Bulletin:

# Deutsche Pfandbriefbank Continues To Navigate Difficult Commercial Real Estate Markets

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PRIMARY CREDIT ANALYST

**Benjamin Heinrich, CFA, FRM**

Frankfurt

+ 49 693 399 9167

benjamin.heinrich
@spglobal.com

SECONDARY CONTACT

**Harm Semder**

Frankfurt

+ 49 693 399 9158

harm.semder
@spglobal.com

FRANKFURT (S&P Global Ratings) Aug. 14, 2024--S&P Global Ratings said today that Deutsche Pfandbriefbank AG's second quarter results showed that credit losses on commercial real estate (CRE), particularly in the U.S., remained elevated and weighed on the bank's profitability. Reported earnings were in line with our expectations and we continue to project that stabilizing CRE market indicators will cause credit losses to ease through the second half of 2024 and in 2025.

Deutsche Pfandbriefbank AG (pbb; BBB-/Negative/A-3) today reported a pre-tax profit of €13 million for the second quarter of 2024, lower than the previous quarter's profit of €34 million, mainly due to higher credit losses and lower realization income. For the first six months, credit losses amounted to €103 million, or an annualized 53 basis points, only slightly below the 55 basis-point outcome for full-year 2023.

We project that pbb will report significant but decreasing levels of credit losses in the second half of 2024, as we anticipate abating pressure due to rate cuts. Lower interest rates could mean reducing pressures on market values and coverage ratios and could also allow the bank to release some of the modelled and interest-rate sensitive Stage 1 and 2 credit loss provisions. For full-year 2024, we expect credit losses to materialize toward the upper end of our previously forecast range of 35 basis points (bps)-45bps. However, if interest rates remain higher for longer than anticipated, this could further pressure asset quality.

Our current rating on pbb also assumes that the bank remains overall profitable, and can rely on solid capital, funding, and liquidity buffers that remain critical to investor confidence. To support performance and capital metrics in persistently difficult times, the bank's management executes active balance sheet management and asset sales, which we see as only temporary measures with natural limits.

Our negative outlook reflects that we remain cautious on potential further asset quality deterioration in the U.S. office book, but also on the German portfolio despite some early signs of price stabilization. Nominal CRE prices in Germany have fallen by 18% since the early 2022 peak, especially for offices outside prime locations and those with poorer energy efficiency, but latest data indicate a price stabilization.

Positively, pbb materially increased its deposit base to €8.1 billion, above its €7.5 billion target, with the deposit base proving to be relatively sticky despite several recent rate cuts. Pbb has recently accessed the Pfandbrief market and already fully pre-funded its 2024 needs.

pbb intends to release details on its strategy at the capital markets day in early October. We

anticipate information on the future direction of its CRE centric business model, including the future regional distribution of the lending portfolio. We expect measures to include a targeted increase in capital efficiency and structural profitability, as well as the level of non-interest rate sensitive income.

## Related Research

- Deutsche Pfandbriefbank's First Quarter Results Show A Mixed Picture, May 14, 2024
- Deutsche Pfandbriefbank Downgraded To 'BBB-/A-3' On Challenges From Commercial Real Estate; Outlook Negative, Feb. 14, 2024

This report does not constitute a rating action.