



German Banking Outlook 2025

Resilient In The Face Of Adversity

S&P Global
Ratings

Benjamin Heinrich

Claudio Hantzsche

Jan. 23, 2025

This report does not constitute a rating action

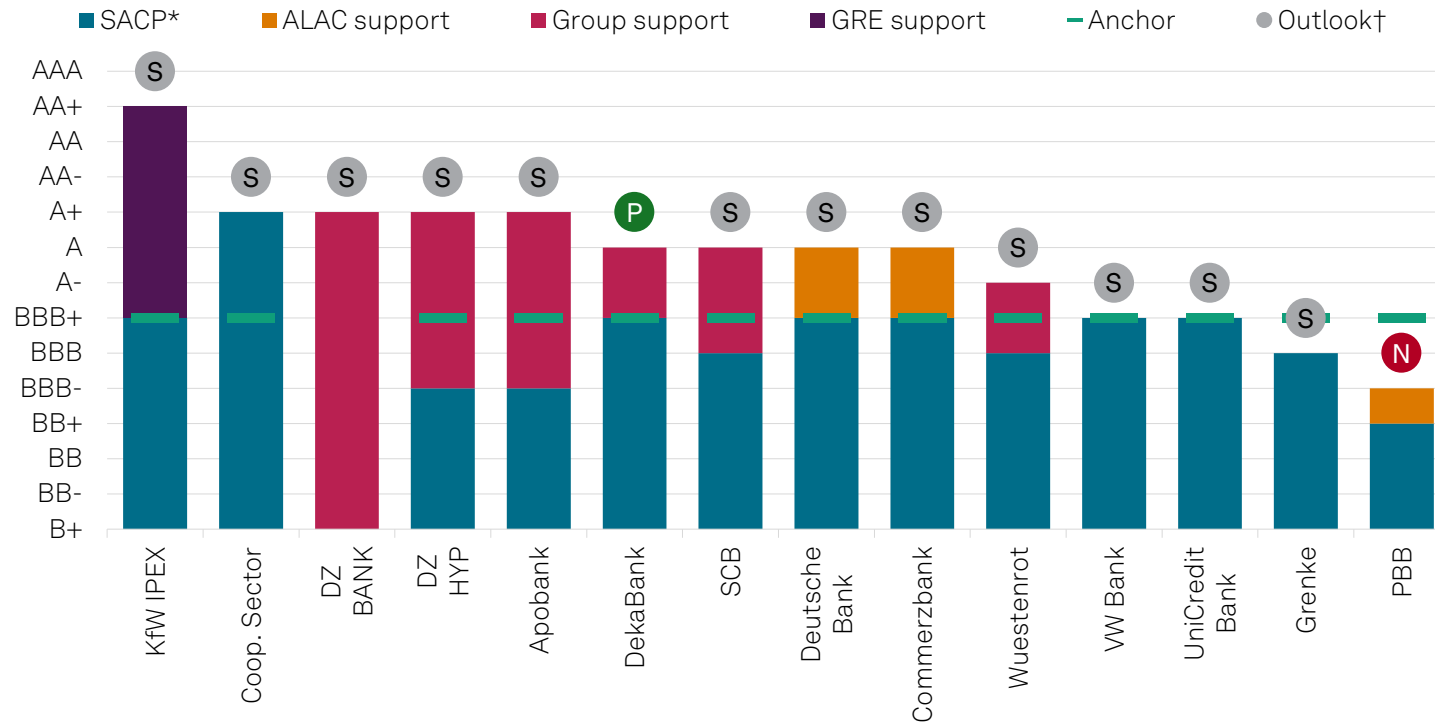
Key Takeaways

- The outlooks on most German banks remain stable, which makes rating changes unlikely over the next two years. We expect German banks' earnings will remain robust in 2025, following a rebound in 2024. German banks' profitability may continue to lag that of peers.
- A potential spike in banks' asset quality could impair our forecast if another economic deterioration significantly reduces the creditworthiness of German small and midsize enterprises (SME), especially in sectors such as automotive, machinery, real estate, or generally energy-intensive sectors.
- Based on our modelled severe stress scenarios, however, we believe German banks would remain largely resilient if credit losses reached historical highs and interest margins simultaneously reduced to 2021 levels.
- We think the potential for further market corrections in German commercial real estate (CRE) remains substantial. Losses could materialize if liquidity issues force market participants to sell larger volumes at significant discounts.
- We forecast that rated German banks will maintain strong funding and liquidity metrics, benefiting from a robust domestic deposit market. High savings rates spur deposit growth and keep funding costs low.
- A potential merger between UniCredit and Commerzbank could consolidate domestic corporate lending considerably. We do not foresee any other significant market consolidations.

Our Ratings On German Banks

Resilience despite economic challenges

German bank ratings



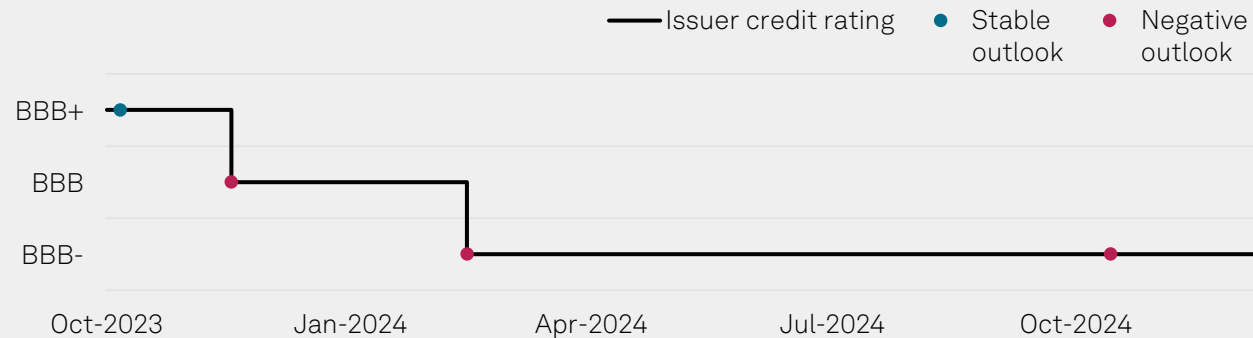
Note: Data reflects ratings and outlooks as of Jan. 23, 2025. List excludes development banks and German subsidiaries of international banking groups without a separate SACP. *Stand-alone credit profile or Unsupported group credit profile for rated groups. †Outlook labels: N--Negative. P--Positive. S--Stable. ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. Coop. Sector--Cooperative banking sector Germany. ApoBank--Deutsche Apotheke- und Ärztebank. PBB--Deutsche Pfandbriefbank AG. SCB--Santander Consumer Bank. VW Bank--Volkswagen Bank GmbH. Source: S&P Global Ratings.

- In November 2024, we affirmed the ‘BBB/A-2’ ratings on Grenke in November 2024, despite an uptick in risk costs.
- In September 2024, we revised the outlook on DekaBank to positive from stable on improving support capacity from its owner, the German savings banks.
- In February 2024, we lowered the ratings on Deutsche Pfandbriefbank AG (PBB) to ‘BBB-/A-3’ from ‘BBB/A-2’ on protracted pressure from CRE markets on its asset quality. We affirmed the ‘BBB-/A-3’ ratings in October 2024, following PBB’s strategic update. The outlook remained negative.
- In August 2024, we raised the ratings on Commerzbank to ‘A/A-1’ from A-/A-2’ on enhanced structural profitability and capital buffers.
- In July 2024, we affirmed the ‘BBB+/A-2’ ratings on Volkswagen’s captive finance entities after a major reorganization.

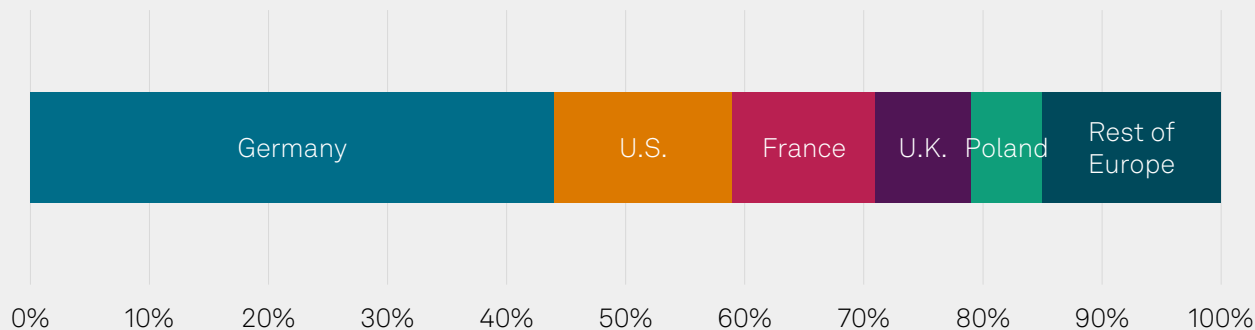
In Focus: Deutsche Pfandbriefbank AG (PBB)

The CRE-centric business model is under pressure

PBB's issuer credit rating trajectory



PBB's CRE loan book distribution by country



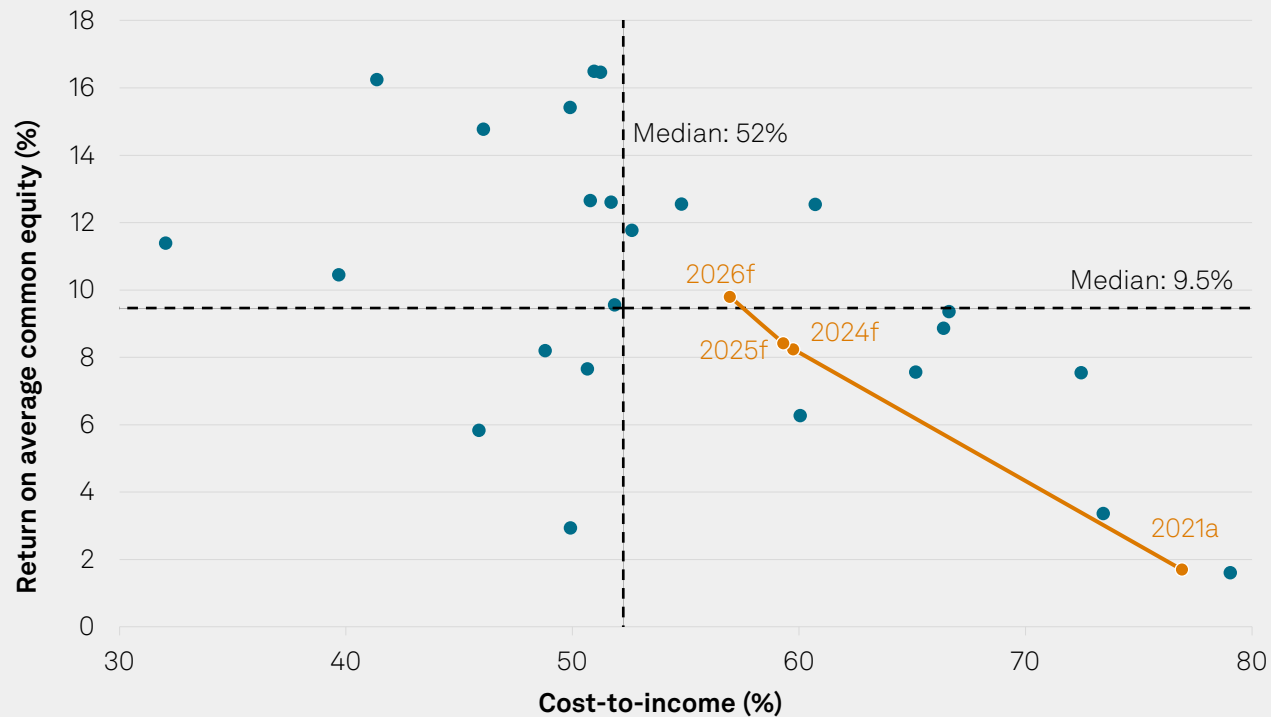
Source: Deutsche Pfandbriefbank. Data as of third-quarter 2024. S&P Global Ratings.

- We have lowered our rating on PBB by two notches to 'BBB-' from 'BBB+' since November 2023. The outlook is negative.
- The rating actions reflected sudden and mounting credit losses, particularly in the U.S. office segment. Recent events also highlighted weakening investor confidence regarding the bank's monoline business model and predominantly wholesale funding structure.
- The amount of PBB's credit losses currently remains the main consideration for our rating. We expect PBB will remain profitable against a challenging market context.
- We estimate credit losses of about 40 basis points (bps) in 2024 and forecast credit losses below 30 bps from 2025.
- We could lower our rating on PBB if CRE markets remain challenging for an extended period and erode the bank's asset quality and capital position. We could also lower the rating if weakening investor confidence restricts the bank's market access.

In Focus: Commerzbank AG

UniCredit has invested in the German lender

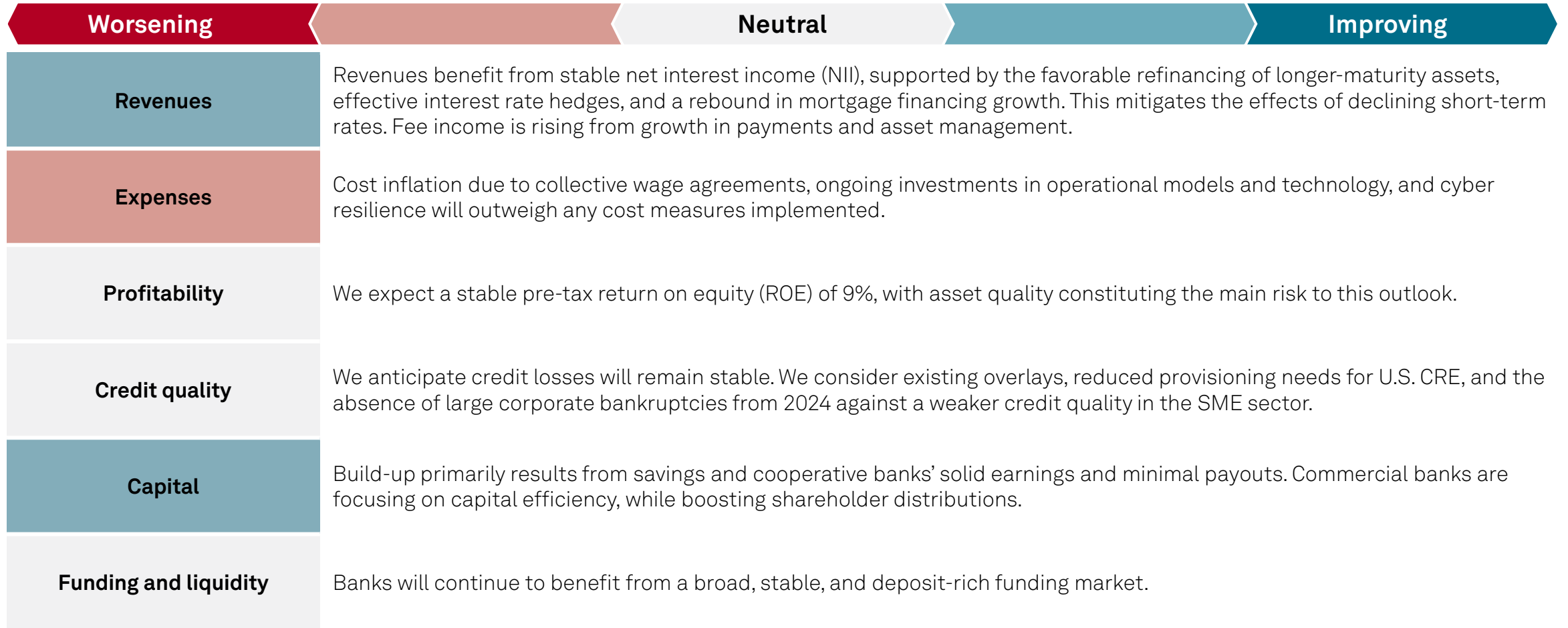
Commerzbank's efficiency and profitability metrics align with those of peers



Data points highlighted in red refer to forecast 2024 return on equity and efficiency ratios for selected peers. a--Actual. f--Forecast. Source: S&P Global Ratings.

- The upgrade to 'A' reflected improvements in profitability and Commerzbank's resilience to stress. The bank successfully aligned its business model, by cutting costs significantly.
- Management aims to further expand its franchise, diversify revenue streams, and continuously enhance profitability and capital returns.
- UniCredit's (BBB+/Stable) economic exposure to Commerzbank amounts to about 28%. In case of a full takeover attempt, the ratings on Commerzbank could come under pressure, considering the rating on Commerzbank is three notches above the rating on UniCredit.
- The likelihood of success of a potential takeover and the realization of benefits from synergies with UniCredit's existing German operations will hinge on the backing by various stakeholder groups, including the German state, which currently retains a 12% stake.

2025 Forecast | Resilience Prevails



Forecast for the next 12 months. Source: S&P Global Ratings.

Key Risks



Geopolitical risks

Germany's economic model is facing structural challenges and is more sensitive to geopolitical risks. This could lead to financial instability, further dampen the economic outlook, and impair banks' fee-generating asset base. Geopolitical risks heighten the likelihood of successful cyber attacks, which can weaken the operational resilience of banks.



Prolonged economic downturn

A significant rise in corporate insolvencies and unemployment rates--two critical leading indicators of asset quality--above their long-term averages could increase credit losses, especially within banks' SME portfolios.



Potential CRE fire sale

Prices in the office sector have stabilized, but transaction volumes remain low, hindering fair price discovery. Market values may decline further if liquidity issues force counterparties to sell at significant discounts, potentially leading to increased credit losses across the system. Larger redemptions within open-end real estate funds can increase risk further.

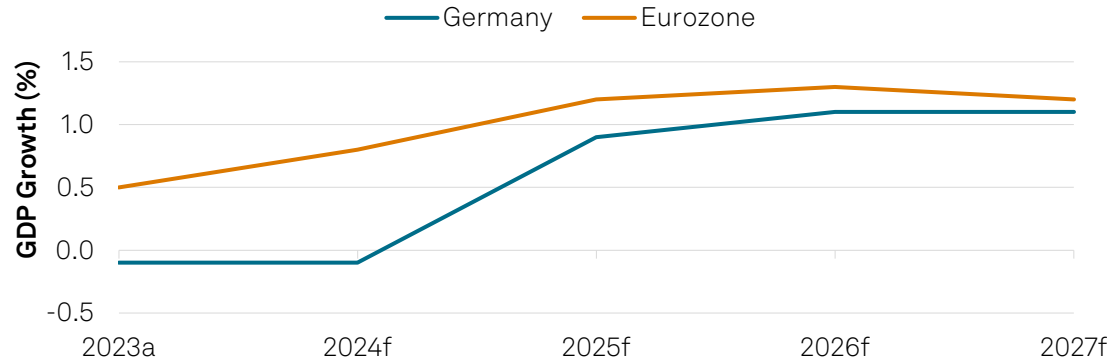


Credit models underestimating reality

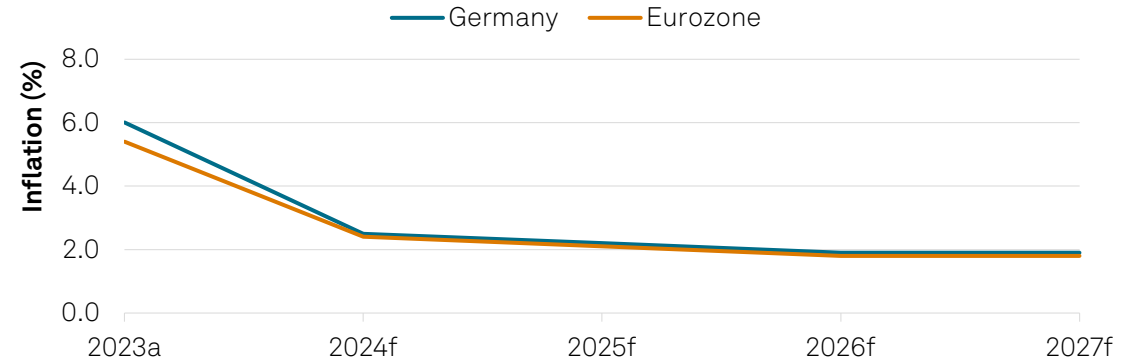
German banks' coverage ratios are below the EU average. The current low provision levels could result from historically low insolvency rates in the corporate sector. Mortgage lending values could also prove less stable than expected in a severe real estate downturn. Revisions could increase credit losses and affect regulatory risk weights and capital ratios.

Our Economic Base Case Suggests A Gradual Recovery

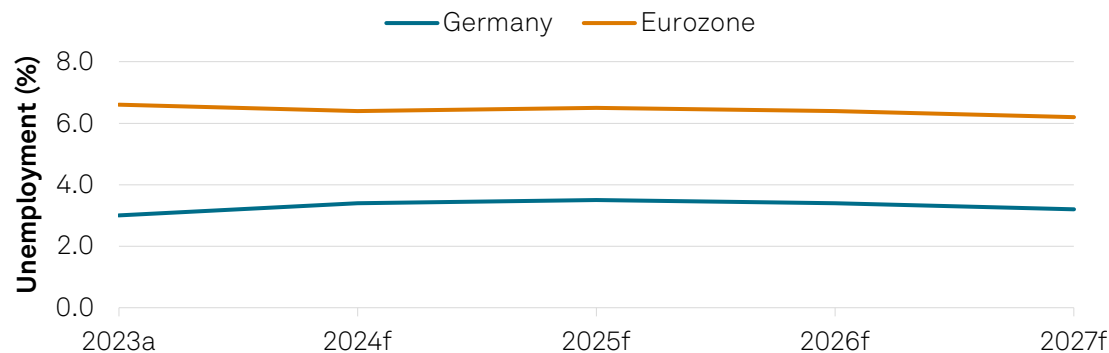
Germany will return to growth but still lag behind



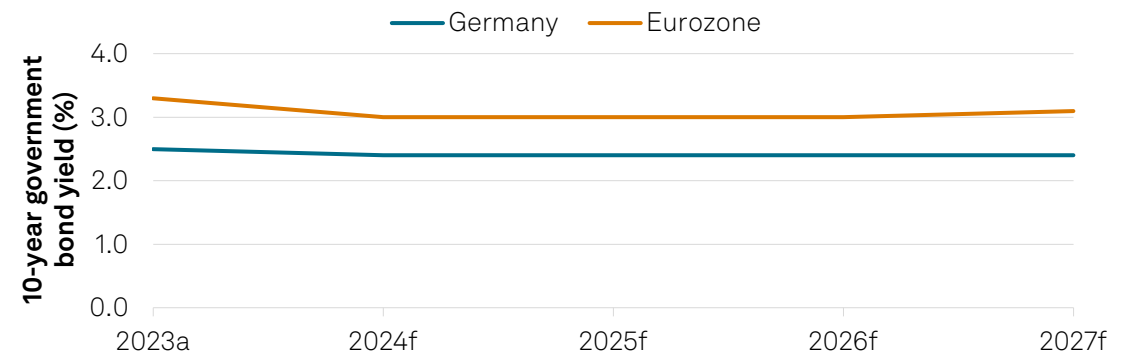
Inflation slowed faster than expected



The German labor market is a key strength



Stable long-term rates will support NII

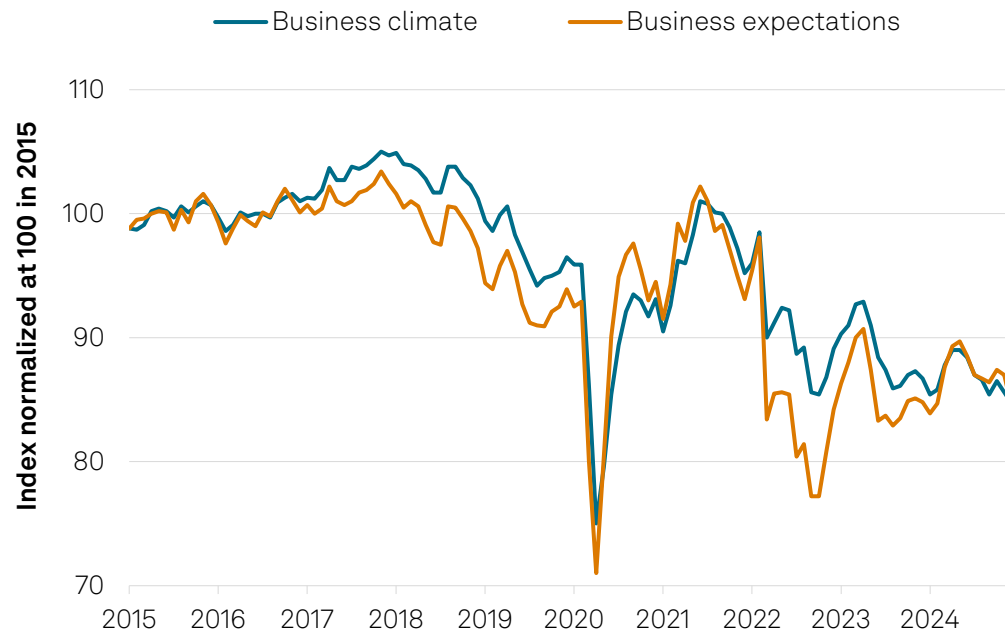


Figures are yearly averages. a—Actual. f--Forecast. Source: S&P Global Ratings.

Economic Sentiment Remains Weak, Though Loan Demand Is Recovering

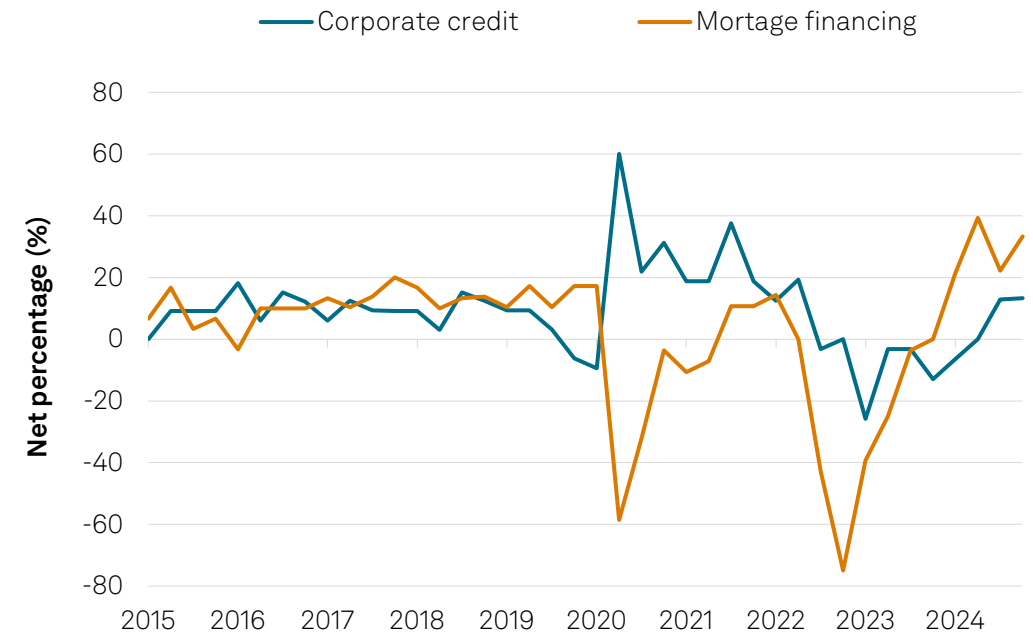
Political instability and inaction fuel public negative sentiment ahead of the election

The mood in the German economy remains negative



Based on about 9,000 monthly responses from businesses in manufacturing, the service sector, trade, and construction. Companies are asked to give their assessments of the current business situation and their expectations for the next six months. The business climate is a transformed mean of the balances of the business situation and the expectations. Source: Ifo Institute.

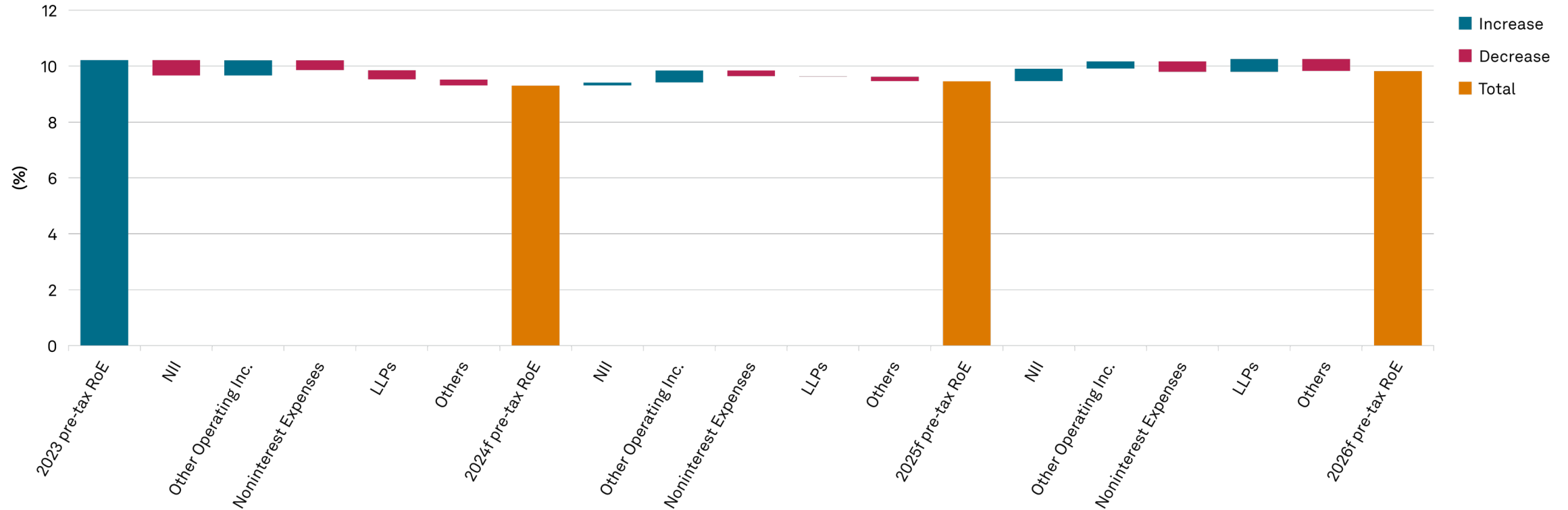
Demand for residential housing loans is resuming



Net percentage of banks reporting an expected increase in loan demand over a three-month period. Source: ECB Lending Survey.

Rated German Banks' Profitability Will Remain Robust

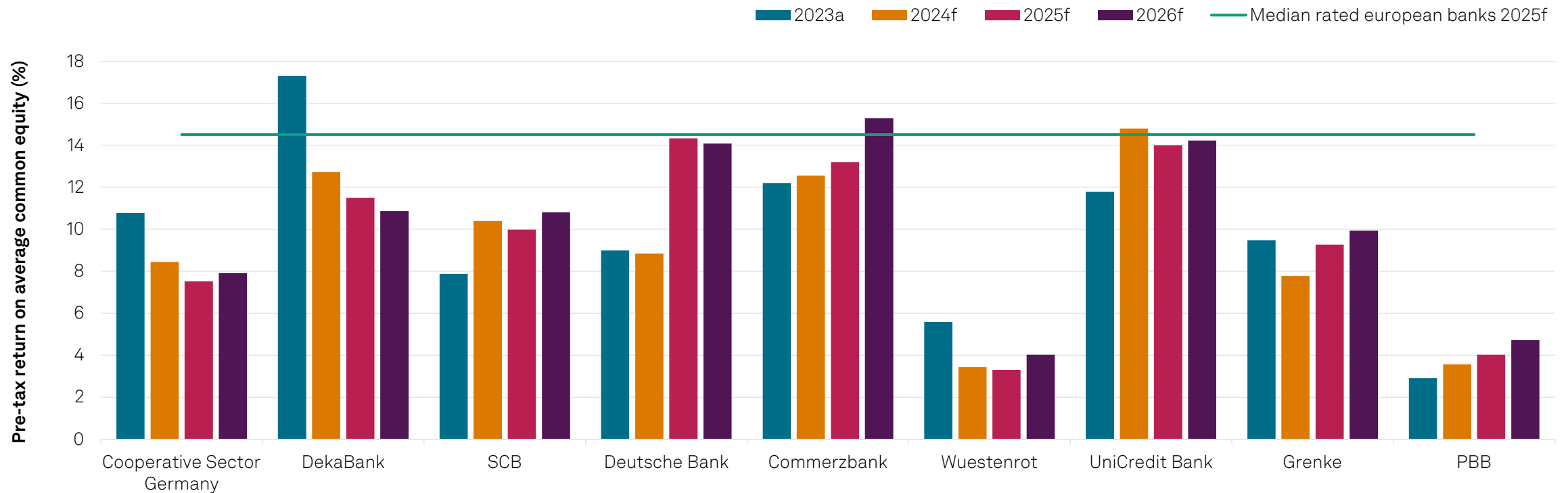
Profitability is set to rise modestly from 2026 due to better asset margins and robust asset quality



Aggregated forecasts for several rated German banks, including German Savings Banks, Cooperative Banking Sector, Commerzbank, Deutsche Bank, UniCredit Bank GmbH, DekaBank, PBB, Grenke, Santander Consumer Bank, VW Bank, and Wuestenrot Bausparkasse. Allocations to general banking risk reserves are added back to profitability for banks reporting under German GAAP (§340g reserves). Data as per Jan. 23, 2024. LLPs--Loan loss provisions. NII--Net interest income. RoE--Return on average common equity. Source: S&P Global Ratings.

German Banks' Profitability Is Stable But Lags That Of European Peers

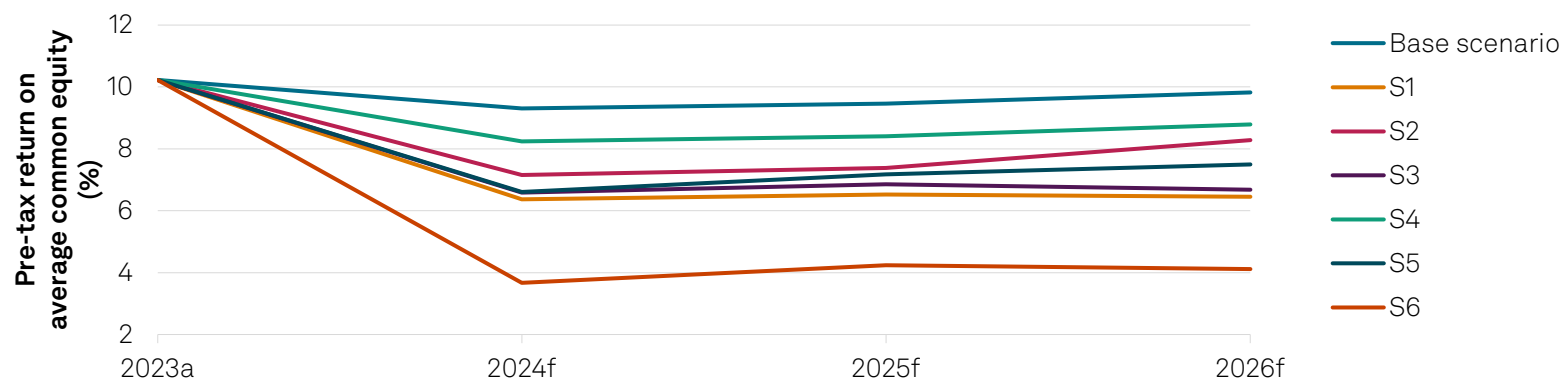
Profit growth at Deutsche Bank and Commerzbank in 2025 is expected to offset profit declines at savings banks and cooperative banks



Forecasts for selected rated German banking groups. For banks reporting under German GAAP, allocations to general banking risk reserves are added back to pre-tax profits. Source: S&P Global Ratings.

German Banks Are Largely Resilient To Severe Stress Scenarios

Most rated German banks can handle a rise in credit losses and a decline in interest margins



The stress scenarios presented above assume static balance sheets, static dividends, and no management countermeasures. The scenarios are as follows:

- S1 applies the maximum cost of risk experienced by individual banks over 2008-2023.
- S2 doubles the cost of risk we forecast in our base case.
- S3 applies the normalized losses we assume in our risk-adjusted capital (RAC) framework.
- S4 applies a reduction of 10 basis points in the net interest margin (NIM), compared with our base case forecasts.
- S5 applies the NIM from 2021, prior to the commencement of the rate increase cycle.
- S6 combines S1 and S5.

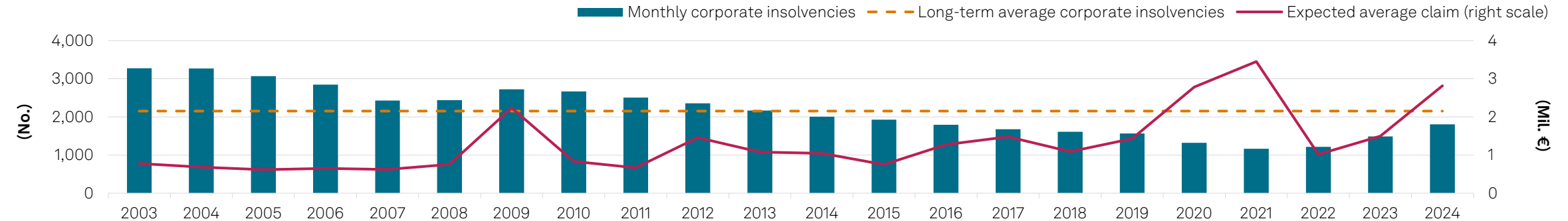
It is important to note that the historical period used to calculate the maximum cost of risk may be shorter due to data availability. The sample of banks includes commercial, cooperative, and savings banks for which S&P Global Ratings forecasts financial data. See Appendix for the base case and historical data underlying these scenarios. a--Actual. f--Forecast. Source: S&P Global Ratings.

- Under all applied stress scenarios, we project that the German banking sector will remain profitable through 2026.
- The scenario that combines the bank-specific maximum cost of risk since the 2008 financial crisis with the constant margin level from 2021 (before the rate hike cycle) has the most severe effect on banks.
- Certain banks may become unprofitable under some of these scenarios, especially banks with higher exposures to consumer finance or CRE, or those persistently facing relatively low profitability.
- We anticipate that management teams would implement countermeasures at an early stage, a factor that is not accounted for in the modeling.

Leading Indicators Point To A Manageable Deterioration In Asset Quality

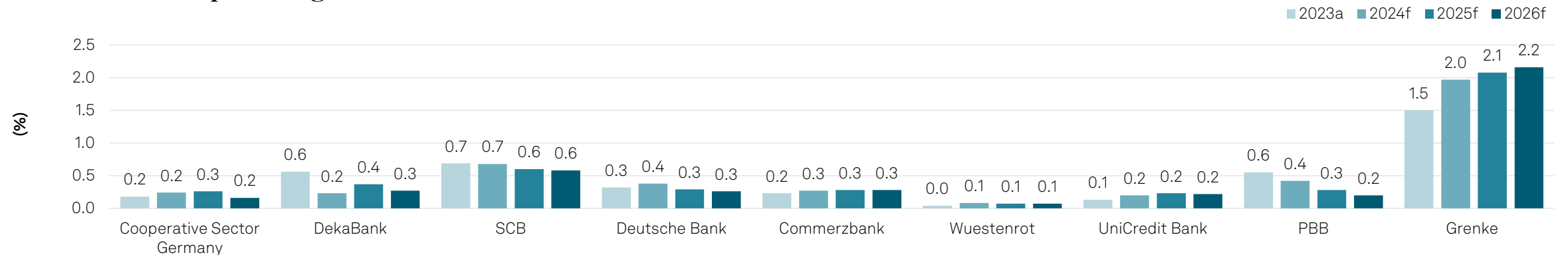
Insolvencies are on the rise but below long-term averages

The number of larger defaults has increased recently



Based on monthly data as of November 2024. Source: German Federal Ministry of Labor.

We do not anticipate a significant increase in credit losses

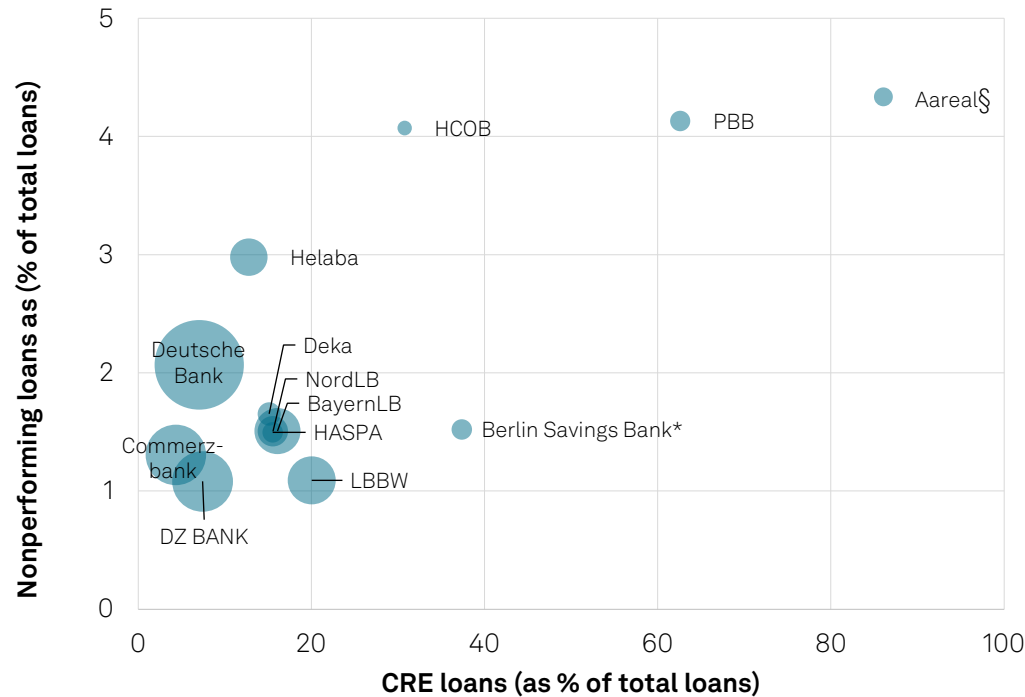


Selected rated German banking groups. a--Actual. f--Forecast. Source: S&P Global Ratings.

CRE Exposure Is Concentrated On A Few German Banks

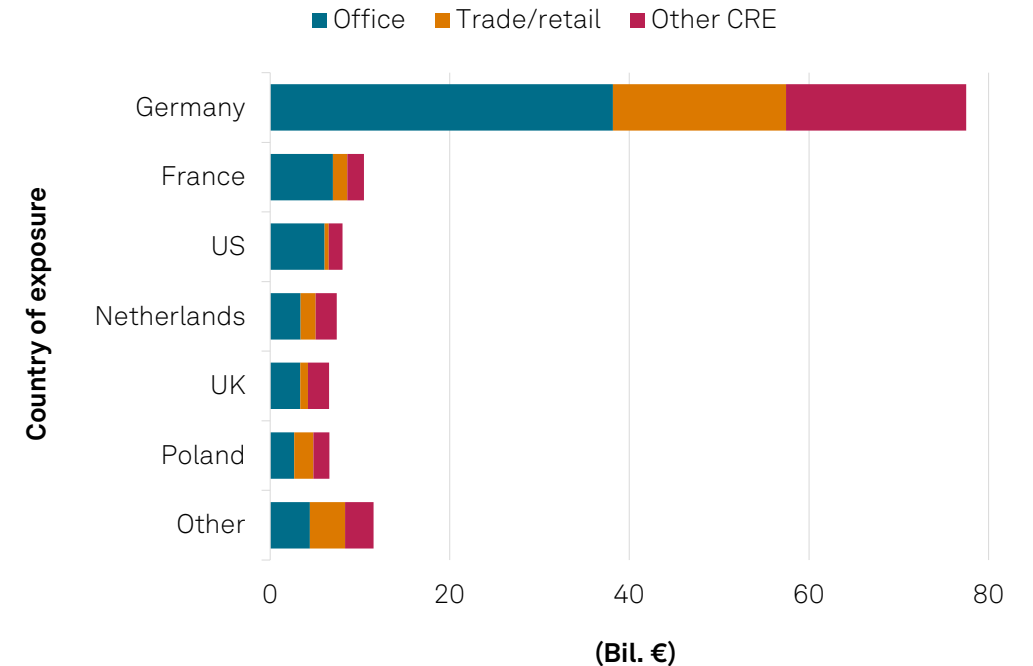
The rise in nonperforming loans (NPLs) is a correlated to banks' exposure to office properties, particularly in the U.S.

Specialized lenders carry the highest risks



Bubble size represents total outstanding loans and advances. *Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG. §ATLANTIC LUX HOLDCO S.A.R.L. Source: European Banking Authority.

Domestic and office exposures dominate German banks' CRE portfolios

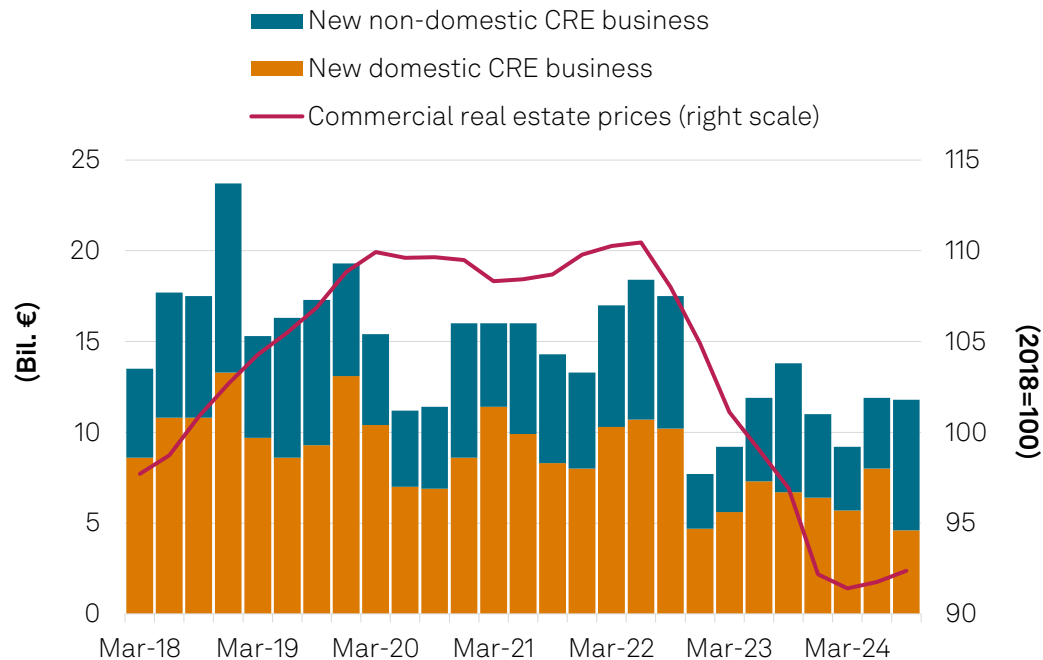


Data as of Q3 2024. Sources: EBA Transparency Exercise 2024, Verband der Pfandbriefbanken (VDP), S&P Global Ratings.

Potential For Further Market Corrections In German CRE Remains Substantial

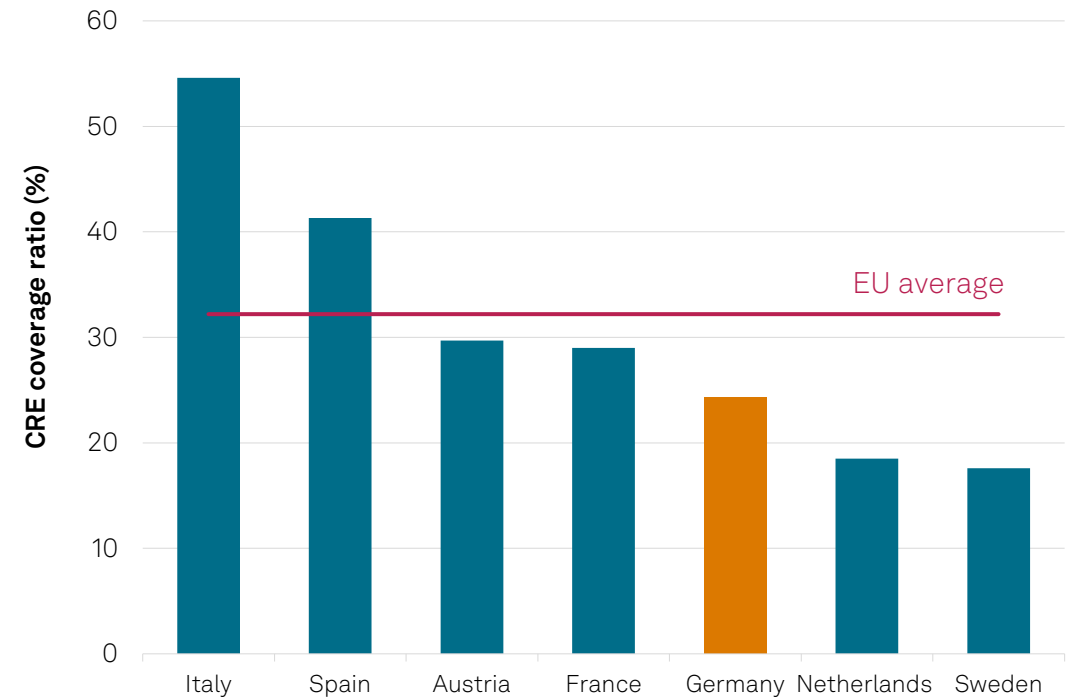
Price discovery is ongoing and further price reductions may require additional provisions

CRE prices are stabilizing but gross volumes remain low



Sources: Verband der Pfandbriefbanken (VDP), S&P Global Ratings.

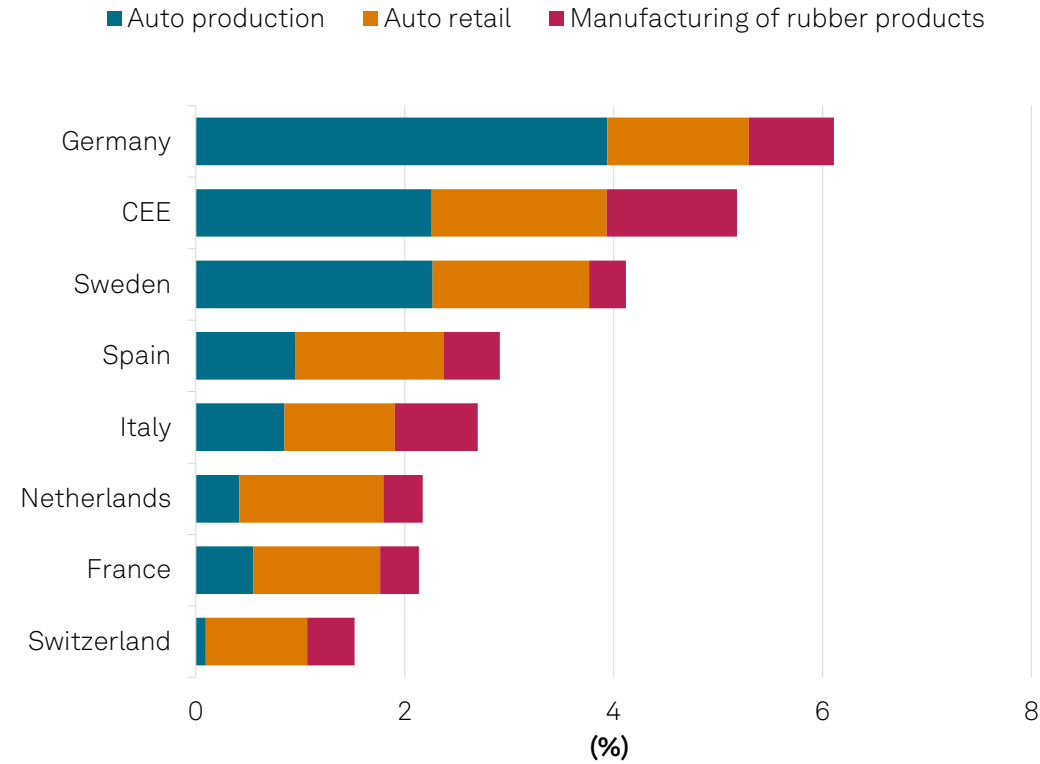
CRE nonperforming loan coverage lags the EU average



Covers systemic banks only. Data as of Q3 2024. Source: European Banking Authority.

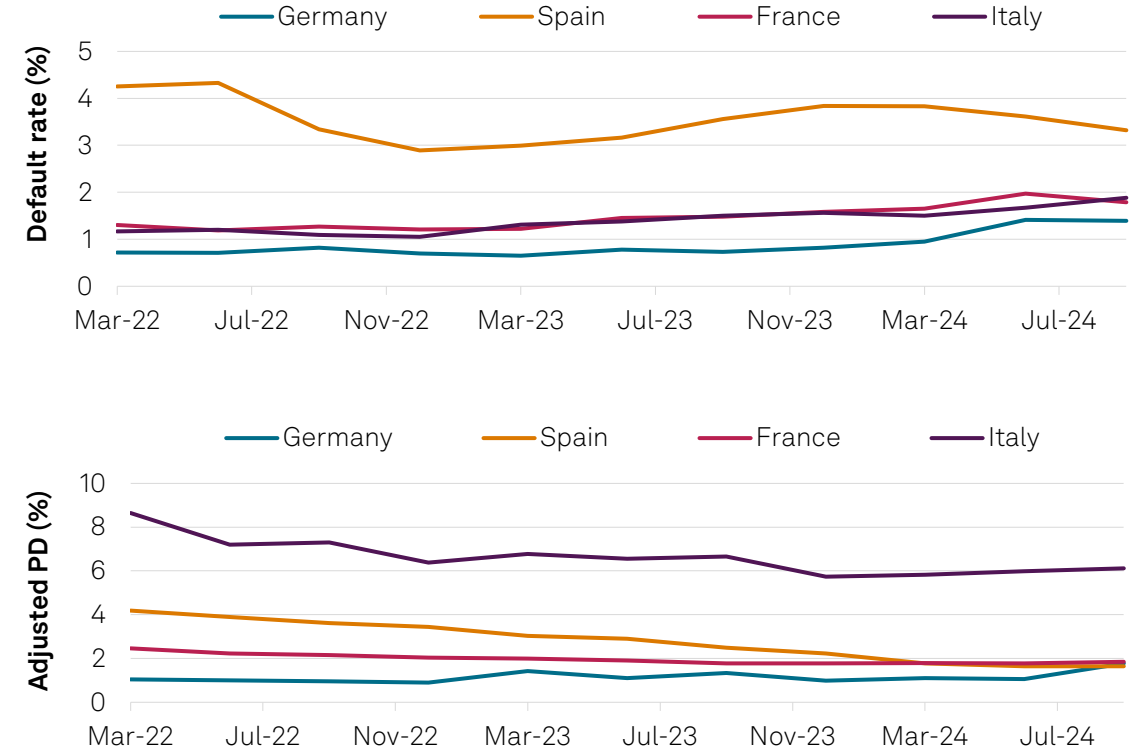
The German Auto And SME Sectors Face Challenges

Auto ecosystem represents a sizeable share of German GVA



Split of 2022 GDP by gross value added (GVA). NACE is a statistical classification system of economic activities in the EU. We use NACE codes "C29" and "G45" as proxy for the automotive sector. C22--Manufacture of rubber products. C29--Manufacture of motor vehicles, trailers, and semi-trailers. G45--Wholesale and retail trade, repair of motor vehicles and motorcycles. *CEE countries include Slovakia, the Czech Republic, Hungary, Romania, Slovenia, Poland, Serbia, Bulgaria, Croatia, and Bosnia and Herzegovina. Sources: Eurostat, S&P Global Ratings.

The weak economic performance impairs German SMEs' PDs

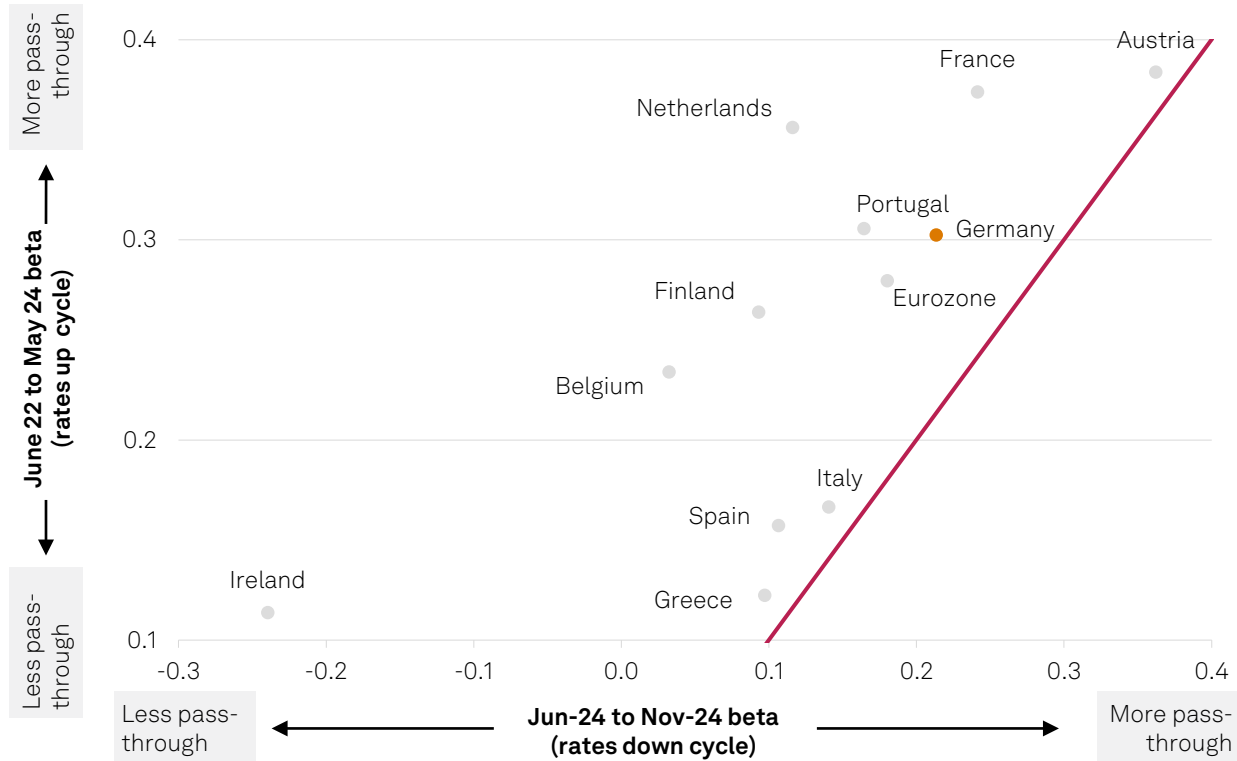


Covers systemic banks that apply IRB model for credit risk. Adjusted PD is calculated by the European Banking Authority, based on non-defaulted exposure only. Calculations are based on SME loans only. IRB--Internal ratings-based. PD--Probability of default. Source: EBA Credit Risk Parameters.

Favorable Funding Costs Are Crucial For Profitability

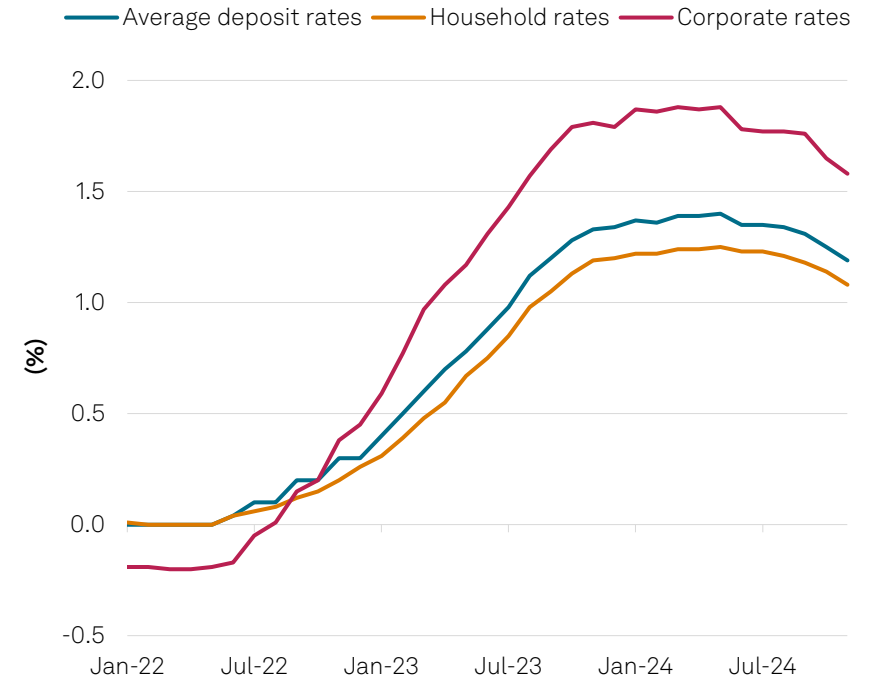
Deposit repricing in Germany started slowly as policy rates began to fall

We expect deposit betas across Europe will rise as policy rates have started to decline



Deposit beta for all deposits to eurozone residents. Deposit betas measure the sensitivity of a bank's deposit cost to changes in the short-term interest rate. Sources: ECB Data Portal, S&P Global Ratings.

Repricing should accelerate in 2025 and ease funding costs

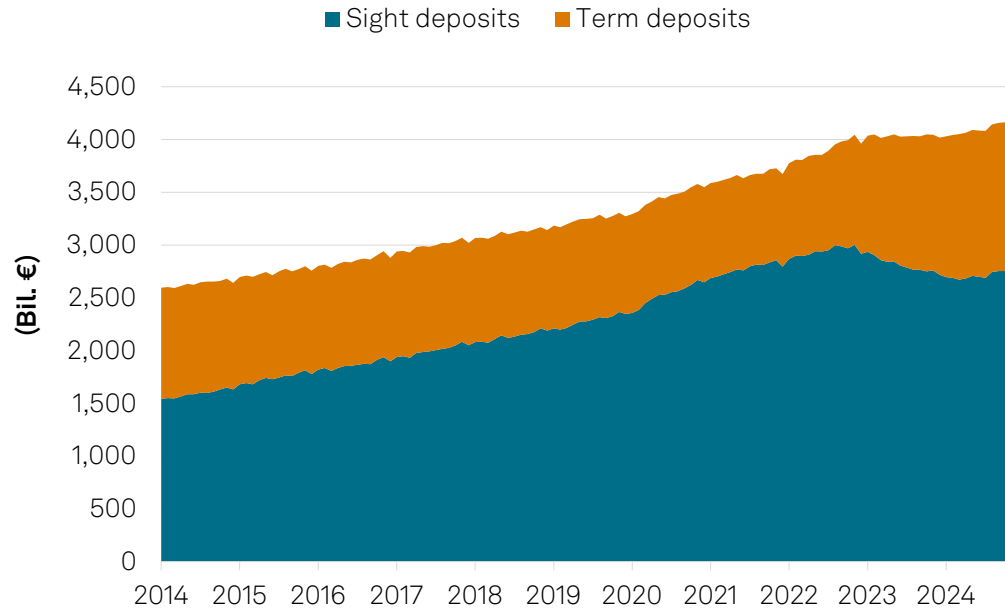


Sources: ECB Data Portal, S&P Global Ratings.

German Banks Benefit From A Strong Domestic Deposit Market

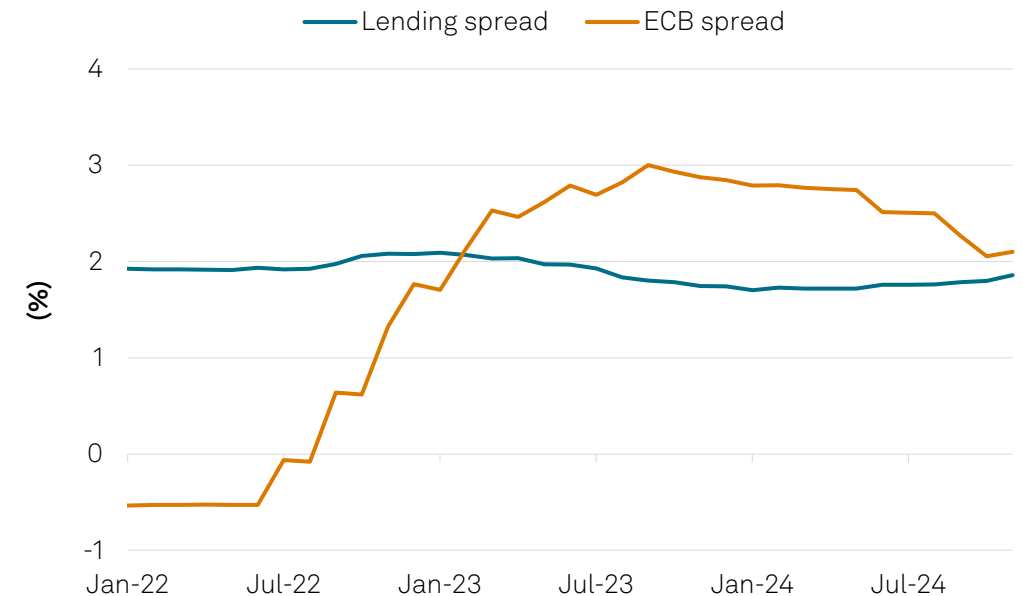
High savings rates boost deposit growth and help keep funding costs low

The shift from sight to term deposits is reversing again



Sources: Bundesbank, S&P Global Ratings.

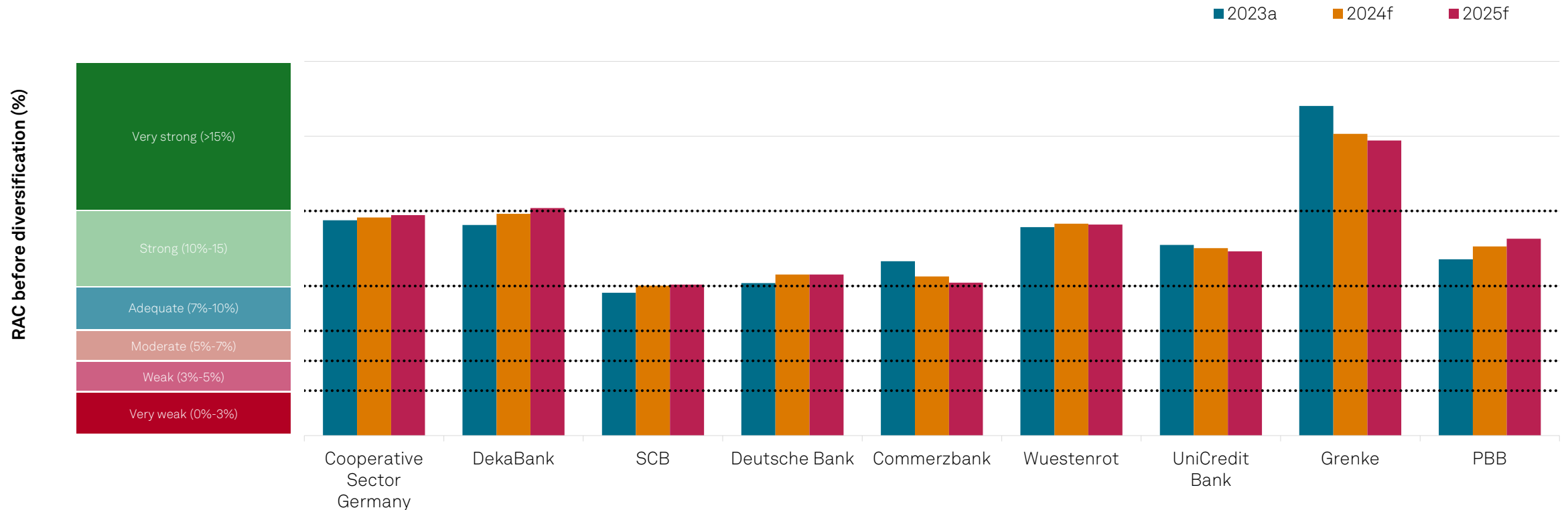
Better portfolio margins alleviate lower liability margins



Both spreads are calculated based on the aggregate funding costs of banks for retail and corporate deposits. The lending spread measures these costs against the weighted average lending rates in the German banking sector. In contrast, the ECB spread compares deposit funding costs with the ECB's overnight deposit rate. Sources: Bundesbank, S&P Global Ratings.

Capitalization Remains A Strength For Many German Banks

We expect our risk-adjusted capital (RAC) buffers will remain stable, supporting our current ratings

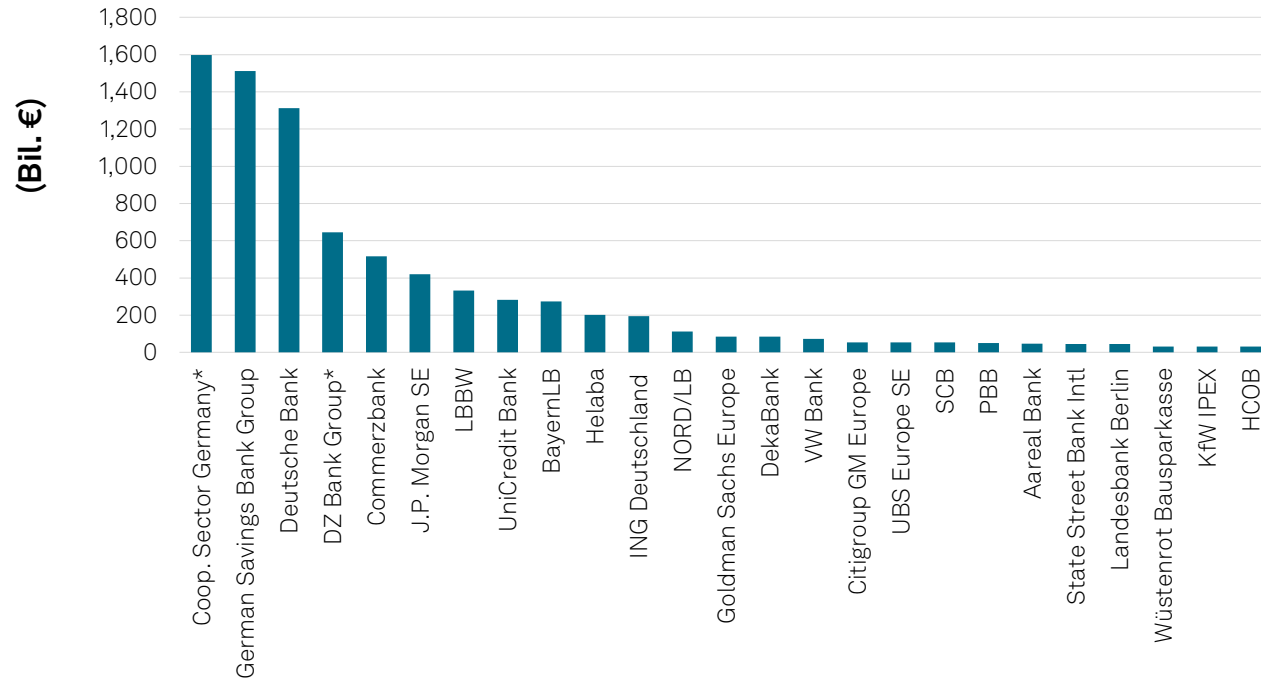


Selected rated banks. a--Actual. f--Forecast. PBB – Deutsche Pfandbriefbank. SCB--Santander Consumer Bank. Source: S&P Global Ratings.

The Structure Of The German Banking System Hampers Consolidation

A merger between UniCredit and Commerzbank would create a top-tier corporate bank in Germany

German banks by total assets



Data as of year-end 2023. Banking groups with reported total assets exceeding €30 billion but excluding development banks. *We also included DZ Bank Group separately in addition to the consolidated Cooperative Banking Sector Germany. BayernLB--Bayerische Landesbank. Helaba--Landesbank Hessen-Thüringen. LBBW--Landesbank Baden-Wuerttemberg. PBB--Deutsche Pfandbriefbank AG. SCB--Santander Consumer Bank AG. VW Bank--Volkswagen Bank GmbH HCOB – Hamburg Commercial Bank. Source: S&P Global Ratings.

- A UniCredit-Commerzbank merger could consolidate domestic corporate lending.
- Mergers primarily occur among cooperative and savings banks to improve scale and efficiency, while cross-sector consolidation is rare.
- Larger commercial banks currently prioritize capital distribution over larger M&A activities. Their focus remains on bolt-on acquisitions to build their franchise and deliver growth in competitive markets, mainly in asset management and payments.
- Some smaller banks have been successfully restructured by private equity owners, who are now presumably looking for consolidation and growth options or are targeting exits.
- The German banking sector attracts international banks--especially in corporate and, increasingly, retail banking--due to its deep deposit market.

Analytical Contacts

Benjamin Heinrich

Director, Lead Analyst Germany

Frankfurt

benjamin.heinrich@spglobal.com

Claudio Hantzsche

Senior Analyst

Frankfurt

claudio.hantzsche@spglobal.com

Heiko Verhaag

Associate Director

Frankfurt

heiko.verhaag@spglobal.com

Harm Semder

Director

Frankfurt

harm.semder@spglobal.com

Karim Kroll

Senior Analyst

Frankfurt

karim.kroll@spglobal.com

Richard Barnes

Senior Director

London

richard.barnes@spglobal.com

Gabriel Götz

Senior Analyst

Frankfurt

gabriel.goetz@spglobal.com

Markus Schmaus

Managing Director

Frankfurt

markus.schmaus@spglobal.com

Financial Institutions EMEA

Financial_Institutions_EMEA_Mailbox@spglobal.com

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- [Grenke AG 'BBB/A-2' Ratings Affirmed, Despite Uptick In Risk Costs; Outlook Remains Stable](#), Nov. 5, 2024
- [NRW.BANK And Erste Abwicklungsanstalt Outlooks Revised To Negative On Similar Action On NRW; 'AA/A-1+' Ratings Affirmed](#), Oct. 29, 2024
- [Deutsche Pfandbriefbank 'BBB-/A-3' Ratings Affirmed On Strategic Update; Outlook Still Negative On Asset Quality Risk](#), Oct. 14, 2024
- [Germany](#), Sept. 23, 2024
- [Germany-Based DekaBank Outlook Revised To Positive On Stronger Group Support Capacity; 'A/A-1' Ratings Affirmed](#), Sept. 10, 2024
- [Commerzbank AG Ratings Raised To 'A/A-1' On Strengthened Performance And Capitalization; Outlook Stable](#), Aug. 7, 2024
- [Banking Industry Country Risk Assessment: Germany](#), Aug. 7, 2024
- [VW's Captive Finance Entities Affirmed At 'BBB+/A-2' After Reorganization; New Entity Rated; Outlook Stable](#), July 1, 2024
- [Deutsche Pfandbriefbank Downgraded To 'BBB-/A-3' On Challenges From Commercial Real Estate; Outlook Negative](#), Feb. 14, 2024
- [L-Bank Rating Outlook Revised To Positive After Similar Action On State Of Baden-Wuerttemberg; Affirmed At 'AA+/A-1+'](#), Oct. 6, 2023

Appendix: Base Case And Historical Data Applied In Our Stress Scenarios

	Cost of risk (bps)				Net interest margin (%)			Base scenario pre-tax RoE (%)		
	Historical maximum (2008-2023)	Year of maximum	Forecast range 2024-26	RACF normalized forecast range 2024-26	2021	2023	Forecast range 2024-26	2024f	2025f	2026f
Commerzbank	136	2009	[25, 30]	[55, 65]	1.31	1.92	[1.50, 1.70]	12.6	13.2	15.3
Coop. Sector Germany	39	2009	[15, 30]	[45, 55]	1.49	1.82	[1.65, 1.85]	8.4	7.5	7.9
DekaBank	128	2009	[20, 40]	[55, 65]	0.26	0.42	[0.30, 0.40]	12.7	11.5	10.9
Deutsche Bank	102	2009	[25, 40]	[45, 55]	1.59	1.85	[1.55, 1.70]	8.8	14.3	14.1
PBB	215	2009	[20, 45]	[30, 40]	0.97	0.97	[1.00, 1.15]	3.6	4.0	4.7
Grenke	324	2020	[195, 220]	[50, 60]	5.57	5.36	[5.35, 5.55]	7.8	9.3	9.9
SCB	195	2009	[55, 70]	[40, 50]	2.37	1.82	[1.95, 2.15]	10.4	10.0	10.8
UniCredit Bank	100	2009	[15, 25]	[45, 55]	1.09	1.28	[1.10, 1.30]	14.8	14.0	14.2
VW Bank	109	2010	[15, 30]	[45, 55]	2.69	2.76	[2.50, 2.70]	6.9	7.2	7.6
Wuestenrot	33	2008	[5, 15]	[25, 35]	1.21	1.78	[1.30, 1.50]	3.4	3.3	4.0

f--Forecast. RACF--Risk-adjusted capital framework. RoE--Return on equity. Source: S&P Global Ratings.

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