

Bulletin:

Deutsche Pfandbriefbank AG's Strategic Step Into Asset Management Could Improve Earnings But Comes With Risk

December 21, 2022

FRANKFURT (S&P Global Ratings) Dec. 21, 2022--S&P Global Ratings said today that it is too early to assess the full credit implications from German real-estate lender Deutsche Pfandbriefbank AG (pbb)'s strategic shift, although in our base case we assume any steps will be gradual and executed with discipline.

On Dec. 20, 2022, pbb (BBB+/Stable/A-2) announced plans to expand into real estate asset management products starting 2023, with related additions to its management board.

We see potential mid-term benefits to pbb's revenue capacity and diversity, which is currently heavily concentrated and interest-rate centric, based on its profound sector expertise and franchise in commercial real estate (CRE) lending. However, improving its mediocre 6.3% pretax return on average common equity at Sept. 30, 2022, through asset management could be a costly and lengthy journey considering high competition and margin pressures in the segment, with headwinds from volatile and difficult--in part recessionary--2023 markets.

We will also closely monitor pbb's detailed expansion strategy in terms of execution risk, one-time investments, and resources needed, or if nonorganic growth is planned. Moreover, it could add operational and reputational risks intrinsic to asset management. In our base case, we expect this step and associated investments will not dilute pbb's strong risk-adjusted capital (RAC) buffers, which we consider an important factor supporting the current ratings and stable outlook (see: "Deutsche Pfandbriefbank AG," published Dec. 16, 2022, on RatingsDirect). We expect pbb will maintain a strong RAC ratio of 12%-13% until 2024, which should help mitigate risks from increasingly difficult CRE markets amid rising rates and secondary effects from the Russia-Ukraine war.

Related Research:

- Deutsche Pfandbriefbank AG, Dec. 16, 2022
- Deutsche Pfandbriefbank 'BBB+/A-2' Ratings Affirmed On Confidence In Resolution Strategy, Capital Buffer; Outlook Stable, Nov 29, 2022
- Geopolitical Risks Add Headwinds For German Banks, Despite Robust Capitalization, July 19, 2022

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- Single Resolution Board Says That Banks Must Go The Distance To Ensure Full Resolvability, July 13, 2022
- Deutsche Pfandbriefbank Outlook To Stable From Negative On Resolution Clarity And Sound Performance; Ratings Affirmed, March 18, 2022
- German Bank Ratings Affirmed Under Revised Financial Institutions Criteria, Jan. 28, 2022
- German Banks Are In A Good Position To Absorb BaFin's Moderate Increase In Macroprudential Capital Buffers, Jan. 20, 2022

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