Helaba

Focus on: Credit
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Large European banks 2027
Robust earnings in a challenging environment



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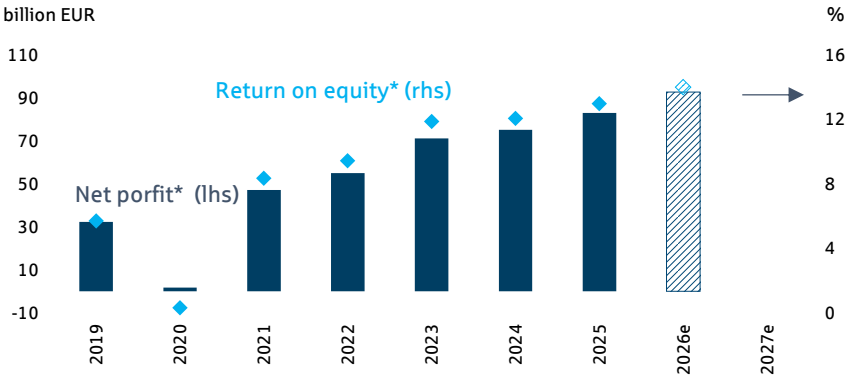
We expect European banks to maintain their robust profit growth in 2027. Higher interest rates and economic growth are providing a tailwind. Public investment programmes and the rollout of AI infrastructure offer extensive business potential in the lending sector. At the same time, credit risks remain under control from today's perspective. The highly IT-driven industry is also well positioned to manage cyber risks.

1 Review 2026 – profits remain encouragingly stable 1
2 Outlook 2027 – solid prospects 3
3 Risks – cyber risks on the rise 8

1 Review 2026 – profits remain encouragingly stable

So far this year, European banks have experienced remarkably robust profit growth. The ongoing pressure on margins resulting from increased competition on the deposit side has largely been offset by strong growth in volumes. In particular, corporate lending recorded growth in many core areas.

Profits in the European banking sector remain high



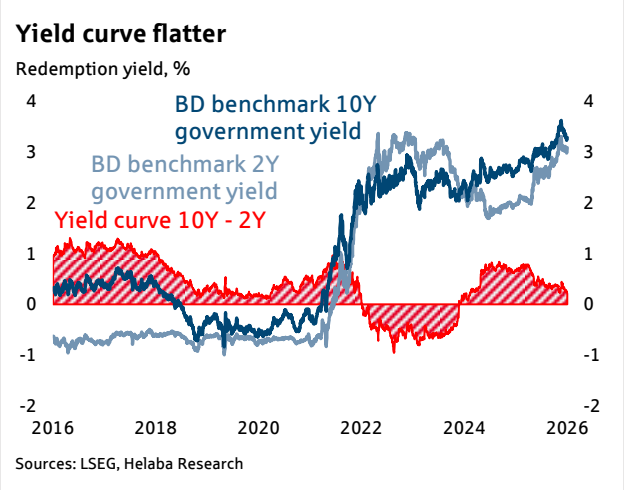
* Aggregated for a selection of European banks (Banco Santander, BBVA, BNP Paribas, Commerzbank, Deutsche Bank, ING Group, Nordea, Unicredit, SEB, Société Générale, Swedbank)

Sources: Bloomberg, Helaba Research

At the same time, volumes in asset management have increased. The predominantly favourable market environment here led to continued net inflows and rising valuations, thereby supporting commission income. However, asset valuations were weighed down at some institutions by the recent rise in interest rates. At the same time, non-performing loan ratios showed an upward trend. However, they remained at a manageable level. Earnings performance was also supported by consistent cost discipline, which improved operational efficiency at numerous banks.

In the third quarter, however, the picture was rather mixed. While most European banks continued to report robust operating results, these were met with extremely high expectations from the capital markets. While some institutions, including Deutsche Bank, BNP Paribas and Intesa Sanpaolo, managed to exceed the high consensus estimates, others, such as BBVA, Banco Santander and ING, fell short.

The deviations from the consensus forecasts varied considerably from one institution to another and were influenced by a range of factors. Surprises stemmed from the earnings performance of individual business segments, cost bases, risk costs (LLPs), capitalisation, and share buy-backs. At the institutional level, Deutsche Bank, for example, impressed with its strong performance in the private and business customer segment, while BNP Paribas benefited from excellent results in equity trading. By contrast, higher risk costs and weaker treasury income impacted ING Group's earnings performance. BBVA was confronted with declining deposit margins in its home market of Spain. SEB disappointed investors by suspending its share buy-back programme, while weaker performance in bond, currency and commodities trading also impacted results.



Overall, the earnings season confirms the ongoing operational resilience of the European banking sector. This is underpinned, among other things, by rising interest rates. At the same time, it is becoming clear that the ability to exceed high market expectations and deliver sustainable momentum for earnings, capital distributions and profitability is increasingly crucial, following the strong earnings momentum of recent quarters.

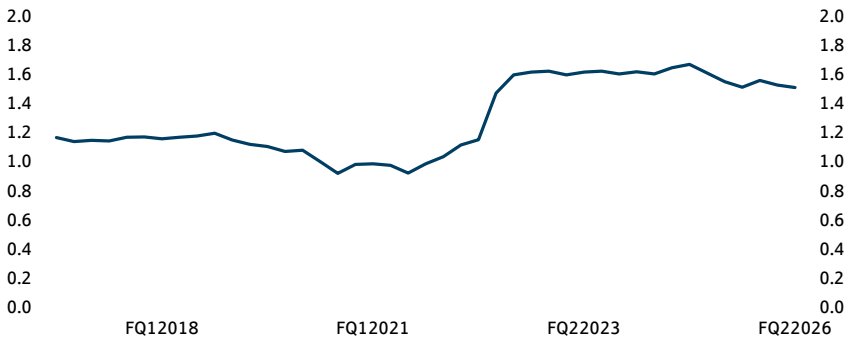
The sector's capitalisation remains comfortable overall. The core capital ratios (CET1) of most institutions are well above the regulatory minimum and continue to support attractive distributions of capital in the form of dividends and share buybacks. However, there are also differences evident at the institutional level. For example, SEB has temporarily suspended its share buyback programme following a review initiated by the regulator. The majority of European banks, however, are sticking to their capital return plans. These include BNP Paribas, ING Group, UBS and BBVA, all of which are continuing their share buy-back programmes.

2 Outlook 2027 – solid prospects

We expect large European banks to continue posting solid profits in 2027, even though the environment remains characterised by high levels of geopolitical tension. The outlook for lending is currently shaped by conflicting trends. On the one hand, the gradual economic recovery (see our **annual economic outlook for 2027**) suggests an increase in demand for funding, which would lead to growth in the lending business. However, higher interest rates and an environment characterised by geopolitical conflicts and trade tensions are putting pressure on the sector. This is dampening both corporate demand for credit and banks' appetite for risk when granting loans. However, margins in the lending business should remain well supported.

Interest margin on assets remains adequate

Interest margin*, %

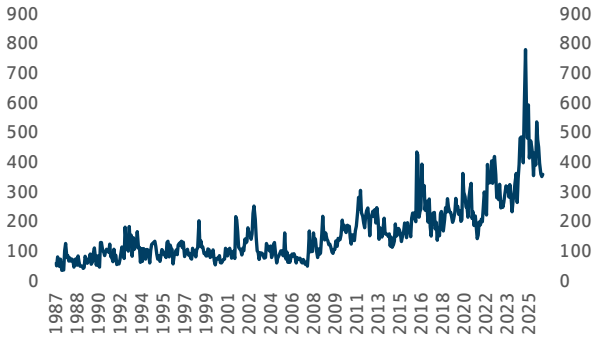


* Net interest margin (NIM): net interest income divided by interest-bearing assets, averaged across a selection of large European banks
Sources: S&P Capital IQ Pro, Helaba Research

At the same time, fierce competition for customer deposits is putting pressure on liability margins. International expansion is becoming an increasingly attractive option for retail banks, as digital platforms reduce administrative costs and enable cross-border growth. Institutions such as JPMorgan Chase, BBVA, Intesa Sanpaolo and Lloyds are expanding into European markets. However, there are increasing signs that deposit margins are bottoming out. For example, initial signs of stabilisation are evident at BBVA in Mexico and in Deutsche Bank's private banking division, where the decline in margins has recently slowed.

News sentiment: High levels of nervousness

European News Index*



* Based on the frequency of terms such as 'uncertain' and 'uncertainty' in newspaper articles, compiled by Scott R. Baker, Nick Bloom and Steven J. Davis
Sources: LSEG, Helaba Research

In terms of risk, continued growth in loan loss provision expenses (LLPs) is anticipated against a backdrop of mounting corporate insolvencies and escalating refinancing costs for maturing mortgage loans. Nevertheless, this should remain within a historically average range and is comfortably covered by high income.

Net interest income (NII) continues to benefit from positive repricing effects. Higher interest rates on assets – particularly mortgage loans, variable-rate loans, and liquidity portfolios – will underpin earnings growth in the new year. Additionally, hedging strategies are stabilising net interest income at many institutions. The Swedish banking sector is an exception, as regulatory requirements favour a significantly more restrictive approach to such hedging instruments.

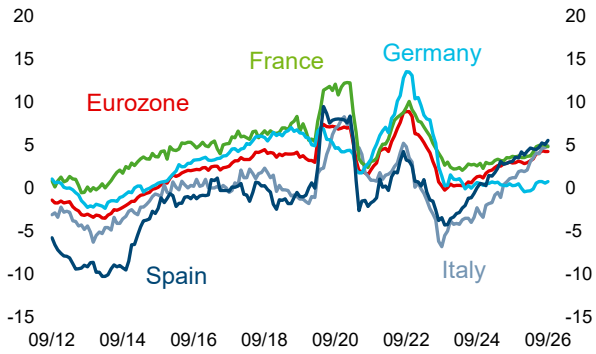
Alongside operational developments, consolidation issues have recently returned to the forefront of investors' attention. Cross-border transactions and potential mergers within the European banking sector are attracting particular attention. In this context, the proposed merger between UniCredit and Commerzbank is being closely

monitored. From a bondholder's perspective, we favour institutions with a stable and broadly diversified deposit base, as well as those that demonstrate high structural profitability and good cost control.

Lending business characterised by contrasting trends

Strong loan growth in Southern Europe

% year-on-year



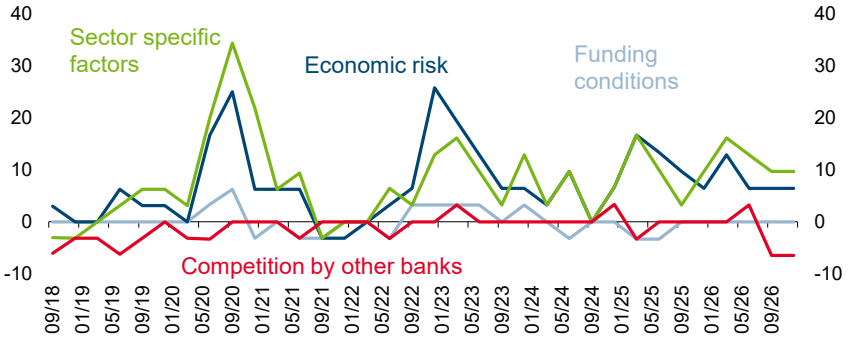
Sources: LSEG, ECB, Helaba Research

According to the **European Banking Authority (EBA),** European banks are planning to expand their balance sheets significantly in the coming years. This is expected to be driven by an increase in lending to non-financial corporations, with growth of over 5 % forecast for 2026, followed by a slower pace. In the retail banking sector, loan growth of between 3.5 and 4 % is forecast. Banks are assuming that demand for credit will remain robust.

In contrast, the latest **Bank Lending Survey (BLS)** from the ECB indicates that market dynamics remain subdued for the time being. Of the 159 banks surveyed, many have tightened their lending standards for corporate and consumer loans due to increased risks, while the criteria for housing loans have remained unchanged. At the same time, demand for credit has declined across all key customer segments. Persistently high funding costs have had a particularly negative impact.

Mixed picture for lending standards

Change in the proportion of positive vs. negative values*, %



* Positive values indicate a tightening, negative values indicate an easing

Sources: LSEG, EBA, Helaba Research

In the corporate banking sector, demand is being held back by interest rates, but the structural growth drivers remain intact. In particular, investment in AI infrastructure and data centres is creating an increased need for financing. The picture in the retail banking sector is significantly weaker: demand for mortgages and consumer loans is suffering due to high interest rates, weak consumer confidence, and a gloomy outlook for the property market. Banks expect further declines in the retail banking sector in the fourth quarter, whilst demand for corporate loans is likely to remain stable.

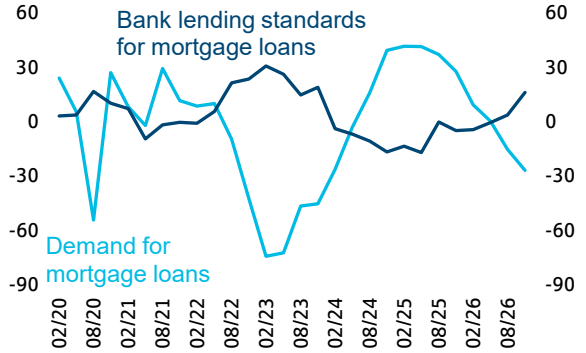
Recent robust economic data from the eurozone continues to give us cause for confidence. Public investment programmes, the expansion of digital infrastructure, and investment driven by the energy transition should support demand for credit. So far, geopolitical conflicts and trade tensions have only had a limited impact on the balance sheet quality and earnings performance of European banks. Nevertheless, ongoing uncertainty is likely to lead to more cautious lending, particularly in higher-risk segments. However, the transformation and innovation processes present attractive medium-term growth opportunities for the banking sector.

Customer deposits are a highly valued source of funding

European banks rely heavily on customer deposits for refinancing. Around 30 % of their total liabilities are attributable to deposits from private households, and a further 17 % come from corporate deposits. According to a survey by the **EBA,** banks intend to increase their total assets by around 3 % each year over the next two years. A disproportionately high growth rate of around 4 % is forecast for deposits from both households and businesses. The planned increase in refinancing via capital market instruments is between 2 and 4 %.

Private mortgage lending is slowing

Change in the proportion of positive vs. negative values*, %

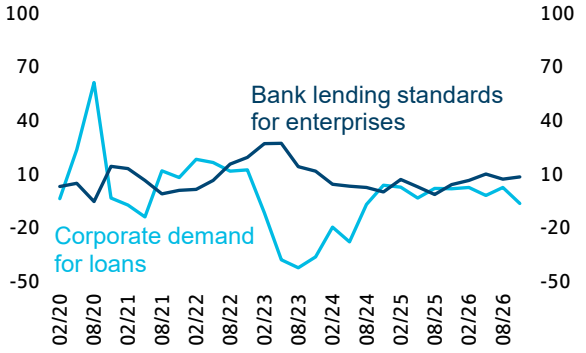


* Positive values indicate a tightening/increase; negative values indicate an easing/decrease

Sources: LSEG, EBA, Helaba Research

Corporate loans show greater potential

Change in the proportion of positive vs. negative values*, %



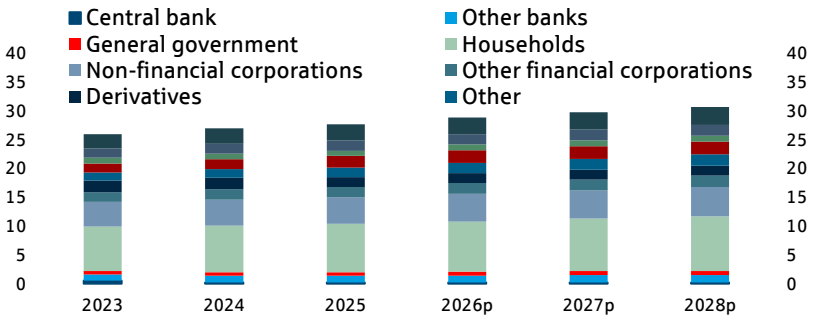
* Positive values indicate a tightening/increase; negative values indicate an easing/decrease

Sources: LSEG, EBA, Helaba Research

The ECB's latest **BLS** report shows that fierce competition between banks and attractive alternatives for investors continue to characterise European banks' access to retail funding. According to the report, the proportion of banks reporting more difficult access to retail deposits increased in the third quarter to reach the highest level since the survey began in 2011. Consequently, refinancing conditions are becoming more challenging, while deposit volumes continue to increase. This is consistent with developments in capital market funding. Here, too, the environment is not immune to high levels of political uncertainty. Nevertheless, it offers issuers encouragingly good refinancing opportunities overall (see **Primary Market Update for Banks**, 6 October 2026). Institutions with broadly diversified refinancing are once again at an advantage.

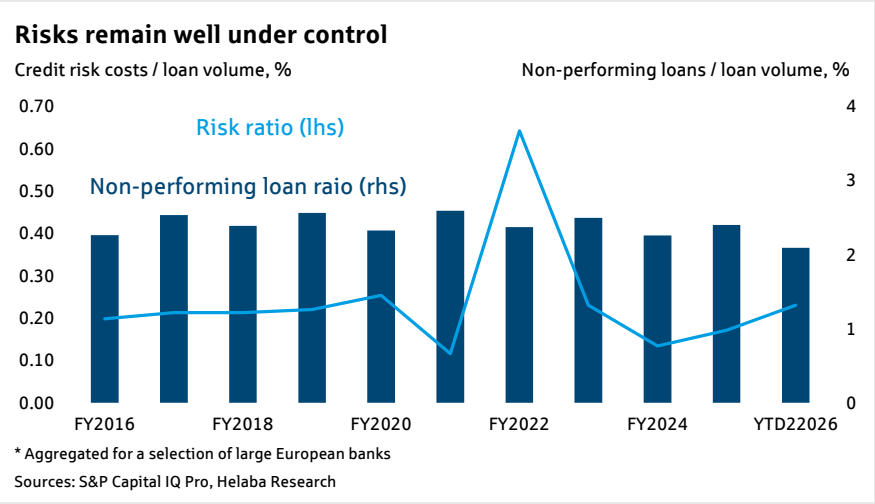
Further growth in customer deposits planned

Deposits at EU banks, in EUR



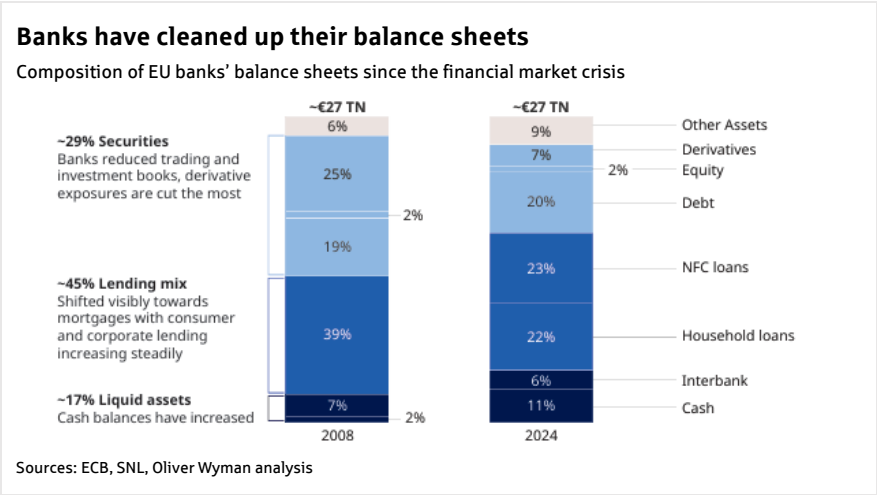
Sources: EBA, Helaba Research

Credit risk costs are rising moderately



After remaining at historic lows for many years during the negative interest rate period, non-performing loan ratios have now moved closer to their historical averages. According to the **BLS**, banks in the eurozone reported a greater perception of risk relating to corporate loans, residential mortgages, and consumer loans in Q3 of 2026. They expect this trend to continue into the fourth quarter of 2026.

We feel confirmed in our expectation of rising credit risk against a backdrop of increasing interest rates. Furthermore, we continue to regard the sector's credit risks as moderate, given the strong earnings performance and generally high quality of balance sheets. This is the result of considerable efforts to clean up balance sheets following the global financial crisis, driven by stricter regulatory requirements among other things. Consequently, despite credit growth, the sector's aggregate total assets remain virtually unchanged from 2008. Banks have primarily reduced riskier activities and assets that are not core to their business.



Caution advised regarding exposure to government bonds

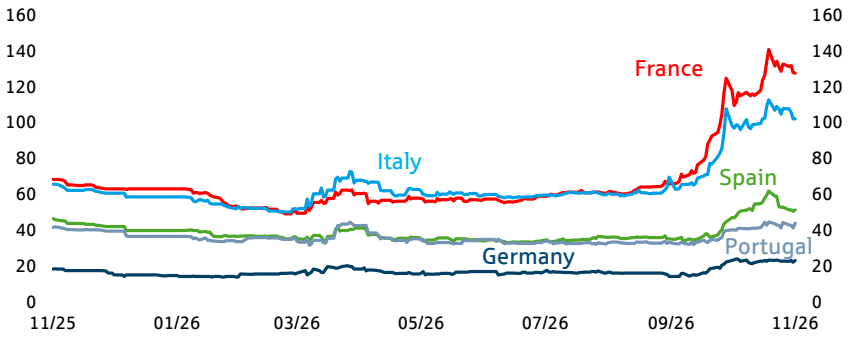
Amid growing concerns about the sustainability of public debt in France, bond investors have recently turned their attention to both holdings and loans to public entities on banks' balance sheets. Such exposures are not usually required to be backed by equity capital. Nevertheless, many banks have learned lessons from the 2012 sovereign debt crisis and reduced their exposure to government debt (e.g. in Italy).

Risks are particularly evident in countries where high refinancing rates coincide with weak growth prospects, thereby limiting room for fiscal policy manoeuvre. This environment has mixed implications for the banking sector. Higher yields on government bonds can lead to increased refinancing costs for banks and cause losses on the valuation of their government bond portfolios. However, in terms of new engagements, the increased risk should be offset by higher future net interest income.

According to the EBA, the total exposure of EU banks to government bonds rose significantly from around EUR 3.0 trillion at the end of 2024 to EUR 4.2 trillion at the end of 2025. The ratio of this exposure to Common Equity Tier 1 (CET1) capital has recently climbed to 232 %. This suggests that banks' capital positions are significantly more sensitive to a revaluation of government bonds. However, the risk profile varies. While most exposures (60 %) are carried at amortised cost, a considerable proportion – more than a third – remains subject to market valuation effects (17 % at fair value through profit or loss, and 20 % through other comprehensive income). At the same time, the EBA reports that the government bond portfolios of EU/EEA banks have become somewhat more geographically diversified. At the end of 2025, 45 % of the portfolios were domestic exposures, 31 % were in other EEA countries, and 24 % were in third countries. At least, the banks' balance sheet unrealised losses have declined in recent years. However, we expect a further increase by the end of 2026 due to rising interest rates.

Credit default swaps price in higher risks

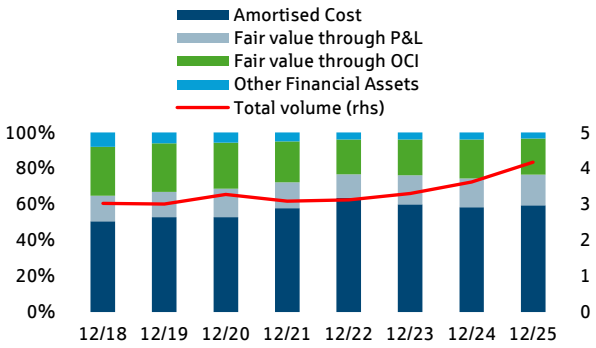
CDS* on 10-year government bonds denominated in euros, basis points



*Credit default swaps (credit default premiums), slightly smoothed
Sources: LSEG, Helaba Research

Unrealised losses not always recognised in p&l

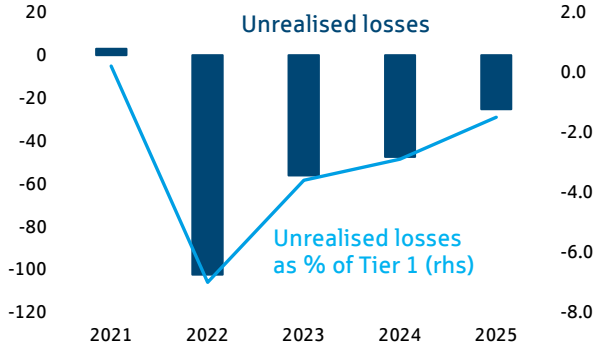
Classification of sovereign exposures*, % EUR billion



* Balance sheet classification of sovereign exposures by banks in the EU/EEA
Sources: EBA, Helaba Research

Bond portfolios with potential for losses

billion EUR (unrealised losses on bonds) %



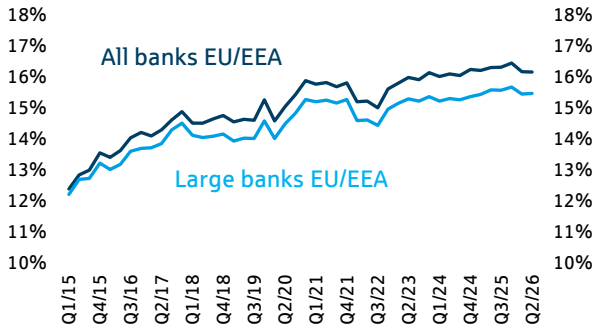
* Trend in unrealised losses on bond portfolios measured at amortised cost
Sources: EBA, Helaba Research

High capital ratios provide a comfortable risk buffer

In this uncertain environment, European banks continue to operate from a position of strength, particularly with regard to their capital and liquidity ratios. According to the EBA's regularly published **risk dashboard**, the Common Equity Tier 1 (CET1) ratio of banks in the EU/EEA was 16.1 % on average in June 2026. This slight decline compared to the previous quarter (16.2 %) reflects an increase in risk-weighted assets. Nevertheless, with a buffer of around 430 basis points above regulatory capital requirements (unchanged from the previous year), banks have considerable capacity to absorb shocks. Their liquidity positions also remained strong. With an average liquidity coverage ratio (LCR) of 159 %, they comfortably exceed the minimum requirement of 100 %.

Very comfortable capital ratios

Common Equity Tier 1 ratio*

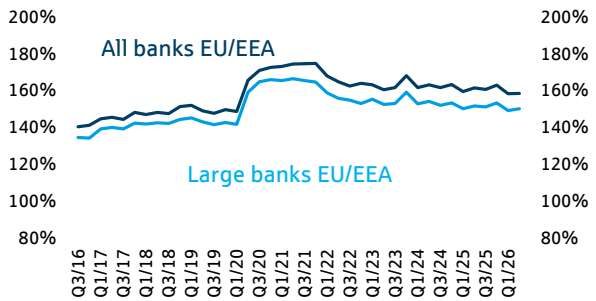


*CET1 ratio

Sources: EBA, Helaba Research

Liquidity ratios exceed regulatory requirements

Liquidity coverage ratio*



*Liquidity coverage ratio

Sources: EBA, Helaba Research

Once the transition period ends in 2033, the full implementation of the final Basel III requirements should also pose no problem. According to EBA data, the 129 largest banks in the EU already have capital adequacy ratios well above the minimum requirements of the fully implemented CRR3 framework. Assuming their balance sheets remain static throughout this period, no capital shortfalls will arise before 2030, giving the relevant banks time to adapt. However, the projected capital shortfalls would total €2.2 billion in 2030 and rise to €18.5 billion in 2033 with the full implementation of the framework. This increase reflects the phased introduction of the output floor in particular. Despite this increase, the projected capital shortfalls at the time of full implementation would account for an average of only 0.6 % of the banks' current total capital.[1]

3 Risks – cyber risks on the rise

Many of the risks that we identified last year will persist or intensify in 2027 (see our **Banking Outlook for 2026**, dated 9 January 2026). We have already addressed the risks associated with rising government debt. The interdependence between banks and governments remains high. On the one hand, this stems directly from the banks' relevant exposures. On the other hand, the banking sector is central to financial stability and is therefore subject to rigorous regulation. Turmoil surrounding public finances, such as that recently witnessed in France, has a direct impact on the spreads of bank bonds and, consequently, on the institutions' refinancing conditions.

In our view, the key risks in 2027 are cyber risks, geopolitical risks, and economic risks. Conversely, we currently consider the risks arising from the growing private credit market to be low.

Rising cyber risks alongside increasing digitalisation

With advancing digitalisation and the use of artificial intelligence (AI), the significance of emerging risks and the disruption of critical processes continues to grow. Consequently, regulatory authorities have turned their attention to the risks associated with information and communication technologies (ICT). Cyberattacks are under particular scrutiny. According to Bitkom's latest study, 'Economic Security 2026', data theft, industrial espionage and sabotage caused the German economy to lose at least EUR 211 billion in 2025 alone. A large proportion of this – €160 billion – was reportedly attributable to cyberattacks. Almost three-quarters of companies rate this threat as high or very high.[2]

[1] **EBA CRR3/CRD6 Dashboard** dated 9 October 2026

[2] See **the press release** from the Federal Ministry for Economic Affairs and Energy

The advent of quantum computing technology has given rise to new risks. Financial regulators worldwide are urging banks to prepare for the risks associated with quantum computers, which could undermine current encryption systems. For example, the UK authorities are requiring banks to develop transition plans to post-quantum systems by 2028, with the system updates to be completed by 2035.[3]

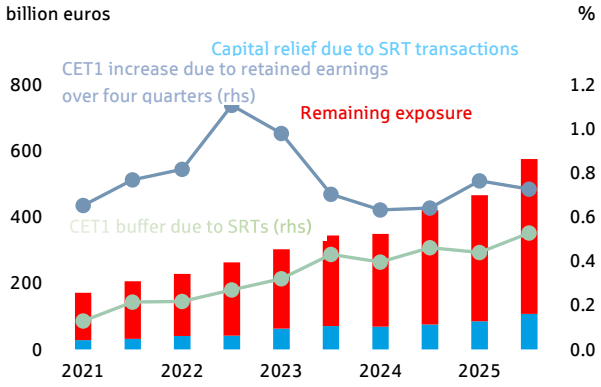
Given their IT-driven business model, banks possess a high level of expertise in IT security. In recent years, the legal framework has also been consistently strengthened. For example, the DORA Regulation aims to enhance the cyber security and resilience of financial firms, while the BiCA Regulation seeks to protect investors and safeguard market integrity. According to the **ECB's 2027–2029 supervisory priorities**, ensuring strong operational resilience and robust ICT is a key priority.[4]

Private Credit under scrutiny

The importance of capital relief through the issuance of synthetic risk transfers (SRTs) has increased. SRT transactions protect banks against credit defaults. In its **May 2026 Financial Stability Report**, the ECB's supervisory arm devoted a **special chapter** to the private credit market, i.e. lending by non-banking institutions such as insurance companies and pension funds. The supervisory authority concluded that financial institutions in the euro area had only limited direct exposure to the private credit market. This is due, on the one hand, to low transaction volumes and, on the other, to the fact that these institutions generally have a senior claim and high levels of collateral. The ECB therefore considers the resulting risks to financial stability to be low. However, indirect risks to financial stability would arise from insurance companies and pension funds being invested in such assets, as they would have to absorb valuation losses in the event of a crisis.

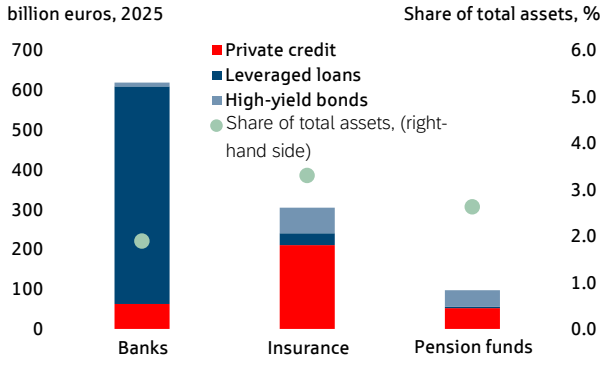
However, the ECB emphasises that, in the long term, a larger private credit market could promote growth by channelling funds from long-term investors to innovative companies, thereby supporting the objectives of the EU Capital Markets Union. Nevertheless, the market should be monitored closely, particularly with regard to credit quality, possible expansion into retail-oriented structures, and its potential role in financing AI projects. Furthermore, greater transparency and the provision of data, as well as a uniform global definition of private credit, would be desirable.

SRTs* and profits underpin capital ratios



*Significant risk transfers (through sale or synthetic securitisation)
Sources: ECB, Helaba Research

Banks' risks in private credit* are limited



*Direct exposure of European banks to the private credit market
Sources: ECB, Helaba Research

In our view, SRTs and private credit are promising approaches to addressing current challenges, such as financing infrastructure investment and transitioning to a more sustainable economy. While we consider the associated risks to be moderate, further developments must be monitored closely.

[3] **The Banker**
[4] See also the EBA's **Risk Assessment Report (RAR)** of 19 November 2026

The macroeconomic environment remains crucial

Risks naturally also arise from the political environment. An escalation of trade wars, supply chain issues and military conflicts would significantly weigh on the outlook for earnings and asset quality. As always, economic risks must also be mentioned. In our negative economic scenario, we highlight, not least, the high expectations associated with the AI boom (see our 2027 Annual Outlook).



Publications on banks and covered bonds

- → Covered Bond Outlook 2027
- → EUR Benchmark Bank Bonds: Primary Market Q3 2026
- → EU Commission on strengthening competitiveness
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