

Bulletin:

# Deutsche Pfandbriefbank's Q1 Result: Asset Quality And Capital Management Will Be Key For 2026

May 12, 2026

*This report does not constitute a rating action.*

FRANKFURT (S&P Global Ratings) May 12, 2026--Deutsche Pfandbriefbank's (PBB's) asset quality performance--with increasing focus on its European book--alongside risk-adjusted profitability and regulatory capital management, will be key to its overall creditworthiness in 2026.

PBB's first quarter 2026 results, published today, show progress in the wind-down of its U.S. book, with U.S. non-performing loans (NPL) shrinking by about 29% to €648 million. However, they also demonstrate an ongoing difficult market environment as the NPL ratio of its European real estate finance book ticked up to 6.5% for the first quarter, compared with 5.7% at end-2025. Some net provision releases on stage 3 loans in the U.S. were offset by fair value losses on the U.S. exit book. Taken together, risk charges on the U.S. book are largely balanced, indicating adequate provisioning so far.

Today, PBB also confirmed its guidance for the full-year 2026, including targeted new real estate finance business of €7.5 billion-€8.5 billion, compared with €1.3 billion in first quarter 2026, and a forecast pre-tax profit of €30 million-€40 million. Sustaining solid-margin new business volumes will be vital for PBB to absorb the revenue impact of the reduced real estate investment portfolio, U.S. exit, and related significant risk transfer costs. However, we think new business prospects may easily underperform expectations amid geopolitical risks, rate uncertainty, and deteriorating business sentiment. We expect operating income to remain constrained over 2026, as we do not project the real estate investment services segment--now reported separately--to contribute meaningfully to earnings flexibility.

Capital adequacy is currently facing cyclical pressure, which may limit future financial flexibility. The common equity tier (CET 1) ratio decreased to 13.4% at the end of first-quarter 2026, from 14.7% at end-2025 and the total capital ratio to 17.1% from 18.6%. This is in line with our projections and now includes the expected removal of favorable treatment for collateralized loss-given defaults in the U.S. Consequently, the bank will likely look to increase its focus on managing capital consumption within new business activities to maintain its buffers above the targeted CET1 ratio of minimum 13% and also sufficiently above total Supervisory Review and Evaluation Process requirements of 9.9% for CET 1 and 14.85% for total capital. PBBs' reduced financial flexibility spurred our March 2026 downgrade of PBBs hybrid instruments (see ["Deutsche Pfandbriefbank AG 'BBB-/A-3' Ratings Affirmed; Some Hybrids Downgraded; Outlook](#)

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[Remains Negative](#)," published March 18, 2026). We note PBB paid the coupon on its additional tier 1 instrument in April, confirming compliance with regulatory expectations.

The negative outlook on the rating reflects the challenges facing the bank in repositioning its business model during a period of geopolitical and market volatility. Initial effects from the war in the Middle East are visible in some fair value losses, triggered by the increased rate environment. However, a prolonged conflict and ongoing upward pressure on inflation and long-term rates could eventually weaken new business volumes and asset quality.

## Related Research

- [Deutsche Pfandbriefbank AG 'BBB-/A-3' Ratings Affirmed; Some Hybrids Downgraded; Outlook Remains Negative](#), March 18, 2026
- [Bulletin: Deutsche Pfandbriefbank's Weaker Profitability Outlook For 2026 Is In Line With Transition To Greater Business Stability](#), Feb. 16, 2026
- [Deutsche Pfandbriefbank AG](#), Jan. 29, 2026
- [Research Update: Deutsche Pfandbriefbank Outlook Revised To Negative On Weaker Profit Outlook, Transition Risk; Affirmed At 'BBB-/A-3'](#); Nov. 21, 2025

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