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German Banks Outlook 2026

Stable outlook supported by earnings, cost efficiency despite some asset quality pressures

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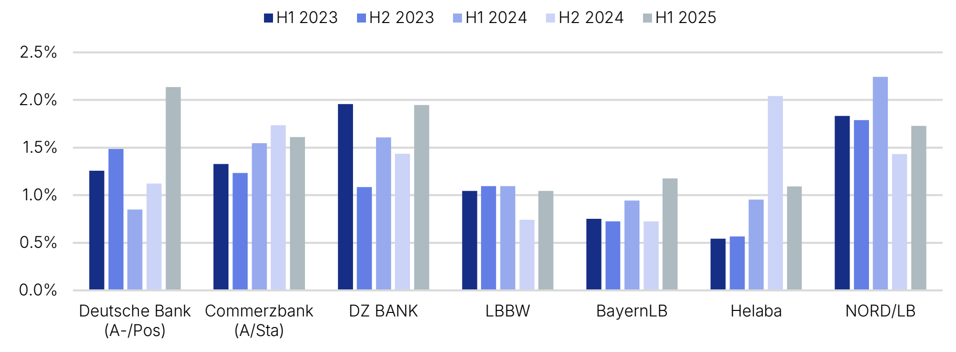
- Germany's largest banks are likely to turn in stable earnings through the remainder of 2025 and into 2026. Cost of risk will remain relatively elevated in a still uncertain macroeconomic environment but should be manageable overall. Robust retail asset quality and a gradual recovery in commercial real estate (CRE) are stabilising factors.
- Downside risks remain high particularly regarding asset quality. The low levels of transactions in CRE makes it hard to determine valuations. Uncertainty in international trade and geopolitics is clouding the outlook. Banks also face more competition from fintech firms, pointing to more disruption in the market for retail deposits.
- Reforms are continuing to strengthen cohesion in the German savings and cooperative bank systems. Aggregate performance is expected to remain robust in both systems.

  The start of contributions to the additional, risk-based support fund in the savings banks' institutional protection scheme (IPS) will modestly weigh down on members' stand-alone profitability but also incentivise lower-risk business models which is credit positive.

  The cooperative banking sector is improving governance and risk monitoring, among other elements, drawing on lessons learnt from recent support cases in the sector's IPS, some of which were relatively high profile.

Figure 1: German banks' annualised return on risk-weighted assets (RoRWA)*

%



Source: SNL, Scope Ratings.
* This is a proxy for capital generation before distribution, although there are certain items that are deducted from capital. Note: results were not corrected for non-recurring items.

Our expectations of 2026 trends for major German banks		
Profitability	→	Broadly stable profitability, supportive revenue trends; some cost inflation despite cost control
Asset quality	↘	Moderate worsening; some improvements in CRE; material downside risks
Capital position	→	Robust and stable capitalisation; high pay-out ratios among large, private banks
Funding and liquidity	→	Stable funding base, with deposit growth mostly via sight deposits, moderate capital markets funding needs

1. Operating performance expected to remain broadly stable

Operating performance should remain supportive…

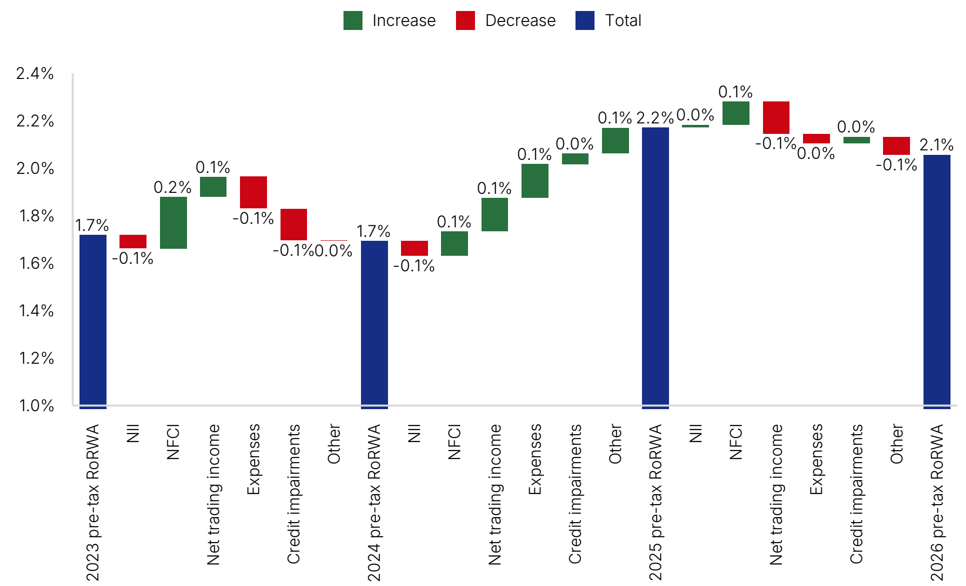
We expect Germany's largest banks[1] to continue to post robust results in coming quarters, driven by broadly stable net interest income and robust growth rates in net fee and commission income (**Figure 2**). While we expect some cost inflation, issuers will retain a strategic grip on costs as efficiency programmes yield results. This should lead to further convergence with internal efficiency targets and EU peer levels, although German banks' cost-to-income ratios (CIR) will stay structurally higher than in other jurisdictions.

… with lending margins and volumes acting as core supports.

With the ECB policy rate projected to remain stable at 2.0% until at least end-2026, and German Bund 10-year yields at around 2.6%, bank lending spreads should remain healthy, especially as repricing towards lower-yielding deposits has continued. Lending volumes are gradually recovering from very low levels, particularly for mortgage lending.

Figure 2: Broadly stable profitability expected despite relatively high loan loss provisions

%



Aggregated base case forecasts for Commerzbank, Deutsche Bank, DZ BANK, BayernLB, Helaba, LBBW and NordLB.
NII = Net interest income, NFCI = Net fee and commission income. Source: SNL Financial, Scope Ratings

Returns on risk-weighted assets set to improve

We expect the aggregated RoRWA of banks in our sample to improve to 2.2% in 2025, from 1.7% in 2024. Discounting for the denominator effect – RWAs declined materially due to the first-time application of CRR III in January 2025 - RoRWA should still improve to around 2.1%.

Revenues expected to remain stable for 2025/26…

The main driver is the relatively moderate drop in net interest income, which is broadly offset by improvements in net fee and commission income. Aggregate net trading income should perform robustly as well, mostly due to results at Deutsche Bank (A-/Positive).

… with expenses expected to grow only moderately.

Expenses will decline by around 3% YoY this year. This is driven by a broad focus on cost efficiency across large banks, as well as an expected decline in non-operating costs at Deutsche Bank, which booked significant provisions in 2024 related to its takeover and the associated share price of Postbank in 2010.

Commerzbank (A/Stable) recorded an increase in costs, also due to its restructuring programme. The Landesbanken will continue to focus on medium-term efficiency, but they will need to absorb personnel-related cost increases as well as IT costs and contributions to the sector's IPS.

[1] Commerzbank, Deutsche Bank, DZ BANK, and the four largest Landesbanken (BayernLB, Helaba, LBBW and NordLB).

For 2026, we expect a broad continuation of these trends, with RoRWA expected to decline only moderately to 2.1%. Revenue trends should remain supportive with both net interest and net fee and commission income providing a solid basis for banks to continue to focus on cost efficiencies, further revenue diversification and digitalisation.

Expected RoE still trailing large EU peers

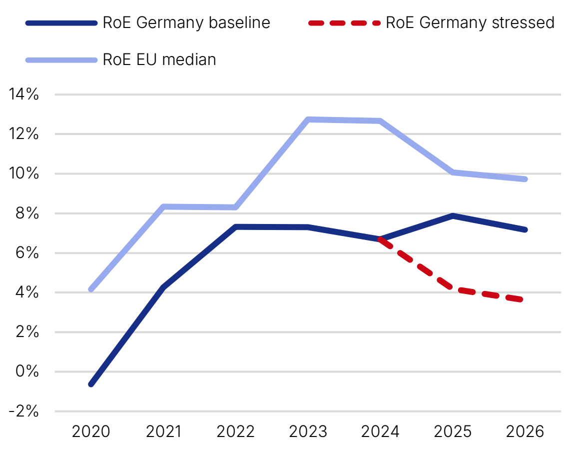
Finally, operating performance should act as a buffer to downside risks, most prominently on asset quality. In a baseline scenario, return on equity should remain stable at around 8%, which is still below our forecast for the median of large EU banks over the same period of 10%.

Operating performance as solid risk buffer for stressed scenario

In a stress scenario, with net interest margins declining by 30 bps to 1.9% in 2025/26, from 2.2% assumed in the baseline scenario, and cost of risk doubling to 58bps on average, we project most banks to remain profitable (**Figure 4**). At the same time, some banks would post very low or even moderately negative net results, signalling lower buffers to external shocks. For a summary of the forecasting results, see Appendix I.

Figure 3: Return on equity (RoE), Germany vs EU median*

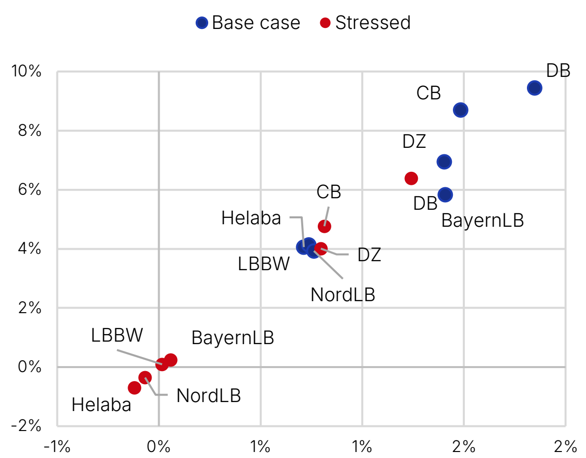
%



* Scope forecasts. The stress scenario assumes a 30bps contraction in the net interest margin and a 30bps increase in cost of risk against the baseline for 2025/26.
Source: SNL Financial, Scope Ratings

Figure 4: RoRWA and RoE

RoRWA on x-axis, RoE on y-axis, average for 2025-26 in %



CB = Commerzbank, DB = Deutsche Bank, DZ = DZ BANK
Source: SNL Financial, Scope Ratings

Net interest income supported by recovering lending margins and volumes

Lending volumes are recovering from a low base

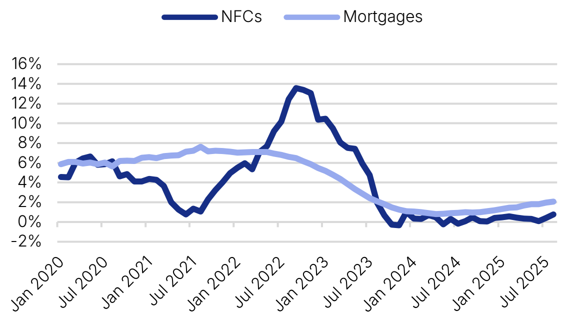
After a prolonged period of subdued lending activity, with the YoY change in loans outstanding approaching zero for lending to non-financial corporates (NFCs) and for house purchases, volumes have been recovering.

Lending to NFCs expanded by 0.8% and mortgage lending by 2.1% in August 2025 (**Figure 5**). We expect this to carry over into the remainder of the year and into 2026, with German real GDP growth recovering to 1.2% next year, from just 0.2% this year.

Figure 5 and 6: Mortgage lending volumes and margins are recovering

Lending to non-financial corporates and for house purchase

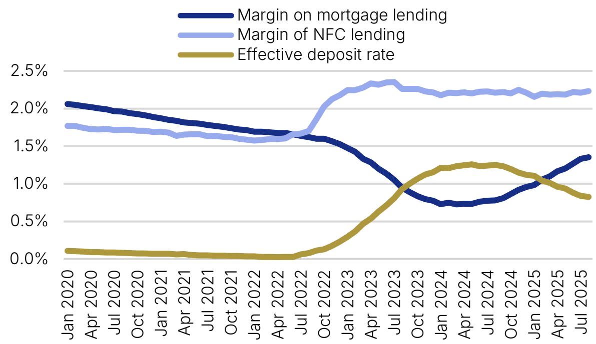
YoY %-change



Source: Deutsche Bundesbank, Scope Ratings

Margin on lending to NFCs and for house purchase

On outstanding amounts, %



Source: Deutsche Bundesbank, ECB, Scope Ratings

Still solid margins on outstanding loans to non-financial corporates

Margins on outstanding loans to NFCs have proven robust at around 2.3% since the turn of the interest-rate cycle in 2022, while margins on mortgages have taken longer to reprice. As of August 2025, the lending margin on mortgages was 1.4%, up from a trough of 0.7% in March 2024. Lending margins are calculated as the effective volume-weighted rate of outstanding loans versus the volume-weighted effective rate for retail and corporate deposits.

Declining deposit renumeration supports lending margins

Net interest income has benefited from deposit repricing in recent quarters, with households and corporates shifting to low-yielding sight deposit (renumerated at just 0.43% for households and 0.65% for corporates in August 2025). The share of sight deposits of total deposits increased to 74% in August 2025, from a record-low share of 71% in 2022.

Finally, structural portfolio hedges will stabilise net interest income for select banks. These include Deutsche Bank, which maintains a hedge portfolio with a EUR 245bn notional and average duration of around 4-5 years, thereby locking in the vast majority of the hedge's NII for 2025/26. Commerzbank has a EUR 147bn deposit replication portfolio in place with average duration of 3.6 years.

Heterogeneity in NII performance driven by business mix, hedging

Despite the aggregate robust trend, banks in our sample show significant differences in relative performance. On net interest income, Deutsche Bank displayed NII growth of around 8% in H1 2025 versus the same period last year, which can be attributed to some accounting asymmetries but also results from its structural hedge and stable NII in the banking book. This trend was continued in the third quarter of 2025. Commerzbank has similarly displayed resilience with a guided NII of EUR 8bn in 2025, from EUR 8.3bn in 2024, with its structural hedge contributing an expected EUR 400m in additional NII.

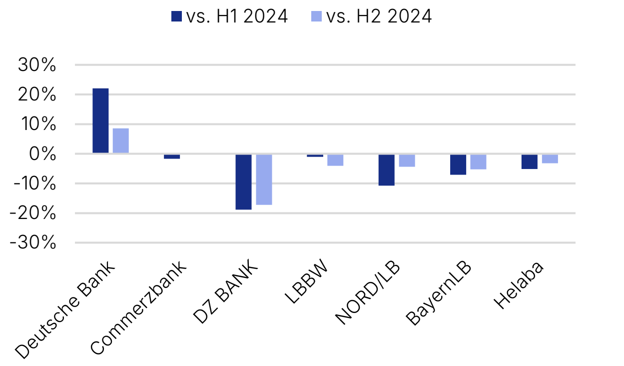
For DZ BANK and the Landesbanken, net interest income has already started to decline off their respective peaks. This is partly due to accounting effects, for example at DZ BANK, which saw a decline in NII of 19% in H1 2025 vs H1 2024. At the same time, NII levels still compare favourably to pre-2022 levels, and will continue to provide support to operating performance.

Net fee and commission income as a broad-based growth driver

Net fee and commission income has been a key growth driver in H1 2025, which we expect to continue. Most banks in our sample posted robust single-digit growth rates, driven by a broad-based performance in asset management, payments, securities, risk management solutions and investment banking.

Figure 7: Net interest income in H1 2025

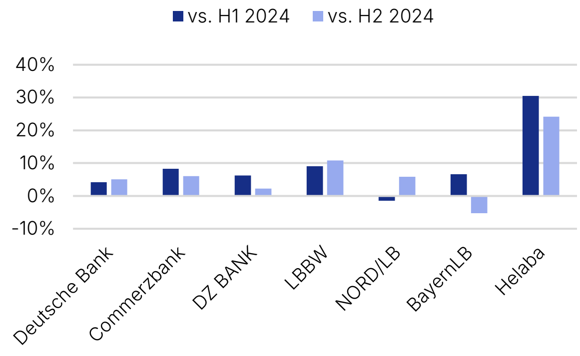
%-change



Source: SNL Financial, Scope Ratings

Figure 8: Net fee and commission income in H1 2025

%-change



Source: SNL Financial, Scope Ratings

Cost management in focus; efficiency targets in sight for largest private banks

Deutsche Bank on track to meet its efficiency targets

We observe a broad commitment to adhering to cost control and efficiency goals to gradually align typically high cost-to-income ratios more closely with those of European peers. Deutsche Bank's efficiency programme has been on track and will likely allow the bank to meet its cost target of EUR 5bn of quarterly adjusted costs, with a cost-to-income ratio target of below 65% for 2025.

Commerzbank's restructuring costs were frontloaded in H1 2025

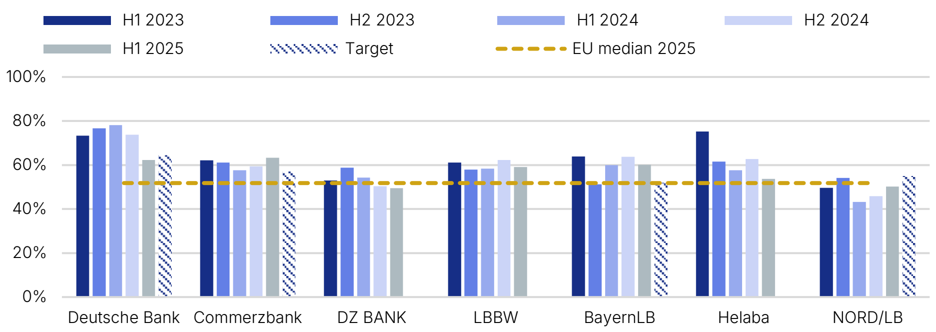
Commerzbank aims for a CIR of around 57% before restructuring expenses, which should be in reach if revenues perform as expected. The bank booked EUR 534m in restructuring expenses in H1 2025, out of a total EUR 600m in total expected restructuring costs, mostly relating to a head-count reduction in Germany of around 3,300 full-time equivalents until 2028.

Landesbanken face some cost inflation, but focus on costs remains intact

Finally, the Landesbanken to remain committed to managing costs to offset adverse impacts, such as the collective bargaining agreement reached in 2024, IT related costs, as well as modestly higher contributions to a new fund within the savings sectors' IPS.

Figure 9: Efficiency should converge further to targets and EU peers

Cost-to-income ratio*, %



* Operating expense as a percent of operating income (both unadjusted), might differ from figures presented by issuers.
Source: SNL Financial, issuers, Scope Ratings

2. Cost of risk should stabilise, but macroeconomic outlook remains fragile

Relatively elevated cost of risk in coming quarters…

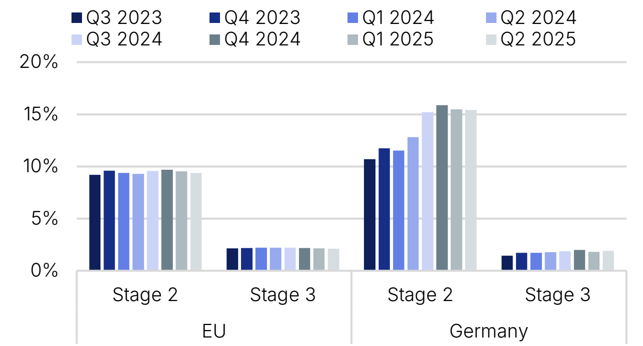
Germany's banks need robust operating performance to absorb the relatively high cost of risk in coming quarters. IFRS stage 3 exposures have increased from 1.3% in Q1 2023 to 1.9% in Q2 2025, and Stage 2 exposures have increased to 15.4% from 9.6% over the same period. Credit quality has deteriorated the most in manufacturing, real estate and the wholesale & retail sectors. The proportions of Stage 2 and Stage 3 exposures have stabilised since peaking in Q4 2024, but a re-crystallisation of risks, for example in export-oriented sectors or in CRE would materially weigh on banks' results.

In our baseline scenario, we project average cost of risk at around 30bps, broadly in line with its level in 2024. Banks would conservatively retain their stock of post-model adjustments as a buffer for unexpected shocks such as US tariff policy.

... at an expected 30bps on average in 2025/26.

Figure 10: IFRS Stage 2 and Stage 3 exposures

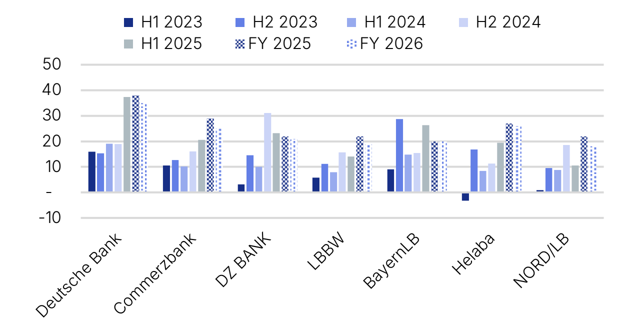
% of total



Source: EBA Risk Dashboard, Macrobond, Scope Ratings

Figure 11: Cost of risk should remain broadly stable

Loan loss provisions, bps of average outstanding loans

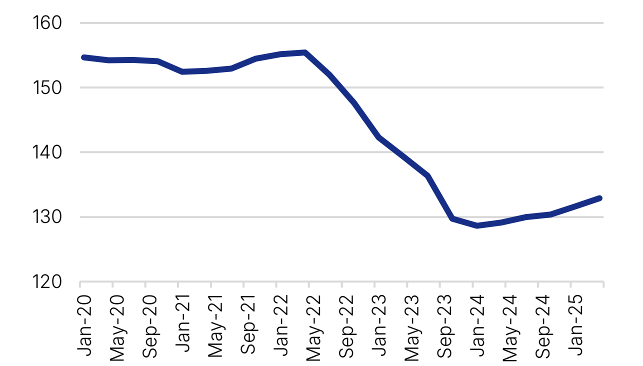


Source: SNL Financial, Scope Ratings

In commercial real estate, signs of a gradual recovery from mid-2024 have solidified, with the vdp price index for commercial real estate expanding for five quarters (**Figure 12**). At the same time, transaction volumes remain relatively subdued, although they have recovered gradually as well, and the price index remains well below its mid-2022 level.

Figure 12: CRE prices are gradually recovering

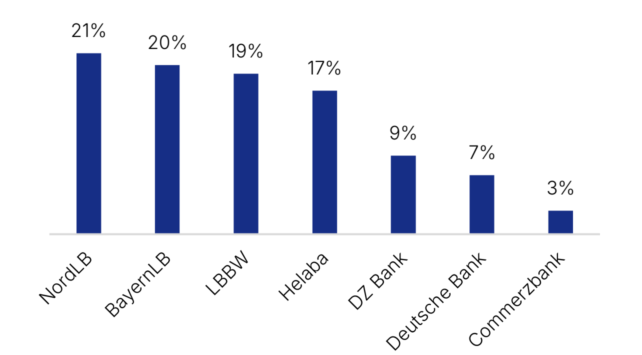
vdp price index for commercial real estate



Source: Association of German Pfandbrief Banks (vdp), Macrobond, Scope Ratings

Figure 13: Landesbanken have substantial CRE exposures

CRE exposure, % of total loans as of H1 2025



Source: Issuers, Scope Ratings

For most banks in our sample, in particular Deutsche Bank and the Landesbanken, CRE has represented a main source of loan-loss provisions in recent quarters. For Deutsche Bank, the non-recourse CRE portfolio amounted to around EUR 32bn, or 7% of total loans, EUR 26bn of which are subject to regular stress testing. In the first nine months of 2025, the bank had to book relatively high loan loss provisions in the US CRE portfolio due to model updates and IFRS stage 3 exposures.

Material CRE exposures, especially among large Landesbanken

Landesbanken have substantial CRE portfolios, ranging from 17%-21% of total loans, including significant exposures to US CRE for Helaba and LBBW. Hence, a further recovery in the CRE markets, albeit assumed to be gradual and potentially uneven, including in the US, would significantly benefit these lenders.

3. Support fund moderately affects Landesbank earnings, strengthens cohesion

The Sparkassen-Finanzgruppe (SFG), Germany's largest banking group with a market share of 34% (based on retail deposits), reformed its institutional protection scheme (IPS) in 2023, with a key element being the introduction of a second guarantee fund, complementing the existing support fund that also acts as the sector's deposit insurance fund. Member institutions started to contribute annual payments this year. The payments are scheduled to run until 2032 when the target volume of 0.5% of total RWA should be reached (EUR 5.9bn based on 2024 RWA). This additional fund will enable the system to react to potential support cases with higher ex-ante paid-in funds and quicker response times, strengthening the group's overall cohesion.

New IPS contributions represent 4%-12% of after-tax net profit

Landesbanken, as members of the IPS, have started their contributions as well. For 2025, LBBW will pay EUR 77m, BayernLB EUR 37m and NordLB EUR 31m (based on its total indicative contribution of EUR 245m until 2032). These contributions represent a moderate, but still measurable, impact on net after-tax net profit for these institutions of between 4% and 12% for 2025/26.

We view the fact that members' contributions are based on relative riskiness as positive, as it incentivises lower-risk business models, in line with the sector's conservative risk appetite and prudent risk management. This is core to sector cohesion. Burden-sharing in the support funds is likely to remain risk-based. In this context, there could be some regulatory relief in the EU, including for Small and Non-complex institutions (SNCIs). While the timing and exact substance remain open, regulatory simplification for SNCIs would disproportionally impact Germany's fragmented banking sector as, according to Bafin, around three quarters of German banks meet the criteria to be classified as SNCIs, including many of the 343 savings banks.

4. Cooperative banks IPS reform improves governance and risk management

'Geno next level' reform aims to draw lessons from recent cases

Germany's cooperative banks, with a market share of 24% (based on retail deposits), are progressing on reforming the sector's IPS, implementing lessons learned from recent support cases over the past two years. These included high-profile cases requiring relatively high support from the system, although cases appear idiosyncratic and not connected systemically.

The reform package 'Geno next level' is targeted at improving governance, monitoring and risk management. The reform should support early identification and intervention to avoid support cases in a greater number of instances. For example, the IPS' monitoring will more closely scrutinise members that plan to expand outside of their home region or into new business areas.

The reform is positive as it should allow the IPS to spot potentially riskier members earlier and intervene more forcefully to reduce non-core activities and re-align individual member's risk appetite with commonly accepted system-wide principles.

Appendix 1. Forecast summary

	Actual - average	Baseline scenario		Stress scenario	
Assumptions	**2021-2024**	**2025F**	**2026F**	**2025F**	**2026F**
Customer loan growth	3.3%	2.0%	2.3%	2.0%	2.3%
Customer deposit growth	4.6%	3.0%	2.9%	3.0%	2.9%
RWA growth	1.7%	-4.9%	1.3%	-4.9%	1.3%
NIM (% on customer loans)	2.2%	2.2%	2.2%	1.9%	1.9%
Fee growth (%)	5.1%	4.9%	4.4%	4.9%	4.4%
Cost growth (%)	1.5%	-3.2%	0.9%	-3.2%	0.9%
CoR (bps of loans)	21	28	26	58	56
Tax rate (%)	23%	27%	30%	27%	30%
Minority rate (%)	2%	3%	3%	3%	3%
Key Ratios	**2021-2024**	**2025F**	**2026F**	**2025F**	**2026F**
Cost/ income ratio (%)	69.9%	61.6%	62.8%	66.7%	68.0%
Pre-impairment operating profit/ average RWAs (%)	1.8%	2.6%	2.5%	2.1%	2.0%
Impairment on financial assets / pre-impairment income (%)	17%	18%	17%	45%	47%
Return on average RWAs (%)	1.1%	1.5%	1.4%	0.8%	0.7%
Common equity tier 1 ratio (%, transitional)	14.5%	16.2%	16.4%	15.9%	15.9%

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Mid-year European bank outlook: earnings expected to stay resilient through risks skewed to downside, July 2025

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Deutsche Bank: Improved profitability outlook on non-operating cost normalisation, February 2025

Bank Outlook 2025: Sound fundamentals in less benign rate environment amid geopolitical uncertainty, January 2025

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