

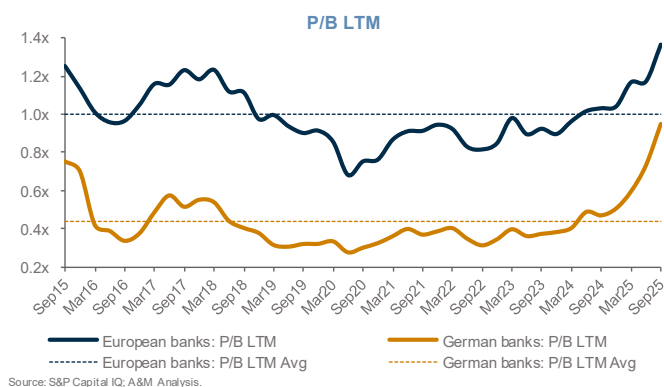
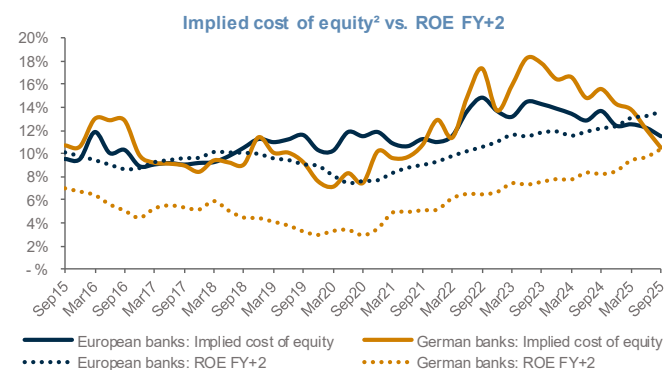


# A&M Valuation Insights – German vs. European Banks

**Rate cuts and strong stress-test results drove bank stocks higher, lowering the cost of capital and pushing P/B ratios to record highs.**



The implied cost of capital of European [German] banks declines to 11.5% [10.5%] and P/B ratios are at 1.37x [0.95x].



## Takeaways

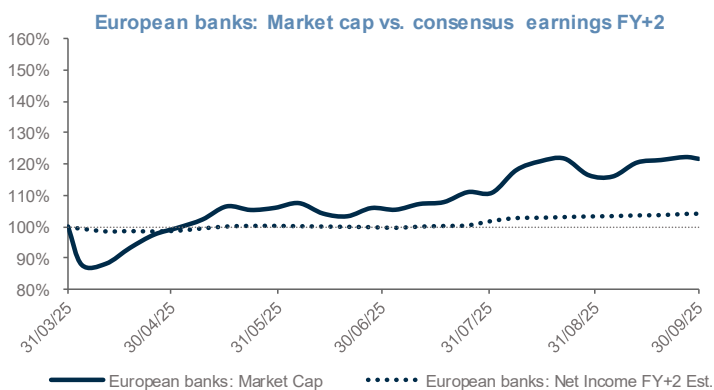
- European [German] banks' total market capitalization reached €1,888bn [€95bn] in Sep25, driven by a sharp rally in bank stocks following ECB rate cuts in Apr25 and Jun25, solid 1H25 results, and strong stress-test outcomes. In 2Q25 and 3Q25, European [German] banks outperformed the broader equity market, generating a TSR<sup>3</sup> of 26.7% [46.6%] vs. 6.9%<sup>4</sup> [7.0%<sup>5</sup>].
- The valuation uplift pushed the implied cost of equity down to 11.5% [10.5%] in Sep25. With FY+2 ROE forecasts of 13.6% [10.4%], profitability is expected to exceed [approach] the cost of capital, bringing the long-awaited return to profitability for German banks into sight.
- The lower cost of capital and higher profitability resulted in record-level P/B ratios of 1.37x [0.95x] as of Sep25, up from 1.17x [0.59x] as of Mar25.

Notes: (3) Total shareholder return based on end-of-quarter spot prices and dividends; (4) STOXX Europe 600; (5) CDAX.

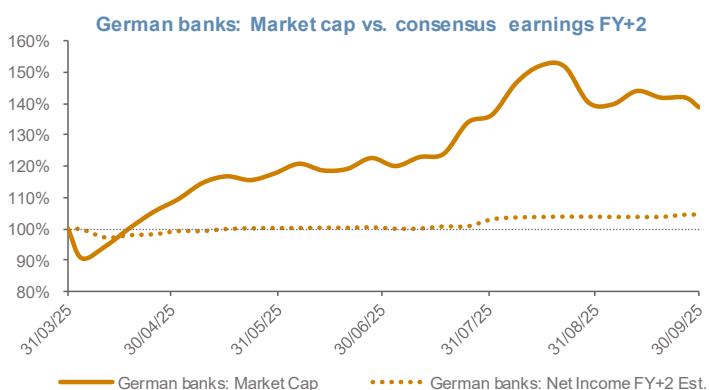
# For the first time since Dec20, P/E ratios of German banks have risen above P/E ratios of European banks, backed by strong 1H25 results.



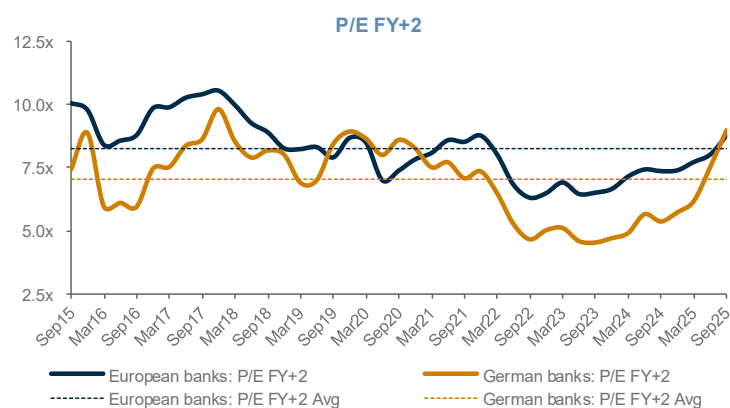
P/E ratios based on next year's earnings (FY+2) of European [German] banks stand currently at 8.8x [9.0x].



Source: S&P Capital IQ; A&M Analysis.



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Source: S&P Capital IQ; A&M Analysis.

## Takeaways

- After the temporary valuation dip caused by the U.S. tariff announcement in early Apr25, market capitalizations climbed to record levels by Aug25, supported by rate cuts, strong 1H25 earnings, and robust stress-test results. As earnings forecasts increased only modestly, the sharp increase in stock prices led to a substantial rise in P/E ratios.
- German banks outperformed in this environment, reflecting significant cost reductions and capital-structure improvements at Deutsche Bank and record 1H results at Commerzbank, which boosted investor confidence.
- Overall, the market cap-weighted P/E ratio based on next year's earnings (FY+2) of European [German] banks increased from 7.7x [6.2x] in Mar25 to 8.8x [9.0x] in Sep25.

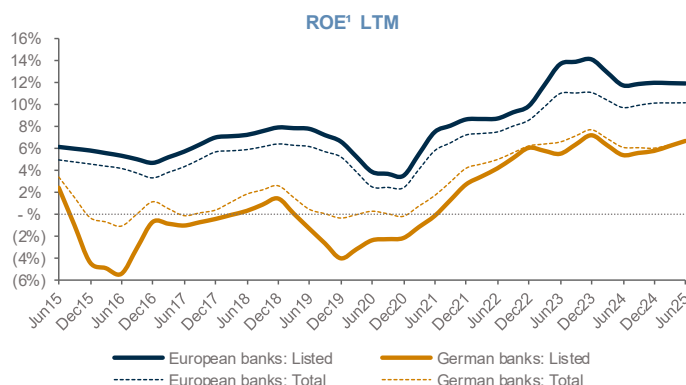
# Listed European banks remain more profitable than their non-listed peers, except in Germany, where profitability is broadly comparable.



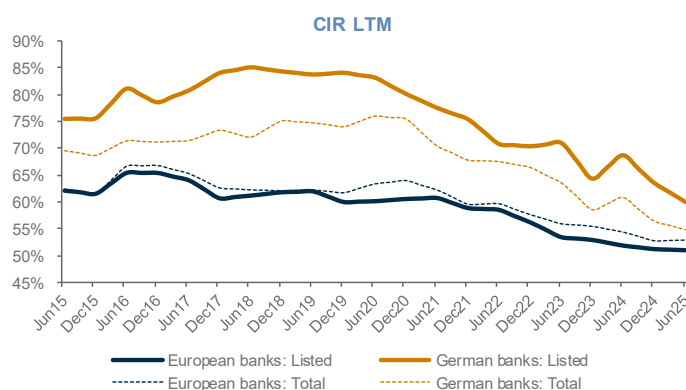
LTM ROE stands at 10.0% [6.7%] for European [German] banks, including both listed and non-listed institutions.

## Takeaways

- Listed banks in Europe remain more profitable than non-listed peers due to lower capital ratios, greater scale, and higher fee income. As of Sep25, listed European banks recorded LTM ROE of 12.0%, versus a CET1-weighted 10.2% for the broader market.
- German banks are a notable exception, as listed German banks tend to have more complex operating models and higher costs. As of Sep25, the CIR of listed German banks stood at 59.9% – a marked improvement from 68.6% in Sep24, but still well above the 51.0% recorded by listed European banks.
- Provisions for credit losses in % of average loans are broadly aligned between listed and non-listed banks; across Europe, risk costs were 0.36% as of Sep25, slightly higher than the 0.31% observed for German banks.



Source: S&P Capital IQ; A&M Analysis.  
Note (1): Net income to common divided by average common shareholders' equity.



Source: S&P Capital IQ; A&M Analysis.



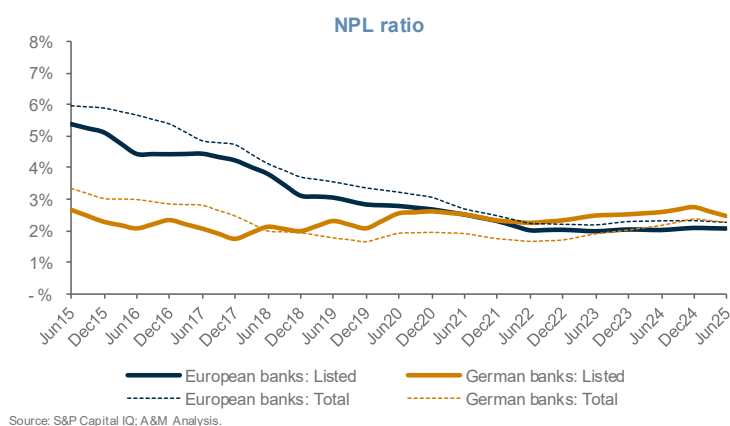
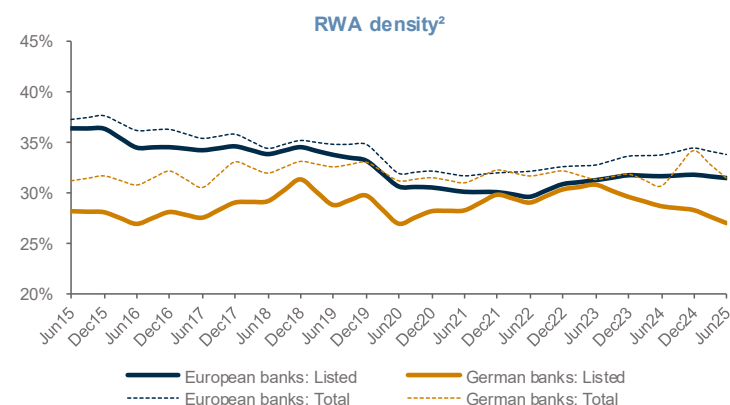
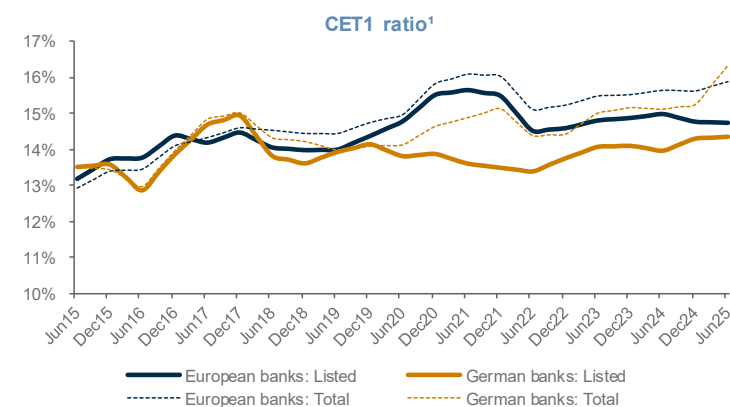
Source: S&P Capital IQ; A&M Analysis.  
Note (2): Provision for credit losses in % of average loans.



# Capital ratios improved and RWA density declined in 1H25, driven by strong operating results and temporary CRR III effects.



The CET1 ratio of European [German] banks stands at 15.9% [16.3%] in Sep25, up from 15.6% [15.2%] in Mar25.



## Takeaways

- CET1 ratios<sup>1</sup> of listed European and German institutions are close at 14.7% and 14.4% in Sep25. German banks (listed and non-listed) increased their CET1 ratio from 15.2% to 16.1% YoY, supported by earnings retention, CRR III effects, and the conversion of silent partner contributions into CET1 instruments at regional state banks.
- The RWA density (risk-weighted assets in % balance sheet total) declined for German banks, driven by data and process improvements, securitization transactions, and the broader application of CRR III rules, which provided short-term RWA relief.

Notes: (1) As reported.

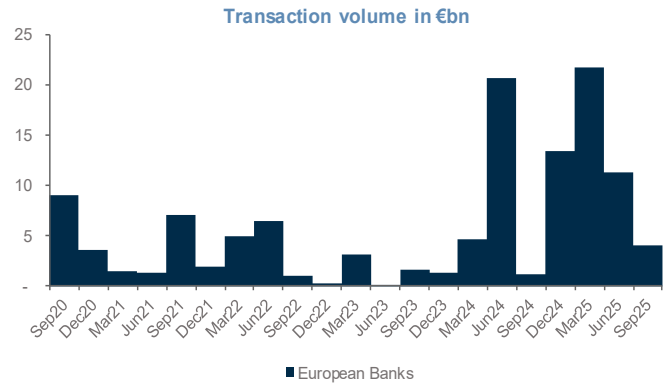
# M&A activity in European banking remained strong in 9M25, driven mainly by large domestic deals in Italy and Portugal.



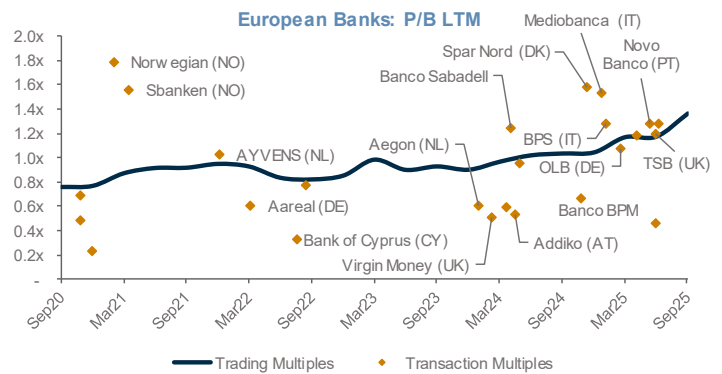
Transaction-weighted P/B [P/E] multiples showed premia of +13% [+21%] versus trading multiples.

## Takeaways

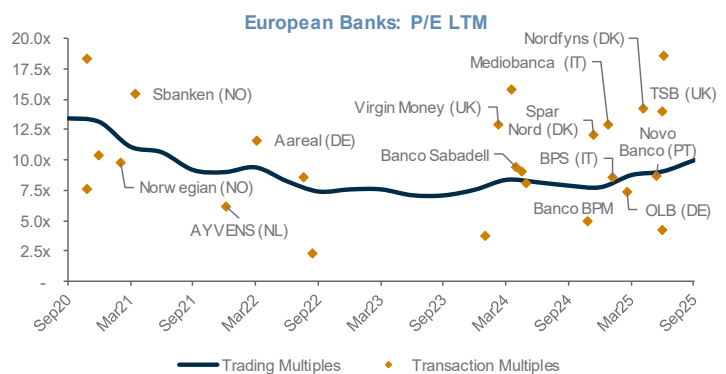
- M&A activity in the European banking market reached a total deal volume of €37.1bn YTD, slightly below the full-year level of €39.8bn in 2024. Deal activity was driven by large domestic transactions in Italy and Portugal, including the acquisition of Mediobanca by MPS (Jan25), the acquisition of BPS by BPER (Feb25), and the acquisition of Novo Banco by BPCE (Jun25). In Germany, the acquisition of OLB by TARGOBANK (Mar25) added €2.0bn to deal volume.
- Over the past year, M&A transaction premia in the European banking sector averaged +13% on a P/B basis (volume-weighted transaction P/B multiples compared with the market cap-weighted P/B multiples of listed European banks) and +21% on a P/E basis. Looking at the full 5-year observation period, the corresponding premia were +4% for P/B and +13% for P/E.



Source: S&P Capital IQ; A&M Analysis.



Source: S&P Capital IQ; A&M Analysis.  
Note: Labels only shown for transactions >€10bn.



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Note: Labels only shown for transactions >€10bn.

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## Study design



The analysis covers all institutions in European developed markets (as defined by S&P) that reported CET1 capital during the Sep15-Sep25 period, after consolidation. For listed banks, a 60-trading-day average share price is applied to smooth short-term volatility. All financial metrics are based on IFRS. The sample evolves over time: an institution is included in any given quarter only if it meets the selection criteria at that point in time. Data is sourced from S&P Capital IQ. As of Sep25, the dataset comprises 168 banks. Calculations were performed on 18 November 2025.

Financial metrics (e.g., ROE) are market cap-weighted for listed banks and CET1-weighted for the full (listed + unlisted) sample. The top/bottom 5% of observations were trimmed. Where LTM data was unavailable, the latest fiscal year was used. For the full sample, Q1 and Q3 data points have been smoothed to address gaps.

Data quality is continuously reviewed; minor revisions to historical data and past forecasts may appear in future updates of A&M Valuation Insights.

## ABOUT ALVAREZ & MARSAL

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