eba European Banking Authority

Risks Assessment Report, Risk Assessment Questionnaire, Risk Dashboard

Spring 2026

EU/EEA banks remain resilient amid rising geopolitical, market and technological risks

The European Banking Authority (EBA) published its Spring 2026 Risk Assessment Report (RAR), Q1 2026 Risk Dashboard (RDB) and Spring 2026 Risk Assessment Questionnaire (RAQ) results today.

The findings show that EU/EEA banks continue to operate from a position of strength, supported by solid capital and liquidity, strong asset quality and sustained profitability. Funding conditions also remain broadly favourable despite increased uncertainty in financial markets. Leveraging on funding plan data and outlooks, the report provides a comprehensive view of banks' lending activity, balance sheet developments, funding strategies and profitability prospects.

EU/EEA banks face a challenging and rapidly evolving risk environment. Despite the strong starting point, the risk environment remains challenging and rapidly evolving, requiring continued vigilance. Heightened geopolitical tensions, including the conflict in the Middle East, have increased uncertainty and could affect banks through higher energy prices, renewed inflationary pressures, weaker economic activity and increased market volatility. While EU/EEA banks' direct exposures to the affected regions remain limited, indirect and second-round effects could have broader implications for borrowers, funding conditions and financial markets.

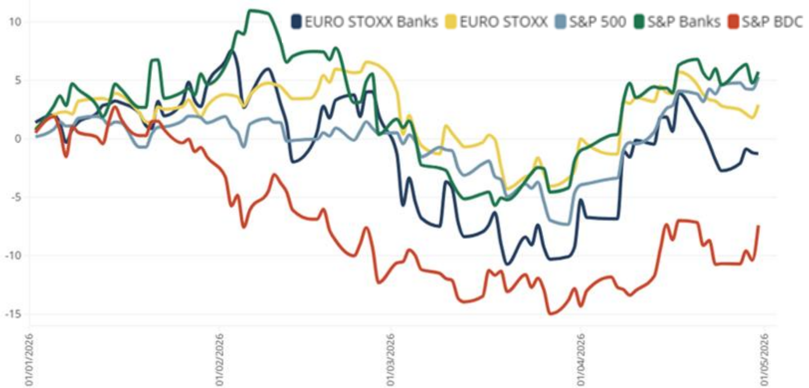
There are rising operational and cyber risks in a digital environment. Operational and cyber risks are key concerns for the banking sector. The growing digitalisation of financial services, wider adoption of advanced technologies, including artificial intelligence, and an evolving cyber threat landscape. The rapid development of increasingly capable (frontier) AI models may further amplify operational and cyber risks, including through new attack vectors and the potential misuse of AI-enabled tools. This further underlines the importance of maintaining strong operational resilience, cybersecurity controls and contingency planning.

Interconnectedness with NBFIs and private sector remain a concern. The EBA further points to the continued expansion of private credit markets and the growing interconnectedness between banks and non-bank financial institutions. Exposures of EU/EEA banks towards NBFIs increased notably in recent quarters. While exposures towards private credit are estimated to be limited, they are concentrated in larger institutions. Although private credit provides an important source of financing to the real economy, its expansion warrants close monitoring given potential risk transmission channels through funding relationships, common exposures and competitive pressures in lending markets.

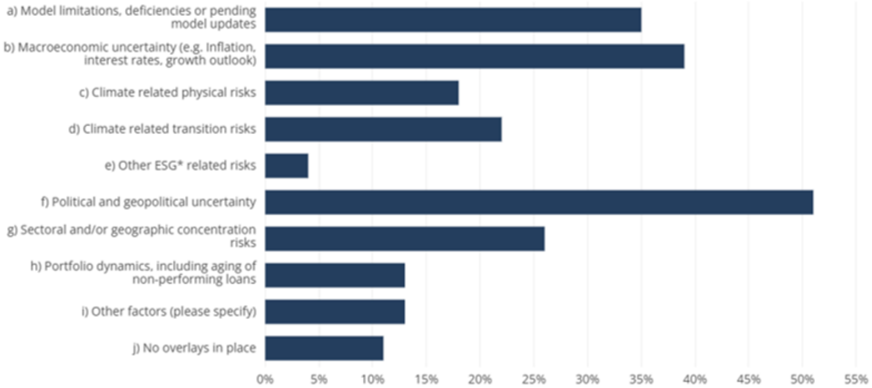
Geopolitical risks may affect banks mainly through possible impact of second-round effects on energy-intensive sectors

- **Geopolitical tensions in the Middle East increased macroeconomic uncertainty**. They also affect rate expectations. Despite the recent correction in risk premiums, market sentiment remains fragile, and elevated volatility points to continued vulnerability to abrupt price adjustments.
- Direct exposures to the Middle East are limited, but second-round effects pose risks, given the estimated notable exposures of EU/EEA banks to energy-intensive sectors.
- Depending on the course of the developments in the Middle-East EU/EEA banks may be confronted with deteriorating asset quality and subdued credit demand, which are not least reflected in banks' overlays.
- **Converging risks of AI, energy and private credit add to this already uncertain outlook.**

YtD % change in prices of selected stock indices (percentage points)



Factors associated to provisioning overlays in place



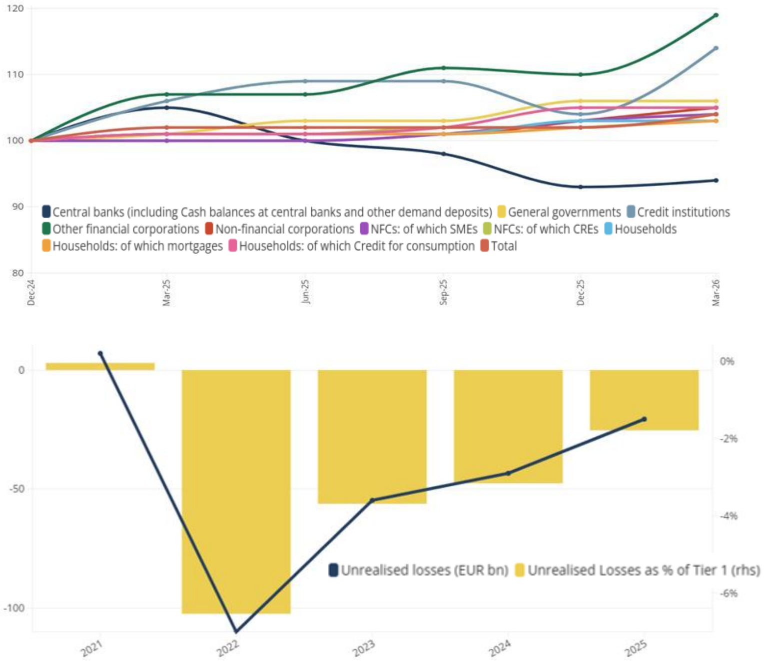
Sources: S&P Capital IQ; EBA Risk Assessment Questionnaire (RAQ) spring 2026

eba European Banking Authority

Banks maintain positive lending expectations despite elevated downside risks

- Despite elevated macroeconomic uncertainty, EU/EEA banks continued to expand lending in 2025. Growth was supported by resilient SME lending and consumer credit, while growth of lending to large corporates, residential mortgages and CRE-related exposures remained more subdued.
- **Banks expect an increasing lending activity in project and asset finance, reflecting Europe's investment needs in infrastructure, defense and energy transition.**
- According to funding plan data, banks plan a continued balance sheet expansion, with growth in lending to non-financial corporates (above 5% in 2026) outpacing household lending (around 3.5%-4%). **Growth is expected to be driven by cross-border lending, particularly within the EU/EEA.** However, Q1 data shows only limited growth in lending, whereas bond volume growth was more material.
- Expanding sovereign portfolios heighten sensitivity to adverse sovereign risk developments, yet sovereign portfolios have become more geographically diversified, reducing concentration in domestic sovereign exposures.
- **Unrealised losses of banks' bond portfolios* held at amortised cost have declined over recent years amid changes in the interest rate environment, and now stand at around EUR 25bn, equivalent to approximately 170bps of Tier 1 capital.**

EU/EEA banks' loan book growth by segment (Dec-24 = 100) (top) and evolution of unrealised losses on amortised cost bond portfolios (bottom)*



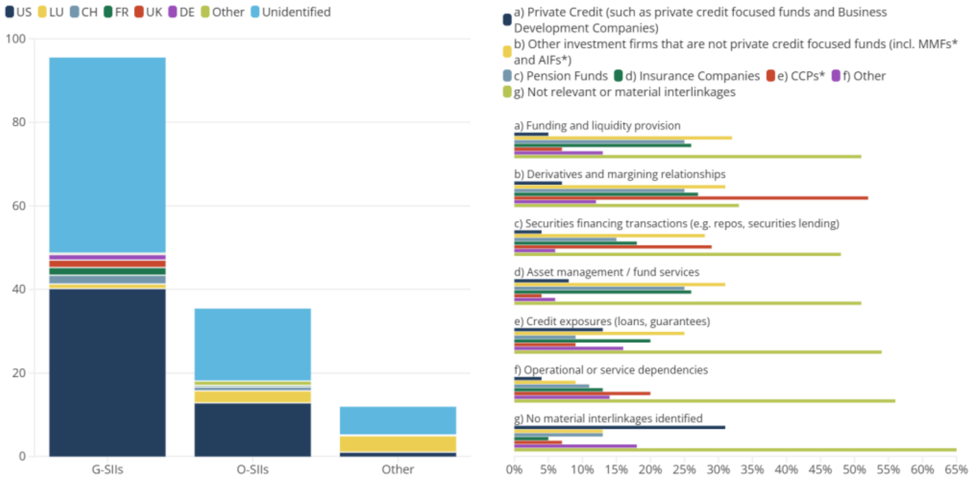
Source: EBA supervisory reporting data; * Bond portfolios include all segments, i.e. sovereign as well as corporate bonds etc.

European Banking Authority

Direct private credit exposures remain limited and concentrated in larger banks – risks might rather come from second round effects

- Exposures to non-bank financial institutions (NBFIs) continued to grow strongly (+10.4% YoY in 2025), highlighting the increasing role of non-bank intermediation and the need to monitor potential spillover channels between banks and the non-bank financial sector. **Looking forward, EU/EEA banks are planning to further expand lending to the NBFI sector.**
- Private credit markets continue to expand rapidly as a source of corporate financing. It is a market for which indicators point to emerging signs of stress in certain segments following high-profile defaults in late 2025.
- **EU/EEA banks' exposures to private credit funds and related asset managers, as captured by large exposures data, reached nearly EUR 150 bn in June 2025 (0.6% of total assets), with the largest share held by G-SIIs.**
- Where data are available, exposures are primarily directed towards US counterparties, followed by Luxembourg, France and Switzerland.
- **Stress in private credit markets could spill over to banks through funding linkages, shared borrowers, correlated asset exposures and the potential migration of credit risk back onto bank balance sheets.**

EU banks' exposures towards asset managers engaged in private credit activities, EUR bn (left), Channels through which institutions have the most material interlinkages with NBFIs (right)



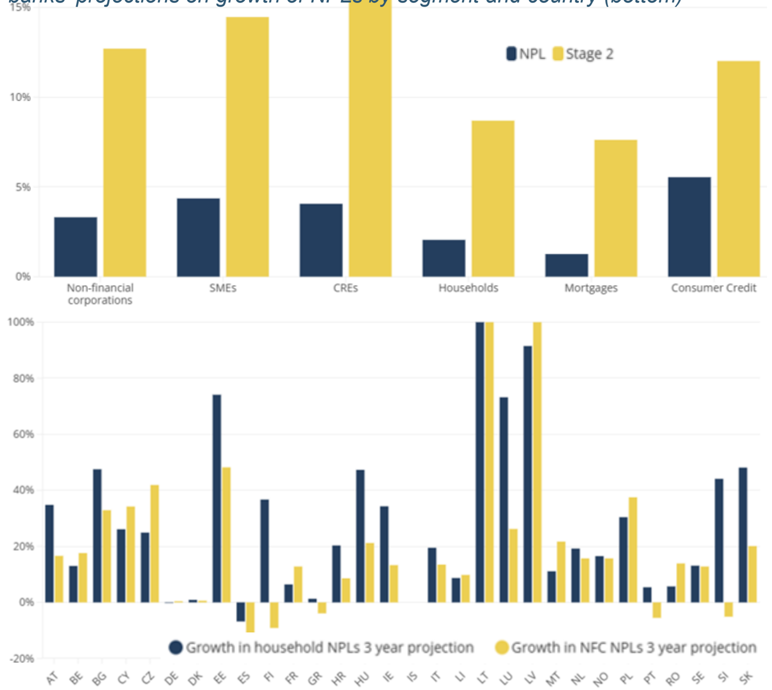
Source: EBA supervisory reporting data; EBA Risk Assessment Questionnaire (RAQ) spring 2026

eba European Banking Authority

Overall resilient asset quality with persistent divergences.

- NPLs remained close to historical lows, with volumes broadly stable at around EUR 375 bn as of Q1 2026 (1.82% of total loans). Stage 2 allocation remains elevated, in particular for corporate and unsecured retail portfolios, with no material deterioration observed in Q1 2026.
- **Banks’ expectations of asset quality deterioration remain concentrated in a limited number of portfolios, particularly CRE and SMEs.** These are portfolios, in which cost pressures and weak demand expectations drive vulnerabilities, most notably in construction and real estate activities.
- **Funding plan projections point to a gradual decline in aggregate NPL ratios.**
- However, this aggregate trend masks increasing cross-country dispersion, with NPL ratios projected to rise in several central and eastern European jurisdictions.
- Despite resilient asset quality metrics, banks should continue to closely monitor vulnerable borrowers and sectors, as a deterioration in macroeconomic conditions could lead to an abrupt increase in credit risk.

EU/EEA banks’ Q1 2026 NPL ratio and stage 2 allocation by segment (top); EU/EEA banks’ projections on growth of NPLs by segment and country (bottom)



Source: EBA supervisory reporting data

Favourable funding and liquidity conditions could be disrupted by elevated market volatility

- Despite the elevated macroeconomic uncertainty, funding conditions for EU/EEA banks have remained favourable.
- Banks plan to expand both deposit funding and market issuance in the coming years. **Senior preferred debt and covered bond issuance are expected to rise strongly.** This comes alongside continued growth in household and NFC deposits, which remain the main source of funding for EU/EEA banks.
- **However, geopolitical tensions and market volatility pose increasing risks to these funding plans given the planned elevated issuance volumes. This could require banks to e.g. even further increase the share of deposits or repos in the funding mix.**
- Structural mismatches in foreign-currency funding expose some banks to refinancing and market liquidity risks.
- **Banks enjoy a comfortable liquidity position. However, the LCR is expected to decline this year, which could already be seen in Q1 data. LCR declined to 158% from 163% in year end.**

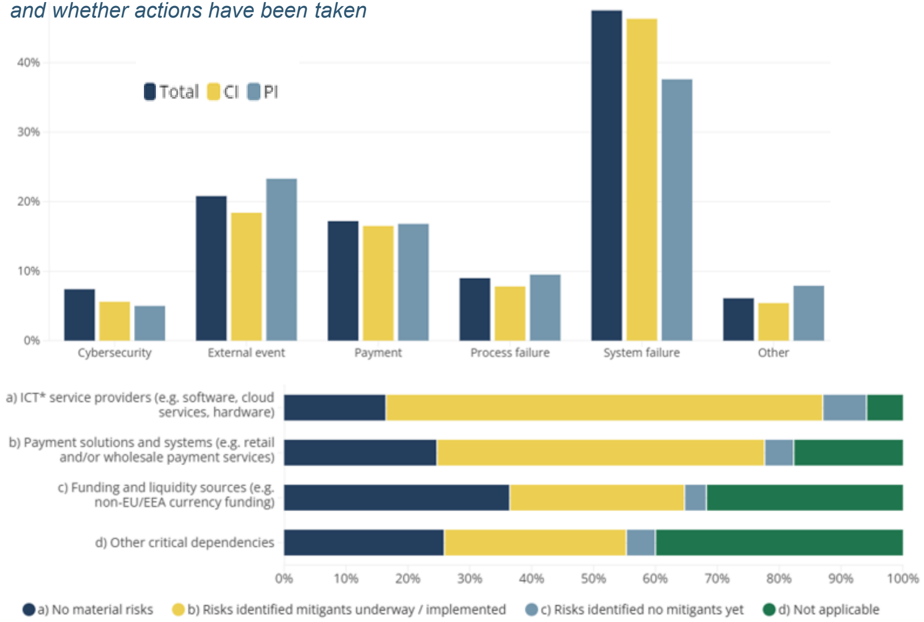
Unsecured debt issuance and maturing volumes (EUR bn, left) and secured debt issuance, maturing and retained volumes (EUR bn; right)

Source: EBA supervisory reporting data

Operational risks remain elevated and increasingly complex. Climate risk management progresses but remains uneven.

- **Digitalisation, rapid AI uptake and technological advances - alongside geopolitical tensions - continue to affect operational risk. Cyber risk and data security remain the most significant driver of operational risk, followed by fraud risk.**
- While the overall number of cyberattacks at financial institutions remains high, data indicate some levelling of these risks. Furthermore, incident reporting under DORA shows that system failures account for most ICT-related incidents.
- Reliance on third-party ICT service providers, particularly outside the EU/EEA, continue to represent a significant source of operational risk for banks.
- **Thanks to the creation of climate risk management, EU/EEA banks have significantly advanced in this area in recent years.** Overall, they appear to be ahead of peers in other jurisdictions. Most banks have introduced quantitative climate-related targets, yet progress remains uneven.

ICT related incidents under DORA incident reporting by incident type, January 2025 – March 2026 (top); risks or challenges related to dependencies on non-EU/EEA service providers and whether actions have been taken

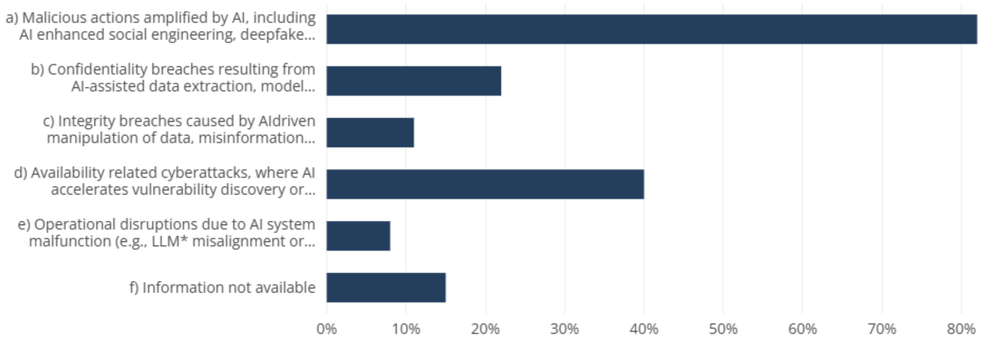


Source: EBA DORA incident reporting; EBA Risk Assessment Questionnaire (RAQ) spring 2026

Highly capable (frontier) AI models pose significant risks

- **Rapid advances in frontier AI large language models could further increase cyber risk by enabling more sophisticated exploitation of software vulnerabilities.**
- These tools could identify and exploit many weaknesses in IT systems - including previously unknown ("zero-day") vulnerabilities - at unprecedented speed, making it harder for banks to respond in time.
- Smaller banks may be more affected, as they often have fewer resources to detect and respond to these rapidly evolving threats.
- The banking sector and supervisors have reacted swiftly to address the rise in cyber threat.
- **Banks should strengthen software quality and cybersecurity practices, including protecting source code, reducing attack surfaces, and responsibly adopting AI-powered security testing.**

How AI amplifies banks' vulnerabilities

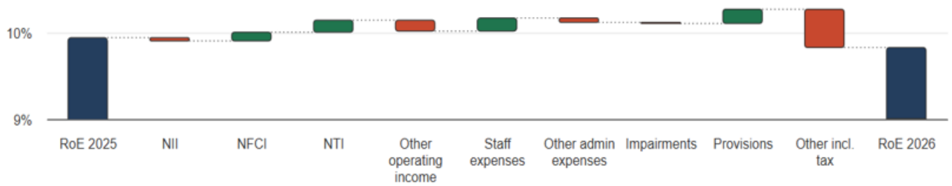


Source: EBA Risk Assessment Questionnaire (RAQ) spring 2026

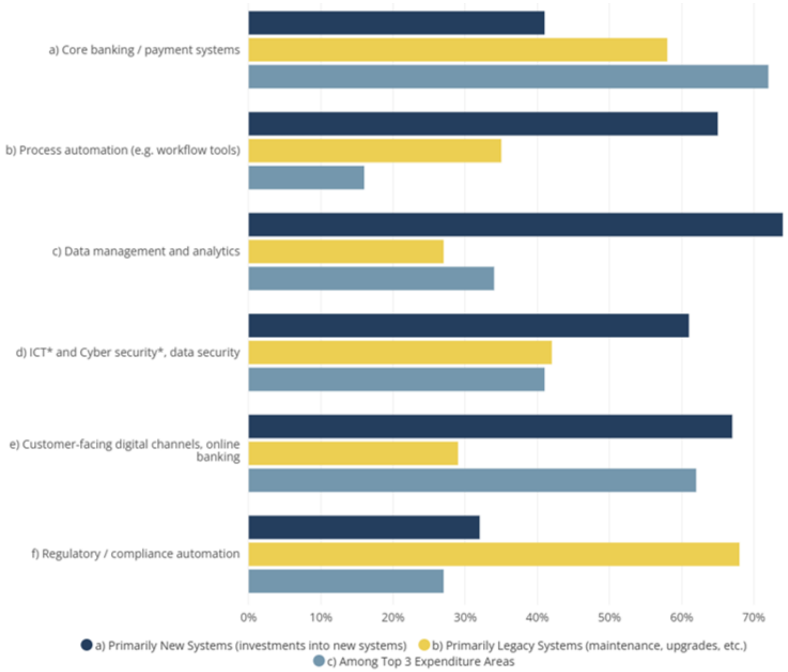
Profitability remains high but uncertain how sustainable this is

- **EU/EEA banks' profitability remains strong and has proven resilient during the decreasing interest rate environment.** It has mainly been supported by net interest income (NII) as a key revenue component, and strong fee income generation. Profitability has also held up well in Q1, not least supported by a stabilised NIM and by fee income, and despite a rise in cost of risk.
- **Banks are planning for a further rise in their profitability in the years to come. This is driven less by revenue growth and more by cost reductions over the next two years.** However, presumably continuously high ICT-related investments and maintenance costs may limit these cost reductions.
- In more detail on ICT related costs, 72% of banks actually identify core banking and payment-related systems as a major source of their ICT expenditure.
- Interest rate risk in the banking book (IRRBB) has gained renewed relevance amid the changing rate environment. **On average, the impact of a rate rise on banks' NII is still positive, but more limited than three years ago. The negative impact on banks' economic value (EVE) is in contrast nowadays more pronounced.**

ROE & contribution of main P&L items (share of equity) to ROE YoY change and projections for 2026



ICT costs for new vs. legacy systems and key expenditure areas

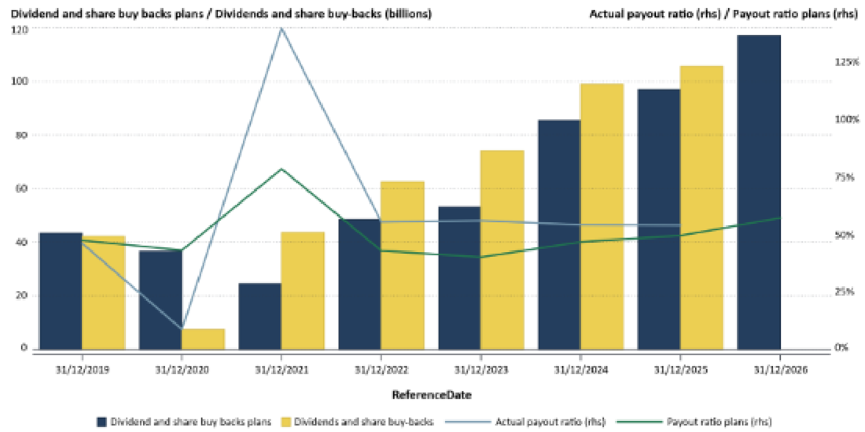


Source: EBA supervisory reporting data; EBA Risk Assessment Questionnaire (RAQ) spring 2026

Banks plan higher payouts amid record-high capital ratios and stable headroom

- EU/EEA banks' capitalisation remains strong, with capital ratios close to record highs supported by solid capital generation. The CET1 ratio reached 16.3% in Q4 2025 (up 10 bps year-on-year). **Last year's rise in the CET1 ratio seemed to revert in Q1, showing a decline amid rising RWAs.**
- The capital headroom above regulatory requirements (plus P2G) remains at comfortable levels. **The CET1 headroom stands at 4.8% in Q4 2025.** Dispersion across banks and countries persists, however, and some institutions maintain limited buffers.
- **EU/EEA banks distributed record payouts in 2025 and expect further increases in 2026, despite an environment where risk-weighted assets, credit impairments and market volatility could deteriorate.**

Dividend and share buy backs (in EUR bn; lhs) and payout ratio (%) (rhs)



Source: EBA supervisory reporting data

European Banking Authority

Floor 24-27, Tour Europlaza
20 Avenue André Prothin
92400 Courbevoie, France

Tel: +33 1 86 52 70 00
E-mail: info@eba.europa.eu

https://eba.europa.eu/

Disclaimer on IHS Markit data (iBoxxes): Neither Markit Group Limited ("Markit"), its Affiliates or any third party data provider makes any warranty, express or implied, as to the accuracy, completeness or timeliness of the data contained herewith nor as to the results to be obtained by recipients of the data. Neither Markit, its Affiliates nor any data provider shall in any way be liable to any recipient of the data for any inaccuracies, errors or omissions in the Markit data, regardless of cause, or for any damages (whether direct or indirect) resulting therefrom.