Just in Time

ECB: SREP 2024 and SSM Priorities 2025-2027

February 2025

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Executive Summary

The 2024 Supervisory Review and Evaluation Process (SREP) for banks under ECB supervision confirms the **sector's resilience**, with **strong capital and liquidity positions** despite economic uncertainties. **Profitability remained strong**, driven by rising net interest income (NII), while asset quality showed stability, though concerns persist in commercial real estate (CRE) and SME sectors. **Governance weaknesses**, particularly in risk data aggregation and risk reporting **(RDARR**), **remain a supervisory priority**. Amid **growing cyber and IT risks, banks** are expected **to strengthen operational resilience** under the **Digital Operational Resilience Act (DORA**). The ECB **continues to monitor structural cost challenges, asset quality risks,** and **digital transformation progress.**

The SSM supervisory priorities for 2025-2027 outline ECB Banking Supervision's strategic focus over the next three years, based on a thorough assessment of **key risks and vulnerabilities in the banking sector.** While European banks have demonstrated resilience in navigating macro-financial and geopolitical shocks, ongoing challenges necessitate **heightened vigilance** from both supervisors and institutions. The priorities emphasize **strengthening resilience to macro-financial and geopolitical threats**, **addressing persistent deficiencies** — particularly in **climate-related risks** and **risk data aggregation** — and **advancing digital transformation** while **mitigating IT** and **cyber risks**.

At a Glance

Keywords: SREP, Internal Governance, Fintech, Supervisory measures, Credit risk, SSM Priorities, Geopolitical Shocks, Climate-Related and Environmental Risks, Digital Transformation, Operational Resilience

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Overview

The **2024 SREP** shows that, as in the previous cycle, **euro area banks supervised by the ECB have strong capital and liquidity positions and remain resilient.** Against improvements in some risk indicators, downside risks called for caution in the supervisory assessments.

The overall SREP score, which ranges from 1 to 4, reflects the supervisor's overall assessment of the viability of the institution: **higher scores reflect higher risks to the viability of the institution stemming from one or more features of its risk profile**. The average overall **SREP score in 2024 remained stable at 2.6**, but with **score changes for several banks as compared with the previous cycle**.

Geopolitical risks persist. Often not priced in on financial markets until they materialise, and their full impact might only show beyond the time horizon used in banks' medium-term capital planning. As a result, **strengthening resilience to geopolitical shocks has become a key priority for ECB Banking Supervision.**

The overall capital requirements and guidance stood at **15.6% of risk-weighted assets (RWA),** on average, against a **total capital ratio** (transitional definition) of **19.9%** as at the second quarter of 2024. **Some adjustments** were made on account of changes in the risk profile of several banks, as well as the **application of the non-performing exposure (NPE) shortfall and leveraged finance (LF) add-ons**.

The qualitative measures taken in the SREP 2024 were issued primarily **to address deficiencies in the areas of credit risk, internal governance, and capital adequacy**. Going forward, should any long-standing deficiencies fail to be adequately remedied; ECB Banking Supervision will move up the **escalation ladder and impose enforcement measures in line with the supervisory priorities set for 2025-27.**

Increased uncertainty stemming from cyber incidents requires banks to manage their **IT risks effectively**. Dependence on critical third-party providers remains a concern, and **ageing IT systems may also make them more vulnerable** as these cyber incidents become more sophisticated. As a result, ECB Banking Supervision continues to consider operational resilience **a key priority**. Banks are therefore, expected to step up their efforts to **remediate identified vulnerabilities,** while making the necessary **improvements to fully comply with the legal requirements stemming** from the **Digital Operational Resilience Act (DORA).**

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Developments of Scores

The **average overall SREP score for 2024 remained stable at 2.6**, albeit there were some changes to the distribution across different buckets.

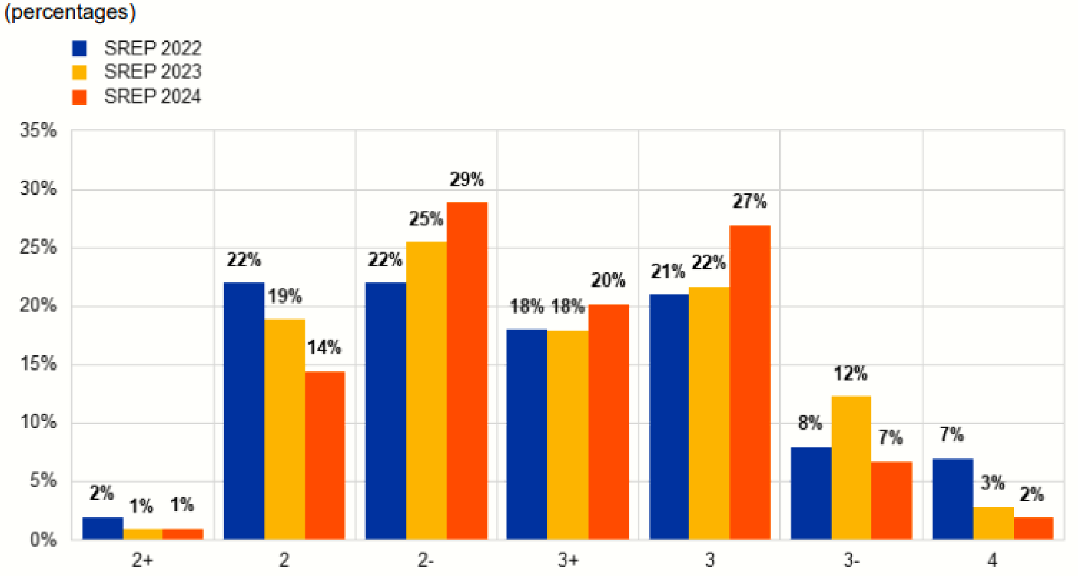
- The **proportion of banks with scores of 2-, 3+ and 3 increased, from 65% to 76%,** while the proportion of banks with **scores of 2, 3- and 4 decreased, from 34% to 23%.**

- The **improved scores** were mainly driven by the **boost to profitability**, thanks to the continued **favourable economic environment**, whereas the **poorer scores** were attributable to **persistent weaknesses in risk data aggregation** and **reporting** and in the **effectiveness of management body and internal governance controls.**

74% of institutions received the same overall SREP score as in 2023, while **11%** saw their score **worsen** and **15% improve**:

- some of the factors behind the **poorer scores** included the **market impact of commercial real estate**, which affected the credit risk scores, and the **change in the interest rate environment**, which had a particularly **heavy impact on the interest rate risk in the banking book (IRRBB) scores.**
- By contrast, the **increased profitability** and the **reduction in market volatility had a positive impact on the overall scores**.

Overall SREP scores



Source: ECB SREP database.
Notes: 2022 SREP values based on assessments of 101 banks, 2023 SREP values based on assessments of 106 banks; 2024 SREP values based on assessments of 104 banks. There were no banks with an overall SREP score of 1 in either 2022, 2023 or 2024. Rounding differences may apply to data throughout this document. All data shown throughout this document relate to institutions directly supervised by the ECB.

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Capital Requirements and Guidance

The **overall capital requirements and guidance** applicable for 2025 **increased slightly to 15.6%** of RWA, compared with 15.5% in 2024 (see chart alongside). This was largely driven by **an increase in the Common Equity Tier 1 (CET1) P2R**, from **1.1% to 1.2%,** and in the **countercyclical capital buffer requirements (CCyB), from 0.6%** in the **first quarter of 2024** to **0.7%** in the **first quarter of 2025.**

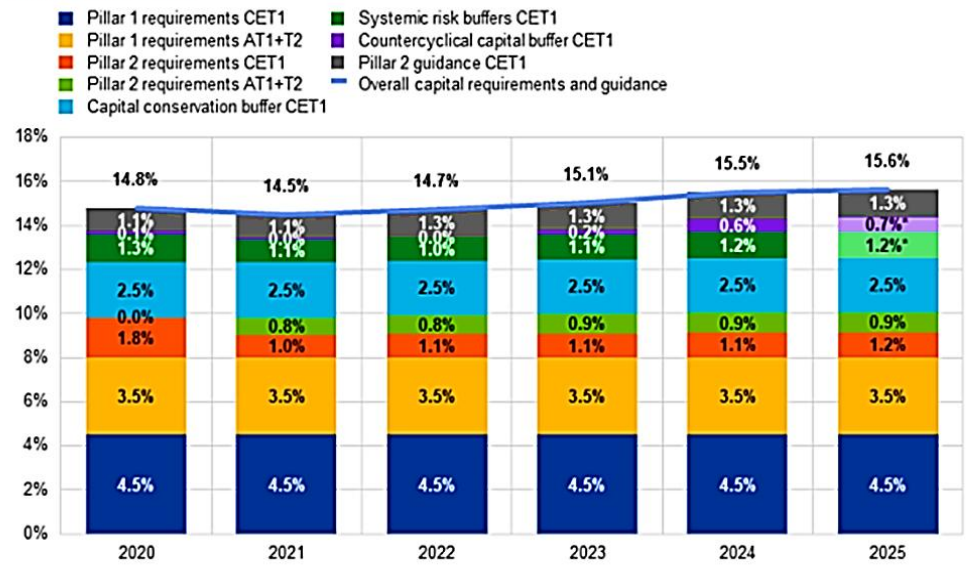
- The **total capital P2R increased slightly** but remains, on average, largely **in line with the requirements set out in previous years**, at **around 2.1%** of the RWA applicable **in the Q1 2025**, **compared with 2.0%** of the RWA applicable **in the Q1 2024**.
- The **CET1 P2R increased marginally**, reaching an **average of 1.2%** compared with 1.1% in 2023.
- In 2022 and 2023, several national competent authorities announced the **introduction of or increases in the CCyB and in systemic risk buffers**, applicable from 2023 onwards.
- The **average level of CET1 capital increased slightly to 11.3%** (compared with 11.2% in 2023). This development brings the capital requirements and P2G back in line with the pre-pandemic level of 11.3%.

Overall capital requirements and guidance are set at the **highest levels for small market lenders, corporate and wholesale lenders and G-SIBs**.

- In terms of the **P2R**, requirements are set at **a comparatively high level for small market lenders, corporate and wholesale lenders and for diversified lenders**.
- As regards **leverage-based own funds requirements**, in 13 cases, a P2R-LR add-on (in the range of 10 to 40 basis points) was assigned.
- The 2024 SREP cycle resulted in **NPE P2R add-ons for 18 banks**. For these, **a shortfall was identified as against the ECB's expectations**, because the coverage for risks arising from aged NPEs was **assessed to be inadequate**.

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

(percentages of RWA)



Sources: ECB supervisory banking statistics and ECB SREP database.

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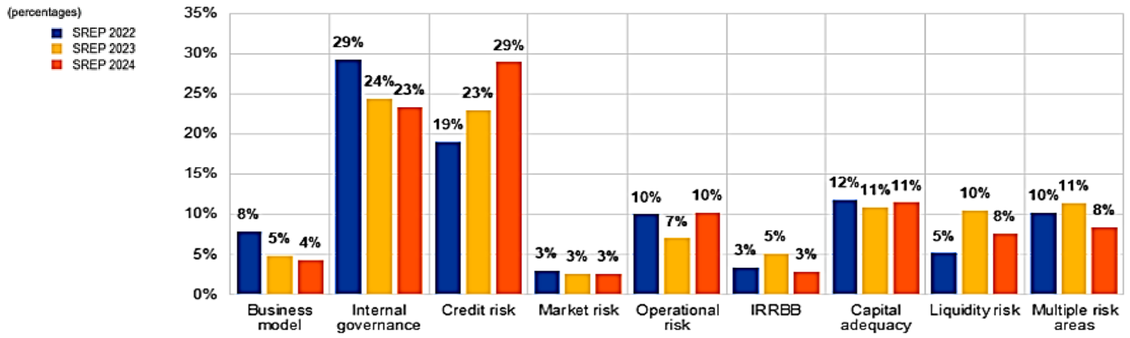
Qualitative Measures

Qualitative measures to address supervisory findings were issued for 97 banks during the 2024 SREP cycle. Most of these were for **deficiencies** in **credit risk (29%), internal governance (23%)** and, to a lesser degree, **capital adequacy (11%).**

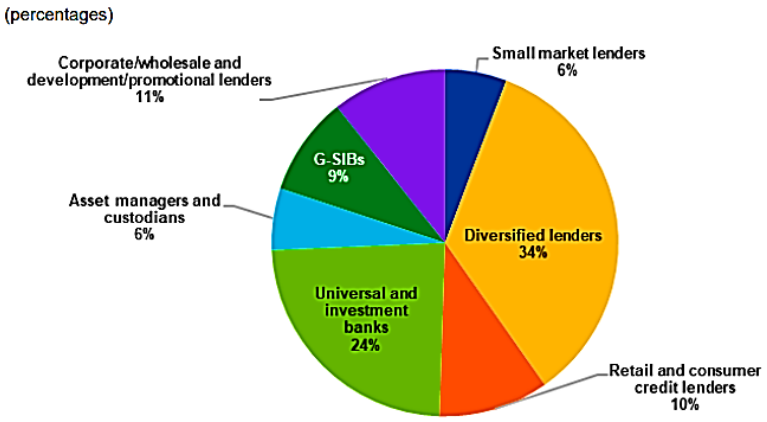
- Measures to **mitigate deficiencies in credit risk** were imposed on **71% of the institutions**. Almost half of these measures concern **the level of NPLs.**
- The **total number of measures issued across all risk areas decreased as compared with the previous SREP cycle**. However, in 2024 the percentage of measures relating to **credit risk** and **operational risk** increased. For **credit risk**, this was driven by a **rise in internal governance and data reporting measures**. For **operational risk**, this increase reflected ongoing supervisory concerns about **cyber resilience** in particular.

Qualitative measures



Source: ECB SREP database.
Notes: 2022 SREP values are based on assessments of 101 banks; 2023 SREP values are based on assessments of 106 banks; 2024 SREP values are based on assessments of 104 banks. This chart does not include weaknesses addressed by supervisory actions taken outside of the SREP cycles. Rounding differences may apply.

Breakdown of qualitative measures by business model



Source: ECB SREP database.
Notes: 2024 SREP values are based on assessments of 104 banks. This chart does not include weaknesses addressed by supervisory actions taken outside of the 2024 SREP cycle. Corporate/wholesale lenders and development/promotional lenders have been grouped together in this chart to preserve statistical confidentiality.

- As in 2023, **diversified lenders** were subject to the highest number of SREP measures in absolute terms (as this is the largest business model category). In relative terms, **diversified lenders** and **G-SIBs** averaged around six measures per bank, while the other business model categories averaged around four to five measures per bank.
- For banks with an overall **SREP score of 4**, an average of around seven **new qualitative measures** were issued, while for banks with an overall SREP score of 3, the average was six. Among banks with an overall SREP score of 4, **governance and liquidity risk measures** were the most common type.

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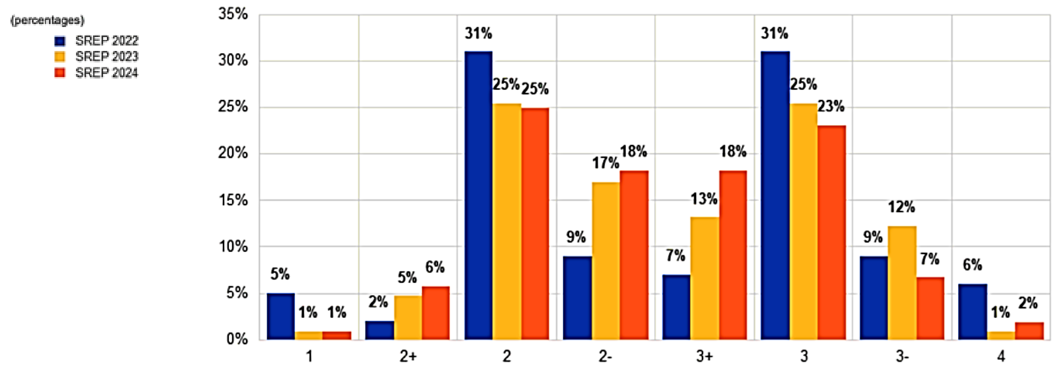
Business Model & Internal Governance and Risk Management

Just in Time

In the SREP 2024 cycle, **24% of scores improved**.

- In 2023 the **aggregate return on equity** of banks directly supervised by the ECB rose by 1.6 percentage points with respect to 2022, **reaching a high of 9.3%**. The **year-on-year NII grew by 19.7%** in 2023. While the **aggregate net fee and commission income** (**NFCI**) **remained largely flat** compared with the previous year, the **net trading and investment income** (**NTII**) **showed a slight decline**.
- **Supervisory measures** in the SREP 2024 cycle **addressed shortcomings primarily in the areas of strategy** (governance and implementation, strategic change and business plan updates), digitalisation, profitability monitoring and cost review or reduction.

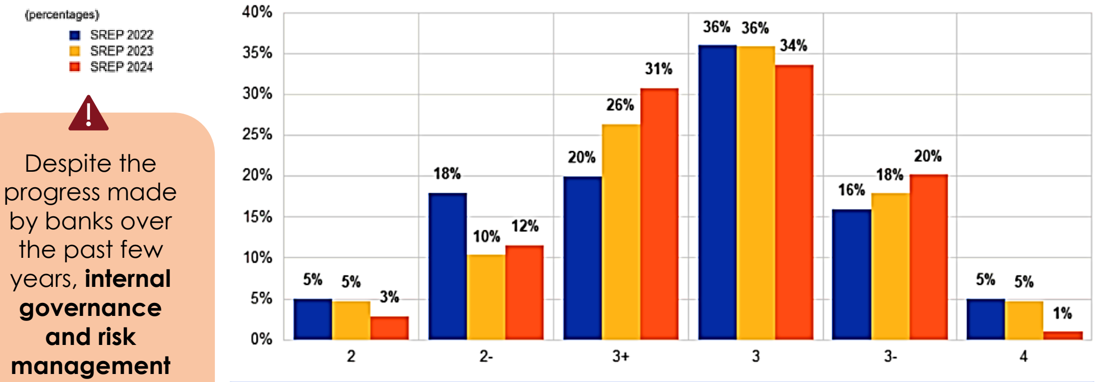
Business model SREP scores



Source: ECB SREP database.
Note: 2022 SREP values are based on assessments of 101 banks; 2023 SREP values are based on assessments of 106 banks; 2024 SREP values are based on assessments of 104 banks. Qualifiers were introduced in the 2022 SREP.

Despite the positive performance of banks, **supervisors** still **continue to be cautions** about the **sustainability of bank's business models**. A **slowdown in NII**, **cost challenges**, **weaknesses in strategic execution**, and a **worsening business outlook** were the main factors behind the few **poorer scores**.

Internal governance SREP scores



Despite the progress made by banks over the past few years, **internal governance and risk management remain areas of high concern**

Source: ECB SREP database.
Notes: 2022 SREP values are based on assessments of 101 banks; 2023 SREP values are based on assessments of 106 banks; 2024 SREP values are based on assessments of 104 banks. There are no banks with an internal governance score of 1 or 2+. Rounding differences may apply.

In terms of **internal governance and risk management:**

- Despite some progress, the **effectiveness of management bodies remains an area warranting attention for several institutions** (i.e., some insufficiencies in the board composition and its collective suitability, in the succession planning and in the bank's challenge culture).
- **Despite a positive trend, insufficient resources still weaken the operational functionality of internal control functions for several institutions**.
- **Progress** on the **risk data aggregation** and **risk reporting remediation programmes** drawn up over recent years **remains slow and insufficient**, causing persisting **fragmented** and **non-harmonised** IT landscapes, with a **low capacity** for aggregating data at group level.

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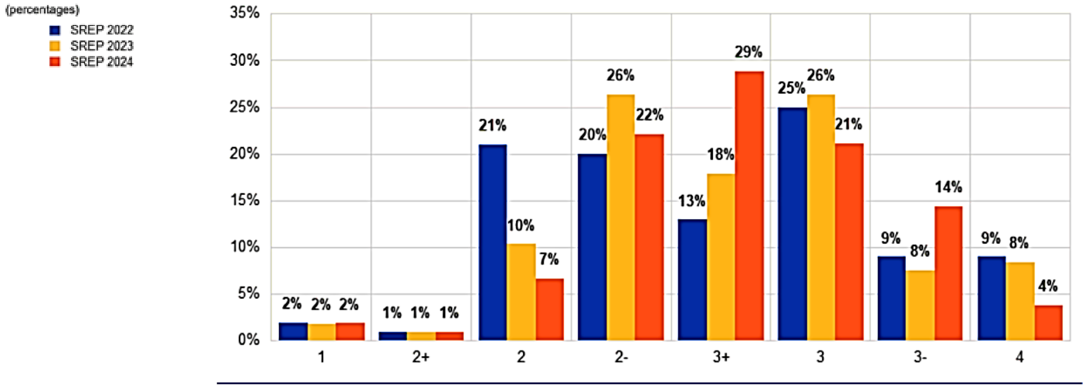
Credit Risk & ICAAP

The average credit risk scores remained overall stable.

- The **gradual deterioration in asset quality** since the second half of 2023 which reversed the **long-term declining trend in NPLs** can be explained by a **resilient retail sector supported** by the **prevalence of fixed rate mortgages** and a **robust labour market**, as well as by sustained NPL reductions in countries with high NPLs.
- On the other hand, **commercial real estate (CRE) markets have weakened** owing to high interest rates, sluggish economic growth, and shifting demand dynamics. The **(SMEs) have experienced a more widespread deterioration**, reflecting a marked increase in corporate insolvencies across Europe from mid-2022.
- Particular attention has been paid to the **remediation of long-standing deficiencies with respect to the IFRS 9 frameworks, and to risk identification and monitoring.**

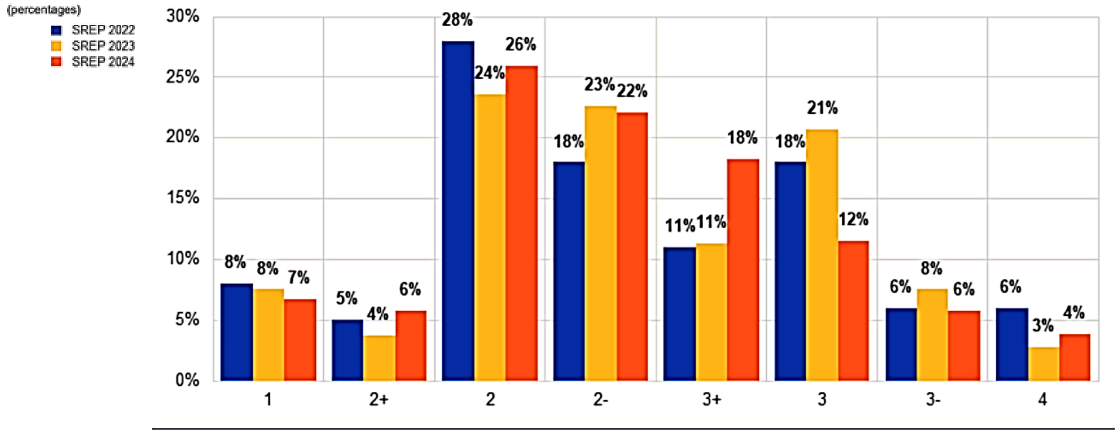
Credit risk SREP scores



Source: ECB SREP database.
Notes: 2022 SREP values are based on assessments of 101 banks; 2023 SREP values are based on assessments of 106 banks; 2024 SREP values are based on assessments of 104 banks. Qualifiers were introduced in the 2022 SREP.

Credit risk **scores** continue to **reflect supervisory concerns about banks' credit risk management**, which **remains a priority for ECB Banking Supervision**

Capital adequacy SREP scores



Source: ECB SREP database.
Notes: 2022 SREP values are based on assessments of 101 banks; 2023 SREP values are based on assessments of 106 banks; 2024 SREP values are based on assessments of 104 banks. Qualifiers were introduced in the 2022 SREP.

- In the 2024 SREP cycle **capital adequacy scores remained broadly stable**, albeit with several changes in their distribution as compared with 2023. **Supervisors** continued to **focus on progress in institutions' capital planning** in the context of political and macroeconomic uncertainties.
- Moreover, **banks' risk identification, measurement and aggregation capacities warranted continued scrutiny**, in addition to their risk data and IT infrastructures.

Based on data from the 2Q of 2024, **no institutions had capital levels below the required sum of overall capital requirements, buffers and guidance**

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Other Risk

Liquidity and funding risk

The **overall score remained stable**, with **liquidity indicators also remaining robust and well above regulatory requirements.** In particular:

- **Short-term liquidity risk** remained stable, **reflecting medium to low riskiness.**
- **Funding sustainability risk** improved slightly, while **remaining medium to low.**

However, some **issues were identified in data quality and reporting, internal controls, and risk management.**

As one of the **main supervisory outcomes** from the 2024 SREP, **qualitative measures** were raised for the **funding strategy, funding plans and internal controls.** In addition, four **quantitative measures** were included **for liquidity risk**, which were of an **idiosyncratic nature**. These measures required, respectively, an **add-on for LCR outflows, a currency-specific LCR, and a minimum survival period.**

Interest rate risk in the banking book

The combined scores of the **IRRBB** were seen to have **deteriorated**, reflecting a fast- **changing** interest rate environment requiring the **dynamic adaptation of risk modelling, ongoing supervisory scrutiny through horizontal projects** and an on-site inspection campaign, as well as the methodological reallocation of the CSRBB from market risk to the IRRBB.

The **supervisors** continued their **activities to assess banks' ability to adapt to the changing interest rate** and **credit spread environments**. From these activities, it emerged that in some cases to room for **improvement** in terms of **risk quantification, model validation, monitoring and risk appetite frameworks**. In particular, the **CSRBB frameworks appeared in some cases underdeveloped.**

Operational and ICT risk

Operational and ICT risk continued to be the **SREP element with the worst average scores**, with its **ICT risk component being the worst average scored of all.**

The **two key common deficiencies** identified in the 2024 SREP cycle were (i) **the management of risks related to IT outsourcing**, and (ii**) IT security and cyber risk management, including cyber resilience, and** in some cases, **basic cyber hygiene measures**.

Banks' cybersecurity resilience and reporting of cyber incidents still showed room for improvement and therefore **warrants further attention**

Climate risk

Climate and environmental (C&E) risks have been a **supervisory priority** since 2022. To address these risks, ECB Banking Supervision has gradually **intensified its efforts to ensure that banks properly identify, evaluate and manage C&E risks.**

In the 2024 SREP cycle, **C&E risks continued to play an increasing role as a key risk driver in the related supervisory assessments** as compared with previous years. **C&E risks were considered across all risk types,** with a **higher relevance for the business model assessment** in particular.

Market risk

Compared with the previous SREP cycle, **the market risk combined scores had improved overall**, reflecting low to medium level risk in the current macroeconomic and financial context.

An update to the SREP methodology reflecting the EBA/GL/2022/14 **had an overall positive effect** on the combined market risk scores **due to the reallocation of the assessment of the CSRBB assessment from market risk to IRRBB.**

During the current SREP cycle, most of the **qualitative measures issued to address severe findings related to market risk identification and strategy**, as well as to the **risk appetite**.

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Supervisory Expectations

Business model

Supervisors continued to **focus** on tackling the long-standing **issues affecting the robustness of business models**, such **as strategic concerns, profitability steering and cost challenges.** The largest group of qualitative measures related to the need for improvements in strategic governance and its implementation, followed by i) changes or updates to banks' strategies, ii) improvements in profitability monitoring frameworks, iii) cost review and reduction, and iv) digitalisation.

IG and RM

The largest group of qualitative measures relating to internal governance and risk management focused on the **need to improve the management body**, followed by **measures relating to risk data aggregation and risk reporting** (RDARR), **the risk management framework and risk control functions**.

Credit risk

Supervisors addressed bank-specific concerns about credit risk management. Similarly to last year, most qualitative measures pertained to **strategic and operational planning regarding the level of NPLs** for banks with high NPLs, to **prudential NPL coverage expectations and the related reporting.** While other measures relating to governance, data and reporting increased, a **lower number of measures related to prudential classification and IFRS9**.

ICAAP

ECB Banking Supervision expressed **ongoing concerns about the effectiveness of banks' capital planning frameworks and their ability to generate reliable capital projections under baseline and adverse scenarios** as part of the overall **ICAAP assessments.** Consequently, most of capital adequacy-related measures issued required institutions to **improve capital planning and the others on risk identification, aggregation, measurement methodologies and procedures and capital adequacy specifically**.

03

SSM Priorities 2025-2027

Overview

Priority 1

Priority 2

Priority 3 and Other Activities

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Overview

The supervisory priorities for 2025-27 **reflect ECB Banking Supervision's medium-term strategy for the next three years.**

- They are based on a **comprehensive assessment of the main risks and vulnerabilities for supervised entities**. They also **take account** of the **outcome** of the **Supervisory Review and Evaluation Process (SREP).**
- The European banking sector **has demonstrated resilience** in the face of an **uncertain external environment** and shown its capacity **to continue supporting the economic recovery**.
- **Banks** should further **strengthen their efforts to effectively address material shortcomings identified by supervisors in previous cycles,** remedying them in a timely manner.
- Notwithstanding the **robustness of banks' balance sheets and risk profiles**, **prudence** is required given the **persistently high geopolitical tensions** and the associated uncertainty about the macroeconomic outlook.

Against this background, the supervisory priorities for 2025-27 focus on:

Priority 1			Priority 2		Priority 3
Bank should strengthen their ability to withstand immediate macro-financial threats and severe geopolitical shocks			**Banks should remedy persistent material shortcomings in an effective and timely manner**		**Banks should strengthen their digitalisation strategies and tackle emerging challenges stemming from the use of new technologies**
Credit risk	**Operational risk**	**Multiple risk categories**	**Climate-related and environmental risks**	**Governance**	**Business model**
Address deficiencies in credit risk management framework	Address deficiencies in operational resilience frameworks as regards IT outsourcing and IT security/cyber risk	Special focus: Incorporating the management of geopolitical risks in supervisory priorities	Address deficiencies in business strategies and risk management as regards climate-related and environmental risks	Address deficiencies in risk data aggregation and reporting	Address deficiencies in digital transformation strategies

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Priority 1

Prioritised vulnerability: Deficiencies in credit risk management frameworks

Strategic objective: Banks should **identify deteriorations in asset quality in a timely manner** and **translate them** into **prudent provisions and capital levels**. They should step up their efforts to address relevant shortcomings identified by supervisors under Previous years' priorities in a timely and effective manner.

Main activities as part of the work programme for these supervisory priorities:

- **Follow-up phase of the targeted review of IFRS 9 focusing**, inter alia, **on the use of overlays and coverage of novel risks** (including geopolitical risks). Supervisors will monitor banks' progress with previously identified findings, follow up on their remediation and use escalation measures where necessary.
- **Continuation of credit risk OSIs**, focusing on IFRS 9 collective staging and provisioning for corporates/SMEs, retail and commercial real estate portfolios, including collateral valuations.
- **Targeted review of SME portfolios**, with a focus on early identification and handling of potential borrower distress, SME models and governance of exposure to SMEs.

Prioritised vulnerability: Deficiencies in operational resilience frameworks as regards IT outsourcing and IT security/cyber risks

Strategic objective: Banks should **comply with the legal requirements stemming from the Digital Operational Resilience Act (DORA)** as regards ICT risk management, incident reporting, the testing of digital operational resilience and third-party service providers. They should step up their efforts to **address previously identified shortcomings in a timely and effective manner**, particularly as regards the **management of cybersecurity and outsourcing risks**.

Main activities as part of the work programme for these supervisory priorities:

- **Collection of data on third-party ICT providers** to identify links between supervised entities and third-party providers, potential concentration risks, and weaknesses in banks' outsourcing arrangements.
- **Targeted reviews of risk management frameworks** for outsourcing risks and of cyber resilience frameworks and risk controls.
- **Follow-up work on findings from the cyber resilience stress test**.
- **Targeted OSIs on operational risk and IT resilience frameworks**.
- **Implementation of DORA** in the supervisory framework.

The **recent escalation of geopolitical tensions requires banks** to adopt **robust risk management** and **risk controls** and calls for **heightened supervisory scrutiny** in the **short** and **medium term and activities** as: **(i) capture the geopolitical risk by the priority activities** relating to banks' management of **credit risk** and **operational risk**; **(ii) Supervisors will assess the risk management processes and risk appetite frameworks** that banks use to monitor and mitigate geopolitical risks and **(iii) include geopolitical risks** will be a key component of the **2025 EU-wide stress test**, to assess banks' ability to model counterparty credit risk while under stress.

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Priority 2

Prioritised vulnerability: Deficiencies in business strategies and risk management as regards climate-related and environmental risks

Strategic objective: Banks should **fully comply with supervisory expectations** relating to the **management of C&E risks**, as well as requirements stemming from the new **CRR3/CRD6** banking package (including those related to prudential transition plans), and **should address identified shortcomings in a timely manner**.

Main activities as part of the work programme for these supervisory priorities

- **Monitoring of full alignment** with supervisory expectations and implementation of escalation ladder.
- **Horizontal assessment of banks' compliance** with **Pillar 3 disclosure** requirements relating to environmental, social and governance-related (ESG) Risks Deep dives on banks' ability to address reputational and litigation risks associated with C&E-related commitments.
- **Review of banks' transition planning** in line with mandates expected from CRD6.
- **Targeted OSIs on C&E aspects**, either on a standalone basis or as part of planned reviews of individual risks (e.g. credit, operational and business model risks).

Prioritised vulnerability: Deficiencies in risk data aggregation and reporting

Strategic objective: Banks should step up their efforts to **remediate long-standing shortcomings in their RDARR frameworks** and align their practices with **supervisory expectations**. **If banks fail** to meet supervisory expectations, this could **trigger escalation measures**.
A **significant number of supervised entities** are **still not fully complying with supervisory expectations** and the Basel Committee on **Banking Supervision's principles** for effective risk data aggregation and risk reporting.
The **2024 SREP**, the targeted review of RDARR capabilities and the on-site campaign have **highlighted weaknesses** relating to **(i) management bodies' involvement** and expertise, **(ii) the comprehensiveness of RDARR frameworks**, **(iii) adequacy of data architecture and IT infrastructure**, **(iv) complex and fragmented IT systems**, and **(v) the management of data quality. Supervisors** will further step up **pressure on banks** that fail to remedy deficiencies within the deadlines set, **making** full use of the supervisory **escalation toolkit (including sanctions)** as appropriate.

Main activities as part of the work programme for these supervisory priorities

- **Follow-up work on the targeted review of RDARR practices** and **adherence to the supervisory expectations** set out in the "Guide on effective risk data aggregation and risk reporting" , **and remediation of previously identified findings**, making full use of available escalation tools where necessary.
- **Targeted OSIs** looking at **overarching governance** and **IT infrastructure issues**, **risk data aggregation capabilities** and **risk reporting practices**.
- Management Report on Data Governance and Data Quality – an **annual questionnaire aiming to ensure that banks' management bodies are adequately accountable for internal, financial and supervisory reporting**.

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Priority 3 and Other Activities

Prioritised vulnerability: **Deficiencies in digital transformation strategies**

Strategic objective: Banks should **strengthen their digitalisation strategies and the related execution** plans in order to properly **mitigate the underlying risks**, **including risks stemming from the use of new/advanced technologies** such as **cloud services and AI.**

Main activities as part of the work programme for these supervisory priorities

- **Targeted activities** focusing on the **impact** that banks' digital activities have on their **business models/strategies** and the **risks stemming from the use of innovative technologies**
- **Targeted OSIs on digital transformation**, looking at both **IT-related and business model-related aspects** of banks' strategies

In addition to the 2025-27 supervisory priorities, ECB Banking Supervision will continue to conduct other regular and ad hoc activities.

Over the past three years, supervisors have focused on **banks' credit risk management frameworks.** Particular emphasis has been placed on the **resilience of portfolios** that are **more sensitive to the macro-financial situation and/or exposed to refinancing risk**, such as residential and commercial real estate portfolios. As a result, banks have improved their ability to deal with a potential surge in the numbers of distressed debtors in real estate portfolios.

The **targeted review of counterparty credit risk management** that was carried out in 2022 **and the various OSIs** that have been conducted in the last few years **have identified material vulnerabilities in banks' risk management practices** (stress testing, default management process and documentation, etc.).

Substantial **supervisory wor**k has also been undertaken in 2024 to tackle **shortcomings in asset and liability management (ALM) frameworks**. **Targeted reviews** have been carried out looking at **liquidity contingency planning and collateral optimisation capabilities**, the **feasibility of funding plans**, **ALM governance and strategies**, and **interest rate and credit spread risks.** These have led to the identification of **deficiencies** among others in (i) the **assessment of collateral and monetisation** (unknown central bank eligibility of collateral, overly optimistic time to liquidity, etc.); (ii) **assumptions used in modelling projections for deposits** (overly optimistic future deposit growth, reliance on simplistic modelling assumptions, etc.); (iii) **ALM models' back-testing, validation and recalibration processes**; and (iv) **general ALM governance frameworks** (data governance, adaptability of information systems, calibration of limits in risk appetite statements, etc.).

Tackling deficiencies in the functioning of banks'management bodies has been a supervisory priority since 2020. **Despite some progress in the area of diversity, some banks still show weaknesses when it comes to collective suitability** (including as regards IT expertise and board independence), **succession planning**, and the **functioning and composition of committees.**

04

Conclusions

Conclusions

Just in Time

SREP 2024

The **results of the 2024 SREP cycle** are a **contribution to the resilience of the European banking sector**, while also revealing existing vulnerabilities and emerging risks. **Overall, SREP scores, capital requirements and guidance have remained broadly stable** over the past **few years**, with **improvements in banks' soundness** somewhat weighed down by an environment of heightened risk.

Despite strong profitability, **banks face several challenges**, including a **slowdown in NII**, **cost pressures**, **strategic execution weaknesses**, and a **deteriorating outlook for core business areas**. Also, **the declining trend in the ratio of NPLs has reversed**, despite remaining at historical lows.

ECB Banking Supervision will continue its **focused effort to promote prudent risk behaviour and proactive risk management**, ensuring that **banks remain resilient** and **continue to support the real economy** during these challenging times.

SSM Priorities 2025-2027

Going forward, **supervisors will focus on consolidating and remediating existing findings** in the above areas, with a view to ensuring **full compliance with supervisory and regulatory expectations**. **Supervisors will follow up on the outcomes of supervisory activities** and **engage with relevant banks** on an individual basis in order to **address outstanding issues** (especially long-standing issues). If remediation efforts are not timely or sufficient, **supervisors may employ escalation strategies**, making full use of the supervisory toolkit available to them if need be.

ESSENTIAL SERVICES FOR FINANCIAL INSTITUTIONS

iason is an international consulting firm that has been supporting both financial institutions and regulators in topics related to Risk Management, Finance and ICT since 2008

Strategy

Strategic advisory on the **design** of **advanced frameworks** and **solutions** to fulfil both **business** and **regulatory needs** in Risk Management and IT departments

Methodology & Governance

Implementation of the designed **solutions** in bank departments **Methodological support** to both **systemically important financial institutions** and **supervisory entities**

Solution

Advanced **software solutions** for **modelling, forecasting, calculating** metrics and **integrating** risks, all on cloud and distributed in Software-as-a-Service (**SaaS**)

Company Profile

iason is an international firm that consults Financial Institutions on Risk Management. Iason integrates deep industry knowledge with specialised expertise in Market, Liquidity, Funding, Credit and Counterparty Risk, in Organisational Set-Up and in Strategic Planning.

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