EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Written overview for the exchange of views of the Chair of the Supervisory Board of the ECB with the Eurogroup on 9 November 2026

Digital innovation, and in particular Artificial Intelligence (AI), are central at the current juncture when assessing the state of the European banking sector – as key drivers of banks' competitiveness but also as potential risks to financial stability. Banks thus need to remain financially and operationally resilient. Digital tools are also an important lever we are using to make our supervision more efficient, effective and risk-based.

The European Commission's communication on the competitiveness of the EU banking sector provides a unique opportunity to advance the institutional framework – by promoting market integration, making it easier for banks to scale up digital business models, by streamlining regulation, making it more conducive to growth and innovation, and by safeguarding the resilience banks need to compete successfully in the future.

Risk outlook and state of the European banking sector

The euro area banking sector remains financially sound.[1] Capital and liquidity positions are robust; asset quality is broadly stable. Bank profitability has increased in recent years, and banks are paying out around half of their profits in the form of dividends or share buybacks.

The banking sector has sufficient capital headroom to lend to the economy and take risks. The ECB's euro area bank lending survey consistently suggests that, over the past few years, lending dynamics to firms have primarily been shaped by risk perceptions, risk tolerance and weak credit demand, with no supply side constraints being evident.[2]

Geopolitical risks and the conflict in the Middle East are clouding the outlook for global growth and inflation.[3] Headline inflation has risen, reflecting higher prices for energy and, to a lesser extent, food, while core inflation remained broadly stable.

So far, the European economy has been fairly resilient to recent shocks. Euro area real GDP growth has been supported by private consumption, government spending and net exports.[4] Corporate balance sheets are generally resilient. AI-related activity is increasingly visible across the economy.

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[1] Buch, Claudia (2026), "Hearing of the Committee on Economic and Monetary Affairs of the European Parliament", introductory statement at the Hearing of the Committee on Economic and Monetary Affairs of the European Parliament, Brussels, 2 July.

[2] See the Euro area bank lending survey web page on the ECB's website.

[3] ECB (2026), "External environment", *Economic Bulletin*, Issue 6 and ECB (2026), *Monetary policy statement*, Berlin, 10 September.

[4] ECB (2026), "Economic activity", *Economic Bulletin*, Issue 6.

Yet, these very same factors could create future risks to financial stability.

Increased levels of public debt limit the ability of governments to cushion future shocks. Sufficient buffers in the financial sector are thus needed to absorb potential losses.[5] Higher risk-free rates and a widening of spreads following the recent repricing of sovereign debt are already pushing up banks' funding costs.

A tightening of financing conditions and the materialisation of geopolitical risks are increasing pressure on parts of the corporate sector, particularly firms exposed to higher energy prices and more fragile global value chains. Meanwhile, corporate insolvencies are rising.[6] Banks' asset quality could thus deteriorate.

An increasing indebtedness of AI-related firms and stress in private credit markets could eventually spill over to banks.[7] Generally, the exposures of euro area financial institutions to private credit are relatively small and concentrated in the largest institutions. Significant banks in the euro area play a relatively minor role in providing direct funding to firms along the AI supply chain.[8] Nevertheless, banks are closely connected to non-bank financial intermediaries and are affected by overall market conditions. So if risks to financial stability were to materialise, European banks would not be immune.

On the supervisory side, we are closely monitoring banks' performance, a potential deterioration in credit quality and underwriting standards, links to private credit, and potential risks emerging in other parts of the financial system.[9] If we have relevant findings, we escalate supervisory measures to ensure that banks remediate them in a timely manner.

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[5] International Monetary Fund (IMF) (2026), "Beneath the Resilience: Rising Risks, Unresolved Vulnerabilities". *Global Financial Stability Report – Resilience, Risk, and Transformation*, October.

[6] See Section 1.3 of ECB (2026), *Financial Stability Review*, May and Bednarek, Peter, Coulier, Laura, Mikkonen, Katri, Pancaro, Cosimo and Wendelborn, Jonas (2026), "Rising bankruptcies, resilient loan books: unpacking euro area corporate credit risk", Special feature, *Financial Stability Review*, ECB, May.

[7] Cera, Katharina, Dieckelmann, Daniel, Nikolov, Kalin, Schepens, Glenn and Schwartz Blicke, Oscar (2026), "Stress in global private credit markets and its implications for euro area financial stability", Special feature, *Financial Stability Review*, ECB, May.

[8] According to ECB AnaCredit data for the second quarter of 2026, AI-related lending is estimated to be approximately €62 billion, representing 1.2% of euro area banks' total committed corporate exposures. The estimate covers firms associated with AI development, including data centres (NACE codes J63.11), semi-conductors (C26.1, C26.2 and G46.51), and software developers (J58.29, J62.01, J62.02 and J65.03). Some data centres may be classified under L68.20, which covers the rental and operation of owned or leased real estate and explicitly includes data centres; these are not captured in the estimate. Indirect lending, including lending through special purpose vehicles, is also excluded.

[9] Donnery, Sharon (2026), "Sound credit, sustainable growth", *The Supervision Blog*, ECB, 24 February.

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Digitalisation and AI require sound strategic planning by banks

At the same time, digitalisation and financial innovation are creating opportunities for European banks to enhance efficiency, improve customer services and strengthen their competitiveness, as the Eurogroup stressed in its statement on digital finance in July.[10]

Banks under the ECB's supervision make extensive use of new technologies. Virtually all banks integrate AI into their tools and activities, from fraud detection and credit assessment to document analysis and customer services.[11] The transformative potential of these technologies can be substantial, as many tasks performed in banks can be automated or augmented.[12] Many banks outsource key activities to external providers of digital services. While this enables banks to operate more efficiently, it increases operational dependencies.

Around one-third of banks directly supervised by the ECB are engaged in crypto-asset activities, while some are exploring the tokenisation of deposits.[13] The Eurosystem is providing key parts of the required public infrastructure through its Pontes initiative, which enables wholesale tokenised asset transactions to be settled in central bank money.[14] This initiative was launched in September this year. The longer-term project Appia will develop an integrated ecosystem for financial services based on distributed ledger technology. These initiatives build bridges between different private sector payment solutions, ensure interoperability and set common standards.

While new technologies allow banks to remain competitive, they can elevate risks and further exacerbate dependencies.

Frontier AI models in particular are reshaping the cyber threat landscape by making it quicker and cheaper to identify and exploit vulnerabilities in IT systems. Therefore, banks need to strengthen their cyber defences by focusing on their operational resilience, allocating sufficient resources and investing adequately.

Supervision has a key role to play in raising awareness, setting expectations and sharing information. To this end, all banks under the ECB's supervision were asked to submit action plans that address risks related to frontier AI models by the end of October 2026.[15] We are now assessing these plans to identify areas for improvement and share feedback on good practices with the industry.

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[10] Eurogroup (2026), *Statement of the Eurogroup+ on digital finance*, Council of the European Union, 9 July.

[11] More than 90% of banks under ECB supervision use AI tools and 85% use generative AI; see Buch, Claudia (2026), "Digital innovation: hindrance or booster for banks' business models?", keynote speech at the annual Foreign Bankers' Association of the Netherlands conference, Amsterdam, 22 September.

[12] World Economic Forum (2025), "Artificial Intelligence in Financial Services", *white paper*, January.

[13] A crypto-asset service is defined in Article 3(1)(16) of Regulation (EU) 2023/1114 of the European Parliament and of the Council of 31 May 2023 on markets in crypto-assets (OJ L 150, 9.6.2023, p. 40), Markets in Crypto-Assets Regulation (MiCAR).

[14] See ECB (2026), "Eurosystem brings central bank money to tokenised finance", *press release*, 21 September and the Pontes web page on the ECB's website.

[15] ECB (2026), *Dear CEO letter on addressing AI-enabled cybersecurity threats*, 7 July.

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Generally, our approach to supervision is technology-neutral. But we expect banks to understand the risks they are taking so that they can still provide critical services even when disruptions occur. Digitalisation should be part of a coherent long-term strategy[16] comprising reliable information systems, sound governance and risk management, and sufficient budgets.

Reforms of European supervision are progressing well

As banks' digital activities and risk profiles evolve, we are reforming the way we conduct supervision. We are improving the efficiency of our work, increasing supervisory effectiveness and becoming more risk-based. This reform programme started a couple of years ago and is now well under way.[17]

One key element of our strategy is to digitalise supervisory processes and interactions with banks end-to-end, also using AI tools.[18]

Three recent developments regarding the ECB's broader supervisory reforms are worth highlighting.[19]

First, approval times for decisions on capital-related transactions and securitisations have been shortened from several months to about two weeks. One precondition for approvals is, of course, that prudential standards are fully met.

Second, we have reviewed and streamlined our supervisory guides, reports, letters and methodologies – discontinuing 40 out of 100 of them.[20] The classification of ECB supervisory guidance documents has been updated to clarify their non-binding, non-legal nature and to enhance consistency across publications.

Third, we have clear supervisory priorities and follow up on supervisory findings by using a tiered approach. Where findings are less severe, we leave the follow-up to the banks. But for more severe findings, we escalate using appropriate supervisory tools, so that banks remedy identified weaknesses within a clear time frame.

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[16] ECB (2024), *Digitalisation: key assessment criteria and collection of sound practices*.

[17] Donnery, Sharon and Amis, Patrick (2026), "Streamlining supervision, safeguarding resilience: tangible progress on our reform agenda", The Supervision Blog, ECB, 6 July. ECB (2025), "Streamlining supervision, safeguarding resilience: the ECB's agenda for more effective, efficient and risk-based European banking supervision", report, December.

[18] Machado, Pedro (2026), "Technology is neutral, governance is not: AI adoption in the banking sector", keynote speech at the KPMG RiskTech Conference, Frankfurt am Main, 24 February.

[19] ECB (2025), *Streamlining supervision, safeguarding resilience: the ECB's agenda for more effective, efficient and risk-based European banking supervision*.

[20] ECB (2026), "ECB streamlines supervisory guidance to improve clarity and transparency", *press release*, 26 June. Elderson, Frank (2026), "Simpler guidance, more effective supervision", The Supervision Blog, ECB, 26 June. The figure of around 100 publications excludes publications that remain in the inventory but have already been identified as outdated. A broader inventory count, previously reported as around 130, includes these publications.

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This is what simplification means for us – removing undue complexity and duplication, enhancing proportionality and streamlining processes. Simplification should not mean weakening prudential standards or reducing supervisors' ability to act when risks build up.

Regulatory reform should follow the same principle: reducing unnecessary complexity and enhancing proportionality, while preserving the prudential standards that strengthen the European banking sector.

Digitalisation strengthens the case for an integrated European banking market

Competitive banks need sound digital business models anchored in modern IT infrastructure, data capabilities and cyber resilience. Realising the full benefits of the necessary investments often requires scale. However, in Europe, fragmented markets can prevent banks from spreading technology costs across a sufficiently large customer base. The economic costs of this fragmentation in terms of growth and efficiency are quite sizeable.[21]

The European Commission's communication on the competitiveness of the EU banking sector provides an opportunity to solve this conundrum. By putting the Single Market and the banking union centre stage, it can enhance integration and competition as well as resilience.[22]

The three parts of the reform agenda need to be implemented as a package.

First, completing the banking union would improve risk sharing, cross-border integration and crisis preparedness. The following elements are mutually reinforcing: a European deposit insurance framework; the freer allocation of capital and liquidity across borders within banking groups, accompanied by adequate safeguards; and a European solution to provide liquidity in resolution, enhancing the credibility of the resolution framework.

Second, a greater harmonisation of legal rules affecting banks would reduce fragmentation. Despite the Single Rulebook, many rules, ranging from mortgage market regulation to insolvency laws and consumer protection, differ across countries. This makes providing banking services across borders highly complex and costly.[23] Similarly, national differences in digital legislation can hinder banks' digital strategies, including the tokenisation of deposits. Moving from directives to regulations would be an important step towards greater harmonisation.

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[21] Brandão-Marques, Luis, Capelle, Damien, Cerdeiro, Diego A., Fernandes, Adriano, Fotiou, Alexandra, Huang, Yueling, Li, Claire, Mano, Rui, Musso, Alberto, Onokpasa, Ese, Varghese, Richard and Vaziri, Maryam (2026), "Deeper and More Integrated Financial Markets to Foster Growth and Resilience in Europe", *Staff Discussion Notes*, No 2026/002, IMF, June; Capelle, Damien, Fernandes, Adriano, Kruger, J.J. and McAdam, Peter (2026), "Barriers to a European Banking Union", *IMF Working Paper*, No 2026/123, IMF, June.

[22] European Commission (2026), *Commission outlines measures to strengthen Europe's banking sector and support growth*, communication on the competitiveness of the EU banking sector, 17 July.

[23] High-Level Task Force on Simplification (2025), *Simplification of the European prudential regulatory, supervisory and reporting framework, European Central Bank*, ECB, 11 December.

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Third, the regulatory, supervisory and reporting framework can be simplified without weakening resilience. We thus fully support the Commission's objectives to simplify rules and enhance proportionality, in line with the recommendations put forward by the ECB Governing Council's High-Level Task Force.[24]

These reforms can foster harmonisation and integration. To deliver their positive impact, it is essential to uphold international cooperation and common standards. Implementing the Basel framework remains pivotal for safeguarding global financial stability. These standards ensure that capital requirements remain aligned with underlying risks. Regulatory backstops, including the output floor, should be maintained to guard against risks being underestimated. Not least, the ability of supervisors to act independently and with the tools necessary to address risks in a forward-looking way must be preserved.

In a challenging external environment, this reform package is the foundation for the safety and soundness of the banking sector. It preserves banks' ability to lend to the economy and take the associated risks. And it strengthens the institutional framework that protects savers, taxpayers and the economy from vulnerabilities and spillovers in a fragile global environment.

[24] ibid.

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Key indicators of European banks

	All supervised institutions		Significant institutions		Less significant institutions	
	Q2 2025	Q2 2026	Q2 2025	Q2 2026	Q2 2025	Q2 2026
Balance sheet composition						
Total assets (EUR billions)	32,600.60	34,449.39	27,749.65	29,468.59	4,850.95	4,980.80
Profitability						
Net interest margin (%)	1.57	1.60	1.51	1.54	1.86	1.91
Cost-to-income ratio (%)	55.05	54.25	54.20	53.06	58.78	59.74
Return on equity (RoE) (%)	9.68	10.07	10.11	10.73	8.10	7.68
Capital adequacy and leverage						
CET 1 ratio (%)	16.58	16.62	16.09	16.00	18.36	18.88
Tier 1 ratio (%)	17.78	17.86	17.57	17.53	18.52	19.06
Total capital ratio (%)	20.07	20.13	20.21	20.13	19.59	20.13
Leverage ratio[1] (%)	6.52	6.43	5.90	5.78	10.19	10.44
Asset quality						
NPL ratio, including cb[2] (%)	1.96	1.98	1.90	1.89	2.31	2.45
NPL ratio, excluding cb[2] (%)	2.30	2.27	2.22	2.17	2.72	2.83
Stage 2 ratio[3] (%)			9.59	9.18		
Funding and liquidity						
Loan-to-deposit ratio (%)	99.29	98.93	102.30	101.68	87.49	87.79
Net stable funding ratio (NSFR) (%)	127.92	126.53	126.72	125.14	133.63	133.24
Liquidity coverage ratio (LCR) (%)	164.30	161.30	157.71	154.91	214.77	210.28

1) Transitional definition; 2) “cb” refers to “cash balances at central banks and other demand deposits”; 3) Stage 2 ratio cannot be calculated for less significant institutions and, consequently, for all supervised entities.

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