EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Press release

17 December 2024

ECB keeps capital requirements broadly steady for 2025, reflecting strong bank performance amid heightened geopolitical risks

- Solid capital and liquidity positions and good profitability across banks
- Internal governance, risk management and operational resilience still key areas of concern
- Average SREP score broadly stable; Pillar 2 requirements for CET1 capital slightly up, from 1.1% to 1.2%
- Qualitative measures on credit risk management, internal governance and capital adequacy
- Macro-financial threats and severe geopolitical shocks, remediation by banks and risks of digital transformation as supervisory priorities

The European Central Bank (ECB) today published the results of its Supervisory Review and Evaluation Process (SREP) for 2024 and its supervisory priorities for 2025-27.

The euro area banking sector remained resilient in 2024. On average, banks maintained solid capital and liquidity positions, well above regulatory requirements. The aggregate Common Equity Tier 1 (CET1) ratio stood at 15.8% in mid-2024, which is a slight improvement compared with the previous year. The leverage ratio increased slightly to 5.8%. Higher interest rates continued to sustain banks' profitability.

Looking ahead, however, the weakening macroeconomic outlook and structural changes in the economy call for heightened vigilance. Geopolitical risks are often not priced in financial markets until they materialise, potentially leading to abrupt risk repricing which could increase risks to liquidity and lead to additional losses. Concerns around banks' governance, risk management – including climate and nature-related risks – and operational resilience persist and require swift remediation due to the uncertain risk environment.

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Against this background, the current SREP cycle has not resulted in major changes to banks' scores or overall Pillar 2 requirements. The average SREP score remained broadly stable at 2.6 (in a range of 1 to 4), with 74% of banks scoring the same as in 2023, 11% scoring worse and 15% scoring better. Banks' scores were adversely affected by the market impact of lower valuations of commercial real estate and unexpected increases in interest rates, leading to higher interest rate risks in the banking book. By contrast, increased profitability had a positive effect on scores.

CET1 capital requirements increased slightly, from 1.1% to around 1.2% of risk-weighted assets, with small adjustments to the Pillar 2 requirements attributable to changes in the risk profile of selected banks. The bank-specific Pillar 2 requirements resulting from the 2024 SREP decisions will be applicable from 2025.

Overall CET1 capital requirements and guidance – which consist of the Pillar 2 requirement, the combined buffer requirements and the non-binding Pillar 2 guidance – increased slightly from 11.2% to 11.3%. A similar increase, from 15.5% to 15.6% of risk-weighted assets, was required in relation to total capital — the sum of CET1, Tier 1 and Tier 2 capital.

The ECB required certain banks to apply dedicated Pillar 2 requirement add-ons, with 18 banks being subject to an add-on for insufficiently provisioned non-performing exposures – decreasing from 20 banks last year. In addition, nine banks were subject to an add-on for risky leveraged loans – increasing from eight banks last year. These add-ons reflect either high exposures to leveraged loans or inadequate risk management practices for these loans.

Furthermore, the ECB more than doubled the number of banks subject to increased capital on account of the risk of excessive leverage. There are now 13 banks with a leverage ratio Pillar 2 requirement. Bank-specific mandatory requirements under the leverage ratio Pillar 2 requirement ranged between 10 and 40 basis points. These were applied in addition to the minimum 3% leverage ratio that is a binding requirement for all banks.

The ECB applied leverage ratio Pillar 2 guidance to seven banks and imposed quantitative liquidity measures on four banks, requiring them to hold additional liquidity to comply with minimum survival periods and currency-specific liquidity buffers.

The ECB imposed qualitative measures, a key component of its supervisory toolkit. These primarily address deficiencies relating to credit risk management, internal governance and capital planning so that banks take overdue action to remediate long-standing findings. In some cases, measures were imposed to address compliance with risk data aggregation and risk reporting expectations.

Today the ECB published the supervisory priorities for 2025-27, focusing on making banks more resilient to immediate macro-financial threats and severe geopolitical shocks (Priority 1); ensuring

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banks remediate known material shortcomings in a timely manner (Priority 2); and ensuring banks tackle challenges stemming from digital transformation and new technologies, prudently managing the associated risks (Priority 3). These priorities largely continue to build upon those set last year.

Finally, the ECB updated its SREP methodologies for assessing operational and information and communication technology risks, as well as interest rate risk and credit spread risk in the banking book. These updates clarify the methods used to assess these key risk areas and illustrate how the SREP framework responds to the rapidly evolving risk landscape.

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Notes

- The Supervisory Review and Evaluation Process (SREP) is an essential exercise in which European banking supervisors evaluate the risks faced by banks and how effectively these risks are being managed. Based on these SREP results, the ECB sets capital requirements and imposes qualitative measures to ensure that every bank addresses the identified shortcomings. The SREP outcome also helps steer the ECB's supervisory priorities for the next three years.

- The SREP assesses four main elements: the viability and sustainability of business models, the adequacy of internal governance and risk management, risks to capital and risks to liquidity and funding. Each element is given a score ranging from 1 to 4 (with 1 being the best and 4 the worst). These scores are then combined to produce an overall score (which also ranges from 1 to 4).

- The 2024 SREP assessment cycle was generally based on year-end data for 2023. The decisions resulting from the 2024 SREP assessment are applicable in 2025.

- The capital that banks are expected to hold as a result of the SREP consists of two parts. The first is the Pillar 2 requirement, which covers risks that are underestimated or not covered by Pillar 1. The second is the Pillar 2 guidance, which indicates the level of capital that a bank should maintain in order to have a buffer sufficient to withstand stressed conditions (as assessed, in particular, on the basis of the adverse scenario in the supervisory stress tests). While the Pillar 2 requirement is binding and breaches can have direct legal consequences for banks, the Pillar 2 guidance is not binding.

- Overall capital requirements and guidance means Pillar 1 + Pillar 2 requirement + combined buffer requirement + Pillar 2 guidance. See the Supervisory Methodology for additional information on the composition of the capital stack. All figures are reported as percentages of risk-weighted assets.

- Combined buffer requirements comprise the capital conservation buffer, the countercyclical capital buffer and systemic buffers (whereby systemic buffers comprise buffers for global systemically important institutions, other systemically important institutions and systemic risk), which are legal requirements established by the EU's Capital Requirements Directive (CRD IV) or by national authorities.

- The survival period refers to the duration for which a bank can cover its operational expenses and financial obligations using its available liquid assets without access to additional sources of funding.

- The ECB can request banks to hold currency-specific liquidity buffers to ensure their liquid assets in a certain currency match the net outflows for that currency.

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