4
Noninterest expenses/operating revenues	67.3	48.2	46.9	59.3	57.8
Preprovision operating income/average assets	0.3	0.5	0.4	0.3	0.3
Core earnings/average managed assets	0.0	0.3	0.3	0.3	0.2

*Data as of March 31. N/A--Not applicable.

Table 4

Deutsche Pfandbriefbank AG--Risk-Adjusted Capital Framework Data

	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	23,823.0	895.0	3.8	1,853.0	7.8
Of which regional governments and local authorities	8,090.0	583.0	7.2	627.0	7.7
Institutions and CCPs	1,586.0	277.0	17.5	399.0	25.1
Corporate	29,636.0	14,750.0	49.8	20,517.0	69.2
Retail	1.0	1.0	56.1	--	21.8
Of which mortgage	1.0	1.0	56.1	--	21.8
Other assets†	566.0	329.0	58.1	929.0	164.0
Total credit risk	55,612.0	16,252.0	29.2	23,698.0	42.6
Credit valuation adjustment					
Total credit valuation adjustment	--	239.0	--	632.0	--
Market risk					
Equity in the banking book	3.0	3.0	101.5	21.0	689.0
Trading book market risk	--	148.0	--	222.0	--
Total market risk	--	151.0	--	243.0	--
Operational risk					
Total operational risk	--	870.0	--	899.0	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	17,721.0	--	25,472.0	100.0
Total diversification/ concentration adjustments	--	--	--	3,706.0	14.5

Table 4

Deutsche Pfandbriefbank AG--Risk-Adjusted Capital Framework Data (cont.)					
RWA after diversification	--	17,721.0	--	29,178.0	114.5
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		2,987.0	16.9	3,012.0	11.8
Capital ratio after adjustments‡		2,987.0	16.9	3,012.0	10.3

*Exposure at default. †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. RAC--Risk-adjusted capital. Sources: Company data as of 'Dec. 31 2019', S&P Global Ratings.

Risk position: High-risk concentrations in cyclical sectors.

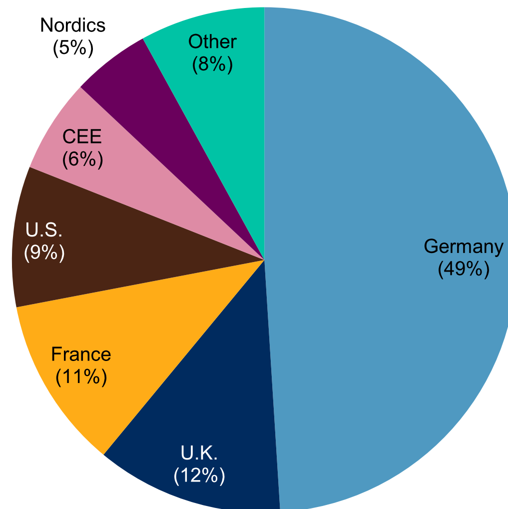
pbb has high sector and single-name concentrations in its credit portfolio. These are intrinsic to pbb's business model and we expect they will persist. The cyclicality of CRE markets and concentrations in the real estate lending portfolio represent material tail risk to the bank's capital and earnings buffer. This makes the bank relatively more vulnerable to the global economic downturn triggered by COVID-19.

Most of pbb's peers, such as Cooperative Banking Sector Germany and Credit Agricole S.A., have a high share of generally less risky retail mortgages, which contributes to risk diversification. We also see further potential for tail risks due to low risk weights for the bank's sizable public finance book and credit spread risk.

The bank's CRE concentrations are higher than at many peer banks that have a wholesale profile and concentrate in a single business. Its exposure to CRE in the U.K. is about €3.4 billion at March 31, 2020 (see chart 3), and this exposure quality might further suffer if there is a major disruption in the negotiations over the future relationship with the EU. However, we believe that adequate collateralization of the U.K. portfolio mitigates potential risks for pbb.

Chart 3

pbb's CRE Loan Book By Country
As of March 31, 2020



Source: S&P Global Ratings.
Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

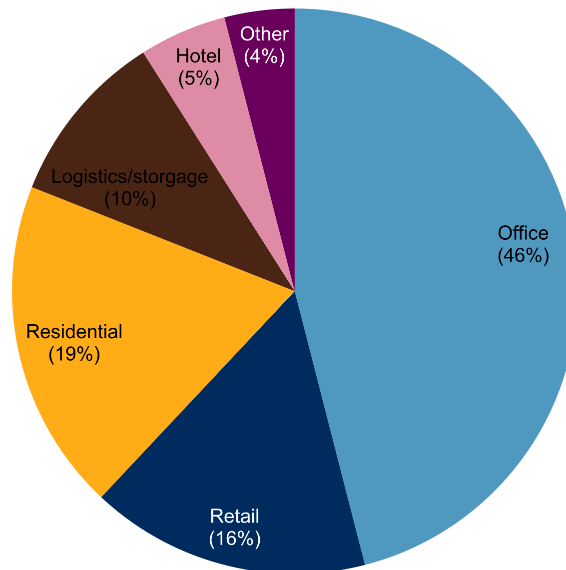
In the wake of COVID-19, and the resulting far reaching shutdowns and temporary border closures, we expect pbb's exposure to hotels (€1.4 billion) and to retail (including large shopping centers, €4.8 billion) to suffer the most in the short term. Another area of risk stems from pbb's total €4.6 billion development loan portfolio (80% in Germany), given that in a few countries outside its core market construction sites have been closed recently, which could, at the very least, delay the completion of buildings.

In the longer term, we expect pressure on market values in offices (€13.6 billion) particularly if the trend toward working remotely persists after the pandemic, in turn lowering the demand for working space (see chart 4).

However, in our base case we expect the COVID-19 impact on pbb's credit portfolio to be manageable as we consider a sufficient debt--in particular interest service coverage and buffer--to absorb some decrease in market prices given that pbb's average portfolio loan-to-value ratio is at only slightly above 50%.

Chart 4

pbb's CRE Loan Book By Property Type
As of March 31, 2020



Source: S&P Global Ratings.
Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

In our view, positively, pbb enters this crisis from a position of strength and clean balance sheet. It has shown a superior credit loss track record over the past five years, also reflecting the benign economic conditions in its core markets. Credit costs have remained extremely low for years and the nonperforming loan ratio is still low at 1.1% as of March 31, 2020.

However, this very favorable track record will not be sustainable through this economic downturn and we expect a material deterioration of credit losses and problem loans for pbb. In our view, this crisis will test the bank's resilience after pbb transferred a substantial amount of nonperforming and noncore assets into a government-guaranteed workout unit, FMS Wertmanagement Anstalt des oeffentlichen Rechts (FMSW) in 2010.

We believe that environmental, social, and governance (ESG) factors for pbb are broadly in line with its industry and domestic peers. For instance, given its focus on financing CRE properties, environmental aspects are considered immaterial to our ratings today.

Table 5

Deutsche Pfandbriefbank AG--Risk Position					
	--Year ended December 31--				
(%)	2020*	2019	2018	2017	2016
Growth in customer loans	(2.4)	(0.3)	0.6	(2.3)	(0.6)
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	14.5	12.5	14.3	N/A
Total managed assets/adjusted common equity (x)	19.8	20.9	21.3	21.9	24.6
New loan loss provisions/average customer loans	0.3	0.1	0.0	0.0	0.0
Net charge-offs/average customer loans	N.M.	(0.0)	(0.0)	0.2	0.0
Gross nonperforming assets/customer loans + other real estate owned	1.1	1.2	0.8	0.6	0.9
Loan loss reserves/gross nonperforming assets	34.8	24.3	30.7	28.6	33.5

*Data as of March 31. N/A--Not applicable. N.M.--Not meaningful.

Funding and liquidity: Strong reliance on wholesale funding but with a focus on stable covered bonds.

We view pbb's funding as average compared with that of German peers and other banking systems with the same industry risk. We also think that the bank's liquidity position is adequate, and it is well placed to withstand an extended period of market stress, as was for instance experienced over March and April this year.

We believe pbb's funding and liquidity profile remains solid. In a peer comparison with the best-in class banking groups in Germany--the savings and cooperative banks sectors--it remains materially weaker, however. These banking groups benefit from access to granular stable retail deposits generated under a robust, well-established franchise.

pbb's heavy reliance on funding through covered bonds ('Pfandbriefe') is positive. These instruments proved their stability through the last financial crisis. The bank remains one of the largest covered bond issuers in Germany, with public-sector covered bonds forming about 26% of the funding base and mortgage covered bonds 34% as of Dec. 31, 2019. The rest of the funding mainly includes customer deposits and long-term debt. In 2013, pbb started collecting retail deposits, which accumulated to €2.8 billion by year-end 2019. We also believe the bank took advantage of the ECB's TLTROIII program given its favorable economic conditions. This will slightly reduce external funding activities over the next few years, in our view.

We understand that pbb will continue to concentrate on secured funding sources. Unsecured funding will be largely driven by the overcollateralization requirements of its covered-bond pools, which mainly depend on the size and quality of its exposures. Furthermore, the need for unsecured funding will depend on the portion of noncover pool eligible assets.

pbb's S&P Global Ratings-calculated liquidity ratio (indicating coverage of short-term wholesale funding by broad liquid assets) was 1.5x as of Dec. 31, 2019, and its stable funding ratio was sound at 106% as of the same date. These ratios underline pbb's healthy balance sheet structure and we also take comfort from our view of pbb's adequate liquidity stress testing capabilities. We believe pbb could operate for more than six months without access to market funding in an adverse scenario.

Table 6

Deutsche Pfandbriefbank AG--Funding And Liquidity					
	--Year ended December 31--				
(%)	2020*	2019	2018	2017	2016
Core deposits/funding base	13.1	13.9	15.2	16.3	18.3
Customer loans (net)/customer deposits	627.1	591.5	532.1	494.4	420.1
Long-term funding ratio	85.0	86.6	85.1	89.7	83.6
Stable funding ratio	N.M.	105.7	104.7	103.4	96.9
Short-term wholesale funding/funding base	15.9	14.3	15.8	10.8	17.2
Broad liquid assets/short-term wholesale funding (x)	N.M.	1.5	1.4	1.5	0.9
Net broad liquid assets/short-term customer deposits	N.M.	106.5	80.1	72.1	(10.4)
Short-term wholesale funding/total wholesale funding	18.2	16.5	18.5	12.9	21.1
Narrow liquid assets/3-month wholesale funding (x)	2.3	3.0	4.0	2.3	1.5

*Data as of March 31. N.M.--Not meaningful.

Support: Two notches of uplift due to strong buffers of subordinated capital in bail-in resolution.

We believe that the prospect of extraordinary government support for the German banking sector is uncertain under the EU resolution regime. This is because we believe it contains a well-defined bail-in process under which authorities would permit nonviable, systemically important banks to continue critical functions as going concerns following a bail-in of eligible liabilities. We view pbb to be moderately systemically important to Germany, and, given its complexity, expect that it will be subject to a well-defined bail-in plan.

We add two notches of uplift to arrive at the long-term ICR to reflect substantial buffers of subordinated bail-in-able capital (additional loss-absorbing capacity; ALAC). The very high buffers are mainly a result of a retroactive German law implemented on Jan. 1, 2017, that turned certain long-term standard senior unsecured bonds into subordinated instruments in a resolution and liquidation scenario. We estimate the ratio of the bank's ALAC to S&P Global Ratings' RWA at about 24% (including senior subordinated instruments) at end-2019, and we expect it will remain well above the 8% threshold for a two-notch uplift over the next two years.

The bank benefits from material buffer above expected minimum requirement for own funds and eligible liabilities target set by the Single Resolution Board. Our projected ALAC ratio includes the assumption that pbb will only replace part of its maturing subordinated instrument necessary to maintain market access.

Hybrids

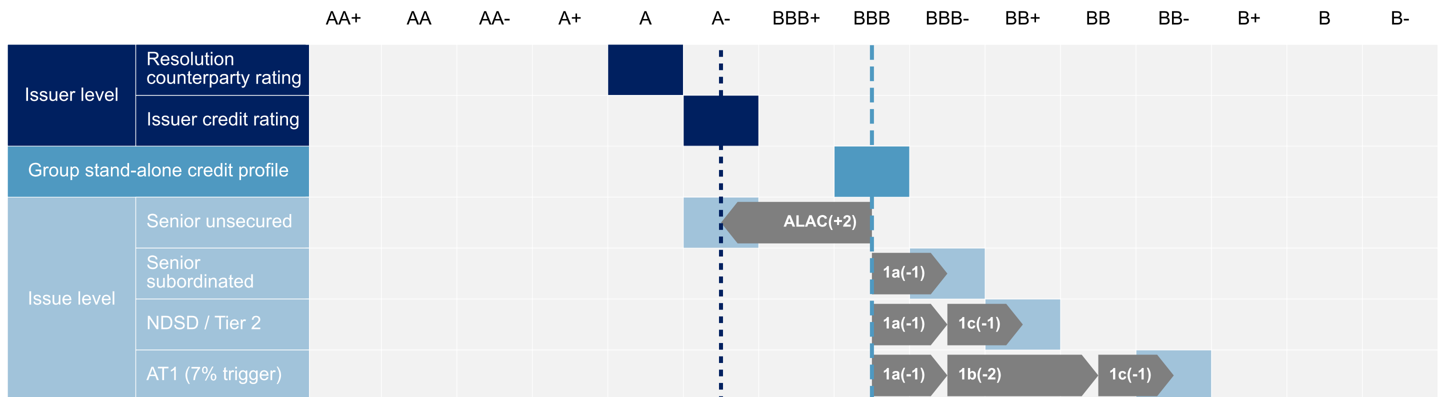
Hybrid capital instruments are notched down from the 'bbb' SACP because we expect these instruments to be written down or converted into equity in a bail-in resolution scenario. Therefore, they do not benefit from pbb's ALAC buffers.

The 'BBB-' issue rating on pbb's senior subordinated debt is one notch below its SACP, as we notch down due to the debt's contractual subordination to senior obligations, in line with our hybrid capital criteria.

We additionally deduct one notch for the bank's non-deferrable subordinated debt to arrive at 'BB+', due to the principal write-down feature; even in cases where this is not contractually documented, the relevant regulatory and legal frameworks in Germany create the equivalent of such a clause and we expect regulators to enforce this.

The issue rating at 'BB-' on the bank's €298 million AT1 issuance stands four notches below the SACP; one notch because of the notes' contractual subordination; two notches reflecting the notes' discretionary coupon payments and regulatory Tier 1 capital status; and one notch because the notes contain a contractual write-down clause. We do not notch down further due to the notes' going-concern write-down trigger as we expect that the bank will maintain a common equity Tier 1 (CET1) ratio that is over 700 basis points above the 7% phase-in trigger over the next 12-24 months, after a CET1 ratio at 16.3% as of March 31, 2020.

Deutsche Pfandbriefbank AG: Notching



Key to notching

- - - - - Group stand-alone credit profile

- - - - - Issuer credit rating

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 3 of our "Hybrid Capital: Methodology And Assumptions" criteria, published on July 1, 2019.
AT1--Additional Tier 1. NDSD--Non-deferrable subordinated debt.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

Resolution counterparty ratings (RCRs)

On June 29, 2018, we rated pbb at 'A/A-1'. This followed the publication of our RCR methodology on April 19, 2018, (see "Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings," published April 19, 2018). An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institution. RCRs apply to issuers in jurisdictions where we assess the resolution regime to be effective and the issuer is likely to be subject to a resolution that entails a bail-in if it reaches nonviability. We typically position the long-term RCR up to one notch above the long-term ICR when the ICR ranges from 'BBB-' to 'A+'.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- 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
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Criteria

- Negative Rating Actions Taken On Multiple German Banks On Deepening COVID-19 Downside Risks, April 23, 2020
- Outlooks On Various German Banks Revised To Negative On Rising Banking Sector Risks; Ratings Affirmed, Sept. 18, 2019
- Banking Industry Country Risk Assessment: Germany, Oct. 1, 2019
- How COVID-19 Is Affecting Bank Ratings: June 2020 Update, June 11, 2020
- The $2 Trillion Question: What's On The Horizon For Bank Credit Losses, July 9, 2020

Anchor Matrix

Industry Risk	Economic Risk									
	1	**2**	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	**a-**	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of July 23, 2020)*	
Deutsche Pfandbriefbank AG	
Issuer Credit Rating	A-/Negative/A-2
Resolution Counterparty Rating	A/--/A-1
Commercial Paper	
Local Currency	A-2
Junior Subordinated	BB-
Senior Subordinated	BBB-
Senior Unsecured	A-
Subordinated	BB+
Issuer Credit Ratings History	
28-Mar-2017	A-/Negative/A-2
15-Dec-2016	BBB/Watch Pos/A-2
01-Dec-2015	BBB/Stable/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.

Additional Contact:
Financial Institutions Ratings Europe; FIG_Europe@spglobal.com

Copyright © 2020 by Standard & Poor’s Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor’s Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an “as is” basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT’S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P’s opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR’S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor’s Financial Services LLC.