

1 Introduction

The Supervisory Review and Evaluation Process (SREP) shows that the [banks supervised by the ECB](#) have continued to exhibit strong capital and liquidity positions.

While euro area real GDP growth is expected to strengthen over the projection horizon and risks to the economic outlook have become more balanced following the trade agreements in the second half of the year, the macroeconomic environment in which European banks operate is still marked by heightened geopolitical risks and economic uncertainty. The primary concerns are a renewed escalation of global trade tensions and the ongoing geopolitical turmoil, such as Russia's war against Ukraine and the tensions in the Middle East. Moreover, a potential deterioration in financial market sentiment may result in tighter financing conditions, increasing risk aversion and weakening growth. Additionally, a combination of weaker than expected growth, higher defence spending needs and structural challenges could increase sovereign risks, particularly in heavily indebted countries.

Supervisors reflected these downside risks in their SREP assessments and considered the potential impact of negative market developments as part of their regular engagement with banks.

The 2025 SREP takes into account the minimum requirements stemming from the implementation of the Basel III rules and the EU banking package (CRR III and CRD VI), which took effect on 1 January 2025. Therefore, all capital ratios cited in this document are based on clearly defined transitional arrangements under Basel III which enable institutions to gradually phase in the stricter requirements that will apply. European banks need to fully comply with these new rules by 2033.

The total capital ratio of significant institutions reached 20.1% as at end 2024, increasing slightly further to 20.2% in the second quarter of 2025. The Common Equity Tier 1 (CET1) ratio stood at 16.1% as at the second quarter of 2025. The weighted average leverage ratio stood at 5.9% as at the second quarter of 2025.

Liquidity buffers remain comfortable, with the aggregate liquidity coverage ratio standing at 158% as at the second quarter of 2025, substantially above the minimum requirements and pre-pandemic levels. The aggregate net stable funding ratio remained broadly stable at 127%, and supervised entities retained good access to both retail and wholesale funding.

Banks continued to exhibit strong profitability, on the back of still favourable net interest income (NII), with the aggregated annual return on equity (ROE) standing at 9.5% at the end of 2024, as compared with 9.3% in 2023, and increasing further to 10.1% in the second quarter of 2025. However, cost pressures intensified, in some cases offsetting increases in NII. The cost-to-income ratio decreased to 54.9% in 2024 and remained stable in the second quarter of 2025, from 57.0% in 2023.

Euro area banks' asset quality remains robust. The ratio of non-performing loans (NPLs) to total loans (excluding cash balances at central banks and other demand deposits)^[1] remained stable at 2.2% in the second quarter of 2025, which is close to historical lows. However, diverging trends emerged, with some countries with historically low NPL ratios experiencing increases in NPL stocks.

The resilience of the European banking sector is the result of several factors. These include effective regulation, improvements in risk management and sound supervision across European institutions but also concrete fiscal and monetary responses to recent macroeconomic shocks.

In the 2025 SREP cycle, the average overall SREP score improved further to 2.5 (2.6 in 2024).

The overall capital requirements and guidance applicable in 2026 will be 15.6% of risk-weighted assets (RWA). The Pillar 2 requirement (P2R) in total capital remains stable at around 2.1%. For six banks, the P2R includes a leveraged finance add-on of, on average, 16 basis points. For 14 banks, a P2R leverage ratio add-on was applied, which amounted to, on average, 16 basis points. Five quantitative measures for liquidity risk were imposed on four banks.

Qualitative measures taken during the 2025 SREP cycle had been issued primarily to address deficiencies in the areas of credit risk, internal governance, capital adequacy and operational risk, covering aspects such as credit risk monitoring and the management of specific portfolios, the composition of governance bodies, the enhancement of the stress testing framework in ICAAP, or deficiencies linked to IT business continuity. Legally binding measures were also used to tackle severe weaknesses identified during on-site inspections (OSIs) and horizontal analyses. ECB Banking Supervision continued to stand ready to impose enforcement measures where long-standing deficiencies were not adequately remedied. This is in line with the escalation [framework encompassing the range of supervisory powers and legal instruments](#) to be used by supervisors to remediate findings in a timely manner.

These findings were mainly identified during the regular supervisory activities described in the [supervisory priorities 2025-27](#). At the same time, the 2025 SREP outcome helped to ascertain the key vulnerabilities for the euro area banking sector going forward, thus providing the information needed to decide on the future [supervisory priorities for 2026-28](#).

Looking ahead, and in line with the current supervisory priorities, supervisors will prioritise prudent risk-taking and sound credit standards to prevent the emergence of future NPLs. Moreover, to ensure adequate credit risk management, they will continue to monitor banks' exposure to vulnerable sectors against the backdrop of the current global environment and resulting economic uncertainty. In addition, supervisors will review institutions' implementation of the standard approach to ensure adequate capitalisation and consistent implementation of CRR III.

Banks should also effectively assess and manage short-, medium- and long-term risks stemming from climate and nature crises and remedy persistent shortcomings in their related risk management frameworks.

Increased threats to operational resilience from geopolitical risk require banks to further adapt their cybersecurity and third-party risk management, while ensuring full compliance with the Digital Operational Resilience Act (DORA). High dependence on critical non-EU third-party providers may expose banks' vulnerabilities, particularly if escalating geopolitical tensions lead to disruptions in the provision of services. As a result, ECB Banking Supervision continues to consider strengthening banks' operational resilience and fostering IT capabilities a key priority. Banks are therefore expected to implement robust and resilient operational risk management frameworks and step up their efforts to remediate identified vulnerabilities in terms of their cyber resilience and third-party arrangements. Internal governance and risk management continues to be a key area of scrutiny for ECB Banking Supervision, with a renewed focus on the remediation of long-standing deficiencies in their risk reporting capabilities and related information systems.

In addition to this focus on the current supervisory priorities, ECB Banking Supervision is continuing to reform the [SREP \(inglese\)](#). Tangible benefits materialised in 2025. The draft SREP decisions were

timelier and already notified to banks by end-July. The final SREP decisions or SREP letters were submitted to banks by end-October 2025. To enhance clarity, these decisions are now shorter and focus on the requirements, the main outcome and key supervisory concerns, leaving additional details for the annex. The number of qualitative measures was reduced (see Section 4.1), reflecting the concentration on the most material shortcomings for which the escalation ladder needs to be used. For banks with a stable risk-profile and for which no new requirements needed to be imposed, the SREP outcome was conveyed in a SREP “operational letter”.

The SREP reform will progress further in 2026. The focus on severe findings and those which require escalation will be pursued thanks to the tiered approach for the follow-up of findings and measures introduced this year, the completion of the publication of all findings and measures in our external portal, and additional internal work to promote a broader usage of supervisory tools. That said, both the SREP decision template and the 2026 SREP timeline will remain broadly the same. The main change to the SREP methodology will be the new [“Pillar 2 requirements methodology”](#).

These results summarise the aggregated outcome of the 2025 SREP cycle. Chapter 2 covers the assignment of SREP scores to banks’ overall risk profiles and their main elements. Chapter 3 sets out how we determine P2Rs and P2G and Chapter 4 elaborates on qualitative measures. Chapter 5 contains a detailed analysis of selected elements from the [supervisory priorities for 2025-27](#), including references to dedicated activities conducted by ECB Banking Supervision to address these priorities.

Details on how the SREP is performed can be found on the page entitled [“SREP methodology \(inglese\)”](#).

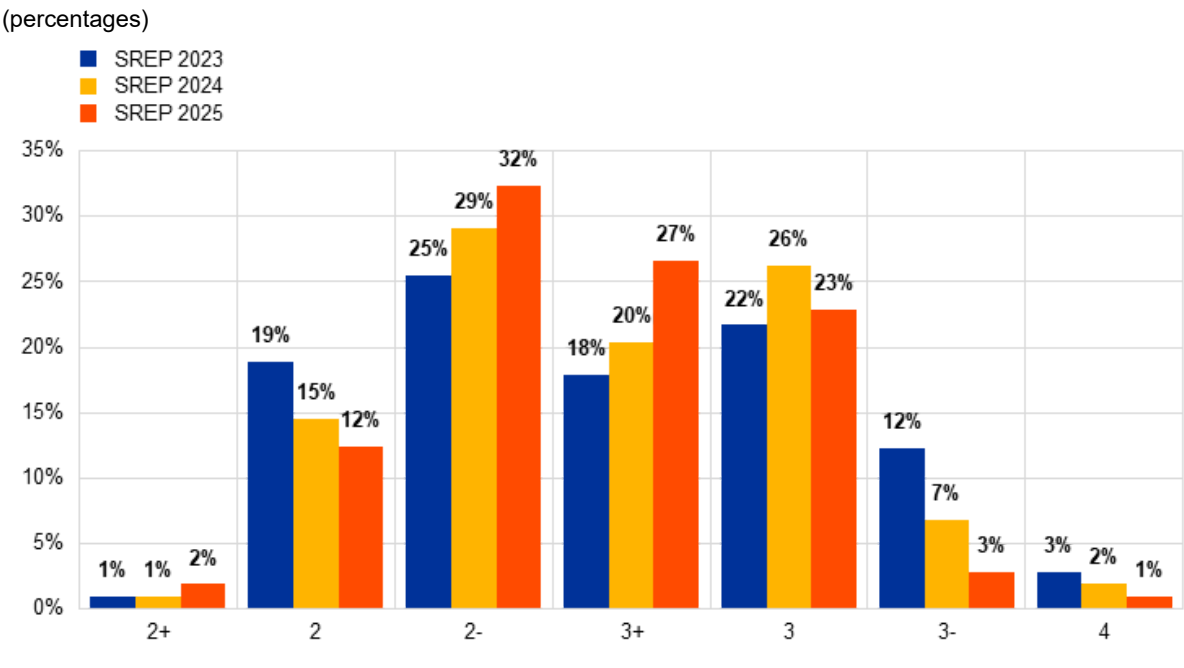
2 Developments in scores

2.1 Key messages

The SREP assessment is summarised in an overall SREP score, ranging between 1 (low risk) and 4 (high risk), including the use of qualifiers for scores 2 and 3 (i.e. 2+, 2, 2- and 3+, 3, 3-). In line with the [EBA Guidelines on SREP](#), this score reflects the overall assessment of the institution’s viability: higher scores reflect higher risks to the institution’s viability, stemming from one or more features of its risk profile.

The average overall SREP score for 2025 improved further to 2.5 (2.6 in 2024), marking the best result since 2016 and reflecting a continued strengthening of banks’ overall risk profiles. The distribution of scores shifted (**Chart 1**), with an increase of banks in the mid-range scores (2-, 3+ and 3) largely driven by improvements among the riskier institutions (previously rated 3-), coupled with a slight deterioration among some of the banks previously rated 2 or better. Despite this overall positive trend, the distribution of scores still shows that roughly one-quarter of banks remain in the weakest score categories (3 to 4), underlining the need for continued, targeted supervisory engagement and remediation efforts.

Chart 1
Overall SREP scores



Source: ECB SREP database.
Notes: 2023 SREP values based on assessments of 106 banks; 2024 SREP values based on assessments of 103 banks; 2025 SREP values based on assessments of 105 banks. There were no banks with an overall SREP score of 1 in either 2023, 2024 or 2025. Rounding differences may apply to data throughout this document. All data shown throughout this document relate to institutions directly supervised by the ECB.

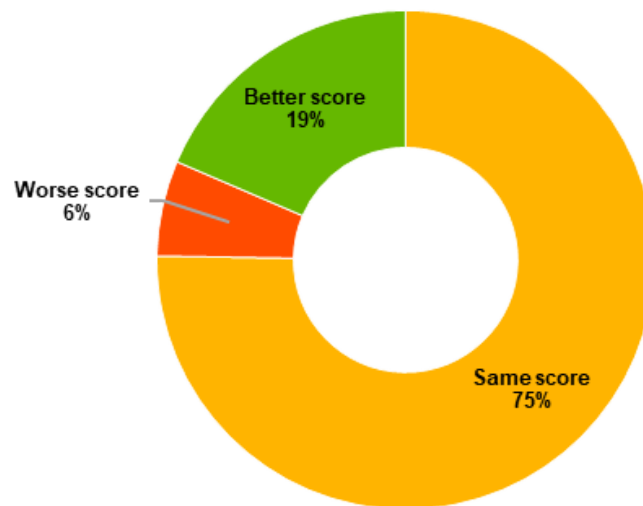
The majority of institutions (75%) were given the same overall SREP score as in 2024, while 19% recorded an improvement and only 6% experienced a deterioration (**Chart 2**).

One key observation is that improvements in overall SREP scores were underpinned by stronger performance across multiple SREP elements, while poorer scores were typically linked to a decline in one specific element.

Chart 2

Changes to banks' overall SREP scores in 2025 compared with 2024

(percentages)



Source: ECB SREP database.

Note: This chart is based on a sub-sample of banks that were assessed in both the 2024 and 2025 SREP cycles, meaning that the coverage differs slightly from that of the data in Chart 1.

Table 1 illustrates the changes in banks' overall SREP scores compared with the previous year. While the majority of these scores remained unchanged, the distribution of scores shifted significantly, reflecting changes in the scoring of the underlying risk-specific SREP elements.

Table 1

Changes to banks' overall SREP scores in 2025 compared with 2024

(percentages)

		2025						
		2+	2	2-	3+	3	3-	4
2024	2+	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	2	6.7%	73.3%	20.0%	0.0%	0.0%	0.0%	0.0%
	2-	0.0%	3.4%	93.1%	3.4%	0.0%	0.0%	0.0%
	3+	0.0%	0.0%	10.0%	80.0%	10.0%	0.0%	0.0%
	3	0.0%	0.0%	0.0%	37.5%	62.5%	0.0%	0.0%
	3-	0.0%	0.0%	0.0%	0.0%	71.4%	28.6%	0.0%
	4	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%

Source: ECB SREP database.

Note: This chart is based on a sub-sample of banks that were assessed in both the 2024 and 2025 SREP cycles, meaning that the coverage differs slightly from that of the data in Chart 1.

Scores were most stable in the mid-range categories, with 93% of banks being rated 2- in 2024 and 80% of those rated 3+ being given the same score in 2025, whereas institutions at the extremes (2+ and 4) saw no changes at all.

While annual changes point to a largely stable picture, a longer-term perspective shows more pronounced changes in scores.

Chart 3 gives the overview of SREP element scores for the entire sample of banks.

With regard to the business model score, supervisors exercised caution on account of the slowdown in NII, structural cost challenges and weaknesses in strategic execution and business planning. However, they also considered banks' strong financial performance, their diversification efforts and progress in remediation.

With regard to internal governance and risk management, improvements were observed. That said, scores remained below average. Structural weaknesses persist, particularly in management bodies' effectiveness, risk culture, and risk data aggregation and risk reporting capabilities.

Capital adequacy scores improved slightly. Concerns remain regarding capital planning quality and the reliability of projections.

With regard to credit risk, supervisors noted sound asset quality and improved credit risk management frameworks. However, they also observed a deterioration in the commercial real estate sector and persistent risk control deficiencies, e.g. for loan origination, risk classification and monitoring, as well as data quality.

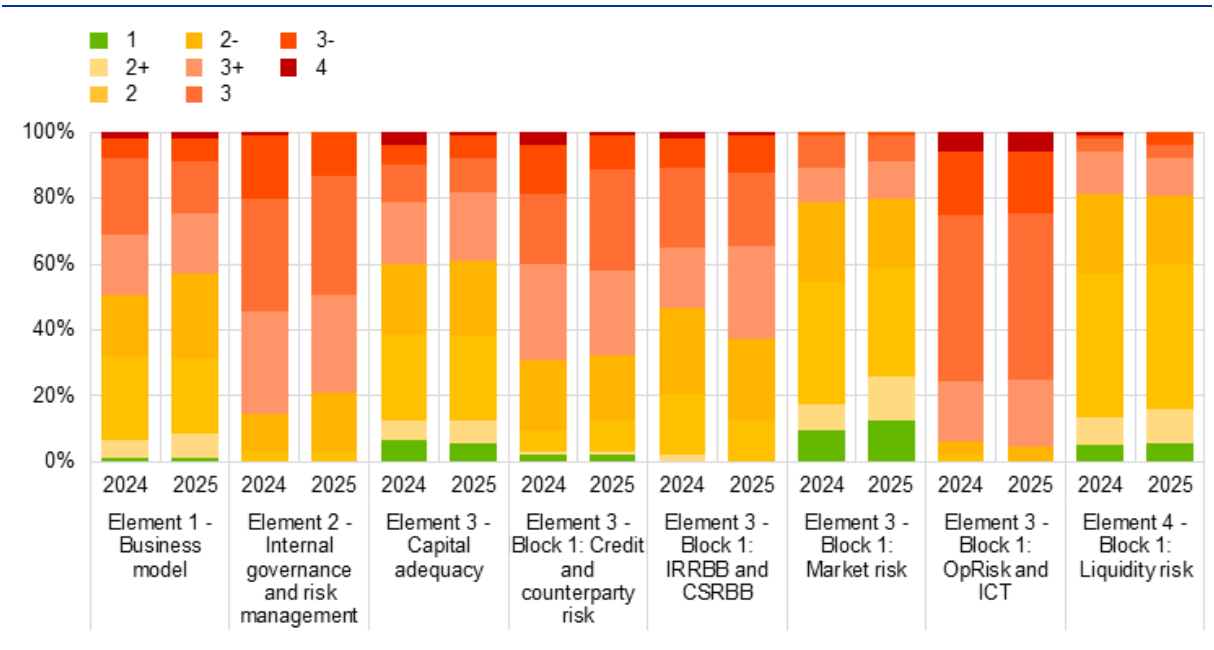
Interest rate risk in the banking book (IRRBB) and credit spread risk in the banking book (CSRBB) saw the highest number of score changes. These were driven by on-site inspection (OSI) outcomes, as these are one of the important sources of qualitative information for the SREP assessment, as well as by the dynamic interest rate environment resulting in risk profile changes, and the revision of the SREP methodology. The OSIs were requested by the supervisory teams as part of a multi-year campaign to address IRRBB, which was one of the prioritised vulnerabilities in the [supervisory priorities for 2024-2026](#).

Market risk downgrades were limited and were primarily attributable to delays in following up on material supervisory findings and weaknesses in internal controls.

Operational and IT risk scores remained relatively stable, with changes largely driven by institution-specific developments.

Lastly, liquidity scores did not change significantly, reflecting the overall sound liquidity position of most banks. Downgrades were mainly related to vulnerabilities identified under stress scenarios.

Chart 3
Distribution of SREP scores by risk category



Source: ECB SREP database.
Notes: 2024 SREP values based on assessments of 103 banks; 2025 SREP values based on assessments of 105 banks.

2.2 Breakdown by business model

Chart 4 shows the distribution of overall SREP scores in 2025 for different business models.

Asset managers and custodians stand out with the strongest score profile, with the large majority achieving scores of 2- or better. This reflects robust profitability and capital adequacy, as well as low inherent risk, albeit isolated issues remain in areas such as internal governance and operational risk.

Corporate/wholesale lenders and development/promotional lenders also showed a strong overall SREP score distribution, but with a few falling into weaker categories mainly due to shortcomings in governance and credit risk.

Global systemically important banks (G-SIBs) and diversified lenders displayed a broader score distribution, ranging from 2- to 3-, reflecting the varied risk profiles within these categories, with governance, operational/IT risk and credit risk being the key areas of weakness.

Retail and consumer credit lenders as well as small market lenders revealed greater vulnerabilities, with a significant share of them being rated 3 or worse. In the case of retail lenders, this was often linked to ongoing issues in business model risk, internal governance and risk management as well as operational risk.

Universal and investment banks clustered around the 2- and 3+ buckets, indicating persistent weaknesses, particularly in areas such as credit risk, IRRBB and CSRBB, operational risk and internal governance and risk management.

Details on the distribution of the overall capital requirements and guidance by business model are available in Chapter 3. The distribution of scores by risk can be found in Chapter 5, which also includes the supervisory expectations and the key vulnerabilities to be addressed.

Chart 4

Breakdown of overall SREP scores by business model

(percentages)



Source: ECB SREP database.

Notes: 2025 SREP values based on assessments of 105 banks. Corporate/wholesale lenders and development/promotional lenders have been grouped together in this chart to preserve statistical confidentiality.

3 Capital requirements and guidance

3.1 Key messages

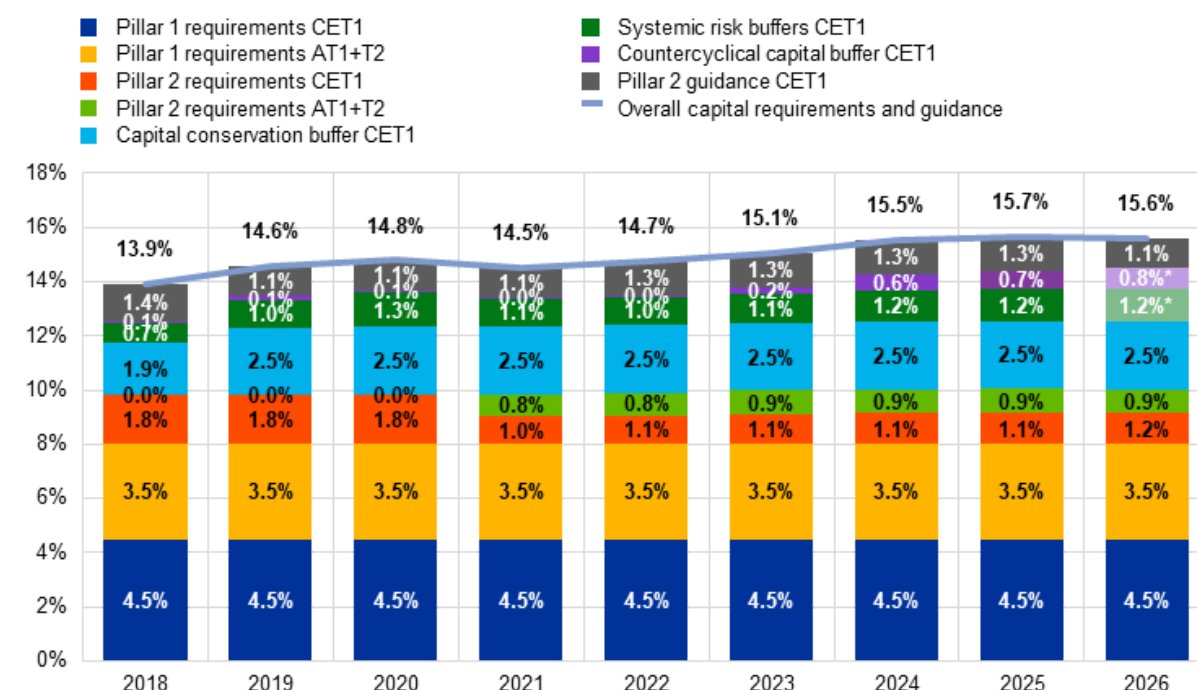
Based on the outcome of the 2025 SREP, the overall capital requirements and guidance applicable for 2026 decreased slightly to 15.6% of RWA, compared with 15.7% for 2025 ([Chart 5](#)^[2]). This was largely driven by a decrease in the P2G for the CET1, from 1.3% to 1.1%. The average total capital P2R remained broadly stable.^[3] The total capital ratio stood at a weighted average of 20.2% as at the second quarter of 2025.

Over the past year, ECB Banking Supervision continued to closely monitor leveraged transactions, and the progress made in remediating deficiencies. Managing leveraged loans prudently is very important for the ECB as a whole, as highly leveraged corporates are particularly vulnerable to market volatility, economic cycles and fluctuations in revenue. The relevant SREP methodology focuses on the concentration of exposures to highly leveraged transactions and the expectation that leveraged finance exposures are to be captured in banks' risk appetite frameworks. Six banks were considered to have made insufficient progress in this regard and, as a result, a dedicated P2R add-on for leveraged finance was applied, ranging between 10 and 20 basis points.

Chart 5

Developments in overall capital requirements and Pillar 2 guidance – the total capital stack

(percentages of RWA)



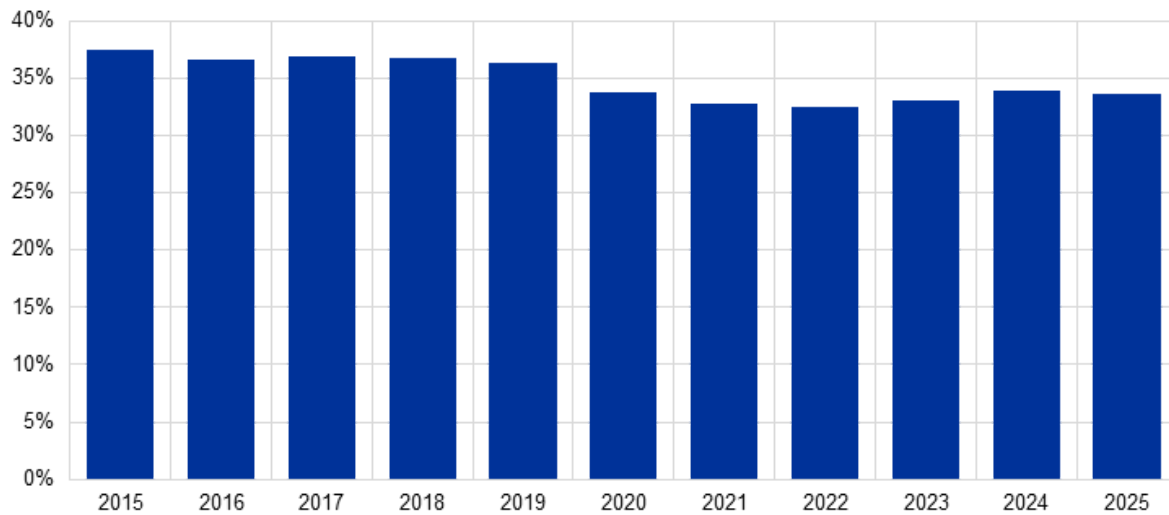
Sources: ECB [supervisory banking statistics \(inglese\)](#) and ECB SREP database.

Notes: The sample selection follows the approach of the [methodological note \(inglese\)](#) for the supervisory banking statistics. For 2018, the first quarter sample is based on 109 entities; for 2019, 114 entities; for 2020, 112 entities; for 2021, 114 entities; for 2022, 112 entities; for 2023, 111 entities; for 2024, 110 entities and for 2025, 113 entities. For 2026, the first quarter sample is based on 109 entities, with the P2R being applicable from January 2026. Entities that are to become significant institutions in the first quarter of 2026 are not included in this sample, as the decision on their level of significance is pending. The chart shows RWA-weighted data from the first quarter of 2025. "Overall capital requirements": Pillar 1 minimum requirement + Pillar 2 requirement + combined buffer requirements (i.e. the capital conservation buffer + systemic buffers (G-SII, O-SII, SRB) + CCyB). Rounding differences may apply. The reference period for the combined buffer requirement is the first quarter of each year. For the first quarter of 2026, buffers are estimated based on announced rates applicable at this date. Estimated values are shown in a fainter purple or green colour and are marked with an asterisk. The P2G is added on top of the overall capital requirements. 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. By way of derogation from the first subparagraph of Paragraph 4, Article 104a of CRD V, the competent authority may require the institution to meet its additional own funds requirements with a higher portion of Tier 1 capital or CET1 capital, where necessary, and having regard to the specific circumstances of the institution.

Chart 6

Risk-weighted asset density

(percentages, annual average)



Source: ECB [supervisory banking statistics \(inglese\)](#).

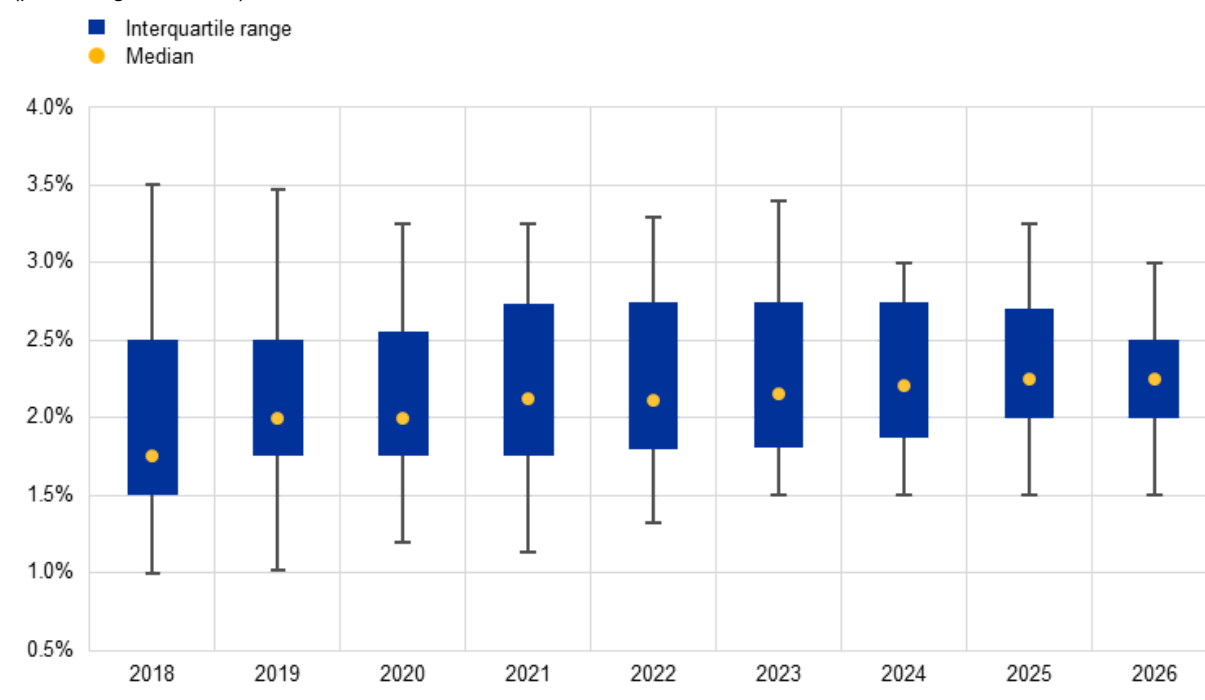
Notes: The sample selection follows the approach of the [methodological note for the supervisory banking statistics \(inglese\)](#). Weighted averages are shown.

In terms of the P2R distribution, the median total capital P2R remained largely stable at around 2.25%, whereas the interquartile range narrowed in comparison with previous years (**Chart 7**).

Chart 7

Distribution of total capital Pillar 2 requirements

(percentages of RWA)



Sources: ECB [supervisory banking statistics \(inglese\)](#) and ECB SREP database.

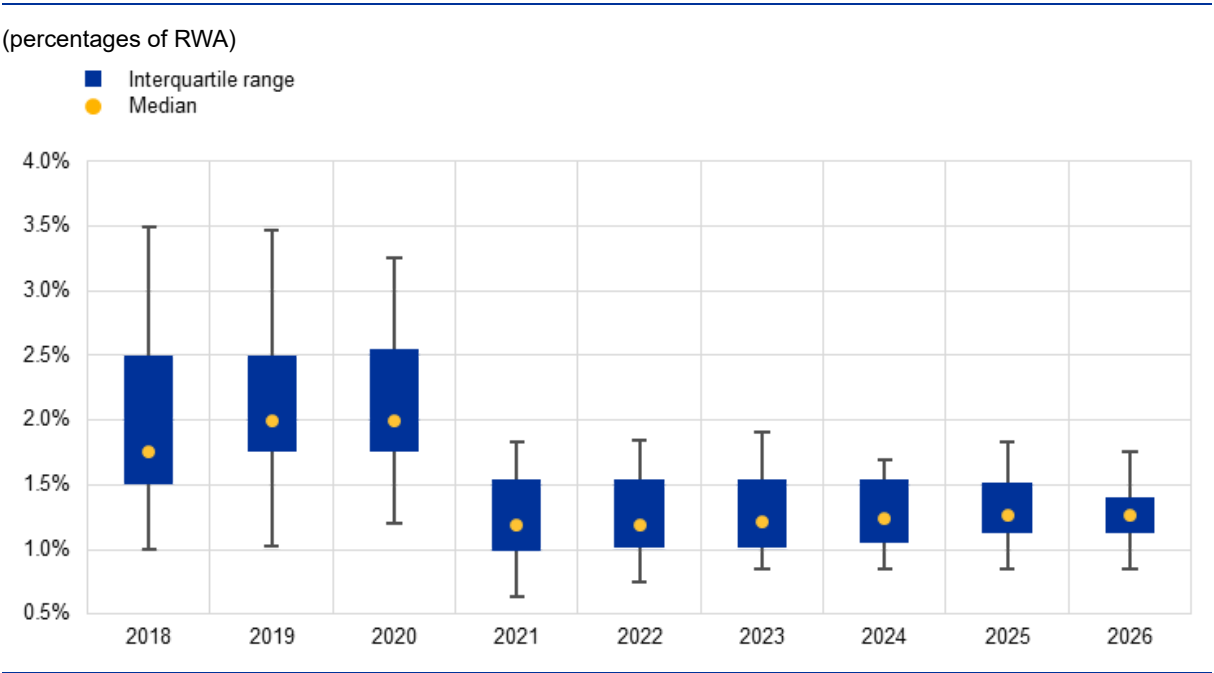
Notes: The sample selection follows the approach of the [methodological note for the supervisory banking statistics \(inglese\)](#). For 2018, the first quarter sample is based on 109 entities; for 2019, 114 entities; for 2020, 112 entities; for 2021, 114 entities; for 2022, 112 entities; for 2023, 111 entities; for 2024, 110 entities; and for 2025, 113 entities. For 2026, the first quarter sample is based on 109 entities, with the P2R being applicable from January 2026. Entities that are to become significant institutions in the first quarter of 2026 are not included in this sample, as the decision on their level of significance is pending. The chart shows the P2R according to the year of applicability (i.e. 2026 data include the P2R agreed upon in the 2025 SREP cycle and applicable in 2026). The whiskers display the 5th and 95th percentiles and the median is displayed as a mark in the box. The box indicates the interquartile range and ranges from the first to the third quartile of the distribution.

The average CET1 P2R remained stable overall as compared with 2025 (**Chart 9**). The related interquartile range for 2026 is the smallest observed in recent years, ranging between 1.1% and 1.4% (**Chart 8**). This means that total capital Pillar 2 requirements have generally tended to be more concentrated as compared with the previous year. The weighted average RWA density as at the first quarter of 2025 stood at 33.7%, remaining broadly stable since the start of European banking supervision (**Chart 6**).

Chart 9 shows the overall capital requirements and guidance to be met using CET1 capital. The overall level of CET1 capital requirements of 11.2% applicable for 2026 remained broadly stable, with slight differences compared with previous years owing to a reduction in the P2G. As shown in the 2025 EU-wide stress test results coordinated by the EBA, this could be explained by the fact that higher projected credit risk, market risk and operational risk losses were largely cushioned by a high level of aggregated profits that had accumulated in 2024. This led to an overall lower rate of capital depletion in the 2025 EU-wide stress test results.

The capital requirements and P2G have been brought back in line with the pre-pandemic level of 11.3%. During the pandemic, primarily in 2021 and 2022, micro- and macroprudential requirements (i.e. structural and cyclical buffers) were adjusted as part of the temporary capital and operational relief package established in response to the spread of COVID-19. Subsequently, the national competent authorities gradually reintroduced or increased their capital requirements again.

Chart 8
Distribution of CET1 Pillar 2 requirements



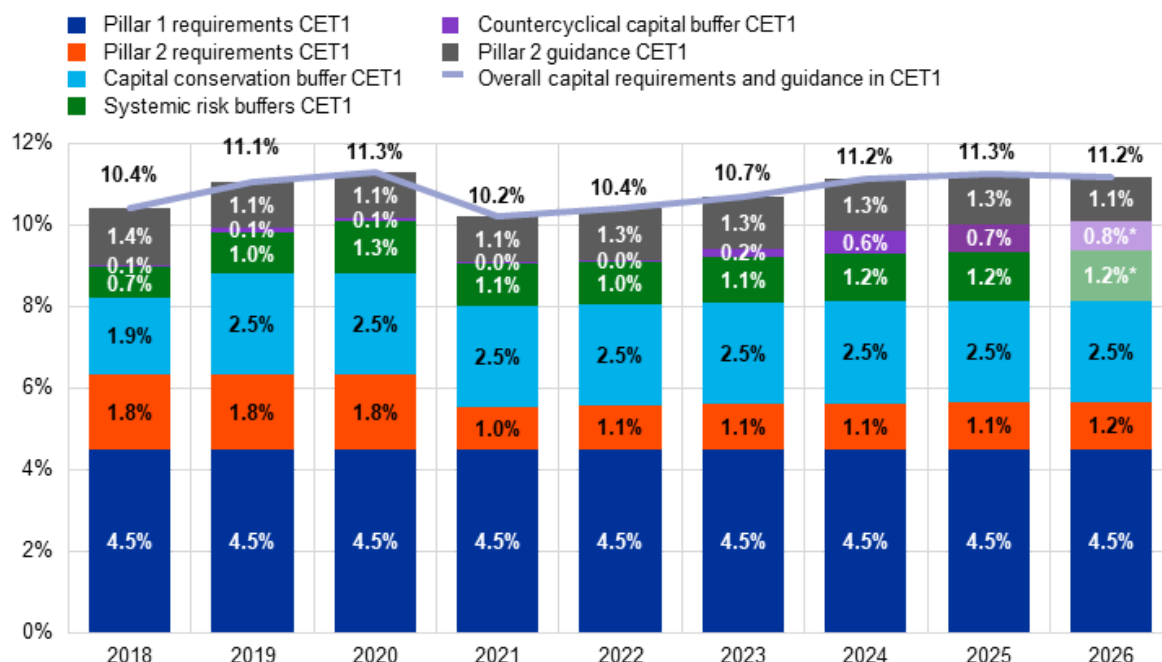
Sources: ECB [supervisory banking statistics \(inglese\)](#) and ECB SREP database.

Notes: The sample selection follows the approach of the [methodological note for the supervisory banking statistics \(inglese\)](#). For 2018, the first quarter sample is based on 109 entities; for 2019, 114 entities; for 2020, 112 entities; for 2021, 114 entities; for 2022, 112 entities; for 2023, 111 entities; for 2024, 110 entities; and for 2025, 113 entities. For 2026, the first quarter sample is based on 109 entities, with the P2R being applicable from January 2026. Entities that are to become significant institutions in the first quarter of 2026 are not included in this sample, as the decision on their level of significance is pending. The chart shows the P2R according to the year of applicability (i.e. 2026 data include the P2R agreed upon in the 2025 SREP cycle and applicable in 2026). The whiskers display the 5th and 95th percentiles and the median is displayed as a mark in the box. The box indicates the interquartile range and ranges from the first to the third quartile of the distribution. Under the Capital Requirements Directive V (CRD V), which came into effect on 1 January 2021, the P2R capital should have the same composition as under 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.

Chart 9

Developments in overall capital requirements and Pillar 2 guidance in CET1

(percentages of RWA)



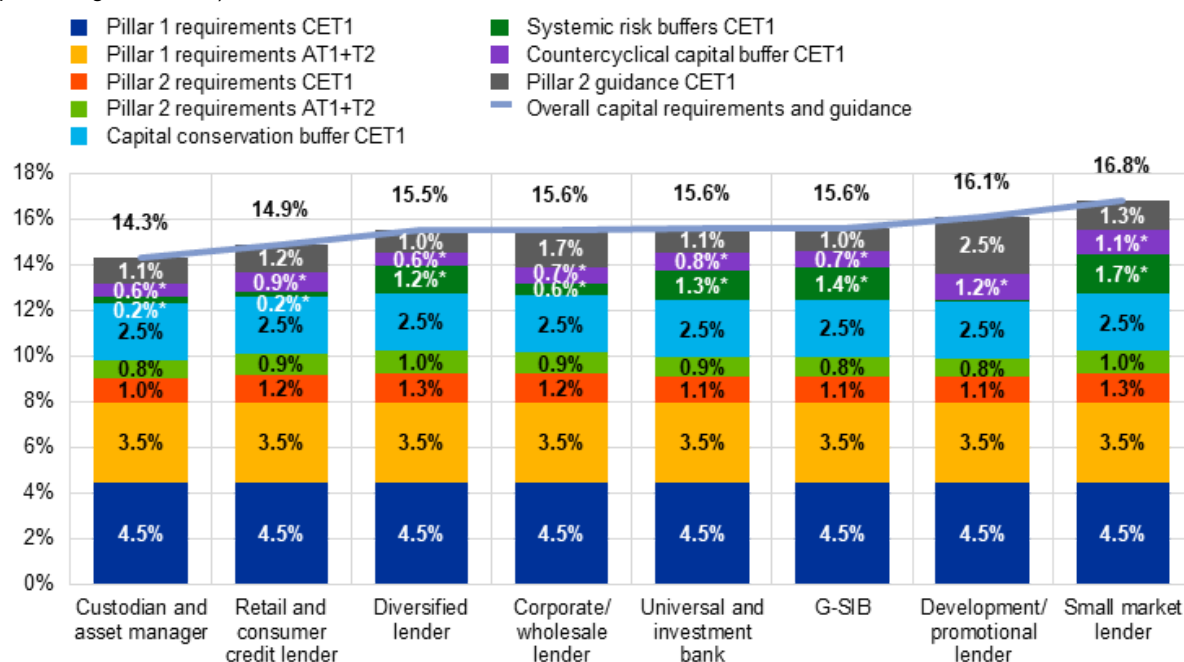
Sources: ECB [supervisory banking statistics \(inglese\)](#) and ECB SREP database.

Notes: The sample selection follows the approach of the [methodological note for the supervisory banking statistics \(inglese\)](#). For 2018, the first quarter sample is based on 109 entities; for 2019, 114 entities; for 2020, 112 entities; for 2021, 114 entities; for 2022, 112 entities; for 2023, 111 entities; for 2024, 110 entities; and for 2025, 113 entities. For 2026, the sample is based on 109 entities, with the P2R being applicable from January 2026. Entities that are to become significant institutions in the first quarter of 2026 are not included in this sample, as the decision on their level of significance is pending. The chart shows RWA-weighted data from the first quarter of 2025. "Overall capital requirements": Pillar 1 minimum requirement + Pillar 2 requirement + combined buffer requirements (i.e. the capital conservation buffer + systemic buffers (G-SII, O-SII, SRB) + CCyB). Rounding differences may apply. The reference period for the combined buffer requirement is the first quarter of each year. For the first quarter of 2026, buffers are estimated based on announced rates applicable at this date. Estimated values are shown in a fainter green or purple colour and are marked with an asterisk. The P2G is added on top of the overall capital requirements. Under CRD V, which came into effect on 1 January 2021, the P2R capital should have the same composition as under 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. By way of derogation from the first subparagraph of Paragraph 4, Article 104a of CRD V, the competent authority may require the institution to meet its additional own funds requirements with a higher portion of Tier 1 capital or CET1 capital, where necessary, and having regard to the specific circumstances of the institution.

Chart 10 shows the breakdown of overall capital requirements and guidance for each business model, as applicable in 2026. Overall capital requirements and guidance are higher for small market lenders and for development/ promotional lenders. In terms of the P2R, requirements are set at a comparatively high level for small market lenders and for diversified lenders.

Chart 10**Overall capital requirements and guidance by business model**

(percentages of RWA)



Sources: ECB [supervisory banking statistics \(inglese\)](#) and ECB SREP database.

Notes: The sample is based on 109 entities, with the P2R being applicable in January 2026. Entities that are to become significant institutions in the first quarter of 2026 are not included in this sample, as the decision on their level of significance is pending. The chart shows RWA-weighted data from the first quarter of 2025. "Overall capital requirements": Pillar 1 minimum requirement + Pillar 2 requirement + combined buffer requirements (i.e. the capital conservation buffer + systemic buffers (G-SII, O-SII, SRB) + CCyB). Rounding differences may apply. Buffers are estimated based on announced rates applicable at this date. Estimated values are shown in a fainter green or purple colour and are marked with an asterisk. The P2G is added on top of the overall capital requirements. Under CRD V, which came into effect on 1 January 2021, P2R capital should have the same composition as under 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. By way of derogation from the first sub-paragraph of Paragraph 4, Article 104a of CRD V, the competent authority may require the institution to meet its additional own funds requirements with a higher portion of Tier 1 capital or CET1 capital, where necessary, and having regard to the specific circumstances of the institution.

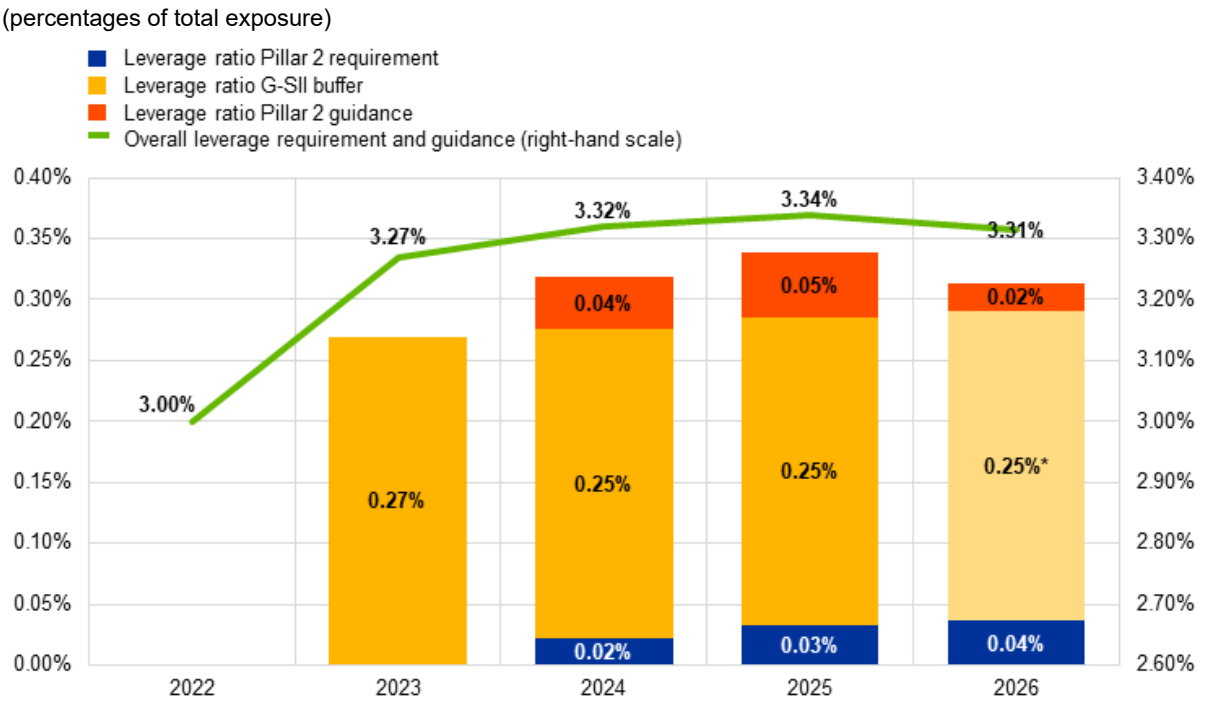
3.2 Leverage-based own funds requirements

Leverage-based own funds requirements act as a backstop to prevent excessive borrowing and to address excess leverage-related risks, such as those stemming from derivatives and off-balance sheet items.

In the 2025 SREP cycle, a P2R leverage ratio add-on (in the range of 10 to 30 basis points) was assigned in 14 cases. In line with the aforementioned backstop nature of the leverage-based capital stack, the P2R leverage ratio add-ons had a limited impact on the relevant banks. This is because for most banks, the total leverage-based own funds requirements in nominal terms are lower (and consequently less binding) than the risk-based own funds requirements. Moreover, five banks were subject to a P2G leverage ratio add-on. Overall, the risk of excessive leverage is considered to be low.

The weighted average of the fully phased-in leverage ratio as at the second quarter of 2025 stood at 5.9% in comparison with the overall leverage requirements and guidance that have been set at around 3.3% for 2026 (**Chart 11**).

Chart 11
Overall leverage requirements and guidance



Sources: ECB [supervisory banking statistics \(inglese\)](#) and ECB SREP database.
Notes: The sample consists of entities with an applicable leverage ratio P2R and/or P2G. For 14 banks, a P2R leverage ratio add-on was applied. Weighted averages are shown. Rounding differences may apply. Estimated values are shown in a fainter yellow colour and are marked with an asterisk. The minimum Pillar 1 requirements of 3% are not shown in this chart to aid graphic visualisation.

3.3 Non-performing exposure Pillar 2 requirement add-on

If a bank’s risk provisioning for non-performing exposures (NPEs) is assessed as inadequate, the resulting shortfall is addressed by a specific P2R add-on.

The relevant institutions are encouraged to close their provisioning gaps by posting the maximum level of provisions permitted under the respectively applicable accounting standards. Where the accounting treatment does not fall in line with/meet the ECB’s supervisory expectations, institutions have the further option of adjusting their CET1 capital on their own initiative.

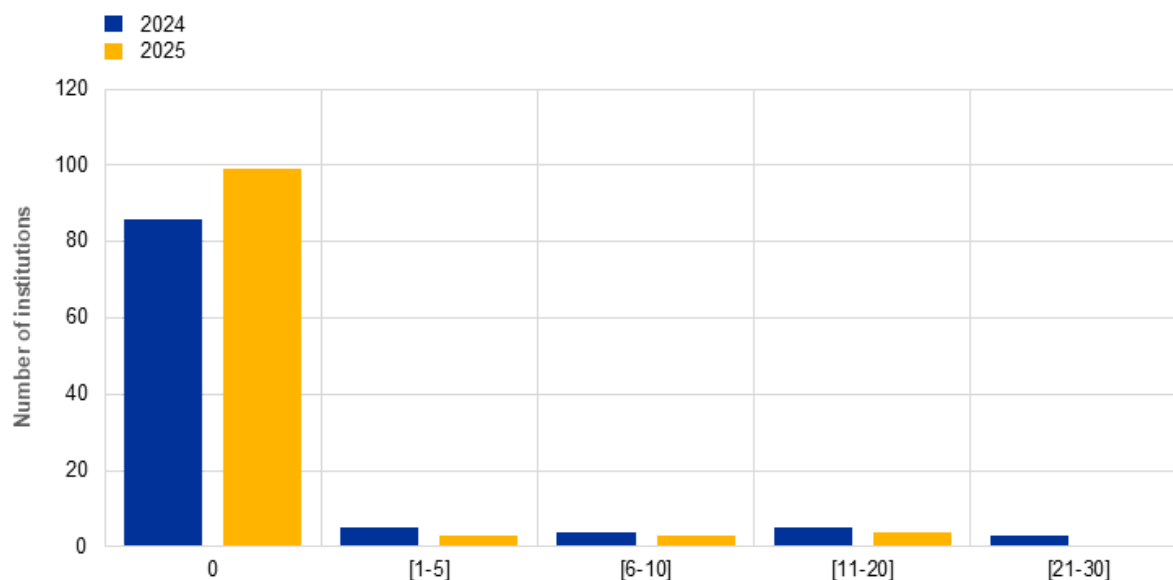
The 2025 SREP cycle resulted in NPE P2R add-ons being issued for ten banks. The RWA-weighted average shortfall in NPE provisions amounted to 8 basis points in 2025, which was overall slightly higher in comparison with 2024, which was 5 basis points. The bank-specific NPE P2R add-ons ranged from 1 basis point to 18 basis points (**Chart 12**).

For certain institutions with persistent and material coverage shortfalls arising from older NPEs, the relevant P2R add-on was imposed fully in the form of CET1 capital.

Chart 12

Non-performing exposure shortfall add-ons

(total, basis points)



Source: ECB internal calculations.

Note: 2024 SREP values are based on assessments of 103 banks and 2025 SREP values are based on assessments of 105 banks.

4 Qualitative measures

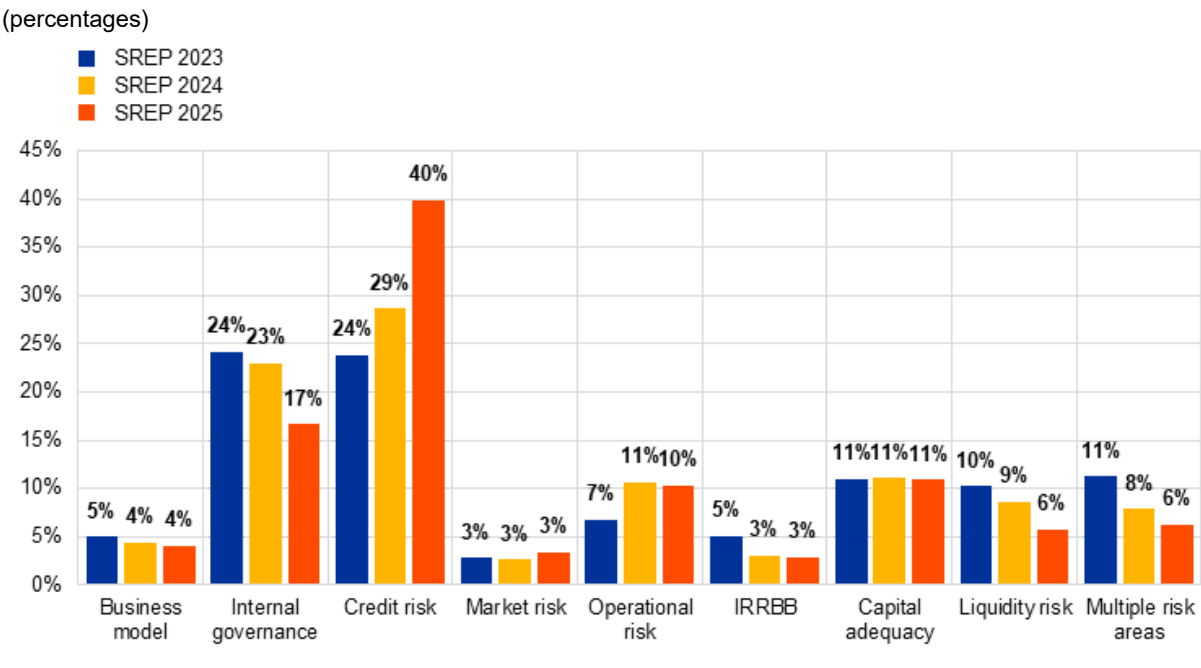
4.1 Key messages

Qualitative measures to address supervisory findings were issued for 100 banks in the form of SREP decisions or SREP operational letters. Most of these measures focused on credit risk (40%), followed by internal governance (17%), and capital adequacy (at 11%), as shown in **Chart 13**.

Credit risk remained the most frequently addressed area of deficiency, reflecting intensified supervisory scrutiny and alignment with the supervisory priorities for 2025-27. A significant share of these measures targeted NPLs and provisioning practices. Operational risk measures also remained elevated at 10%, pointing to continued supervisory concerns, particularly regarding cyber resilience and internal control environments.

Compared with the previous year, the total number of new qualitative measures decreased by roughly 30%, with the most notable declines observed in the areas of governance and liquidity risk. This is in line with ECB Banking Supervision's SREP reform, which was to focus on key supervisory concerns and material weaknesses in SREP decisions and letters. It also reflects the increased use of the full supervisory toolkit, ensuring timely identification and follow-up of issues that arise during supervisory activities performed throughout the year.

Chart 13
Qualitative measures



Source: ECB SREP database.

Notes: 2023 SREP values are based on assessments of 106 banks; 2024 SREP values are based on assessments of 103 banks; 2025 SREP values are based on assessments of 105 banks. This chart does not include weaknesses addressed by supervisory measures taken outside of the SREP cycles. Rounding differences may apply.

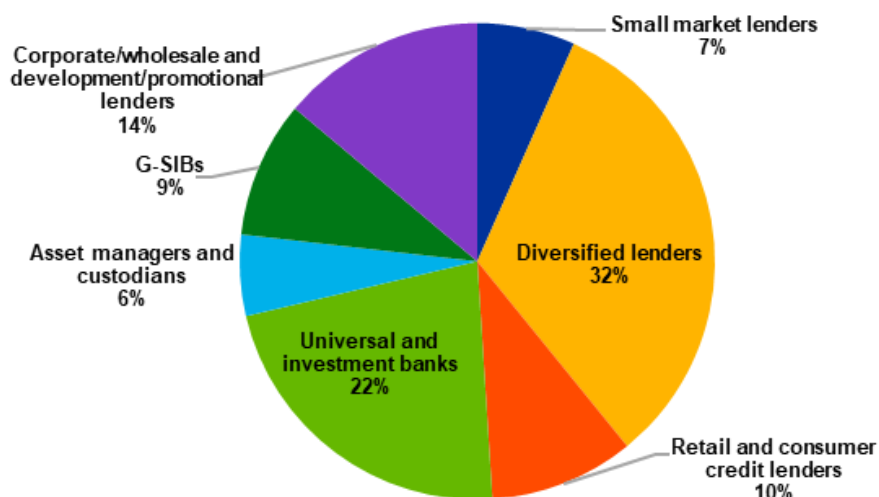
4.2 Distribution of qualitative measures

Chart 14 shows a breakdown by business model of qualitative measures issued during the 2025 SREP cycle. As in previous years, diversified lenders were subject to the highest number of SREP measures in absolute terms, reflecting their status as the largest business model category, with 26 institutions in total. In relative terms, G-SIBs recorded the highest number of supervisory measures per bank, averaging nearly five per bank. Diversified lenders and asset managers and custodians each averaged around four measures. Small market lenders experienced the lowest number of measures, with fewer than two per bank, with the remaining business model categories averaging between two and four measures per bank.

Chart 14

Breakdown of qualitative measures by business model

(percentages)



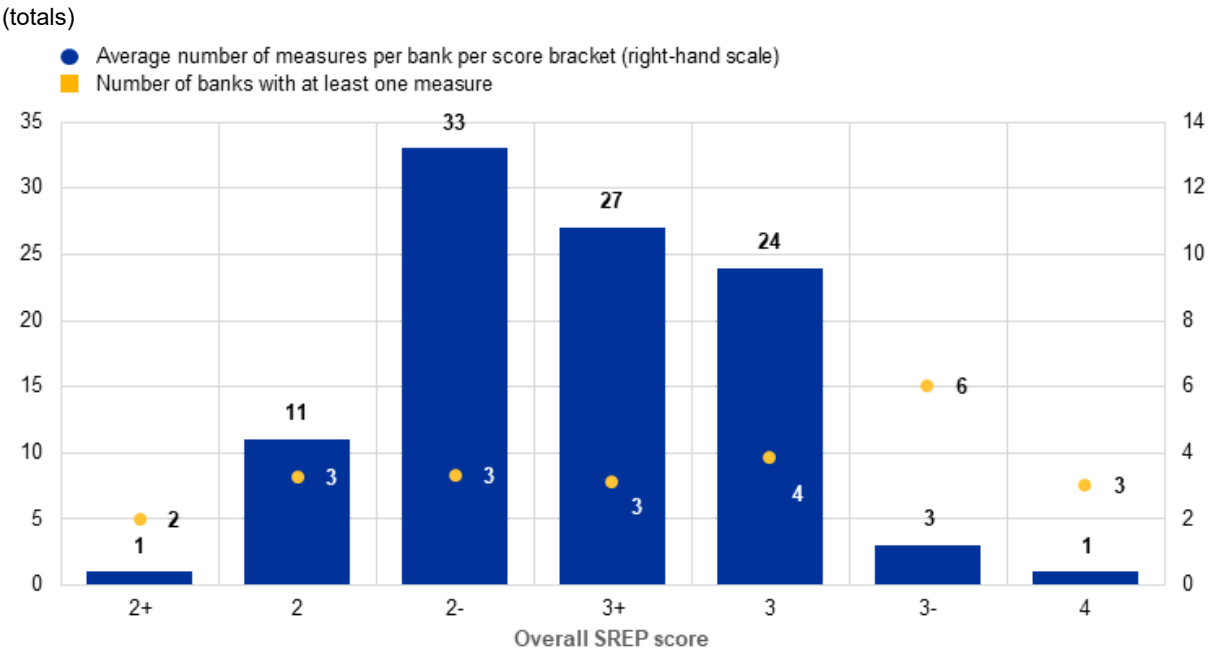
Source: ECB SREP database.

Notes: 2025 SREP values are based on assessments of 105 banks. This chart does not include weaknesses addressed by supervisory measures taken outside of the 2025 SREP cycle. Corporate/wholesale lenders and development/promotional lenders have been grouped together in this chart to preserve statistical confidentiality.

For banks with an overall SREP score of 3-, the average number of measures taken was six (**Chart 15**). A lower average for riskier institutions reflects the fact that these institutions are already subject to the most intensive supervisory engagement. As a result, the focus shifts from introducing new measures to ensuring the timely and effective implementation of existing ones.

Further information on qualitative measures is provided in Chapter 5.

Chart 15
 Average number of qualitative measures by overall SREP score



Source: ECB SREP database.
 Notes: 2025 SREP values are based on assessments of 105 banks. There are no banks with an overall SREP score of 1. This chart does not include weaknesses addressed by supervisory measures taken outside of the 2025 SREP cycle.

5 Detailed analysis

5.1 Element 1 – Business model

5.1.1 Key messages

Since interest rates began to increase in 2022, bank profitability in the euro area has benefited, reaching a new high in 2024. In the first half of 2025, profitability increased yet again. As in the previous SREP cycle, the burgeoning profits and higher revenue generation capacity, coupled with strategic improvements, were the main drivers behind the 18% of business model SREP scores that improved in the 2025 SREP cycle, clearly outweighing the 4% of scores that had deteriorated. In the 2025 SREP cycle, the average business model score was 2.4, as compared with 2.5 in the 2024 SREP cycle.

Over the past few years, banks’ profits have increased considerably thanks to the higher interest rate environment, whereas the gradual normalisation of monetary policy in 2024 led to less marked increases in profitability. In 2024 the aggregate return on equity of banks directly supervised by the ECB rose by 0.2 percentage points with respect to 2023, reaching 9.5%. Banks’ aggregate return on assets rose from 0.6% to nearly 0.7% year on year. As in 2023, the increase in 2024 was driven by higher core revenues. The year-on-year NII grew by 2.6%, whereas in 2023 the growth rate was 19.7%, resulting from the gradual decline in interest rates. Since the second half of 2024, NII had growth started to slow down amid indications of interest margins contracting.

Overall, banks' profits in 2025 are expected to be affected by a stabilisation in NII above the past low interest rate levels and, albeit to a lesser degree, by an increase in the cost of risk. In the first half of 2025, the decline in NII was partially offset by lending growth and interest margin management. The aggregate net fee and commission income (NFCI) regained momentum and grew to stand at 8.9% compared with the previous year, and the net trading and investment income (NTII) rose by 26.3% year on year. This in turn increased the significance of the NTII-to-total operating income ratio (8.7%); that said, NFCI (28.7%) and, above all, NII (55.9%) remain the main sources of income^[4]. These positive trends continued throughout the first half of 2025.

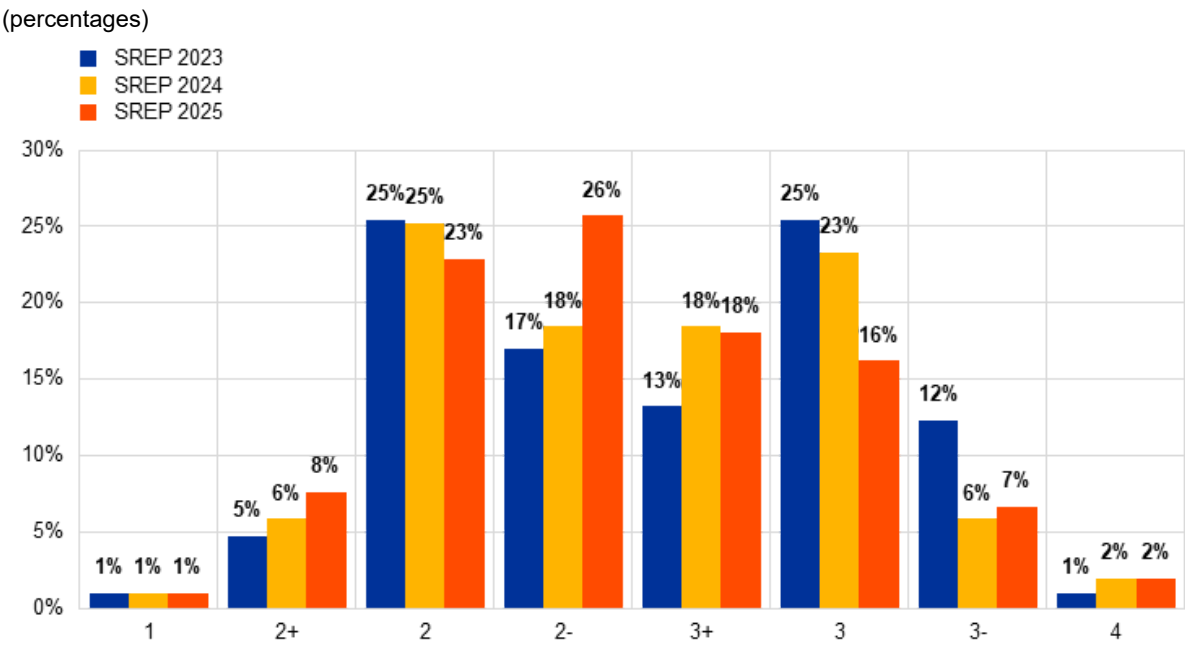
Overall expenses went up by 2.5%, slightly less than in 2023 but in line with the euro area annual inflation level of 2.4%. This rise was mostly driven by an increase in staff and other administrative expenses. Therefore, the cost-to-income ratio improved compared with 57.0% in 2023, falling to 54.9% in 2024 and remaining largely stable in the first half of 2025.

In the 2025 SREP cycle, score improvements were driven by a combination of cost efficiency, growth in net income flows, namely NFCI and NTII, as well as strategic initiatives such as mergers and acquisitions, portfolio disposal, and portfolio restructurings. Moreover, banks benefited from enhanced risk management frameworks to steer their business model risk and digital transformation, but the pace of adaptation varied across banks. Although banks continued to show high levels of profitability, supervisors remained cautious about the sustainability of banks' business models given the slowdown in NII, which affected the degree of recognition of these improvements in the scores.

Against the backdrop of an uncertain macroeconomic and geopolitical environment, the sustainability of banks' business models continues to face challenges in terms of execution risks. In some cases, those relate to ambitious strategies, reliance on concentrated income sources and exposure to market volatility. A few score downgrades took place owing to weaknesses in business planning, cost challenges and deteriorating business (**Chart 16**).

Supervisory measures in the 2025 SREP cycle addressed shortcomings primarily in the areas of strategy, including its governance, and cost, including its allocation and the review of the cost base.

Chart 16
Element 1: Business model SREP scores



Source: ECB SREP database.
Note: 2023 SREP values are based on assessments of 106 banks; 2024 SREP values are based on assessments of 103 banks; 2025 SREP values are based on assessments of 105 banks.

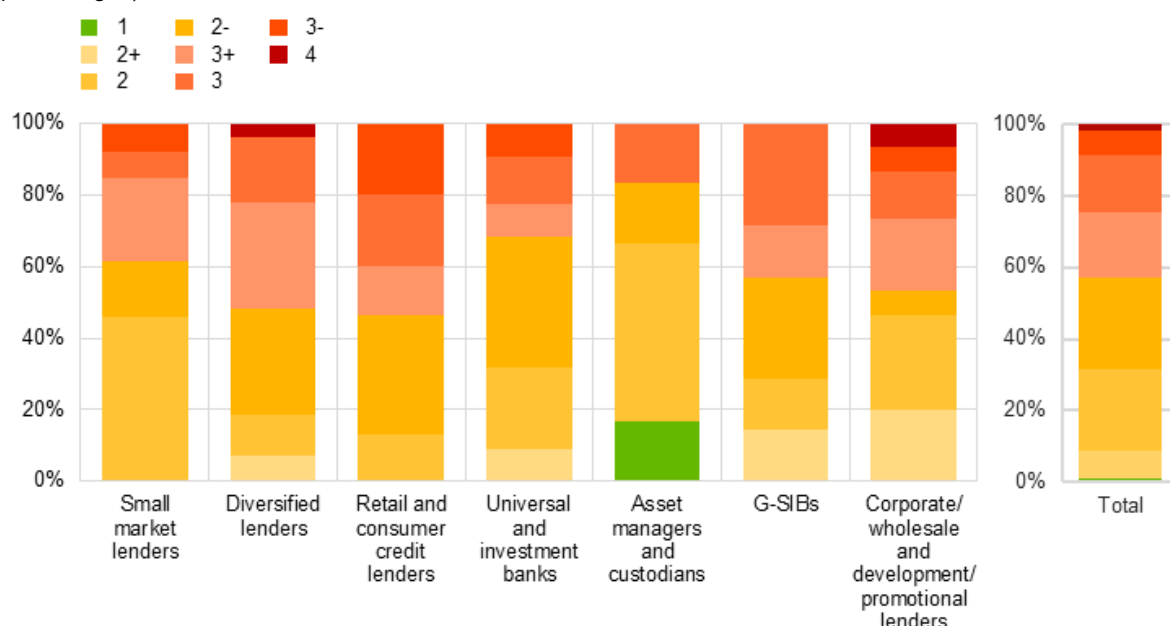
5.1.2 Breakdown of SREP scores by business model

Chart 17 shows the breakdown of SREP scores by business model across banks with different types of business model.

Chart 17

Breakdown of business model SREP scores by business model

(percentages)



Source: ECB SREP database.

Notes: 2025 SREP values are based on assessments of 105 banks. Corporate/wholesale lenders and development/promotional lenders have been grouped together in this chart to preserve statistical confidentiality.

The key observations when comparing peer groups in the 2025 SREP cycle were as follows:

- For G-SIBs, NII increased only slightly, whereas NFCI and NTII were the main contributors to the operating income increase of 6.9%. Operating expenses grew at a slower pace than operating income, showing cost discipline. For French banks, NII growth remained a challenge despite some signs of regional rebounds. While, for some banks, positive drivers were through-the-cycle resilient performance, good cost efficiency and operational scalability, for others, delivering on cost efficiency and cost rationalisation and bringing down operational complexity will be crucial for their business model sustainability going forward.
- Universal banks benefited further from the favourable NII environment. NFCI and NTII increased as well. Improvements in business model scores were driven by increased income generation and by maintaining good cost efficiency, as well as delivering on strategic targets. For weaker banks, sustainability was tied to increasing the revenue generation capacity, bringing down operational expenses, delivering on transformation projects, as well as improving strategic steering.
- Diversified lenders' score improvements were attributed to strong growth in NFCI and NII, cost control, delivery on strategic plans and the mitigation of deficiencies in execution capabilities. Score deteriorations were driven by much needed strategic plan updates, weak performance as against peers and developments in NPLs. For weaker banks, high reliance on NII as a source of income,

challenges in real estate exposures, financial planning and strategic steering deficiencies were the focus of attention for business model sustainability.

- Investment bank scores remained largely stable. After significantly rising in the previous year, 2025 saw profitability levels stabilise as NII growth slowed down, whereas NFCI and NTII continued to benefit from the high volatility. Operating expenses grew at a slower rate than operating income, however costs remained high. Executing strategic plans and strengthening forecasting and financial planning, issues of dependency on the parent entity or group network, as well as overreliance on market volatility were key areas of attention for business model sustainability.
- Corporate/wholesale lenders remained the poorest-scoring business model. Profitability improved, largely driven by increases in NFCI and NTII, whereas NII fell slightly owing to interest margin and volume effects. Cost efficiency remained largely unchanged. Score improvements were driven by the mitigation of shortcomings in profitability steering and projections capabilities as well as delivery on strategic steps. Concerns about sustainability were related to overreliance on NII, its concentration in commercial real estate, shortcomings in strategic risk management and projections capabilities.
- Promotional/development lenders remained the best-scoring business model thanks to their low risk and simple business profile. While revenue generation capacity and overall profitability remained almost unchanged, cost efficiency marginally improved.
- Retail and consumer credit lenders continued to improve their profitability on the back of favourable NII. Banks that had improved their scores had benefited from higher NII, enhanced strategic direction and improved risk management, whereas banks with score downgrades had been subject to bank-specific events. Despite contained growth in operating expenses, this peer group had one of the worst scores in cost efficiency. Cost reduction and income diversification remain concerns for business model sustainability.
- Small market lenders continued to exhibit the largest gains in NII thanks to their variable rate portfolios, which were still having a positive effect. This peer group remained the best- performing business model in terms of overall profitability, as well as revenue generation capacity and cost efficiency. However, this peer group was least resistant to inflationary pressures, with operating expenses growing twice as much as operating income. In terms of business model sustainability, additional concerns included vulnerability to lower interest rates, execution capabilities and risk management, forecasting and financial planning, intensifying local competition as well as higher exposure to geopolitical risks.
- Asset managers and custodians remained among the best- scoring business models. Increased volatility positively affected NFCI and NTII, whereas NII decreased. Cost pressures became apparent as growth in operating expenses outpaced growth in operating income. Strategic initiatives to strengthen market positioning, secure growth in clients' asset bases and digital transformation became important for future sustainability of business models amid competitive pressures, market downturns and rising costs.

5.1.3 Profitability

In 2024, the return on equity reached new year-end highs for half of the business models, with the other half experiencing a decline (**Chart 18**). The return on equity reached a peak of 10.1% in the second quarter of 2024, gradually falling in the second half of the year to 9.5%, as compared with 9.3% in 2023. With some exceptions, banks earned their cost of equity on aggregate. Year-end return on assets continued to increase slightly, from 0.6% in 2023 to 0.7% in 2024.

2024 delivered another year of comparatively high profitability, driven by strong operating income, with contained increases in expenses and loan loss provisions. The favourable macroeconomic environment facilitated these results. Supervisory assessments were able to break down the different drivers of profitability and examine the longer-term sustainability of banks' business models in the SREP.^[5]

NII grew by 2.6% year on year, however, it stalled in the second half of 2024 owing to a combination of slightly tighter margins and subdued loan volume growth. As a result, growth in operating income was increasingly driven by non-interest income over more recent quarters. In the last quarter of 2024, the deterioration in return on equity was also partly driven by seasonally high operating expenses and provisions, which were only partially counterbalanced by moderate growth in operating income.

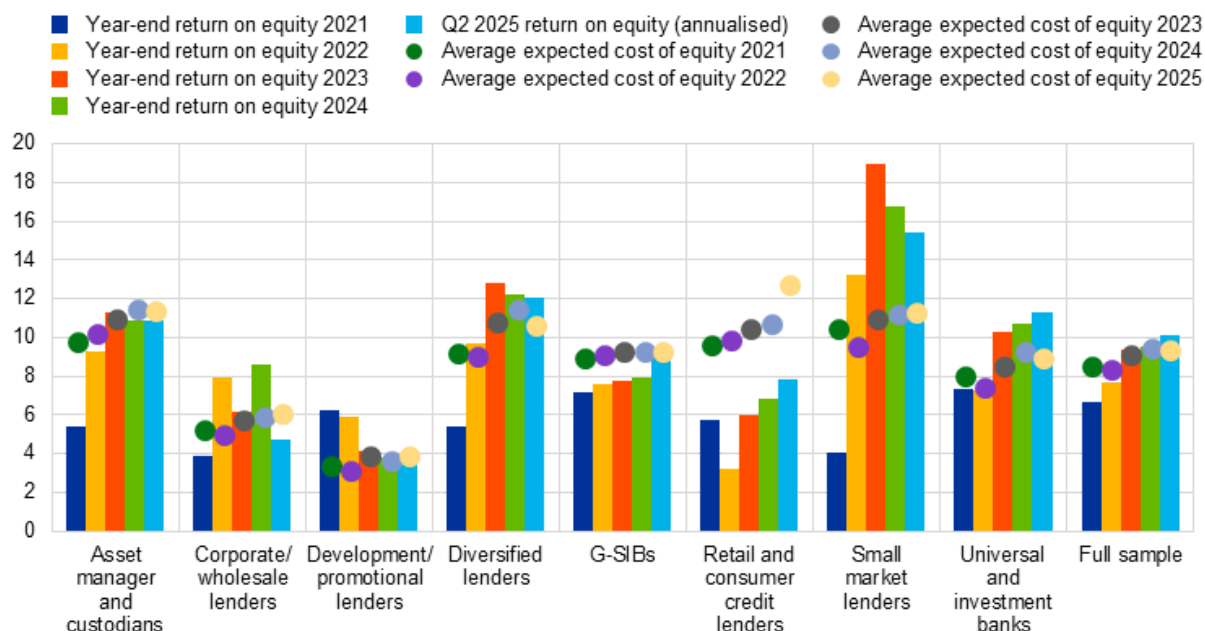
Year on year, NFCI increased by 8.8% in 2024, with strong contributions from asset/wealth management activities. In terms of NTII, there was also an increase by 26.2% as compared with 2023 on the back of increased market volatility.

In the first half of 2025, NII decreased by 2.9% as against the same period in 2024 on account of falling interest rates. This decline was partially compensated by lending growth and interest margin management, as banks shifted their deposit mix towards overnight deposits. NII is expected to have stabilised in the second half of 2025. At the same time NFCI grew by 3.4%, driven by asset management activities and payments services. In terms of NTII, the results in the first half of 2025 picked up by 4.8% on the back of high market volatility. Operating expenses grew by 3.6% in the first half of 2025, but this was slightly below the growth in operating income. Consequently, the aggregated return on equity and return on assets reached 10.1% and 0.7%, respectively, in the second quarter of 2025.

Chart 18

Return on equity and cost of equity by business model

(percentages)



Sources: ECB [supervisory banking statistics \(inglese\)](#) and internal calculations. [Link to ECB Data Portal series](#) on return on equity.

Notes: Weighted average. The sample selection follows the approach of the [methodological note for the supervisory banking statistics \(inglese\)](#). Cost of equity as self-reported by the institutions. Owing to data availability constraints, the sample for the cost of equity comprises a lower number of entities than the sample for the return on equity. The average expected cost of equity in 2025 is based on 93 entities. ECB estimates (based on [established methodologies](#)) indicate a cost of equity which is higher than the self-reported cost of equity.

As shown in **Chart 19**, the year-end 2024 aggregated cost-to-income ratio decreased by 2.11 percentage points to 54.9%, as income grew faster, outpacing growth in operating expenses on the back of positive NFCI and NTII. Operating expenses increased by 2.5% in 2024, with staff costs being the main driver, as the lagged effects from inflation still fed into wages and higher bonus payments.

The cost-to-income ratio has been gradually declining since the last quarter of 2023, with this trend stalling somewhat in the fourth quarter of 2024. This was primarily driven by seasonally higher costs, with quarterly overall expenses rising sharply by 13.6% compared with the third quarter of 2024.

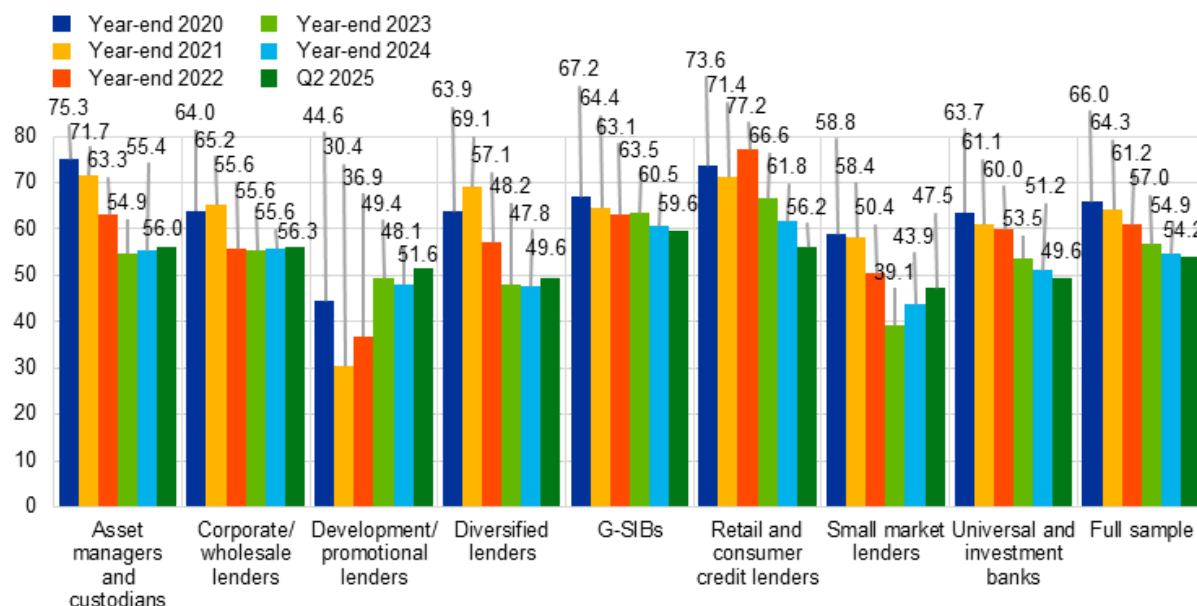
Despite this slight deterioration in the cost-to-income ratio during the last quarter of 2024, by year-end, only asset managers and custodians and small market lenders experienced an increase in their cost-to-income ratios compared with the year-end 2023.

In the second quarter of 2025, the aggregated cost-to-income ratio experienced a slight decline as against the year-end 2024 (54.2% versus 54.9%), indicating some cost containment. However, at the peer group level, multiple peer groups saw some increases in their ratios, which was most pronounced for the small market lenders.

Chart 19

Cost-to-income ratio by business model

(percentages)



Sources: ECB [supervisory banking statistics \(inglese\)](#) and internal calculations. [Link to ECB Data Portal series](#) on the cost-to-income ratio.

Notes: Weighted average. The sample selection follows the approach of the [methodological note \(inglese\)](#) for the supervisory banking statistics.

5.1.4 Digitalisation and new technologies

In 2025, digitalisation remained a supervisory priority. In this context, the 2024 [report \(inglese\)](#) on key assessment criteria and collection of best practices to assess bank's adequacy in steering digitalisation strategies, governance arrangements and risk management has provided input for the supervisory assessments and dialogue on digitalisation and will continue to do so as digital innovation evolves over time.

ECB Banking Supervision is expanding its work on banks' use of innovative technologies, including AI-generated governance and risk management and the digitalisation of key business lines – such as payment and retail activities. This effort is being supported by a series of workshops to gather knowledge about banks' digitalisation profiles and their adoption of innovative technologies (see the [supervisory priorities 2026-28](#)).

The outcome of this work will further inform the supervisory dialogue and help shape the ongoing refinement of supervisory approaches to digital innovation.

5.1.5 Qualitative measures

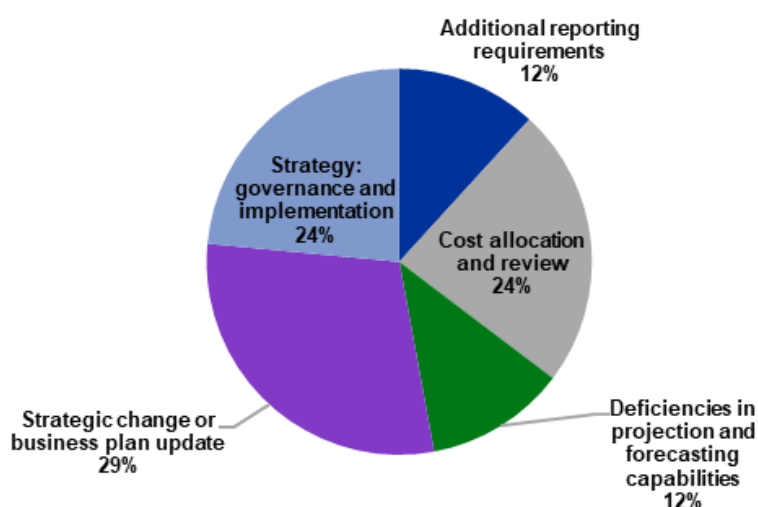
In this SREP cycle, supervisors continued to focus on addressing concerns about banks' business model strategies and their robustness. The qualitative measures (**Chart 20**) related to the need for strategic planning changes or business plan updates (29%) as well as strategic governance and

implementation (24%). The first set of measures expected banks to update their strategic planning to make it more realistic, especially in terms of the pace of execution, and the second set of measures targeted improvements in management bodies' involvement, review and monitoring. Another important category of qualitative measures related to cost allocation and the review of the cost base (24%). The remaining measures related to additional reporting requirements and deficiencies in projections and forecasting capabilities (each measure, 12%).

Chart 20

Detailed breakdown of business model-related measures

(percentages)



Source: ECB SREP database.

Notes: 2025 SREP values are based on assessments of 105 banks. This chart does not include weaknesses addressed by supervisory measures taken outside of the 2025 SREP cycle.

5.2 Element 2: Internal governance and risk management

5.2.1 Key messages

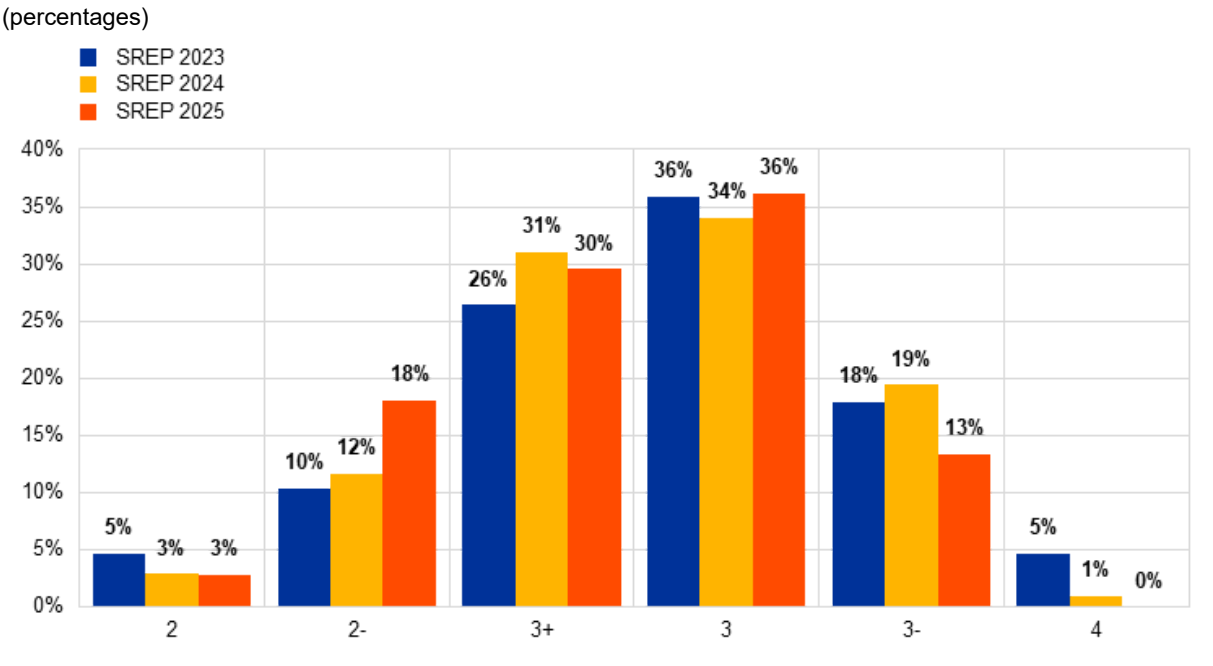
Strong internal governance arrangements and risk management frameworks are a prerequisite for banks to ensure resilience and avoid the accumulation of unchecked risks. This becomes even more important amid an environment of heightened geopolitical and macro-financial risks. Strong internal governance, risk culture and risk management help to support the timely remediation of deficiencies, robust decision-making, and, ultimately, the safety and soundness of banks. Despite the overall progress made in internal governance practices over recent years, further structural enhancements are needed. A strong supervisory focus remains warranted, as weaknesses persist across multiple institutions – particularly in terms of the effectiveness of management bodies, risk culture, and risk data aggregation and risk reporting capabilities.

The main 2025 SREP findings on internal governance and risk management can be grouped as follows:

>

- > In the area of risk data aggregation and risk reporting (RDARR), progress continues to be slow and insufficient. RDARR refers to the ability of banks to effectively manage and aggregate risk-related data. Key remaining issues include a lack of prioritisation at the board level, inadequate data architecture and IT infrastructures, as well as deficiencies in data quality controls. Furthermore, remediation programmes are often insufficient or lacking the necessary ambition to address identified weaknesses (see Section 5.2.3).
- > While improvements were observed in several banks, issues persist in the areas of board composition and risk culture. A lack of specialised knowledge in certain areas such as IT remains a concern, and although banks have made strides in improving diversity, it continues to be a weakness. These issues manifested in the absence of a strong challenging capacity and sometimes weak decision-making.
- > Despite some progress, insufficient resources and expertise continue to hinder the effectiveness of internal control functions in several institutions.
- > As shown in **Chart 21**, the internal governance and risk management scores reflect these ongoing challenges, albeit a positive trend is emerging, with the average internal governance and risk management score improving to reach 2.77, down from 2.83 in the previous year. In 2025, there were more upgrades than downgrades (25% compared with 9%), although the majority of banks still scored in the range of 3 (36%). Specifically, banks scoring 3- dropped from 19% in 2024 to 13% in 2025, and there were no banks that scored 4, as compared with 1% in 2024 and 5% in 2023.

Chart 21
 Element 2: Internal governance SREP scores



Source: ECB SREP database.

Notes: 2023 SREP values are based on assessments of 106 banks; 2024 SREP values are based on assessments of 103 banks; 2025 SREP values are based on assessments of 105 banks. There are no banks with an internal governance score of 1 or 2+. Rounding differences may apply.

5.2.2 Breakdown of SREP scores by business model

Chart 22 shows the breakdown of SREP scores by business model type. Internal governance scores across most business models improved in 2025 compared with the previous year. The most visible progress was seen among retail and consumer credit lenders, where the share of scores 2- and 3+ increased significantly, whereas the share of scores of 3 declined, driven by improvements relating to management bodies, internal control functions and RDARR.

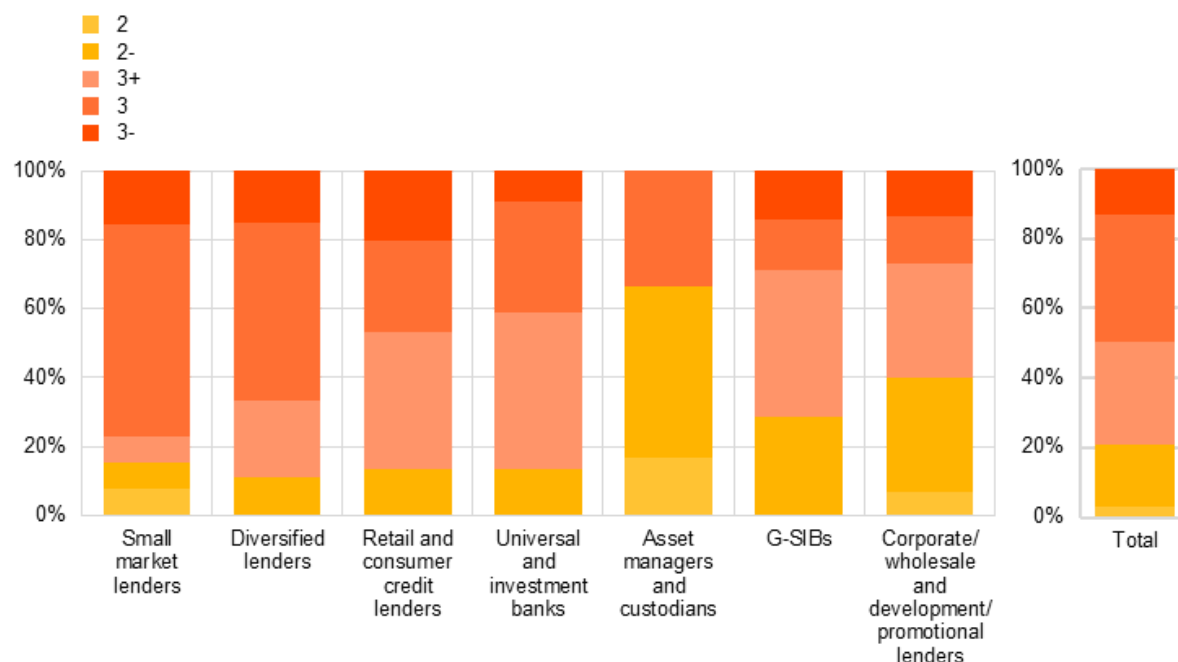
Universal and investment banks, G-SIBs, and corporate/wholesale and development/promotional lenders all recorded improvements, primarily through a decline in the number of 3- scores and a parallel rise in the number of 2- to 3+ scores. Asset managers and custodians, which already performed well in 2024, further strengthened their position. In 2025, none of the institutions in this category received a score of 3- (or worse). For small market lenders, the trend was mixed: while the share of adequate scores (2 and 2-) slightly improved, the share of institutions scoring 3 increased, reflecting a deterioration in the share of institutions that had previously scored 3+.

These developments reflect a modest but consistent improvement in internal governance across banks. The decline in the worst scoring categories underlines the overall convergence towards better standards of good internal governance.

Chart 22

Breakdown of internal governance SREP scores by business model

(percentages)



Source: ECB SREP database.

Notes: 2025 SREP values are based on assessments of 105 banks. Corporate/wholesale lenders and development/promotional lenders have been grouped together in this chart to preserve statistical confidentiality.

5.2.3 Risk data aggregation and risk reporting

RDARR has been a supervisory priority for ECB Banking Supervision over the past few years, as the ability of institutions to effectively manage and aggregate risk-related data is a prerequisite for sound decision-making and strong risk governance. This applies to any data used to steer and manage institutions, both strategically and operationally, as well as data used for risk, financial and supervisory reporting. However, difficulties in terms of data accuracy, integrity, completeness, timeliness and adaptability are still widely encountered, suggesting that many institutions are still focusing more on the cost and implementation challenges of improving their RDARR capabilities, rather than the benefits of remediating long-standing deficiencies in this area.

Against this background, ECB Banking Supervision has undertaken several initiatives aimed at intensifying its supervisory approach to RDARR, such as the publication of the [ECB Guide on effective risk data aggregation and risk reporting \(inglese\)](#) in May 2024 and the 2024 targeted review of RDARR. Moreover, in December 2024, the Supervisory Board approved a new approach to monitoring supervised entities' progress in terms of their RDARR capabilities. This approach was in line with the expectations set out in the aforementioned ECB Guide and the international BCBS 239 principles, which was further reinforced by the 2023 progress report on the implementation of BCBS 239. A system was introduced ensuring a consistent approach to the monitoring of progress made by institutions in remediating observed weaknesses. Focus areas included management accountability for

the oversight and implementation of RDARR, as well as a scope of application, data quality management and IT/data architecture. The objective was to monitor the remediation of supervisory measures over time and to move banks to a “steady state” of continuous monitoring by following a clearly defined remediation and escalation process, using the existing supervisory toolkit where needed.

5.2.4 Risk culture and risk appetite

As part of its focus on risk culture, supervisors conducted a benchmarking exercise between the fourth quarter of 2024 and the second quarter of 2025 to assess the effectiveness of the risk appetite framework across 28 banks. Another purpose to this exercise was to horizontally assess developments in risk appetite frameworks in supervised entities since the 2016 thematic review of risk governance and appetite. A key component of the exercise was to evaluate governance mechanisms for monitoring geopolitical risks and their reflection in the risk identification process and the individual risk appetite frameworks. This exercise was conducted in line with some of the supervisory priorities for [2024-26](#) and [2025-27](#).

The benchmarking exercise followed a risk-based approach and provides the basis for assessing compliance with the ECB’s supervisory expectations. While most banks have established mature risk appetite frameworks that largely cover non-financial and emerging risks and incorporate well-defined escalation processes for limit breaches, there is still room for improvement. Key areas requiring attention include the internal governance process surrounding the risk appetite framework, the effective coverage of some non-financial risks, the alignment between risk identification and risk appetite, the granularity of metrics and limits, as well as the alignment between banks’ strategic processes (e.g. remuneration framework) with its risk appetite framework. ECB Banking Supervision focused on the remediation of these findings and, where applicable, addressed them as part of their supervisory dialogue with the institutions, targeting the most severe findings by means of an operational letter or by escalating them through the SREP.

In the third quarter of 2025, the second part of the benchmarking exercise began, therewith broadening its scope to include around 20 additional significant institutions.

5.2.5 Effectiveness of management bodies

Following the targeted review of management body effectiveness, which began in 2022 and covered 39 banks, ECB Banking Supervision intensified its focus on the remediation of the identified shortcomings regarding the composition and functioning of the boards and board committees, assessing improvements in their challenging capacity and effective oversight. Overall progress is regularly monitored for all banks, but for certain banks, the focus on remediation is more targeted. Progress is monitored through fit and proper assessments, ongoing supervision and on-site inspections and these activities are meant to bring about both feasible and impactful solutions to address the identified shortcomings. It is worth noting that while some findings can be addressed immediately, others are more structural and require more time. Such findings are continuously monitored until remediation is complete.

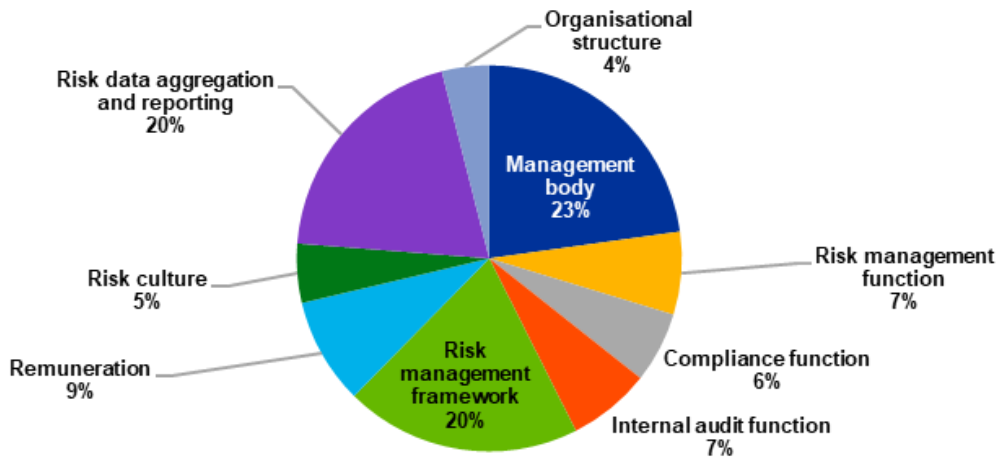
5.2.6 Qualitative measures

In the 2025 SREP cycle, the overall number of new qualitative measures for internal governance and risk management fell, reflecting the focus on key supervisory concerns, the application of the multi-year approach for SREP assessments and the use of alternative supervisory tools, such as follow-up letters, operational letters linked to horizontal activities and dedicated ECB supervisory decisions. Despite this general decline, internal governance remained a key area of attention, ranking second for newly created measures in the 2025 SREP.

Supervisory findings for internal governance remained in keeping with the supervisory priorities for 2025-27, with measures concentrated in three key areas: the management body (23%), RDARR (20%), and the risk management framework (20%). These measures focused on the oversight role of management bodies in their supervisory function, the board and committee compositions and the need for special expertise in certain areas. They also concerned compliance with RDARR expectations and the strengthening of the risk management framework, including addressing potential gaps in the bank’s internal risk framework. Measures to address the risk management function, internal audit function, compliance function, risk culture, remuneration and the organisational structure were less prevalent, accounting for between 4% and 9% of the total new qualitative measures applied to the area of internal governance and risk management (**Chart 23**).

Chart 23
Breakdown of qualitative measures for internal governance and risk management

(percentages)



Source: ECB SREP database.
Notes: 2025 SREP values are based on assessments of 105 banks. This chart does not include weaknesses addressed by supervisory measures taken outside of the 2025 SREP cycle. One qualitative measure can be allocated to several sub-categories.

The ECB is currently assessing feedback received from the industry on its [“Draft guide on governance and risk culture \(inglese\)”](#) and intends to publish the final Guide to include a feedback statement summarising the comments received. As is standard practice, the ECB has closely aligned its guide with the guidelines of the European Banking Authority to ensure that it reflects the current review of the

[EBA's Guidelines on internal governance under Directive 2013/36/EU](#). The “[ECB guide on governance and risk culture \(inglese\)](#)”, including a set of good practices that may help banks to improve in specific areas, will not introduce new legal obligations beyond existing legislation but will rather interpret and clarify the ECB's understanding of the existing framework in order to enhance transparency and consistency.

5.3 Element 3 – Block 1: Credit risk

5.3.1 Key messages

In 2025, 25% of credit risk scores changed (**Chart 24**), with 60% of these being upgrades, reflecting improvements in certain portfolios and tangible progress by some institutions in remediating shortcomings in their credit risk management frameworks. However, the average credit risk score improved only marginally, owing to i) ongoing challenges in the asset quality across different portfolios and regions and ii) persistent deficiencies in credit risk management frameworks for some institutions that outweighed the aforementioned improvements.

This marginal improvement reflects both positive and negative trends. On the positive side, banks in jurisdictions with historically high NPLs, particularly in southern Europe, continued to dispose of/sell off their legacy NPLs through sustained effort, thereby contributing to an improvement in credit risk scores for some institutions. Additionally, the continued resilience of households, supported by record-low unemployment, rising incomes and declining interest rates, bolstered asset quality in retail portfolios, particularly in the residential real estate segment. Moreover, progress was observed for some institutions in closing supervisory findings and refining their provisioning processes, reflecting broader improvements in their credit risk management frameworks.

These positive developments were partly offset by persistent challenges in the commercial real estate sector – an area in which, while showing signs of overall stabilisation, saw conditions worsen for some institutions. Structural issues such as remote working, climate-related and environmental (C&E) considerations and price adjustments in non-prime office spaces continued to weigh on asset quality, particularly in jurisdictions with historically low NPLs such as Germany, Austria, Estonia and Luxembourg. Moreover, SME exposures remained a source of concern, as corporate insolvencies, while stabilising, remained elevated as compared with pre-pandemic levels, particularly for highly leveraged firms and export-oriented sectors (e.g. automotive, chemical, pharmaceutical) affected by geopolitical risks and trade tensions.

Furthermore, ECB Banking Supervision intensified its scrutiny of portfolios with pockets of increased risk, for example in the commercial real estate sector and in small and medium-sized enterprises (SMEs). Supervisors actively followed up on the remediation of deficiencies, including persistent refinancing risks driven by elevated interest rates and declining market valuations, which were already highlighted in last year's targeted review of commercial real estate lending. Persistent concerns about SME portfolios relate to outdated financial data, frequent rating overrides, and unclear risk identification criteria that undermine risk assessment quality. Tailored operational letters were sent to banks, with the vast majority of the measures being due by end of 2026.

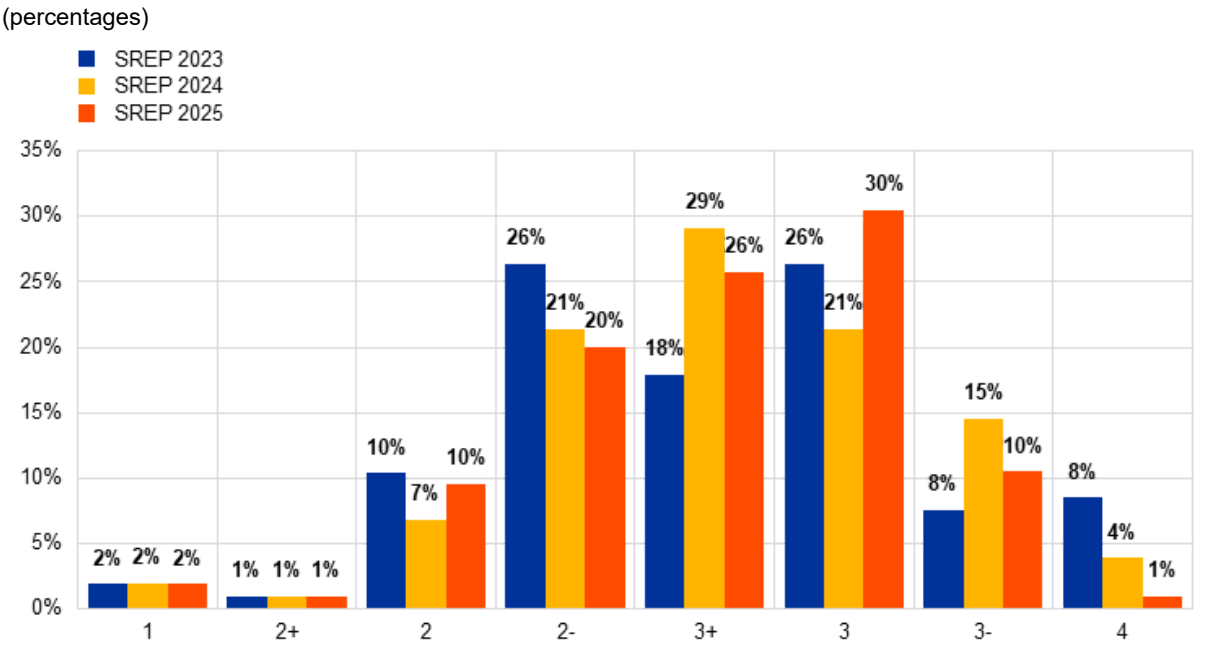
ECB Banking Supervision also continued to prioritise the remediation of deficiencies in other areas of banks' credit risk management frameworks, including IFRS 9 provisioning practices. In 2024, supervisors conducted targeted follow-ups to ensure banks had appropriately captured novel risks,

such as geopolitical instability and climate change, in their provisioning.^[6] While most institutions had significantly improved, a minority still revealed severe shortcomings. For these institutions, the ECB has deployed escalation measures, including the imposition of specific provisioning requirements under the SSM Regulation, to ensure full compliance.

In addition, ECB Banking Supervision actively followed up on deficiencies identified in previous targeted supervisory activities, including reviews of forbearance practices, unlikely-to-pay exposures, commercial real estate, counterparty credit risk and internal ratings-based models, with a focus on ensuring robust internal governance and alignment with international standards.

The outcomes of these supervisory activities informed the 2025 SREP and will continue to shape the SREP assessments in subsequent cycles.

Chart 24
Element 3: Credit risk SREP scores



Source: ECB SREP database.
Notes: 2023 SREP values are based on assessments of 106 banks; 2024 SREP values are based on assessments of 103 banks; 2025 SREP values are based on assessments of 105 banks.

5.3.2 Breakdown of SREP scores by business model

Despite differences in credit risk score distributions across business models (**Chart 25**), overall, year-on-year scores remained broadly stable.

- The credit risk profile of G-SIBs improved the most across supervised entities (from 2.7 in 2024 to 2.5 in 2025). This improvement was largely attributable to enhancements in credit risk governance and overall risk control frameworks through noticeable progress in the remediation of past supervisory findings, particularly those related to IFRS 9. This improvement was further

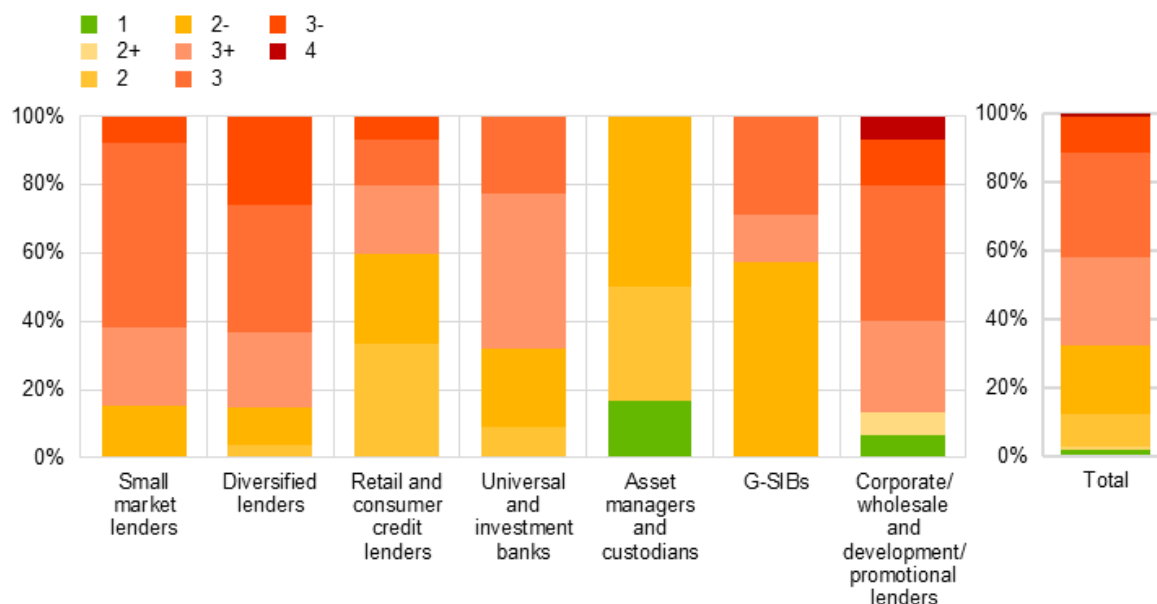
underpinned by a resilient risk level, thanks to well diversified portfolios and good asset quality metrics compared with their peers.

- Small market lenders was the business model with the second largest improvement (from 2.9 in 2024 to 2.8 in 2025). This was mainly driven by better IFRS 9 staging practices and improvements in NPE management, along with effective loan origination and loan monitoring processes. As a result, some banks were able to reduce their stock of NPLs and bolster their overall coverage of such exposures.
- Corporate and wholesale lenders, the score of which significantly deteriorated last year due to their exposure to commercial real estate (from 2.6 in 2023 to 3.2 in 2024) marginally improved this year (from 3.2 in 2024 to 3.1 in 2025). This was achieved through better NPE strategies and risk appetite frameworks, improved loan origination processes and progress in implementing IFRS 9 and sound provisioning practices. However, their risk level remained elevated, with several banks experiencing increasing NPL ratios, some of which in Stage 2, at the same time as facing considerable challenges from high exposure to commercial real estate. For some banks, challenges also emerged from exposure to the automotive sector and to highly leveraged segments. These challenges were exacerbated by the vulnerability of these portfolios to rising geopolitical and macroeconomic uncertainties. Overall, corporate and wholesale lenders continued to have the worst average credit risk score among all peer groups.

Chart 25

Breakdown of credit risk SREP scores by business model

(percentages)



Source: ECB SREP database.

Notes: 2025 SREP values are based on assessments of 105 banks. Corporate/wholesale lenders and development/promotional lenders have been grouped together in this chart to preserve statistical confidentiality.

5.3.3 Asset quality and geopolitical risks

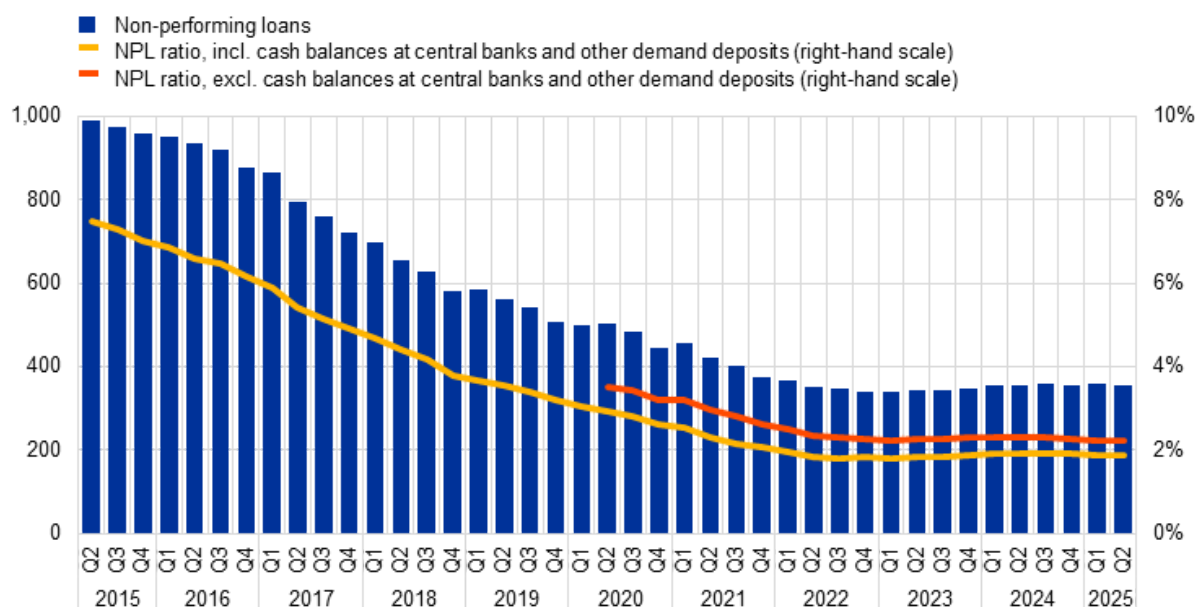
Asset quality dynamics remained broadly stable, albeit with differences across countries and asset classes. The stock of NPLs marginally increased over the past year, driven by net inflows in the consumer and SME loan segments. As at the second quarter of 2025, the NPL stock (excluding cash and advances at central banks and other demand deposits) stood at 356 billion, resulting in a marginal year-on-year increase of 0.10%, or 0.36 billion as compared with the second quarter of 2024. The NPL ratio of euro area banks remained largely stable compared with last year and close to its historical low of 2.2% in the second quarter of 2025 (**Chart 26**). This improvement was largely attributable to the increase seen in loan volumes for supervised entities/significant institutions, particularly in countries where economic conditions were more favourable and where the long deleveraging phase was drawing to an end.

However, diverging trends emerged in 2024, with some countries with historically low NPL ratios experiencing increases in NPL stocks, and some countries with historically high NPLs continuing to report net outflows, mainly as a result of disposals and write-offs of their NPLs.

Chart 26

Non-performing loans held by banks

(volumes in EUR billions; ratio as a percentage)



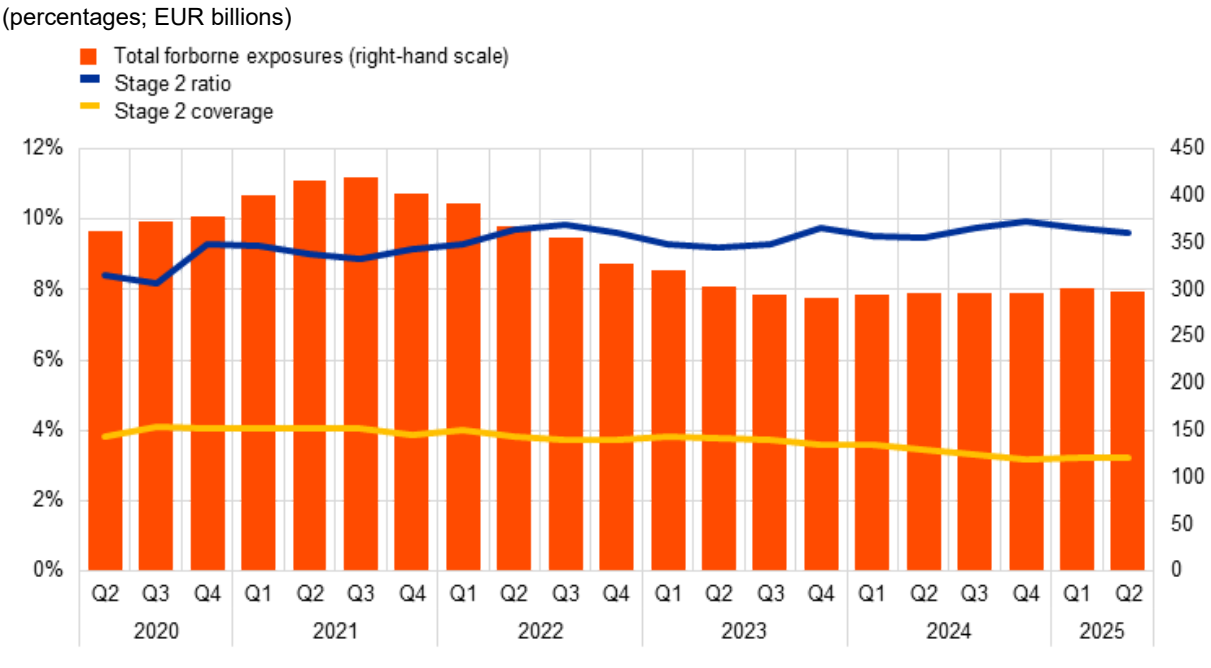
Source: ECB [supervisory banking statistics \(inglese\)](#). [Link to ECB Data Portal series](#).

Notes: NPL ratio as a weighted average. The sample selection follows the approach of the [methodological note for the supervisory banking statistics \(inglese\)](#).

Stage 2 loans and advances^[7] marginally increased, from 9.5% in the second quarter of 2024 to 9.6% in the second quarter of 2025, remaining elevated compared with the pre-pandemic level of 8.41% in the second quarter of 2020 (**Chart 27**). The coverage ratio of Stage 2 loans currently stands at 3.2%, remaining at a historical low, with a year-on-year decrease of 0.26 percentage points. Furthermore,

total forborne exposures reversed their gradual decline, now standing at €299 billion, reflecting a marginal increase of 0.9% compared with the last reference period in the second quarter of 2024.

Chart 27
Stage 2 ratio, Stage 2 coverage and total forborne exposures



Source: ECB [supervisory banking statistics \(inglese\)](#). [Link to ECB Data Portal series](#).
Notes: Weighted average. The sample selection follows the approach of the [methodological note for the supervisory banking statistics \(inglese\)](#).
Stage 2 ratio and Stage 2 coverage data are available under the ECB Data Portal as of the second quarter of 2020.

As part of the supervisory priorities 2025-27, ECB Banking Supervision continued to place significant emphasis on the review of credit risk management frameworks, driving a range of targeted supervisory activities aimed at strengthening banks’ risk management practices.

Over the past few years, addressing deficiencies in IFRS 9 provisioning frameworks was one of the key areas of attention for ECB Banking Supervision. The project on IFRS 9 overlays and novel risks coverage began in 2022 with two consecutive in-depth evaluations and was followed by an extended remediation phase. The purpose of the targeted follow-up review of collective IFRS 9 provisions was to understand how supervised banks captured novel risks, including geopolitical and climate risks, in their provisioning frameworks. In 2024, ECB Banking Supervision had noticed that some supervised entities were still a long way from considering all reasonable and justifiable information, including that which was forward-looking, as required under IFRS 9.

The ECB therefore continued to follow up with greater intrusive scrutiny on banks that did not comply with the supervisory expectations regarding IFRS 9 provisioning for novel risks. Supervisory attention was turned towards examining remedial measures that these banks had undertaken to address deficiencies. This targeted review showed sound improvements, with the large majority of banks

complying with the measures under the targeted review and only a minority of banks still revealing severe deficiencies. The considerable level of compliance achieved indicated the success of continued and persistent ECB supervisory measures. In response to remaining deficiencies, escalation measures were designed and are still being applied. Those measures included requiring banks to apply a specific provisioning policy, in line with the ECB's supervisory powers under the SSM Regulation.

Going forward, the ECB will emphasise prudent risk-taking and sound credit standards to prevent the emergence of future NPLs by focusing on banks' underwriting standards. As part of the latest update of the supervisory priorities 2026-28, the ECB will perform a system-wide analysis to better understand banks' lending standards, in line with the [EBA Guidelines on loan origination and monitoring](#), building on the 2019 exercise^[8]. This exercise will involve a data request in 2026 to identify the key portfolio trends, best lending practices, and possibly, any banks that require further scrutiny. Priority areas for further follow-up, together with the relevant remediation measures, will be integrated into the off-site and on-site planning cycles in 2027 and 2028, for example with targeted on-site inspections at banks with persistent deficiencies or with larger on-site campaigns for priority areas. For institutions with issues in loan pricing or cost management, additional reviews will assess whether lending practices are in- keeping/line with sustainable profitability goals.

5.3.4 Vulnerable sectors

While the banking sector has appeared broadly stable, supervisors continued to take into account issues such as geopolitical risks and the associated macroeconomic developments. For ECB Banking Supervision, strengthening the ability of banks to withstand immediate macro-financial threats and severe geopolitical shocks has been a key priority since 2024. In this context, portfolios exposed to the commercial real estate sector continued to be highly vulnerable, as had been the case since the start of the pandemic. In addition, portfolios exposed to SMEs, consumer loans and the automotive sector faced sector-specific pressures stemming from the broader geopolitical uncertainty. These vulnerabilities could still undermine credit quality and increase NPLs in certain banks of certain regions.

Some institutions continued to experience increasing numbers of NPLs originating from exposures to the commercial real estate sector. Following years of growth in both exposure to the sector and commercial real estate revaluations, supported by the prior low-interest rate environment, the commercial real estate sector was subject to a broader structural shift following the pandemic. First, the working pattern significantly changed towards more remote working, and second, elevated inflation resulted in rising borrowing costs and an associated refinancing risk following the tightening of monetary policy through interest rate increases. Currently, the market is still affected by structural challenges, particularly in the office space segment, these include challenges regarding remote working, C&E and downward price adjustments for non-prime office spaces. This has put pressure on banks more exposed to the commercial real estate sector, such as Austria, Germany, Luxembourg and Estonia.

Given these vulnerabilities, since 2022, supervisory efforts have focused on increased monitoring and management of banks with significant commercial real estate exposures. A targeted review of exposures to the commercial real estate sector was conducted in 2022 to identify potential vulnerabilities stemming from the aforementioned post-pandemic structural changes, particularly in the office space and retail segments. Supervisors continued to actively follow up on deficiencies identified

in this review and in on-site campaigns, with dedicated operational acts or qualitative measures being applied in the SREP.

Going forward, SMEs face challenges stemming from geopolitical developments, sectoral risks, elevated costs and the transition to a green and digital economy. Political and macroeconomic uncertainty continued to drive economic sentiment downwards, with tariffs and trade barriers impacting business activity. Sectoral challenges persist, with heightened economic risks in commercial real estate, trade, construction and high-energy manufacturing. High costs also remain a concern, as rising interest rates increased borrowing costs. Finally, the transition towards sustainability and digitalisation may lead to higher investment costs and an increased risk of losing competitiveness. Nevertheless, the quality of SME and consumer loans deteriorated only slightly. However, due to their higher cyclical sensitivity, banks currently face the prospect of a further decline in the credit quality of their SME and consumer loan portfolios amid an uncertain economic environment on account of geopolitical shocks.

Given this heightened vulnerability, supervisory activities concentrated managing portfolios for SMEs. Governance deficiencies emerged, as some banks did not collect up-to-date or comprehensive financial information from their SME clients, resulting in concerns about the accuracy of risk assessments. With regard to ratings, the frequent use of overrides in SME credit risk models, coupled with unclear credit risk frameworks and inconsistent practices, undermined their reliability. Similarly, the criteria for identifying high-risk debtors were unclear in some cases and watch-lists were not reviewed with sufficient regularity to address emerging risks. While some banks identified certain “vulnerable SME sectors”, this factor was rarely integrated into proactive and effective risk management strategies, limiting their practical use. Tailored operational letters were sent to several banks about this issue and the related remediation measures extend to 2026.

Furthermore, the automotive sector faced significant obstacles as a result of the costly transition to low-carbon technologies, stagnating new car purchases and registrations, as well as rising competition from the emerging markets. Going forward, these pressures may affect the EU banking sector, as banks with high exposure to the automotive industry could encounter a deterioration in the creditworthiness of their borrowers. ECB supervisors will continue to engage with banks to ensure strong risk management of vulnerable portfolios and will impose supervisory measures as they see fit.

In addition, as shown in the results of the 2025 stress test of euro area banks^[9], the ability of institutions to model sectoral vulnerabilities is key for sound risk management. The pandemic in 2020 and the energy crisis in 2022-23 demonstrated that it is essential for banks to be able to quantify emerging risks, including climate and nature-related risks, at the sectoral level and in a forward-looking manner. The results demonstrated that limitations still existed in banks’ internal models with regard to capturing sectoral vulnerabilities. Around half of the participating institutions lacked internal models for specific sectors, relying on basic sensitivities, with significant variations in terms of the model quality and scope across banks.

Finally, these stress test results illustrated that the use of model overlays for provisioning in the past few years has been common practice among institutions, but while the use of overlays might be necessary, banks still had further scope for improvement in terms of their quantification and implementation.

5.3.5 Qualitative measures

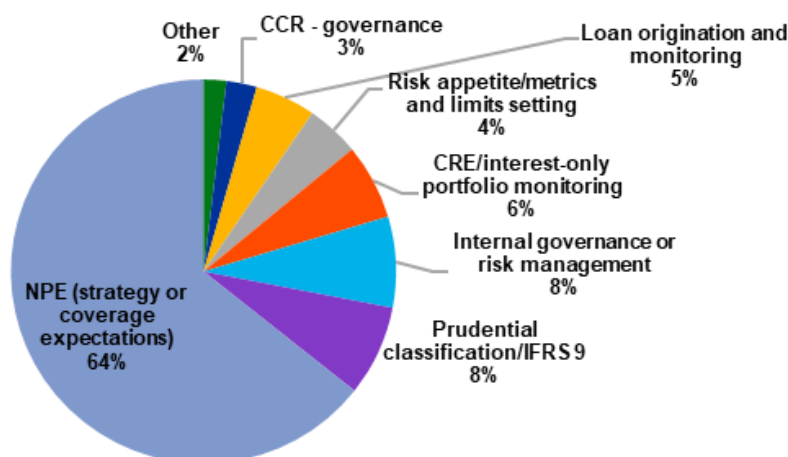
In this SREP cycle, supervisors addressed bank-specific concerns about credit risk management by applying 139 qualitative measures to 90 banks across all business models (**Chart 28**). Consistent with last year, most qualitative measures (64%) focused on the strategic and operational planning surrounding the level of NPLs for banks with high NPLs, the supervisory expectations for NPL coverage and the related reporting. There was a slight rise in the qualitative measures requesting banks to monitor specific portfolios more rigorously, such as commercial real estate or interest-only mortgage portfolios, as well as the prudential classification of loans and IFRS 9 compliance (8% compared with 5% last year). However, there was a notable decline in qualitative measures for internal governance and risk management (8% compared with 15% last year). Finally, no new qualitative measures were introduced for internal models or ICAAP this year, compared with 7% in the previous year.

In line with the 2025-27 supervisory priority to address shortcomings in credit risk management frameworks, JSTs issued qualitative measures to cover aspects such as the monitoring and management of specific portfolios, as well as address deficiencies in the prudential classification of loans or shortcomings in IFRS 9 models. Such measures accounted for 36% of the qualitative measures issued, with the rest being about meeting the supervisory expectations regarding NPE coverage.

Chart 28

Breakdown of credit risk-related qualitative measures

(percentages)



Source: ECB SREP database.

Notes: 2025 SREP values are based on assessments of 105 banks. This chart does not include any weaknesses which may already have been addressed by supervisory measures taken outside of the 2025 SREP cycle.

5.4 Element 3 – Capital adequacy

5.4.1 Key messages

Capital adequacy scores remained broadly stable, albeit with several changes in their distribution compared with 2024 (**Chart 29**). Around 70% of banks were assigned the same score as in the previous SREP assessment cycle, while 10% saw their score deteriorate and 20% scored better than in the last cycle. With the SREP assessment methodology having been adjusted, the ICAAP assessment is now integrated as a risk control element under the general capital adequacy assessment.^[10] This change did not have any particular impact on the overall scoring method for capital adequacy.

For the assessment of capital adequacy-related risk levels, supervisors scrutinised institutions' current and forward-looking capital situations. This involved analysing major influential factors, such as banks' planned dividend distributions in combination with the possible related effects on capital planning and on the available and projected capital headroom.

Based on data from the second quarter of 2025, no institution had capital levels below the required sum of overall capital requirements, buffers and guidance (**Chart 30**).

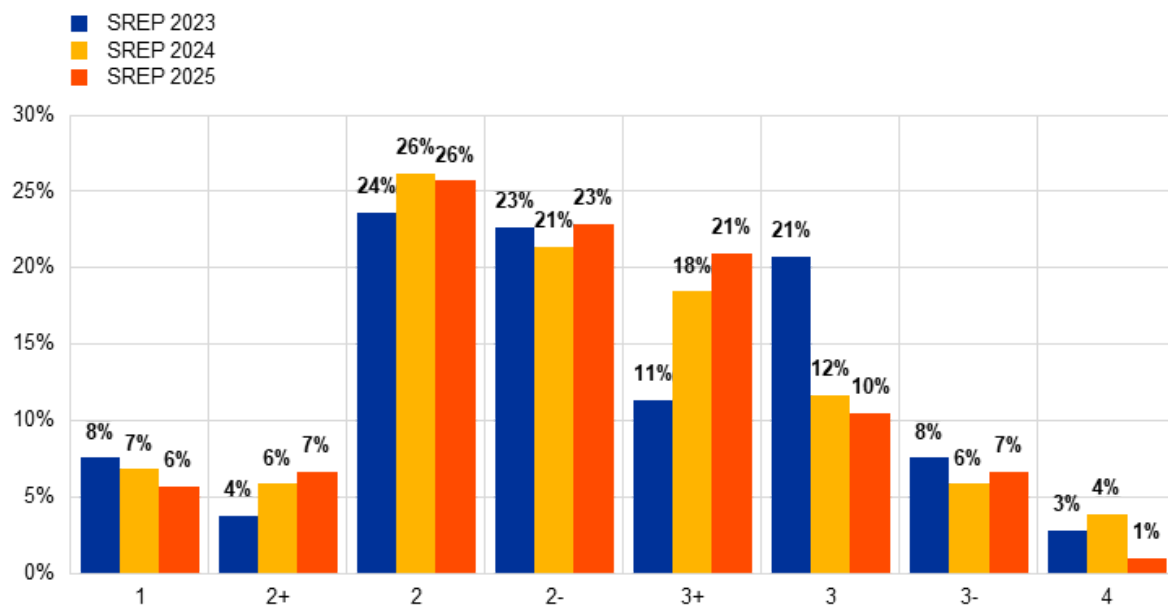
With regard to the ICAAP, supervisors continued to focus on progress in institutions' capital planning. This included assessing capital planning frameworks, processes, capacity and the general quality of these frameworks in the context of ongoing geopolitical and macroeconomic uncertainties. This also took the form of reverse stress testing, which links the ICAAP to banks' recovery plans. In this respect, the 2026 thematic stress test will make significant institutions perform a reverse stress test simulation that is linked to the ICAAP. Based on banks' individual risk profiles, this simulation will show which geopolitical shocks and transmission channels could most severely affect banks' profitability and solvency.

These factors have a major impact on the reliability and timeliness of updates to banks' capital projections, which accentuates the importance of prudent, comprehensive, forward-looking capital plans and banks' overall need to invest in a resilient operational structure that facilitates an effective response in the event of a potential crisis.

Chart 29

Element 3: Capital adequacy SREP scores

(percentages)



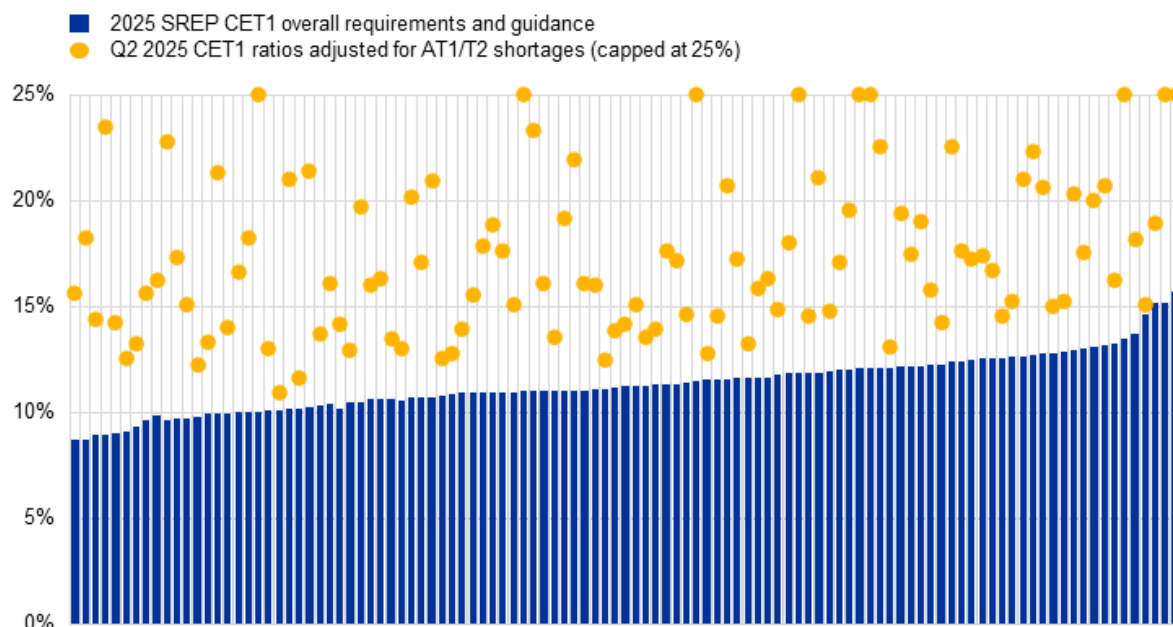
Source: ECB SREP database.

Notes: 2023 SREP values are based on assessments of 106 banks; 2024 SREP values are based on assessments of 103 banks; 2025 SREP values are based on assessments of 105 banks.

Chart 30

CET1 capital headroom against overall capital requirements and Pillar 2 guidance after the 2025 SREP

(percentages)



Sources: ECB [supervisory banking statistics \(inglese\)](#) and ECB SREP database.

Notes: Pillar 2 CET1 requirements in accordance with the published list of P2Rs applicable as at the first quarter of 2026, and Pillar 2 CET1 guidance in accordance with the 2025 EU-wide stress test coordinated by the EBA and the 2025 SREP. CET1 ratios are as at the second quarter of 2025 and are capped at 25%. For systemic buffers (G-SII, O-SII, SyRB) and the CCyB, the levels shown are those anticipated for the first quarter of 2026 and included in the 2025 CET1 requirements and guidance. Each blue line represents a bank's overall capital requirements and guidance as in CET1 capital. CET1 ratios are adjusted for AT1/T2 shortages.

5.4.2 Breakdown of SREP scores by business model

As for the distribution of capital adequacy scores broken down by business model, there is a concentration of scores of 2 and 3 among G-SIBs, small market lenders and retail and consumer credit lenders.

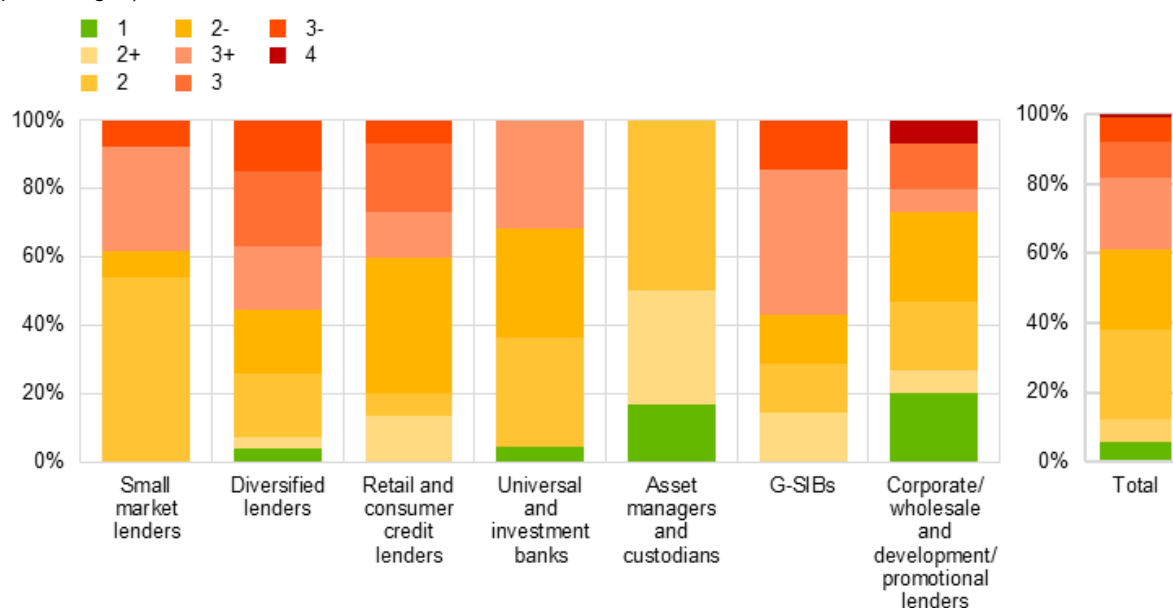
The capital adequacy score of 1 is less frequent and mainly assigned to corporate/wholesale lenders and development/promotional lenders, followed by asset managers and custodians, universal and investment banks as well as diversified lenders.

The capital adequacy score of 4 is assigned to a low percentage of corporate/wholesale lenders and development/promotional lenders.

Chart 31

Breakdown of capital adequacy SREP scores by business model

(percentages)



Source: ECB SREP database.

Notes: 2025 SREP values are based on assessments of 105 banks. Corporate/wholesale lenders and development/promotional lenders have been grouped together in this chart to preserve statistical confidentiality.

5.4.3 Qualitative measures

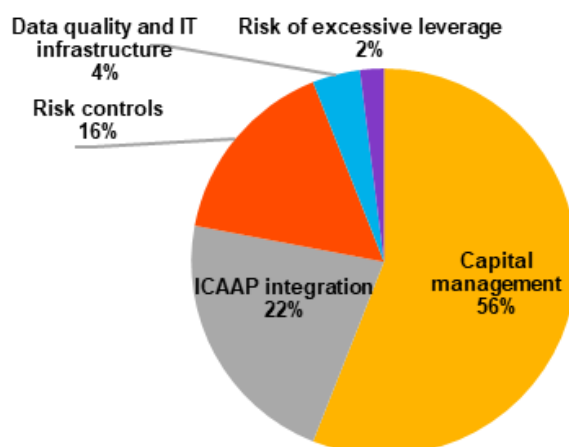
ECB Banking Supervision expressed ongoing concerns about the effectiveness of banks' capital planning frameworks and their ability to generate sufficiently reliable capital projections under both baseline and adverse scenarios as part of the overall ICAAP assessments. Aside from measures pertaining to capital management, including those on dividend policies and distributions and coverage of risks arising from irrevocable payment commitments, supervisors continued to follow up on ICAAP integration and risk controls for the ICAAP, particularly in terms of banks further developing their scenario designs and stress testing.

As set out in the [ECB 2018 ICAAP Guide](#), institutions are expected to continuously improve their ICAAPs and related practices, as these are key factors for effective risk management.

Chart 32

Breakdown of capital adequacy-related qualitative measures

(percentages)



Source: ECB SREP database.

Notes: 2025 SREP values are based on assessments of 105 banks. This chart does not include weaknesses which may have already been addressed by supervisory measures taken outside of the 2025 SREP cycle.

5.5 Other risks

5.5.1 Operational and information and communication technology risk

Operational and information and communication technology (ICT) risk continued to be the SREP category with the worst average score (3), with its ICT risk component being the worst average score of all (3.03).

The banking industry continued to experience ICT-related challenges explained by increasing digitalisation activities, changes in consumer preferences, competition from fintech and an increased reliance on IT outsourcing. These challenges also stemmed from the new DORA requirements that came into effect in January 2025, defining clear and consistent criteria for IT risk management and operational resilience and introducing stricter oversight and accountability measures for critical third-party providers, such as cloud service providers. DORA requires financial institutions to assess and monitor third-party risks, establish clear contractual agreements and maintain strict controls over third-party arrangements.

The assessment of operational risk and ICT risk within this SREP cycle showed that the combined risk scores in this area remained driven by bank-specific factors. Among these, in terms of relative risk weight, ICT (especially due to ICT governance and risk management and ICT security risk) was the main contributor to the operational and ICT combined score, with a growing impact from third-party risk, particularly for asset managers and custodians, owing to their US exposure. On the other hand, operational risk losses were dominant drivers only in the case of extreme tail events. Despite a downward trend in total loss amounts, conduct risk and execution risk still prevailed as the largest total loss contributors.

In line with the supervisory priorities 2024-26, a targeted review of outsourcing was carried out in 2024 to understand the nature and magnitude of banks' risks stemming from outsourcing. The review consisted of an assessment of the outsourcing governance framework and a review of a sample of outsourcing arrangements, including ICT services. It covered ten significant institutions and revealed similar deficiencies to those identified in the 2023 exercise, namely, in the areas of (i) the outsourcing strategy and risk assessment framework, (ii) exit strategies and (iii) business continuity management. The 2025 targeted review on outsourcing, which is the last of the three planned exercises, will cover 13 additional significant institutions. It will assess how well banks have prepared themselves to implement specific DORA provisions for ICT third-party risk management. The outcome of this review will provide JSTs with relevant benchmarks and examples of good practices to support their supervisory activities. At the same time, ECB Banking Supervision will continue to monitor critical outsourcing arrangements. The targeted review on cyber resilience assessed the implementation of essential cybersecurity measures by participating banks. The results identified room for improvement in some banks' cybersecurity posture, such as their vulnerability scanning and testing, their identity and access management, hardening, and network segmentation.

Supervisors also adapted their supervisory toolkit to be fully prepared for the new DORA requirements in January 2025. Implementing the DORA requirements at the ECB involved (i) adjusting the supervisory methodology, (ii) developing a new methodology to incorporate and follow up on findings and recommendations from other supervisory authorities (iii) developing new frameworks to identify significant institutions required to perform threat-led penetration testing and to collect registers of information on ICT third-party service providers, major ICT-related incident notifications and significant cyber threats.

5.5.2 Climate risk

C&E risks remained a key supervisory priority in 2025. Since 2022, ECB Banking Supervision has stepped up efforts to ensure banks effectively identify and manage their C&E risks.

Following a thematic review of C&E risks conducted in 2022, supervised entities were assigned interim deadlines, starting with one in March 2023 to adequately categorise C&E risks and perform a full assessment of the impact on their institutions' activities. As a result, to achieve compliance, 28 binding decisions were issued, with 22 of these including potential periodic penalty payments.

By December 2023, banks were required to incorporate C&E risks into their governance, strategy and risk management frameworks. A 2024 review of these risks showed that by then most banks had established foundational frameworks for managing C&E risks, but significant weaknesses persisted. In the case of nine outliers lacking the foundational elements, the ECB pursued further supervisory measures, including potential periodic penalty payments.

As part of the milestones for final implementation, banks were expected to integrate C&E risks into their ICAAPs and stress testing frameworks by the end of 2024. A few banks had not yet satisfactorily delivered on this. In response, ECB Banking Supervision adopted two binding decisions which envisaged periodic penalty payments in the event of non-compliance.

This year's effort also focused remediating the remaining climate-related shortcomings communicated to banks in previous SREP cycles and ensuring consistency in the supervisory assessments across

institutions. Overall, banks had made solid progress in the follow-up measures, with most severe findings being remediated in line with supervisory expectations. Around half of all measures from the previous SREP cycles have now been remediated. Gaps remain in some cases; these include the full integration of C&E risks into risk management frameworks, into key performance indicators, and into IT systems.

A small number of institutions showed slower progress, particularly in areas such as operational risk linkages and integration into broader risk frameworks.

ECB Banking Supervision continues to support effective supervision of C&E risks through on-site inspections, supervisory dialogue and horizontal analysis. With the implementation of CRD VI, the focus remains on ensuring that banks not only meet formal requirements but embed C&E risk considerations meaningfully into their decision-making frameworks. This involves incorporating the principles of CRD VI to enhance risk management practices and promote sustainable finance. Continued supervisory engagement is foreseen to ensure continuous alignment with such practices, and also with EBA Guidelines, which will come into force in January 2026 for larger institutions. This approach aims to address the evolving landscape of C&E risks and to ensure that banks are well prepared to manage these challenges effectively.

6 Conclusions and outlook

The results of the 2025 SREP cycle continued to showcase the strong resilience of the European banking sector, despite the increasingly challenging global environment and multidimensional geopolitical risks. This was thanks to strong regulation and more efficient supervision, as well the extraordinary fiscal and monetary policy response to recent shocks. Looking ahead, this resilience needs to be preserved to ensure solid support for Europe's real economy and its financial and operational resilience.

Overall, SREP scores, capital requirements and guidance have remained broadly stable over the past year, reflecting both the positive and negative drivers of these scores, as well as the short-term, backward-looking and the long-term forward-looking perspectives in the SREP assessments. On the positive side, the most noticeable improvements were seen in the area of profitability, the continuous decline in NPLs and the progress made in enhancing internal governance practices. On the negative side, the main drivers of the poorer SREP scores included the slowing down of NII and structural cost challenges for certain business models, persisting vulnerabilities in asset quality across some portfolios and regions, long-standing deficiencies in credit risk management frameworks, and the need for further structural reform in areas such as board composition and risk culture, internal control functions and RDARR for internal governance and risk management.

The 2025 SREP outcome has also helped to identify the key vulnerabilities for the euro area banking sector going forward and therefore to inform the decision on the supervisory priorities for 2026-28. These priorities reflect the need for banks to remain resilient in the face of geopolitical shocks and macro-financial uncertainties at the same time as ensuring strong operational resilience and IT capabilities.

Going forward, the SREP reform will continue to advance in 2026, with the main change being the review of the [P2R methodology](#). In addition, a more stable SREP timeline, the further use of the [tiered](#)

[approach \(inglese\)](#) for the follow-up on findings and measures and the expanded use of supervisory tools will complement the progress made in the SREP reform ahead of the 2026 SREP cycle.

© European Central Bank, 2025

Postal address 60640 Frankfurt am Main, Germany

Telephone +49 69 1344 0

Website www.ecb.europa.eu

All rights reserved. Reproduction for educational and non-commercial purposes is permitted provided that the source is acknowledged.

For specific terminology please refer to the [ECB glossary](#) (available in English only).

HTML ISBN 978-92-899-7521-6, ISSN 2811-6887, doi:10.2866/0712756, QB-01-25-268-EN-Q

1.

The NPL ratio referred to across this entire document uses this definition.

2.

All figures shown for the Pillar 2 requirement include NPE and leveraged finance add-ons.

3.

The figure for the Pillar 2 requirement revealed a marginal increase owing to rounding (i.e. from 1.1495% in 2025 to 1.15627% in 2026).

4.

The remaining 7% of total operating income comes from the net gains from hedge accounting, net exchange difference and net other operating income.

5.

See "[Bank profitability: a mirror of the past, creating a vision for the future \(inglese\)](#)", speech by Claudia Buch, Chair of the Supervisory Board of the ECB, at Bocconi University, Milan, 16 October 2024.

6.

See "[IFRS 9 overlays and model improvements for novel risks](#)", ECB, July 2024. [\(inglese\)](#)

7.

Defined under IFRS 9 as loans for which credit risk has significantly increased since initial recognition.

8.

See [Trends and risks in credit underwriting standards of significant institutions in the Single Supervisory Mechanism \(inglese\)](#).

9.

"[2025 stress test of euro area banks - Final results \(inglese\)](#)", ECB, August 2025.

10.

[“SREP methodology for assessing capital adequacy \(inglese\)”](#)

Segnalazioni whistleblowing



SEGUICI SU



Diritto d'autore 2025,
Banca centrale europea