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Banking Supervision

SOURCE:

European Banking Authority

EBA: EU/EEA Banks Display Strength amid a Challenging Risk Environment

- The EBA published its **Risk Dashboard** for the **second quarter of 2026**. The dashboard indicates that **EU/EEA banks remain resilient despite significant geopolitical and macroeconomic uncertainty**, supported by strong capital and liquidity, continued lending growth, sound asset quality and solid profitability.
- **Capital and liquidity remain strong.** The Common Equity Tier 1 (CET1) ratio stood at **16.1%**, marginally below 16.2% in the previous quarter due to higher risk-weighted assets. Banks maintained approximately **430 basis points of headroom above regulatory capital requirements**, unchanged from the previous year. Liquidity metrics remained comfortably above minimum requirements, with the **Liquidity Coverage Ratio at 158.5%** and **Net Stable Funding Ratio at 125.7%**. High-quality liquid assets increasingly comprise sovereign bonds, which rose 8.7% during the first half of 2026, while cash balances declined.
- **Lending continued to expand while asset quality remained sound.** Household lending increased **5.2% year-on-year**, while lending to non-financial corporations grew **6.3%**, although growth varied considerably across jurisdictions.

The non-performing loan ratio remained low at **1.8%**, while Stage 2 loans declined further to **8.9% of total loans**. Direct IT-sector exposures represented only 4% of corporate lending, with no signs of deteriorating credit quality reported.

- **Profitability remained robust**, with return on equity reaching **11.3%**, compared with 10.7% a year earlier. Higher net interest income—supported by loan growth and an increase in net interest margin from 1.58% to **1.63%**—was the main contributor. The cost-to-income ratio improved from 52.5% to **51.5%**.
- The EBA highlights continued external risks, including **geopolitical tensions**, potentially **rising interest rates** and associated **credit-risk costs**, as well as **elevated asset valuations** and **increasing concentration in AI-related financing activity**.

