S&P Global Ratings

RatingsDirect®

Research Update:

Deutsche Pfandbriefbank Outlook Revised To Negative On Weaker Profit Outlook, Transition Risk; Affirmed At 'BBB-/A-3'

November 21, 2025

Primary Contact

Heiko Verhaag, CFA, FRM
Frankfurt
49-69-33999-215
heiko.verhaag
@spglobal.com

Secondary Contact

Benjamin Heinrich, CFA, FRM
Frankfurt
49-69-33999-167
benjamin.heinrich
@spglobal.com

Overview

- Deutsche Pfandbriefbank's third-quarter results underlined the sluggish recovery in new business volumes that has reduced the earnings base and resulted in weaker-than-expected results.
- It also showed that derisking the book could come at a higher cost than expected earlier.
- We therefore revised the outlook on Deutsche Pfandbriefbank to negative from stable and affirmed the 'BBB-/A-3' ratings.
- The negative outlook reflects the risk of further reducing profitability and transition risk to a more sustainable business model.

Rating Action

On Nov. 21, 2025, S&P Global Ratings revised its outlook on Germany-based Deutsche Pfandbriefbank AG (PBB) to negative from stable and affirmed the 'BBB-/A-3' long- and short-term issuer credit ratings.

We also affirmed our 'BBB/A-2' long- and short-term resolution counterparty ratings on PBB. At the same time, we affirmed all issue ratings.

Rationale

Progressing exit from the U.S. could trigger additional value adjustments in coming quarters. PBB guided for a net loss of €210 million to €265 million for 2025, depending on derisking measures in the fourth quarter and related potential valuation adjustments. So far, the U.S. exit has generated losses far in excess of our initial estimates, and considerable uncertainty remains on the final markdowns that the bank will need to concede as part of its U.S. exit plan. In addition, recent loan loss provisions booked on the nonperforming loans in the German development portfolio underline remaining legacy risks, while the European investment portfolio appears to be stabilizing.

As a monoline commercial real estate (CRE) lender, PBB is exposed to a still soft transaction market in Germany and the rest of Europe. This has resulted in a downward revision of its business target and expected portfolio size as of Dec. 31, 2025. While the quality and profitability of new business appears good, the expected volume of new business remains weak, below €6 billion for 2025. Combined with prevailing relatively short average maturities of new business, this also depresses the earnings for future years, while the cost base is largely fixed. While structurally positive, the derisking activities, particularly in the U.S. book, will reduce the addressable market and tie the business outlook more toward the European CRE market, which can remain difficult for longer amid a weak macroeconomic outlook.

PBB faces a long transition toward a sustainable business model, and this is prone to execution risks. We remain cautious on the outlook for new business generation and margins in 2026 and 2027, amid the mixed economic outlook. Furthermore, we note that the bank needs to frequently refinance maturing debt, which it has been able to do successfully in 2025, in a favorable funding environment. As it proceeds with its business model transition, PBB will need to maintain investor appetite for its debt. A deterioration of funding conditions is an additional source of downside risks for the bank.

PBB's strong capitalization means it is well placed to absorb additional unexpected losses. PBB's regulatory total capital ratio of 19.7% as of the third quarter has a good buffer to its high total supervisory review and evaluation process requirement of 14.75% (unchanged for 2026). We forecast S&P Global Ratings' risk-adjusted capital ratio will exceed 13% for 2026 and 2027, compared with 12.9% as of 2024. We expect the wind-down of the U.S. business will free up capital that can be either deployed toward new lending if demand picks up materially, or distributed to shareholders. Nevertheless, the strong capitalization cannot fully shield the bank's stability from earnings pressure and weak investor perception.

The Deutsche Investment Group (DIG) acquisition expected to close in the first quarter of 2026 provides a route for revenue diversification. The acquisition is planting the seeds of greater revenue diversification and will also drive the effort to reach a 10% share of operating income in recurring fee income. However, DIG is small and has been only modestly profitable. PBB will need to create a track record to underline the tangible benefits to its business model. For now, this acquisition cannot offset the negative operating leverage from its real estate finance business amid weak loan demand. The weaker earnings base requires tight cost management and potentially further restructuring to adjust the cost base.

Outlook

The negative outlook reflects the risks that PBB faces as it seeks to transition toward a more sustainable business model.

Downside scenario

We could lower our rating over the next two years if:

- There are material strategic revisions to PBB's business model beyond the exit from the U.S.;
- PBB suffered from restricted market access at reasonable spreads for a prolonged period;

- Transactions volumes in European CRE markets do not offer sufficient new business opportunities to grow its real estate finance portfolio with appropriate risk-adjusted margins that would further pressure core profitability metrics; or
- CRE markets show renewed signs of stress due to increasing rates or weaker economic developments, which could increase risks to PBB's asset quality and capitalization.

Upside scenario

We could revise the outlook to stable if management executes on its announced derisking and new business plans without material setbacks from the external environment.

This would enable the bank to improve its risk-adjusted profitability, which should also benefit investor confidence and funding spreads.

Rating Component Scores

Rating Component Scores

Issuer Credit Rating	BBB-/Negative/A-3
SACP	bb+
Anchor	bbb+
Business position	Constrained (-2)
Capital and earnings	Strong (1)
Risk position	Constrained (-2)
Funding and liquidity	Adequate and Adequate (0)
Comparable ratings analysis	0
Support	1
ALAC support	1
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0
SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity. GRE--Government-related entity.	

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, Oct. 13, 2025
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Deutsche Pfandbriefbank's Second-Quarter Results Show Strategic Progress Is Coming At A Cost, Aug. 13, 2025
- Deutsche Pfandbriefbank AG 'BBB-/A-3' Ratings Affirmed On U.S. Exit; Outlook Stable, June 24, 2025
- Research Update: Deutsche Pfandbriefbank Outlook Revised To Stable On Stabilizing Asset Quality; 'BBB-/A-3' Ratings Affirmed, March 11, 2025
- Deutsche Pfandbriefbank AG, Jan. 17, 2025
- German Banking Outlook 2025: Resilient In The Face Of Adversity, Jan. 23, 2025
- Deutsche Pfandbriefbank Continues To Navigate Difficult Commercial Real Estate Markets, Aug. 14, 2024

Ratings List

Ratings List		
Ratings Affirmed; Outlook Action		
	To	**From**
Deutsche Pfandbriefbank AG		
Issuer Credit Rating	BBB-/Negative/A-3	BBB-/Stable/A-3
Ratings Affirmed		
Deutsche Pfandbriefbank AG		
Resolution Counterparty Rating	BBB/--/A-2	
Senior Unsecured	BBB-	
Senior Subordinated	BB-	
Subordinated	B+	
Junior Subordinated	B-	
Commercial Paper	A-3	