



TOPICS:

Banking System

SOURCE:

European Supervisory Authorities

ESAs Call for Vigilance Over External Dependencies, Cyber Threats and Private Credit Risks

- **Current conditions.** EU markets and investment funds have remained orderly through volatility linked to the Iran war, energy prices and inflation concerns. Insurers' solvency positions are stable. EU/EEA banks reported a 16.2% common equity tier 1 ratio, 10.5% return on equity and a 1.8% non-performing loan ratio in Q1 2026. The assessment nevertheless flags possible **asset-quality deterioration in commercial real estate, SMEs and energy-intensive sectors, alongside risks of repricing in funds and bond markets.**
- **External dependencies.** EU equity funds have substantial US exposure: US assets account for 52% of the geographic exposure measured for equity UCITS. **Derivatives clearing, repo markets, reinsurance, ICT suppliers and payment services** also create dependencies outside the EU. **Concentration among technology providers** could magnify disruptions or cyber incidents, while foreign exposures leave institutions sensitive to geopolitical events and other jurisdictions' rules.
- **Private credit.** EU private credit funds remain relatively small, with reported assets under management of €97.1 billion.

EU/EEA banks' exposures to private credit funds and related asset managers reached nearly €150 billion in June 2025, or 0.6% of total assets; the report cautions that this is an indicative measure. **Growth, limited transparency, uncertain valuations, leverage and potential liquidity mismatches** could transmit stress across funds, banks and insurers.

- **Technology risks.** System failures account for most reported **ICT incidents**, while **cyber and fraud** remain major operational concerns. **Frontier AI** may help attackers find vulnerabilities faster. **Quantum computing** could eventually weaken widely used encryption, prompting early preparation.
- The Joint Committee recommends **stronger geopolitical scenario testing, crisis and resolution planning, and monitoring of non-EEA exposures and concentrated service providers.** For private credit, it calls for **better exposure data, valuation and risk modelling.** It also urges institutions to **strengthen cybersecurity, operational resilience and preparations for AI and quantum risks.**