EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Press release

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ECB keeps capital requirements broadly stable for 2026 amid persisting global challenges

- Aggregated results of 2025 Supervisory Review and Evaluation Process for ECB-supervised banks show robust capital and liquidity positions and strong profitability
- Overall CET1 capital requirement and guidance and Pillar 2 requirements applicable in 2026 remained broadly stable at 11.2% and 1.2% respectively
- Non-binding Pillar 2 guidance for 2026 decreased from 1.3% to 1.1%
- Qualitative measures primarily target credit risk, governance and capital adequacy, with intensified supervisory follow-up on remediation by banks
- Supervisory priorities for 2026-28 focus on banks' resilience to geopolitical risks and macro-financial uncertainties, as well as on their operational resilience and IT capabilities

The European Central Bank (ECB) today published the results of its Supervisory Review and Evaluation Process (SREP) for 2025 and its supervisory priorities for 2026-28. The assessment covers 105 banks under European banking supervision that are directly supervised by the ECB. It provides a review of their capital, liquidity, profitability, governance and risk management.

Overall, banks maintained robust capital and liquidity positions and strong profitability in the second quarter of 2025. The weighted average Common Equity Tier 1 (CET1), the highest quality of a bank's capital, stood at 16.1% of banks' risk-weighted assets. The leverage ratio stood at 5.9%. The total capital ratio was 20.2%.

Similarly, liquidity buffers remained well above the 100% minimum requirement, with the aggregate liquidity coverage ratio (LCR) at 158% in the second quarter of 2025. Banks retained good access to retail and wholesale funding, with an average net stable funding ratio (NSFR) broadly stable at 127%.

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Profitability continued to be strong, supported by net interest income and net fees and commissions. The aggregated annualised return on equity stood at 9.5% in the fourth quarter of 2024 and improved further to 10.1% in the second quarter of 2025.

Asset quality across the sector remained robust, with the non-performing loan (NPL) ratio at 1.9% in the second quarter of 2025. NPL ratios for commercial real estate loans and loans to small and medium-sized enterprises remain above average (at 4.6% and 4.9% respectively) while some countries with historically low NPL ratios are now experiencing a moderate increase in NPL stocks.

Stage 2 loans and advances, that is loans for which credit risk has significantly increased since initial recognition, marginally increased from 9.5% in the second quarter of 2024 to 9.6% in the second quarter of 2025.

The currently good level of resilience in the euro area banking sector is the result of several factors. These include effective regulation, sound supervision and improvements in banks' risk management, but also extraordinary fiscal and monetary responses to recent macroeconomic shocks.

Qualitative and quantitative supervisory measures

Supervisory measures in this SREP cycle followed the priorities set by the Supervisory Board for 2025-27, mostly focused on banks' resilience to immediate macro-financial threats and severe geopolitical shocks, as well as banks' remediation of shortcomings identified by supervisors such as those related to governance, risk management and digital transformation challenges.

Compared with the previous year, the ECB issued roughly 30% fewer new qualitative measures. This decline is in line with the ECB's enhanced risk-focused supervision and improved follow-up by banks. The qualitative measures issued focus on credit risk (40%), internal governance (17%), capital adequacy (11%) and operational risk (10%). These include credit risk monitoring and the management of specific portfolios, the composition of governance bodies, the enhancement of the stress testing framework in the Internal Capital Adequacy Assessment Process (ICAAP), or remediating efforts linked to IT business continuity.

In terms of SREP scores, the average overall score slightly improved to 2.5, from 2.6 last year. This improvement was not uniform as scores cluster more at the centre of the distribution. Banks previously rated 3- had better scores, those rated 2 or better have slightly deteriorated. Overall, a quarter of banks remains in the weakest categories (scores 3-4).

In terms of quantitative requirements, overall CET1 capital requirements and guidance applicable in 2026 remained broadly stable at 11.2%. This number comprises Pillar 1 and Pillar 2 requirements, combined buffer requirements and the Pillar 2 guidance (P2G).

CET1 Pillar 2 capital requirements that banks need to meet in 2026 remained broadly stable at 1.2% of risk-weighted assets (RWA).

The combined buffer requirement, that is the sum of the capital conservation buffer, the systemic buffers and the countercyclical capital buffer (CCyB) increased slightly, due to the higher CCyB applicable in some countries as a result of national measures.

The non-binding P2G, which is informed by the 2025 EU-wide stress test and applies in 2026, decreased from 1.3% to 1.1% (CET1). This reflects the results of this year's stress test which showed higher losses and a better ability to absorb these losses as a result of higher profits, and thus a lower capital depletion, compared with the previous stress test in 2023.

The ECB particularly monitors banks' non-performing exposures and leveraged transactions. When a situation is deemed inadequate, or progress with remediation of deficiencies is insufficient, an add-on is applied to the Pillar 2 requirements (P2R). With the 2025 SREP decisions, the number of banks subject to these add-ons declined, as some banks remediated previous findings.

Concretely, in the 2025 SREP, ten banks were subject to an add-on for insufficiently provisioned non-performing exposures, down from 18 in the previous SREP cycle. For six banks, the P2R included a leveraged finance add-on, down from nine last year.

The ECB considers 14 banks to have had an elevated risk of excessive leverage and, therefore, it applied a leverage ratio Pillar 2 requirement (P2R-LR) to 14 banks, compared to 13 banks in the previous review. This requirement is legally binding and comes on top of the minimum 3% leverage ratio mandatory for all banks.

Furthermore, the ECB applied leverage ratio non-binding P2G to five banks and imposed quantitative liquidity measures on four banks.

Supervisory priorities 2026-28

European banks continue to operate in a challenging environment characterised by heightened geopolitical risks as well as changing patterns of competition due to digitalisation and the increased provision of financial services through non-banks. This requires forward-looking risks assessments and sufficient resilience.

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This is reflected in ECB Banking Supervision's medium-term strategy for the years 2026-28, which is broadly in line with current priorities.

The first priority requires banks to remain resilient to geopolitical risks and macro-financial uncertainties. This includes ensuring that banks maintain sound credit standards, adequate capitalisation through the consistent implementation of the Capital Requirements Regulation (CRR3), and that they manage climate and nature-related risks prudently.

The second priority is to ensure strong operational resilience and ICT capabilities. This refers to the need for resilient operational risk management frameworks, for remedying deficiencies in risk reporting and data aggregation, and thus having reliable information systems.

Supervisory reform and methodologies

ECB Banking Supervision has been responding to the changing external environment with a comprehensive reform to increase its efficiency, effectiveness and risk focus. These objectives are applied to all supervisory activities, with the SREP at its core. In line with this, the final SREP decisions or SREP letters were submitted to banks by end-October 2025, more than one month earlier than in previous cycles. These decisions are now shorter and focus on key quantitative and qualitative requirements, the main outcomes of the SREP and key supervisory concerns.

In 2026 a more transparent and simplified methodology for calculating the P2R requirements will take effect. Further details on the main elements of this new P2R methodology can be found on the ECB Banking Supervision website.

Finally, the ECB today published a revised and broader methodology to assess banks' ICAAP. This methodology evaluates, among other things, a bank's internal processes to ensure it has sufficient capital to cover material risks and maintain adequate risk management practices.

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Notes

- The SREP assesses four main elements: the viability and sustainability of business models, the adequacy of internal governance and risk management, risks to capital and risks to liquidity and funding. Each element is given a score ranging from 1 to 4 (with 1 being the best and 4 the worst). These scores are then combined to produce an overall score (which also ranges from 1 to 4).
- The 2025 SREP assessment cycle was generally based on year-end data for 2024. The decisions resulting from the 2025 SREP assessment are applicable in 2026. Of the 113 supervised institutions, as at September 2025, 105 banks were part of the SREP assessment and will receive either a SREP decision or a SREP operational letter. Eight banks will not receive a

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new SREP decision or operational letter this year, due to ongoing mergers and acquisitions or the characteristics or particular circumstances of the institution. See here for more details.

- The capital that banks are expected to maintain as a result of the SREP consists of two parts. The first is the P2R, which covers risks that are underestimated or not covered by Pillar 1. The second is the P2G, which indicates the level of capital that a bank should maintain in order to have a buffer sufficient to withstand stressed conditions (as assessed, in particular, on the basis of the adverse scenario in the supervisory stress tests). While the P2R is binding and breaches can have direct legal consequences for banks, the P2G is not binding.

- Overall capital requirements and guidance means Pillar 1 + Pillar 2 requirement + combined buffer requirement + Pillar 2 guidance. See the Supervisory Methodology for additional information on the composition of the capital stack. All figures are reported as percentages of RWA.

- Combined buffer requirements comprise the capital conservation buffer, the CCyB and systemic buffers (systemic buffers comprise buffers for global systemically important institutions, other systemically important institutions and systemic risk), which are legal requirements established by the EU's Capital Requirements Directive or by national authorities.

- The LCR is a regulatory standard, part of the Basel III Framework, requiring banks to maintain enough high-quality liquid assets to cover projected cash outflows during a 30-day stress scenario.

- The NSFR is an indicator that measures the stability of a bank's funding by comparing the availability of stable funding (Available Stable Funding, ASF) with the required stable funding (Required Stable Funding, RSF) to cover needs over a one-year horizon.

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