

Germany’s Banking Fault Line 2026: A MoatPeak Deep Dive

MoatPeak Deep Dive

January 30, 2026

Weekly Analytical Report | Focus: Systemic Risk & Alpha Opportunity

1. Executive Summary

As we look at Germany in early 2026, we see a profound paradox at the heart of its financial system. On the surface, headline numbers from giants like Deutsche Bank point to unprecedented strength. Yet beneath that surface, Germany’s distinctive “Three-Pillar” banking system—long a sturdy dam undergirding Europe’s largest economy—is beginning to crack. The real stress is not where the market is looking. It is quietly building within the regional banking pillars, creating a structural crisis that has been largely ignored but that carries significant risks and selective opportunities for those who are paying attention (see Figure 1).

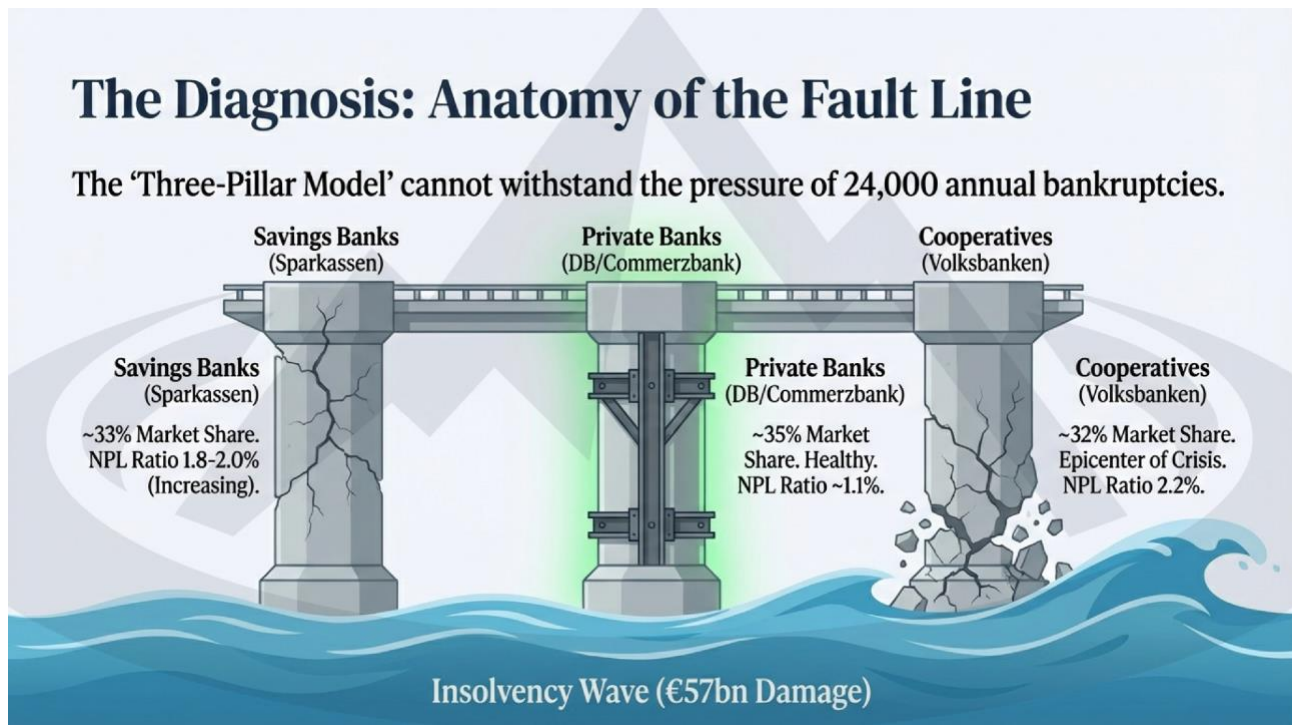


Figure 1. Anatomy of the fault line: Germany’s three-pillar system under uneven stress

Key takeaway: The core stress is building in the regional pillars, where local credit deterioration is eroding the system from below.

We trace the core of this problem to a four-year surge in corporate bankruptcies. By 2025, insolvencies reached 23,900 cases, inflicting roughly €57 billion in economic losses. This wave of failures has fed directly into a sharp rise in non-performing loans (NPLs), which have climbed from €38 billion in 2023 to around €60 billion today—a jump of 58% in just two years. Crucially, this pressure is not evenly distributed. It is concentrated on the balance sheets of regional savings banks (Sparkassen) and cooperative banks (Volksbanken), institutions that are central to Germany’s economic fabric yet structurally ill-equipped to absorb this level of strain (see Figure 2).

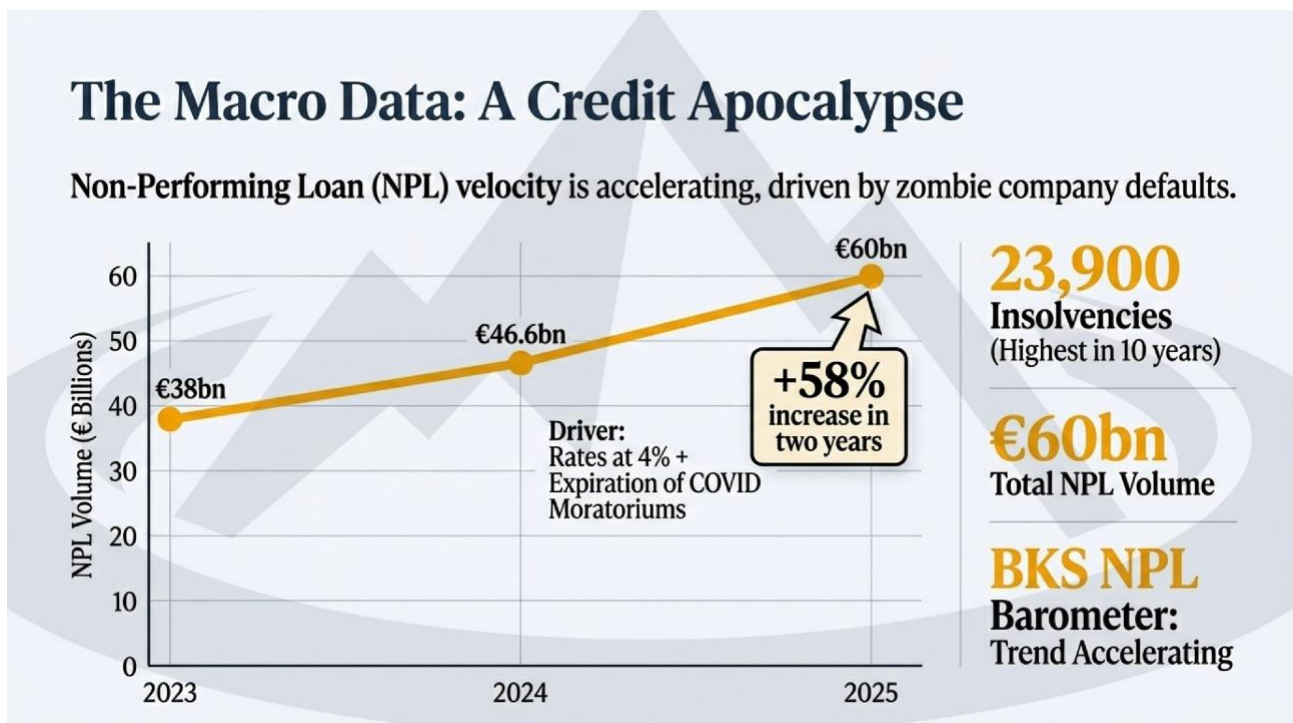


Figure 2. Corporate insolvencies and NPLs: the credit cycle turns

Key takeaway: The surge in corporate failures is translating into a rapid rise in NPLs, increasing the odds of a tightening credit environment.

We view this as far more than a local German issue. For global investors, it represents a systemic risk to Europe’s industrial engine. The risk of contagion is material, but markets are not pricing it correctly. Attention remains focused on the impressive performance of a small group of large, diversified banks, while the slow erosion beneath the surface goes largely unnoticed. To us, the current stress in the banking sector is the financial expression of a deeper story: the de-industrialization of the German Mittelstand, driven by elevated energy costs, adverse demographics, and intensifying global competition.

Our work leads us to three central conclusions. First, we expect “The Great Dispersion”: a widening performance gap between large, globally diversified banks such as \$DB and the smaller, regionally anchored institutions. This is not a tide lifting or sinking all boats together; it is a Darwinian selection process that will clearly separate winners from losers (see Figure 3).

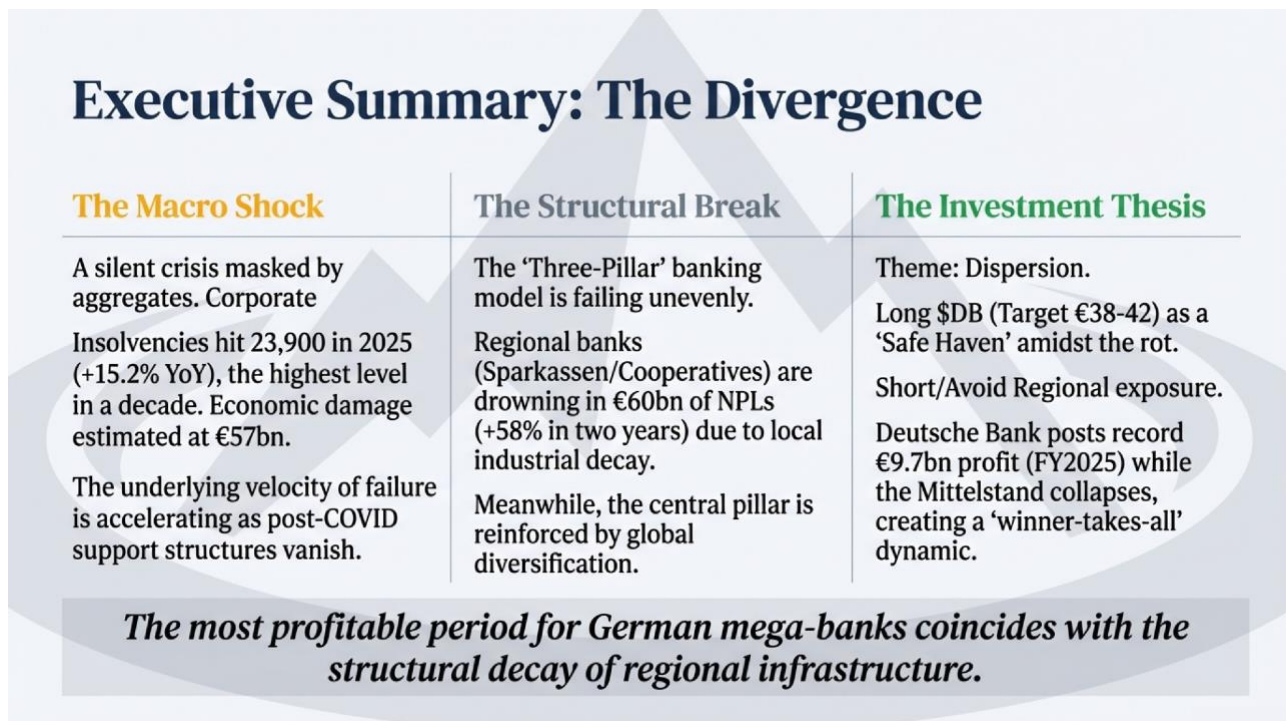


Figure 3. Executive summary: macro shock, structural break, and dispersion thesis

Key takeaway: We see a structural break masked by aggregates, and we expect dispersion: large diversified banks as relative winners, regional exposure as the locus of risk.

Second, we see structural de-industrialization as a credit event, not merely a cyclical downturn. What is happening in German manufacturing is bleeding directly into credit losses, and we believe conventional models are underestimating this link.

Third, we conclude that any actionable investment strategy must be selective and hedged. We see limited value in broad exposure to German financials, where index products blend the few likely winners with the many emerging losers. Instead, we focus on backing the clearest beneficiaries of consolidation while actively hedging against the non-trivial tail risk of a cascade failure.

This dispersion does not stay confined to Germany. It sends its first clear shock waves into the U.S. markets.

2. Impact on U.S. Markets

When Europe's economic engine misfires, the consequences spread quickly across global markets. We expect a German banking crisis to reach the United States primarily through flight-to-safety capital flows and shifts in global risk sentiment, both of which directly shape U.S. asset pricing. For us, understanding these transmission channels is essential to positioning portfolios for a potentially volatile period.

From an equity perspective, a German banking shock would, in our view, become a notable headwind for U.S. markets. A sharp pickup in perceived risk in Europe is likely to trigger a global "risk-off" environment, weighing on major indices such as the S&P 500 and Nasdaq. The pressure would be especially acute for U.S. multinationals with substantial European revenue exposure. A downturn centered on Germany would not remain purely financial; it would suppress both consumer and business spending across much of the continent, and that demand weakness would feed back into U.S. earnings.

On the fixed income and currency side, we expect classic crisis dynamics. In a pronounced flight to safety, global capital typically seeks the liquidity and perceived security of U.S. Treasuries. That move would likely push Treasury prices higher and yields lower. In such an environment, investors in vehicles like TLT (20+ Year Treasury Bond ETF) and IEF (7–10 Year Treasury Bond ETF) would, in our view, stand to benefit as money exits European risk assets.

At the same time, we would expect the U.S. Dollar to strengthen. A German-centered shock would put persistent downward pressure on the Euro as capital rotates out of Euro-denominated assets. This reinforces the Dollar's position as the primary global safe-haven currency, with all the usual implications for global trade, commodities, and emerging markets.

We also see implications for U.S. monetary policy. A meaningful financial shock emanating from Germany would likely force the Federal Reserve to reassess its path. The combination of a potential global slowdown and heightened financial instability would, in our view, tilt policy discussions in a more dovish direction. The Fed could find itself pausing, or even reversing, its tightening cycle earlier than current market pricing suggests, in order to stabilize markets and ensure sufficient liquidity.

These spillover channels illustrate the global reach of the crisis. Yet we believe the most acute and immediate damage will be felt in Europe itself.

3. Impact on Europe and Global Markets

We start from a simple premise: Germany is both the financial and industrial core of Europe. The health of its banking system is therefore more than a national concern; it is a leading indicator for the entire continent. When that core begins to fracture, the impact travels quickly through European indices, currencies, and commodity markets, and then outward into the broader global economy.

Within Germany, we expect the direct impact to fall hardest on the real economy. As regional banks pull back, the Mittelstand—the network of small and mid-sized industrial firms that has long been Germany's backbone—faces an intensifying credit crunch. Starved of capital, key sectors such as

automotive suppliers and energy-intensive manufacturers are likely to see their decline accelerate. Ironically, even as the banking system comes under pressure, German government bonds (Bunds) are positioned to serve as a relative safe asset within Europe. In a regional flight to quality, Bunds may attract capital and see their yields pushed lower, even while the underlying economy weakens.

We do not expect this crisis to remain neatly contained within German borders. Many European banks carry cross-border exposure to German corporates or maintain significant counterparty relationships with German regional lenders. A cascade of defaults or severe stress events in Germany could easily trigger a broader loss of confidence in the European banking sector. That, in turn, would raise credit risk and funding costs across the continent. Because Germany is the anchor of the Eurozone, its distress translates directly into weakness for the Euro, potentially dragging the currency toward parity with the U.S. Dollar.

The energy and commodity markets are also pulled into this story. Structural de-industrialization in Germany, if prolonged, implies a sustained reduction in demand for natural gas, electricity, and industrial commodities. As Europe's largest manufacturing hub throttles back, we anticipate a structural decline in energy and materials demand across the region. That would put downward pressure on prices and earnings for energy producers and materials companies globally, altering the investment landscape far beyond Germany's borders.

This macro lens reveals a system under growing stress. But to find truly actionable insights, we need to examine how this plays out for specific sectors and individual names.

4. Sectoral Movements and Individual Ideas

For us, the key theme running through this crisis is dispersion. The impact is not uniform, and it will not be. Instead, we see a widening gulf between those institutions and sectors that are positioned to benefit from consolidation and flight-to-quality, and those that are structurally exposed to the downturn. This widening gap creates distinct opportunities for selective, thesis-driven investors who are willing to look beyond broad benchmarks and indices.

On the winning side, we see a small group of large, diversified players and specialized firms poised to benefit. At the center of this group stands Deutsche Bank (DB): The Clear Consolidator. In our view, DB is emerging as the primary beneficiary of both market consolidation and a powerful flight to quality. Its fundamental strength stands in stark contrast to the weaknesses we see in the regional pillars.

We consider the full-year 2025 results as a pivotal confirmation. DB reported a record profit before tax of €9.7 billion, an 84% year-over-year increase. The accompanying metrics reinforce the picture: a return on tangible equity (RoTE) of 10.3%, a CET1 capital ratio of 14%, and a cost-to-income ratio of 64%. Together, these highlight a bank that is both well-capitalized and operationally disciplined. Coupled with its global diversification, aggressive share buyback programs, and increasing perception as a "safe haven", we see DB as a natural consolidator, positioned to absorb market share as weaker rivals retreat (see Figure 4).

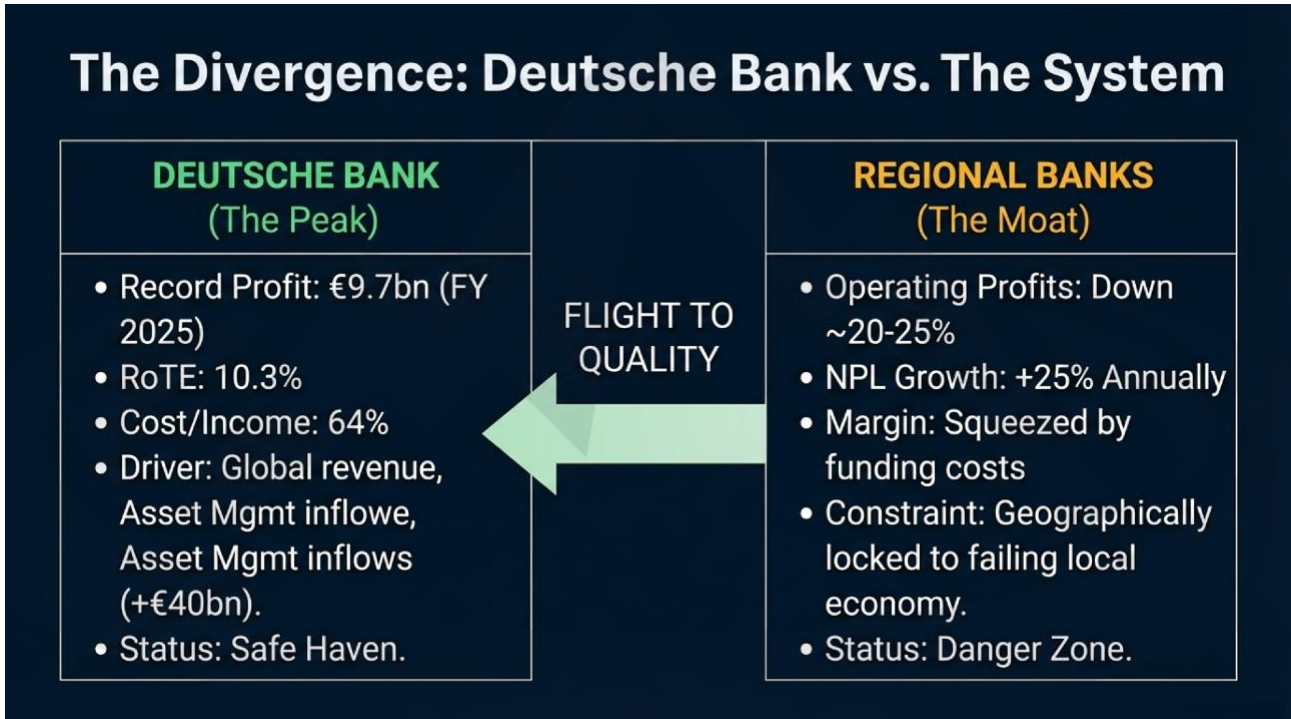


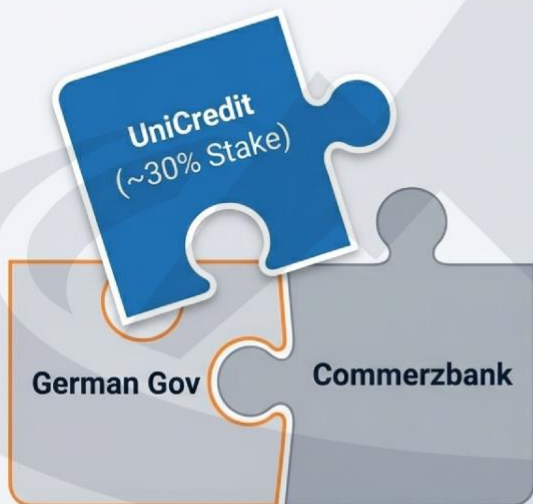
Figure 4. The divergence: Deutsche Bank versus the regional banking system

Key takeaway: We expect “the great dispersion” to widen as flight-to-quality supports large diversified banks while regionally anchored institutions absorb losses.

Alongside DB, we view UniCredit as a potential consolidator with a different but complementary angle. The Italian banking group has built a direct stake of up to 26% in Commerzbank, using derivatives to extend effective control to around 29–30%. This positions UniCredit for a potential M&A transaction that could unlock an estimated €4–5 billion in synergies, creating a formidable number two player in the German market. Even in a scenario where the deal does not materialize, UniCredit has already seen meaningful appreciation on its position, giving it the option to exit with a substantial profit (see Figure 5).

The Catalyst: M&A and The Commerzbank Play

The Unfinished Drama of Consolidation.



- **The Logic:** Potential synergies of €4-5bn. Creation of a second national champion.
- **The Risk:** Political Blockage vs. Market Logic.
- **Commerzbank Reality:** Strong operating result (€3.4bn) but heavily burdened by restructuring costs.
- **Trade Idea:** Pair Trade. Long DB / Short Commerzbank (if political deal-blocking removes the merger premium).

Figure 5. Consolidation catalyst: UniCredit's Commerzbank position and the M&A premium

Key takeaway: Potential consolidation can accelerate dispersion, but political and execution risk argues for selective, hedged exposure rather than broad sector beta.

We also see opportunity in NPL and distressed debt specialists. With non-performing loans projected to reach €60–70 billion, the environment becomes fertile for firms that specialize in servicing and acquiring distressed debt. As regional banks come under regulatory pressure to clean up their balance sheets, many will be forced to sell NPL portfolios at discounts. For the right buyers, this represents a compelling thematic opportunity to acquire assets cheaply and extract value over time.

On the losing side, we place the regional banks (Sparkassen & Volksbanken) at the very center of the storm. Their operating profits are falling by 20–25% on average, even as their NPLs grow at 20–25% annually, pushing NPL ratios toward 2.2% and rising. Because their mandates tie them tightly to specific regions and local economies, they cannot diversify risk in the same way national or global players can. In practice, this means they are hitched to their struggling Mittelstand clients and increasingly exposed to a deteriorating commercial real estate (CRE) market.

We also highlight CRE-exposed lenders as structurally vulnerable. A clear example is Deutsche Pfandbriefbank (\$PBB), which has already booked €215 million in provisions and publicly described the current situation as the “largest real estate crisis since the financial crisis.” If CRE values continue to slide, we expect further pain across this segment (see Figure 6).

Sector Spotlight: Where is the Rot?



Commercial Real Estate (CRE)

- Prices down ~14% in 2 years.
- CRE NPLs +56% YoY.
- Deutsche Pfandbriefbank (PBB) provisions €215m.
- Case Study: VR-Bank Dortmund Nordwest (Forced merger due to real estate losses).



Industrial Mittelstand

- Production down 4 consecutive years.
- Energy Cost Gap: DE ~10c/kWh vs US ~7c/kWh.
- Structural Deindustrialization.
- Case Study: BayWa AG (€527m Loss). The 'Green Trap'—subsidies faded, leaving insolvency risk.

Figure 6. Where the rot is concentrated: Mittelstand stress and commercial real estate exposure

Key takeaway: Credit strain is most acute where regional banks are structurally concentrated—local industry borrowers and commercial real estate collateral.

Finally, legacy industrial sectors—particularly automotive suppliers and energy-intensive manufacturers—face a challenging path. We have already seen evidence of contraction in the form of production cuts and notable job losses at industrial names like Volkswagen and Michelin. As credit conditions tighten further, we expect the decline in these sectors to deepen rather than reverse.

From these observations, we derive a set of actionable investment theses. We see going long DB as a direct expression of the flight-to-quality and consolidation themes. Our indicative target range of €38–42 over the next 12 months implies an upside of roughly 13–25% from current levels, positioning DB as a core vehicle to express a view on the preeminent winner in this Darwinian process (see Figure 10).



Figure 10. Deutsche Bank valuation case: expressing the consolidator thesis

Key takeaway: We see long Deutsche Bank as a direct expression of flight-to-quality and consolidation, with an indicative 12-month target range of €38–42 (13–25% upside from current levels).

We also see merit in a pair trade: long \$DB, short Commerzbank. This structure allows us to target two dynamics at once: the potential unwinding of the M&A premium embedded in Commerzbank’s stock if the UniCredit deal stalls or fails, and the relative outperformance of Deutsche Bank as the market’s emerging safe-haven champion.

Yet even these opportunities sit against a backdrop of deeper, less appreciated “gray rhino” risks that could sharply accelerate the crisis.

5. “Gray Rhinos”: The Obvious but Ignored Risks

We borrow the term “Gray Rhino” to describe large, obvious, and highly probable threats that markets nonetheless downplay—until they are forced to confront them. In our assessment, the German banking landscape is surrounded by several such rhinos. For now, many of these risks are simmering below the surface, but any one of them could act as a powerful accelerant, turning a slow-burning structural problem into a full-blown systemic event (see Figure 7).

The 'Grey Rhinos': Ignored Systemic Risks

Highly probable, high-impact threats charging at the system.

Demographics

266k SMEs closed due to lack of successors. Supply chains break simply because owners retire. 7% of all SMEs affected.

ESG Politicization

Regulatory pressure (KfW/CSRD) forces funding of negative-ROI "Green" projects. Creates moral hazard and capital misallocation (e.g., BayWa).

The NPL Backstop Trap

EU rules force 100% write-downs on NPLs (3yrs unsecured / 9yrs secured). Triggers "Fire Sales," depressing asset prices further.

Trust Collapse

1,000+ branches closing annually. Relationship banking is replaced by algorithms, causing deposit flight from local Sparkassen to national giants.

Figure 7. 'Gray rhinos': obvious risks that can accelerate a slow-burn crisis

Key takeaway: Succession risk, policy-driven capital misallocation, forced NPL timelines, and trust erosion can turn a gradual deterioration into a systemic event.

We start with what we call the Mittelstand Demographic Bomb. A quiet but dramatic shift is underway inside Germany's family-owned businesses. In 2025 alone, 266,000 SME owners closed their doors not because they were insolvent, but because they had no successors willing or able to take over. This demographic cliff snaps critical supply chains and can transform previously healthy business loans into sudden NPLs. Traditional credit models, which largely focus on financial metrics and backward-looking ratios, simply do not capture this succession risk. We see this as a systemic blind spot that will continue to produce so-called "surprise" defaults.

Next, we focus on the politicization of banking via ESG. The case of BayWa AG, an agricultural conglomerate that suffered heavy losses on politically driven renewable energy projects, is emblematic. We see intense pressure on banks to meet ESG mandates as a driver of capital misallocation into unprofitable, subsidy-dependent ventures. The result is a growing population of "zombie companies" sustained more by political will and subsidies than by economic viability. Any change in subsidy regimes or political priorities risks triggering a wave of failures among these fragile, politically favored enterprises.

We then confront the NPL Backstop regulatory trap, which, in our view, is what makes this very much a 2026 story. Under the ECB's NPL Backstop directive, banks must write down bad loans on aggressive timelines (for example, within three years for unsecured debt). While well-intentioned, this rule has an unintended side effect: it pushes many banks to sell NPL portfolios at the same time. Such synchronized "fire sales" can cause NPL prices to collapse, amplifying losses instead of containing

them. As we move into 2026–2027, we expect provisioning deadlines to force a reckoning for many regional banks, creating the risk of a sudden and severe capital shock.

Another destabilizing force is the CRE collateral feedback loop. Commercial real estate still underpins a large share of the Mittelstand’s borrowing. With CRE prices already down more than 14% cumulatively (–10.2% in 2023 and another –4.7% in 2024), the value of that collateral is eroding. As valuations fall, banks are compelled to issue margin calls, pushing borrowers to sell properties into an already weak market. Those forced sales further depress prices, which in turn damages collateral values and pressures bank balance sheets—a vicious deflationary spiral.

Finally, we see a crisis of trust emerging from branch closures. More than 1,000 bank branches are closing each year. On paper, this looks like a straightforward cost-saving measure. In reality, it is dismantling Germany’s traditional “relationship banking” model, which has long been central to Mittelstand financing. As physical branches disappear, so do local relationships and trust. We are already seeing a slow-motion run on regional institutions as depositors and businesses quietly shift their money toward larger national players perceived as safer. This gradual erosion of confidence is, in our view, a slow-burning fuse that can be just as dangerous as a sudden panic.

These overlapping risks shape how we think about the range of possible paths forward for the German banking system.

6. Our Scenarios and Probabilities

Consistent with MoatPeak’s methodology, we do not anchor on a single forecast. Instead, we work with a range of scenarios, each defined by key triggers and characterized by its own probability and implications. For the German banking system over the next 12–24 months, we see three primary paths (see Figure 8).

Scenarios & Probabilities (2026-2027)

BASE CASE: The Slow Bleed (50%)

Slate Grey

50%

- Controlled consolidation. Insolvencies stay high (25k). Gov subsidies stabilize the fall. DB gains market share organically.

BEAR CASE: The Cascade (35%)

Uncontrolled collapse. Major Mittelstand failure triggers chain reaction. CRE prices drop another 20%. Gov forced to recapitalize Sparkassen.

BULL CASE: 15%

Deep structural reform (Tax cuts, Energy breakthrough). Industrial output recovers. Infrastructure fund deploys effectively.

Figure 8. Scenarios (2026–2027): base, bear, and bull paths

Key takeaway: Our framework centers on three paths: slow consolidation as the base case, a cascade-collapse bear case, and a reform-driven bull case.

Our Base Case: Slow Consolidation carries a probability of 50%. In this scenario, the crisis unfolds gradually through 2026–2027, without a sudden systemic break. Bankruptcies remain elevated in the 24,000–26,000 per year range, and NPLs rise into the €65–70 billion band. Regional bank consolidation accelerates, with 50–100 mergers over the period. The damage is significant but cushioned by government subsidies, ECB rate cuts to around 2–2.5%, and a relatively orderly market for NPL sales.

Our Bear Case: Cascade Collapse carries a 35% probability. Here, a negative trigger—such as the bankruptcy of a major Mittelstand firm, an additional 15–20% decline in CRE prices, or a fiscal crisis that limits state support—sparks a chain reaction. Confidence evaporates, and direct government recapitalization of distressed banks becomes unavoidable. In this scenario, the Sparkassen group alone could require €15–30 billion in fresh capital, while the number of cooperative banks falls sharply as forced consolidations and failures accelerate.

Our Bull Case: Fiscal Miracle is less likely but still meaningful at 15%. In this version of the future, a new government pursues deep structural reforms that successfully revive German competitiveness. We would look for substantial corporate tax cuts, the effective rollout of a €500 billion infrastructure fund, and a breakthrough that materially reduces industrial electricity costs. Under these conditions, bankruptcies could drop into the 18,000–20,000 range, NPLs would stabilize, and regional banks would gradually return to profitability. In such an environment, we could see \$DB's RoTE rising into the 12–14% range.

Together, these scenarios give us a map of possible futures, but to navigate them intelligently, we rely on a set of core MoatPeak lenses (see Figure 9).

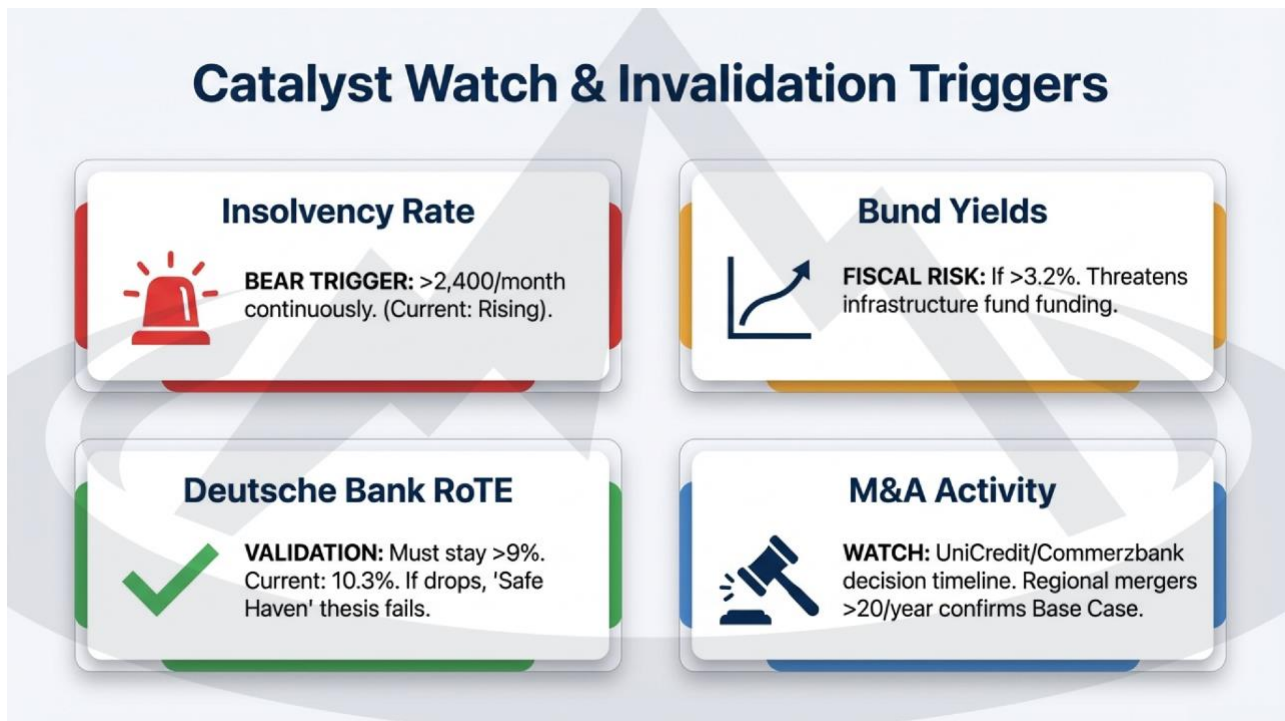


Figure 9. Catalyst watch: key indicators and invalidation triggers

Key takeaway: We focus on a small set of indicators—insolvency momentum, rates, bank profitability, and M&A progress—to validate or invalidate the scenario set.

7. MoatPeak Insights: Interpreting the Signal

In this section, we move beyond the data to apply MoatPeak’s core mental models and interpret what the numbers are really telling us. While headlines may frame this story as an emerging systemic failure, our analysis suggests something more nuanced and, for investors, more actionable: a systemic bifurcation.

Through our lens, Germany is not witnessing an across-the-board collapse of banking, but rather a violent reallocation of capital that will define the investment landscape for years.

Viewed through the Capital Cycle framework, we see a sector in transition. For decades, large pools of capital have been locked in the relatively low-return, stable, and crowded world of regional banking. The current crisis is the catalyst finally forcing that capital to move. We are observing a mass exodus of capital, talent, and client trust from fragmented, regionally constrained institutions—many of them tied to struggling local clients—toward more efficient, globally focused, and better-capitalized players like \$DB. In our view, understanding these flows is essential to understanding where value will accrue.

We think of this as a “Darwinian selection” process playing out in real time. On one side, we have DB, which has just delivered €9.7 billion in pre-tax profit for 2025, supported by global diversification and disciplined execution. On the other, we see hundreds of regional banks experiencing 20–25% annual growth in NPLs. The contrast could not be clearer. To us, this is the textbook pattern of a flight to quality at the beginning of a multi-year consolidation wave. The full-year 2025 results from DB, published only days before this analysis, do more than support our thesis—they strongly validate DB’s role as a safe haven and primary beneficiary of this structural shift.

In such a noisy environment, we find it critical to separate signal from noise. The noise, as we see it, includes the headline strength of the DAX, the standout profits of a single national champion, and the recurring political pledges to “save the Mittelstand.” These narratives are seductive, but they obscure the structural decay at the base of the three-pillar system.

The signal, in our framework, lies in the metrics of dispersion. We track the gap in NPL ratios between the different banking pillars, the pace of regional bank mergers, and flow-of-funds data showing how deposits move from smaller, vulnerable institutions to larger, more resilient ones. These are the indicators that tell us how quickly the bifurcation is progressing.

With this context in mind, we turn to the practical question: What does this mean for the retail investor?

8. What This Means for the Retail Investor

Staying true to the MoatPeak philosophy, we do not frame this as a market-timing exercise. Instead, we focus on how long-term investors can make sound, strategic decisions rooted in structural understanding rather than short-term noise. The German situation calls for a nuanced stance. For many individuals, the most rational response may be to observe carefully, hedge selectively, or refrain from action, depending on their current portfolio, time horizon, and risk tolerance.

We begin with what we do not favor. We are wary of broad exposure to the German financial sector via generic ETFs or index funds. Such instruments inevitably blend the few structural winners with a large number of emerging structural losers, resulting in, at best, diluted returns and, at worst, uncompensated risk. We believe the degree of dispersion is simply too great for a passive, undifferentiated approach to succeed (see Figure 11).



Figure 11. Portfolio decision checklist: selective exposure and explicit hedges

Key takeaway: We favor avoiding broad German financial exposure and instead focusing on selective winners, paired with explicit hedges against tail risks.

Instead, we advocate for a selective, thesis-driven approach. In practice, this means dedicating research time to the likely winners of consolidation—with \$DB as a prime example—identifying thematic beneficiaries such as NPL servicing companies, and avoiding banks and sectors whose fortunes are inextricably tied to a deteriorating domestic German economy.

Given the 35% probability we assign to our Bear Scenario, we also see a clear role for hedging tail risks, particularly for investors already heavily exposed to Europe. We expect the crisis to exert further downward pressure on the Euro, so it may be prudent to consider positions that either profit from or protect against Euro weakness. We also see potential value in classic risk-off assets, such as German Bunds or gold, as part of a broader hedging toolkit (see Figure 12).

Risks & Mitigation

The Risks

- **Systemic:** ECB Policy Error (Rates too high for too long).
- **Contagion:** Loss of trust in Sparkassen causing deposit runs.
- **Idiosyncratic:** Operational failure or new scandal at DB.

The Mitigation

- **Position Sizing:** Size for Base Case, but hedge for Bear.
- **Tail Risk:** Use Options for protection.
- **Monitor:** Watch the 'Grey Rhinos' (Demographics/ESG) for acceleration.

Figure 12. Risks and mitigation: sizing, hedging, and monitoring for escalation

Key takeaway: Given meaningful tail risk, position sizing and hedging discipline matter as much as the core thesis, alongside clear monitoring triggers.

To keep this thesis grounded in real-time data rather than static assumptions, we maintain a monitoring dashboard of key indicators. We watch monthly German bankruptcy statistics (Destatis) for signs that cases are holding above 2,300 per month, which would signal a worsening environment. We track quarterly ECB NPL data, where a move beyond €65 billion in total NPLs would, in our view, mark a serious escalation.

We also monitor CDS spreads for \$DB and Commerzbank; a sustained widening beyond 100–150 bps would indicate rising market stress. On the sovereign side, German 10-year Bund yields rising above 3.0–3.2% would start to test the state's fiscal room to maneuver. On the real-economy front, we look to the Ifo and PMI manufacturing indices, where readings below 83 (Ifo) or 43 (PMI) would confirm a deepening industrial downturn. Finally, we pay close attention to political developments, particularly around the UniCredit/Commerzbank deal and the actual implementation of the €500 billion infrastructure fund.

Our concluding view is straightforward. By 2027, we expect the German banking landscape to look fundamentally different from today. We believe we are in the midst of a historic inflection point, characterized by record dispersion. Strong, diversified players are consolidating their advantages, while regional banks tied to a de-industrializing economy face existential questions.

For investors, this transformation cuts both ways. It brings serious risks for those unknowingly exposed to the structural losers. But for disciplined investors who take the time to understand these

forces, it also opens a rare opportunity: the chance to align capital with the clear winners of the coming consolidation and to position portfolios for a world in which Germany's banking map has been permanently redrawn (see Figure 13).

Conclusion: The Darwinian Shift

This is not a rising tide; it is a selection event.

German banking in 2027 will be fundamentally different. The gap between the winners (Global/Diversified) and losers (Local/Concentrated) is the primary source of alpha.

UPDATE JAN 30, 2026: DB FY2025 Results Confirm Thesis. Profit €9.7bn (doubled). RoTE 10.3%. The 'Safe Haven' status is validated. **ACTION:** Position for Dispersion.

Figure 13. Conclusion: a Darwinian selection event, not a rising tide

Key takeaway: We view this as a selection event: dispersion between globally diversified winners and locally concentrated losers is the primary source of risk and opportunity.

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Our research integrates insights from global investment banks, asset managers, and macroeconomic data sources, translated

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