J.P. Morgan Research

European Banking Sector Stress Test Review

Capital adequacy, credit quality, and profitability trends

February 11, 2026

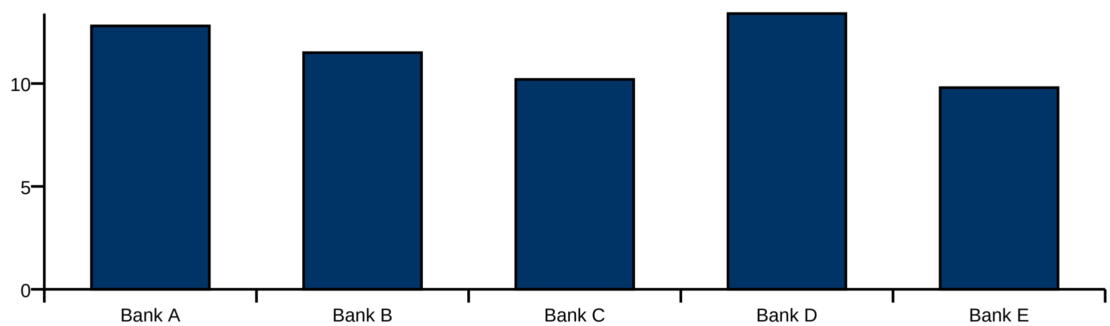
Executive Summary

European banks enter the 2026 stress test cycle with improved capital ratios and resilient earnings, though credit quality trends require close monitoring. We review the latest supervisory results and provide our assessment of sector positioning relative to regulatory thresholds. Our analysis covers the largest banks in the eurozone and the UK, with attention to net interest income sustainability, cost of risk evolution, and capital return capacity. We maintain a selective overweight on banks with strong capital generation and attractive shareholder return profiles.

Stress test methodology and results

The latest EBA and ECB stress test exercises apply adverse macro scenarios including GDP contraction, unemployment increases, and property price declines. Results show that the majority of large banks maintain CET1 ratios above minimum requirements even under stressed conditions, reflecting the capital build of recent years. However, dispersion across institutions remains meaningful, with some banks showing thinner buffers. We discuss the key assumptions driving the results and compare outcomes across geographies and business models. We also assess how supervisory expectations for Pillar 2 guidance may evolve in response to the results. Our analysis includes a comparison with prior vintage tests to assess the trajectory of sector resilience.

CET1 ratios under stress (%, select banks)

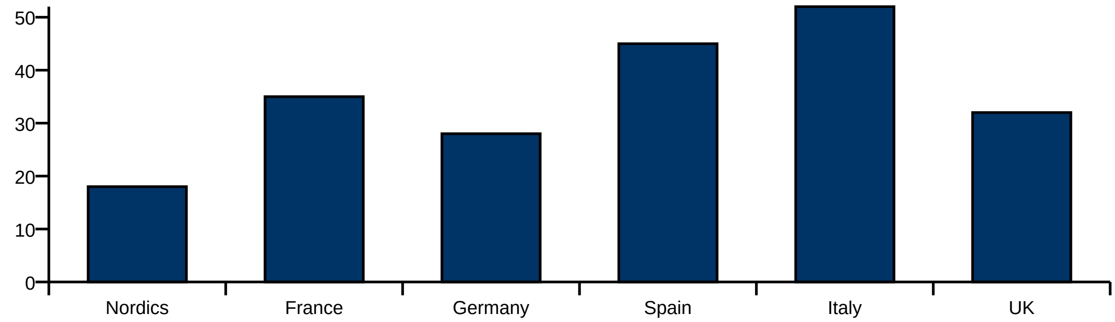


Source: J.P. Morgan Research. Illustrative CET1 ratios under adverse scenario.

Credit quality and cost of risk

Nonperforming loan ratios have continued to decline, supported by active portfolio management and disposals. However, we see early signals of deterioration in consumer credit and small business segments, particularly in economies with weaker macro fundamentals. Cost of risk provisions remain below historical averages, and we model a gradual normalization through 2026 and 2027. Commercial real estate exposures are a focal point for supervisors and investors; we review bank disclosures and estimate potential incremental provisions. Our base case assumes a manageable credit cycle, but we flag downside scenarios involving sharper economic weakness or property market stress.

Cost of risk by geography (bps)

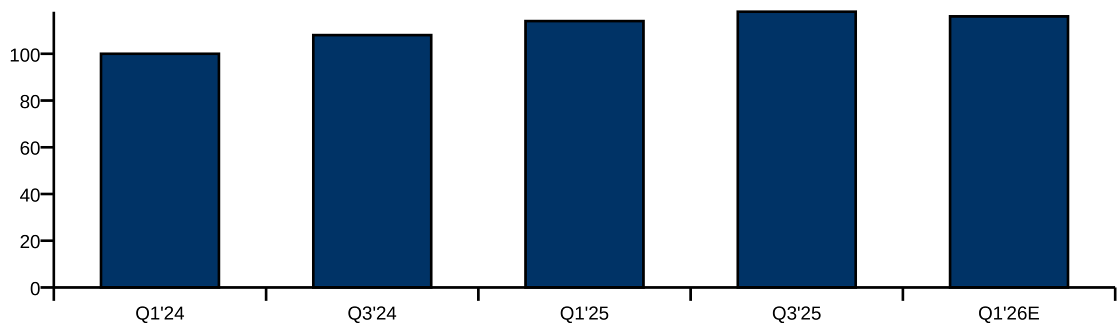


Source: J.P. Morgan estimates. Annualized loan loss provisions, 2026E.

Profitability and net interest income

European bank profitability has benefited from higher rates, with net interest income rising materially over the past two years. We expect NII to plateau in 2026 as rate cuts take effect and deposit repricing accelerates. Fee income and cost management are increasingly important differentiators for sustaining returns. We analyze the sensitivity of our covered banks to rate changes and provide estimates for NII under different rate scenarios. Cost to income ratios have improved, but further efficiency gains may be needed to offset NII headwinds. We discuss the outlook for capital return programs, including dividends and buybacks, given regulatory and earnings trends.

Eurozone bank NII index (Q1 2024 = 100)



Source: J.P. Morgan Research. E = estimate. Aggregate NII, indexed.

Sector positioning and recommendations

We favor banks with strong CET1 generation, diversified revenue streams, and clear capital return visibility. Our top picks are concentrated in northern European markets and in institutions with leading digital platforms. We remain cautious on banks with elevated commercial real estate exposure or limited fee income diversification. Key risks include a deeper than expected economic downturn, adverse regulatory outcomes, and political developments that affect the banking sector. We provide updated price targets and discuss the relative value across our coverage universe.