EBA Regular Use

European Banking Authority

Risk Assessment Report and Questionnaire and note on SME lending – Autumn 2026

Press & analysts' call | 19 November 2026



AI adoption poses additional risks and increased dependencies

- **Banks use AI against cyber risk:** nearly two thirds use AI to detect and fix software flaws; nearly three quarters already use frontier models.
- **New dependencies:** ~80% of the bank source their AI models from the US, and around half from European suppliers. Most banks expect an **overall positive impact** on their business.
- **AI usage risks** include inaccurate or unreliable outputs for instance. Vulnerabilities related to governance, such as the inability to understand & validate models and their inputs.
- **Limited exposure:** EU/EEA banks' AI related loan exposures on average limited, but ICT related exposures have risen significantly recently.

Areas in which banks expect the most positive impact from AI usage in future

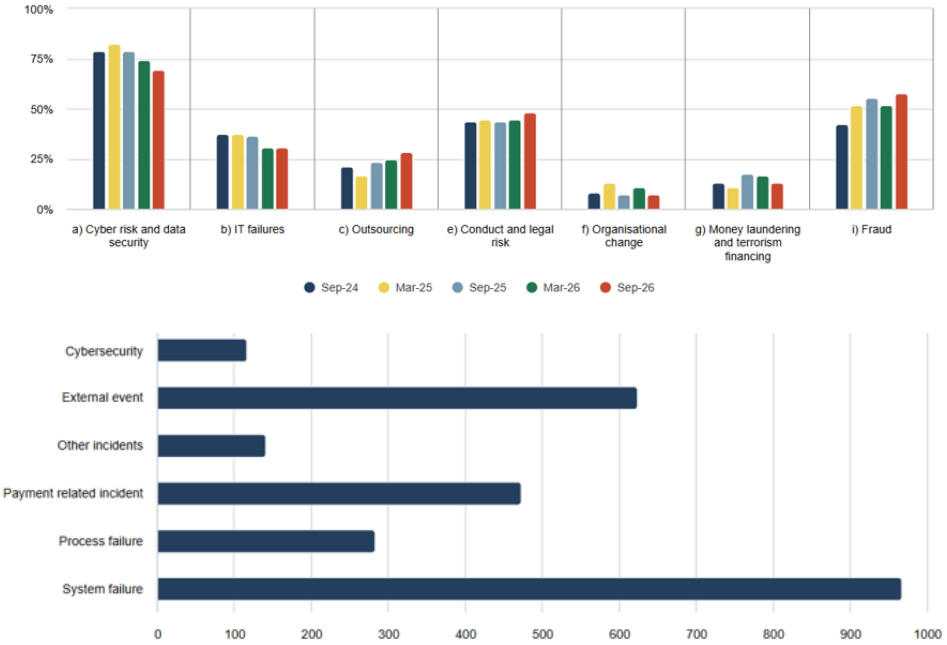


Source: EBA Risk Assessment Questionnaire

Cyber threats and fraud are key drivers of operational risks

- **Cyber threats and ICT disruptions.** System failures and external events are main root causes of major ICT incidents.
- **Fraud risk continues to rise**: Social engineering, stolen credentials and payment fraud are key channels, with AI making some scams more sophisticated.
- **Concentration risk:** Reliance on shared ICT providers creates risk of disrupted services at several banks and delay recovery.
- **Quantum computing include:** Risks to cryptography sensitive data. New possibilities for portfolio optimisation, risk modelling and fraud detection.

Main drivers of operational risk as seen by banks (top) and number of high-level root causes of unique DORA related incidents of credit institutions, Jan. till Sept. 2026 (bottom)

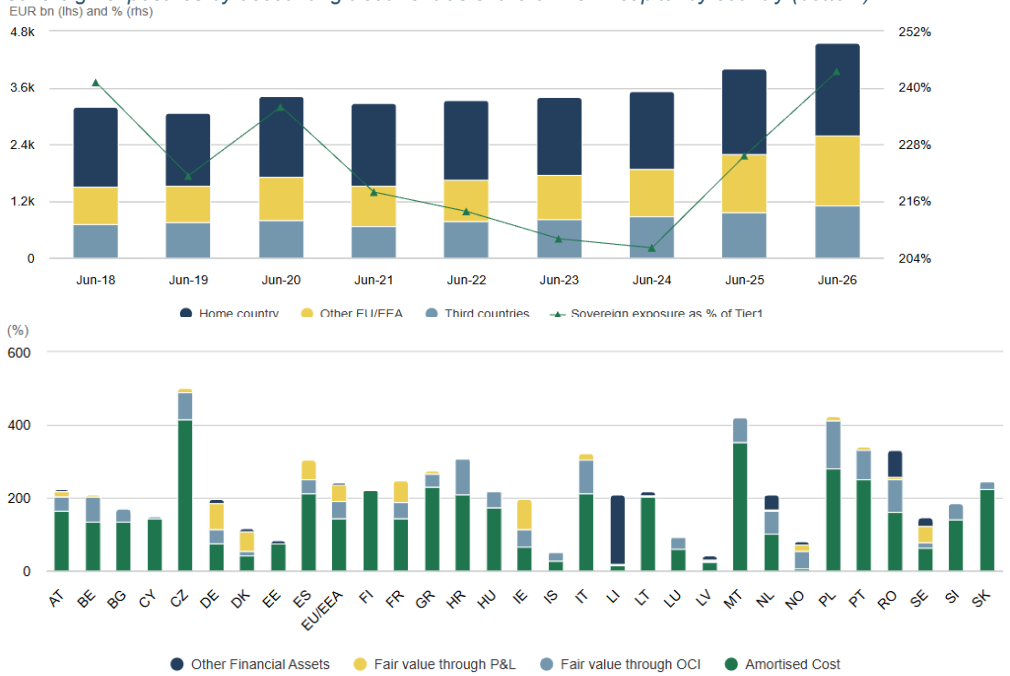


Source: EBA Risk Assessment Questionnaire and DORA reporting data

Rising sovereign exposures increase sensitivity to fiscal & market risks

- Significant rise in EU/EEA banks' sovereign exposures since 2024, **reaching around EUR 4.5tn** in June 2026, a rise of 10%p.a. over the last 2 years.
- **~40% of EU/EEA banks' sovereign exposures are measured at FV**, leaving close to EUR 1.6tn directly exposed to valuation losses due to yields rising.
- **100bps increase in yields on sovereign exposures at FVTPL and FVOCI**: resulting losses would amount to <2% of T1 capital for more than half of the banks, and less than 4% for approximately three quarters of the banks.*

EU/EEA banks' sovereign exposures and sovereign exposures as a share of Tier 1 capital (top) and sovereign exposures by accounting treatment as share of Tier 1 capital by country (bottom)



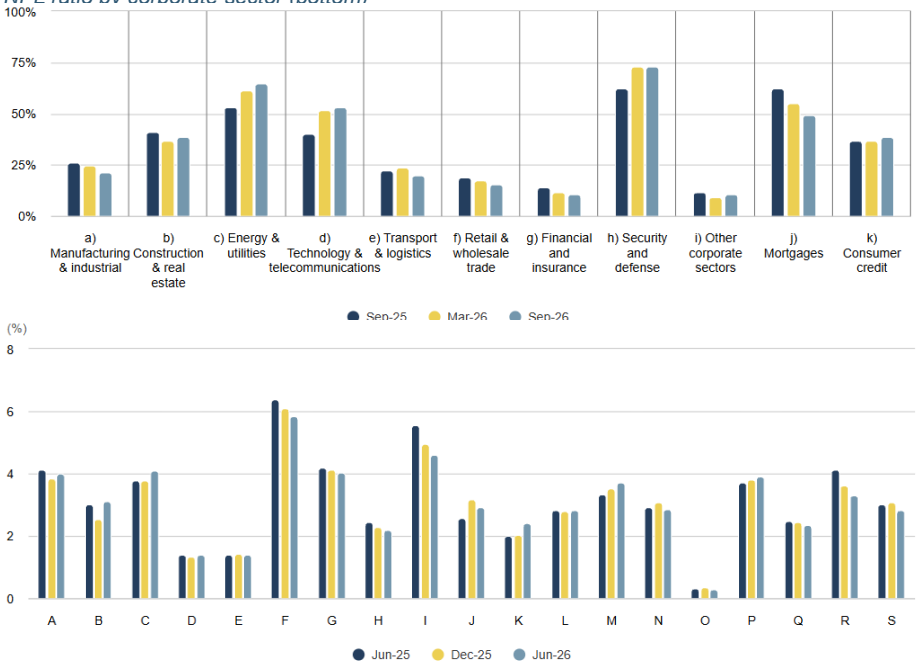
Source: EBA supervisory reporting data

** The simplified analysis does not account for any potential hedging arrangements or other mitigating effects.*

Lending growth increased; asset quality varies across sectors and segments

- **Corporate lending = driver of credit growth:** NFC loans rising by 6.4% YoY and household loans by 5.3%.
- **NFC loan growth showed a wide dispersion among sectors.**
- Headline asset-quality metrics remained resilient, but **underlying NPL flow dynamics show signs of stress** (NPL volume +4% YoY).
- **More pressure** on asset quality for consumer credit and selected corporate sectors.

*Evolution of expected loan demand over the next 12 months for selected sectors (top) and NPL ratio by corporate sector (bottom)**



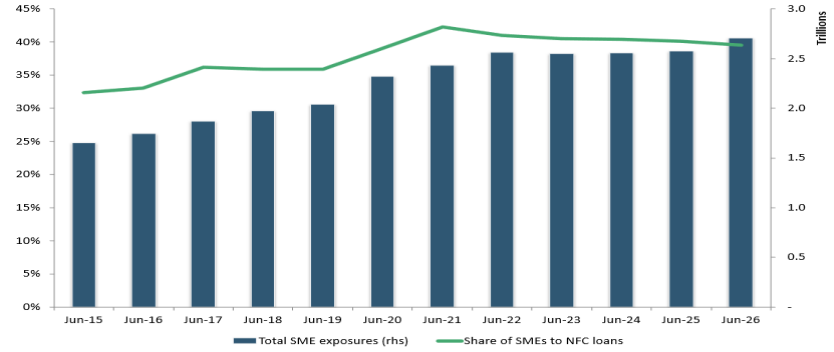
Source: EBA Risk Assessment Questionnaire and EBA supervisory reporting data

** Level 1 NACE codes are as following: A – Agriculture, forestry and fishing, B – Mining and quarrying, C – Manufacturing, D – Electricity, gas, etc., E – Water supply, F – Construction, G – Wholesale and retail trade, H – Transport and storage, I – Accommodation and food service activities, J – Information and communication, K – Financial and insurance activities, L – Real estate activities, M – Professional, scientific and technical activities, N – Administrative and support service, O – Public administration and defence, etc., P – Education, Q – Human health services and social work activities, R – Arts, entertainment and recreation, S – Other services*

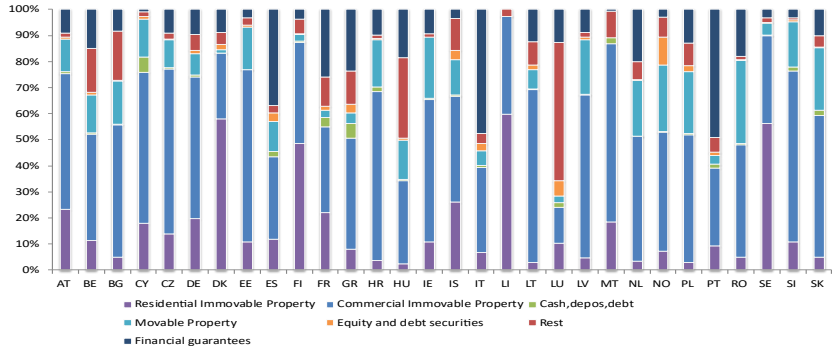
SME importance on EU banking sector

- **SMEs form the backbone of the European economy** and represent a material share of banks' corporate lending.
- **SME portfolios remain broadly resilient, but vulnerabilities are becoming more visible.** Insolvencies have risen materially since 2021.
- **Risks are concentrated in specific sectors and jurisdictions rather than systemic:** E.g. Construction, commercial real estate and other real-estate-related activities.
- **SME risks are closely connected to collateral and refinancing conditions.**

EU/EEA banks' exposures to SMEs (EUR bn) and share of SMEs to NFC loans (%)



Collateral composition of SME lending by country (June 2026)

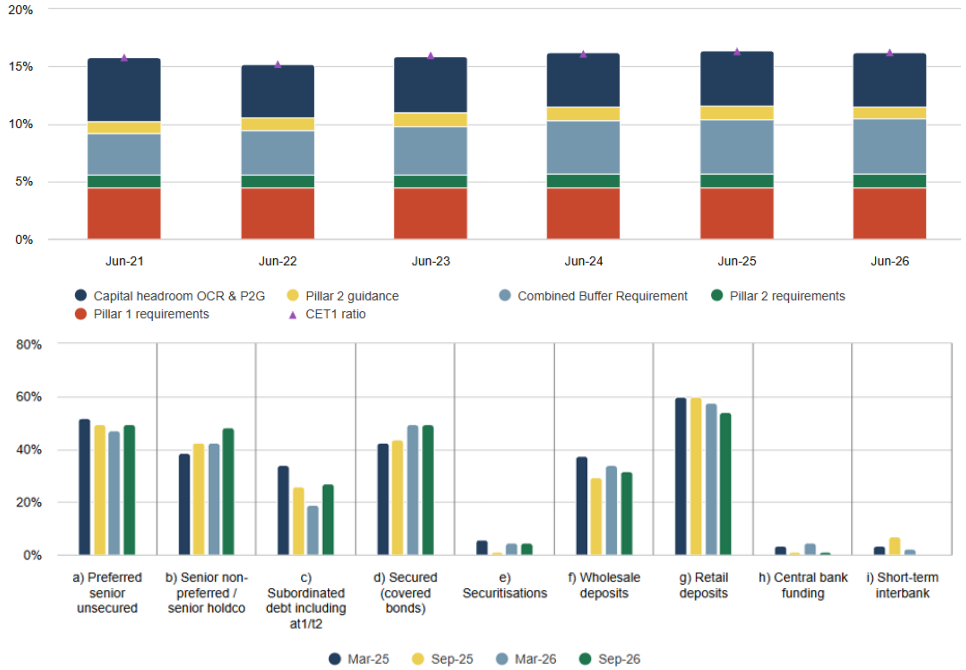


Source: EBA supervisory reporting data

Capital, liquidity and funding as well as profitability so far healthy

- **CET1 ratio at 16.2%** (−15bps YoY) as RWA grew; headroom of 4.7% above OCR and P2G slightly down.
- **Capital generation linked to higher RoE (11.3%).** Increased **net interest income boosted profitability.**
- EU/EEA banks have maintained robust liquidity positions, with sovereign bonds becoming more important for **liquidity buffers**.
- Regarding their funding mix, deposits remain central, but banks are also **preparing to make greater use of market-based instruments** in the coming year.

Capital requirements and P2G vs CET1 ratio (top), funding instruments banks intend to focus on in the next 12 months (bottom)



Source: EBA supervisory reporting data and EBA Risk Assessment Questionnaire

Mitigating measures to address risks and vulnerabilities

Geopolitics: integrate geopolitical shocks into stress testing, scenario and strategic planning

Operational resilience: faster detection, response and recovery amid AI-assisted cyber threats

Third parties, quantum and AI: reduce critical dependencies, prepare for quantum, govern AI robustly

Lending: support strategic investment with sound underwriting and concentration management

Sovereign and NBFI exposures: monitor concentration, duration and valuation risks, incl. at amortised cost

Credit quality: look beyond stable NPL ratios – watch arrears, Stage 2, SMEs, consumer credit and CRE

Profitability: use earnings to build loss-absorbing capacity and invest, with distributions consistent with sustainable business models

Liquidity and funding: plan for higher refinancing costs and market disruption; keep funding diversified

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Questions and Answers