

Deutsche Pfandbriefbank AG 'BBB-/A-3' Ratings Affirmed; Some Hybrids Downgraded; Outlook Remains Negative

March 18, 2026

Overview

- We affirmed our 'BBB-/A-3' long- and short-term issuer credit ratings and senior unsecured (senior preferred) issue ratings as we have more confidence that PBB's sizable loss-absorbing buffers would ensure timely and full payment on its senior instruments in a resolution scenario.
- However, we think Deutsche Pfandbriefbank's (PBB's) resilience to stress has reduced due to constrained financial flexibility, modest earnings prospects amid ongoing depressed commercial real estate (CRE) markets, and elevated funding costs relative to peers.
- We consequently revised down our stand-alone credit profile (SACP) on PBB to 'bb' from 'bb+', leading to a downgrade of senior subordinated (senior nonpreferred) and subordinated instrument ratings by one notch.
- The negative outlook reflects risks tied to the bank's plans to transition to a more sustainable business model.

Rating Action

On March 18, 2026, S&P Global Ratings affirmed its 'BBB-/A-3' long- and short-term issuer credit ratings on Germany-based Deutsche Pfandbriefbank AG (PBB). We also affirmed the 'BBB-' senior unsecured issue ratings and the 'B-' issue rating on its junior subordinated instrument.

At the same time, we downgraded PBB's senior subordinated debt to 'B+' from 'BB-' and its subordinated debt to 'B' from 'B+'. The outlook remains negative.

We also affirmed our 'BBB/A-2' long- and short-term resolution counterparty ratings on PBB.

Rationale

PBB's earnings will remain weak and financial flexibility is shrinking. We acknowledge the bank's strong S&P Global Ratings risk-adjusted capital ratio that we expect to remain at 12%-13%, but no longer consider its capital and earnings profile a rating strength. That said, PBB has

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limited financial flexibility given its weak earnings profile, which we expect will recover only gradually over our outlook horizon through 2028, from falling costs related to the synthetic risk transfer (SRT) and some higher-margin new business. The relatively low preprovision operating income, despite improving in our forecast, offers limited protection against potentially additional loan loss provisions from the real estate finance book. At the same time, we think PBB has few options to improve its regulatory capital base, if needed. PBB reported material negative effects on its year-end 2025 regulatory capital ratios, which are procyclical and offset the positive risk-weighted asset (RWA) impact of the SRT transaction. In particular, the removal of preferential collateralized loss given default (LGD) levels in RWA calculations on the U.S. portfolio, which we expect PBB will need to apply, will further reduce the common equity Tier 1 (CET1) ratio by an estimated 135 basis points (bps). Considering the capital impact from the Deutsche Investment Group (DIG) acquisition, this would bring the pro forma end-2025 CET1 ratio to approximately 13.3%, roughly 340 bps above its regulatory CET1 requirement. The buffer to its total capital requirement of 14.78% would be lower, at around 240 bps.

PBB faces a long transition toward a sustainable business model, and this remains prone to execution risks. We remain cautious regarding new business generation and margin prospects in 2026 and 2027, as well as asset quality within PBB's European investment loan portfolio, given the uncertain economic outlook and the potential for sustained inflation and rising interest rates. A worsening external environment could further delay or jeopardize the success of the transformation. The tangible benefits of real estate investment solutions remain to be demonstrated, and we anticipate organic expansion will be only gradual. The recent acquisition of DIG is expected to add approximately €40 million in revenue in 2026, supporting PBB's target of generating 10% of operating income from fees. Despite this revenue contribution, we do not expect the acquisition to meaningfully improve bottom-line profitability in the near term.

PBB's funding disadvantage is a rating weakness. Despite PBB's access to diversified funding sources and a generally good match of asset and liability maturities, we now incorporate the competitive disadvantage of elevated funding costs in our rating construct. Its wholesale-driven funding profile is prone to higher volatility of funding costs and dependent on regular refinancing access compared with local peers with more resilient funding profiles. Its access to retail deposits provides a more stable and cheaper funding source, but these balances are also somewhat price sensitive. The improved funding and liquidity metrics that we expect for year-end 2025 do not offset this structural weakness in our view. In fourth-quarter 2025, PBB showed a marked reduction in its loans and advances to customers (across real estate finance and noncore segments), while its debt securities increased in a similar magnitude. This movement reduced stable funding needs and strengthened the bank's liquidity position, in our view. The regulatory liquidity coverage ratio (LCR) increased accordingly to 379% in the fourth quarter from 209% in the third quarter.

As PBB progresses with its business model transition, maintaining investor appetite will be crucial, particularly in the context of increasing geopolitical risks and potentially rising reference rates.

PBB made significant strides in derisking its balance sheet in 2025. While the nonperforming loan (NPL) ratio increased to 7.4% from 5.4%, the bank effectively protected its performing U.S. portfolio through a costly SRT and raised the coverage ratio of its U.S. NPL book to 36%. Furthermore, PBB improved coverage of its German development NPLs to 29% in 2025, with no new defaults observed. We anticipate a material decrease in loan loss provisions as a percentage of total exposure, toward the bank's guidance of 25-30 bps. Although the U.S. portfolio covered by the SRT could generate additional NPLs, these would be covered by the associated credit

protection. Given PBB's strategic exit from the U.S. market, we expect accelerated progress in NPL workout over 2026.

We have more confidence that PBBs' high buffers of additional loss absorbing capacity (ALAC) would protect senior unsecured creditors in a resolution scenario. We reflect ALAC uplift above our SACP based on our expectation that, if it failed, PBB would be subject to a resolution action where the Single Resolution Board would initially try to sell the bank. We now include two notches of ALAC uplift in our long-term issuer credit rating on PBB, rather than one notch before. Relative to our previous consideration of this aspect (see "[Deutsche Pfandbriefbank Outlook To Stable From Negative On Resolution Clarity And Sound Performance: Ratings Affirmed](#)," March 18, 2022), we now have more confidence that at the point of nonviability a resolution action would ensure the full and timely payment on senior preferred debt. We expect PBB can maintain a sizable ALAC buffer, above 7% of S&P Global Ratings' RWAs by year-end 2028, compared with an estimated 10% as of Dec. 31, 2025. While PBB has not issued senior nonpreferred debt for many years, given its still high existing legacy buffers, the reducing RWAs lead to existing high ALAC buffers. The two notches of uplift to PBB's 'bb' SACP, are line with other banks showing ALAC buffers of more than 6%. Going forward, we think the revision to the EU Crisis Management and Deposit Insurance framework could increase the likelihood of bail-ins for European banks (see "[The European Bank Resolution Story Ten Years On](#)," Dec. 16, 2025).

We affirmed the additional Tier 1 instrument rating at 'B-'. These junior subordinated instruments were already rated at 'B-' and we do not see greater vulnerability to nonpayment over the next 12 months. We understand that PBB currently meets the conditions to pay the coupon in April.

Outlook

The negative outlook reflects the challenges facing the bank in repositioning its business model during a period of geopolitical and market volatility. Over the next 12-24 months, PBB will look to maintain investor appetite for its debt and ensure sufficient capital headroom above regulatory requirements, while growing its new business.

Downside scenario

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

- CRE markets show increased signs of stress due to increasing rates or weaker economic developments, which could increase risks to PBB's asset quality and would further pressure core profitability from lower lending volumes.
- Financial losses or additional regulatory impact depressed regulatory capital ratios beyond what we currently expect and increase the risk of a regulatory capital breach.
- PBB suffered from restricted market access at affordable pricing for a prolonged period.
- We have doubts that available ALAC buffers would be used to protect senior unsecured investors or if the ALAC buffer was expected to fall to below 6%.

Upside scenario

We could revise the outlook to stable if management makes tangible progress against its announced strategic agenda and new business plans without material setbacks from the external environment or constraints from its capital position.

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

	To	From
Issuer Credit Rating	BBB-/Negative/A-3	BBB-/Negative/A-3
SACP	bb	bb+
Anchor	bbb+	bbb+
Business position	Constrained (-2)	Constrained (-2)
Capital and earnings	Adequate (0)	Strong (1)
Risk position	Moderate (-1)	Constrained (-2)
Funding and liquidity	Moderate and Adequate (-1)	Adequate and Adequate (0)
Comparable ratings analysis	0	0
Support	2	1
ALAC support	2	1
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	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 | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions](#), Dec. 9, 2021
- [Criteria | Financial Institutions | General: Financial Institutions Rating Methodology](#), 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: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings](#), Oct. 1, 2012
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

Related Research

- [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
- [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

Ratings List

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Ratings Affirmed

Deutsche Pfandbriefbank AG

Issuer Credit Rating	BBB-/Negative/A-3
Resolution Counterparty Rating	BBB/--/A-2
Senior Unsecured	BBB-
Junior Subordinated	B-
Commercial Paper	A-3

Downgraded

	To	From
Deutsche Pfandbriefbank AG		
Senior Subordinated	B+	BB-
Subordinated	B	B+

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