EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Press release

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ECB keeps capital requirements broadly stable for 2027, focuses its priorities on banks' financial and operational resilience

- Results of 2026 Supervisory Review and Evaluation Process for ECB-supervised banks show, on aggregate, robust capital and liquidity positions, strong profitability and stable scores
- Overall Common Equity Tier 1 (CET1) capital requirements and guidance for 2027 remained broadly stable at 11.3% of risk-weighted assets, compared with 11.2% for 2026
- Pillar 2 requirement to be met with CET1 capital remained broadly stable at 1.2%
- Revised Pillar 2 methodology used for first time, strengthening link between capital requirements and bank-specific risk profiles, while avoiding overlaps between Pillar 1 and Pillar 2 requirements on case-by-case basis
- New qualitative measures primarily concerned credit risk, internal governance and operational risk
- Supervisory priorities for 2027-29 focus on banks' resilience to geopolitical risks and macro-financial shocks, as well as on operational resilience to technology-driven risks

The European Central Bank (ECB) today published the results of its Supervisory Review and Evaluation Process (SREP) for 2026 and its supervisory priorities for 2027-29. The assessment covers 108 banks directly supervised by the ECB and reviews their capital, liquidity, business model, governance and risk management.

The euro area banking sector maintained robust capital and liquidity positions amid heightened geopolitical risks and macro-financial uncertainty. The weighted average total capital ratio stood at 20.1% in the second quarter of 2026 and the fully phased-in leverage ratio stood at 5.8%.

Liquidity buffers remained well above the 100% minimum requirement, with the aggregate liquidity coverage ratio (LCR) at 155% in the second quarter of 2026. The banking sector retained good access to retail and wholesale funding, with an average net stable funding ratio (NSFR) of 125%.

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Profitability continued to be strong. The aggregated annualised return on equity increased from 9.5% in 2025 to almost 11% in the second quarter of 2026. Net fee and commission income supported revenue growth, and net interest income was helped by higher loan volumes and improving interest margins. Strong revenues helped reduce the aggregate cost-to-income ratio slightly, from 55% to 53%.

Asset quality continued to be relatively stable, with the aggregate non-performing loan ratio remaining at low levels at 1.9% in the second quarter of 2026 and the aggregate Stage 2 loan ratio declining. Nonetheless, vulnerabilities persisted in some portfolios, such as consumer credit and small and medium-sized enterprises. While conditions in commercial real estate markets showed signs of stabilising, uncertainty and downside risks persist.

The impact of recent geopolitical shocks may take time to become fully visible on banks' balance sheets. Banks therefore need to take a prudent risk-taking approach, coupled with sound governance and forward-looking capital and liquidity planning to absorb potential shocks and continue providing financing to households and businesses also under stress.

Quantitative and qualitative supervisory measures

Overall capital requirements and guidance in CET1 for 2027 remained broadly stable at 11.3% of risk-weighted assets, compared with 11.2% in 2026. The Pillar 2 requirement to be met with CET1 capital also remained broadly stable at 1.2%, compared with 1.1% in 2026. Non-binding Pillar 2 guidance in 2027 remained unchanged at 1.1%.

Similarly, overall capital requirements and guidance applicable in 2027, in terms of total capital, remained broadly stable at 15.7% of risk-weighted assets, compared with 15.6% in 2026, and total capital Pillar 2 requirements continued to stand at around 2%.

To address the risk of excessive leverage, the ECB applied binding leverage ratio Pillar 2 requirements to 14 banks. It also set non-binding leverage ratio Pillar 2 guidance for five banks in order to strengthen their resilience under stress.

The average overall SREP score in 2026 remained unchanged at 2.5. 86% of banks were given the same overall score as in 2025, with upgrades or downgrades mainly attributable to non-financial risks.

In 2026, the ECB issued new qualitative measures to 78 banks. Compared with the previous year, the number of these new measures fell by around 50%. Higher priority is given to material weaknesses and major supervisory concerns. Severe and persistent deficiencies are swiftly followed up and enforcement action is taken if banks fail to remediate these deficiencies. The new qualitative

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measures primarily concerned credit risk (33%), internal governance (24%) and operational risk (12%). These measures targeted shortcomings in non-performing exposure management, in management body effectiveness, and in risk data aggregation and risk reporting.

Operational and ICT risk continued to be one of the weakest-scoring categories, with 92% of significant institutions revealing deficiencies in cybersecurity, third-party risk management and ICT risk controls. Banks also needed to strengthen their risk data aggregation and risk reporting capabilities, as weaknesses in data quality, IT architecture and an overreliance on manual processes continued to hamper effective risk management.

Supervisory priorities for 2027-29

The supervisory priorities for 2027-29 reflect the risk environment and ensure continuity with the previous set of supervisory priorities. The two key priorities in this cycle are to strengthen banks' financial resilience to geopolitical risks and macro-financial shocks and to reinforce operational resilience and ICT capabilities.

The first priority focuses on prudent credit underwriting standards and risk-based loan pricing. Furthermore, supervisors will continue to assess whether the Capital Requirements Regulation (CRR III) has been accurately and consistently implemented, particularly with regard to the calculation of risk-weighted assets for credit and operational risk under the standardised approach.

In addition, supervisors will address potential vulnerabilities in banks with material exposures to non-bank financial institutions, including fund financing and other private market activities. They will review significant risk transfer securitisation strategies and how these have been integrated into banks' risk management and capital planning.

Climate and nature-related risks remain an integral part of the first priority. A thematic review in 2027 will assess banks' prudential transition planning. Additionally, work will continue on persistent weaknesses in the management of physical risk.

The second priority focuses on banks' remediation of material deficiencies in ICT risk management. Activities will include on-site inspections on cybersecurity and third-party risk management, threat-led penetration testing under the Digital Operational Resilience Act and targeted reviews of dependencies on cloud-based service providers.

Supervisors will assess banks' responses to AI-enabled cyber threats and their preparedness for post-quantum cryptography migration. Furthermore, supervisors will increasingly engage with the industry and other relevant authorities with regard to the management of risks stemming from AI use cases.

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Finally, banks will be expected to remedy material weaknesses in risk data aggregation and risk reporting capabilities within agreed deadlines, with enforcement measures to be imposed if necessary.

SREP reform and methodologies

The ECB completed its reform of the SREP in 2026, making supervisory assessments more effective, efficient and risk-based. The revised risk tolerance framework and multi-year assessments mean that banks and supervisors can focus on the most material risks and major emerging concerns. As a result, SREP decisions are shorter and focus on banks' key vulnerabilities, with fewer qualitative measures being imposed. By fully integrating the forward planning of supervisory activities, the examination programmes and the SREP outcomes are now communicated earlier than was previously the case.

The revised Pillar 2 methodology was used for the first time in this year's SREP cycle to determine the capital requirements effective from January 2027. It reduces complexity and creates a more direct link between capital requirements and risk drivers. It has not led to a change in the overall capital requirements at the system level, rather it changes the requirements of individual banks' to reflect how bank-specific risk profiles are addressed under the revised methodology.

Additionally, supervisors were particularly attentive to potential overlaps of Pillar 1 and Pillar 2 requirements in the context of the EU's implementation of the final Basel III reforms, which affect the calculation of risk-weighted assets. The effects of the CRR III so far have generally been minor and different across banks, often leading to a reduction in Pillar 1 capital requirements. Where Pillar 1 requirements increased and overlaps were identified, the ECB made reductions to Pillar 2 requirements. The ECB will continue to monitor these effects and address the potential double counting of risks on a case-by-case basis as the new rules are phased in.

After introducing the revised Pillar 2 methodology this year and the liquidity methodology applicable from 2027, no further changes to SREP methodologies are expected over the next two years and future revisions will be less frequent than during the years of the SREP reform. This will provide banks with a more stable supervisory framework for their capital, liquidity and strategic planning, while maintaining the necessary supervisory rigour and resilience standards.

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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

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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 2026 SREP assessment cycle was generally based on year-end data for 2025. The decisions resulting from the 2026 SREP assessment are applicable in 2027. Of the 110 supervised institutions, as at September 2026, 107 banks were part of the SREP assessment and will receive either a SREP decision or a SREP operational letter. Three banks will not receive a new SREP decision or operational letter this year due to ongoing mergers and acquisitions or the characteristics or particular circumstances of the institution. The SREP score assessment covered 108 banks. The aggregated figures for the capital requirements and guidance use a sample of 109 entities. Estimates for combined buffers applicable in 2027 reflect announced policy rates.

- The capital that banks are expected to maintain as a result of the SREP consists of two parts. The first is the Pillar 2 requirement (P2R), which covers risks that are underestimated or not covered by Pillar 1. The second is the Pillar 2 guidance (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.

- Common Equity Tier 1 capital (CET1) is the highest quality of regulatory capital, as it absorbs losses immediately when they occur. Additional Tier 1 capital (AT1) also provides loss absorption on a going-concern basis, although AT1 instruments do not meet all the criteria for CET1. In contrast, Tier 2 capital is gone-concern capital. That is, when a bank fails, Tier 2 instruments must absorb losses before depositors and general creditors do. Total available regulatory capital is the sum of these two elements - Tier 1 capital, comprising CET1 and AT1, and Tier 2 capital.

- 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 risk-weighted assets.

- Under CRD V, which came into effect on 1 January 2021, the P2R capital should have the same composition as Pillar 1 – i.e. at least 56.25% should fall under CET1 capital and at least 75% should fall under Tier 1 capital, in line with the minimum requirements.

- Combined buffer requirements comprise the capital conservation buffer, the countercyclical buffer 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.

- A Supervisory Examination Programme for a significant institution sets out the main supervisory tasks and activities for the next 12 months, their tentative schedules and objectives and the need for on-site inspections and internal model investigations. It is defined for each significant institution by the respective Joint Supervisory Team.

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