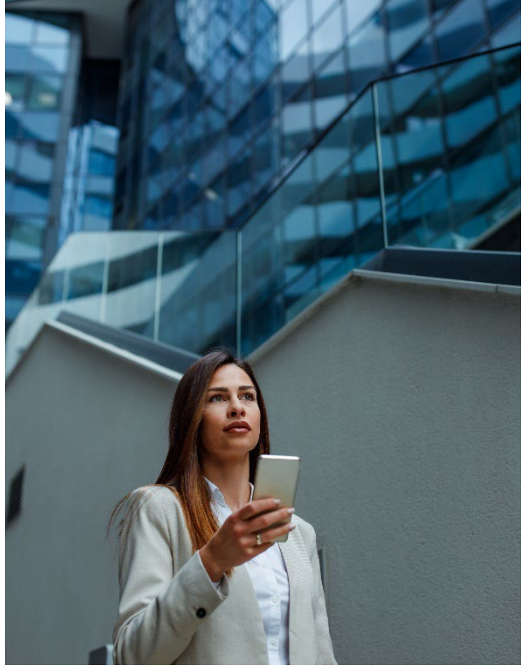
   

Global Banks Midyear Outlook 2025

Tariffs And Geopolitics Could Bite

July 10, 2025

S&P Global
Ratings

This report does not constitute a rating action

Contents

Key Takeaways

- Our outlook for global banks remains steady with broad ratings stability anticipated in 2025-2026. As of June 30, 2025, 85% of our bank rating outlooks were stable. While we expect the banking sector to adjust well to any second-order impacts from higher global trade tariffs and regional conflicts, the risks to our baseline remain on the downside.
- We see four key downside risks to bank ratings:
  1. A stronger-than-anticipated spillover from the tariff shock to the real economy.
  2. An escalation of the geopolitical situation, including the Russia-Ukraine war and Israel-Iran conflict.
  3. Evolution of financial markets: a weakening of banks' regulatory environment that would limit the effectiveness of supervisory action or weaker global coordination in times of stress; or risks continuing to migrate out of the banking system to nonbank actors.
  4. Evolving risks including new technologies (such as generative AI), cyber, and climate change that could widen credit differentiation, given that adaptation to such changes could be positive or negative.
- Banks are operating in unprecedented times when significant policy decisions and regional conflicts could disrupt financial markets and rapidly change the economic environment.

Key Risks

A spillover from the tariff shock to the real economy

There is a high degree of unpredictability around policy implementation by the U.S. administration and possible responses--specifically about tariffs--and the potential effect on economies, supply chains, and credit conditions.

Escalation of geopolitical risks

The resolution of the Russia–Ukraine war remains highly uncertain. In addition, the conflict between Iran and Israel could re-emerge and lead to a wider impact in the region.

Weaker global financial system infrastructure

The mounting call for simplification of regulation and supervision (especially in the U.S.) could lead to a weakening of the regulatory environment or limit the effectiveness of supervisory action.

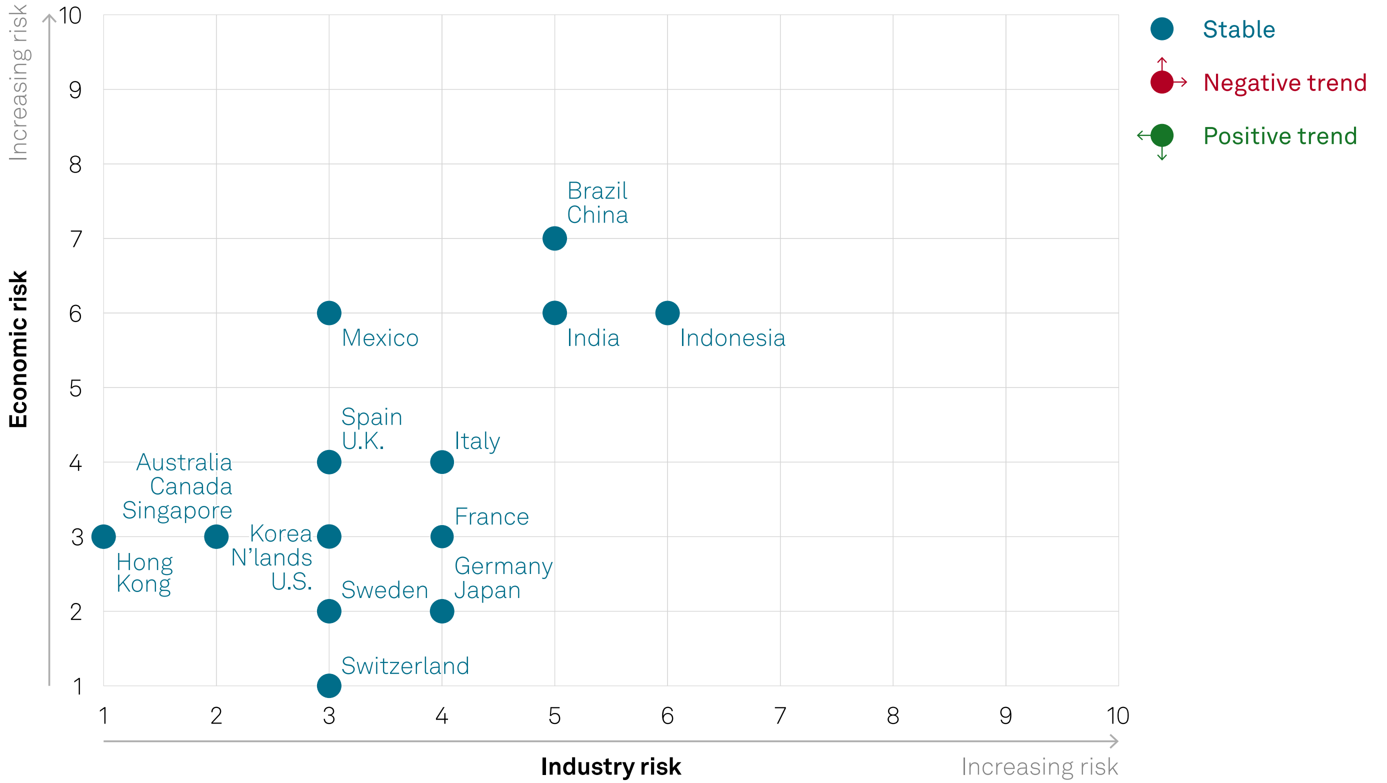
Digitalization, AI, climate change, and cyber

These evolving risks will challenge business models and risk management for some banks and offer opportunities for others. We eventually expect increasing credit divergence.

BICRA | Top 20 Banking Markets Have Stable Trends

BICRA scores and economic and industry risk trends

Top 20 banking markets



Data as of June 30, 2025. A BICRA (Banking Industry Country Risk Assessment) is scored on a scale from 1 to 10, ranging from the lowest-risk banking systems (group 1) to the highest-risk (group 10). Source: S&P Global Ratings.

BICRA-related changes in the top 20 banking markets, H1 2025

- **Spain**
  BICRA group 3 from 4 (March)
- **Italy**
  BICRA group 4 from 5 (April)

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Ratings

BICRA | Changes In 2025 Have Been Dominated By Positive Actions

January

Azerbaijan
IR trend to positive from stable

Guatemala
ER trend to positive from stable

Hungary
IR score to '6' from ‘5'

Greece
BICRA to Group '5' from Group '6', IR score to '5' from '6'

February

Argentina
ER trend to positive from stable, IR trend to stable from negative

Cyprus
BICRA to Group '6' from Group '7', IR score to ‘6' from '7', and IR trend to stable from positive

March

Andorra
Assigned BICRA Group '5', ER score of '5' and IR score of '6'

Portugal
ER score to '4' from '5', ER trend to stable from positive

Spain
BICRA to Group '3' from Group '4', IR score to '3' from '4', and IR trend to stable from positive

Ukraine
IR trend to positive from stable

Kenya
ER trend to stable from negative, IR trend to positive from negative

April

Albania
Assigned BICRA Group '8', ER score of '8' and IR score of '7'

Egypt
ER trend to stable from positive

Italy
BICRA to Group '4' from Group '5', ER score to '4' from '5', IR score to '4' from '5', and IR trend to stable from positive

May

Bosnia and Herzegovina
IR score to '8' from '7', and IR trend to stable from positive

Czechia
IR score to '3' from '4'

Guatemala
BICRA to Group '6' from Group '7', ER score to '7' from ‘8'. ER trend to stable from positive

Israel
ER trend to stable from negative

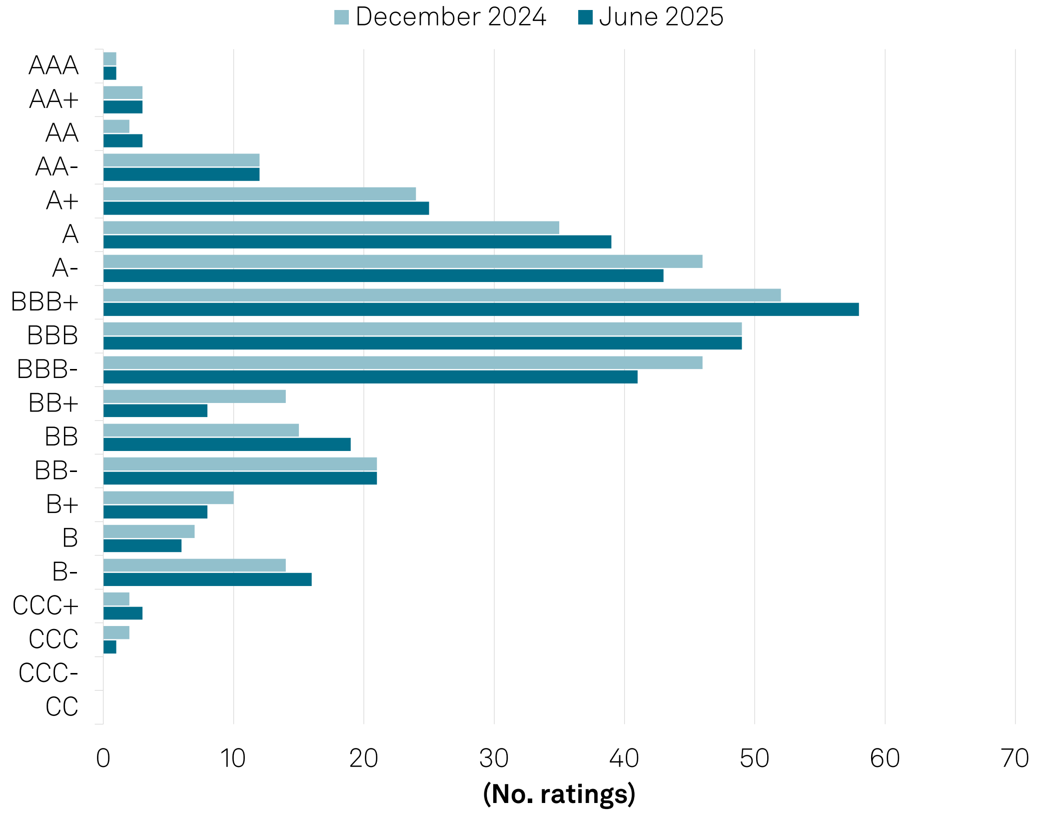
Kyrgyzstan
Assigned BICRA Group '8', ER score of '8' and IR score of '8'

Data as of June 30, 2025. Chart includes changes in BICRA group, industry and economic risk trends and scores. BICRA--Banking Industry Country Risk Assessment. ER--Economic risk. IR--Industry risk. Source: S&P Global Ratings.

Banks | Generally Stable Outlook

We expect bank ratings to be resilient

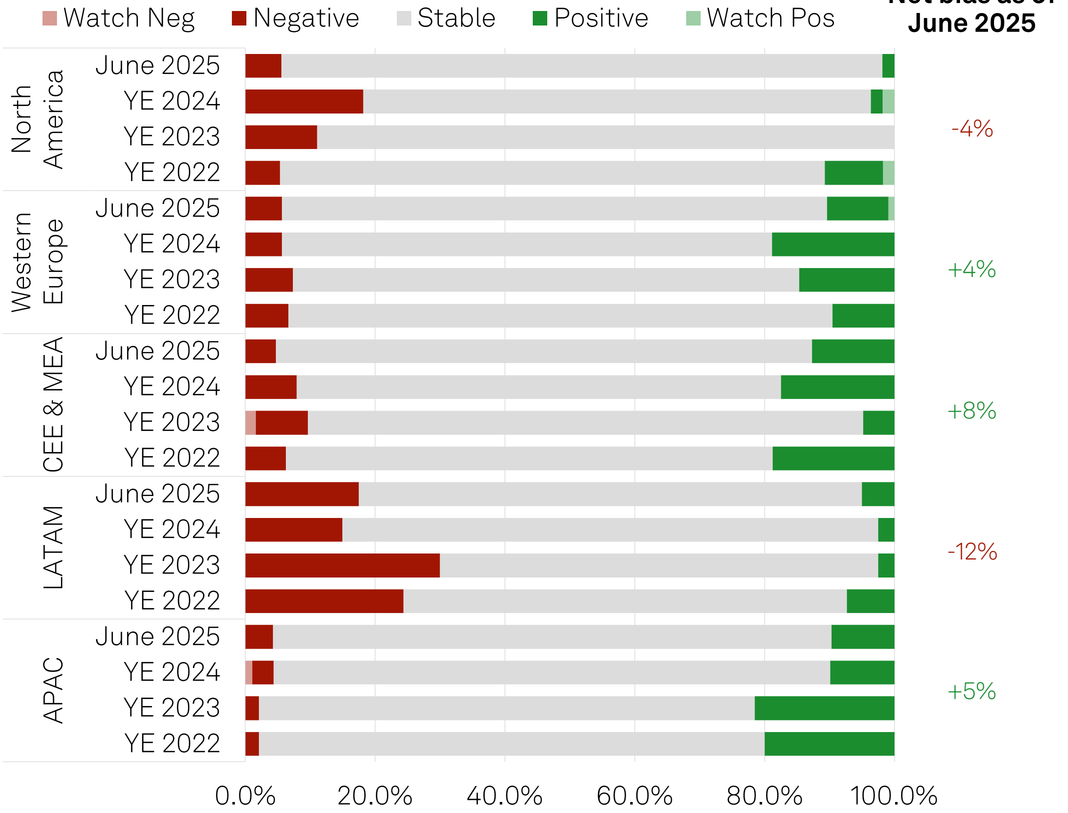
Evolution of ratings distribution for rated banks



Operating company issuer credit ratings. Source: S&P Global Ratings.

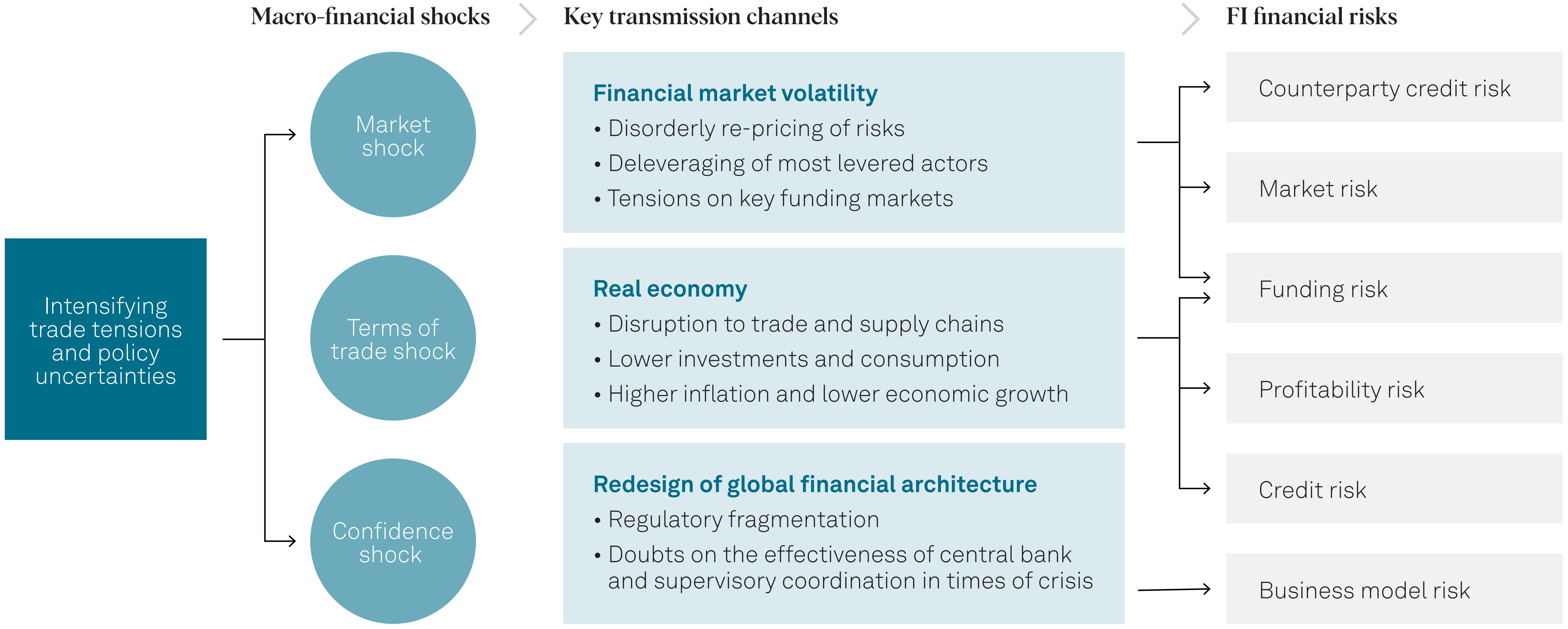
Positive net rating bias of 2% at global level

Evolution of outlooks for rated banks by region



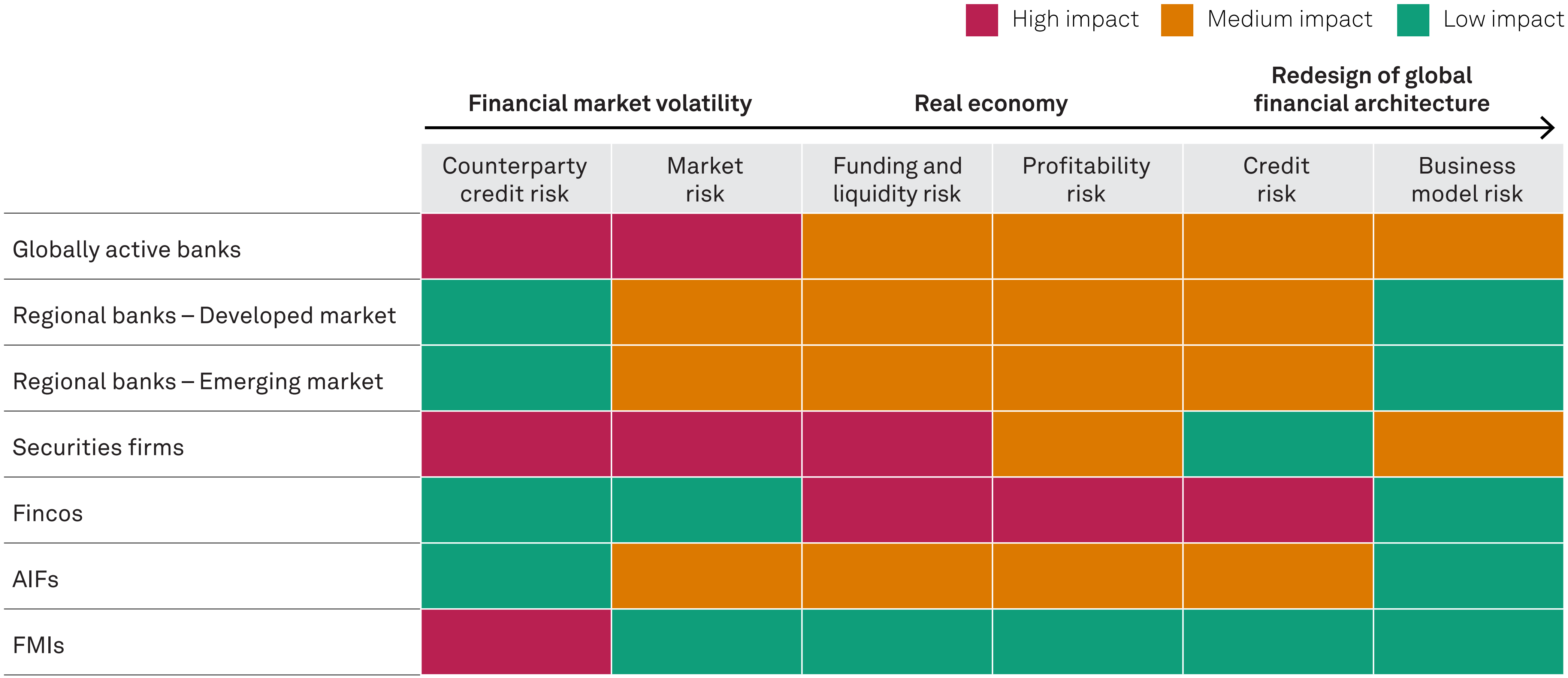
APAC--Asia-Pacific. CEE--Central and Eastern Europe. LATAM--Latin America. MEA--Middle East and Africa. CW--CreditWatch. Source: S&P Global Ratings.

Tariffs | The Evolving U.S. Stance May Trigger Macro-Financial Shocks, Which Could Transmit To Banks



FI--Financial institutions. Source: S&P Global Ratings.

Tariffs | Credit Hits From Any Shocks Would Be Felt Over Time And Unevenly

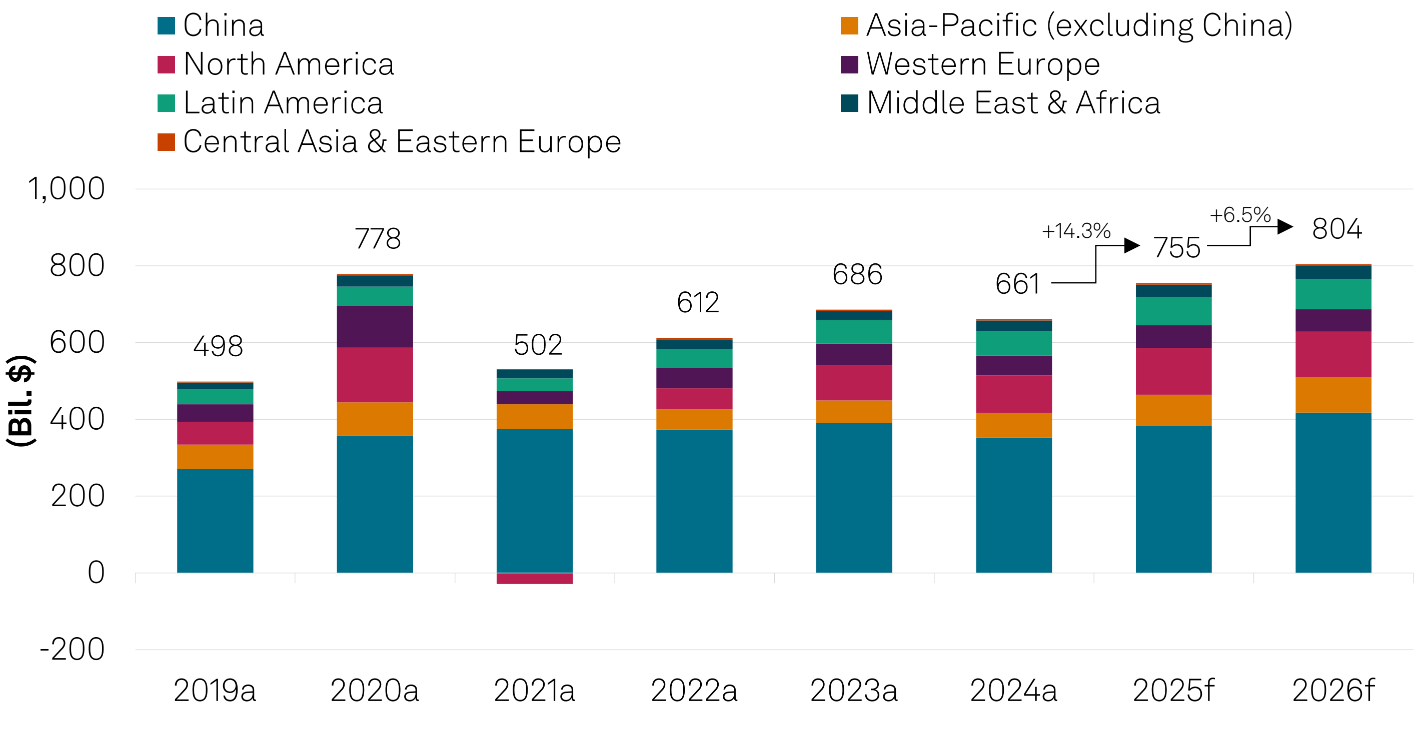


AIFs--Alternative investment funds. FMI--Financial market infrastructure. Source: S&P Global Ratings.

S&P Global Ratings

Credit Losses | Tariff-Related Uncertainties Mean Higher Losses Ahead

Domestic credit losses by region, 2019-2026

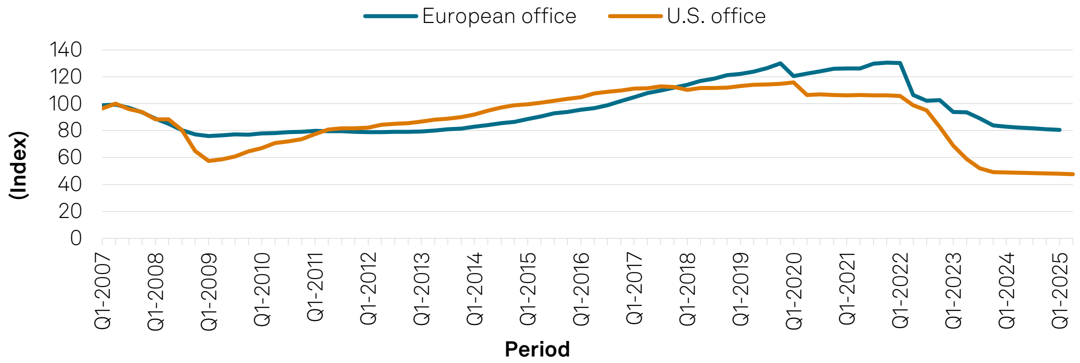


Data shown on a constant currency basis, based on 2024 year-end exchange rates. Data for China relates to commercial banks. a--Actual. f--Forecast. Source: S&P Global Ratings.

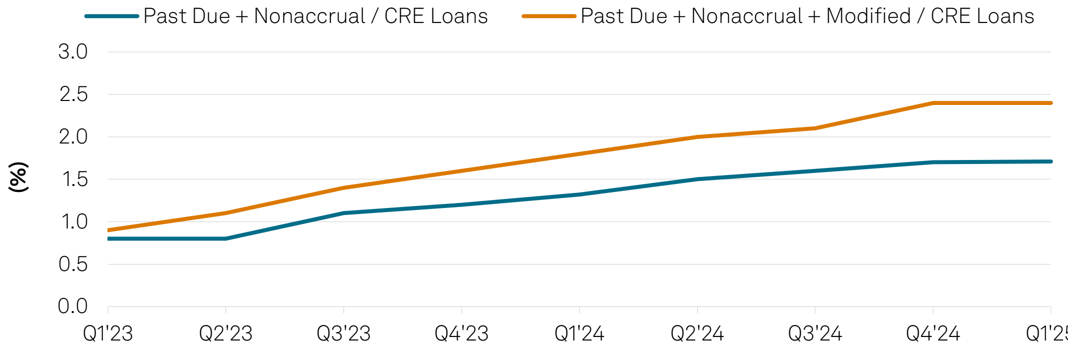
- We forecast global banks' credit losses will rise by over US$140 billion over the two years to end-2026. This takes credit losses from US$661 billion in 2024 to around US$750 billion in 2025 (a rise of 14%) and a further 6% to over US$800 billion in 2026.
- The bulk of this increase arises in Asia-Pacific, including China, in large part driven by the impact of tariff-related uncertainties on lending to China's micro and small enterprises and its unsecured consumer credit segment.
- We see these losses as manageable for most, thanks to generally solid profitability and strengthened prudential rules implemented over past years.

CRE | Risks Easing From Stabilizing Valuations, Lower Interest Rates

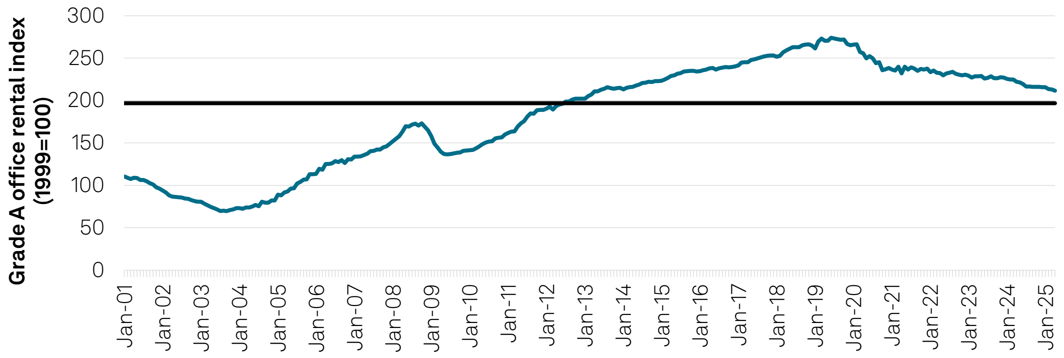
1. Office valuations fell steeply as rates rose, and are now stabilizing...



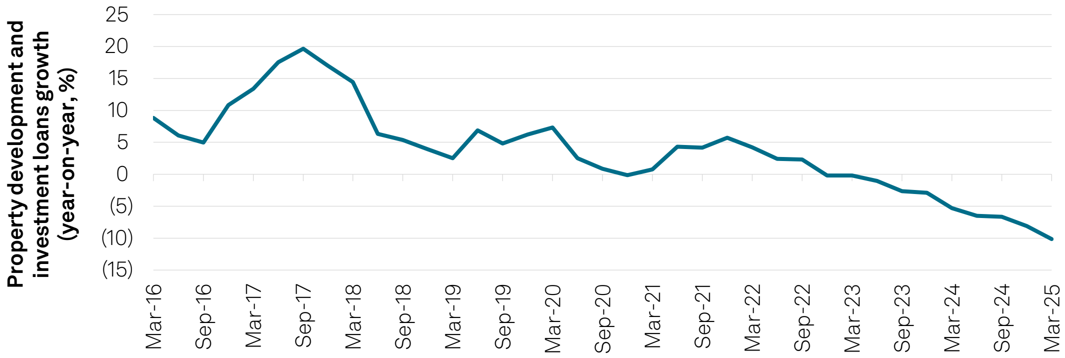
2. ...while rises in U.S. banks' delinquent CRE loans are slowing



3. The Hong Kong CRE market remains weak, with office rents approaching 2012 levels...



4. ...and Hong Kong banks continue to trim their exposure to property loans

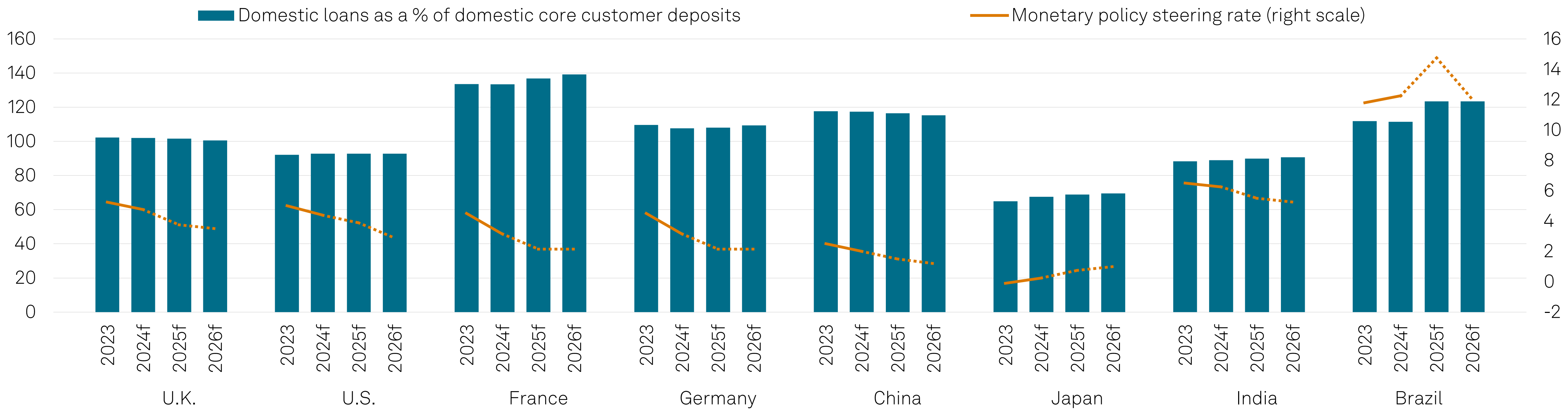


CRE--Commercial real estate. 1: Green Street Commercial Property Price Index (CPPI), Office. 2. CRE past due and nonaccrual loans as a proportion of CRE loans, all U.S. FDIC-insured banks. 3. The horizontal line represents the 12-month average of the index in 2012. 4. Year on year growth in property development and investment loans for Hong Kong banks. Sources: Green Street Property Advisors, U.S. regulatory filings, Hong Kong Rating and Valuation Department, Company disclosures, Hong Kong Monetary Authority, S&P Global Ratings.

Funding And Liquidity | Largely Stable But Market Volatility Could Pose Risks

- We expect banks' funding and liquidity profiles around the globe will remain generally stable after some meaningful movements earlier in the decade related to swings in central bank policy rates and quantitative tightening.
- While a reduction in policy rates this year or next in several jurisdictions could support funding and liquidity, potential further volatility in market interest rates and credit spreads could pose risks.

Expectations of lower policy rates could support funding, though market rates and spreads could be volatile



Monetary policy steering rates are annual averages. f--Forecast. Data as of Dec. 31, 2024. Source: S&P Global Ratings.

Regulation And Supervision | Mounting Calls For Simplification

Simplification would not necessarily weigh on ratings so long as key guard rails remain

The call for simplification of rules, as well as a sense of regulatory saturation, seem inevitable.

At 1,845 pages, the Basel framework is dense and complex. Under our base case, we anticipate renewed efforts to cut red tape in many jurisdictions. These changes could be neutral to bank ratings if they do not hinder pragmatic and effective supervision or reduce banks' incentives to pursue effective risk management.

The push for change is strongest in the U.S. but other jurisdictions might follow.

The current U.S. administration and its appointees to the bank regulatory agencies have suggested they will pursue many changes to bank regulation and supervision. Those changes could affect capital and liquidity requirements, stress testing, application of regulation based on size, and other factors. Given competitive pressures, other jurisdictions could follow and also propose regulatory changes.

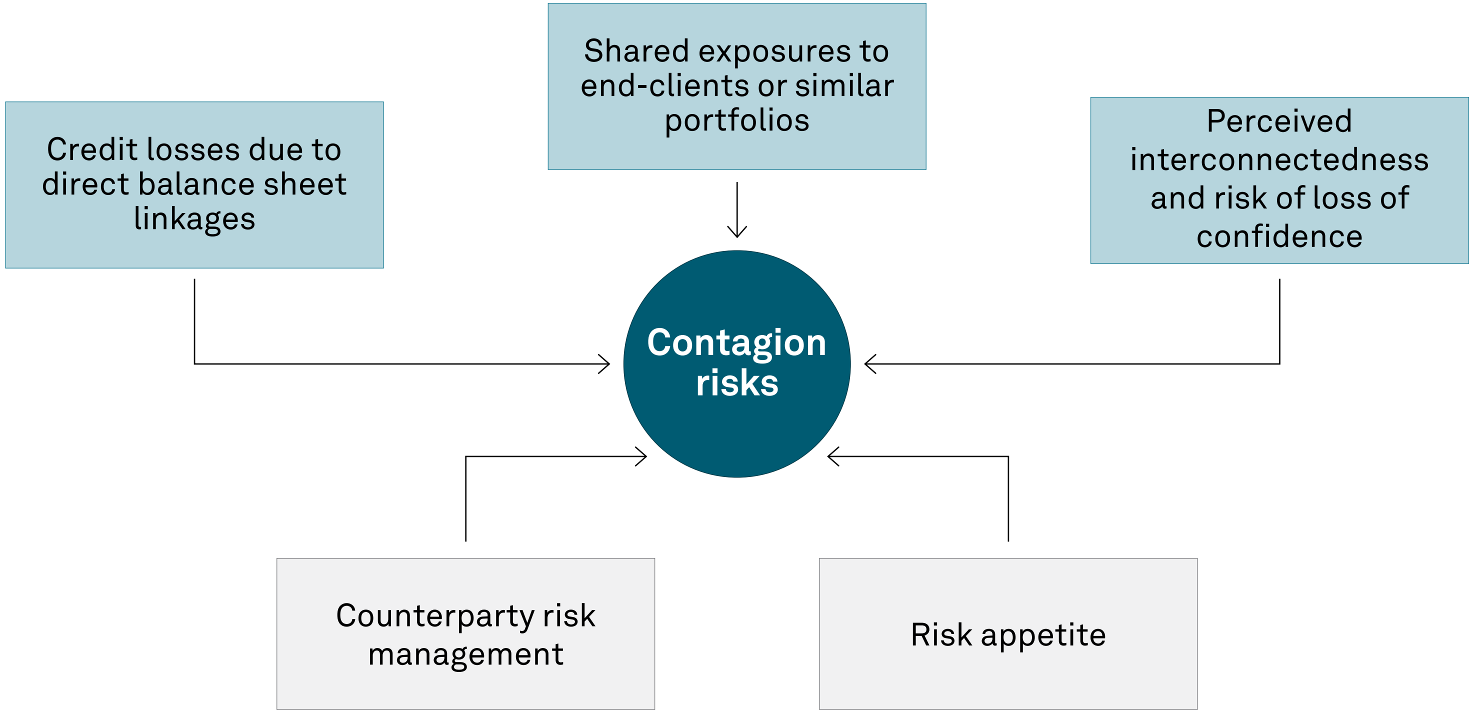
A broader regulatory rollback, though not our base case, could have more serious implications for ratings.

A broad push to significantly weaken bank regulation or limit the effectiveness of supervisory action is a downside risk which, unlike regulatory strengthening, is unlikely to play out in a globally coordinated manner but, instead, stem from specific national initiatives.

Nonbank Lenders | Contagion Risks Exist

Interconnectedness among nonbank lenders and between nonbank lenders and banks can lead to risk propagation

Contagion risks could materialize in multiple ways



Potential mitigants

Exogenous and endogenous shocks can test the resilience of banks and nonbanks, including private credit funds. These shocks include:

- Geopolitical events, economic shocks, and market fragilities; and
- Idiosyncratic underperformance of direct exposures.

Banks' risk management is central. Their decision-making must rely on transparency, effective monitoring, risk-based pricing, prudent assumptions on valuations and secondary liquidity, risk diversification, and scenario analyses.

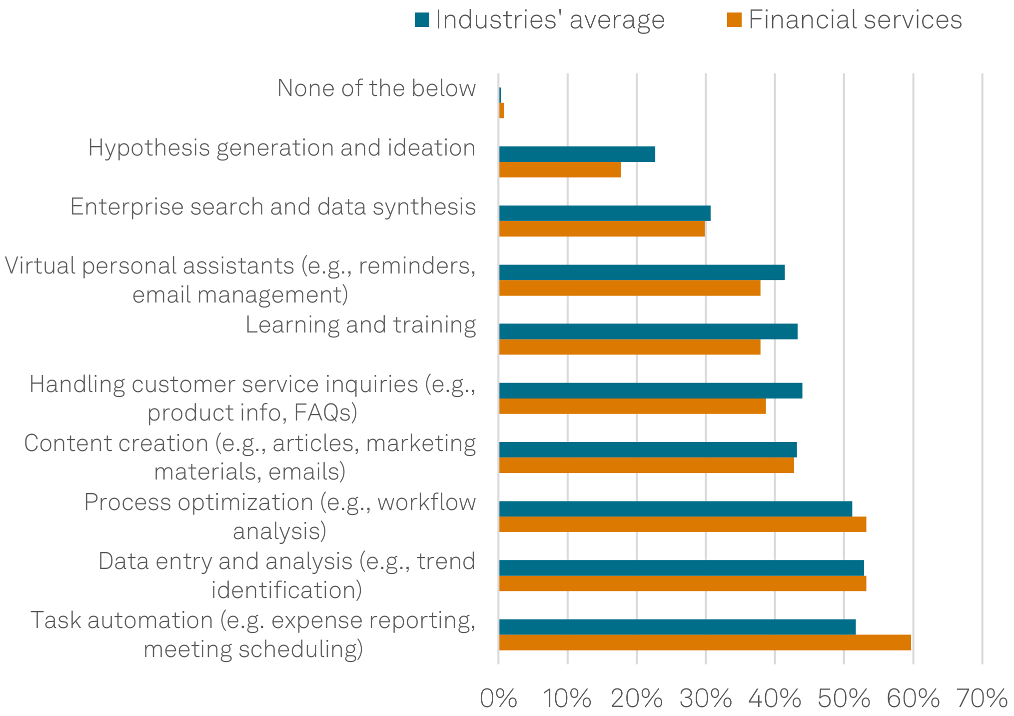
Source: S&P Global Ratings.

Generative AI Is Reshaping Banks' Business Models

Read report here

The effects will likely be gradual, incremental, and uneven as banks increasingly look to deploy generative AI and AI agents

Financial services anticipate most value from AI agents in task automation



Note: Question: In your organization, where do you currently see or anticipate the most value in implementing AI agents or assistants? Please select all that apply.
Source: 451 Research's Voice of the Enterprise: AI & Machine Learning, Use Cases 2025.

Key metrics for financial services

Security Risks of genAI are the biggest challenge (**43%** fin services vs. 38% industry average)

67% are very interested **in AI agents** (vs. 58% industry average)

52% have invested in **AI governance tools** (vs. 43% industry average)

79% is the mean **ROI** expected for AI initiatives (vs. 74% industry average)

Source: 451 Research's Voice of the Enterprise: AI & Machine Learning, Use Cases 2025

Climate Risks | What To Watch?

Banks' climate commitments might increasingly diverge between regions

SO FAR

- ✓ Reducing climate risks has become a key priority for an increasing number of banks. We observed material progress in banks' awareness and preparedness.
- ✓ Regulatory initiatives, including stress tests and scenario analysis, have fostered banks' analysis and disclosure of climate risks across several jurisdictions.

Climate risks have had a limited credit impact on rated banks, thanks to:

- ✓ Banks' diversified exposures by sector and geography that help contain credit losses.
- ✓ Governments and insurance companies generally taking most of the cost burden related to climate physical events (e.g. floods in Spain; wildfires in Los Angeles).

FUTURE

EU banks' climate actions might encounter setbacks in the near term, given:

- ✓ The pushback on climate disclosure regulation.
- ✓ The recent exit of several North American banks from the Net-Zero Banking Alliance (NZBA).
- ✓ The EU parliament's decision to delay the implementation of the Corporate Sustainability Reporting Directive (CSRD).

We expect the credit impact of climate risks on banks to increase over time, since:

- ✓ Weaker climate policy and legislation in some jurisdictions might translate into incremental transition risks.
- ✓ Late climate policies might exacerbate the frequency and severity of climate physical events and increase their impacts for banks operating in the most vulnerable geographies.

Emerging Markets | What Will Shape The Credit Story?

Trade tensions could continue to hamper investments in emerging markets (EMs)

Uncertainty about U.S. trade policy persists, as bilateral negotiations with several countries continue. Even though the recent agreement between the U.S. and China has provided some relief, uncertainty remains significant. Some EMs, such as Mexico, are directly affected by tariffs, while others--including Gulf Cooperation Council (GCC) countries--are exposed to indirect tariff effects, for example lower commodity prices.

Geopolitical tensions remain high

The ongoing Russia-Ukraine conflict and the conflict between Israel and Iran weigh on investor sentiment in EMs. While we do not expect a full-scale regional war in the Middle East, a significant escalation could have severe macroeconomic effects.

Volatile credit conditions persist

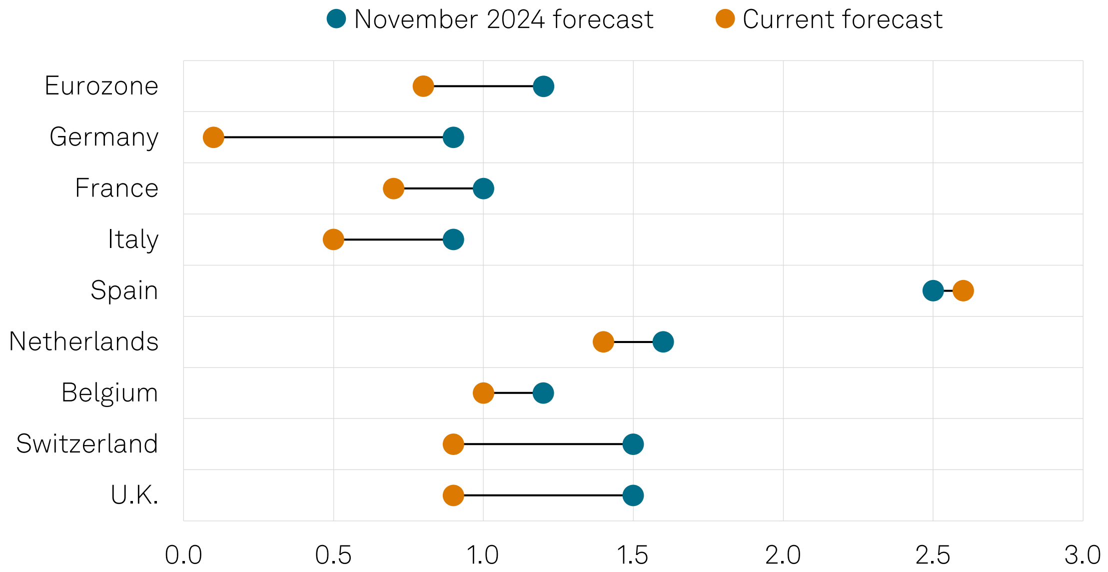
Even though yields have started to normalize in several EMs, volatility could spike again. Tariffs remain the principal source of downward risk, along with a slowdown in global growth and uncertainty about the Federal Reserve's monetary policy. The latter will affect local central banks' strategy and exchange rates. A few EMs, particularly Saudi Arabia and the United Arab Emirates, are relatively better placed, because their access to the capital market remains strong.

Europe

Credit Conditions | Europe

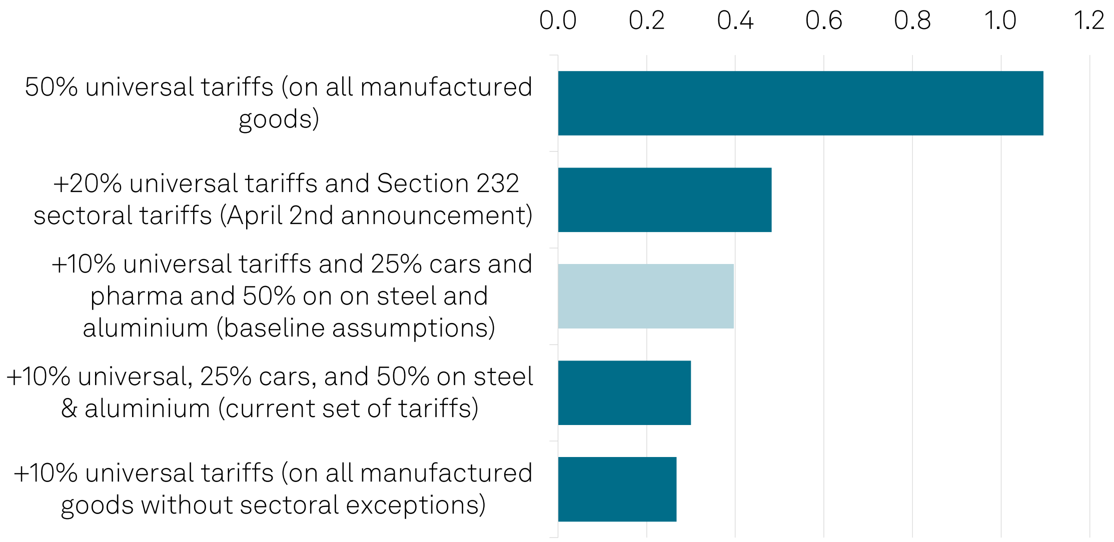
- Economic growth will remain subdued in 2025, amid high tariff uncertainty, though prospects will improve in 2026-2027 on the back of Germany's fiscal stimulus. Our base-case macro scenario is largely contingent on the outcome of U.S.-EU trade negotiations.
- With the deposit rate at 2%, the ECB's interest rate cycle has probably bottomed out. But we expect three more rate cuts in the U.K, with the base rate landing at 3.5% in February 2026.

Our German, Swiss, U.K., and Italian growth forecasts for 2025 were subject to the largest downward revisions (%)



Source: S&P Global Ratings.

50% universal tariffs would severely affect eurozone GDP (% GDP)



Note: We estimate the trade impact as the sum of the change in tariffs according to a given scenario, the price elasticity of trade, and the share of value added that is exported to the U.S. for each sector. Source: S&P Global Ratings.

Credit Conditions | Europe

Downside risks...

- Negative **geopolitical developments** and trade protectionism undermine Europe's economic outlook.
- **Market turbulence** and disorderly repricing of risk.
- Weak fiscal and public **debt dynamics**.
- Insufficient resilience against increasing **cyber and IT risks**.

..and what they mean for the sector

- **Weak economic growth** could harm the financial health of vulnerable corporates and households, pressuring **banks' asset quality** and clouding business prospects.
- **Market turbulence** could destabilize institutions with weaker funding structures (especially nonbanks), pressure liquidity, leading to the materialization of market tail risks and counterparty defaults.
- Faced by **fiscal challenges**, governments would have limited ability to support the economy if needed.
- Failure to build resilience against **cyber risk** could test the long-term viability of some institutions.

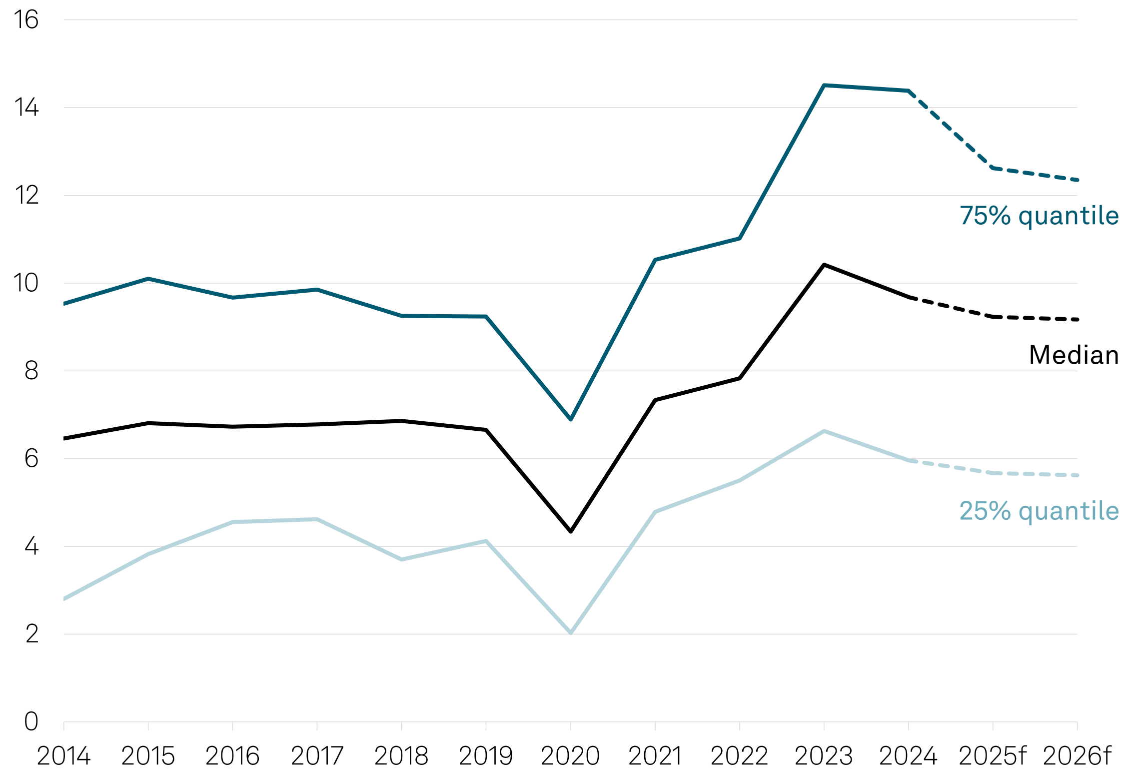
What we expect for next 12 months

- European banks will remain resilient to the weaker, more uncertain environment ahead. Thus, most **outlooks remain stable**.
- **Sound returns in 2025**, since banks' active hedging strategies and focus on fee income and cost control will lessen the effect of declining interest rates.
- Comfortable capital and liquidity.
- Some asset quality deterioration in exposures in auto, CRE, and sectors more directly affected by **trade tariffs**. But credit costs will likely remain affordable.
- Excess capital and better valuations will **continue encouraging M&A**.

Profitability Will Remain Solid

Earnings pressured by lower rates, but to remain sound

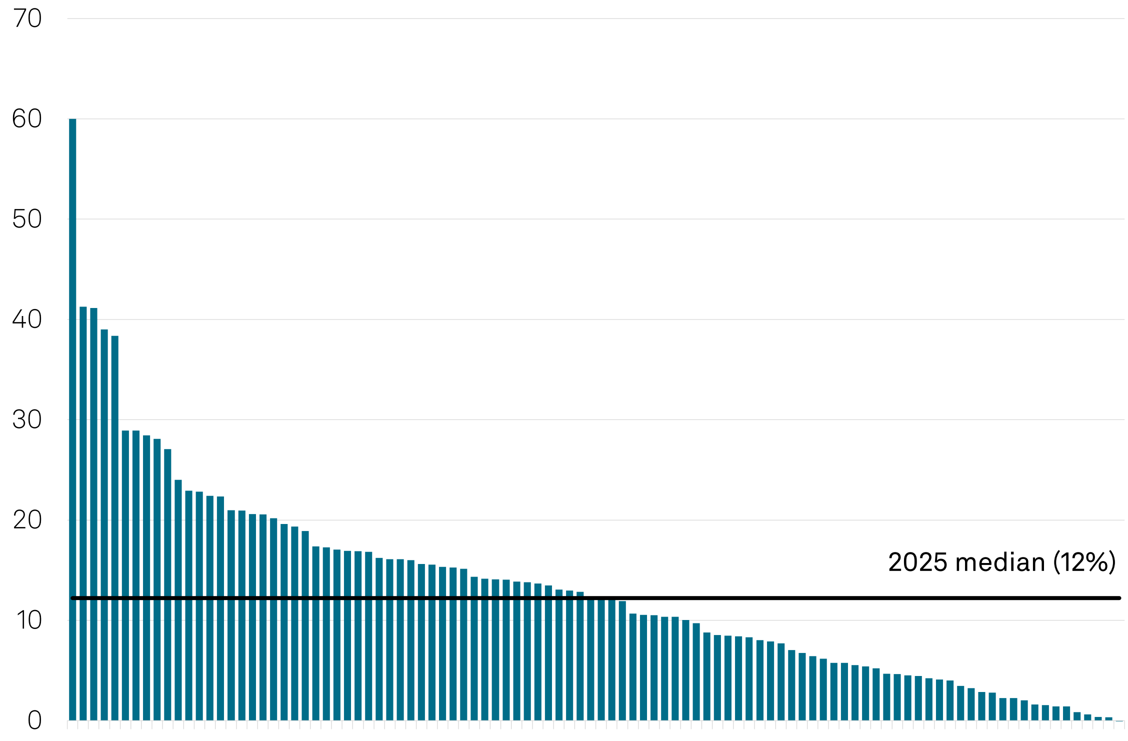
Evolution of return on average common equity (%)



Sample includes rated European banks with a stand-alone credit profile. f--Forecast. Source: S&P Global Ratings.

Banks have ample capacity to absorb higher cost of risk

Rated banks' expected credit losses as % of PPE

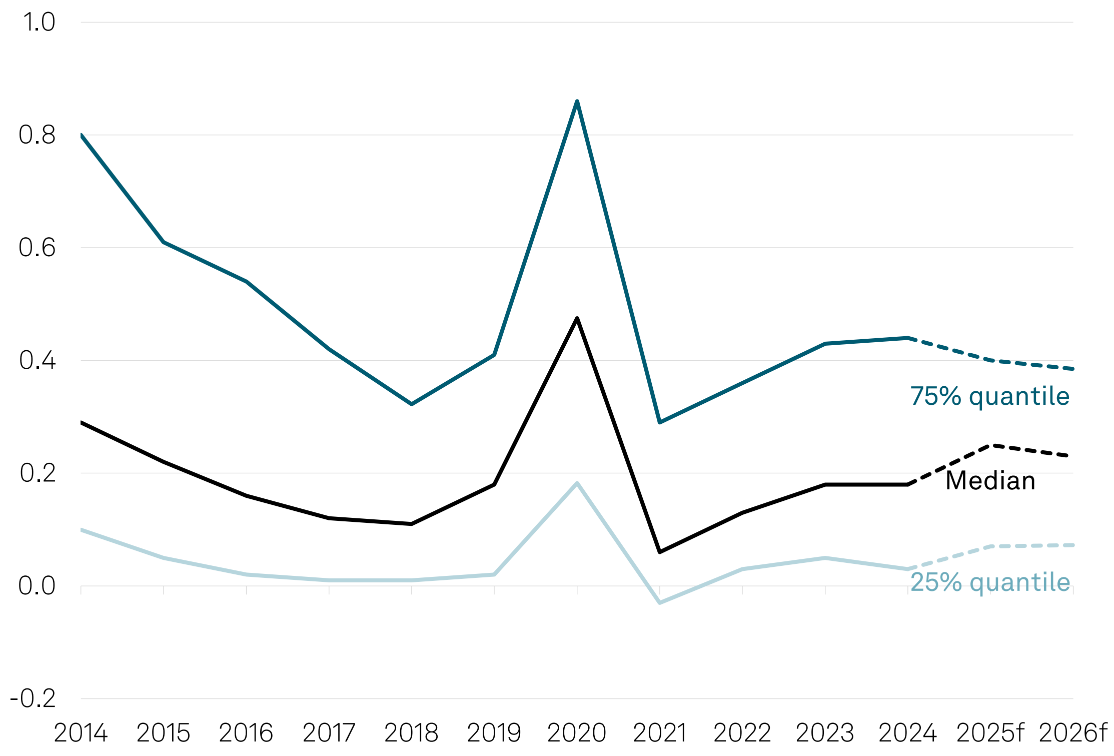


Top 100 European rated banks. PPE--Pre-provision earnings. Source: S&P Global Ratings.

Asset Quality Could Slightly Weaken

Credit costs will rise in 2025, but will remain contained

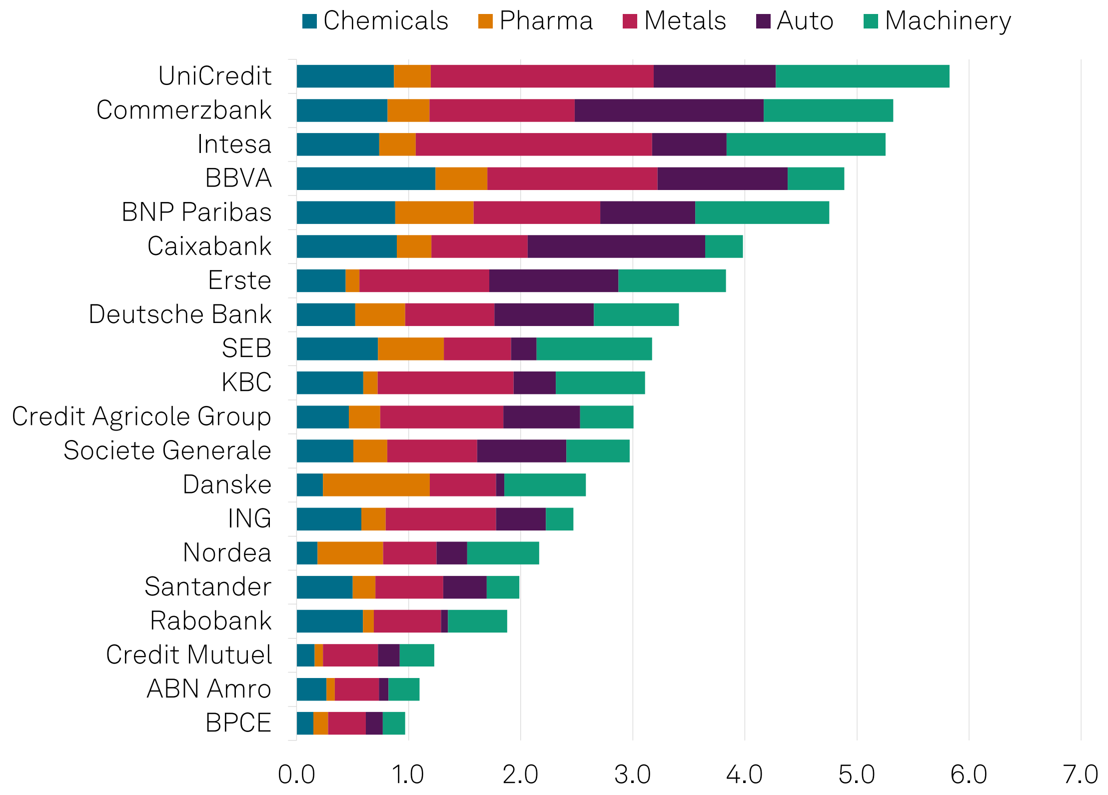
Evolution of new loan loss provisions to average loans (%)



Sample includes rated European banks with a stand-alone credit profile. f--Forecast. Source: S&P Global Ratings.

Exposure to sectors subject to trade tariffs looks manageable

Gross loans over total loans (%)



Data as of YE2024 (except for SocGen, as of Sep 2024). Source: S&P Global Ratings. Banks' Pillar 3 reports.

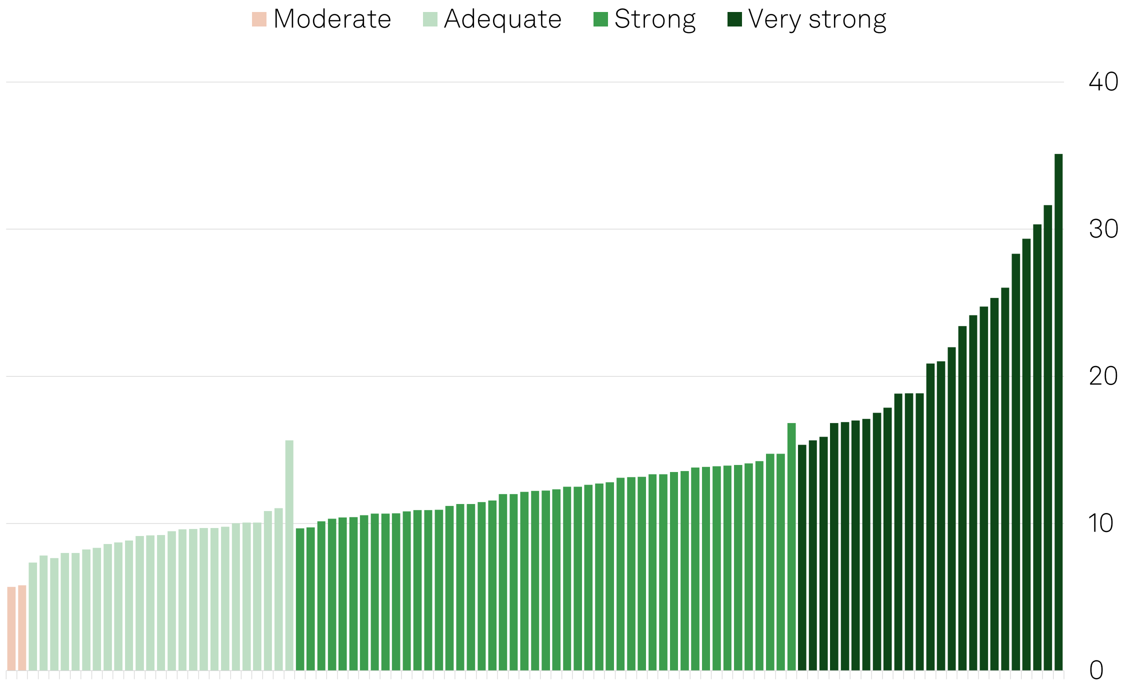
S&P Global Ratings

Solid Capitalization Will Continue Providing Support To Ratings

Sound earnings generation and increased use of risk-transfer techniques will support capitalization, despite ongoing shareholder distributions

Most banks have ample capital headroom

2025 RAC forecasts, top 100 rated European banks (%)



RAC--Risk-adjusted capital. Source: S&P Global Ratings.

Recourse to SRTs will become more broad-based

Non-trading book exposure to originated SRTs, end-2024 (bil. €)

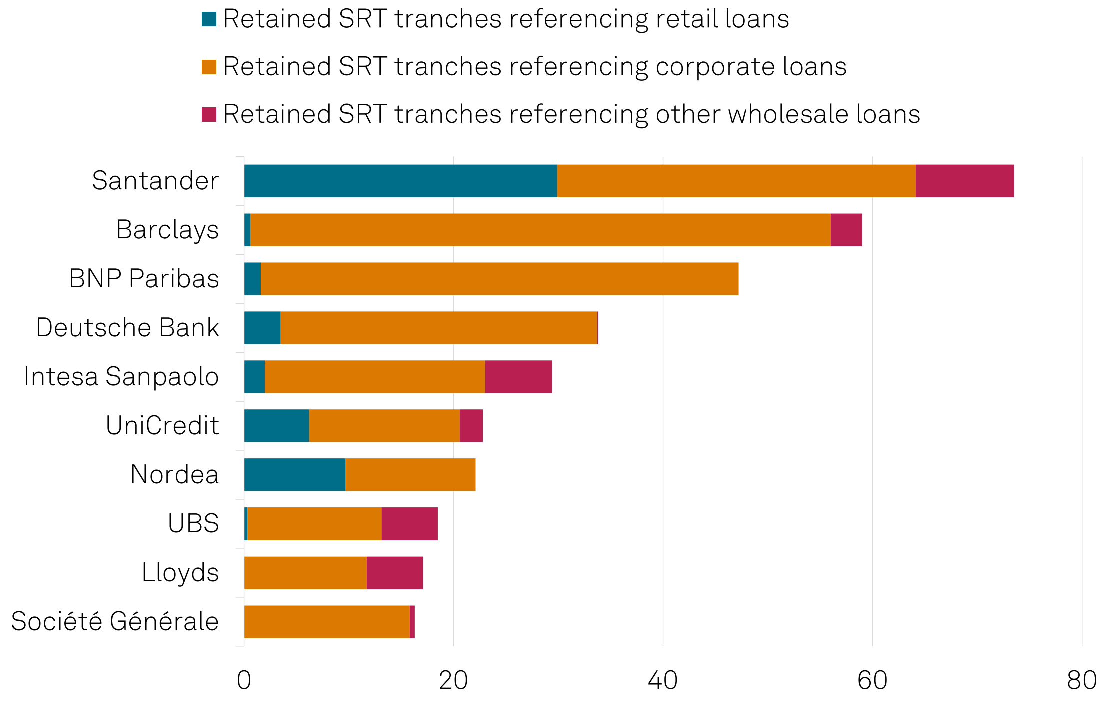


Chart includes the 10 banks with the largest SRT exposures in our 40-bank sample. The data for UBS include all originated securitizations, some of which may not be SRTs. SRT--Significant risk transfer. Source: Pillar 3 disclosures.

M&A Continues To Rank High On Banks' Agendas

Deals continue to be announced as banks look to deploy excess capital, participating in consolidation in home markets, expanding abroad, or deepening franchises in capital-light, fee-generating businesses

Domestic consolidation

Spain	BBVA	Sabadell
Italy	UniCredit	Banco BPM
Italy	BPER	Banca Popolare di Sondrio
Italy	Monte dei Paschi di Siena	Mediobanca
Italy	Mediobanca	Banca Generali Private
Denmark	Nykredit	Spar Nord
UK	NatWest	Sainsbury's Bank

Cross-border consolidation

Italy	UniCredit	Commerzbank	Germany
Greece	Alpha Bank	AstroBank	Cyprus
Switzerland	J. Safra Sarasin	Saxo Bank	Denmark
Netherlands	ABN AMRO	Hauck Aufhäuser Lampe	Germany
Austria	Erste Group Bank	Santander Bank Polska	Poland
France	Crédit Mutuel	OLB	Germany
France	Groupe BPCE	Novobanco	Portugal

Business Diversification

BNP Paribas	AXA Investment Managers	Asset Management
Banco BPM	Anima	Asset Management
DNB	Carnegie	Wealth & Asset Management
Piraeus	Ethniki	Insurance
Bank Pekao	PZU	Insurance

Source: S&P Global Ratings.
Other recently closed domestic acquisitions in the U.K. include Nationwide-Virgin Money, Coventry Building Society-Co-op Bank, and Barclays-Tesco Bank.
Other recently closed cross-border acquisitions include OTP Bank (Hungary)-NOVA KBM (Slovenia)-Ipoteka Bank (Uzbekistan).

EMs In EMEA (Europe, The Middle East, And Africa)

Key Risks For Banks In 2025

Geopolitical risk and local policymaking

- The conflict between Israel and Iran and the Russia-Ukraine conflict may continue to cause disruption in supply chains and commodities production.
- We do not expect a significant escalation of the conflicts in the Middle East. An escalation could derail the region's economic performance.

Monetary policy evolution

- We do not expect the trade tensions to significantly affect EMs in EMEA. This is due to their limited trade links with the U.S. or the nature of their exports, with some commodities exempt from tariffs.
- Yet lower global growth and higher inflation could affect the Federal Reserve's and local central banks' monetary policies, which could weigh on credit conditions.

External debt dependence

- Turkish and Qatari banks--albeit to a much lesser extent, thanks to a wealthy and supportive sovereign--are vulnerable to a material shift in global credit conditions that could affect their capacity to roll over existing external debt.
- This could affect Saudi banks, as they must attract external funding to expand their lending book and support the implementation of Vision 2030. Bahrain remains also vulnerable because of its significant financing needs.

Stress Test | How Our Four Scenarios Can Affect Banks

We have identified four potential pathways via which the Israel-Iran conflict could have a more material credit impact on banks and sovereigns in the region.

We have stress-tested banks' resilience to these scenarios.

Modest stress	The intensification of direct, inter-state conflict between Iran and Israel remains short (less than three months). Attacks, including from proxy forces, on Israeli and allied regional assets are short-lived. Very limited short-term direct impact on credit metrics.	*No impact beyond our base case*
Moderate stress	A series of escalatory attacks between Israel and Iran threaten wider regional security but are likely to settle in a time period somewhat beyond that in the modest stress scenario. Manageable short-term direct impact on credit metrics.	
High stress	Persistent and intense cycles of attacks between Israel and Iran develop, implying a material impact on macroeconomic stability for the wider region. This includes more prolonged blockages to trade routes, which could engender a response from nonregional actors, and a greater stress on transmission channels such as energy prices, security expenditure, tourism flows, and capital outflows.	*Outflows of external debt and moderate impact on asset quality*
Severe stress	High stress scenario with regional and nonregional allies drawn into the conflict, including Iran and its supported forces, the U.S., and Gulf allies. This scenario is more likely if Israel's objective extends beyond neutralizing Iran's nuclear abilities and toward possible regime change. Significant material impact on credit metrics possible.	*Outflows of external debt, local private sector deposits, and significant impact on asset quality*

For details on these scenarios see "Global Credit Conditions Q3 2025 Bending, Not Breaking" June 30, 2025

GCC Banks Can Cope With The Fallout From Geopolitical Risks

The most imminent threats are market volatility and an increase in investors' risk aversion

Capital market channel

GCC banks' investment portfolios typically account for 20%-25% of their total assets. High-quality fixed-income instruments tend to dominate, with a limited contribution from riskier investments. Therefore, we expect the effects of capital market volatility will remain manageable for banks. For some banks that are active in debt or capital market advisory services, the current volatility could result in lower revenues. For other GCC banks that are more dependent on capital markets or private equity investments, the effects might be more pronounced.

Capital outflows

Stress test assumptions

	Cash	Due from banks	Due from branches abroad	Investments	Loans to nonresidents	Other assets
Asset haircuts	0%	10%	20%	20%	100%	100%

	Nonresident deposits	Due to nonresident banks	Due to head office and branches	Debt	Other outflows
Outflows	30%	50%	20%	10%	0%

Asset quality

Effect of a hypothetical increase in NPLs

		Scenario 1	Scenario 2
NPLs		NPLs increase by 30%, with the minimum at 5%	NPLs increase by 50%, with the minimum at 7%
Coverage		Allocation of excess provision and 100% coverage	Allocation of excess provision and 100% coverage

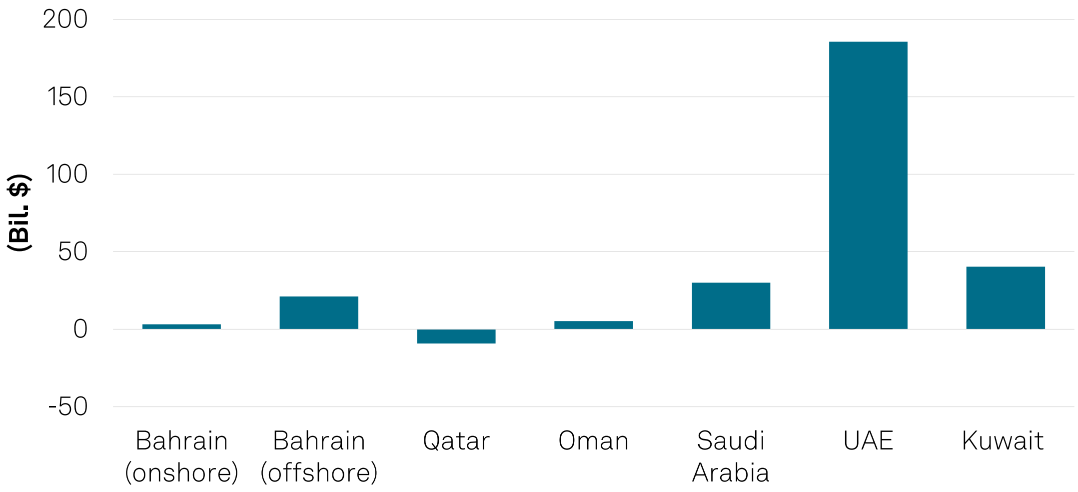
(Bil. $)	Existing	Increase	Increase
NPL stock	48.6	57	96.5
(Bil. $)	**Existing**	**Cumulative loss for banks displaying losses**	**Cumulative loss for banks displaying losses**
Net income of the top 45 banks	60	-5.3	-30.3

NPLs--Nonperforming loans. Source: S&P Global Ratings.

GCC Banks Can Cope With The Fallout From Geopolitical Risks

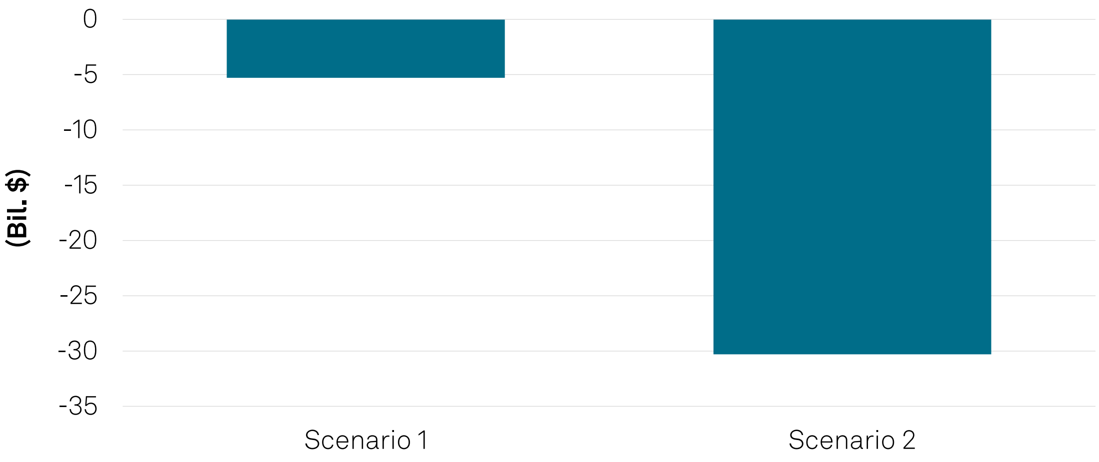
Banks appear resilient to external capital outflows. Only Qatari banks display a comparatively small deficit, but the risk is counterbalanced by the high likelihood of government support in case of need. This assumption is based on a very strong track record of government support. In scenario 1, asset quality deterioration could lead to losses of $5.3 billion for 16 of the top 45 banks. In scenario 2, 26 of the top 45 banks would experience losses of $30.3 billion. In both cases, losses would remain below the cumulative yearly profit of 2024.

Effect of modelled liquidity outflows



Source: S&P Global Ratings.

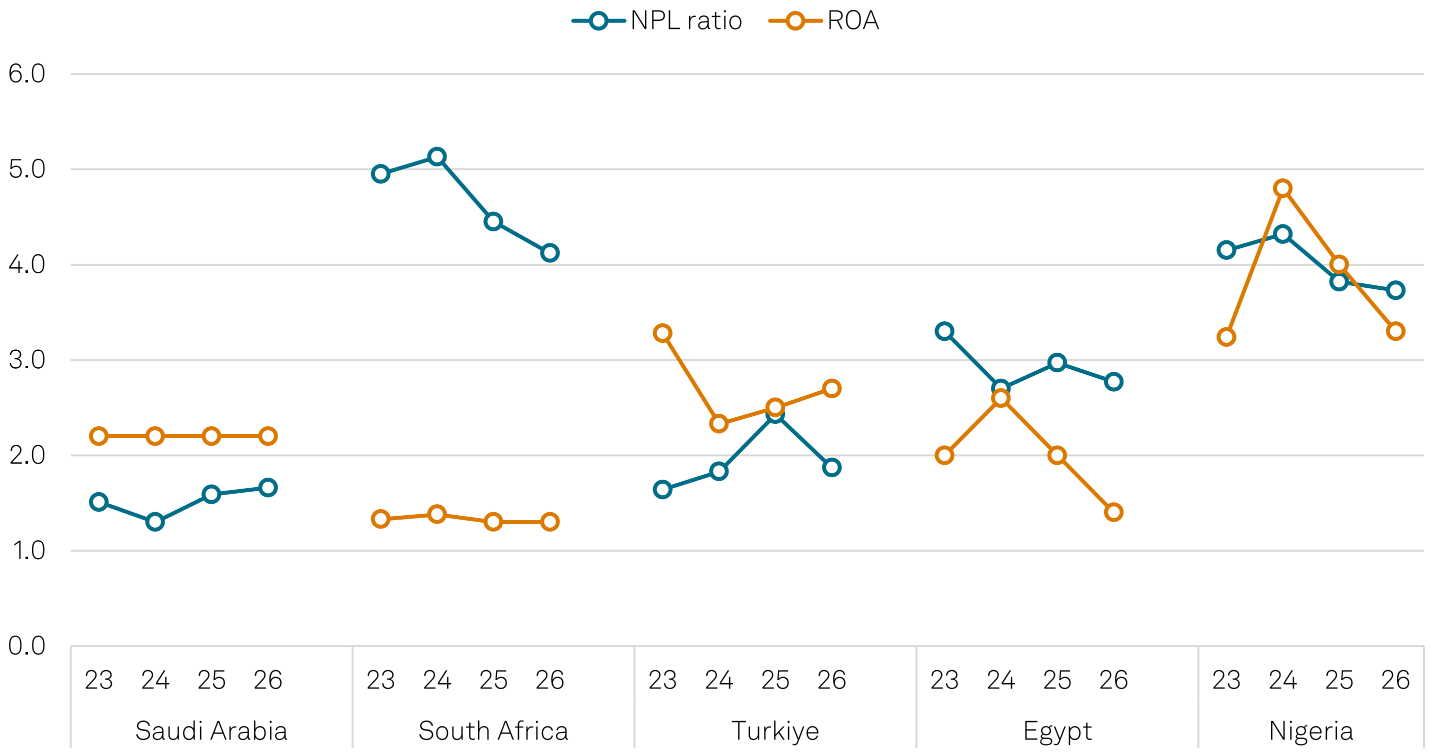
Effect of a modelled increase in nonperforming loans



Source: S&P Global Ratings.

Banks Remain Resilient

Asset quality and profitability in selected EMs in EMEA (%)



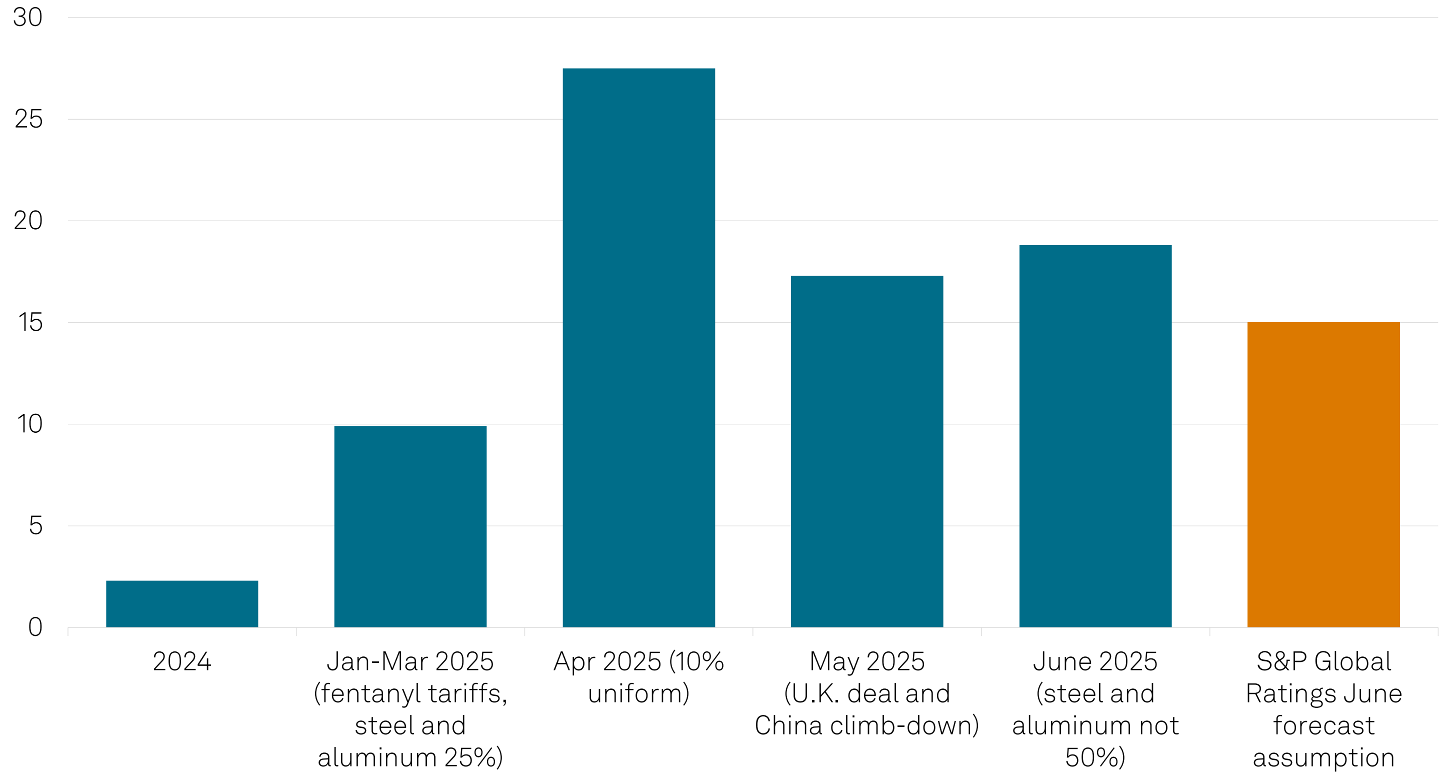
NPL--Nonperforming loan. ROA--Return on assets. Source: S&P Global Ratings.

- **Saudi Arabia:** Still solid economic growth will support banks' lending and profitability. We continue to monitor oil prices and banks' increasing reliance on external funding.
- **Egypt:** Correlation with the sovereign is the key risk. External debt remains manageable, while credit losses remain high.
- **Turkiye:** Rebalancing continues, with lower lending growth and a continued decline in real estate prices in real terms. Credit losses will remain elevated. Dependence on external debt is a key source of risk.
- **South Africa:** Credit conditions will continue easing through 2025. We expect credit losses will decline.
- **Nigeria:** Concentration by sector, currency, and names is the key risk.

North America

Credit Conditions | North America

Evolution of the U.S. average effective tariff rate (%)



Source: Federal Reserve Bank of Richmond and S&P Global Ratings Economics.

- S&P Global Ratings expects below-potential U.S. real GDP growth of 1.7% in 2025 and 1.6% in 2026, restrained by slower population growth, tariffs, and the federal government's cost-cutting initiatives.
- The unemployment rate will rise to 4.6% by first-half 2026 before gradually returning to its long-run average of 4.1% by mid-2027.
- We anticipate the Federal Reserve will ease interest rates by 50 basis points (bps) in fourth-quarter 2025 as unemployment begins to move higher.
- In Canada, we expect real GDP growth of 1.5% in 2025 and 2026 with two additional quarter-point rate cuts in the second half 2025 as economic fallout from U.S. tariffs becomes evident.

Credit Conditions | North America

Bank performance remains good despite the changing economic and regulatory landscape

Downside risks...

- **A greater-than-expected economic slowdown.** S&P Global Ratings economists expect below-trend but positive U.S. growth. However, they see a 35% chance of a recession in the next 12 months.
- **A material deterioration in asset quality.** Net charge-offs (NCOs) could rise meaningfully in an economic downturn, particularly on commercial real estate, commercial, and credit card loans.
- **Significant regulatory easing.** The current U.S. administration will pursue changes to several parts of regulation and supervision. The ratings impact will depend on the details and balance between streamlining rules and simply easing oversight.

..and what they mean for the sector

- **Asset quality should worsen but remain manageable**. Should provisions and charge-offs rise more materially, our stress scenarios indicate most rated banks have enough preprovision earnings to absorb significantly higher credit losses.
- **Revenue should rise this year but may face pressure if the economy slows.** Net interest income has inched higher in 2025, but a weaker economy would hurt business activity and limit loan growth.
- **Cautious management of balance sheets.** Since the 2023 failures, many banks have added liquidity/capital and grown slowly. They are likely to remain cautious, at least until there is clarity on regulatory changes.

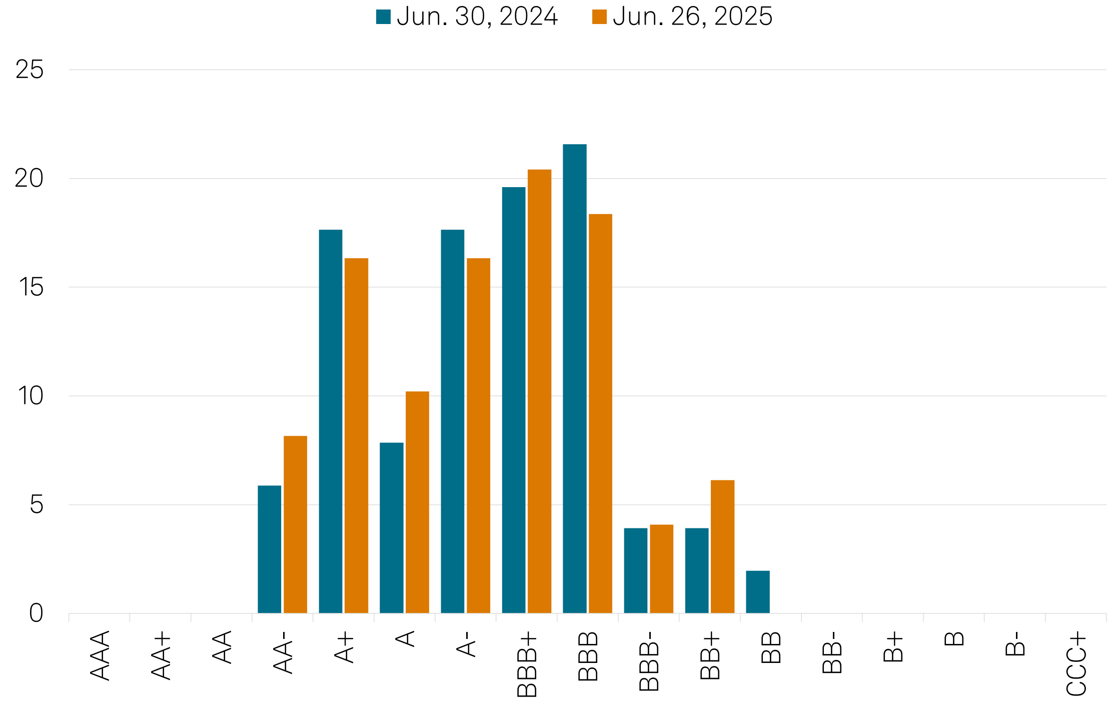
What we expect for next 12 months

- **Profitability will remain reasonably strong.** We expect U.S. banks to generate a return on common equity of 10.5%-12.0% for full-year 2025.
- **Regulators will likely propose updates to regulation and supervision.** Updates to capital requirements will likely be among the most important proposals regulators put forth. In our base case, we don't expect these changes to result in a material reduction in the amount of capital large banks hold.
- **Nonbank financial institutions (NBFIs) will continue to expand.** Banks are facilitating that growth by lending to NBFIs--usually on a collateralized basis.

U.S. Bank Outlooks Are Predominantly Stable Despite Economic Uncertainty

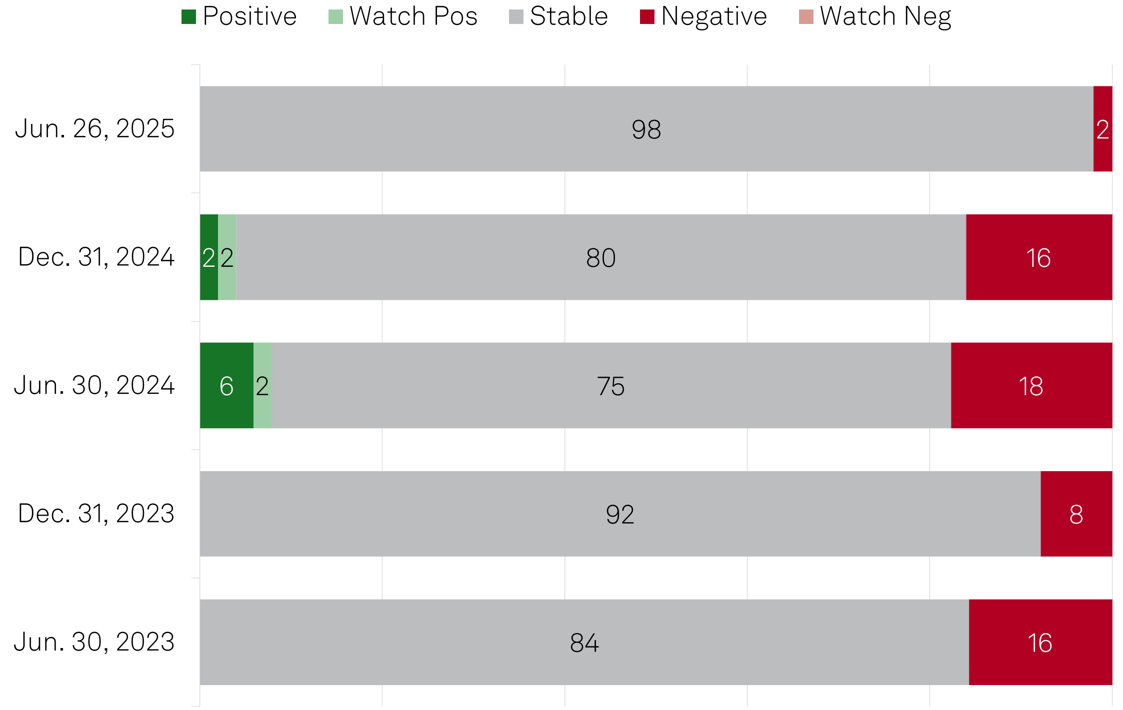
We expect relatively good performance and balance sheet stability

Operating company rating distribution (%)



Data as of June 25, 2025. Note: Includes banks domiciled in Puerto Rico. Source: S&P Global Ratings.

Outlook distribution (%)



Data as June 26, 2025. Note: Includes banks domiciled in Puerto Rico. Source: S&P Global Ratings.

U.S. Forecast: Earnings Remain Resilient Despite Economic Uncertainty

Worsening | | Neutral | | Improving

Revenues	Net interest income (NII) may grow moderately this year, partly as assets reprice at prevailing rates. Fee income rose well in the first quarter, helped by strong trading, although economic uncertainty may limit growth.
Expenses	Banks' continued focus on costs should limit growth and help offset expenses associated with investments in technology and some increased business activity.
Profitability	The banking industry should generate a return on common equity of 10.5%-12.0% in 2025, compared with 11.3% in 2024, assuming continued economic growth. A greater-than-expected slowdown could pull returns into the single digits.
Credit quality	Key asset quality metrics were stable in the first quarter, but we still expect some worsening with a slowdown in the economy. We forecast a moderate rise in provisions this year.
Capital	Improvements in capital ratios and some decline in unrealized losses have created room for capital releases. However, banks are unlikely to reduce capital materially until it becomes clear how regulators may update capital requirements.
Funding and liquidity	Deposits have stabilized and we expect some growth in 2025. This could also support liquidity. That said, while banks have good contingent liquidity, many still have relatively low cash balances.

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

Canada Forecast | Trade Policy Uncertainty Could Limit Profitability

Worsening		Neutral		Improving

Revenues	We expect revenue growth in the mid-single digits in 2025. Limited loan growth and stable net-interest margins (NIMs) will lead to modest NII growth in the second half. Trading revenue will likely remain strong as market uncertainty persists, offset by pressure on investment banking fees. Fee income from asset management will partly depend on market valuations.
Expenses	Expense growth should be similar to 2024 as banks manage expenses by reducing discretionary costs, while continuing to invest in growth and technology, particularly to mitigate risks associated with cyberattacks and money laundering, as well as other noncredit risks.
Profitability	Profitability will be relatively flat as provisions for loan losses rise. We expect an industry return on common equity of 9%-12%, close to the average of 11% in 2024. Trade policy uncertainty could weigh on our base case, particularly if the macroeconomic outlook worsens.
Credit quality	A slow macroeconomic environment and rising unemployment are putting strain on borrowers, and we believe asset quality metrics will continue to deteriorate. We think more allowance buildup is possible with NCOs rising, particularly on unsecured consumer loans.
Capital	Domestic systemically important banks will continue to prudently manage capital amid an uncertain environment with deteriorating asset quality. We believe banks will maintain common equity Tier 1 levels at about 13% in 2025--the average was 13.6% in second-quarter 2025.
Funding and liquidity	We expect banks to maintain good access to diversified sources of funding, with liquidity metrics remaining slightly elevated due to the uncertain environment. Growth in higher-rate savings products, such as term deposits, has slowed and has benefitted NIM.

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

Asia-Pacific

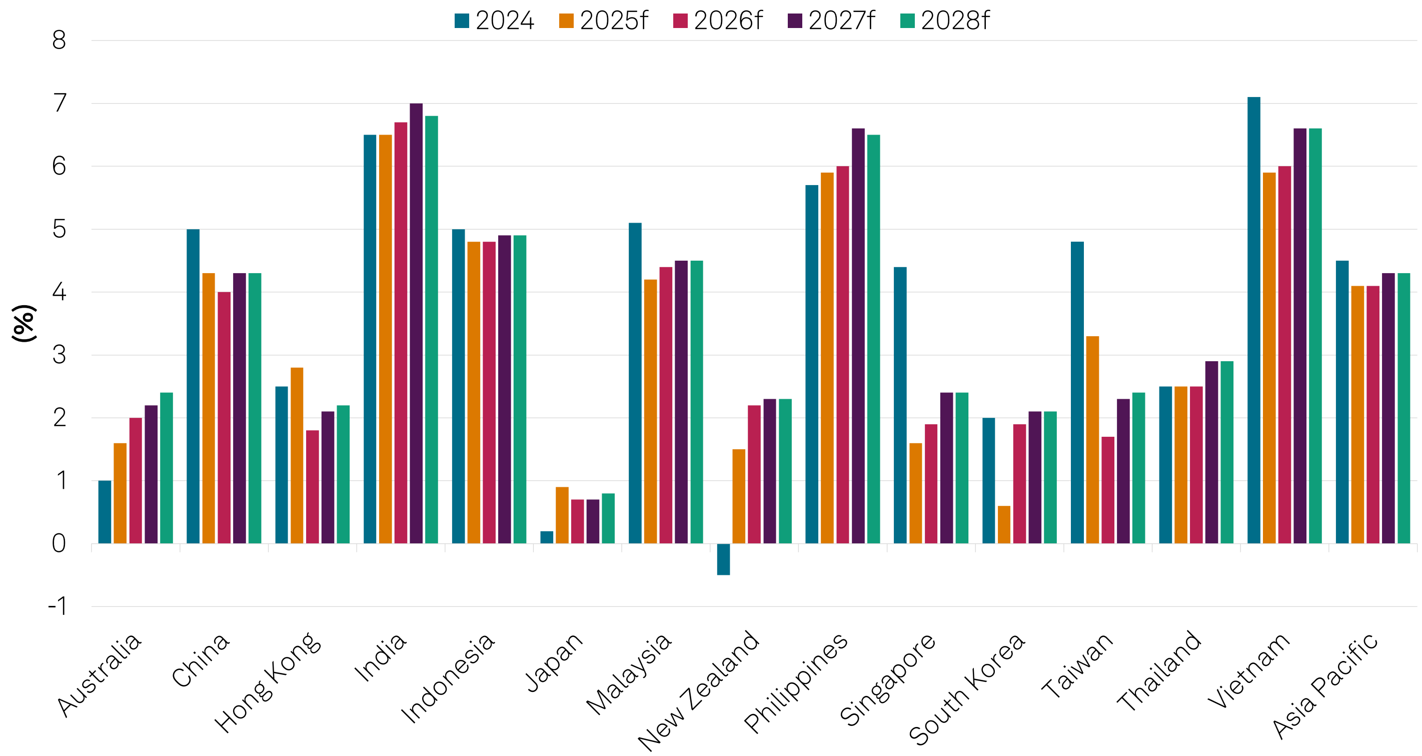
Credit Conditions | Asia-Pacific

An unsettling environment

- **Unsettling conditions:** Turbulence around the Middle East situation is complicating the geopolitical landscape. Potential transmission channels include higher oil prices and a weaker macro-outlook.
- **U.S.-China détente:** Tariffs will hurt Asia-Pacific growth prospects. Higher export costs will eat into margins, and weaker sentiment will limit spending by businesses and households. Nonetheless, following the pause in China-U.S. tariffs, we have reverted our forecasts for Asia-Pacific's GDP growth to 4.1% in 2025 and 2026, from 4.5% in 2024.
- **Deepening cracks:** The confluence of credit headwinds will test credit fundamentals across borrowers, distinguishing winners from losers.

Resilience may vary

Real GDP growth



Note: For India, 2023 = FY 2023 / 24, 2024 = FY 2024 / 25, 2025 = FY 2025 / 26, 2026 = FY 2026 / 27, 2027 = FY 2027 / 28. The fiscal year ends March 31.
Source: S&P Global Ratings Economics.

Credit Conditions | Asia-Pacific

Banks Can Absorb The Policy Uncertainty

Downside risks

- **A material economic downside emerges:** An intensification of U.S. policy volatility or geopolitical factors outside our base case would test bank borrowers and asset quality, and dent market confidence.
- **Property risks intensify:** A worsening of property risks that are under strain--most notably China's--would hit banks. Domestic policy missteps on interest rates could hurt banks' property exposures.
- **Structural risks are on the radar:** Financial stability risks for nonbanks (including private credit) vary but appear manageable for most countries. Climate change, cyber, AI, and digitalization will increasingly test--and in some cases benefit--banks' business models.

...and what they mean for the sector

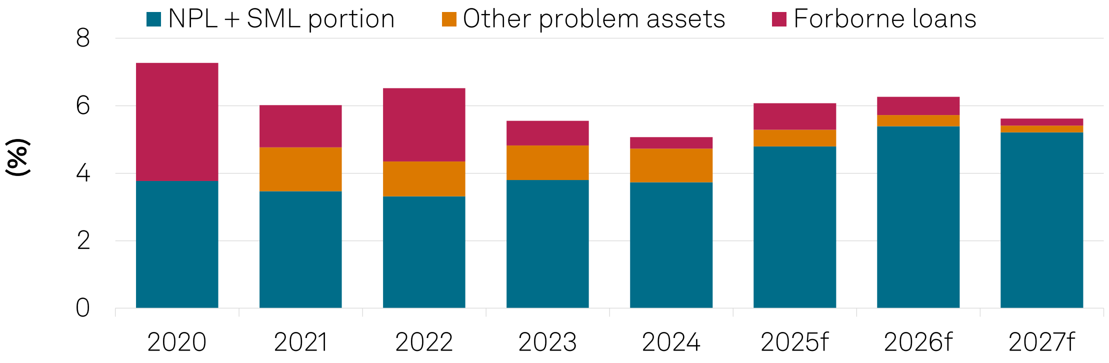
- **Credit losses will increase 8%**. We consider capitalization, provisions, earnings, and other buffers are adequate for most banks at current rating levels.
- **Greater credit differentiation:** Outlook changes are more likely for nonbank financial institutions, reflecting more-concentrated business and funding profiles. Nonetheless, many systemically important banks in Asia-Pacific receive incremental ratings uplift for government support and so are susceptible to changes in sovereign credit quality.
- **Governments may lend a hand:** We anticipate extraordinary government support for certain Asia-Pacific banks -in the unlikely event it were required.

What we expect for next 12 months

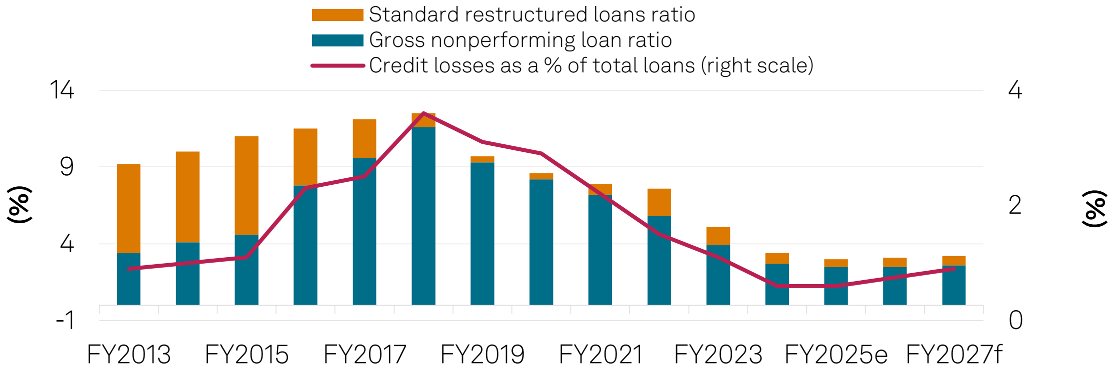
- **Status quo to persist:** Our base case is most Asia-Pacific banks will absorb U.S. policy volatility. We have stable outlooks on the majority of bank ratings.
- **Tolerance levels on assets quality:** We forecast Asia-Pacific banking sector credit losses will increase to about US$550 billion in 2025. Credit losses will remain within tolerances for most banks at current rating levels.

Asia-Pacific Banks

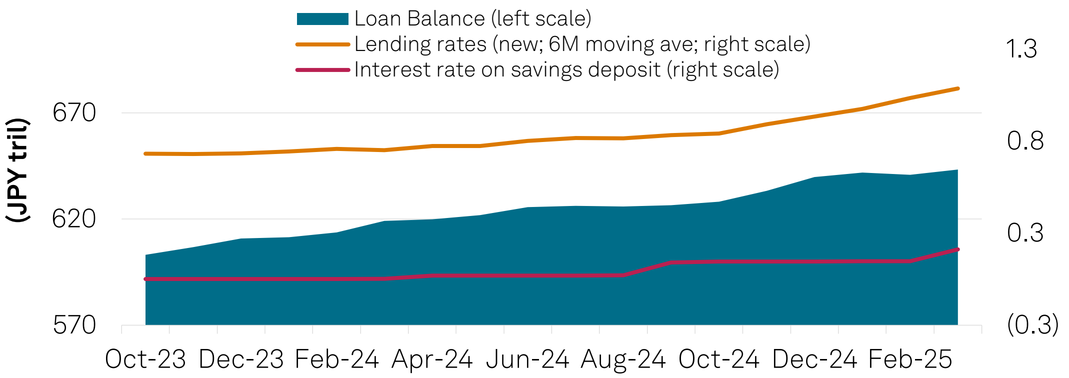
China: More recognition likely to raise NPL, SML ratios



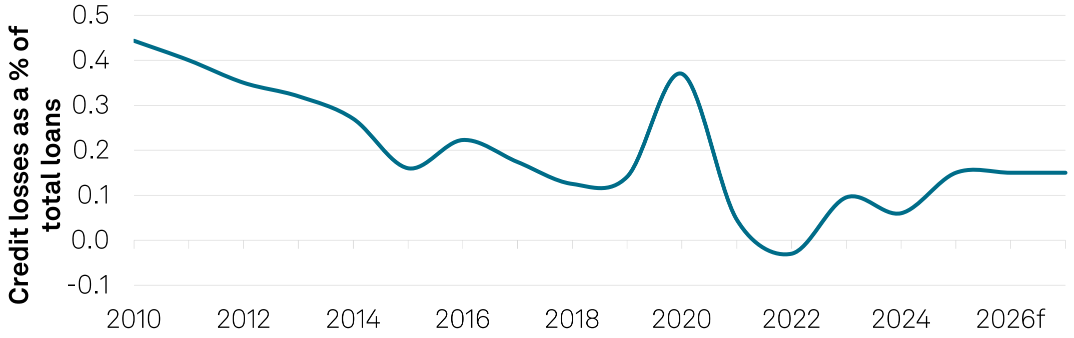
India: Better asset quality ratios will persist



Japan: Net interest income is set to increase



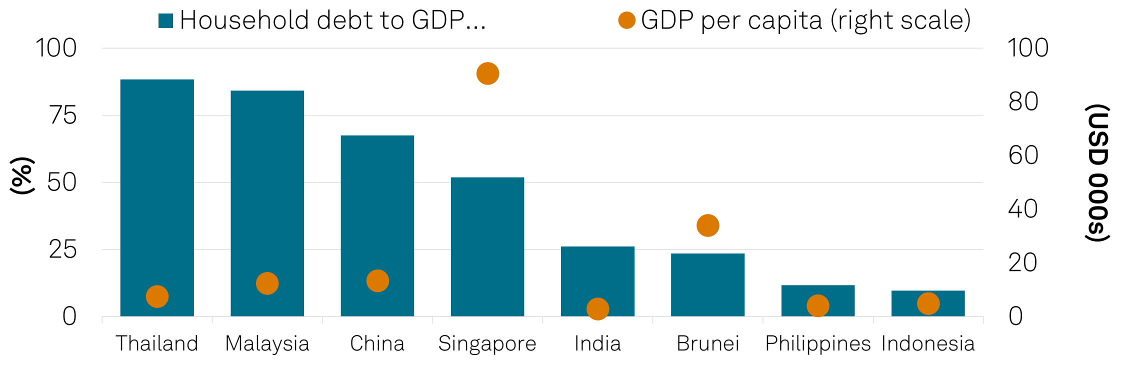
Australia: Credit losses should remain low



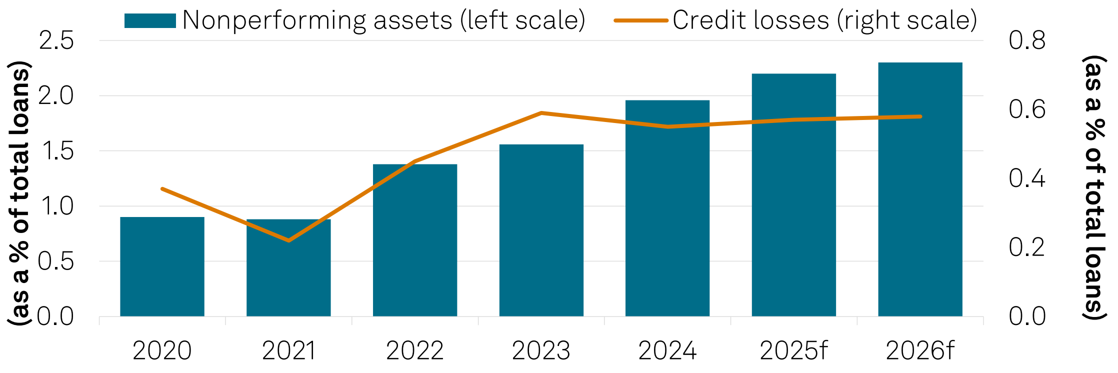
India data for fiscal years, all ended March 31. FY--Fiscal year. NPL--Nonperforming loans. SML--Special-mention loans, f—Forecast. Sources: Bank of Japan, National Financial Regulatory Administration, Reserve Bank of India, S&P Global Ratings.

Asia-Pacific Banks

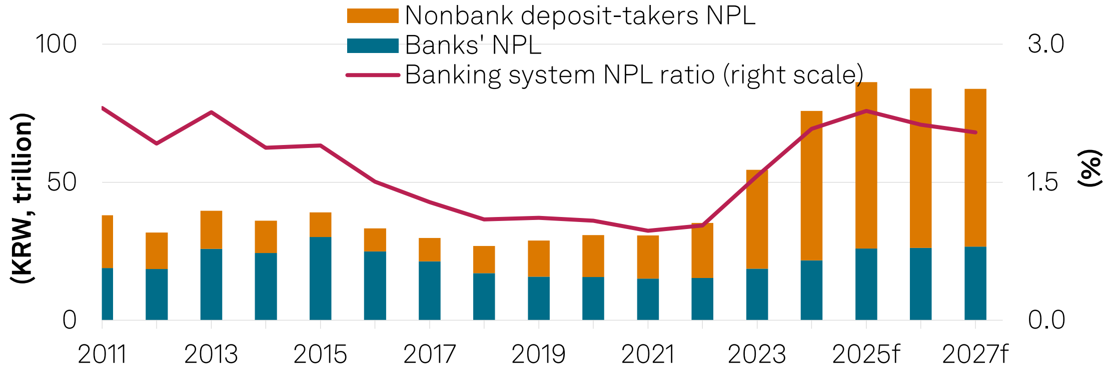
SSEA: Household leverage is high in Thailand and Malaysia



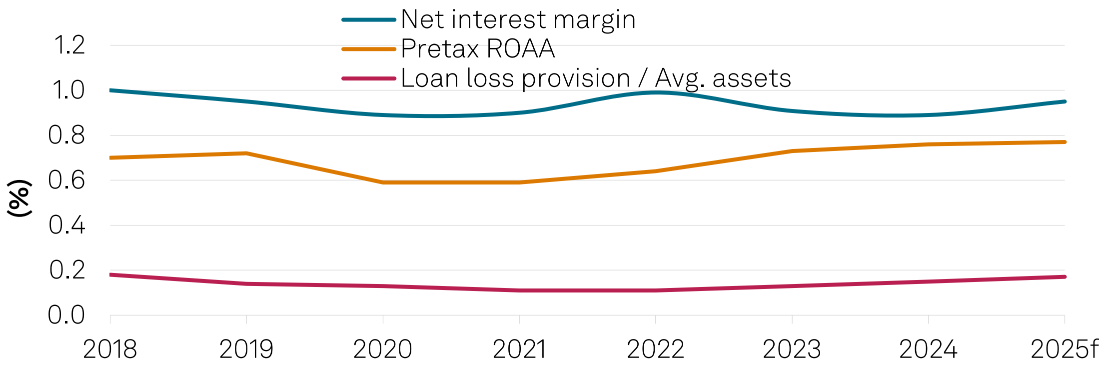
Hong Kong: Credit losses likely to remain contained



Korea: High credit risks for nonbank deposit-takers



Taiwan: Improved core earnings helps absorb credit costs



SSEA--South and Southeast Asia. ROAA--Return on average assets. f--Forecasts. Sources: Hong Kong Monetary Authority, Bank of Korea, Financial Supervisory Commission, Taiwan Ratings Corp., S&P Global Ratings

S&P Global Ratings

Latin America

Credit Conditions | Latin America

- Latin America's annual growth will likely be just over 2% in the coming years, trailing behind other emerging markets. We believe escalating trade tensions may undermine business and consumer confidence, reducing corporate investment and credit demand.
- We now expect zero growth for Mexico in 2025 due to the negative impact of U.S. tariffs. Brazil's first-quarter GDP was stronger than we expected, prompting us to increase our 2025 GDP growth forecast to 2.2%. We expect growth to moderate in 2026 to 1.7%, as agricultural production normalizes and real interest rates have a more noticeable impact on domestic demand.
- We expect Colombia's GDP growth of 2.5% in 2025 and 2.8% in 2026. For Chile and Peru, 2025 GDP growth forecasts are 2.2% and 2.9%, driven by private investment, consumption recovery, and strong exports, particularly in copper. Argentina's GDP forecast improved to a 5.2% rebound in 2025, thanks to fiscal reforms and inflation reduction, despite risks from low foreign reserves.

Real GDP growth forecasts (%)

	2020	2021	2022	2023	2024	2025f	2026f	2027f	2028f
Argentina	-9.9	10.4	5.3	-1.6	-1.7	5.2	3.0	2.7	2.5
Brazil	-3.6	5.1	3.1	3.2	3.0	2.2	1.7	2.1	2.2
Chile	-6.4	11.5	2.2	0.6	2.4	2.2	2.1	2.3	2.3
Colombia	-7.2	10.8	7.3	0.7	1.7	2.5	2.8	2.9	2.9
Mexico	-8.5	6.3	3.7	3.3	1.2	0.0	1.4	2.1	2.3
Peru	-10.9	13.4	2.8	-0.4	3.3	2.9	2.7	2.8	2.9

f--Forecast. Source: S&P Global Ratings.

Credit Conditions | Latin America

Profitability will moderate from strong levels but remain solid compared with international peers

Downside risks

- Global Latin American financial institutions are facing new macro-financial shocks due to **escalating trade tensions**, although they enter this challenging environment with solid credit fundamentals. The primary risks include market volatility, economic downturns, and potential shifts in the global financial system's architecture.
- A scenario of a **weakening economy in 2025-2026** could lead to increased inflation and interest rates, as well as a deterioration of labor markets and weaker local currencies.

...and what they mean for the sector

- The economic impact of trade tensions may dampen business and consumer confidence, affecting corporate investment and credit demand, while **banks may need to raise credit-loss provisions.**
- Banks may experience **a rise in nonperforming assets**, while insurers could face higher claims costs, denting their operating performance.
- Market volatility has increased counterparty risk, particularly for banks with trading operations. Sustained **volatility could expose vulnerabilities in the financial system**, leading to liquidity stress and potential asset fire sales.

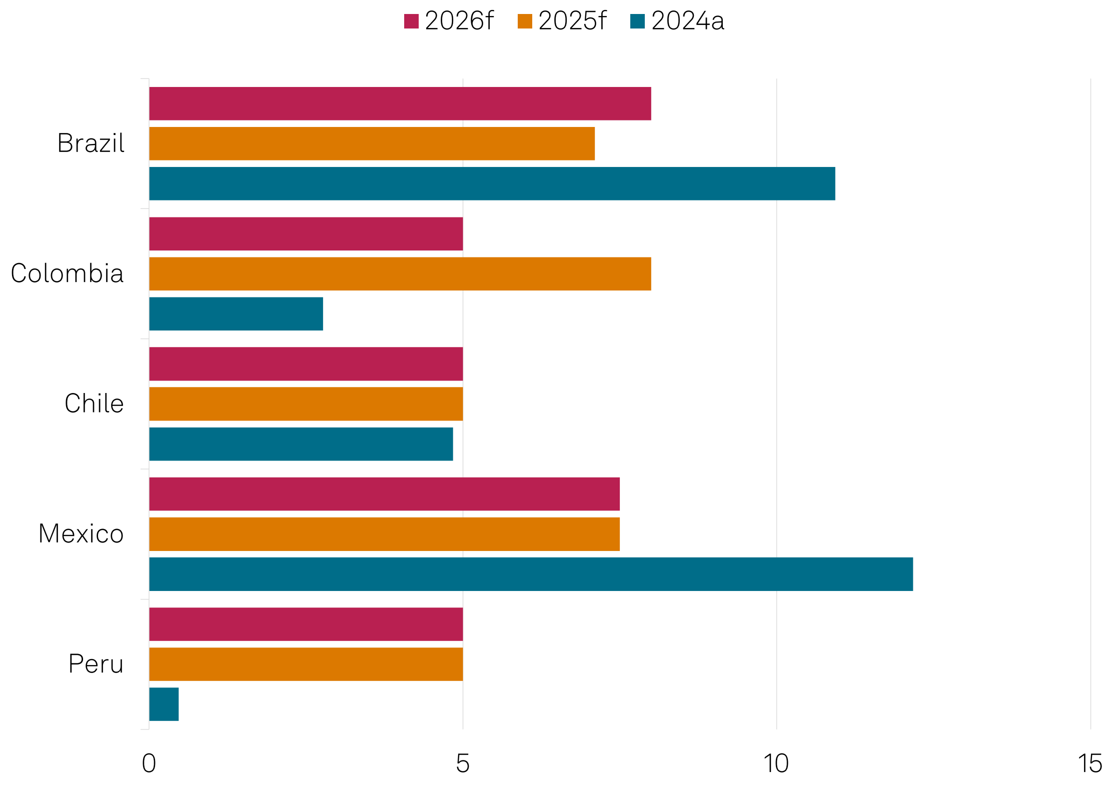
What we expect for next 12 months

- **We anticipate stability in ratings through 2025**, despite various uncertainties. However, escalating trade tensions may undermine business and consumer confidence, reducing corporate investment, credit demand, and potentially, banks' profits.
- **We expect credit expansion to moderate this year**, while asset quality metrics could slip but remain manageable. Mexican banks will likely maintain prudent growth strategies based on conservative underwriting practices, while Brazilian banks' profitability might suffer due to intense competition and a focus on safer products, which will strain margins.

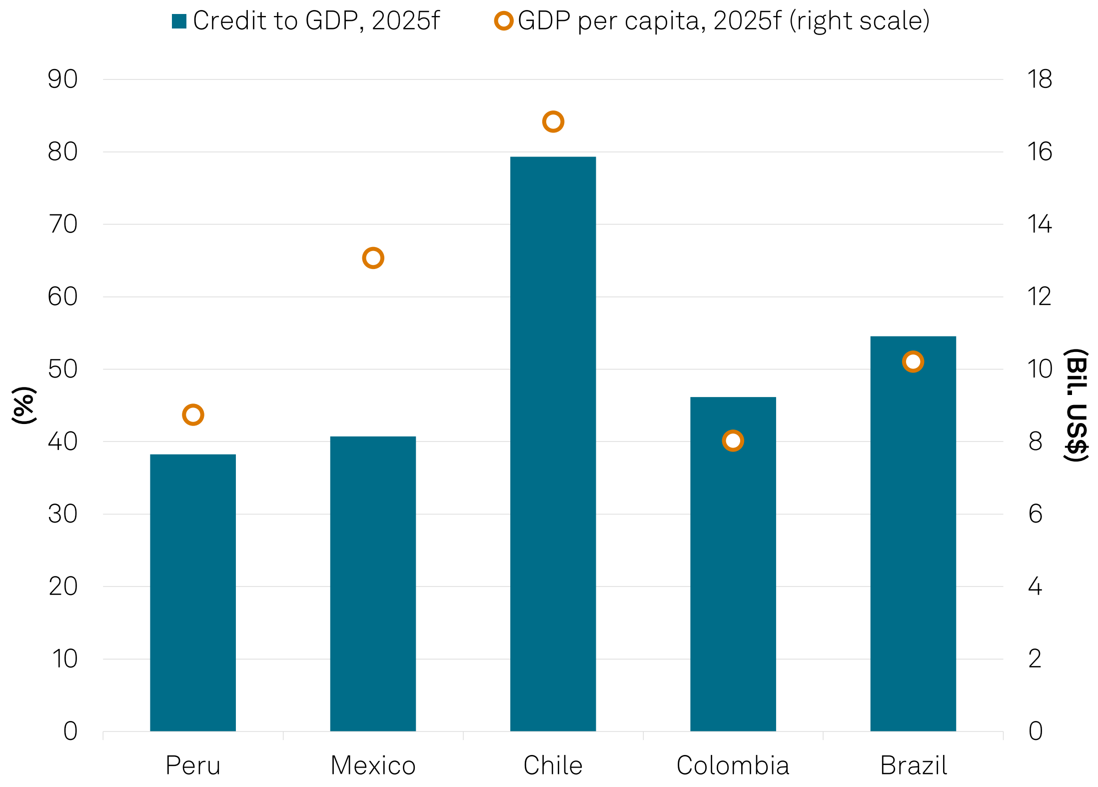
Soft Economic Performance Will Limit Credit Demand

Credit growth should modestly rebound in 2025

Credit growth (%)



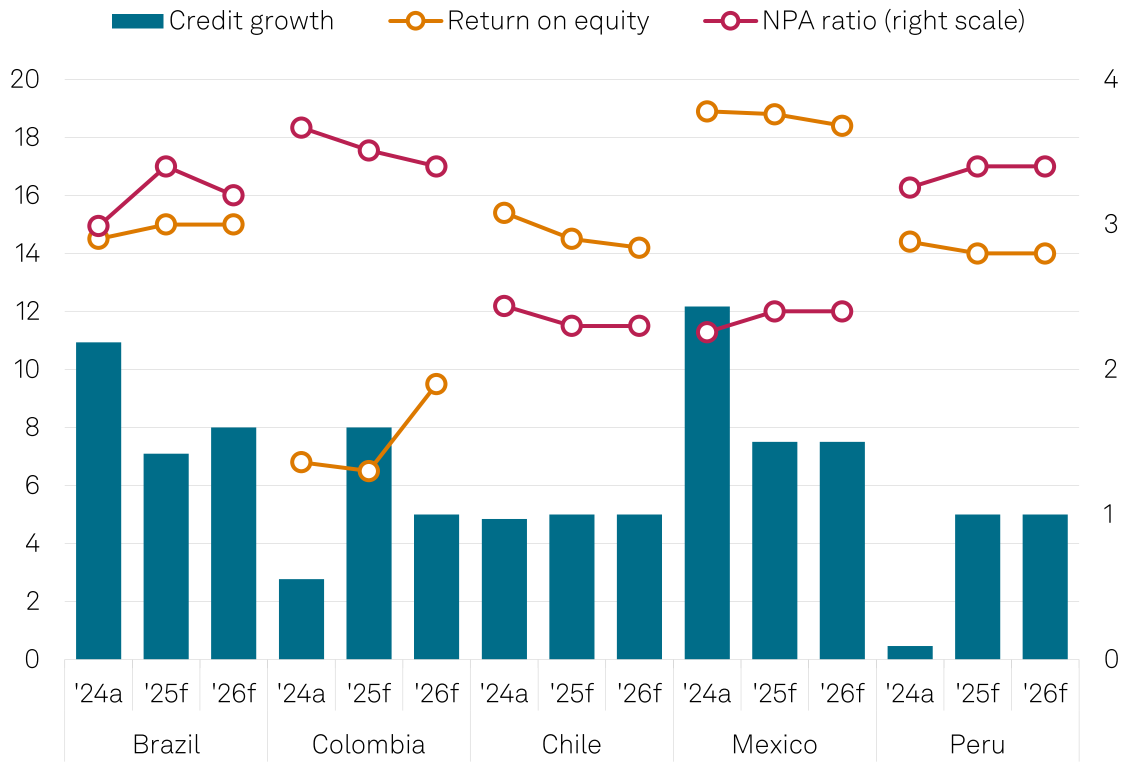
Access to credit remains limited (except for Chile)



f--Forecast. Source: S&P Global Ratings.

Pressure On Asset Quality, But Resilient Profitability

Profitability and asset quality metrics (%)



a--Actual. e--Estimate. f--Forecast. NPA--Nonperforming assets. Source: S&P Global Ratings.

Profitability will be constrained by still-high credit costs but remain sound relative to that of global peers.

We expect asset quality metrics will stay under pressure due to persistently high interest rates and soft economic conditions, albeit partially offset by conservative growth strategies.

We anticipate consumer confidence and lending growth will moderate in 2025, primarily due to a challenging macroeconomic environment exacerbated by escalating trade tensions.

Monthly Interactive Dashboard

Access The Monthly BICRA Interactive Dashboard

The monthly dashboard includes our in-house sector insights and trends, latest global BICRA scores, banking statistics and country-specific risk indicators.

Using the link, compare a banking system with its peers according to geographic region or BICRA group.

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Monthly BICRA Interactive Dashboard

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