



# Feedback on the European Parliament's resolution on Banking Union – annual report 2025

ECB Banking Supervision welcomes the European Parliament resolution of 30 April 2026 on Banking Union – annual report 2025.<sup>1</sup> Continuing the dialogue between the European Parliament and the ECB and underlining our strong commitment to accountability, ECB Banking Supervision hereby responds to the comments and suggestions provided by the European Parliament in its resolution.

## 1 Bank resilience

### Recent data confirm the current resilience of the European banking sector.

Euro area banks started 2025 with strong capital and liquidity buffers, sound asset quality and robust profitability. The aggregate Common Equity Tier 1 (CET1) ratio of significant institutions stood at 16.2%, the leverage ratio at 6.0% and the liquidity coverage ratio at 158.6% in the fourth quarter of 2025. The aggregate return on equity was 9.5%, and around 54% of net profits were distributed to shareholders through dividends and buybacks during the year.

**The ratio of non-performing loans (NPLs) to total loans remained broadly stable at 2.2% in 2025, well below the level observed ten years ago.**<sup>2</sup> The NPL ratios ranged from 0.6% in Latvia to 2.9% in Greece at the end of the year. On the back of this general downward trend, jurisdictions historically recording high NPL ratios have recently experienced declines, whereas some jurisdictions with traditionally low NPL ratios have seen increases. As a result, the cross-country dispersion in NPL ratios narrowed further in 2025.

The overall level of banks' NPLs and the soundness of euro area banks' balance sheets should, however, leave no room for complacency. Risks related to specific pockets of vulnerabilities<sup>3</sup> persist in areas such as commercial real estate and lending to small and medium-sized enterprises (SMEs). The conflict in the Middle East is a reminder of how fast geopolitical risks can materialise. Rising energy prices and higher interest rates are exacerbating cost pressures amid lingering tariff uncertainty and potential supply chain disruptions. Banks must remain prepared for scenarios in which the materialisation of geopolitical risks affects the quality of their assets or in which the market environment may deteriorate abruptly. This requires, among other things, adequate provisioning and forward-looking risk assessments. Safeguarding and maintaining the sector's resilience is particularly important given

<sup>1</sup> The text of the [European Parliament resolution of 30 April 2026 on Banking Union – annual report 2025](#) as adopted is available on the European Parliament's website.

<sup>2</sup> NPL ratios including cash balances at central banks stood at 1.9% in the fourth quarter of 2025, compared with over 7% in 2015.

<sup>3</sup> Risks related to commercial real estate loans and loans to SMEs.

that, going forward, fiscal policy might have less capacity to buffer shocks and thus protect banks' balance sheets than in recent crisis episodes.

## 2 Overview of recent developments in the banking sector

### **Geopolitical risks have posed significant challenges to financial stability over recent years, showing how quickly the risk environment can deteriorate.**

Geopolitical risks can impact the banking sector through the real economy, financial markets or safety and security transmission channels. Geopolitical events can trigger rapid shifts in market sentiment, increase uncertainty and weigh on economic growth, activating adverse feedback loops between the economy and the financial system. They can affect euro area banks directly, through exposure to regions where the risks materialise, and indirectly through second-round effects, via equity markets, bond markets, heightened inflation and lower economic growth. Consequently, geopolitical risk has been a priority area for European banking supervision for several years now. In 2026 the ECB will conduct a thematic stress test, asking banks to assess how geopolitical risk could affect their business model.

### **The effects of geopolitical risks will take time to become visible in banks' balance sheets and financial indicators.**

Direct exposures to the Middle East are contained, representing less than 1% of euro area total assets in aggregate. However, indirect effects are likely to matter more for banks' asset quality. Exposures to the most energy-intensive sectors – manufacturing and transport – together account for about 14% of banks' corporate loan portfolios. In addition to higher energy prices, the corporate sector is being affected by higher tariffs and a disruption of global value chains. Banks' funding costs have already increased owing to rising benchmark rates, driven by higher term premia and renewed inflation concerns. The conflict in the Middle East has led to higher inflation in the euro area and a weaker GDP growth outlook, thus adding downside risks to banks' credit risk and profitability. Adding to these financial risks, their exposure to operational risk has increased as growing cyber threats could expose vulnerabilities in the IT infrastructures and outsourcing arrangements that many banks use.

**Operational and cyber resilience remains a cornerstone of banking sector stability, particularly as emerging technologies bring new risks to information systems.** Operational resilience has moved firmly to the forefront of the supervisory agenda. The 2026 geopolitical stress test, the follow-up to the 2024 cyber resilience stress test and the implementation of the Digital Operational Resilience Act are reinforcing a comprehensive and forward-looking approach to risk management. ECB Banking Supervision continues to engage closely with supervised institutions, which are expected to invest in and strengthen their resilience frameworks to address these evolving threats. In this regard, the proliferation of frontier artificial intelligence (AI) models poses opportunities but also significant challenges, as such technologies can be exploited to detect and weaponise vulnerabilities in banks' information and communication technology infrastructures at an unprecedented pace and scale. This rapidly evolving threat landscape underscores the importance of robust cybersecurity measures and proactive threat detection mechanisms. ECB

Banking Supervision is actively engaging with the banking community to strengthen defences against AI-driven cyber threats. Looking ahead, the rise of quantum computing has the potential to compromise traditional data encryption methods, threatening the confidentiality and integrity of sensitive financial data across the sector. To address this emerging challenge, ECB Banking Supervision is prioritising efforts to raise awareness among banks to ensure they are ready for the transition to quantum-resistant cryptographic standards, leveraging international cooperation and industry-wide dialogue. As a result of these collaborative efforts, ECB Banking Supervision expects supervised institutions to take the necessary steps to strengthen their operational resilience, keeping the banking sector robust and well-equipped to address both current and emerging technological risks.

**Evolving risks can also affect banks through their links to non-bank financial intermediaries (NBFIs) and vulnerabilities in this sector regarding leverage, liquidity mismatches and opacity.** This was clearly demonstrated in past episodes of stress – including the March 2020 market turmoil, the collapse of Archegos Capital Management and the 2022 UK gilt market dislocation. In an environment of elevated asset valuations, heightened geopolitical risk and the rapid growth of relatively opaque private credit markets, these vulnerabilities increase the risk that NBFIs could amplify shocks. This underlines the need for the EU to swiftly and consistently implement international recommendations such as those previously issued by the Financial Stability Board (FSB),<sup>4</sup> and to strengthen both the macroprudential and supervisory frameworks for NBFIs. Enhancing data availability, access and sharing – especially for cross-border activities, and activities such as private credit – is essential to remove existing blind spots, support system-wide stress testing and enable authorities to monitor leverage and liquidity risks.

**In addition, progress on the EU savings and investments union, including greater mobilisation of retail and institutional capital, must move hand in hand with a more integrated and robust supervisory architecture.**<sup>5</sup> In the global dimension, stronger international cooperation and the coordinating role of the FSB are key to improving cross-border data visibility, promoting an international level playing field and preventing regulatory fragmentation as authorities adapt their frameworks to an evolving financial system.

**Financial institutions are showing increasing interest in engaging further with crypto-assets – including issuance and providing crypto services – but such operations warrant risk-based scrutiny.** Unbacked crypto-assets offer no recoverable value other than the market price; they are highly speculative and lack intrinsic value.<sup>6</sup> Properly designed and regulated euro-denominated stablecoins could provide benefits in selected use cases such as cross-border payments. However, stablecoins, which are backed by government bonds or other assets, pose

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<sup>4</sup> Notably the FSB's recommendations on [money market funds, open-ended funds, liquidity preparedness for margin and collateral calls](#) and [NBFIs leverage](#).

<sup>5</sup> See [Opinion of the European Central Bank of 9 April 2026 on proposals as regards the further development of capital market integration and supervision within the Union \(CON/2026/13\)](#) and Carmassi, J. et al., "One market, one supervision – Rethinking the supervisory landscape for a truly integrated capital market in Europe", *Occasional Paper Series*, ECB, 30 March 2026.

<sup>6</sup> As of 30 April 2025, the two largest unbacked crypto-assets (bitcoin and ether) represented around 70% of crypto-asset market capitalisation.

specific risks because demand is still largely driven by crypto trading. While the EU regulates crypto-assets and stablecoins with the Market in Crypto-Assets Regulation (MiCAR),<sup>7</sup> the limited global implementation of FSB recommendations provides opportunities for regulatory arbitrage. Regulatory heterogeneity at the global level can make specific schemes or products particularly risky from a financial stability perspective. This is the case of third-country multi-issuer stablecoin schemes. ECB Banking Supervision supports the Recommendations of the European Systemic Risk Board, which state that these schemes are not permitted under the current MiCAR framework, but that should such schemes be permitted, the ensuing financial stability risks should be mitigated with appropriate safeguards.<sup>8</sup> Digital products such as tokenised deposits are closer to the core banking model. These products can offer the advantages of tokenisation (programmability, composability, atomic settlement) without incurring the same risks as stablecoins (in particular, price volatility). Currently, there is no definition of a “tokenised deposit” in Union law and it is something that could be considered by co-legislators to support innovation in banking services and create a more diversified digital ecosystem.

**Ensuring the prudent management of climate and nature-related (C&N) risks remains a key supervisory priority.**<sup>9</sup> With global temperatures surpassing 1.5 degrees Celsius above pre-industrial levels and Europe warming twice as fast as other continents, severe C&N events are becoming more frequent and more costly.<sup>10</sup> From 1980 to 2024 extreme weather and climate-related events caused economic losses of €822 billion in the European Union, with over 25% of these occurring between 2021 and 2024.<sup>11</sup> Banks under ECB supervision have made substantial progress in setting the foundations to manage these risks and are well positioned to meet the prudential transition planning requirements introduced by the Capital Requirements Directive (CRD4). As sustained efforts remain critical to ensure these risks are properly managed, the ECB underscores the crucial role of the EU regulatory framework in ensuring that banks adequately identify, assess and manage C&N risks. If they remain unaddressed, banks would be exposed to increased risks and may decide to constrain funding to counterparties exposed to C&N risks.<sup>12</sup> The Environmental, Social and Governance (ESG) risk management and disclosure requirements set out in the Capital Requirements Regulation and Capital Requirements Directive (CRR3/CRD6), the European Banking Authority (EBA) Guidelines on the management of ESG risks and the EBA Guidelines on environmental scenario analysis provide the framework to mitigate threats to individual institutions and financial stability in an effective and proportionate manner.

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<sup>7</sup> MiCAR largely implements FSB recommendations, albeit with some gaps, such as crypto-asset lending, borrowing and staking. The effective implementation of MiCAR remains key, including tackling the issue of non-MiCAR compliant stablecoins still being available within the European Union as they are facilitated by some EU-based entities.

<sup>8</sup> See [Recommendation of the European Systemic Risk Board of 25 September 2025 on third-country multi-issuer stablecoin schemes](#) (ESRB/2025/9).

<sup>9</sup> See Supervisory priorities 2026-2028 published on the ECB banking supervision [website](#).

<sup>10</sup> See [“Why are Europe and the Arctic heating up faster than the rest of the world?”](#), European Union Copernicus Climate Change Service, 14 July 2025.

<sup>11</sup> See [“Economic losses from weather- and climate-related extremes in Europe”](#), European Environment Agency, 14 October 2025.

<sup>12</sup> See [“Eurosystem response to the EU Commission’s targeted consultation on the competitiveness of the EU banking sector”](#), ECB, April 2026.

Going forward, supervisors will continue to monitor banks' progress and the remediation of identified shortcomings, while focusing targeted supervisory exercises on prudential transition planning requirements and persisting challenges in managing C&N risks. To support the sector, the ECB published an extensive update of its compendium of good practices,<sup>13</sup> providing banks with the means to advance their C&N risk management approaches and help them to address the associated challenges.

### 3 Regulatory and supervisory framework

**ECB Banking Supervision welcomes the final implementation of Basel III standards in the EU.** As highlighted in a recent ECB occasional paper<sup>14</sup>, EU requirements are overwhelmingly derived from international standards and are broadly comparable to those in other jurisdictions. At the aggregate level, the required capital ratios in 2026 remain at the same level as they were in 2019. However, a larger share of capital is now maintained in the form of buffers, which can be released during severe shocks to support banks' ability to continue lending under stressed conditions. Banks currently face no constraints in meeting their requirements. The application of CRR3, which implements the final Basel III standards in the EU, had only a minimal short-term impact on requirements. In the longer term – once the transitional provisions expire in 2033 – it is forecast to increase requirements by a manageable five percent on average. This figure is expected to decline over time as banks dynamically adjust to the new rules.

**ECB Banking Supervision supports the European Commission's intention to have the Fundamental Review of the Trading Book (FRTB) in the EU on 1 January 2027.** The proposal contains targeted adjustments to the FRTB, valid for a period of time, in order to maintain the level playing field vis-à-vis other jurisdictions that have not currently implemented the FRTB. Recent episodes of spiking market volatility have highlighted the importance of continuing to address market risk in a risk-based and efficient manner. Given the temporary nature of the measures in the proposed European Commission delegated act, which would be valid for a period of three years, it will be important to provide clarity about the future of the EU market risk framework at an early date.

**The proposal to review equivalence decisions for jurisdictions that do not implement international standards would need to be carefully assessed.** ECB Banking Supervision notes that the adoption of equivalence decisions is a competence of the European Commission. Nonetheless, any revision of existing equivalence decisions should be carefully assessed and consideration given to the impact on the risk profiles of EU banks given their exposures to non-EU banks

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<sup>13</sup> See “[ECB report on good practices for climate and nature-related risk stress testing](#)”, ECB, May 2026, “[Good practices for climate and nature risk management](#)”, ECB, May 2026 and “[Good practices for climate-related and environmental risk management](#)”, ECB, November 2022.

<sup>14</sup> Dzezulskis, S. et al., “[Understanding the banking sector capital framework in the European Union](#)”, *Occasional Paper Series*, ECB, 13 May 2026

subject to lower prudential standards, as well as their ability to conduct business with such non-EU counterparts.

**The existing supervisory framework has proved its effectiveness in supporting the resilience of the banking sector, but there is scope for simplification.** In recognition of this, ECB Banking Supervision is implementing a comprehensive reform agenda for more efficient, effective and risk-based supervision, which is described in the ECB's report on [streamlining supervision and safeguarding resilience](#) published in December 2025. The reforms comprise four initiatives.

1. The key elements of the reform of the Supervisory Review and Evaluation Process initiated in 2024 are already in place, and full implementation will be achieved in 2026.
2. ECB Banking Supervision is streamlining its key supervisory activities and processes ("next-level supervision"). This includes authorisations, fit and proper assessments, capital-related decisions, internal model approvals, streamlining of reporting, stress testing, reporting and on-site inspections. The implementation of these projects is supported by dedicated digitalisation initiatives and IT tools.
3. A Single Supervisory Mechanism supervisory culture project will ensure that the ECB and National Competent Authority supervisors consistently implement the reform agenda.
4. Effectiveness will be measured to ensure ECB Banking Supervision delivers on its supervisory objectives.

Updated indicators on progress made on the reforms will be included in future editions of the ECB annual report on supervisory activities.

The initiatives described above complement the [recommendations for legislative changes](#) made by the High-Level Task Force of the Governing Council while remaining fully implementable independently of those recommendations. They are aligned with the key principles of these recommendations: maintaining resilience; meeting prudential objectives effectively; and fostering European harmonisation and financial integration.

## 4 Completing banking union and fostering integration

**ECB Banking Supervision supports the full and swift completion of the banking union, which is essential for maintaining a resilient banking sector and promoting cross-border competition.** A complete banking union would support financial stability and reduce market fragmentation, thereby benefiting growth through banks' greater efficiency, competitiveness and resilience. In particular, the remaining third pillar of banking union – the European deposit insurance scheme (EDIS) – would deliver a more uniform level of insurance coverage to depositors in the euro area regardless of their geographical location,

increasing confidence and strengthening financial stability. In light of the conclusion of the Crisis Management and Deposit Insurance review, which has strengthened the EU bank resolution framework, concrete and timely steps towards implementing the EDIS should now be taken.

**A fully-fledged EDIS with risk-sharing at the European level would further contribute to reducing the bank-sovereign nexus and promote the integration of the banking sector in Europe.** European deposit insurance would improve risk diversification and the ability of the banking system to withstand shocks; risks would be spread more widely across a larger pool of financial institutions. The pooling of resources at banking union level would create a larger European deposit insurance fund that would be less likely to be exhausted than national deposit guarantee funds with national governments as the ultimate fiscal backstop, weakening the link between a credit institution and its sovereign. Furthermore, evidence suggests that risk-sharing would not lead to unwarranted systematic cross-subsidisation between banking sectors in different Member States,<sup>15</sup> and risk-based contributions would address concerns related to moral hazard. European deposit insurance would also strengthen the crisis management framework by providing additional sources of funding to support asset and liabilities transfers in both resolution (including in such a way as to unlock the use of the Single Resolution Fund – SRF) and liquidation. Finally, progress on the EDIS would help to remove undue fragmentation in the Single Market by easing conditions for cross-border transactions, which would in turn further support resilient and competitive European banks.

**A strong EU framework for liquidity in resolution would further support the completion of the banking union and is pivotal to the credibility of bank crisis management.** Liquidity support is crucial to restore market confidence in a bank after resolution, as it may otherwise face challenges when accessing private funding and could experience further outflows immediately after resolution. Introducing a public sector guarantee at the European level,<sup>16</sup> or other guarantees meeting the Eurosystem collateral requirements, could enable the Eurosystem to provide central bank liquidity at the European level beyond the level of the common backstop to the SRF.<sup>17</sup>

**Removing frictions to the Single Market in financial services would support a growth-enhancing policy agenda, promote financial stability and improve the provision of cross-border financial services.**<sup>18</sup> A more integrated banking system would support a more efficient allocation of savings to productive investments and enhance private sector risk-sharing. Deeper cross-border banking integration would

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<sup>15</sup> Carmassi, J. et al., “Completing the Banking Union with a European Deposit Insurance Scheme: who is afraid of cross-subsidisation?”, *Economic Policy*, Vol 35(101), 2020, pp. 41-95.

<sup>16</sup> Any EU-level guarantee should meet the requirements of the Eurosystem collateral framework and comply with overall Treaty provisions. In addition, it should be designed to align with the FSB’s guiding principles: see “Guiding principles on the temporary funding needed to support the orderly resolution of a global systemically important bank”, FSB, 2016.

<sup>17</sup> The common backstop to the SRF, with a maximum capacity of €68 billion, would almost double the resources available for financing resolution, including liquidity provision. In this regard, the ratification of the revised European Stability Mechanism (ESM) Treaty to allow the ESM to act as common backstop to the SRF would be a major step towards enhancing the banking union resolution framework.

<sup>18</sup> Draghi, M., “The future of European competitiveness”, Publications Office of the European Union, 9 September 2024.

make it easier for European banks to carry out economies of scale and engage in welfare-enhancing competition, including with internationally active banks from third countries. Empirical work shows that US banks, for instance, tend to be more profitable than their European peers because they benefit from a larger home market and deeper capital markets.<sup>19</sup>

**Broader funding sources and more effective risk-sharing within cross-border groups can help strengthen the resilience of banks.** To promote integration and cross-border banking, the banking union should be regarded for the purpose of financial regulation as a single European jurisdiction by all relevant competent and designated authorities.<sup>20</sup> Capital and liquidity should be allowed to flow freely across a cross-border banking group within the banking union, with adequate safeguards to promote resilience, particularly in times of stress. This would ensure the prompt transfer of capital or repayment of liabilities, allowing for a more efficient allocation of resources. Robust safeguards – including an effective, credible European resolution framework – remain relevant to mitigate potential “too-big-to-fail” concerns and preserve market discipline.

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<sup>19</sup> Di Vito, L. et al., “[Understanding the profitability gap between euro area and US global systemically important banks](#)”, *Occasional Paper Series*, ECB, 17 August 2023

<sup>20</sup> See also “[Eurosysteem response to the EU Commission’s targeted consultation on the competitiveness of the EU banking sector](#)”.

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