Joint Committee Update on Risks and Vulnerabilities in the EU Financial System – Autumn 2026

Joint Committee of the ESAs
JC 2026 29, 23 September 2026

Background and content

Joint Committee ESAs Update on Risks and Vulnerabilities

The Joint Committee is a forum with the objective of strengthening cooperation between the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA), collectively known as the three European Supervisory Authorities (ESAs), and the European Systemic Risk Board (ESRB). Under the Joint Committee, the ESAs prepare a cross-sectoral risk assessment to the Economic and Financial Committee- Financial Stability Table (EFC-FST) which is summarised in this presentation.

Autumn 2026 ESAs update on risks and vulnerabilities

- Executive Summary
- Content:
  - Risk update
  - Topical themes: a) external dependencies in the financial sector, including service providers, b) link to wider cyber and AI risks and c) private credit
  - Policy recommendations

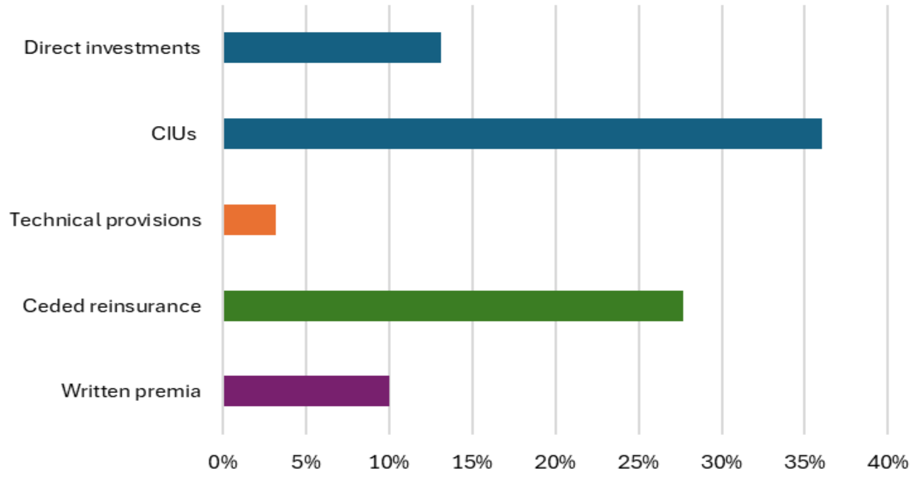
Executive Summary

External dependencies overview

Relevant role of non-EU exposures and infrastructure dependencies across the financial system

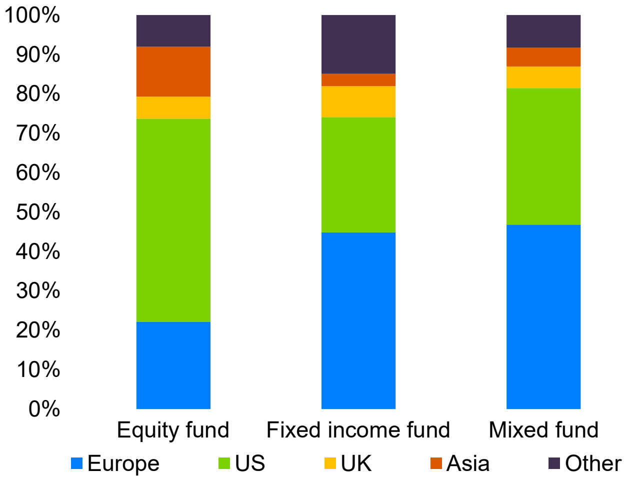
- **Funds:** Significant US exposures of EU investors, as equity UCITS and AIFs heavily invested in US assets
- **Insurance:**-Global interconnectedness is primarily asset and reinsurance driven
- **Banking system:** Reliance on non-EU ICT service providers and non-EU payment solutions; currency funding gaps
- **Infrastructures:** Clearing, repo and ratings intermediated by non-EU infrastructures

Non-EEA exposures moderate in liability and underwriting



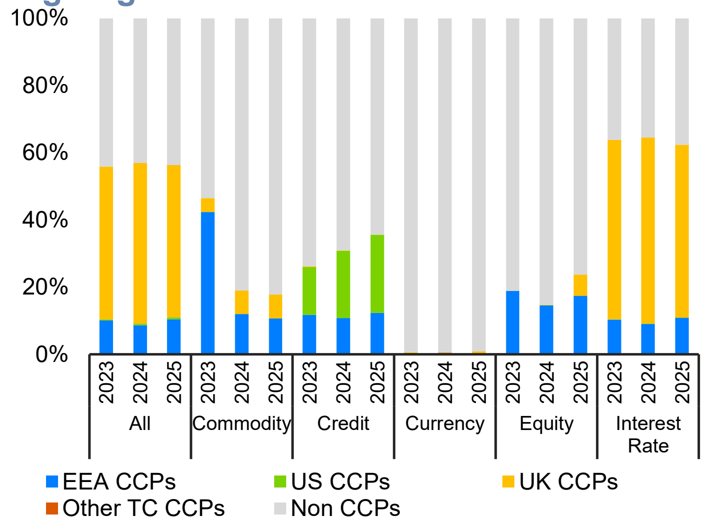
Note: Share of each exposure channel linked to non-EEA markets, e.g. non-EEA CIU share as a % of total CIU. Non-EEA exposure are respectively 1.24T for investment, 219bn for CIU, 150bn for written premia and 200bn for technical provisions. Source: EIOPA Financial Stability Report, December 2025

High share of investment outside EU



Note: Geographical exposure of equity, fiixed income and mixed UCITS. Exposures are calculated only on equity and fixed income holdings. Derivatives, cash and fund positions are excluded. Data as of September 2025.
Sources: Morningstar Portfolio Data, ESMA.

Ongoing derivative reliance on non-EU CCPs

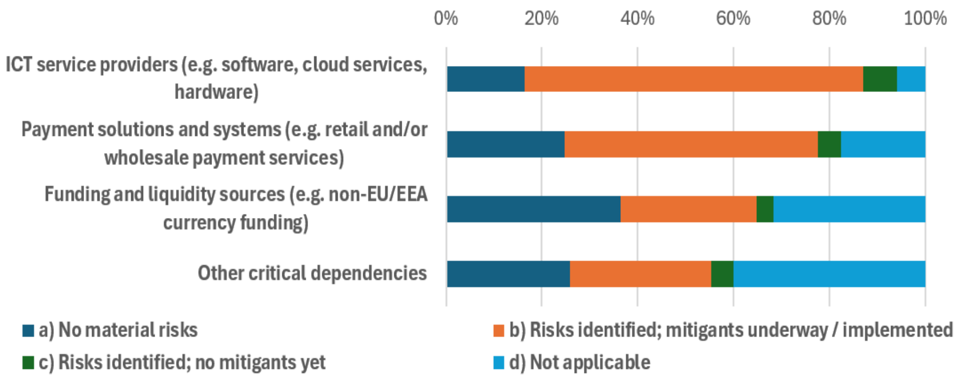


Note: Proportions of outstanding notional amounts for non-intragroup derivative positions denominated in EUR held by EEA (reporting) counterparties, split by CCP status and region of the other counterparty.
Sources: EMIR, ESMA.

Risks from external dependencies link to wider cyber and AI risks

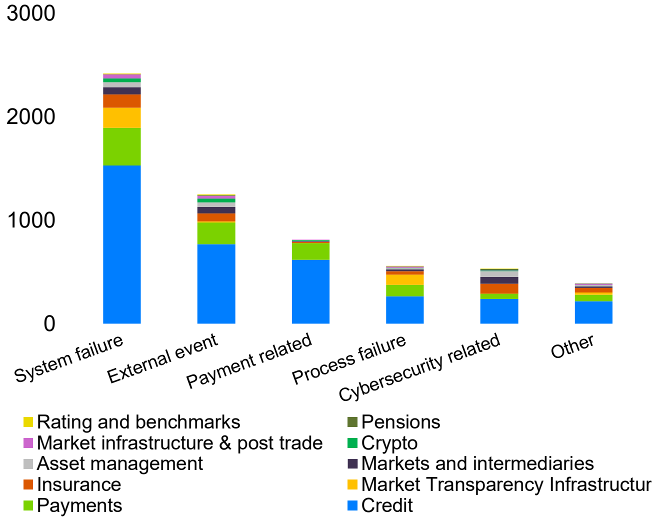
- Non-EU counterparty reliance increases dependence on non-EU regulatory regimes and adds vulnerabilities to non-EU geopolitical events
- **Non-EEA ICT providers:** Concentrated dependence exacerbates cyber vulnerabilities
- **Insurers:** Exposure via cyber-insurance underwriting, frequent/severe AI-enabled cyberattacks could raise claims and accumulation risks
- **Frontier AI models:** can identify and exploit IT vulnerabilities at speed and scale, increasing potential impacts of AI-enabled cyberattacks
- **Quantum computing:** while promising benefits, also presents material risks

EU bank assessment of risks from dependencies



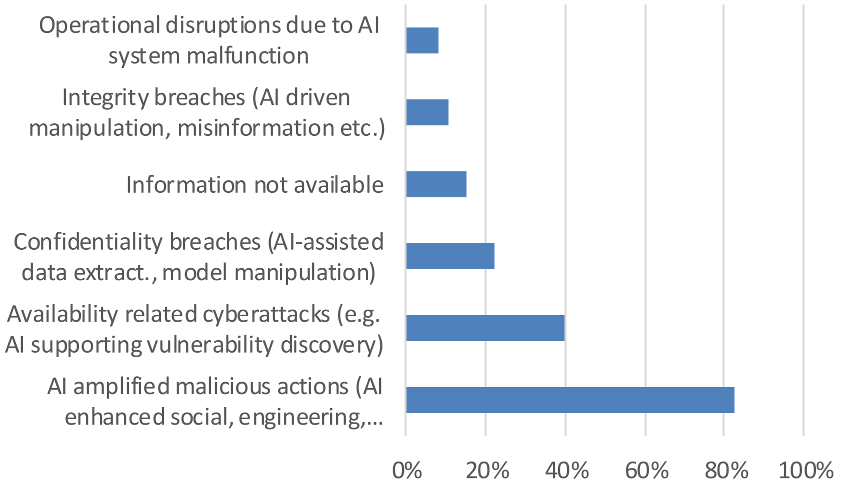
Source: EBA risk assessment questionnaire

ICT-related incidents in 2026 (to May)



Note: Number of ICT incidents by type of incident and type of entity reporting the indicent. Note one incident can be categorised as more than one type.
Sources: DORA, JC of ESAs.

How AI amplifies EU banks' vulnerabilities in different areas



Source: EBA risk assessment questionnaire

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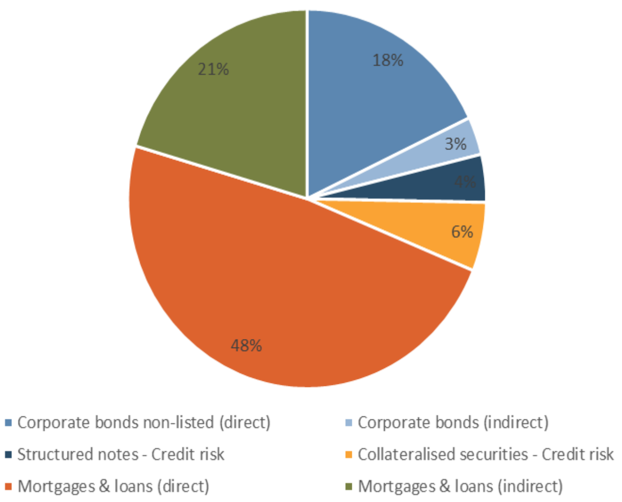
Private credit* exposures and risks

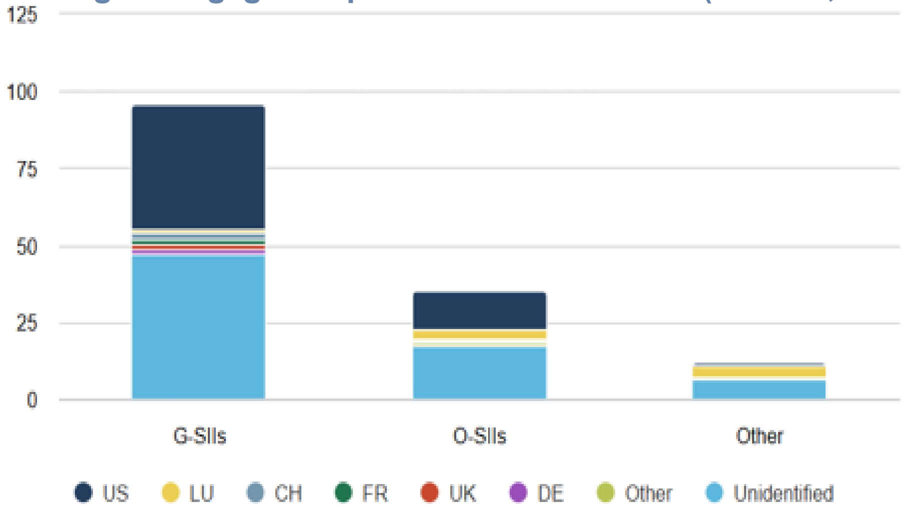
- **Size:** Rapid growth globally; size of EU private credit funds small compared to other regions, bank and insurer aggregate exposures limited
- **Risk drivers:** Increasing complexity, limited transparency; interlinkages across the financial sector. Underlying issues incl. infrequent/possibly inaccurate valuations, high credit risk, leverage in the value chain unclear, data gaps
- **Risk assessment:** Risks from EU moderated by the still relatively small size of EU market but growing. Substantial risks more likely from US exposures. Liquidity mismatches in private credit funds could drive spillovers to banking sector

Insurers' private credit exposures (broader definition), by asset type



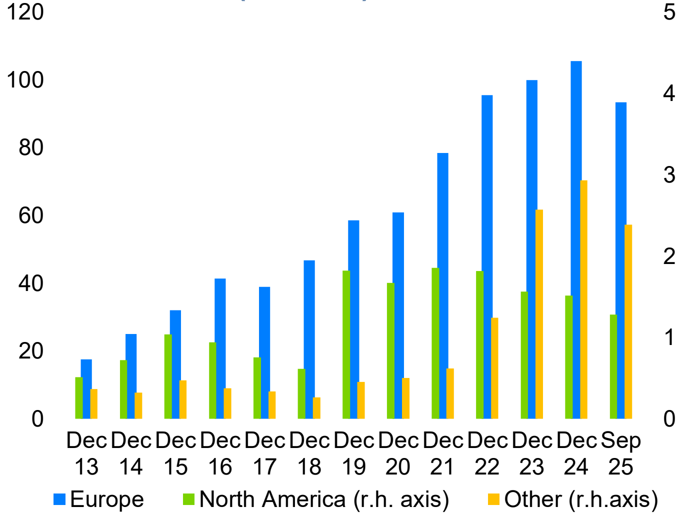
Source: EIOPA FSR 2026.

EU/EEA banks' exposures to private credit funds and asset managers engaged in private credit activities (EUR bn, June 2025)



*Source: EBA supervisory reporting data. (Exposure to private credit funds and related asset managers based on large exposure reporting data). For EU/EEA banks, private credit related exposures represent 0.6% of total assets. ***

Distribution of exposures of EU private credit funds (EUR bn)



Note: Assets under management for funds with fund managers in the EU with a private credit strategy, by the primary region of the fund's investment strategy, in EUR bn. Europe includes non-EU countries.
Sources: Preqin, ECB, ESMA.

* Private credit lacks a widely accepted definition and can be used in different ways in different contexts. In these slides, we aim to make explicit what is meant by private credit in different charts and references.

** It should be stressed that the reported figures only provide an indicative measure of exposures related to private credit activities, as they capture exposures to respective investment funds and asset managers engaged more broadly in such activities, while excluding those below the large exposure reporting threshold.

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Policy recommendations for authorities and financial institutions

Maintain readiness to respond to geopolitical challenges

- Strengthen resilience to geopolitical risk (e.g. resilience testing)
- Strengthen crisis preparedness and resolution coordination (e.g. recovery plan dry runs)
- Enhance regulatory effectiveness and adaptability (e.g. adequate simplification)

Monitor and manage risks associated with external dependencies, private credit and AI

- Monitor and risk manage exposures to non-EEA entities, with private credit focus
- Continue monitoring dependencies on non-EU/EEA service providers
- Plan and prepare for risks from the rapid development of AI and quantum computing

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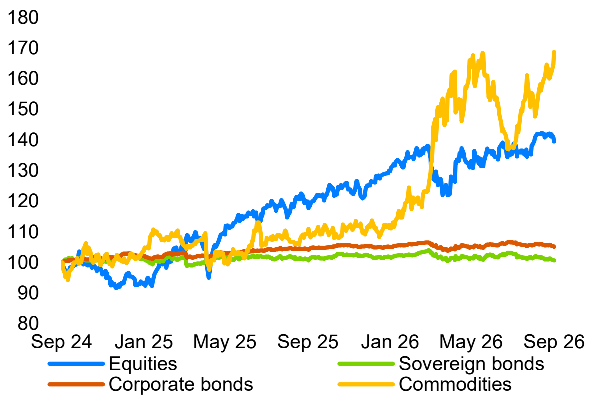
JC Update on Risks and Vulnerabilities

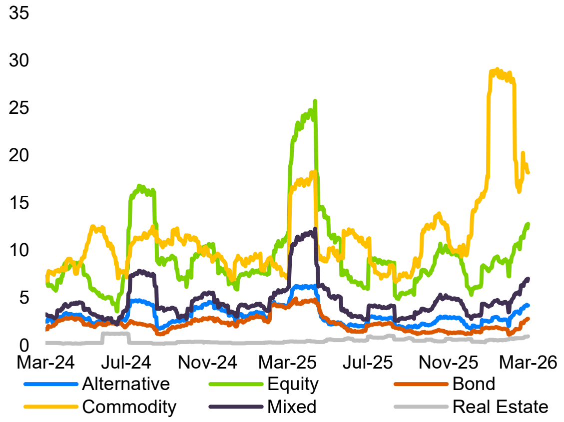
Key trends in markets and funds: Resilience in a volatile market environment

Resilient markets despite high volatility



Note: Return indices on euro-area equities (Datastream regional index), global commodities (S&P GSCI) converted to EUR, EA corporate and sovereign bonds (iBoxx EUR, all maturities), rebased at -2Y.
Sources: Refinitiv Datastream, ESMA.

Spike in volatility for all EU funds



Note: Annualised 40D historical return volatility of EU27 domiciled mutual funds, in %.
Sources: Thomson Reuters Lipper, ESMA.

Growth muted with tariffs, ongoing geopolitical developments and uncertainties

- Geopolitical uncertainty and energy-market disruptions **worsened European macroeconomic outlook**
- Lack of clarity on length / outcome of the Iran war remains **key risk factor**

EU equities hit record highs despite Iran war; bond yields up but spread-widening limited

- **Equities**: **New record highs** after falling with Iran war. Potential decoupling from fundamentals
- **Bonds**: EU **sovereign and corporate bond yields rose** on inflation concerns, before falling on de-escalation; banking sector sovereign exposures growing. With the later collapse of the US-Iran ceasefire and growing debt sustainability concerns, bond yields rose, reaching decade-high levels in late summer
- **Credit quality**: Annual default rates for high-yield non-financials rose, but ratings generally stable
- **Private credit: Investor exodus from US 'semi-liquid' funds** showed vulnerabilities

Energy price swings with the war, crypto volatility continued

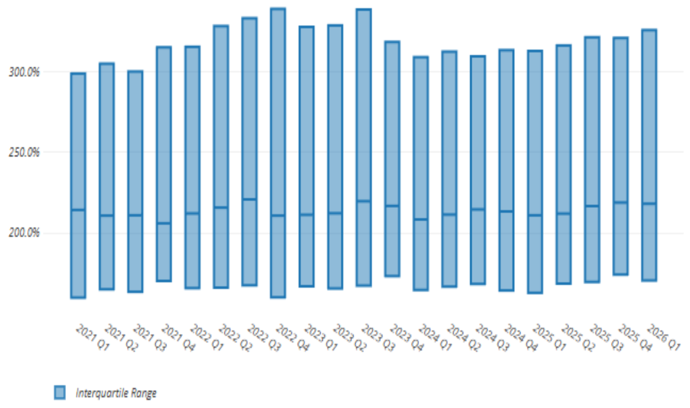
- **Commodity price swings**, drove higher margin calls and clearing volumes, but **markets stayed orderly**
- **Natural gas to remain more vulnerable to shocks** than oil (lower reserves and production challenges)
- **Cryptos stayed under pressure in 2026**, with sharp correction post October 2025

EU investment funds resilient amid high volatility

- **Fund sector performance and flows broadly positive** in volatile market environment
- **But fund repricing risks** from market shifts (e.g. equity funds, fixed income fund sensitivity to inflation)

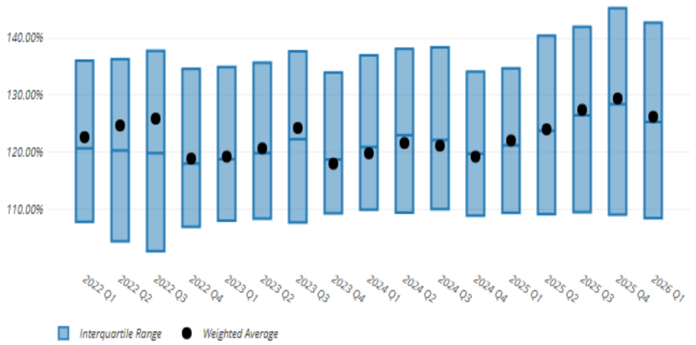
Insurance and Pension Sector: Strong Fundamentals Amid Evolving Risk Landscape

Solvency Ratio – Non-Life



Source: EIOPA Risk Dashboard, July 2026

Funding Ratios (Assets over Technical Provisions - DB schemes)



Note: From Q1-2026, the indicator reflects the transition of IORPs in the Netherlands from DB to DC schemes, therefore, figures across quarters may not be fully comparable. Source: EIOPA Risk Dashboard, July 2026

Insurers and IORPs Strengthen Capital and Funding Positions

- **Median solvency ratios remain stable** for both life and non-life insurers
- For non-life insurers, non-life profitability remained stable overall (in terms of combined ratio)
- **IORPs indicators** were affected in Q1-2026 by the Dutch DB-to-DC transition, alongside equity market developments.
- Despite stronger financial positions, **ongoing transitions** from defined benefit (DB) to defined contribution (DC) schemes **could impact IORPs' risk profiles and investment strategies** over time.

Risk Drivers in Focus: Geopolitics, Energy Prices, NatCat and AI

- Geopolitical tensions, Iran war, add volatility, **weigh on growth**. Energy-price impacts fuel inflation
- Higher defense spending and sovereign issuance may increase yields and reprice credit spreads.
- In longer term, cyber risk repricing, stricter underwriting, more exclusions, could reduce coverage availability
- More frequent and severe **NatCat events** could widen protection gaps, reinforcing the need for actions on prevention incentives, consumer risk awareness and European risk-pooling solutions

Ahead, interaction between cyclical pressures and structural trends will shape risk landscape

- **No one risk dominates but** geopolitical, market, demographic, climate & tech risks could self-reinforce requiring a forward-looking, system-wide approach to protect financial stability and policyholders

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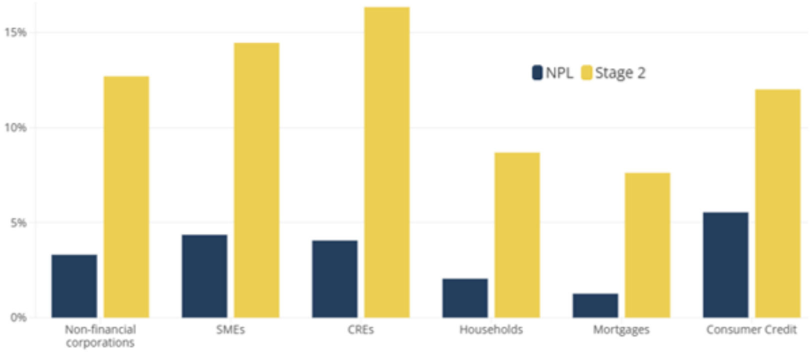
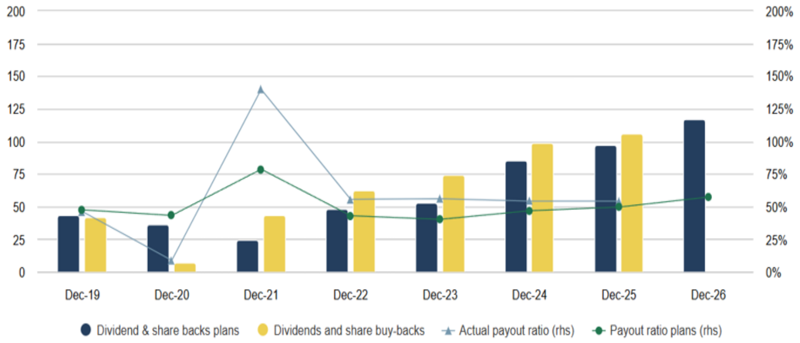
European banks continue to operate from a position of strength in a rapidly evolving risk environment

EU/EEA banks' Q1 2026 NPL ratio and IFRS stage 2 allocation by segment



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



Source: EBA supervisory reporting data

EU/EEA bank profitability remains strong and resilient (at 10.5% RoE in Q1 2026)

- **Profitability mainly from net interest income** (NII). Stabilised interest margins & strong fee income key revenue components.
- **Banks expect profitability increases** in next 2 years, from cost reductions rather than revenue growth
- **Interest rate risk** in the banking book **(IRRBB) gained renewed relevance**

Capital ratios remain at high levels driven by organic capital creation

- CET1 ratio at 16.2% in Q1 2026, with **capital headroom above regulatory requirements** (+ Pillar 2 Guidance) remaining at comfortable levels. Some banks maintain limited buffers.
- EU/EEA **banks distributed record payouts in 2025. More expected in 2026**, despite potential for risk-weighted assets, credit impairments and volatility to deteriorate.
- With limited scaling scope, banks could consider deploying capital to more lending. But ongoing fragmentation limits effective capital deployment.

Asset quality is resilient overall with persisting divergencies

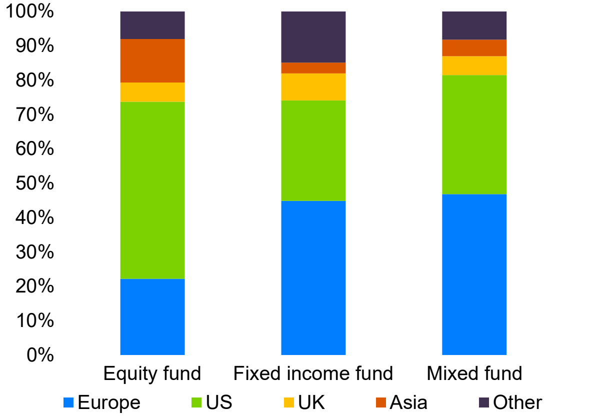
- **NPLs still close to historical lows** (volumes stable, c. EUR 375 bn as of Q1 2026,1.8% of total loans). Stage 2 allocation remains elevated.
- **Bank expectations of asset quality deterioration concentrated in a few portfolios**, esp. CRE & SMEs. Vulnerabilities more from sectors with high energy intensity exposed to trade tensions.

Operational risk continues to rise

- **Cyber and fraud risk are main drivers**. Vastly enhanced threat capabilities of **Frontier AI models** raise concerns about the sector's capacity to cope.

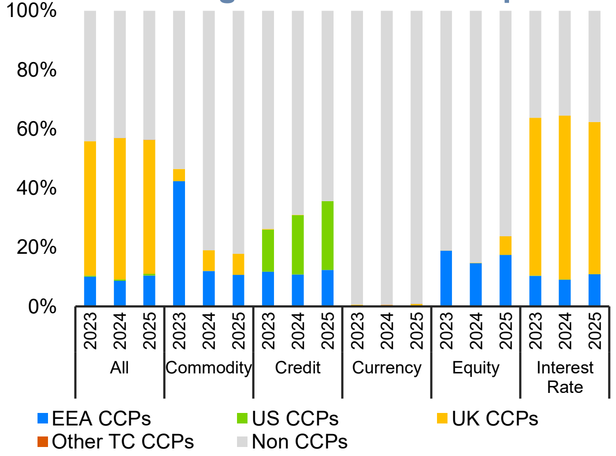
Non-EU dependencies in securities markets

Funds: UCITS geographical exposures to US



Note: Geographical exposure of equity, fixed income and mixed UCITS. Exposures are calculated only on equity and fixed income holdings. Derivatives, cash and fund positions are excluded. Data as of September 2025.
Sources: Morningstar Portfolio Data, ESMA.

Derivatives: high non-EU CCP dependence



Note: Proportions of outstanding notional amounts for non-intragroup derivative positions denominated in EUR held by EEA (reporting) counterparties, split by CCP status and region of the other counterparty.
Sources: EMIR, ESMA.

Funds – high investment share outside Europe for equity UCITS & AIFs, but bond funds lower

- **Equity:** High exposure of EU UCITS portfolios to external markets, esp. US (52% of geographic exposure in equity funds), highlights how strongly returns and valuations influenced by non-EU developments
- **Bond funds:** Exposures more diversified, less US, more spread across Europe (45%) and to other regions
- **EU AIFs more heterogeneous**: Real estate, infrastructure and private equity funds have high exposure shares to Europe (92%, 73%, 71% resp.) while hedge funds and equity AIFs lower (58%, 51% resp.)
- **Non-EU UCITS asset managers:** Large European footprint, top 10 non-EU groups EUR 6.6tn in AUM in mid-2025 (5 US-based account for c.65%). Shows how external developments could affect EU investor portfolios.

Dependence on non-EU CCPs in EU derivative markets for clearing remains substantive

- **Interest rate** : UK CCPs do the bulk of clearing, partial risk mitigation as are ESMA-supervised Tier 2 CCPs
- **Credit**: a US CCP does bulk of CSD clearing. It is Tier 1 (non-systemically important) whose US regulation is recognised by ESMA
- **Dependence on non-EEA CCPs persists** for contracts denominated in EUR; notable dependence on UK CCPs for interest rate derivatives and on US CCPs for credit derivatives

Third-country dependencies in other parts of European securities markets

- **Repo markets**: over half of total principal of outstanding transactions for EEA entities still with non-EEA
- **CRAs:** Big CRAs are outside EU, dependency mitigated by 95% of EU issuers being rated by analysts in EU
- **Crypto markets:** global, US leading role. Only 8% of crypto trades against EUR vs 40-50% for USD. Euro-denominated stablecoins marginal (<1% of market value), no EU-headquartered crypto exchange in top 15.

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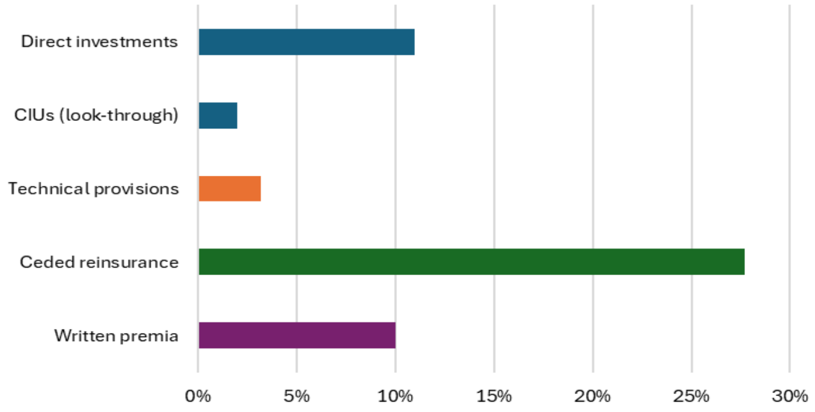
Global interconnectedness of the insurance sector

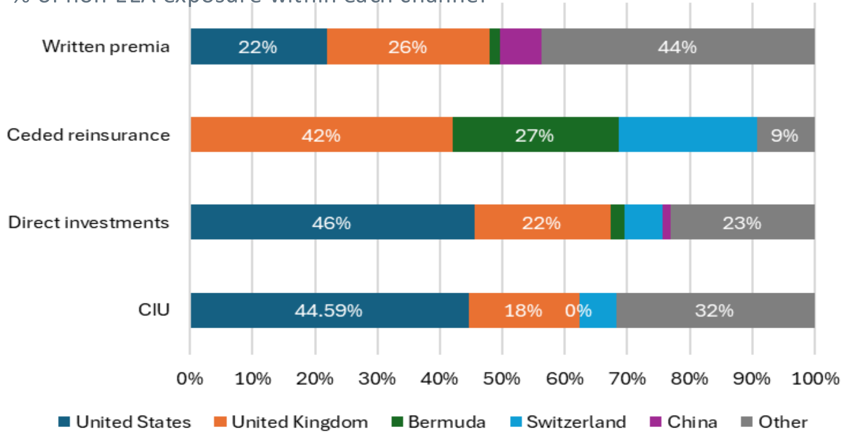
Insurance Non-EEA share by exposure channel

Share of each exposure channel linked to non-EEA markets



Main non-EEA destinations differ by channel

% of non-EEA exposure within each channel



Note: CIU share based on look-through; written premia and technical provisions subject to reporting limitations.
Source: EIOPA Financial Stability Report, December 2025

Insurance sector global interconnectedness is primarily asset- and reinsurance-driven creates diversification benefits but also greater exposures to foreign market shocks and to a small number of major financial and reinsurance centres.

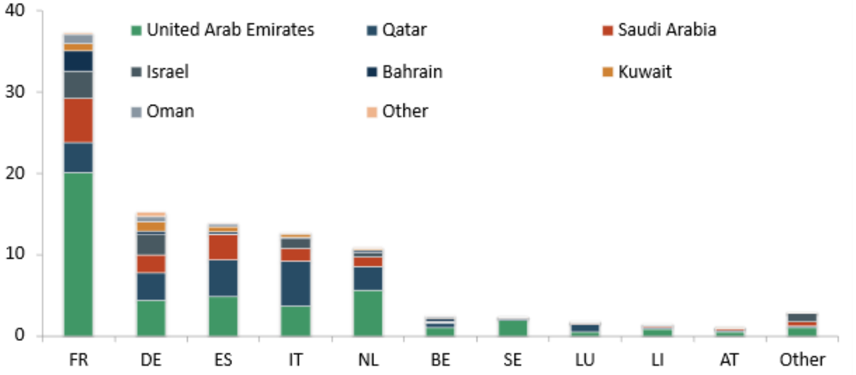
EEA insurer links to non-EEA markets mainly through the following channels

- **Investment:** Non-EEA investments account for c.13% of total investments. CIU* look-through shows significantly **larger indirect exposure to non-EEA securities**, **mainly in US** assets and listed equities. Increases insurer sensitivity to US market valuations, interest rates and exchange-rate movements.
- **Liability:** Only 3.2% of technical provisions relate to non-EEA risks. **Most liabilities remain domestic or within the EEA**. Non-EEA provisions are concentrated mainly in non-life and unit-linked business, confirming that insurer international footprint substantially more asset-driven than liability-driven.
- **Reinsurance:** c. 28% of ceded risks are transferred to non-EEA counterparties. Exposures highly concentrated in the UK, Bermuda and Switzerland, making **ceded reinsurance most important direct dependency on non-EEA markets** and a potential source of counterparty and concentration risk.
- **Underwriting**: Non-EEA business represents c.10% of total gross written premiums. **Dominated by non-life and assumed reinsurance**, rather than direct insurance business. **UK, US and China** are the main non-EEA markets, exposing insurers to foreign claims, regulatory and catastrophe risks.

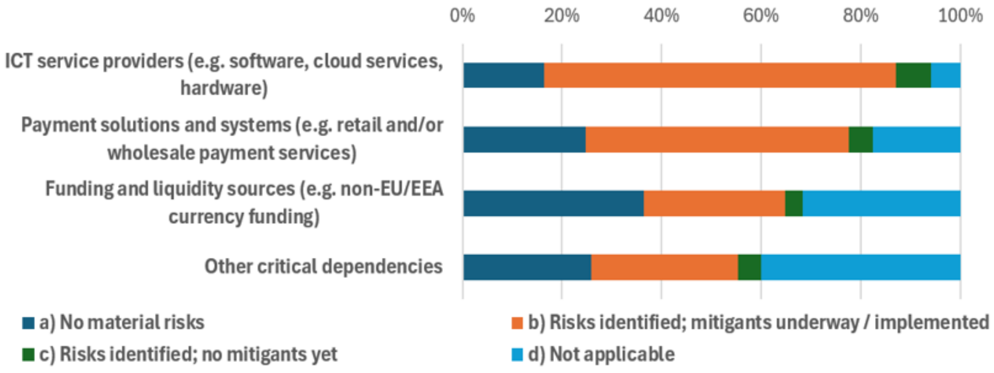
* Collective Investment Undertaking

Non-EU dependencies for banks

Exposures of EU/EEA banks towards non-EEA counterparties domiciled in selected Middle East countries (EUR bn)



Risks, challenges and mitigating actions linked to bank dependencies on non-EU/EEA service providers



Source: EBA risk assessment questionnaire

Heightened geopolitical tensions are increasing uncertainties

- **Direct exposures remain limited** to the regions affected by war or tensions.
- But **indirect and second-round effects could have broader implications**.
- Adverse Middle-East developments **could deteriorate asset quality and imply subdued credit demand**, which are not least reflected in banks' provisioning overlays.

Reliance on non-EU third party service providers poses challenges

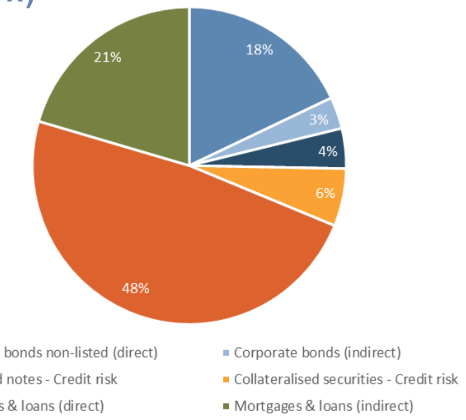
- **High reliance on third-party ICT service providers** (e.g. cloud service providers, software) and on payment service providers amplifies operational risk.
- **Providers are often domiciled in third countries** outside the EU
- EBA-survey results on non-EU/EEA dependencies show banks consider **ICT service provider-related dependencies as biggest challenge** (c. 80%). Payment solution-related dependencies viewed as second highest material risk (c. 60%).

Funding gap in some non-EU currencies

- Funding in non-EU/EEA currencies is mainly driven by household and NFC deposits, with some dispersion among currencies. Main foreign currencies-are USD, GBP and CHF.
- On a systemic level there are **CHF and GBP funding gaps** (i.e. EU/EEA banks have more assets than liabilities in the respective currencies).
- **Funding overhang for USD on a systemic level** (ie. USD liabilities > corresp. assets).

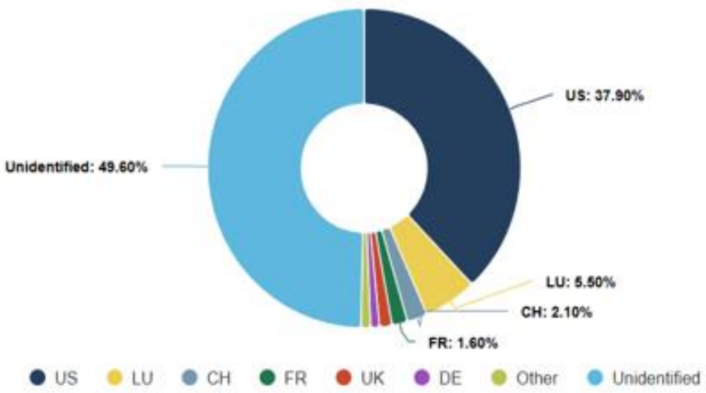
Private credit – exposures across EU financial sector (1/2)

Insurers' exposures to private credit (broad definition)



Note: *Eiopa Financial Stability Report 2026*

EU bank exposures to asset managers engaged in private credit activities by domicile of counterparty



Source: EBA supervisory reporting data

Private credit markets continue to expand rapidly as a source of financing

- Some **emerging signs of stress in certain segments** post high-profile defaults in late 2025
- **Private credit has also played a rapidly growing role in AI**-related financing.

Insurer private credit exposures limited in aggregate. Private credit offers benefits, but credit and liquidity risks warrant attention

- **Private-credit exposures**, broadly defined, for insurers is **concentrated in mortgages and other loans**, followed by holdings of unlisted corporate bonds and collateralized securities.
- **But limited look-through** data makes the underlying asset mix harder to assess.
- **Direct private-credit holdings are concentrated in real-estate**-related activities.

As finance becomes more market-based and private markets grow, prudential supervision in insurance grows more important

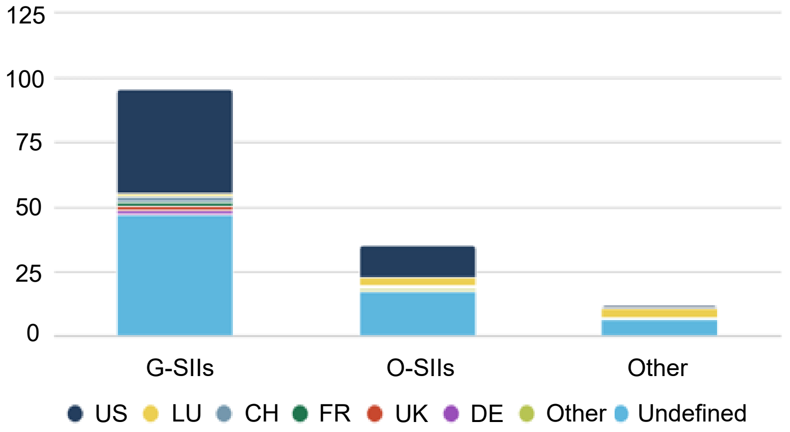
- For Insurers, **Solvency II provides tools to address risks** linked to illiquidity and uncertainty
- **Capital requirements capture core risks but not all** (e.g. credit & issuer concentration risk)
- **The PPP complements framework** by allowing supervisors to challenge excessive illiquid exposures and to ensure robust valuation practices.

Direct private credit exposures of EU banks remain limited but are growing strongly

- **EU/EEA bank exposures to NBFIs continued to grow strongly** (+10.4% YoY in 2025), with further lending expansion planned.
- **Banks provide private credit funds with financing in various ways -** through credit facilities, collateralised lending arrangements, and other structured financing transactions.

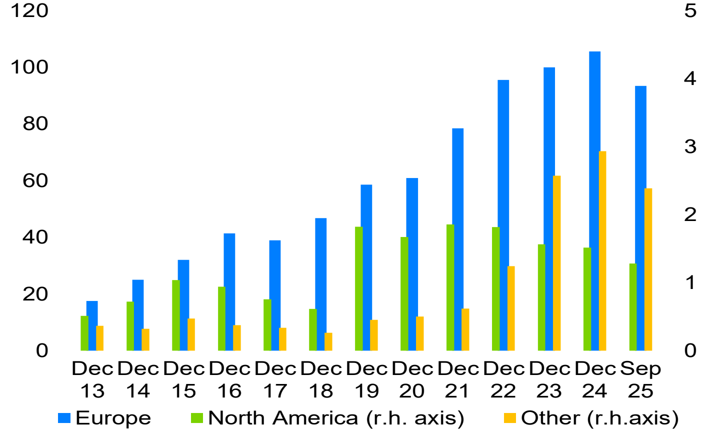
Private credit – exposures across EU financial sector (2/2)

EU/EEA bank exposures to private credit fund & asset managers engaged in private credit activities (EUR bn, June 2025)



Source: EBA supervisory reporting data. (Exposure to private credit funds and related asset managers based on large exposure reporting data; banks did not report country of domicile for around half of respective exposures; see also further explanation on slide 6)

Distribution of exposures of EU private credit funds



Note: Assets under management for funds with fund managers in the EU with a private credit strategy, by the primary region of the fund's investment strategy, in EUR bn. Europe includes non-EU countries.
Sources: Preqin, ECB, ESMA.

Risks to banks could arise from direct and indirect exposures to private markets

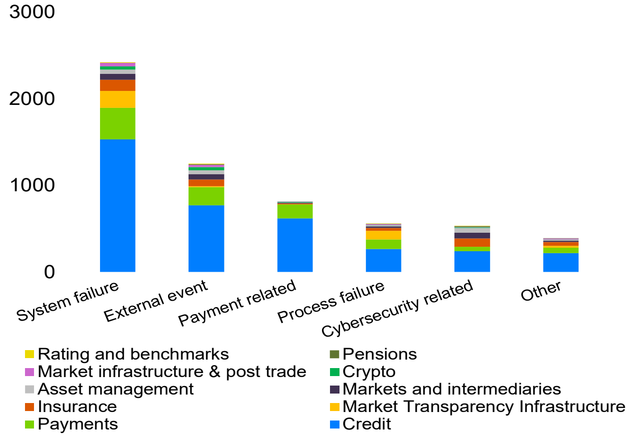
- **EU/EEA bank exposures to private credit funds and related asset managers** (EBA large exposures data) reached **nearly EUR 150 bn** in June 2025 (0.6% of total assets)
- Largest share of exposures held by G-SIIs.
- **Stress in private credit markets could spillover** to banks.
- Banks may also **face credit risks through shared borrowers and financing commitments to private credit vehicles**.
- Effective risk management requires aggregating exposures across business lines and monitoring risk concentrations.
- **Spillovers could also arise through insurer links**, increasing insurer private credit exposure could create further transmission channels to banks and financial markets.

EU investment fund private credit exposures limited and focused on Europe

- **EU private credit funds:** Significant growth until 2025; total assets under management relatively limited at EUR 97.1bn.
- **Investment focus:** Bulk (95.2%) invested into Europe (incl. UK, Switzerland and other non-EU countries), 2.8% in North America and the remainder (2.0%) in other regions.
- **Investment fund exposures to private credit are limited** relative to other strategies.
- **Exposures to the US remain very small**, limiting contagion risks.

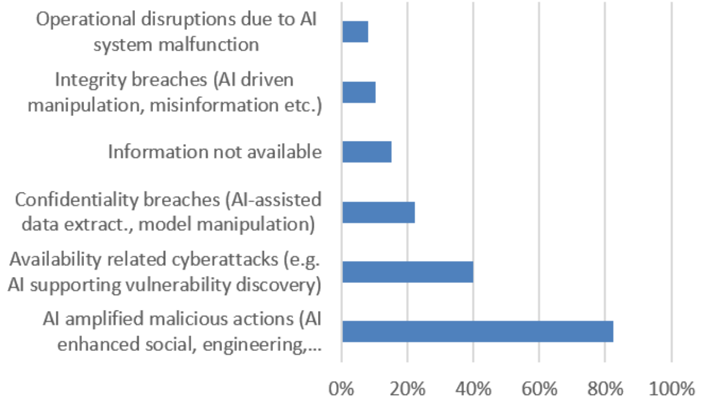
Cyber Risks, Frontier AI models and Quantum Computing

ICT-related incidents across EU financial sectors in 2026 (to May)



Note: Number of ICT incidents by type of incident and type of entity reporting the indicent. Note one incident can be categorised as more than one type.
Sources: DORA, JC of ESAs.

How AI amplifies EU bank vulnerabilities in different areas



Source: EBA Risk Assessment Questionnaire

Rapid advances in AI could substantially amplify vulnerabilities to cyber attacks

- **System failures account for most ICT incidents** (from DORA incident reporting).
- **Cyber risk and data security still the most significant drivers of operational risk**, followed by fraud.
- **Cyberattacks:** number at financial institutions remains high, but **data indicate a levelling of risks**.
- **Frontier AI models: Rapid advances could further increase cyber risk**.
- **These tools could identify exploit IT weaknesses at unprecedented speed,** incl previously unknown ("zero-day") vulnerabilities, making it harder for all market players to respond in time.

Quantum computing offers opportunities, but potential threats warrant early system upgrades

- **Quantum computing could transform the financial sector with benefits** in medium term (e.g. optimisation of financial processes, fraud and compliance, pricing and simulation).
- But **an advanced quantum computer could undermine some cryptography systems** widely used to secure communications, transactions, databases and blockchains
- **Threats could materialise earlier than any viable commercial application**.
- Currently-gathered **information could be decrypted in the future** ("harvest now, decrypt later").
- **DORA requires FEs to adopt state-of-the-art cryptography against new threats**.
- The EU NIS Cooperation Group recommended Member States **adopt a post-quantum cryptography migration strategy** by the end of 2026

European Banking Authority
European Insurance and Occupational Pensions Authority
European Securities and Markets Authority

Policy recommendations - I

Maintain responsivity to geopolitical challenges

- **Strengthen resilience to geopolitical risks in risk management**; formalise governance, enhance due diligence and embed it in scenario planning (e.g. resilience testing)
- **Use qualitative assessments in risk management frameworks** (e.g. expert judgement, strategic foresight, worst-case scenario planning)

Strengthen crisis preparedness and resolution coordination

- **Strengthen financial resilience** by continuing focus on crisis preparedness and capacity for orderly resolution, (e.g. recovery plan dry runs)
- **Further enhance recovery and resolution frameworks**, especially in the context of integrated cross-border EU markets
- **Increase coordination among authorities and the consistency of application** of rules across jurisdictions

Enhance regulatory effectiveness and adaptability

- **Regulatory framework:** Further refinement so that it remains effective, proportionate, and forward-looking; reduce unnecessary complexity and strengthen regulatory adaptability
- **Cross-border aspects:** Improve cross-jurisdictional consistency and efficiency
- **Data:** Make more effective use of available data to enhance efficiency, while maintaining robust prudential standards

Policy recommendations - II

Proactively monitor and risk manage exposures to non-EEA entities, with a focus on private credit.

- **Non-EEA exposures:** Proactive monitoring, greater transparency and disclosure, risk management, stress-testing and scenario planning
- **Private credit:** Effective monitoring of exposures and management of associated risks is key, requiring robust valuation methodologies and adequate risk modelling, especially given current data limitations

Continue to monitor non-EU/EEA dependencies on technology service providers

- **Monitor EU financial sector dependencies on critical and other technology service providers** in the context of DORA joint oversight teams
- **Include services with concentrated dependencies** on a few providers within this, including payment services

Continue to plan and prepare for the risks from the rapid development of AI and quantum computing

- The EU's regulatory framework (including DORA and the AI Act) provides a solid foundation for managing cyber and AI-related risks
- **Maintain strong operational resilience**, cybersecurity controls and contingency planning
- **Strengthen software quality and cybersecurity practices and adopt new practices** such as AI-powered security testing.