



TOPICS:

Banking System

SOURCE:

European Banking Authority

EBA: EU/EEA Banks Remain Resilient Amid Rising Geopolitical, Market and Technological Risks

- The EBA published its **Spring 2026 Risk Assessment Report (RAR)**, **Q1 2026 Risk Dashboard (RDB)** and **Spring 2026 Risk Assessment Questionnaire (RAQ)** results.
- **EU/EEA banks remain resilient despite** a significantly more uncertain geopolitical and macroeconomic environment. A central theme is the impact of **geopolitical tensions**, particularly the Middle East conflict and resulting energy market disruptions. Rising oil and gas prices have increased inflationary pressures, weakened growth prospects, and heightened market volatility. Although EU/EEA banks have limited direct exposure to the Middle East, indirect risks through energy-intensive industries, supply chains and broader economic slowdown are considered significant. Banks hold substantial exposures to **manufacturing, utilities, transportation and other sectors vulnerable to sustained energy price shocks**.
- **Asset quality remains robust**, with non-performing loan (NPL) ratios near historic lows and Stage 2 loan volumes generally declining. However, **vulnerabilities persist in commercial real estate, SMEs and consumer credit**, with notable differences across countries. While banks expect NPL ratios to remain stable or decline modestly over the medium term, the EBA warns that geopolitical uncertainty and higher

energy costs could adversely affect credit quality.

- **Growing interconnectedness between banks and non-bank financial institutions (NBFIs)**, including private credit markets. Exposures to NBFIs increased significantly and now account for roughly 10% of total assets. While direct private credit exposures remain limited, the EBA identifies increasing risks related to leverage, valuation uncertainty, liquidity mismatches, and contagion channels between banks and non-bank lenders.
- **Funding and liquidity positions remain strong**, with deposits continuing as the primary funding source and liquidity ratios comfortably above regulatory minimums. **Profitability remains resilient**, supported by net interest income and stable lending growth, although banks may face rising operational and technology-related costs. **Operational risks, particularly cyber threats** amplified by advances in **artificial intelligence** and geopolitical tensions, are identified as a growing concern.
- Finally, **capital levels remain near record highs**, providing substantial buffers against potential shocks. Nevertheless, the EBA cautions that increasing risk-weighted assets, market volatility, sovereign debt exposures and optimistic **dividend distribution plans** warrant continued supervisory vigilance.

