EUROPEAN CENTRAL BANK

BANKING SUPERVISION

LSI supervision report 2026

November 2026



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Executive summary

Like their larger peers, the less significant institutions (LSIs) operating across the euro area have had to navigate an environment marked by high uncertainty over the past two years. This uncertainty was driven, inter alia, by complex geopolitical developments and their direct and indirect effects on the financial system, in addition to rapidly evolving cybersecurity threats. Overall, the LSI sector has shown resilience in the face of these challenges, supported by healthy profitability levels that have enabled the build-up of additional capital buffers and a stable funding situation. However, mounting evidence of increasing risks – both financial and non-financial – warrant a cautious outlook going forward.

This report outlines the structural features of the LSI sector, examines key developments and provides insights into the main supervisory activities undertaken to address the challenges faced by the sector.

The consolidation trend in the LSI sector continued in 2024-2025, particularly among retail banks.

The LSI sector continues to represent a broadly stable share of the euro area banking market, accounting for approximately 15.0% (€4.9 trillion) of total banking assets as at December 2025.[1] Its consolidation progressed at a steady, if slightly slower pace: the overall LSI population declined from 1,917 to 1,808 entities between 2023 and 2025. Mergers of retail banks in the cooperative and savings sector in Germany and Austria – both countries together represent 76% of LSIs by number and 71% of LSI assets – once more accounted for the bulk of the reduction. The granting of new banking licences remained limited and was concentrated in fintech-oriented business models and financial holding companies.

Profitability remained at healthy levels, though it was supported by factors whose replicability going forward is uncertain.

LSIs' profitability has remained comparatively elevated: return on assets (RoA) improved from 0.5% in 2023 to 0.6% in 2025 (compared with 0.7% for SIs), while return on equity (RoE) increased from 4.6% to 5.0% (9.5% for SIs). The key drivers of this development include an increase in net fee and commission income (NFCI) which more than offset a decline in net interest income (NII) impacted by policy rate dynamics, but also several one-off effects with a positive profit and loss (P&L) impact. This warrants a cautious medium-term outlook: LSIs' capacity to continue offsetting reduced NII through increased NFCI, and to manage potential increases in impairments related to recent non-performing loan (NPL) inflows, will be crucial determinants of their profitability over the coming years.

The continued rise in the LSI NPL ratio to 2.9% in Q4 2025 reflects a growing divergence from the trend observed for larger banks (2.2%).

The LSI NPL ratio continued to increase steadily in 2024 and 2025, reaching 2.9% in the fourth quarter of 2025. This marks its highest level since 2020 and a decoupling from the evolution observed for significant institutions (SIs), whose NPL ratio[2] continued its gradual decline, standing at 2.2% as at the fourth quarter of 2025. The underlying developments at country level were heterogeneous, with Austrian and German LSIs accounting for the largest share of recent NPL increases, while the LSI sectors of several other countries registered notable decreases. To

1 If financial market infrastructures (FMIs) were included, the LSI share would increase to 17.6%.

2 Excluding cash balances and other demand deposits.

ensure that LSIs can master future challenges without being constrained by lingering losses on legacy NPL portfolios, the SSM provides for a harmonised approach to the supervisory assessment of their provision coverage, formalised in an ECB Guideline published in December 2025. In the future, LSIs' capacity to develop and implement appropriate strategies to manage these increased NPL levels will be important, especially in the light of potential additional losses on commercial real estate exposures, for example, which could still materialise despite signs of stabilisation in those national markets that have recently experienced downturns.

LSIs' capacity to absorb capital shocks was reinforced, as elevated profits boosted capital ratios to 19.7%.

In light of these challenges, it is reassuring that LSIs' capacity to absorb potential capital shocks has improved: retained earnings enabled an increase in LSIs' total capital ratio of around 60 basis points, to reach 19.7% as at the fourth quarter of 2025 (20.4% for SIs). At the same time, LSIs' capital composition shows a significantly higher share of components of the highest loss-absorbing capacity than the capital composition of SIs (a CET1 ratio of 18.5% versus 16.3% for SIs).

LSIs' funding situation remained stable, with deposit growth offsetting a decline in central bank funding and debt securities.

The overall funding situation in the LSI sector has also remained strong and broadly stable. The growth in deposits over the course of 2024 and 2025 offset the decline in funding from central banks and debt securities. The liquidity coverage ratio (LCR) further improved, albeit slightly, to 223% (159% for SIs) on aggregate. As in other areas, innovation has, however, given rise to some new developments on the funding side that warrant continuous monitoring: online deposit platforms (ODPs) have become a relevant funding source for a growing subset of LSIs, in some cases accounting for over 80% of total deposits. This type of funding-channel concentration can create vulnerabilities which affected LSIs need to address.

LSIs are building up their ICT risk management capacities as cyber threats keep evolving.

The entry into force of the Digital Operational Resilience Act (DORA) reflects a decisive acknowledgement of the increased relevance of ICT risks for banks of all sizes. While LSIs and their third-party providers are gradually enhancing their ICT risk management capacities to meet market expectations and DORA requirements, new threats keep emerging. In April 2026 the announced commercial readiness of advanced large language models (LLMs) capable of exploiting complex software vulnerabilities highlighted how fast cyber threats are evolving and how agile LSIs and their third-party providers must become. In that situation, supervisors across the SSM reacted swiftly, entering into dialogues with all banks and setting clear expectations on the assessment of the potential impacts and the actions banks needed to take.

Expected challenges related to profitability, credit risk and operational resilience are among the top supervisory priorities for LSIs.

The medium-term challenges with respect to profitability, credit risk and operational resilience in the face of cyber threats are reflected in the supervisory priorities set by the ECB and NCAs. These guided the design and execution of a number of SSM-wide supervisory projects and initiatives for LSIs in 2024 and 2025, which are outlined in this report, and will continue to do so as we move forward.

Technical clarification

Please note that the less significant institutions in Member States participating in the Single Supervisory Mechanism (hereafter "SSM LSIs") vary greatly in terms of number, size of assets and business models. This has implications for the comparability of LSI country aggregates. The cut-off date for this report was 18 June 2026 for LSI data unless otherwise stated; any information received after that date may not be fully reflected. The sample of LSIs refers to banks at their highest level of consolidation, excluding branches and – unless otherwise indicated – excluding financial market infrastructures (FMIs). Furthermore, banks that were reclassified from SI to LSI or vice versa between 31 December 2023 and 31 December 2025 have been excluded to achieve consistency from a time-series perspective. For information on supervisory activities, the analysis focuses only on information reported by the national competent authorities (NCAs), bearing in mind that not all the dimensions of these activities can be reflected and different interpretations may apply. Confidentiality rules protecting dissemination of individual bank data are in place.

1 Scope and structure of the LSI sector

LSI account on average for 15.1% of the euro area banking market, but show significant divergence across countries, with market share ranging between 2% and 47%.

The LSI sector continues to enjoy a broadly stable share of the euro area banking market, accounting for about 15.1% (€4.9 trillion) of total banking assets as at December 2025.[3] As in previous years, the share of LSIs' assets in the domestic markets varies significantly, while changes at country level have been caused by relocations, market exits, consolidation and changes of significance status.

Table 1

LSI market shares

Country	LU	DE	BG	MT	AT	HR	PT	EE	SK	IT	IE	FI	SI	NL	LT	LV	ES	GR	CY	BE	FR	SSM
Q4 '25	47%	37%	33%	32%	32%	25%	21%	18%	17%	11%	11%	8%	8%	8%	8%	6%	6%	5%	5%	4%	2%	15%

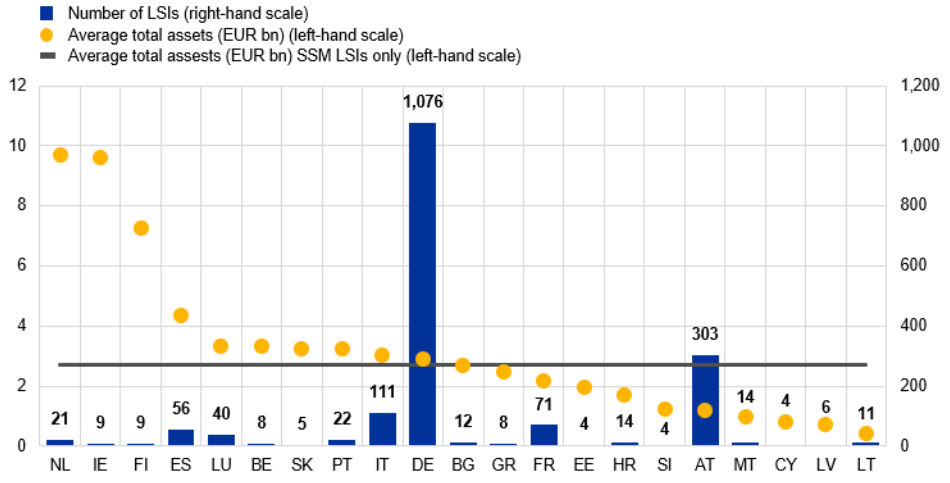
Source: ECB calculations based on FINREP F_01.01, F_01.01_dp.
Note: Data cover SSM LSIs (excluding branches and entities that are not reporting FINREP and COREP) at the highest level of consolidation (excluding FMIs and institutions that were significant between the fourth quarter of 2023 and the fourth quarter of 2025).

Germany dominates the SSM LSI sector, being home to roughly 60% of all SSM LSIs (Chart 1), and consequently has a strong influence on the LSI metrics used in this report. Germany, Austria and Italy together account for 83% of all LSIs and 77% of LSIs' total assets.

Chart 1

Number of LSIs and average size in 2025

(left-hand scale: total assets, EUR billions; right-hand scale: number of LSIs)



Source: ECB calculations based on FINREP F_01.01, F_01.01_dp.
Note: Data cover SSM LSIs (excluding branches and entities that are not reporting FINREP and COREP) at the highest level of consolidation (excluding FMIs and institutions that were significant between the fourth quarter of 2023 and the fourth quarter of 2025).

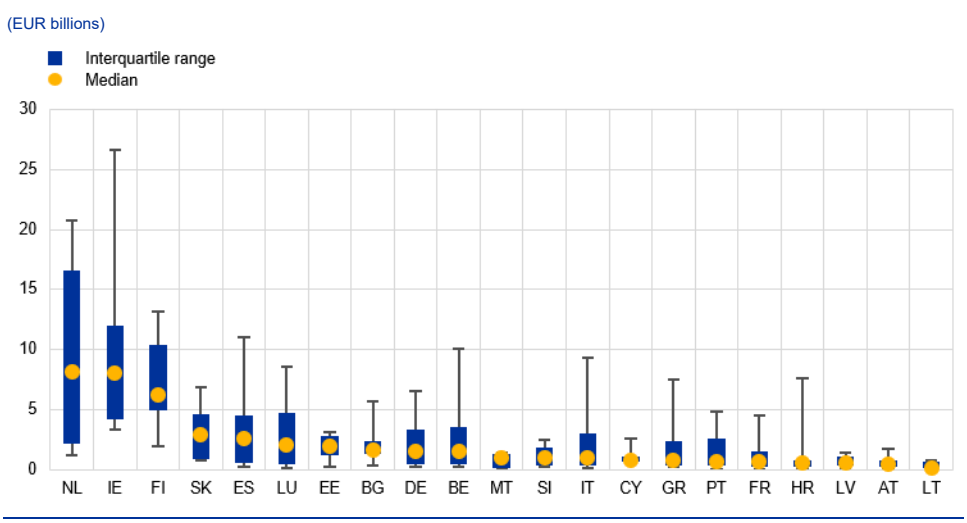
By end-2025 the average LSI held total assets of approximately €2.73 billion (up 11.8% on €2.45 billion in 2023) compared with €249.95 billion for the average SI (up 3.1% on €242.47 billion in 2023). At the same time, the markedly lower median LSI size (€1.1 billion in the fourth quarter of 2025, up from €0.98 billion in the fourth

[3] If financial market infrastructures (FMIs) were included, the LSI sector's market share would increase to 17.6%.

quarter of 2023, while the median SI was €76.7 billion in the fourth quarter of 2025) indicates substantial heterogeneity and a skewed asset distribution, both across and within countries. This structural dispersion provides a strong rationale for differentiated and proportionate supervisory expectations.

Chart 2

LSI entity sizes in 2025



Source: ECB calculations based on FINREP F_01.01, F_01.01_dp.
Notes: Data cover SSM LSIs (excluding branches) at the highest level of consolidation (excluding FMIs and institutions that were significant between the fourth quarter of 2023 and the fourth quarter of 2025). The chart displays the 10th and 90th percentiles (whiskers), the median (yellow mark in the blue bars) and the interquartile range between the 25th and 75th percentiles (the blue bars) for the full year 2025 with quarterly observations.

The number of LSIs is down by 109 entities, largely owing to mergers (78 entities), while new market entrants are often fintech oriented.

The total number of LSIs fell from 1,917 in the fourth quarter of 2023 to 1,808 in the fourth quarter of 2025, a decline of 5.7% (-109 entities). This contraction was driven primarily by mergers, concentrated among smaller savings and cooperative banks in Germany (-6%; 69 entities, of which 59 via merger) and Austria (-7%; 23 entities, of which 19 via merger). Additional, smaller effects came from licence withdrawals and lapses (18 entities, Table A1 in Annex), largely offset by new licences (12 entities, Table A2 in Annex) including for several entities with fintech-linked business models. The periodic review of significance led to the reclassification of ten entities into or out of the LSI population (see Table 2).

Table 2

Changes in significance status

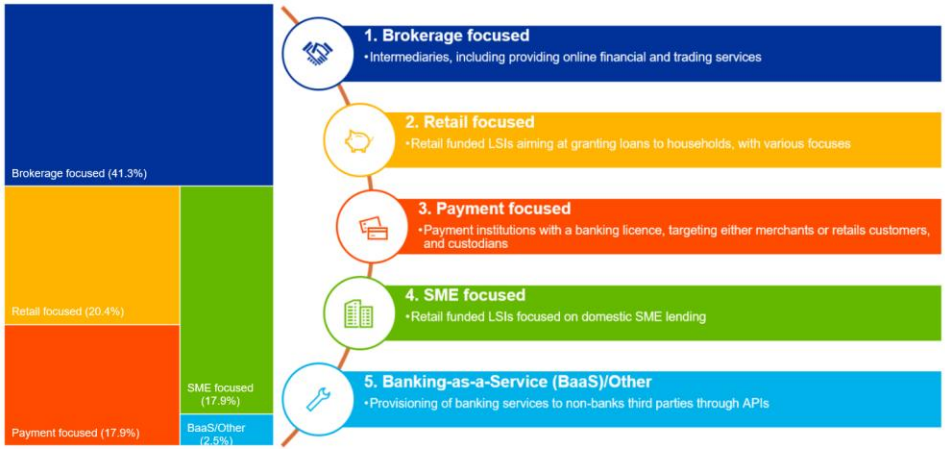
Significance	Bank name	Grounds	Effective date
LSI → SI	NatWest Bank Europe GmbH (DE)	Cross-border activities	01.01.2024
	Revolut Holdings Europe UAB (LT)	National importance	01.01.2024
	Wüstenrot Bausparkasse Aktiengesellschaft (DE)	Size	01.01.2024
	RBS Holdings N.V. (NL)	Size	01.01.2024
	LBS Landesbausparkasse Süd (DE)	Size	20.02.2024
	Promontoria 19 Coöperatie U.A. (FR)	Size	27.03.2024
	Oldenburgische Landesbank Aktiengesellschaft (DE)	Size	21.10.2024
	RAIFFEISEN-HOLDING NIEDERÖSTERREICH-WIEN (AT)	Size	01.01.2025
	KfW Beteiligungsholding GmbH (DE)	Size	01.01.2025
SI → LSI	Société Financière de la Nef (SOFINEF) (FR)	Size	10.08.2024
	Quintet Private Bank (Europe) S.A. (LU)	No SI criteria for 3 consecutive years	01.01.2025
	Banco Europeo De Finanzas, S.A. (ES)	deconsolidation	23.11.2025

Source: ECB supervisory data.
Notes: Data cover entities at the highest level of consolidation (excluding subsidiaries and branches of foreign banks).

As seen above, consolidation continues to be a key driver for the falling number of LSIs. Analysing consolidation patterns reveals that it appears to be closely linked to market structure and profitability as well as the presence of institutional protection schemes (IPSs). Retail and diversified lenders – which operate in competitive markets and exhibit, on average, comparatively lower profitability – account for a disproportionately large share of consolidation activity. This group of entities also has a high share of IPS-affiliated institutions (77%), notably among German and Austrian savings and cooperative banks (as high as 90%). IPSs do have a structural role to facilitate orderly workouts via integration of member institutions, with no licence withdrawals or lapses being observed for these entities over the sample period.

Figure 1

Fintech-oriented LSI market segments



Source: ECB supervisory data.

Fintech-oriented LSIs represent a small but distinct and growing segment of the LSI population. The approximately 30 LSIs identified as fintech-oriented at end-2025

have diverse business models, with reliance on technological innovation as a common feature; this includes 11 digital retail banks, five payment-focused banks, seven institutions focused on brokerage and investment, and nine other entities pursuing technology-driven business models such as banking-as-a-service. Many of these banks operate throughout the area covered by the SSM. The aggregate total assets of these institutions increased by approximately 60% between the fourth quarter of 2023 and the fourth quarter of 2025, while remaining below €200 billion. Their combined deposit market share doubled in three years, but remained below 1% of deposits held by supervised banks in the fourth quarter of 2025. However, this measure does not fully capture the market presence of some of the largest fintech players, as their customer funds are held as sight deposits in escrow accounts at partner banks; these funds are therefore recorded off-balance sheet and are reflected in the deposit market shares of the partner banks rather than those of the fintech LSIs.

Box 1
Institutional protection schemes

Institutional protection schemes (IPSs) are defined in the Capital Requirements Regulation (CRR) as a contractual or statutory liability arrangement which protects affiliated institutions and in particular ensures their liquidity and solvency with a view to avoiding bankruptcy where necessary. These schemes, recognised under Article 113(7) of the CRR, are situated across four euro area countries – Germany, Austria, Italy and Spain – which together hold assets of roughly €3 trillion and account for 70% of all LSIs. In total, there are six IPSs in the euro area, of which three are hybrid, meaning that they consist of both SIs and LSIs (one in Austria, two in Germany). Hybrid IPSs retain high national market shares and require close monitoring given their systemic importance.

Table A
Entities belonging to IPSs

	No. of institutions		LSIs			of which: LSI IPS members		
Country	LSIs	Of which: IPS members	EUR billions	Share of country's banking sector	Share of GDP	EUR billions	Share of country's banking sector	Share of GDP
AT	303	209	368	32%	71%	159	14%	31%
DE	1,076	978	3,117	37%	69%	2,688	32%	59%
ES	56	32	245	6%	15%	121	3%	7%
IT	111	40	337	11%	15%	21	1%	1%
SSM other	262	0	873	5%	12%	0	0%	0%
Total	1,808	1,259	4,940	15%	31%	2,989	9%	19%

Source: ECB supervisory data.

In addition to financial support from the IPS, its members can receive significant regulatory benefits. In accordance with Article 113(7) of the CRR, the ECB may grant permission to institutions to apply a 0% risk weight to intragroup exposures to other IPS members, on a case-by-case basis, provided the conditions set out in that Article are met. Additional benefits include waivers like the one provided for under Article 49(3) of the CRR, which permit IPS member institutions not to deduct holdings of own funds instruments in another member institution. The competent authorities

regularly monitor the developments of IPSs to verify their compliance with the regulatory requirements that form the basis for the waivers. As part of this regular monitoring, the ECB, jointly with the NCAs, has identified areas for improvement. These areas include improving their own monitoring of their members (scope of risks, stress testing, etc), identifying critical cases early, strengthening decision and escalation mechanisms as well as ensuring sufficient financial capacity for support cases, and are currently being addressed by IPSs.

2 Key developments in the LSI sector

2.1 Balance sheet composition

The aggregate LSI balance sheet has grown by 6.8% since the end of 2023, compared with 6.9% for SIs.

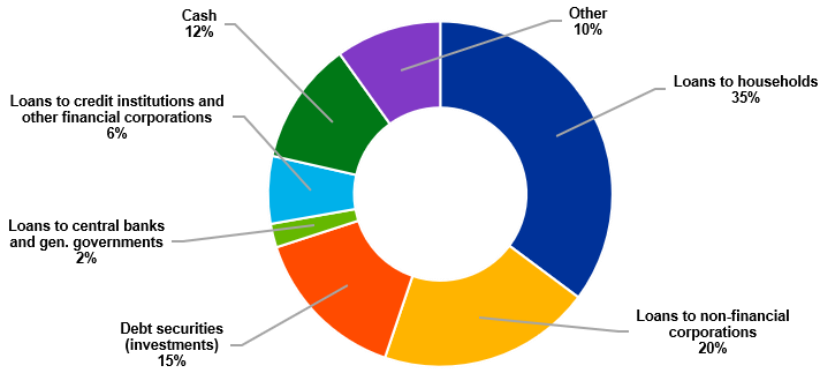
Key aggregate developments in the recent evolution of LSIs' balance sheets need to be viewed against the background of the structural features of their composition, which are described in more detail in Section 3.1 of the 2024 iteration of this report. Key features are:

- loans to households and NFCs constitute the core activity for most LSIs;
- household deposits are the key source of funding, even more so following the large-scale repayment of central bank funding since 2021;
- significant cross-country differences in both asset and liability composition are mostly driven by the material presence of specialised business models in countries with smaller LSI sectors (see the breakdowns of LSI assets and liabilities by country included in Annex A1).

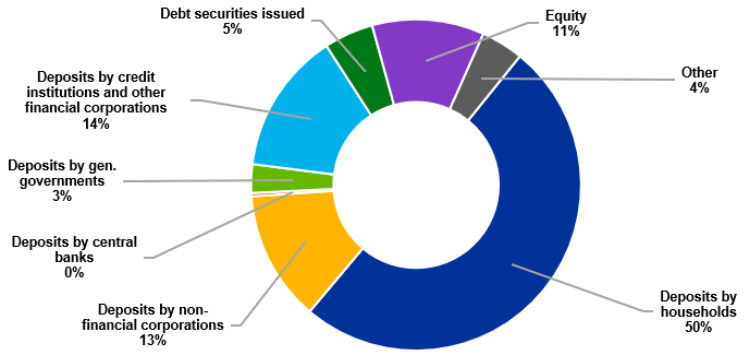
Chart 3

Aggregate composition of assets and liabilities on LSI balance sheets

a) Assets



b) Liabilities



Source: ECB calculations based on FINREP F_01.01, F_01.01_dp, F_01.02, F_01.02_dp.
Note: Data cover SSM LSIs (excluding branches and entities that are not reporting FINREP and COREP) at the highest level of consolidation (excluding FMIs and institutions that were significant between the fourth quarter of 2023 and the fourth quarter of 2025).

The aggregate balance sheet of the LSI sector grew by €313.6 billion or 6.8% (that of SIs grew by 6.9%) from December 2023 to December 2025, with a slightly more moderate increase in 2024 compared with 2025.

Assets

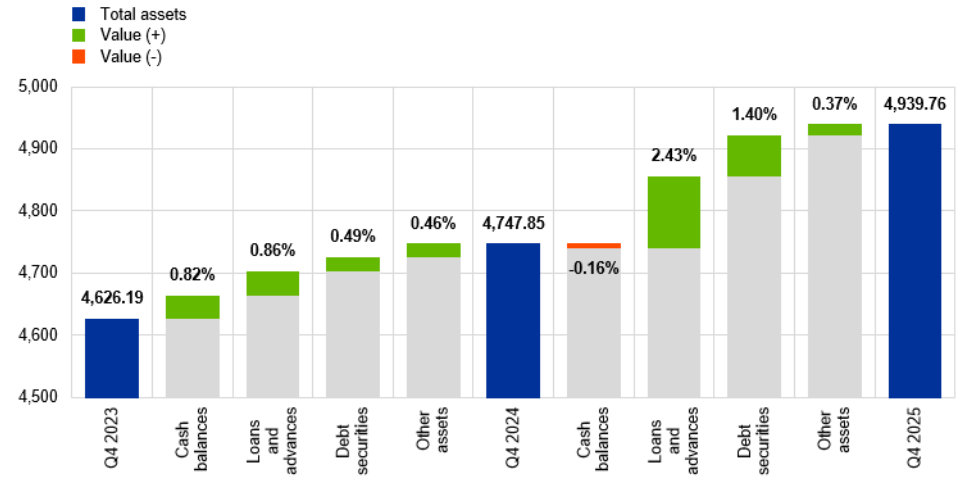
The increase in aggregate loan volumes of 5.2% between end-2023 and end-2025 falls materially short of the levels observed for SIs (+8.0%) over the same period, as well as those realised by LSIs from 2021 to 2023 (8.5%). This suggests that the tendency towards continued tightening of credit standards in most quarters over that period as reported in the ECB's euro area bank lending surveys has been particularly pronounced for smaller lenders. Aggregate developments mask considerable heterogeneity at the bank level, where 25% of LSIs have seen their core loan books shrink since December 2023, with a high proportion of such LSIs being found in Cyprus, Finland, Italy and Austria. In aggregate, there was an overall loss of market shares in core lending activities from LSIs to larger peers.

Debt securities experienced a relatively strong growth, with an approximately €89 billion increase, or 13.6%, on aggregate (27.0% for SIs). Bank-level analysis confirms that a driver of the growth in debt securities was the excess liquidity that resulted from deposit collection, which exceeded the lending capacity of many LSIs. On aggregate, about two-thirds of the growth in debt securities was allocated to government bonds, while remaining investments were largely channelled to debt securities issued by other credit institutions. The top 50 entities in terms of size of government portfolio in nominal terms, however, were responsible for around 60% of the overall growth in government bond investments.

Chart 4

Changes in total assets (December 2023 vs December 2025)

(breakdown of changes in total assets, EUR billions)



Source: ECB calculations based on FINREP F 01.01, F 01.01_DP.
Notes: Data cover SSM LSIs (excluding branches) at the highest level of consolidation (excluding FMIs and institutions that were significant between the fourth quarter of 2023 and the fourth quarter of 2025). Bar labels show each component's contribution as a percentage change relative to the previous year. The sample excludes a single large entity undergoing restructuring, which would have a distorting impact on the aggregate figures.

Liabilities

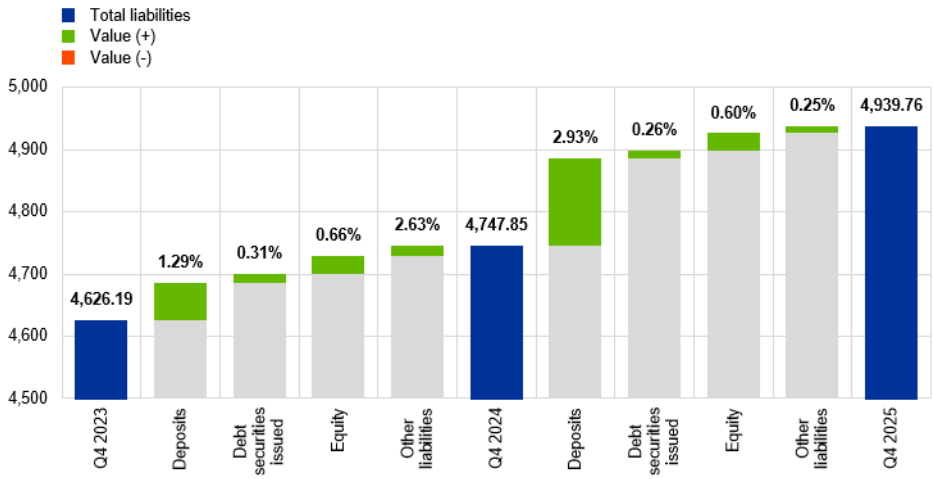
A funding surplus of about €71 billion from deposits and debt securities issued, which exceeded additional lending, was supported growth in debt securities, which grew by €89 billion.

While growth in total deposits has been slower for LSIs (+5.3%) than for SIs (+7.1%), the respective sources differ: in the case of SIs, it was largely driven by general governments, credit institutions and other financial institutions, while growth rates for household and non-financial corporation (NFC) deposits were higher for LSIs, in particular in 2025. At the same time, the amount of equity increased by 12.3% or €59.4 billion. Debt securities as a source of funding increased in aggregate by €26.9bn (+12.7%) between 2023 and 2025, excluding a single large entity undergoing winddown from the sample. Overall, growth in deposits and debt securities issued exceeded additional lending. The resulting funding surplus of around €71 billion was channelled into debt securities on the asset side, which grew by €89 billion.

Chart 5

Changes in total liabilities (December 2023 vs December 2025)

(breakdown of changes in total liabilities, EUR billions)



Source: ECB calculations based on FINREP F 01.01, F 01.01_DP.
Notes: Data cover SSM LSIs (excluding branches) at the highest level of consolidation (excluding FMIs and institutions that were significant between the fourth quarter of 2023 and the fourth quarter of 2025). Bar labels show each component's contribution as a percentage change relative to the previous year. The sample excludes a single large entity undergoing restructuring which would have a distorting impact on the aggregate figures.

At country level, the evolution of LSI's assets and liabilities showed significant heterogeneity, largely driven by various idiosyncratic developments. In some countries, there was a considerable decrease in total assets – such as France (owing to a former SI being in run-down mode), Belgium (due to several market exits) and Cyprus and Slovenia (in both cases following the acquisition of a sizeable local LSI by an SI). At the same time, there was strong growth in other countries, often due to the emergence of new entities with fintech-driven business models, with Lithuania being the clearest example, but also in Estonia. Croatia (driven by bank-specific but also more general growth, in particular in household and consumer loan business), Greece (driven by the continued growth of the largest LSIs) and Bulgaria (given increased lending activity in the residential real estate (RRE) and broader household sectors) experienced more than 20% aggregate growth in the total assets of their LSIs.

2.2 Profitability

The net interest margin compressed from 2.03% to 1.85%, owing to a slower decline in interest expenses compared with interest income in reaction to changes in policy rates.

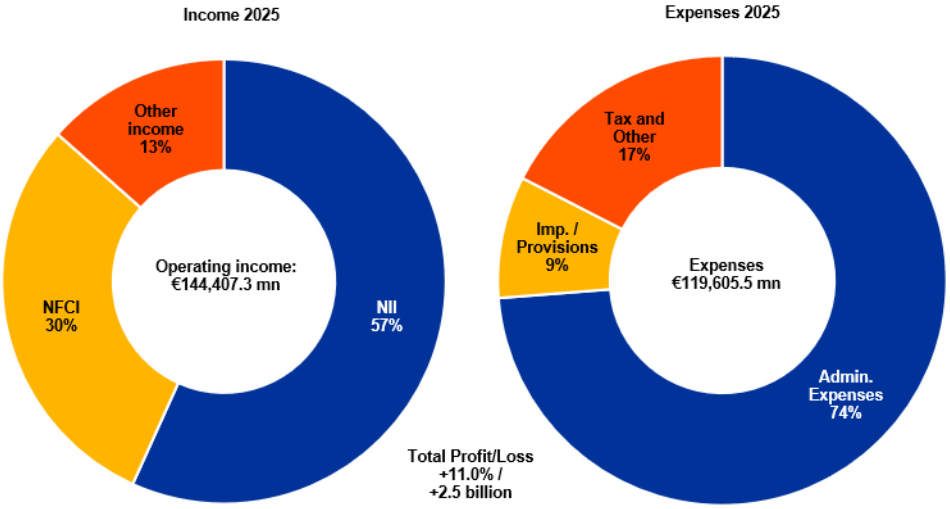
Net interest income (NII) and net fee and commission income (NFCI) on the one hand, and administrative expenses and impairments on the other, are key constituents of the P&L, each accounting for about 80% of income and expenses respectively.[4]

Chart 6

Composition of profit and loss

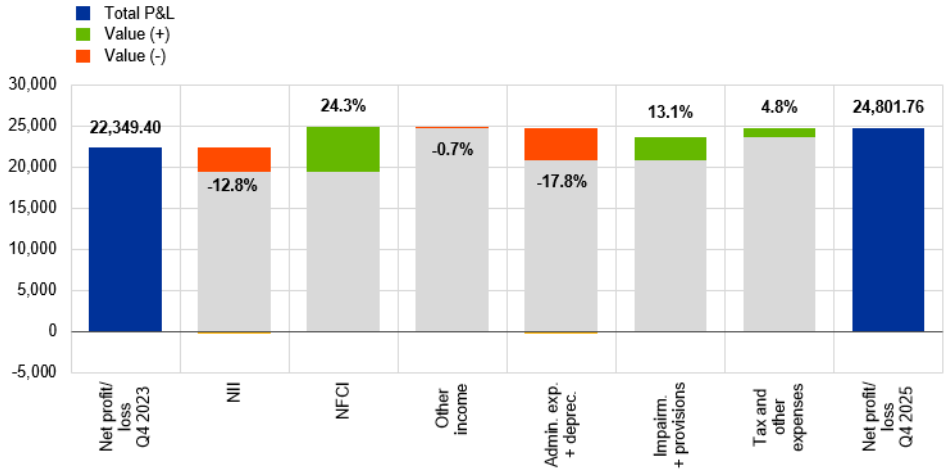
a) Composition of profit and loss

(EUR millions)



b) Change in profit and loss (between Q4 2023 and Q4 2025)

(EUR millions)



Source: ECB calculations based on SSM List of Supervised Entities, F_02.00, F_02.00_dp.
Notes: Data cover SSM LSIs (excluding branches) at the highest level of consolidation (excluding FMIs and institutions that were significant between the fourth quarter of 2023 and the fourth quarter of 2025). An entity undergoing restructuring has been removed from the sample, owing to the distorting impact it would have on other income.

[4] This section excludes one entity which underwent major restructuring with a strong P&L effect, which would have materially distorted the overall picture if included.

While in 2022 both interest income and expenses increased significantly, driven by an increase in central bank rates, the positive trend in NII has since slowed down materially. Starting with the reduction of policy rates in 2024, NII was impacted by the combined effect of a notable decrease in interest income and a much more gradual reduction in interest expenses. This led to a compression of the net interest margin from 2.02% to 1.85%, which was sharpest in national markets with a predominance of floating-rate products, while those with a prevalence of fixed-rate products adjusted more gently. The synchronised evolution of the net interest margin (NIM) and policy rates is clear testament to the asymmetric pass-through to the asset and liability sides.

Table 3

Change in net interest margin

(percentages, sorted by change in net interest margin)

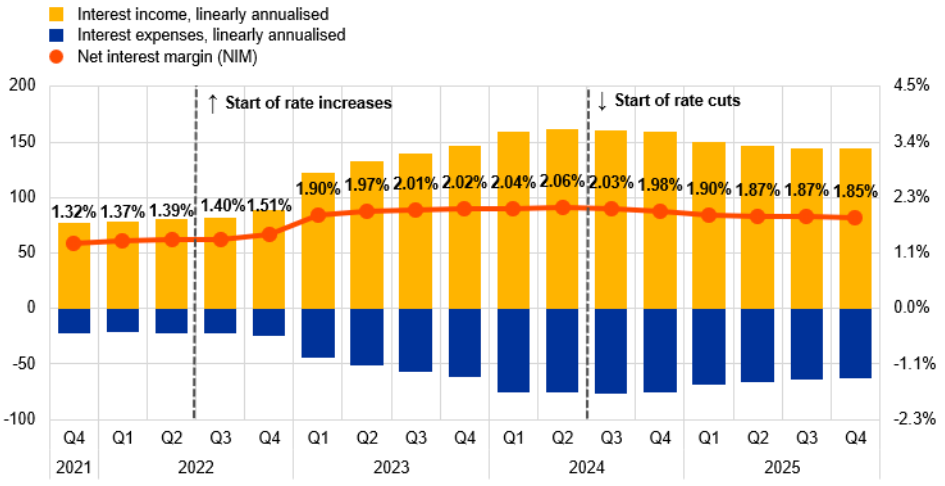
	LT	EE	PT	GR	SI	CY	AT	BG	MT	LV	NL	HR	FI	BE	IT	ES	DE	LU	IE	FR	SK
Q4 2023	4.8	4.5	2.8	3.2	3.2	3.0	2.3	3.4	3.7	3.6	2.0	2.7	2.1	1.8	2.4	2.1	1.9	2.2	1.8	1.1	2.2
Q4 2025	3.6	3.7	2.1	2.5	2.6	2.5	1.9	3.1	3.3	3.2	1.6	2.5	1.8	1.5	2.2	1.9	1.8	2.0	1.9	1.2	2.4
change NIM	-1.2	-0.9	-0.7	-0.6	-0.6	-0.5	-0.4	-0.4	-0.4	-0.4	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	0.1	0.1	0.2
Share fix rate	48.2	38.3	51.1	33.9	76.8	70.3	48.1	59.6	47.0	55.8	65.6	75.1	16.9	90.4	54.9	61.2	86.1	63.8	75.7	66.7	89.5

Source: ECB calculations based on SSM List of Supervised Entities, F_02.00, F_02.00_dp, J_05.00.
Notes: Data cover SSM LSIs (excluding branches) at the highest level of consolidation (excluding FMIs and institutions that were significant between the fourth quarter of 2023 and the fourth quarter of 2025). An entity undergoing restructuring has been excluded from the sample. Data on fixed-rate shares is based on IRRBB reporting in EUR.

Chart 7

NII components in LSIs over time

(EUR millions)



Source: ECB calculations based on SSM List of Supervised Entities, F_02.00, F_02.00_dp.
Notes: Data cover SSM LSIs (excluding branches) at the highest level of consolidation (excluding FMIs and institutions that were significant between the fourth quarter of 2023 and the fourth quarter of 2025). An entity undergoing restructuring has been excluded from the sample.

NFCI offset the decline in NII thanks to strong growth in fee and commission income.

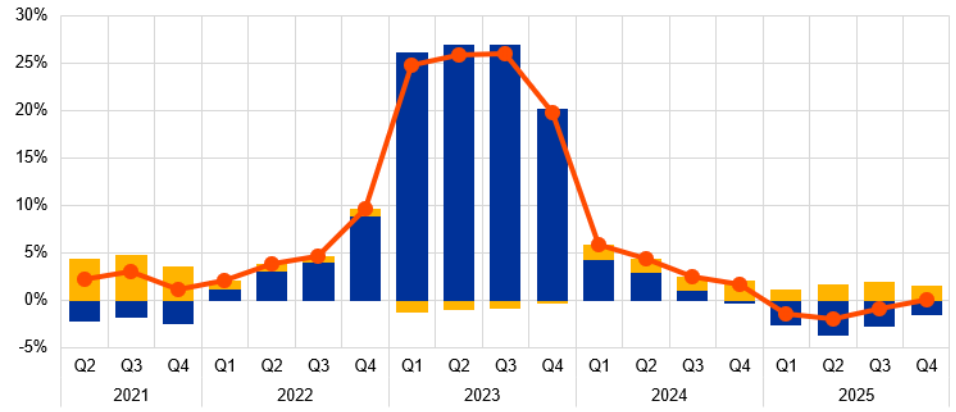
NFCI has offset the fall in NII owing to a relatively strong increase in fee and commission income (up by €4.0 billion) and a more moderate decrease in expenses (down by €1.4 billion). The net increase was unsurprisingly more pronounced among asset managers and payment companies. However, a broader, more gradual rise in

NFCI among the bulk of the LSI population is also present and can be seen as a bank-level response to rising costs against the backdrop of a falling NII more generally. Chart 9 illustrates the evolution of NII between 2021 and 2025 and shows that year-on-year income changes in 2025 were buoyed by a gradual increase in NFCI.

Chart 8

Year-on-year change in NII and NFCI

(percentages)



Source: ECB calculations based on SSM List of Supervised Entities, F_02.00, F_02.00_dp.
Note: Data cover SSM LSIs (excluding branches) at the highest level of consolidation (excluding FMIs and institutions that were significant between the fourth quarter of 2023 and the fourth quarter of 2025).

IT expenses were a key driver in increasing administrative expenses, while the cost-to-income ratio remained stable at 61%.

Administrative expenses remained largely unchanged at around 1.8% of total assets. The moderate increase in expenses was less driven by staff expenses than by remaining expenses, particularly non-outsourcing-related IT expenditure. This may reflect efforts by LSIs to address weaknesses in their IT infrastructures and adapt to an increasingly digital operating environment. As a result, **the cost-to-income ratio** for the LSI sector also remained relatively stable at 61.1% (55.0% for SIs) in 2025.

The accumulation of new **net impairments and provisions** for LSIs slowed by about €2.9 billion. This was also due to a relevant boost in provisions as early as 2023, which could also have been partly driven by earnings management using overlays, as indications from the ECB's 2024 report "IFRS 9 overlays and model improvements for novel risks" suggest. The material increase in NPLs over the past two years (see Section 3.3) still raises doubts as to whether this reducing trend in net impairments and provisions can be sustained in the future, if and when losses on those exposures start to materialise.

Overall, return on assets increased modestly to 0.50% (0.48% in 2023), which is still far lower than for SIs (0.68%).

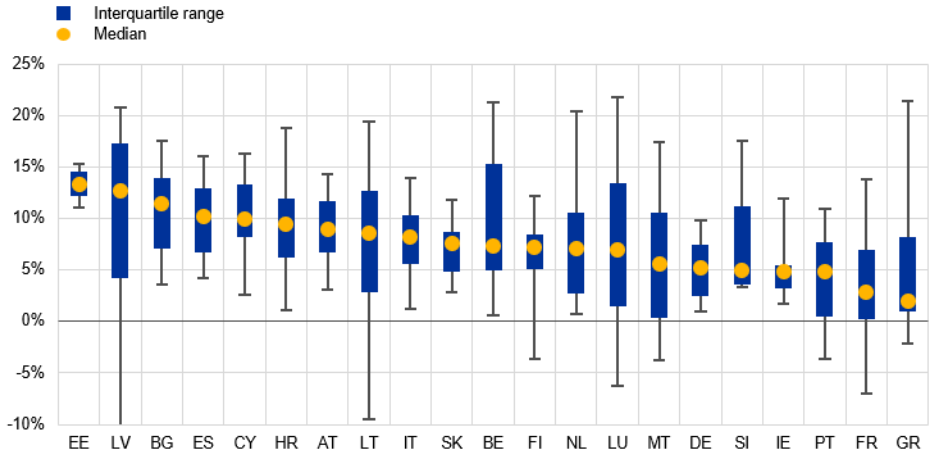
Profit levels across and within countries differed materially and once more showed small pockets of both highly loss-making and very profitable entities in several countries, with the total number of loss-making LSIs stable at 92 entities in 2025 (92 in 2023).

Chart 9

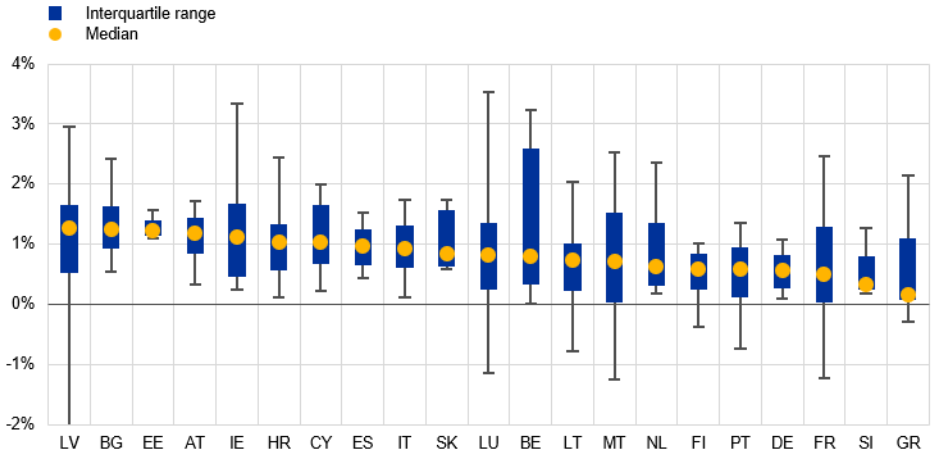
Annualised RoE and RoA by country for LSIs

(percentages)

a) Return on equity (RoE)



b) Return on assets (RoA)



Source: ECB calculations based on SSM List of Supervised Entities, F_02.00, F_02.00_dp, F_01.01, F_01.01_dp, F_01.03, F_01.03_dp.
Notes: Charts display the 10th and 90th percentiles (whiskers), the median (yellow mark in the blue bars) and the interquartile range between the 25th and 75th percentiles (blue bars) for the full year 2025 with quarterly observations. Data cover SSM LSIs (excluding branches) at the highest level of consolidation (excluding FMIs and institutions that were significant between the fourth quarter of 2023 and the fourth quarter of 2025). Values not displayed in panel a) (RoE): LV (-42.7%); values not displayed in panel b) (RoA): LV (-8.4%).

Observed differences across countries are caused by various factors, with smaller countries especially sensitive to the number and size of banks, as well as the presence of highly specialised business models (payments, custody, fintech). While there have been longstanding differences across countries with respect to the relative importance of NII versus NFCI in banks' income mix, the recent increase in NFCI and its compensatory effect on declining NII has been rather broad-based, with almost all countries participating in the SSM showing an increasing share of NFCI in operating income. The proportion of fixed-rate versus floating-rate lending also differs across countries and affects how sensitive aggregate profitability is to changes in interest rates. The average profitability per country is often driven by idiosyncratic factors or events within individual banks. Usually there is quite some

heterogeneity in profitability levels, as the last LSI report also illustrated. German and Finland are an exception here, showing rather low profitability levels across their entire sectors; however, comparability is also affected by different accounting standards and practices regarding the allocation of earned profits (e.g. the fund for general banking risks in Germany). In addition, a strong change in country-level profitability, as in Latvia, which shows the strongest negative change in RoA across the SSM countries,[5] is again not necessarily representative of the sector, given the significant heterogeneity within Latvia. The also quite significant negative change in terms of RoA in Slovenia and Slovakia was instead more a common characteristic of the rather homogenous profit levels in these countries. Fairly strong positive average changes in profitability levels were observed in countries such as Luxembourg, Belgium, France and Ireland, but were again very much outlier-driven, as the underlying distribution of profit levels across entities is rather wide.

2.3 Credit risk

LSI NPL levels have passed their low and rose to 2.88% in Q4 2025, contrasting with a decline to 2.18% for SIs.

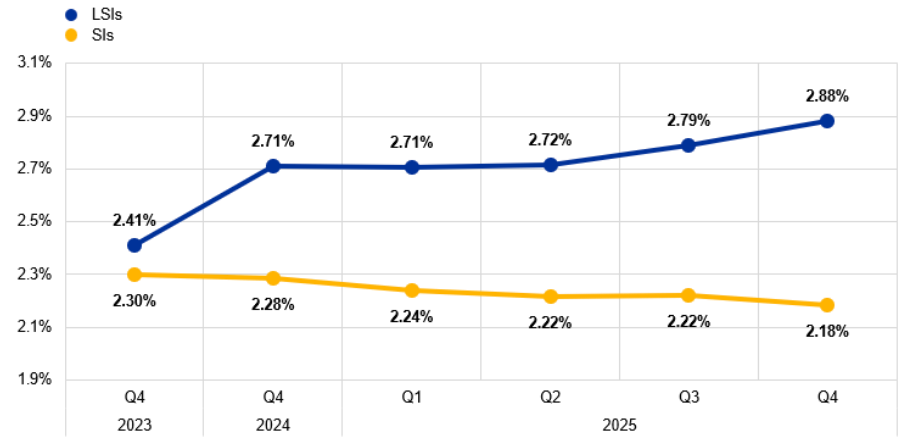
In a macroeconomic environment marked by geopolitical tensions, volatile energy prices and generally low economic growth, the LSI NPL ratio[6] continued to increase steadily from 2023 to 2025, reaching 2.88% in the fourth quarter of 2025. This marks its highest level since 2020 and a 47 basis-point increase compared with the fourth quarter of 2023. By contrast, the SI NPL ratio gradually declined from 2023, reaching 2.18% in the fourth quarter of 2025, and remained below the ratio for LSIs over the entire period, reflecting an increasing decoupling between the two. Their continued divergence was primarily driven by the expansion in NPL volumes for LSIs (+24.4%), compared with a much more moderate increase for SIs (+2.4%), but also reflects slower growth in loans and advances for LSIs (+5.2%) compared with SIs (+7.9%).

5 Changes in RoA and RoE in Latvia are driven primarily by idiosyncratic developments in two individual LSIs.

6 The NPL ratio excludes cash balances at central banks.

Chart 10

Evolution of NPL ratios



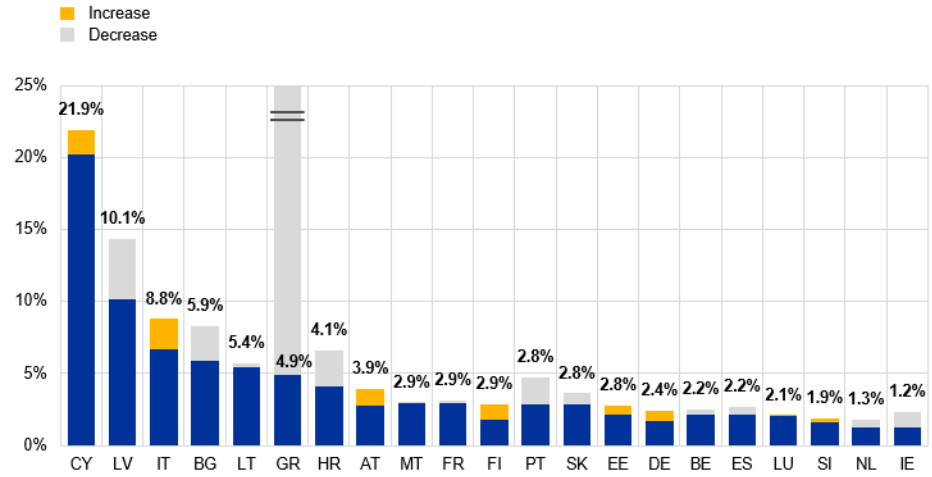
Source: ECB calculations based on SSM List of Supervised Entities, FINREP F_18.00a, F_18.00a_dp.
Note: Data cover SSM LSIs (excluding branches) at the highest level of consolidation (excluding FMIs and institutions that were significant between the fourth quarter of 2021 and the fourth quarter of 2023).

Country-level analysis shows that the rise in NPLs for the SSM LSIs as a whole was primarily driven by the large LSI sectors in Germany, Austria and Italy, where NPL ratios increased by 0.7%, 1.2% and 2.1% respectively. The recent downturn in commercial real estate (CRE) was a key driver in the former two countries, while the increase in Italy reflects rising NPL volumes in a small number of individual entities outweighing reductions in the NPL ratios of most of the remaining LSIs. On the other hand, several countries with historically high NPL ratios recorded significant reductions, namely Greece (-32.5%), Latvia (-4.2%), Croatia (-2.5%) and Bulgaria (-2.4%). Those reflect a diverse set of national factors, including some large-scale securitisations and loan sales as well as strong growth in overall loan volumes. Overall, **cross-country heterogeneity in NPL levels remains but is now significantly less pronounced than in the recent past**.

Chart 11

LSI NPL ratios by country (excluding cash balances at the central bank) Q4 2023 vs Q4 2025

(percentages), labels refer to latest NPL ratio as at fourth quarter 2025



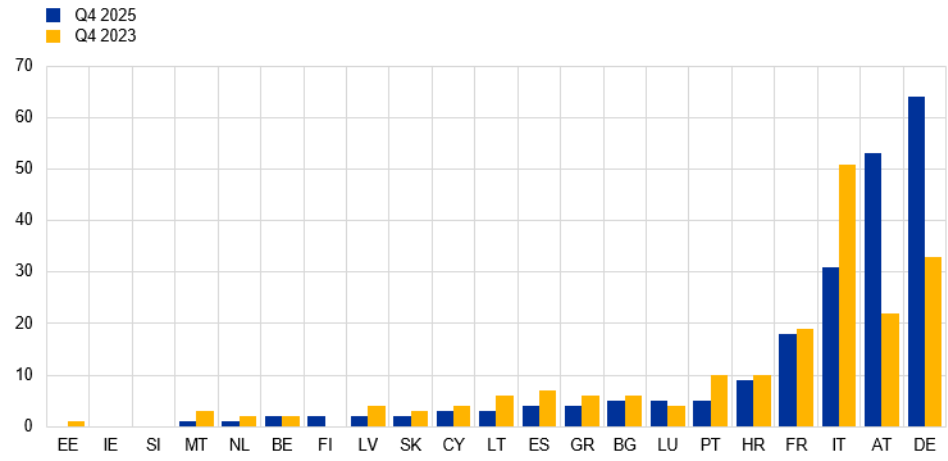
Source: ECB calculations based on SSM List of Supervised Entities, FINREP F_18.00a, F_18.00a_dp.
Note: Data cover SSM LSIs (excluding branches) at the highest level of consolidation (excluding FMIs and institutions that were significant between the fourth quarter of 2023 and the fourth quarter of 2025). The Q4 2023 value for Greece (37.7%) is clipped for legibility reasons.

The above-mentioned developments are reflected in the evolution of the number of high-NPL entities, i.e. those LSIs exhibiting an NPL ratio above 5%: at SSM level, the number increased from 193 to 214 between 2023 and 2025, which, however, masks material changes in both directions at country level (Chart 12).

Chart 12

Number of high-NPL LSIs Q4 2023 vs Q4 2025

(number of LSIs)



Source: ECB calculations based on SSM List of Supervised Entities, FINREP F_18.00a, F_18.00a_dp.
Note: Data cover SSM LSIs (excluding branches) at the highest level of consolidation (excluding FMIs and institutions that were significant between the fourth quarter of 2023 and the fourth quarter of 2025).

Looking at the different client segments, at SSM level the increase in the LSI NPL ratio between the fourth quarter of 2023 and end-2025 was mainly driven by

developments in the NFC portfolio, namely in the overlapping small and medium-sized enterprises (SMEs: +1.3 percentage points) and CRE (+0.9 percentage points) segments. The SME segment recorded the strongest increase over that period and exhibited the highest NPL ratio, at 5.5% at end-2025, while the RRE segment, which remained broadly stable at around 1.4% from 2023 to 2025, continued to cushion the increase in the aggregated ratio.

The continued impact of the recent downturn in CRE markets in Austria, Germany and Luxembourg is particularly evident in LSIs' reporting at NACE sector level. While some indicators, such as transaction volumes, suggest that the market may have passed its trough in some countries, a cautious assessment remains warranted given (a) the prevalence of significant time lags between a deterioration in borrower performance and NPL recognition by LSIs, (b) loan structures that are particularly vulnerable to macroeconomic volatility and (c) the structural challenges affecting lower-quality assets, especially in segments such as office real estate.

The key observation that motivated the recently published Guideline on LSI NPL coverage remained broadly unchanged as at year-end 2025: average LSI coverage ratios are still materially lower than those of SIs, in particular for old NPL vintages, driven by a confined subset of the LSI population.

The volume of more recent NPLs which fall within the scope of the CRR backstop[7] increased and will migrate towards vintages facing higher coverage requirements year by year. LSIs will therefore need to actively manage those NPL portfolios, using the full range of available tools from workouts to securitisations and sales.

2.4 Capital adequacy

Key capital metrics continue to show strong LSI positions, bolstered by the positive evolution of profitability over the past years.

The total capital ratio of LSIs rose further, reaching 19.7%, with a CET1 ratio of 18.5% – clearly above that of SIs (16.2%).

The average total capital ratio (TCR) of LSIs (19.7%) remains slightly weaker compared with that of SIs (20.4%) but increased by about 60 basis points from end-2023 to end-2025 (from 19.1% compared with 19.9% for SIs). Capital levels of LSIs over the course of these two years fluctuated moderately within a narrow band, with temporary decreases driven by the implementation of the CRR III/Basel III finalisation package from 1 January 2025 onwards. This caused a marked increase in overall risk-weighted assets (RWAs) owing to revisions of the operational risk framework and changes to standardised credit risk calculations. As most LSIs rely on

[7] The CRR backstop establishes minimum loss coverage requirements for non-performing exposures (NPEs). Under these requirements, NPEs must be adequately covered either through accounting provisions or, where the level of provisioning is insufficient, through direct deductions from Common Equity Tier 1 capital. The minimum coverage requirements are set out in Article 47c of the Capital Requirements Regulation (CRR) and are based on a provisioning calendar that distinguishes between unsecured exposures, exposures secured by eligible real estate collateral, and exposures secured by other forms of eligible credit protection. The required level of coverage increases progressively with the time an exposure remains classified as non-performing and differs depending on the type of collateral. Unsecured NPEs must be fully covered (100%) after three years from the date they become non-performing. For NPEs secured by other eligible credit protection, full coverage is required after seven years, while NPEs secured by eligible real estate collateral must reach full coverage after nine years.

standardised approaches to calculate their risk-weighted exposures, the impact was more pronounced for LSIs than for SIs.

As access to capital markets in order to issue additional Tier 1 or Tier 2 instruments is usually more limited for LSIs than for SIs, capital is largely provided in the form of CET1. Consequently, the average CET1 ratio is significantly higher for LSIs (18.5%) than for SIs (16.3%). Furthermore, overall risk exposure density (risk exposure amount over total assets) for LSIs (52.8%, up 1.0 percentage points from 2023) remains considerably higher than for SIs (33.8%), as the use of internal models to calculate risk weights is much less common among LSIs than SIs.

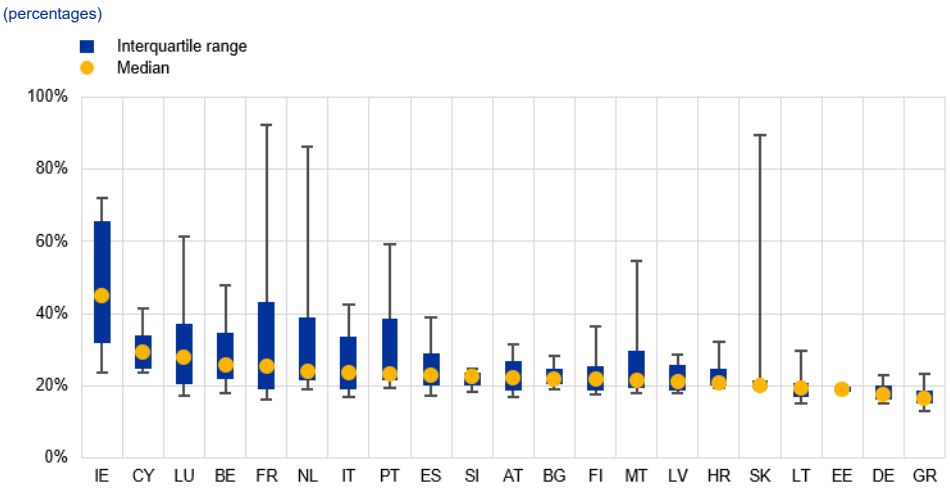
The general trend of increasing capital ratios at LSIs can primarily be explained by retained earnings improving the capital base (+10.7%), while growth in total assets and RWAs (+7.4%) between December 2023 and December 2025 was less strong. A key enabling factor during this time period was the gradually decreasing but still elevated level of euro area interest rates (see Section 3.2. for further details).

The average total capital ratio per country ranges from 43.4% to 16.5%, showing significant divergence across countries and entities.

A country-specific breakdown of TCRs (Chart 13) illustrates two key aspects: first, there are substantial differences across country medians, ranging from 45.0% (Ireland) to 16.5% (Greece). Second, in certain countries we can see very pronounced interquartile variance (Ireland, France, Luxembourg, Belgium, Portugal and the Netherlands) as well as significantly distinct highest values (France, the Netherlands and Slovakia). The extreme values are primarily driven by specialised business models (e.g. state-owned, highly capitalised banks or those with balance-sheet-light activities like wealth and asset management services) and are often smaller in absolute size. Those patterns have been relatively stable over time (see also past iterations of this report).

Chart 13

Total capital ratio by country



Source: ECB calculations based on SSM List of Supervised Entities, COREP C 03.00.
Notes: The chart displays the 10th and 90th percentiles (whiskers), the median (yellow mark in the blue bars) and the interquartile range between the 25th and 75th percentiles (the blue bars) for the full year 2025 with quarterly observations. Data cover SSM LSIs (excluding branches) at the highest level of consolidation (excluding FMIs and institutions that were significant between the fourth quarter of 2023 and the fourth quarter of 2025).

The relatively limited and gradual improvement of the average TCR in the euro area masks more relevant developments at country level:

- Bulgaria's average capital ratio rose strongly, as capital growth (+95.6%) outpaced the total risk exposure amount (TREA) (+21.6%). This was driven by an approximately €2 billion capital injection into one entity in the fourth quarter of 2025. Excluding this, capital growth would have been approximately 25%, broadly in line with the TREA.

- Finland and Spain saw capital ratio increases, benefitting from higher interest rates during 2023-2025. Higher rates boosted net interest income and profitability, enabling capital building through retained earnings while keeping TREA growth moderate.

- In the Netherlands, while risk weighting increased (TREA: +18.9%, €14.9 billion; total assets: +14.4%) the average capital ratio rose by 381 basis points, driven by a major entity's restructuring and strong profitability in another entity. Lithuania's stable capital ratio masks a sharp 58.5% rise in total assets against a milder TREA increase (+31.5%), as collected funds were largely invested into lower-risk items like cash or central bank balances. Capital grew at the same pace, keeping ratios stable.

- Greece also saw strong total asset growth (+37.2%) and a lighter TREA increase (+26.5%), but capital rose by only 4.4%, weakening the overall position. This reflected two major entities' rapidly growing deposits and lending.[8]

- In Germany, the limited TREA increase (+8.8%, €146.5 billion) dominated the SSM picture in absolute terms given the sector's size. TREA outgrew total assets as risk weightings worsened.

- In countries with declining TREAs, different reasons apply: in France, TREA and capital fell sharply owing to a major entity in run-off, but the sector's capital ratio remained stable. In Cyprus and Slovenia, the already small LSI sectors experienced significant reductions in total assets, which shrank by €2.4 billion (42.3%) and €3.9 billion (44.4%), respectively. This decline was driven by consolidation and the reclassification of LSIs as SIs due to acquisitions.

The analysis of LSIs' compliance with the Pillar 2 capital requirements set by NCAs carried out as part of the Supervisory Review and Evaluation Process (SREP) confirms generally comfortable and even improving headroom (i.e. excess of the levels of total capital with respect to the relevant requirements) as of the fourth quarter of 2025 with a median capital headroom of more than 10% in 16 out of 21 countries (compared with just eight countries in 2023).

The SSM LSI leverage ratio increased to 10.2%, far higher than that of SIs (6.0%).

The leverage ratio serves as a simple, non-risk-based "backstop" to RWA-based capital ratios and is calculated by dividing Tier 1 capital by the non-risk-weighted total exposure amount, including assets and off-balance-sheet items. As of the fourth

[8] During H1 2026 the overall capital position of the Greek sector has significantly improved as a result of capital enhancement actions (Share Capital Increases and issues of capital instruments).

quarter of 2025, the aggregate LSI SSM leverage ratio improved to 10.2% (6.0% for SIs) compared with 9.5% as at the fourth quarter of 2023. In all countries, including Slovenia and Finland, where the leverage ratio is remarkably lower compared with the remaining countries, entities' leverage ratios are well above the regulatory minimum.

2.5 Funding and liquidity

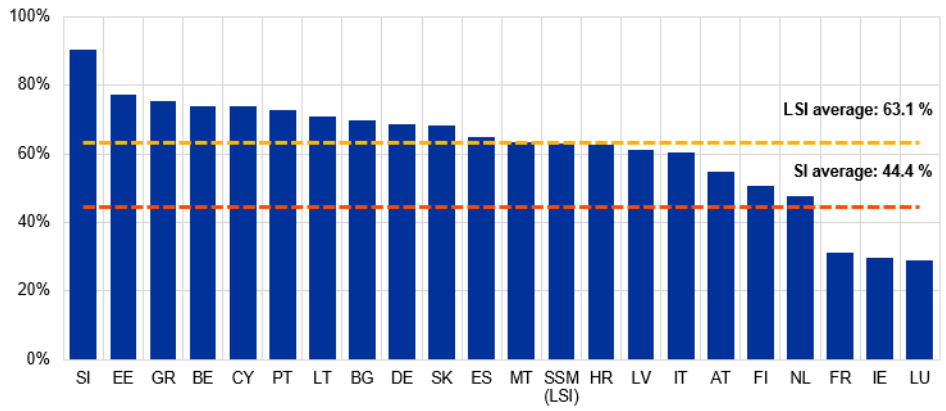
The overall funding situation in the euro area banking system, including the LSI sector, has remained strong and stable.

As mentioned in Section 3.1, deposits remain the predominant source of LSI funding, accounting for 80% of total liabilities (up from 76.2% in the fourth quarter of 2023), with two-thirds of deposits originating from households and non-financial corporations. The growth in deposits over the course of 2024 and 2025 clearly offset the decline in funding from central bank and debt securities (primarily covered bonds).

Chart 14

Share of household and non-financial corporation funding in total liabilities

(percentages)



Source: ECB calculations based on SSM List of Supervised Entities, FinRep
Notes: Data cover SSM LSIs (excluding branches) at the highest level of consolidation (excluding FMIs and institutions that were significant between the fourth quarter of 2023 and the fourth quarter of 2025).

The aggregate view at SSM level masks relevant differences in funding structures and dynamics across individual countries. There are some exceptions to the predominance of deposit funding, e.g. Finland (where covered bond funding is highly relevant) as well as Ireland (which has strong interbank funding).

Over time, funding structures have remained quite stable in most countries. A notable exception is Lithuania, where loan growth has outpaced the increase in household deposit funding, which was compensated by the collection of additional deposits from other financial corporations. In contrast, Cyprus, Slovenia and Malta experienced sharp increases in the share of household funding as a percentage of total funding – rising by 10, 9 and 9 percentage points respectively compared to the fourth quarter of 2023 – reflecting the growing significance of household deposits in

these countries. The use of deposit platforms at individual banks has fuelled stronger deposit inflows but might also carry some additional idiosyncratic risk. Via these online deposit platforms (ODPs) – digital marketplaces that channel depositors to the credit institutions of their choice among a wide range of EU banks – banks can source deposits in a flexible and cost-efficient manner to support balance sheet growth, retail deposit market entries and funding diversification across geographies and maturities. Although ODP-sourced deposits represent less than 1% of supervised banks' total deposits, their use as a funding source continues to grow steadily, with about 130 LSIs making use of these to collect deposits. Reliance on these platforms varies widely, with a growing number of LSIs showing a high concentration of total deposits coming through ODPs, in some cases over 80%.

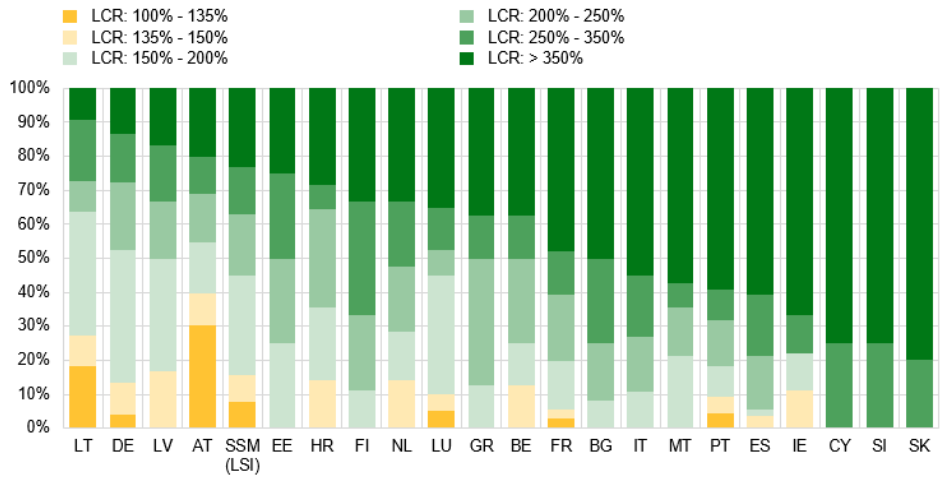
The aggregate LCR for LSIs remains well above the regulatory target at 223.2%.

Overall, as a result of changes in funding, one of the key supervisory metrics for measuring short-term liquidity risk, **the LCR, has further slightly improved to 223.2%** for LSIs (158.6% for SIs) on aggregate, remaining well above the 100% regulatory requirement. As many as 84% of LSIs have an LCR of above 150%. Cross-country differences include a small but proportionally significant number of banks in Austria which continue to operate within a narrower 100-150% LCR range. Many of these banks are members of institutional protection schemes and benefit from a liquidity waiver, meaning that LCR requirements must be met only at the liquidity group level.

Chart 15

LCR clusters by country

(percentages)



Source: ECB calculations based on SSM List of Supervised Entities, COREP C 76.00.a.
Note: Data cover SSM LSIs (excluding branches) at the highest level of consolidation (excluding FMIs and institutions that were significant between the fourth quarter of 2023 and the fourth quarter of 2025).

The NSFR (134.0%) and the unencumbered assets ratio (87.6%) point to a stable funding situation for LSIs overall.

The **net stable funding ratio (NSFR)** tends to remain very stable by construction and hence was largely unchanged at 134.0% (126.5% for SIs) at end-2025. Dispersion across countries remains more limited than for the LCR. The **amount of unencumbered assets** is a crucial element of contingency funding. The ratio of unencumbered assets remains high throughout the European LSI sector, according

to country averages. The average for all LSIs across countries participating in the SSM was 87.6% at end-2025 (84.1% for SIs). Differences across countries remain limited, with none of the countries showing exceptionally low values for their LSIs on aggregate.

The amount of central bank funding reduced by more than 70% to €16.3 billion or 0.3% of total liabilities and equity, which is mirrored in nearly all countries. This was far more pronounced than for SIs (down 47.4% to €319.3 billion or 1.2% of total liabilities and equity). Although central bank funding declined on aggregate (share over total liabilities and equity for LSIs was 0.3% versus 1.2% for SIs at end-2025), it remains key at individual level, providing frictionless access to monetary policy operations. To ensure smooth monetary policy implementation, in December 2025 the ECB invited[9] euro area banks, including LSIs, to regularly test their **operational readiness to access Eurosystem standard refinancing operations**, at least once a year starting from January 2026. This voluntary testing, with bid amounts at the counterparties' discretion and backed by appropriate collateral, is intended to ensure banks are prepared to use these operations as part of their day-to-day liquidity management.

9 See ECB (2025), "Counterparties invited to regularly test their operational readiness to access Eurosystem standard refinancing operations", press release, 19 December.

3 Main LSI supervisory priorities and activities

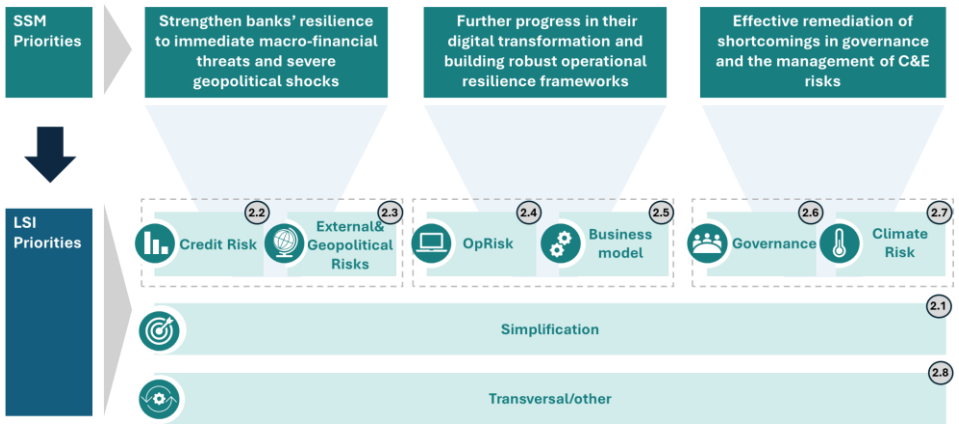
The SSM supervisory priorities, set by the Supervisory Board and annually reviewed, are the result of a thorough assessment of the main risks and vulnerabilities faced by the supervised entities and reflect ECB Banking Supervision's medium-term strategy for the next three years. For the period 2024-2026, the identified priorities were related to:

- strengthening of banks' resilience to immediate macro-financial and geopolitical shocks
- acceleration of effective remediation of shortcomings in governance and the management of climate-related and environmental risks
- progress in digital transformation and building robust operational resilience frameworks.

Key priorities for LSIs from an NCA perspective relate to credit risk, operational risk, governance risk and business model risk.

These SSM supervisory priorities also represent a key input for NCAs when defining their national supervisory priorities for the LSIs within their jurisdictions. While priority-setting at SSM and country-level is conceptually well aligned, NCAs also take into account country-specific idiosyncratic factors and hence might deviate from the broader SSM priorities. In 2025 the supervisory priorities for LSIs remained broadly consistent with those established in 2024. Besides the **simplification of supervisory rules and processes**, there was a strong focus on **credit risk**, **operational risk** and **business model risk** in particular.

Figure 2
Key LSI Oversight priorities



Source: NCA reporting.

The LSI oversight activities conducted by the ECB are also based on the SSM and NCA priorities. The ECB develops an annual workplan for this purpose, outlining the

main projects and activities. A selection of those activities is described in the following sections.

3.1 Simplification

In December 2025 the ECB published two reports, outlining the way forward with regards to potential changes to various elements of supervision in response to general discussions on simplification: Simplification of the European prudential regulatory, supervisory and reporting framework and Streamlining supervision, safeguarding resilience: the ECB's agenda for more effective, efficient and risk-based European banking supervision. Both reports cover a wide range of proposals across different areas of regulatory and supervisory rules and processes, and consequently the proposals they put forward interlink. They are also complementary to initiatives by the European Banking Authority and the European Commission.

Several of these initiatives are of particular relevance for LSIs, specifically for smaller banks such as small and non-complex credit institutions (SNCIs)[10]. For this reason, the SSM LSI oversight and supervision community contributed particularly closely to these activities. The ECB will work closely with its institutional partners towards implementing these proposals.

Proposals to simplify the regulatory framework – small and non-complex credit institutions

The SNCI concept is key to deploying simplification for smaller entities. Consequently, the SSM has developed a proposal aiming to enlarge the **scope of SNCIs**. The recommendation is addressed to the Commission to change the legislation so that Member States in charge of supervising SNCIs should be allowed to raise the total assets threshold currently used to define an SNCI from the current €5 billion to as high as €10 billion, if they see fit based on the size and structure of their domestic LSI sector. In addition, as an indicator for "complexity", which under the current regulation is also attached to the requirement to draft recovery and resolution plans, there should be a reference to the existence of a liquidation strategy approach in a bank's resolution plan. Together, the proposed changes to the SNCI definition could result in up to 85% of the LSI population falling within this category, instead of the current 75%.

Beyond the proposals to enlarge the scope of SNCIs, additional proposals aim to simplify the requirements and relevant processes for these entities. The existing prudential framework provides various elements for proportionate implementation of **governance requirements** such as lighter requirements for remuneration and outsourcing or for establishment of board committees, as some examples. NCA supervisors are committed to working towards applying these more consistently across the euro area. SNCIs could, among other simplification measures, more easily combine certain committees and risk functions, be exempted from some elements of remuneration requirements, fully exploit the permissible scope of

[10] As defined in Article 4(145) of the CRR.

outsourcing, or adjust level of sophistication required for institutions' internal stress-testing programmes.

SSM supervisors have further agreed to conduct the **SREP** and the related supervisory review of the internal capital and liquidity adequacy assessment processes less than once a year for SNCIs, if appropriate from a risk perspective and sufficient to fulfil the mandate. Institutions however remain subject to the obligation to conduct the ICAAP and ILAAP exercises on an annual basis for internal purposes. As far as **supervisory stress tests** are concerned, exempting SNCIs from the regular bottom-up exercises (in which banks run and submit their own stress projections), relying instead on top-down approaches (in which the projections are run centrally by supervisors), could substantially ease the workload of almost 1,000 SNCIs.

In addition, euro area supervisors consider that, going forward, the principle of proportionality should be underpinned by ensuring that the SNCI category is used systematically in all **level 2 EU texts**. This should ensure that all new guidelines and similar reference documents (or updates to existing ones) include specific clarifications as to how they apply to SNCIs.

In terms of the scope of reporting, the SSM already uses a wide-ranging proportionate approach for smaller entities, where the scope of reporting is defined along four different clusters of banks, separating into "Full FinRep" (on average 13,500 data points per quarter) and "simplified", "oversimplified" as well as "datapoint" reporting (on average 700 data points per quarter). As part of the simplification initiative, the ECB plans to align the criteria for **datapoint reporters** with the SNCI criteria to reduce the complexity of the regulatory landscape even further. In addition, further proposals have been developed to simplify reporting and disclosure that should benefit SIs and LSIs. These include decommissioning certain SSM data collections, introducing a materiality threshold for resubmissions and strengthening the coordination and governance of ad hoc data requests. Beyond that, additional proposals serve as input to the discussions with the European Banking Authority (EBA) and the Commission on further streamlining regulatory and financial reporting, for example.

3.2 Credit risk

Credit risk is a key supervisory focus area, not only owing to recent increases in NPL levels (see Section 3.3). The traditional business of lending to households and non-financial corporations is the core activity of LSIs, and hence any risks arising from that business need to be closely monitored.

Supervisory expectations for LSI's coverage of legacy NPLs

In December 2025 the ECB published a Guideline for a harmonised supervisory approach to the coverage of NPEs held by LSIs. This Guideline was developed to address the fact that some LSIs continue to face challenges in managing their legacy non-performing exposures (NPEs). This is reflected in NPE stocks with materially

older vintages and lower coverage ratios compared with those held by SIs. Legacy NPEs constitute lasting sources of potential further losses and restrict banks' capacity for new lending.

The Guideline addresses NCAs as the direct supervisors of LSIs and focuses on ensuring sound risk management and consistent supervisory standards, while acknowledging NCAs discretion within the Pillar 2 framework. It sets out supervisory coverage expectations for the stock of legacy NPEs that were originated before 26 April 2019, following the successful application of a similar approach to NPEs at SIs since 2018.

Regular LSI credit risk monitoring

Annual credit risk monitoring provides a structured framework for benchmarking and the ongoing observation of trends.

ECB credit risk monitoring is the foundation for a structured, data-driven framework for the ongoing monitoring of credit risk trends across LSIs. The analysis focuses on assessing the evolution and key patterns of asset quality and risk-mitigation indicators, identifying common trends and enabling benchmarking across the 21 countries participating in the SSM.

Besides overarching developments at SSM, country and bank level, the analysis places particular emphasis on the evolution of borrower segments such as households, residential and commercial real estate, consumer credit and non-financial corporations. Key findings from the most recent iterations are included in Section 3.3.

3.3 Geopolitical risk

As a result of international conflicts and related distortions of internal trade and commodities pricing, this risk dimension has become very relevant again. As in some cases this goes beyond pure credit risk considerations, the topic needs to be covered from a more comprehensive angle.

Third-country contact groups

Three third-country contact groups (TCCGs) are coordinated by ECB Banking Supervision. They were established to enhance cooperation among SSM supervisors in relation to links with third countries (for additional information, see the 2024 LSI Supervisory Report). In parallel, a new project has been launched in connection with the changes introduced by the Capital Requirements Directive (CRD) VI (Articles 21c and 48c) and their expected impact on the operations of these third-country groups within the European Economic Area. The initiatives undertaken aim to raise awareness and improve preparedness in light of the growing divergence between SI and LSI approaches regarding readiness for compliance with Article 21c of CRD VI. In addition, the project seeks to identify LSI groups that could potentially be affected by the new CRD requirements and to assess the related impact.

Crisis management contact groups

The LSI crisis management framework envisages the creation of a crisis management contact group (CMCG) for LSIs which have been defined as crisis cases. These groups, made up of NCA and ECB staff members from different units (i.e. legal, authorisations, ISO), are typically activated following a notification by an NCA of a Financial Deterioration (FD) in a specific entity. Their objective is to enable better coordination between NCAs and the ECB in the management of crisis cases. The groups serve as a platform for information exchange, helping to avoid gaps that could hinder timely action when urgent measures are required. In line with the ECB's oversight responsibilities, NCAs report to the ECB on the execution of their activities, using the method and frequency preferred by both parties. CMCGs also help gather good practices and lessons learned, which can support both the prevention of future crises and the efficient handling of new cases.

3.4 Operational risk

DORA reshaped the organisation of supervisory activities and contributed to stronger convergence of supervisory practices across jurisdictions, in terms of common methodologies, collection of IT risk data from LSIs and benchmarking capabilities at the level of the SSM.

Supervisory methodologies and risk landscape

ECB Banking Supervision's LSI SREP Methodology for 2025 introduced the decoupling of operational risk and ICT risk, acknowledging the importance of a separate assessment of ICT risk. In 2025 in most jurisdictions the ICT risk assessment was produced via a separate SREP score (in 928 – around 50%– of LSIs).

The LSI ICT Risk Questionnaire (ITRQ) was introduced to provide further voluntary convergence in the collection of LSI ICT risk management assessments. A joint tool for benchmarking LSI data collected through the ITRQ was designed by the ECB to support the delivery of informed ICT risk assessments across different jurisdictions, providing a useful basis for supervisory assessments. For example, the LSI ICT risk landscape analysis for a sample of LSIs at the end of 2025 showed that smaller LSIs invest a similar share of expenses in ICT as their larger peers: on average, ICT expenses represented €15 of every €100 in overall expenses, with a lower relative cost dedicated to ICT staff in comparison with all staff: 100 LSI staff were on average supported by 4.4 IT experts. Critical ICT assets comprised high-level end-user computing as part of critical applications, while the number of legacy critical systems remained on average at manageable levels. Although on average the board of an LSI discussed the topic of ICT monthly, unplanned downtime still needs to be revisited for most LSIs.

Outsourcing and operational resilience

The operational resilience of LSIs was analysed in the context of the concentration of ICT services with third-party providers at the national level (respective IPS structures). The analysis of nationally important third-party providers based on

registers of information is still undergoing thorough quality controls by NCAs as different LSIs are inconsistently classifying vendor contracts. Further improvements are expected and needed in that area to ensure that the ICT landscape is visible to LSI supervisors in their assessment of the operational resilience of LSIs.

National frameworks

Regarding the organisation of ICT supervision within NCAs, it was noted that ICT experts were pooled together in centralised business units in several NCAs following the introduction of DORA, and that a considerable effort was being made to increase the number of ICT experts within NCAs.

At the same time, regarding the regulatory framework, in most countries participating in the SSM the sanctioning of LSIs based on DORA has been enabled by the introduction of national regulatory schemes (the regulatory process is still under way in just three countries). Further efforts need to be made to build joint tools for carrying out compliance checks of LSIs based on DORA and to ensure consistency in the supervisory measures applied to LSIs.

3.5 Business models

Although decisions on business models are the full responsibility of supervised entities, certain characteristics in the practical implementation of these business models might often indicate potential challenges to credit or capital, in particular at early stages. Analysis of the LSI sector, with its wide range of different business approaches, including very specialised and focused players, therefore deserves careful attention.

Material growth of LSIs

During this biennial exercise, banks that have experienced unusually high growth in certain balance sheet positions are identified and assessed in order to understand both idiosyncratic and system-wide growth dynamics. Rapid overall growth is sometimes prioritised over profitability and might hence result in risks over the medium term. In addition, strong shifts in balance sheet structure might indicate drifts of business focus, where respective entities need to ensure sufficient expertise and sustainability.

Car financing contact group

The car financing contact group is a newly established cross-SI/LSI sector initiative which aims to enable regular sharing of information and discussions in the area of car financing. Topics of focus include credit underwriting standards, loan/lease pricing and residual value risk management, as well as identifying best practices for the car financing business. The group was established in response to major challenges in the car manufacturing industry with potential knock-on effects for car financing.

LSI fintech contact group

This contact group was launched in 2024 in response to the growing relevance of fintech and digitalisation for the LSI sector, following several related activities carried out in previous years. The group focuses on three workstreams – online deposit platforms, crypto-assets and the fintech population – and aims to facilitate the exchange of practices and experiences across the SSM. For the fintech population, a dedicated workstream analyses fintech market shares, market penetration and product offerings. It has also organised meetings between LSI fintechs and the related LSI supervisors across the different countries participating in the SSM.

IPS contact group and IPS monitoring

Institutional protection schemes (IPSs) are an important feature of the European banking sector, particularly in Germany and Austria, where they provide protection to approximately 1,300 LSIs representing more than 70% of all supervised LSIs. Many of the institutions covered by IPSs are regional savings banks or cooperative banks, which often benefit from shared services offered by central institutions or affiliated entities within the associations.

The ECB has established a supervisory contact group to facilitate discussions on IPS-related matters, with the aim of fostering consistency in supervisory practices and supporting a level playing field across different IPSs. Concerning IPSs consisting of SIs as well as LSIs, the ECB, in collaboration with the respective NCAs, carries out regular monitoring activities related to IPSs, as outlined in Article 113(7) of the CRR. These activities include assessing ongoing compliance with IPS-related regulatory requirements and initiating reviews when necessary to ensure alignment with supervisory expectations.

3.6 Governance

Proper governance is the backbone of sound banking business and has hence been a focus of the SSM for many years. A key activity for LSI oversight was the thematic review on LSI internal governance, the results of which were endorsed by the Supervisory Board in May 2022. Since then, there has been continuous follow-up aimed at remediating the weaknesses identified in the review.

Follow-up on the thematic review

Significant progress has been made in closing the identified gaps and aligning with the recommendations of the review, yet some gaps in LSI internal governance arrangements persist. Overall, LSIs are lagging behind SIs, although LSI SREP scores do not fully reflect this gap. Notable differences persist regarding the formal independence of board members[11] as well as diversity aspects, including diversity in the expertise of board members, which is far less pronounced in LSIs.

[11] Formal independence is not a legal requirement in all Member States, as the CRD does not impose a corresponding restriction. Such a requirement is provided for only in the EBA Guidelines on the assessment of the suitability of members of the management body and key function holders.

Increased supervisory attention will further help to strengthen LSI governance and address the structural weaknesses of LSI boards. Therefore, the focus on governance topics will be renewed and reinforced via dedicated activities in 2027.

Interaction with AMLA

While anti-money laundering and countering the financing of terrorism (AML/CFT) supervision is not within the remit of the ECB prudential supervision, there are often common root causes in governance and AML/CFT weaknesses, and the latter may have a material impact on a bank's prudential situation. The supervisors are invited to assess the existing information and develop a view on the potential impact of ML/TF risk exposure on the various prudential elements of an LSI (in particular for the risk areas: business model, internal governance and risk management (compliance), credit and operational risk, liquidity and funding. Consequently, the ECB cooperates with NCAs and AML/CFT authorities via dedicated meetings and workshops in the context of its LSI oversight. With the establishment of the Anti-Money Laundering Authority (AMLA) in Frankfurt a Memorandum of Understanding was concluded between the ECB and AMLA; both institutions are establishing cooperation channels and will continue to shape the practical implementation of the MoU to ensure that LSI oversight/supervision is aligned between the two bodies.

3.7 Climate change

Over the past two years, the regulatory framework related to climate and nature risks has expanded significantly, including for LSI supervision and oversight. Some major elements have marked this expansion: the publication of the ECB Guide on climate-related and environmental risks in 2020. the publication of the EBA Guidelines on the management of ESG risks in January 2025[12], and the changes introduced in CRD which further embed climate and nature risks into the EU prudential framework, strengthening expectations for institutions to identify, assess and manage climate-related and environmental risks as part of their overall risk management. In November 2025 the EBA published its guidelines on environmental scenario analysis.[13] In January 2026 the joint ESA Guidelines on ESG stress testing[14] were published and will be applicable as of 2027.

LSI climate and Nature risk contact group

The Climate and Nature risk contact group is committed to delivering practical, proportionate and focused tools for supervisors of LSIs and SNCIs.

In light of these recent regulatory developments, a dedicated group of NCAs from 18 countries was established to enhance cooperation by jointly developing tools and harmonised supervisory approaches and methodologies, fostering a common understanding and ensuring consistency in SI and LSI supervision. The overarching objectives of the group's work are to enhance preparedness for ongoing and

12 EBA (2025), "The EBA publishes its final Guidelines on the management of ESG risks", press release, 9 January; these Guidelines also apply to LSIs other than SNCIs as of January 2026 and will extend to SNCIs from 2027 onwards.

13 EBA (2025), "The EBA publishes its final Guidelines on environmental scenario analysis", press release, 5 November.

14 EBA (2026), "ESAs publish joint Guidelines on ESG stress testing", press release, 8 January.

forthcoming regulatory changes and to promote a proportionate approach to climate risk supervision for LSIs, with a particular focus on SNCIs. To support this objective, the group aims to develop tools to build supervisory capacity and facilitate engagement with LSIs on novel topics, such as prudential transition planning.

Overall, a large proportion of the LSI sector has been subject to an assessment aimed at evaluating institutions' capabilities of identifying, managing and strategically steering climate-related and environmental risks. Although so far the proportion of LSIs subject to supervisory measures following these assessments remains comparatively limited, several LSIs have received operational letters as well as qualitative supervisory requirements, including institution-specific implementation timelines, reflecting a proportionate application of supervisory measures.

3.8 Other LSI supervision and oversight activities

The activities described above were complemented by a number of additional initiatives, which are selectively listed below.

Supervisory policy and methodologies

The ECB and NCAs are continuously working on a common **SREP methodology for LSIs**. This has typically been a proportionate version of the more comprehensive and detailed SREP methodology for SIs. Recently, an enhanced multi-year approach was introduced, where the granularity and intensity of the methodology applied can be calibrated in alignment with the perceived risk and systemic importance of the supervised institution.

Linked to SREP, but also going beyond it, are the approaches to communicating and processing findings and measures targeted to LSIs. The **ECB NCA Working Group on findings and measures** (F&M) aims to enhance supervisory effectiveness by ensuring that banks address findings in a timely and adequate manner, which has widely been recognised by NCAs as a key priority. To support this objective, the project proposes the creation of an F&M repository for NCAs to use, to provide a comprehensive overview of findings – including the severity attributed – consistency across the SSM and supporting more effective follow-up and escalation.

Focused risk analysis

A simulation shows that the equity position of 679 LSIs would be materially impacted in the event of a 200 basis-point increase in interest rates.

Interest rate risk in the banking book (**IRRBB**) by its nature is – alongside credit risk – a key risk banks are exposed to. It has become even more relevant in the light of the major shifts in interest rate levels over recent years. For this reason, it has been identified as an SSM supervisory priority for 2024-2026, under the umbrella of strengthening resilience to immediate macro-financial and geopolitical shocks and addressing shortcomings in asset and liability management (ALM) frameworks.

Using granular and harmonised ITS reporting on IRRBB, which has become available since the third quarter of 2024, SSM supervisors have conducted a comprehensive analysis aimed at identifying vulnerabilities and risk drivers. This has

revealed a sizeable number of formal outliers among LSIs (679 LSIs; 38%) under the economic value of equity (EVE) perspective[15] for a 200 basis-points-up scenario. While the impact on net interest income (NII) was far less material, it was still relevant, with 153 LSIs (8%) identified as NII outliers for a 200 basis-points-down scenario.[16]

The use of fixed versus flexible interest rate agreements specifically on the asset side naturally has a major influence on the interest rate sensitivity of EVE and NII.

Regular analytical exercises

While numerous processes and analytical products form the foundation of supervisors' daily work, three activities are highlighted below to illustrate the breadth and depth of our activity.

The SREP assessment carried out by NCAs on their LSIs is the core supervisory activity that links observations from off- and on-site supervision together in a comprehensive assessment. Consequently, the annual **SREP benchmarking** is key to understanding the risk situation of the LSI sector, but also to ensuring consistency in assessments across the different NCAs. According to the last iteration of the assessment overall SREP scores for LSIs have improved, driven mainly by enhancements in business models, capital positions and IRRBB, whereas internal governance, risk management and credit risk more frequently contributed to score downgrades. The application of P2R and P2G, however, remains subject to substantial divergence across countries.

Similarly, and with a strong idiosyncratic focus, the quarterly **identification of LSI capital breaches** allows early detection of conflicts with quantitative requirements and triggers focused monitoring and potential activation of crisis management processes. The Supervisory Board is informed twice a year with a comprehensive status update on LSIs experiencing capital breaches.

Information on LSIs is also shared with a wider audience via aggregate **LSI public statistics**. The ECB releases a set of aggregated banking statistics on a quarterly basis, covering LSIs via an interactive dashboard and reports and provides a full dataset which complements the existing supervisory banking statistics on SIs. As of this year, system-wide statistics combining SI and LSI data, including per country, are also available.

3.9 LSI supervisory effectiveness and resourcing

The objective of this initiative is to gauge the effectiveness of LSI supervision and oversight at SSM level. For that purpose, a set of quantitative indicators is used, which link to NCAs' organisational approaches to LSI supervision, use of key

[15] EVE shock measures the net present value impact of various interest rate shock scenarios on equity.

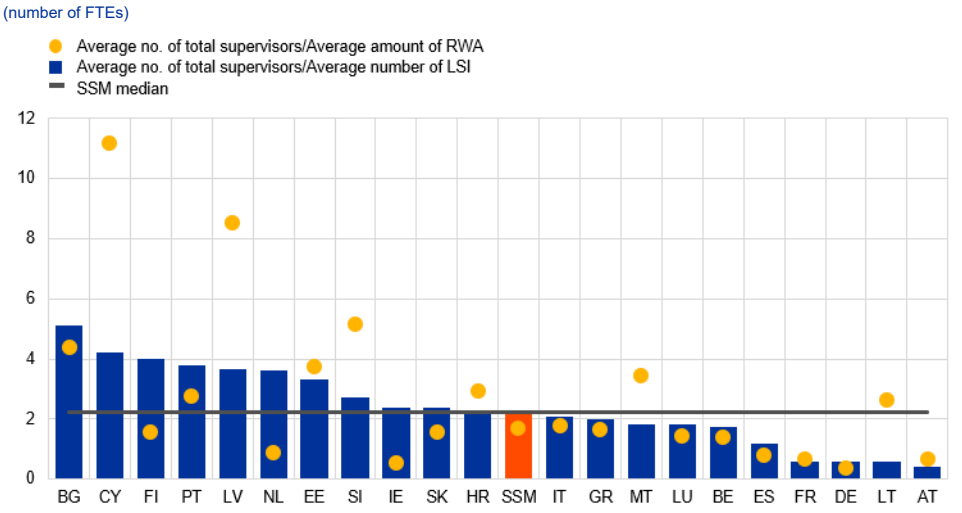
[16] NII shock measures the impact of various interest rate shock scenarios on net interest income during the first year.

supervisory tools and measures, treatment of LSIs facing capital and NPL challenges, and application of the proportionality principle.

NCAs participating in the SSM had on average 2.2 full-time employees (FTEs) per LSI supervised, up slightly from the previous two years (2 FTEs). Resource allocation across supervisory activities (on-site, off-site and horizontal) significantly changes across NCAs, with most of the supervisors allocated to off-site activities, except in the case of a few outliers.

Chart 16

Total number of LSI supervisors (FTEs) vs number of LSIs and RWA



Source: ECB calculations based on NCA reporting. The number of FTEs is compared to the 3-year running average of LSIs in the member state at highest level of consolidation and the 3-year running average of RWA respectively.

Supervisory priorities translated into numerous targeted on and off-site supervisory activities in 2025.

Building upon these resources in 2025, NCA off-site supervisory activities related to the above-mentioned priorities were supported by 111 on-site inspections focused on credit risk, 69 inspections with a primary focus on internal governance and 27 inspections focused on operation risk conducted by NCAs at individual LSIs. In total, 271 on-site inspections were conducted in 2025, representing an increase of 29 inspections compared with the 242 conducted in 2024. While on-site inspections are typically performed under the NCAs' initiative, since 2024 the ECB has initiated co-led inspections at selected LSIs.

Annex

A Structure of LSI sector: tables and charts

Table A.1

LSI licence lapses, withdrawals and acquisitions

Effect	Bank name	Effective date
Lapse	East West United Bank S.A. (LU)	07.02.2024
	Mercedes-Benz Bank GmbH (AT)	30.07.2024
	Stifel Europe Bank AG (DE)	20.08.2024
	Credit Suisse (Deutschland) Aktiengesellschaft (DE)	30.12.2024
	AS TBB pank (EE)	14.04.2025
	EUREX Clearing Aktiengesellschaft (DE)	28.10.2025
	Bank Dierickx Leys (BE)	01.01.2026
Withdrawal	Caisse de Credit Municipal de Rouen (FR)	03.04.2024
	Havilland S.A. (LU)	02.08.2024
	OWH SE i.L. (DE)	20.08.2024
	Credorax Bank Limited (MT)	26.11.2024
	BMW Finance (FR)	20.01.2025
	European American Investment Bank Aktiengesellschaft (AT)	14.03.2025
	Credit Suisse Bank (Europe), S.A. (ES)	30.04.2025
	Union Financière de France Banque (FR)	31.07.2025
	Bankhaus Obotritia GmbH (DE)	14.08.2025
	Orange Bank (FR)	16.12.2025
	ASTROBANK PUBLIC COMPANY LIMITED (CY)	18.12.2025

Note: Entities at the highest level of consolidation (excluding subsidiaries and branches of foreign banks) excluding mergers.

Table A.2

New SSM supervised entities

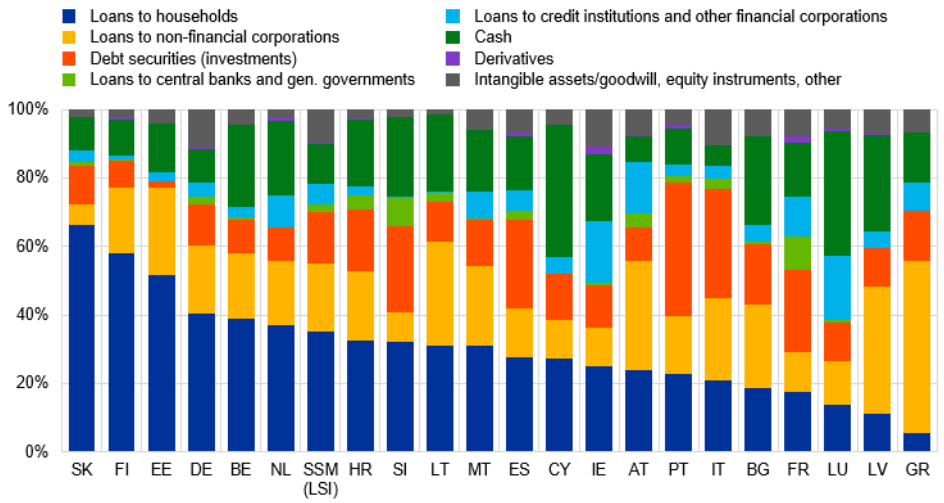
Entity type	Bank name	Effective date
Credit institution	AS INDEXO Banka (LV)	16.05.2024
	ClearBank Europe N.V (NL)	08.08.2024
	BEA INTERNATIONAL S.A.S (FR)	16.01.2025
	FundBank (Europe) S.A. (LU)	08.05.2025
	MBEU Designated Activity Company (IE)	17.12.2025
(Mixed) financial holding	EUROPEAN MERCHANT BANK HOLDINGS, UAB (LT)	10.01.2024
	Scalable GmbH (DE) (incl. Scalable Capital Bank GmbH)	10.09.2025
	Global Heart Beteiligungsgesellschaft mbH (DE)	14.09.2024
	Access Group Malta Holdings Limited (MT) (incl. Access Bank Malta Limited)	09.12.2024
	Baader Beteiligungs GmbH (DE)	12.12.2024
	WEREALIZE.COM LIMITED (GR)	17.12.2024
	Brown Brothers Harriman (Luxembourg) Holdings S.à r.l. (LU)	02.09.2025
	Thrivest Holding Ltd (GR)	31.12.2025

Notes: Entities at the highest level of consolidation (excluding subsidiaries and branches of foreign banks).

Chart A.1

Composition of assets of LSIs: fourth quarter of 2025

(percentages)

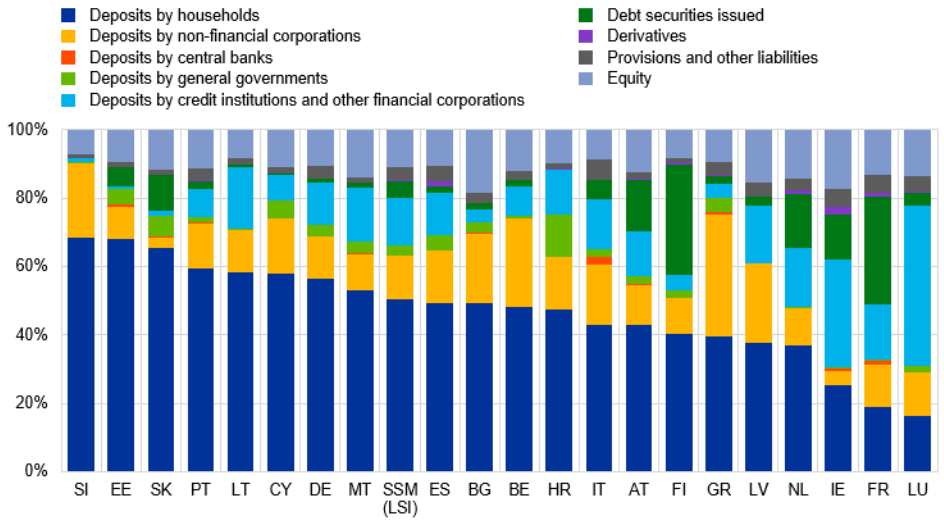


Source: ECB calculations based on SSM List of Supervised Entities, FINREP F 01.01, FINREP F 01.01_dp, FINREP F 18.00a, FINREP F 18.00a_dp.
Notes: Data cover SSM LSIs (excluding branches) at the highest level of consolidation (excluding FMIs and institutions that were significant between the fourth quarter of 2023 and the fourth quarter of 2025). Loan breakdown is based on gross loan amount; remaining balance sheet positions are reported in carrying amounts.

Chart A.2

Composition of liabilities of LSIs: fourth quarter of 2025

(percentages)

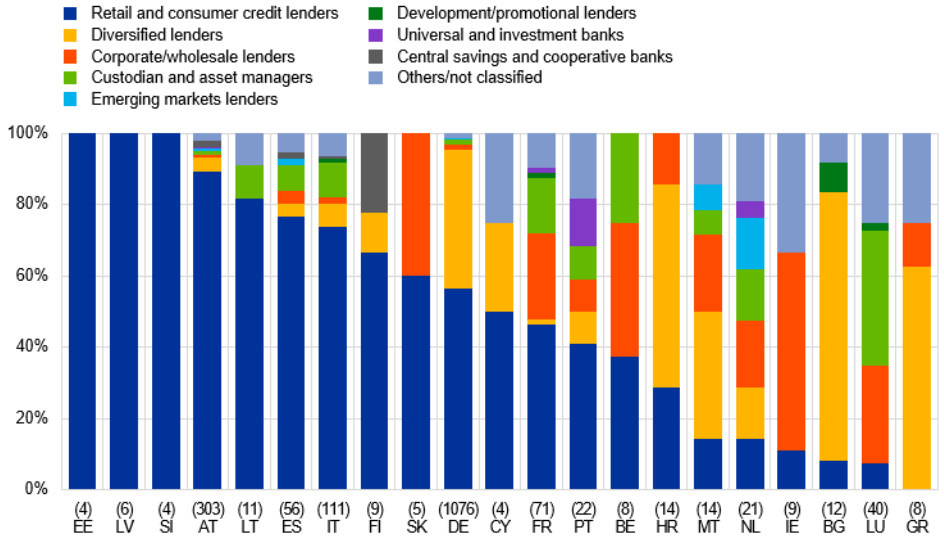


Source: ECB calculations based on SSM List of Supervised Entities, FINREP F 01.02, F 01.02_dp, F 08.01.a, F 08.01.a_dp.
Note: Data cover SSM LSIs (excluding branches) at the highest level of consolidation (excluding FMIs and institutions that were significant between the fourth quarter of 2023 and the fourth quarter of 2025).

Chart A.3

Structure of the LSI sector by business model across countries

(percentages by number of entities)



Source: ECB calculations based on the internal business model classification framework.
Note: Data cover SSM LSIs (excluding branches) at the highest level of consolidation (excluding FMIs and institutions that were significant between the fourth quarter of 2023 and the fourth quarter of 2025).

B The SSM approach to LSI supervision

Organisation of banking supervision in the SSM

The role of the Single Supervisory Mechanism (SSM), which comprises the ECB and the national competent authorities (NCAs) of participating Member States, is to enable a consistent and effective implementation of the EU policy on the prudential supervision of credit institutions in the euro area and thus ensure credit institutions are subject to supervision of the highest quality. The SSM's three main objectives are to: ensure the safety and soundness of the European banking system; increase financial integration and stability; and ensure consistent supervision.

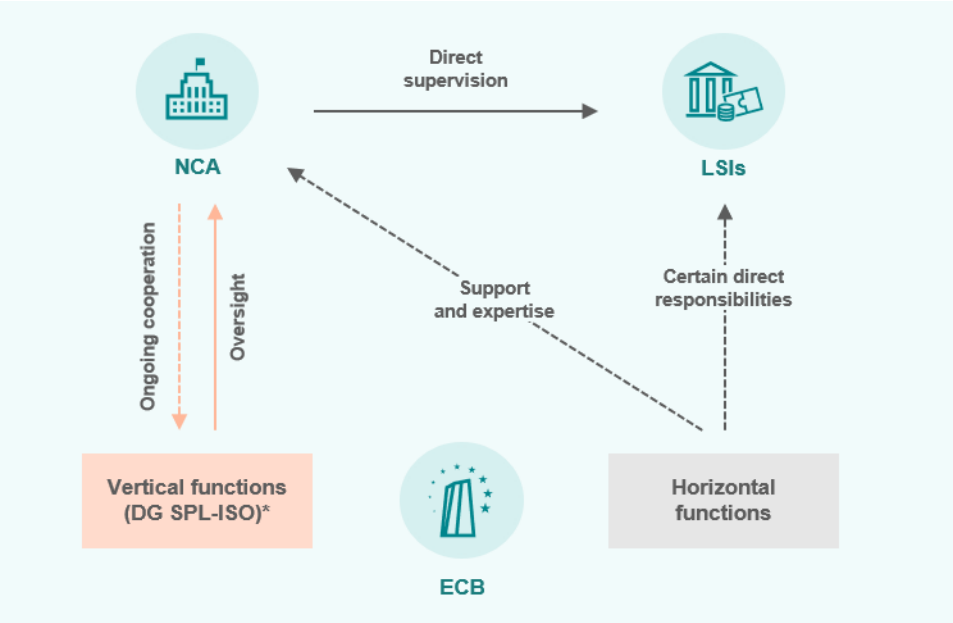
Responsibilities for the direct supervision of SSM credit institutions are split: they lie with the ECB for all significant institutions (SIs), and with the NCAs for the less significant institutions (LSIs) in their respective jurisdictions. With regard to LSI supervision, the ECB performs an oversight role. The ECB and the NCAs perform their tasks in close cooperation, based on the procedures and responsibilities set out in the SSM Regulation[17] and the SSM Framework Regulation[18], taking into account country-level specificities. The NCAs plan and carry out their supervisory activities for LSIs using their own resources and decision-making procedures. However, for certain common procedures the ECB has full responsibility for all supervised credit institutions. These are carried out in cooperation with NCAs and concern, for instance, the granting and withdrawal/lapsing of bank licences and the acquisition of qualifying holdings in accordance with Article 4(1)(c) of the SSM Regulation[19].

[17] Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287, 29.10.2013, p. 63).

[18] Regulation (EU) No 468/2014 of the European Central Bank of 16 April 2014 establishing the framework for cooperation within the Single Supervisory Mechanism between the ECB and national competent authorities and with national designated authorities (OJ L 141, 14.5.2014, p. 1).

[19] For these procedures the ECB retains full responsibility for all supervised credit institutions, both SIs and LSIs. For LSIs, the entry point for all applications is the national supervisor which cooperates closely with the ECB throughout the procedure, while the ECB is responsible for taking the final decision.

Figure B.1
Organisation of LSI supervision and oversight



Source: ECB.
Note: * DG "Specialised Institutions and Less-Significant Institutions – Division Institutional & Sectoral Oversight".

Roles and responsibilities in LSI supervision and oversight

While NCAs are in charge of the direct supervision of LSIs, the ECB in its oversight function is responsible for the effective and consistent functioning of the SSM. The ECB needs to ensure that high supervisory standards are consistently applied to all banks in the euro area, including LSIs, while taking the different features of the national banking systems and the respective supervisory approaches into account.

NCAs tend to split their supervisory activities with respect to LSIs into off-site and on-site work. On-site inspections enable supervisors to gain a very intrusive and in-depth perspective into supervised banks, typically focusing on specific topics or risk areas. Off-site supervisory activities are generally broader in nature and include ongoing interaction with supervised entities, as well as different types of bank-specific or horizontal assessments. All these activities are also reflected in the regular Supervisory Review and Evaluation Process (SREP).

The ECB's oversight role focusses on ensuring consistent supervisory approaches across the SSM. This encompasses the development of common methodologies as well as the execution of benchmarking exercises. To ensure that supervisory activities remain proportionate and commensurate to the risks that individual institutions pose, the ECB, jointly with NCAs, has developed a classification regime for LSIs. LSIs are classified on the basis of their impact on the financial system ("high-impact LSIs", 105 LSIs in 2026 – list published annually) and their risk profile ("high-risk LSIs", 92 LSIs in the first quarter of 2026 – list not published). The resulting classification has implications for the frequency and granularity of supervisory activities and determines which notifications NCAs have to submit to the ECB, and whether this has to be done ex ante or ex post. An additional element of

formal classification is the concept of small and non-complex institutions (SNCIs), a classification approach that became effective with the revised Capital Requirements Regulation (CRR II) in 2021. SNCIs are subject to several elements of proportionality adjustments to regulatory and supervisory requirements. For more details, please see Section 2.2 of this report.

As the SREP process is a core element of supervisory activity, the ECB and the NCAs have developed a common SREP methodology for LSIs, based on the EBA SREP Guidelines, the methodology for SIs and existing national SREP methodologies. While NCAs retain full responsibility for carrying out assessments and may exercise a degree of flexibility when implementing the LSI SREP methodology, the framework aims to promote supervisory convergence, ensure a minimum level of harmonisation and support continuity between the assessment of SIs and LSIs. Technically this is supported via the SSM information management system (the IMAS portal), which facilitates assessment on the basis of the common SREP methodology and allows supervisors of SIs and LSIs to record their assessments in a single system across the SSM. The outcomes of NCA SREP assessments are being reviewed by ECB oversight.

The ECB's oversight function is carried out primarily by dedicated country desks with support from horizontal functions and risk experts.

On a day-to-day basis, the ECB's oversight of LSIs focuses on high-impact and high-risk LSIs and is divided between vertical oversight and horizontal activities. The vertical function is performed by 21 country desks, which maintain a constant dialogue with NCAs on supervisory topics and LSI crisis cases. A strategic team supports this work with horizontal analyses, thematic reviews on specific supervisory topics and the development and maintenance of analytical tools. The ECB's horizontal business areas responsible for authorisations, policy and methodology development and risk analysis contribute to these activities with their expertise.

C LSIs per country

Table C.1

Number of LSIs and related classification by country

Country	Number of entities (data at highest level of consolidation, excluding branches)	IPS members	SNCIs	High-impact LSIs
AT	303	209	273	10
BE	8	-	5	2
BG	12	-	-	3
CY	4	-	-	2*
DE	1,076	978	876	24
EE	4	-	1	3
ES	56	32	40	5
FI	9	-	2	3
FR	71	-	38	4
GR	8	-	2	2
HR	14	-	12	2
IE	9	-	1	3
IT	111	40	65	6
LT	11	-	11	1
LU	40	-	5	3
LV	6	-	2	3
MT	14	-	3	3
NL	21	-	5	5
PT	22	-	13	3
SI	4	-	3	1
SK	5	-	1	3
SSM	**1,808**	**1,259**	**1,358**	**91**

Note: Since the table includes FMIs, the total number of LSIs differs from the number of LSIs published as part of the supervisory banking statistics. The reference date is 31 December 2025. The table includes only those banks reporting FINREP together with COREP at that point in time.
*Due to M&A activity in Q4 2025, the number of HI LSIs in CY fell temporarily to 2 in Q4 2025; as of Q1 2026, the number of HI LSIs in CY is again 3.

D List of high-impact LSIs

Table D.1

List of high-impact (HI) LSIs in 2025

Country		Name	Total assets, EUR billions (year-end 2025)
1	AT	Raiffeisenlandesbank Burgenland und Revisionsverband eGen	4.82
2	AT	Hypo Vorarlberg Bank AG	15.38
3	AT	Raiffeisen Landesbank Vorarlberg mit Revisionsverband eGen	6.48
4	AT	Raiffeisen Landesbank Kärnten und Revisionsverband eGen	4.57
5	AT	RLB-Stmk Verbund eGen	17.50
6	AT	Raiffeisen-Landesbank Tirol AG	10.47
7	AT	Raiffeisenverband Salzburg eGen	11.27
8	AT	Wüstenrot Wohnungswirtschaft registrierte Genossenschaft mit beschränkter Haftung	7.33
9	AT	Oberbank AG	29.36
10	AT	HYPO NOE Landesbank für Niederösterreich und Wien AG	16.70
11	BE	FinAx	13.39
12	BE	Euroclear Holding	226.90
13	BE	vdk bank	5.83
14	BG	INVEST CAPITAL AD	5.88
15	BG	BULGARIAN DEVELOPMENT BANK	3.47
16	BG	First Investment Bank	9.80
17	CY	Housing Finance Corporation	1.07
18	CY	ANCORIA INVESTMENTS PLC	0.89
19	DE	Mittelbrandenburgische Sparkasse in Potsdam	19.17
20	DE	Mercedes-Benz Bank AG	15.38
21	DE	Nassauische Sparkasse	15.25
22	DE	Bank Pictet & Cie (Europe) AG	13.09
23	DE	Sachsen-Finanzgruppe	20.12
24	DE	Lloyds Bank GmbH	26.97
25	DE	Stadtsparkasse Düsseldorf	15.41
26	DE	BMW Bank GmbH	29.07
27	DE	IKB Deutsche Industriebank Aktiengesellschaft	14.35
28	DE	Landesbank Saar	19.23
29	DE	Sparkasse Pforzheim Calw	17.63
30	DE	ProCredit Holding AG	11.60
31	DE	Sparkasse KölnBonn	29.18
32	DE	SMBC Bank EU AG	27.74
33	DE	Stadtsparkasse München	24.02
34	DE	Frankfurter Volksbank Rhein/Main eG	19.33
35	DE	Clearstream Holding AG	18.64
36	DE	BBBank eG	22.32
37	DE	Sparda-Bank Baden-Württemberg eG	15.54
38	DE	Deutsche WertpapierService Bank AG	0.91

Country		Name	Total assets, EUR billions (year-end 2025)
39	DE	Berliner Volksbank eG	20.57
40	DE	LBS Landesbausparkasse NordWest	21.48
41	DE	Sparkasse Hannover	22.14
42	DE	Finanzholding der Sparkasse in Bremen	15.13
43	DE	TOYOTA Kreditbank GmbH	23.58
44	DE	Kreissparkasse Köln	30.86
45	EE	Bigbank AS	3.31
46	EE	Coop Pank AS	2.70
47	EE	AS Inbank	1.58
48	ES	Caja Laboral Popular Coop. de Crédito	27.61
49	ES	Caja Rural de Navarra, S. Coop. de Crédito	18.17
50	ES	Banca March, S.A.	21.43
51	ES	Banco Cooperativo Español, S.A.	12.94
52	ES	Cecabank, S.A.	17.09
53	FI	Aktia Bank Abp	10.01
54	FI	S-Pankki Oyj	13.24
55	FI	Säästöpankkiliitto osk	13.23
56	FR	C.R.H. - Caisse de refinancement de l'habitat	21.90
57	FR	Financière IDAT SAS	14.79
58	FR	Axa banque	12.92
59	FR	Rothschild & Co	19.99
60	FR	Banque centrale de compensation	757.33
61	GR	Optima bank S.A.	7.56
62	GR	Aegean Baltic Bank S.A.	1.22
63	HR	OTP banka d.d.	10.02
64	HR	Hrvatska poštanska banka d.d.	8.56
65	IE	Permanent tsb Group Holdings plc	30.47
66	IE	Wells Fargo Bank International Unlimited Company	11.95
67	IE	Macquarie Bank Europe Designated Activity Company	5.89
68	IT	CASSA CENTRALE RAIFFEISEN DELL'ALTO ADIGE - RAIFFEISEN-LANDESBANK SUEDTIROL A.G.	3.77
69	IT	CASSA DI RISPARMIO DI BOLZANO S.P.A. - SUDTIROLER SPARKASSE AG	15.71
70	IT	MAURIZIO SELLA - SOCIETA' IN ACCOMANDITA PER AZIONI	24.51
71	IT	BANCA GENERALI - SOCIETA' PER AZIONI (IN FORMA ABBREVIATA GENERBANCA)	18.46
72	IT	BRIANZA UNIONE DI LUIGI GAVAZZI E STEFANO LADO S.A.P.A.	19.59
73	IT	MEDIOCREDITO CENTRALE - BANCA DEL MEZZOGIORNO SPA	15.99
74	LT	LIETUVOS CENTRINĖ KREDITO UNIJA	1.23
75	LU	Bank of China (Europe) S.A	12.17
76	LU	PayPal 2 S.à r.l.	11.84
77	LU	Banque Raiffeisen	12.04
78	LV	Signet Bank AS	0.66
79	LV	Akciju sabiedrība "Rietumu Banka"	1.38

Country		Name	Total assets, EUR billions (year-end 2025)
80	LV	BluOr Bank AS	1.13
81	MT	Lombard Bank Malta plc	1.46
82	MT	APS BANK P.L.C.	4.64
83	MT	FIMBank plc	1.16
84	NL	Nationale-Nederlanden Bank N.V.	25.83
85	NL	Triodos Bank N.V.	17.57
86	NL	NIBC Bank N.V.	21.75
87	NL	Achmea Bank N.V.	20.64
88	NL	Van Lanschot Kempen N.V.	17.75
89	PT	CAIXA ECONÓMICA MONTEPIO GERAL, CAIXA ECONÓMICA BANCÁRIA, S.A.	19.86
90	PT	Caixa Central - Caixa Central de Crédito Agrícola Mútuo, CRL	28.60
91	PT	BANCO CTT, S.A.	5.00
92	SI	DELAVSKA HRANILNICA d.d. LJUBLJANA	2.65
93	SK	365.bank, a.s.	4.53
94	SK	Prvá stavebná sporiteľňa, a.s.	2.88
95	SK	Prima banka Slovensko, a.s.	7.03

Note: FMIs are included in the list above contrary to the rest of this report.

E Useful links by country

Table E.1
Overview NCAs

Country	National competent authority
Belgium	Nationale Bank van België/Banque Nationale de Belgique
Bulgaria	Bulgarian National Bank
Germany	Bundesanstalt für Finanzdienstleistungsaufsicht Deutsche Bundesbank
Estonia	Finantsinspektsioon
Ireland	Central Bank of Ireland
Greece	Bank of Greece
Spain	Banco de España
France	Autorité de contrôle prudentiel et de résolution
Croatia	Hrvatska narodna banka
Italy	Banca d'Italia (analytical references: Financial Stability Report; Notes on Financial Stability and Supervision)
Cyprus	Central Bank of Cyprus
Latvia	Latvijas Banka
Lithuania	Lietuvos bankas
Luxembourg	Commission de Surveillance du Secteur Financier
Malta	Malta Financial Services Authority
Netherlands	De Nederlandsche Bank
Austria	Finanzmarktaufsicht
Portugal	Banco de Portugal
Slovakia	Národná banka Slovenska
Slovenia	Banka Slovenije
Finland	Finanssivalvonta

F Classification of LSI business models

Business model classification allows for analysis of profitability, business model viability and structural changes in the banking system. In particular, it permits peer group comparisons and analysis. Classification is primarily based on income-generating activities, where we distinguish between: (i) institutions focused on traditional credit business and related fee-generating operations; (ii) institutions that rely on non-lending-related fee business, such as asset management, mergers and acquisitions, securities and trading; (iii) institutions that are involved in both lending- and non-lending-related fee business. In a second stage, institutions are further distinguished according to their funding strategies, client base and geographical focus.

The 15 categories (including “Not available”) are:

Asset managers: Asset managers invest on their clients’ behalf and asset management fees are their most important source of income. Firms engaged in private banking with a focus on wealth management count as asset managers if they rely predominantly on fee-based income.

Custodians: These banks safeguard financial assets for their clients, fees being their primary source of income.

Corporate/wholesale lenders: Lenders whose main clientele is the corporate and wholesale sector, both as clients and as a source of funding.

Development/promotional lenders: State-owned banks which finance projects governments deem to be of public utility. They are typically large and have a high share of wholesale lending, on which they generate low margins.

Diversified lenders: Institutions with a balanced exposure to the retail and wholesale sectors. In terms of funding, diversified lenders are often mainly financed by their clients (both retail and corporate), although sometimes this is complemented by significant wholesale funding.

Central savings or cooperative banks: These entities provide banking services within the system of savings or cooperative banks, facilitating the flow of funds within the group from banks with excess liquidity to those with liquidity needs.

Retail banks: Focused on lending to retail clients, in many cases with a strong emphasis on residential real estate lending. Generally funded through deposits, with moderate reliance on wholesale funding.

Consumer credit lenders: Also focused on retail clients, these lenders specialise in consumer finance loans. Their funding can be heterogeneous, some relying mostly on retail deposits while others use wholesale funding.

Car finance banks: These entities are linked to car producers. They offer loans to finance car purchases for retail clients, and sometimes also trade financing for their retail network. Funding is mostly wholesale.

Financial market infrastructures (central clearing counterparties, CCPs): These entities offer central clearing services for derivatives and manage collateral, earning fees as their main income source.

Financial market infrastructures (central securities depositaries, CSDs): These offer post-trade services as a central securities depositary, mainly involving settlement, legal transfer of ownership and custody. Fees for these services constitute the main income source.

Emerging market lenders: Institutions that operate in countries classified as emerging markets (EMs). They include both banks domiciled in EMs with predominantly domestic exposures and banks domiciled elsewhere, but with significant EM exposures. They have a similar business model to diversified lenders but feature higher lending margins and higher risk.

Investment banks: These have a relatively low share of net interest income (mostly wholesale); fees, commissions and trading activities are the main income source.

Other: Banks that operate a niche business model and cannot be classified in any of the other categories.

Not available: Banks that cannot be classified due to data limitations.

G Methodological comments

NCA annual reporting

Over recent months the ECB has been working with NCAs to improve NCA reporting templates and address various methodological constraints identified in previous years. The introduction of operational definitions aims to reduce potential misunderstandings of supervisory concepts. At the same time, reporting by NCAs on their activities and the entities under their direct supervision has been streamlined. However, data collected can only be meaningfully analysed if NCAs have interpreted the information requests in a similar manner. There remains some scope for NCAs to interpret the reporting of information differently, which can create inconsistencies in the data collected. This can affect the comparability of information received.

The survey of supervisory activities on which this report is based cannot provide a comprehensive picture of all supervisory activities conducted by NCAs on LSIs in 2024 and 2025. The analysis focuses only on reported information, and it is important to bear in mind that not all dimensions of supervisory activities can be reflected.

The report primarily focuses on the quantitative dimension of the NCAs' performance of their supervisory tasks, such as the number of meetings held. It does not detail qualitative aspects related to the methodology being followed, including the intensity of supervisory activities related to different priority groups of LSIs.

LSI supervisory reporting

Implementing Technical Standards (ITS) data (FINREP, COREP) are the key source for quantitative references to country aggregates for LSIs throughout this report. The cut-off date has been set at 16 June 2026 for LSI data unless otherwise stated; any information received after that date may not have been fully reflected. The sample of LSIs refers to banks at their highest level of consolidation excluding branches and – unless otherwise indicated – excluding FMIs such as central counterparties and central securities depositories; the size of these usually exceeds the significance threshold even though they might not be classified as SIs. Confidentiality rules protecting dissemination of individual bank data are in place. Data on individual subsets, such as country-level information, can only be shared if the sample includes at least three banks and none of these accounts for more than 85% of either numerator or denominator within the perimeter. More details can be found in the methodological note for the publication of aggregated Supervisory Banking Statistics.

The whisker charts display the 10th and 90th percentiles (whiskers), the median (yellow mark in the blue bars) and the interquartile range between the 25th and 75th percentiles (blue bars). Outliers below the 10th or above the 90th percentile are not shown in the boxplots.

LSI sectors in Member States participating in the SSM vary greatly in terms of number, asset size and business model. This has implications for the comparability of LSI country aggregates. For these reasons, this report should be seen as a high-level overview of selected supervisory practices of NCAs, rather than a judgement-based comparison with definite findings or conclusions.

A different approach to the number of entities was chosen compared with the ECB Annual Report on supervisory activities.

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For specific terminology please refer to the SSM glossary (available in English only).

PDF ISBN 978-92-899-8076-0, ISSN 2811-678X, doi:10.2866/0493725, QB-01-26-255-EN-N
HTML ISBN 978-92-899-8075-3, ISSN 2811-678X, doi:10.2866/7832520, QB-01-26-255-EN-Q