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Banks and Private Financing

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Private Credit Has Several Segments

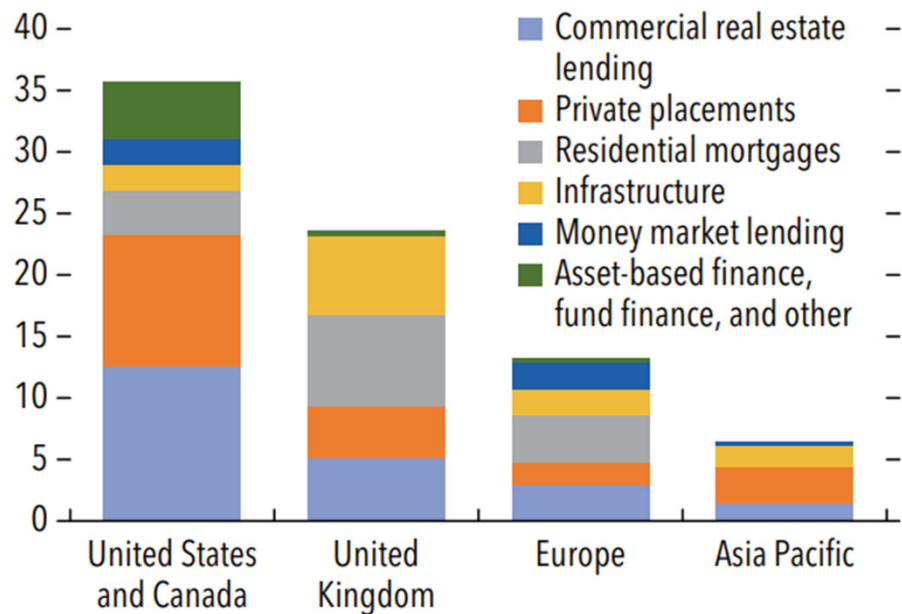
Each One with Different Risks and Concerns

Insurers' Exposure to Private Credit: Mostly Labeled as Investment-Grade

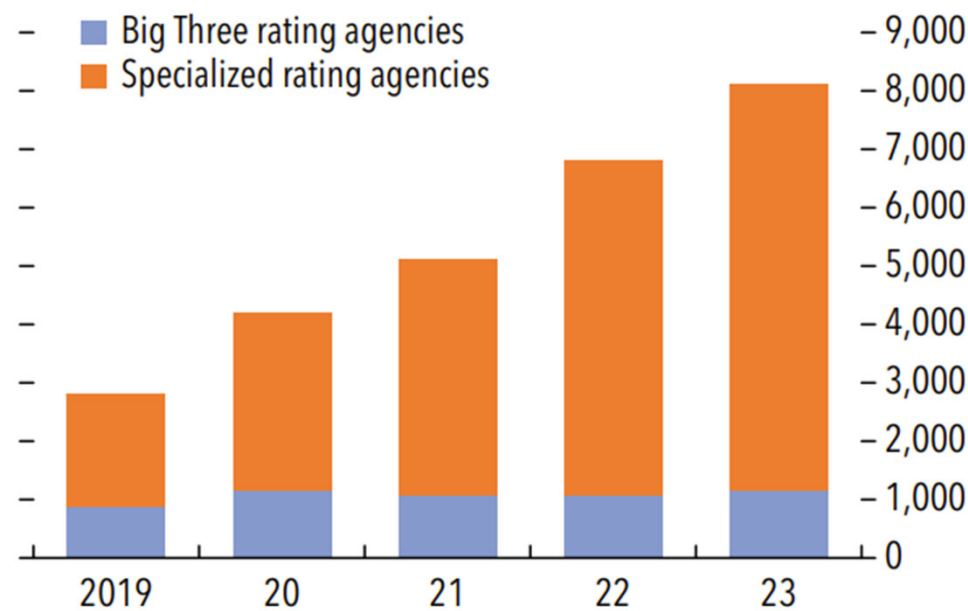
Insurers have diverse exposure to credit instruments, especially in North America and the United Kingdom.

Private ratings have been growing in the United States, amid concerns about their quality

Moody's Survey of Insurers' Average Positions in Private Credit Instruments
(Percent of total investments)



Privately Rated Securities Held by US Insurers
(Number)



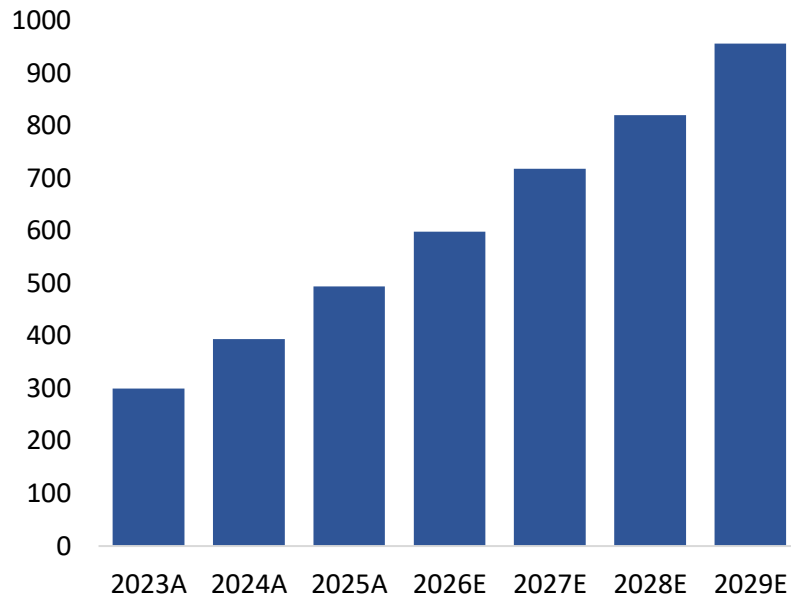
Source: October 2025 Global Financial Stability Report

Asset-Based Finance (ABF): Major Growth Area in Private Credit

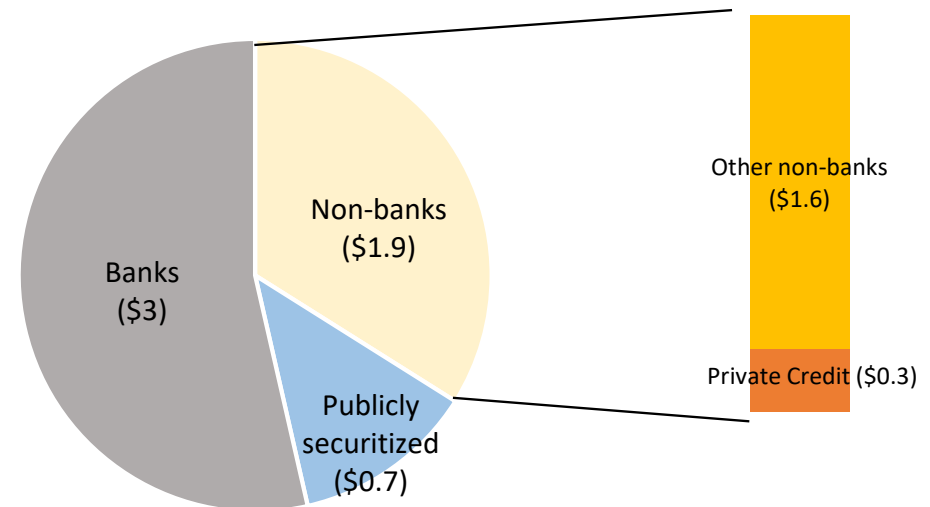
ABF in private credit is rapidly growing amid concerns about origination standards, due diligence, and fraud after high-profile failures.

Specialty finance – a segment of ABF – promises the highest returns, while carrying the highest credit and operational risks

Total AUM allocated to ABF by 5 major private credit asset managers
(USD billion)



The US specialty finance market by type of financial intermediary
(USD trillion)



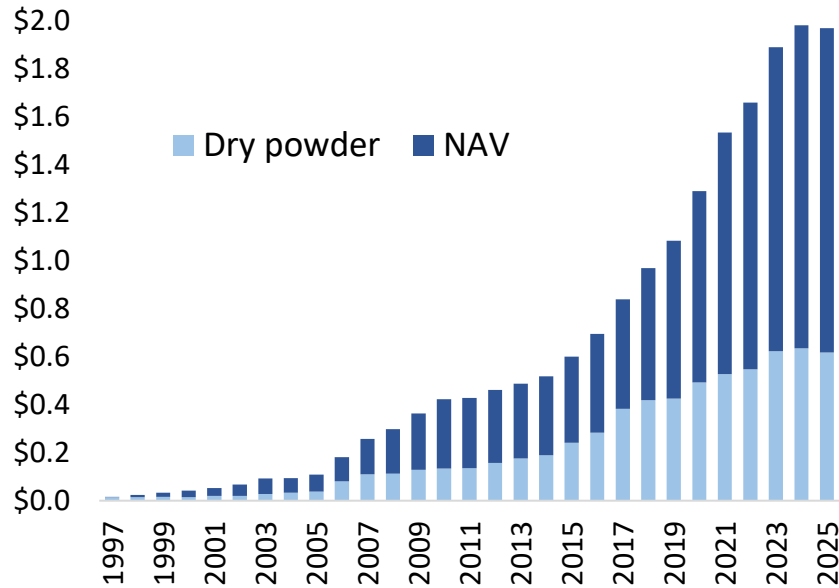
Sources: S&P Global Ratings, Oliver Wyman

Investment-Fund PC: High-Yield Debt Dominated by Direct Lending

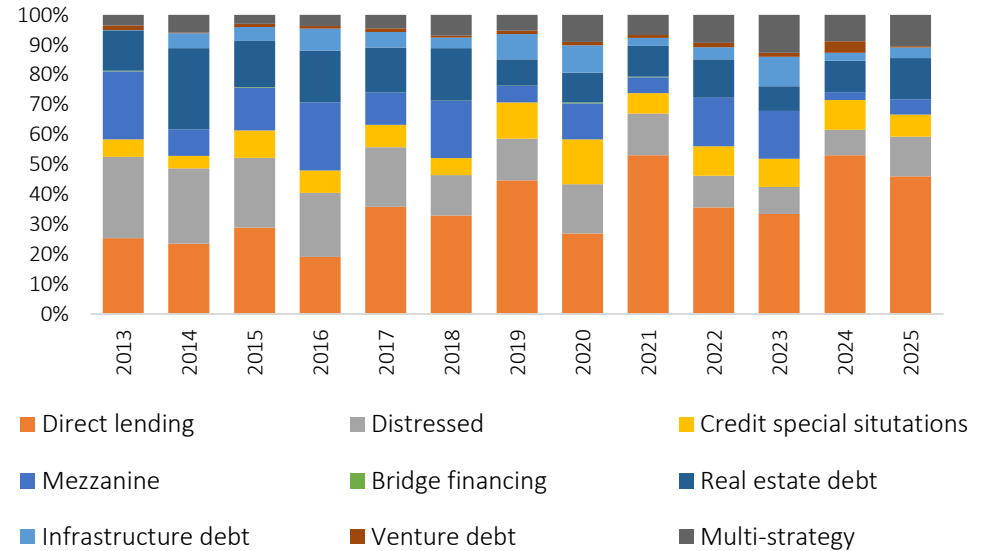
After a decade of rapid growth, institutional allocations to high-yielding private credit have flattened

The growth of investment-fund private credit has been dominated by direct lending, which has been the core focus of policymakers

Total institutional AUM globally
(USD trillion)



Breakdown of annually raised institutional capital by strategy
(Percent)



Source: PitchBook



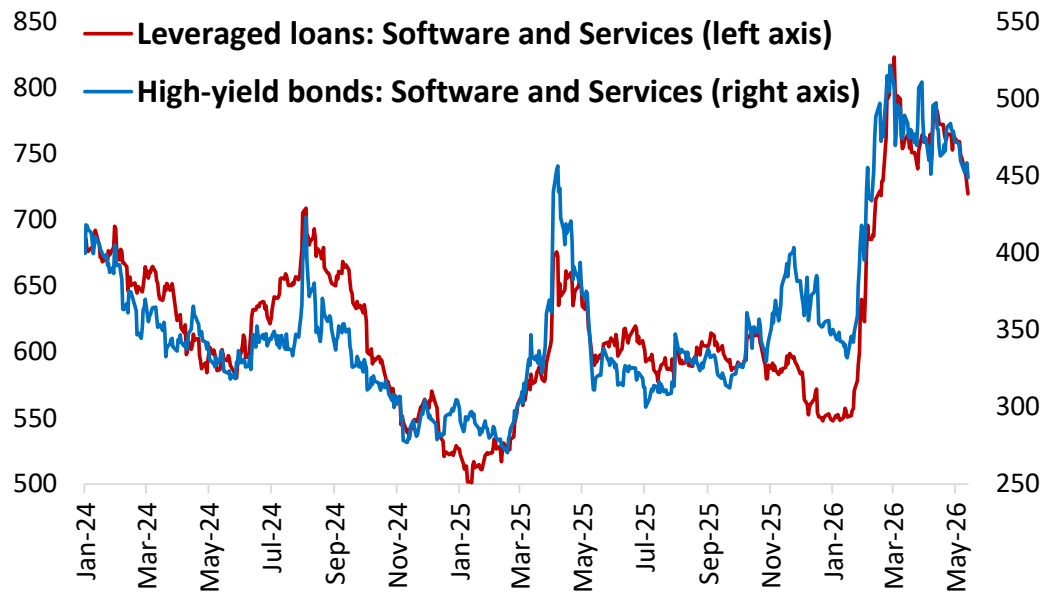
Direct Lending Has Concentrated Recent Concerns

Direct Lending (DL): leveraged loans to middle-market corporate borrowers

Direct Lending Has Large Exposures to Software

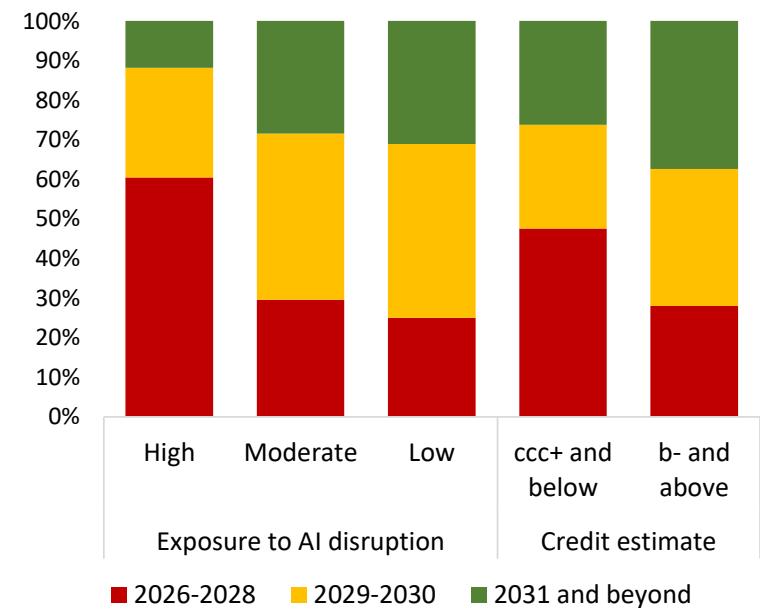
Traded leveraged instruments indicate elevated concerns for the ability of software borrowers to refinance their debt

Priced-in credit spreads of traded loans and bonds of software borrowers
(Percent)



Lower-rated and AI-disruption-vulnerable DL borrowers face elevated refinancing risks

Maturity wall for DL software borrowers broken down by the degree of exposure to AI disruption risk and by S&P credit estimate level
(Percent)



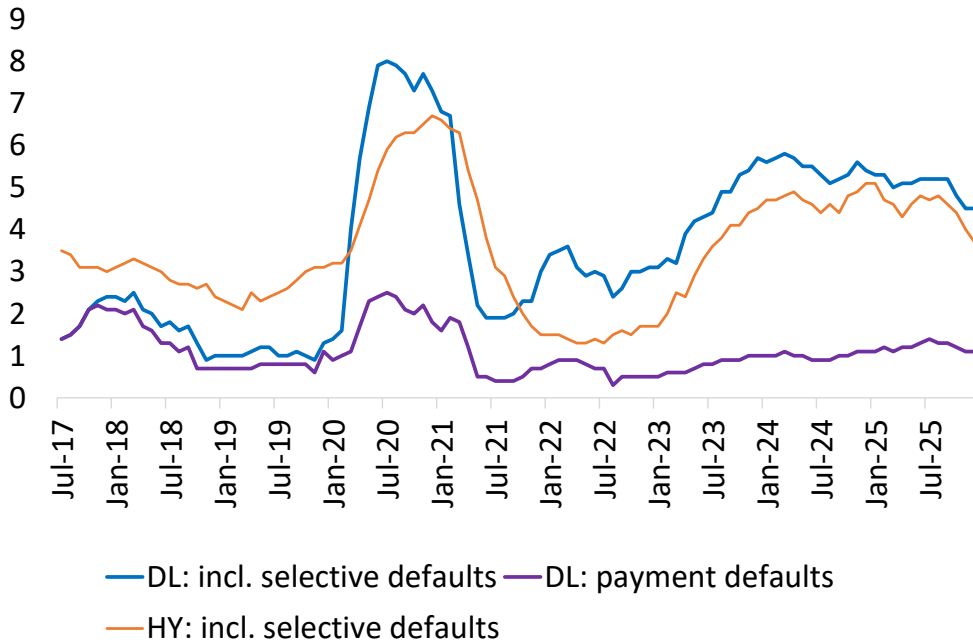
Source: JPMorgan, S&P Global Ratings, KBRA

Overall Credit Quality of DL Borrowers Shows a Mixed Picture

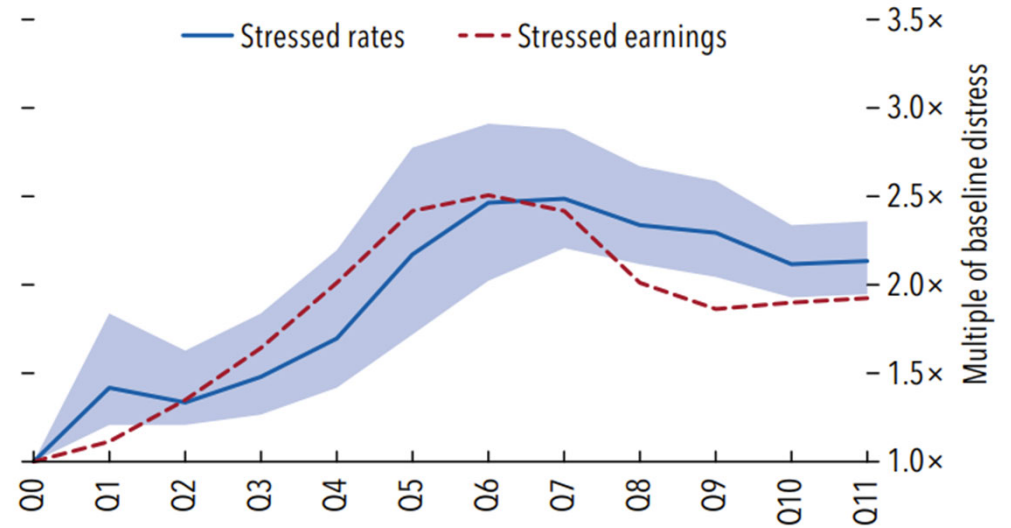
Selective defaults of direct-lending borrowers are normalizing, while payment defaults are expected to increase

The percentage of distressed borrowers can increase substantially in an adverse scenario

S&P Direct-Lending and High-Yield Default Rates (Percent)



Increase in the Share of Distressed Direct-Lending Borrowers under Stress Scenarios (Relative to Baseline)
(Ratio of the share of distressed direct-lending borrowers under stress scenarios to that under the baseline; quarterly)



Source: S&P Global Ratings, April 2026 Global Financial Stability Report

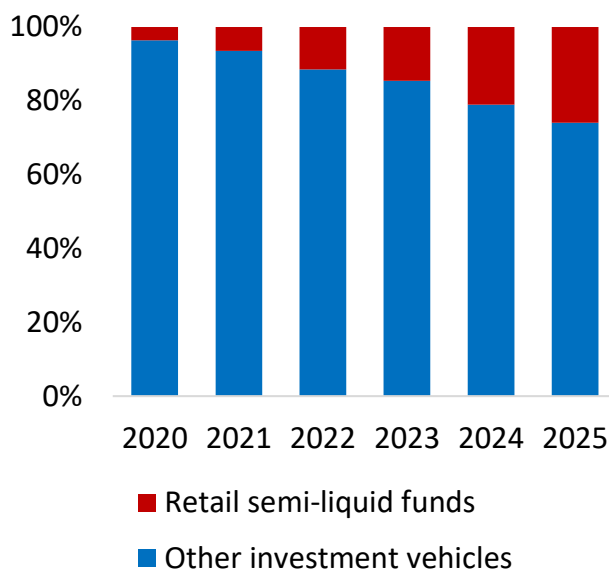
Credit Concerns Triggered Liquidity Pressures in Retail PC Vehicles

The footprint of retail semi-liquid funds in the overall DL ecosystem is growing

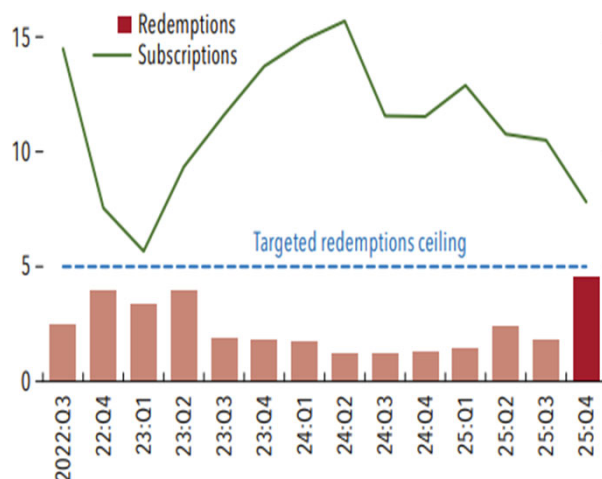
Perpetual nontraded BDCs are facing liquidity pressures as redemptions spike and inflows slow

Maturing unsecured debt and borrowers' revolvers may crowd out liquidity available for redemptions during a shock

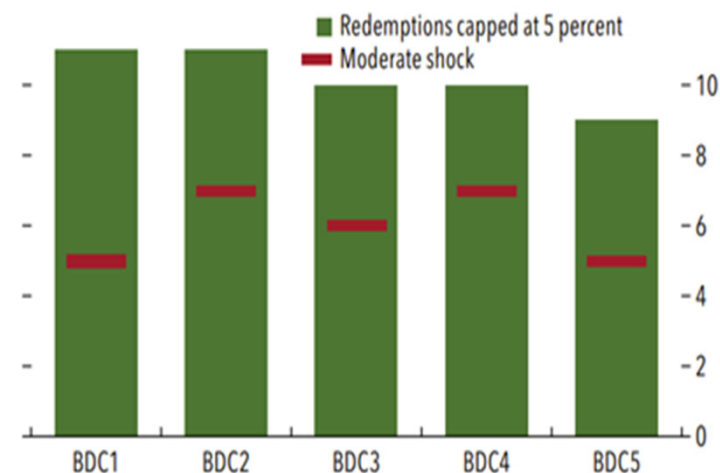
Breakdown of deployed DL loans by the source of funding
(Percent)



Quarterly Redemptions for Perpetual Nontraded BDCs
(Percentage of outstanding shares)



Number of Quarters to Liquidity Gap for under High Redemptions and a Moderate Shock
(Number of quarters)





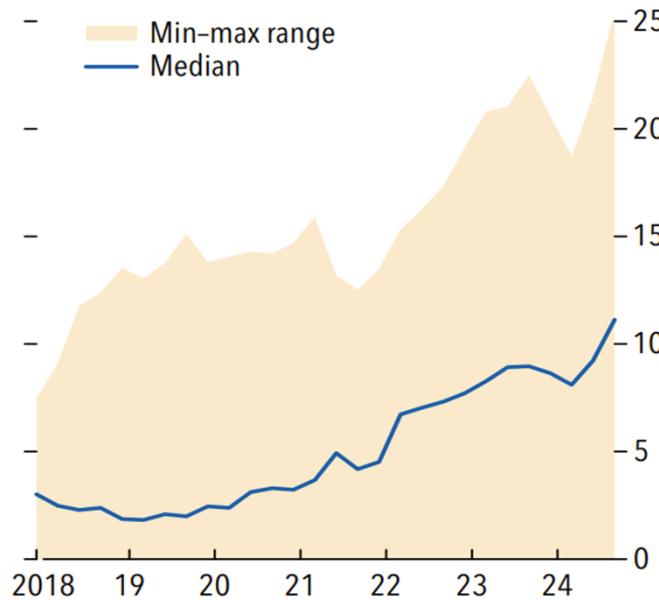
Interconnectedness Risks Are Rising

As Private Credit Becomes More Intertwined with the Global Financial Sector

Direct Lending's Cross-border Linkages Are Deepening

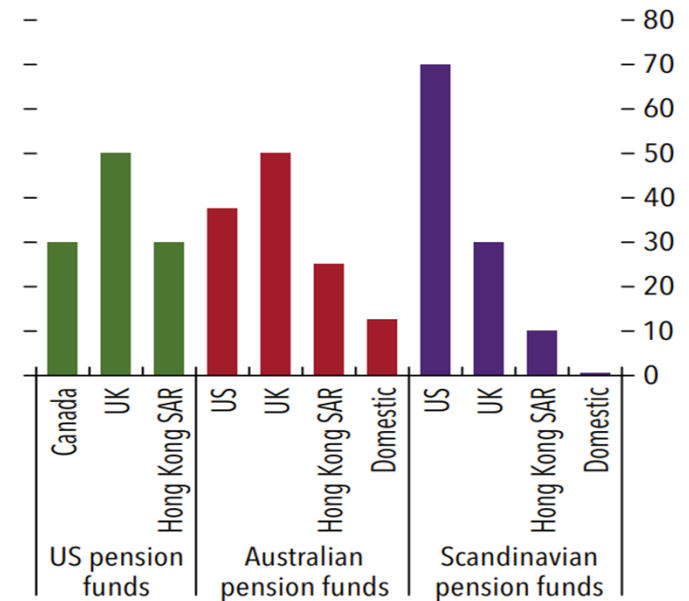
Direct lending funds increasingly extend credit to foreign borrowers

Share of Non-US Borrowers in Direct-Lending Portfolios of the 20 Largest BDCs
(Share based on the number of borrowers)



Pension funds are increasing investments in foreign direct-lending funds

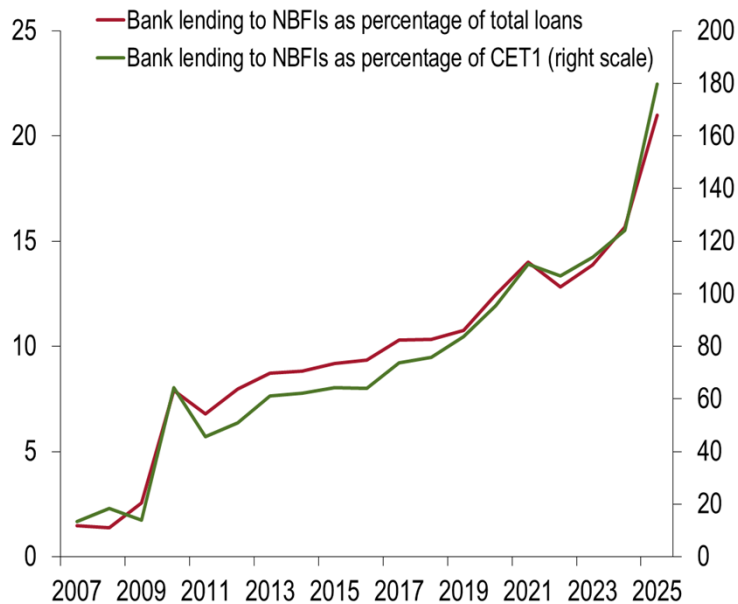
Percentage of Pension Funds Investing in Foreign Direct-Lending Funds
(Percent)



While Banks Get More Intertwined with Nonbanks

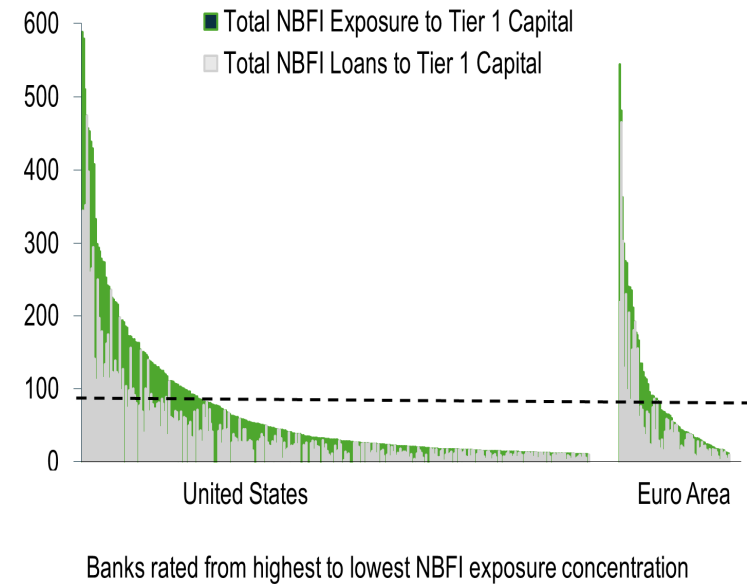
Bank interlinkages with nonbank financial intermediaries are growing strongly ...

US Banks' Credit to NBFIs
(Percent)



Several banks in the US and the euro area have exposures to NBFIs exceeding their capital.

Banks' NBFi Exposure to Tier 1 Capital
(Percent)

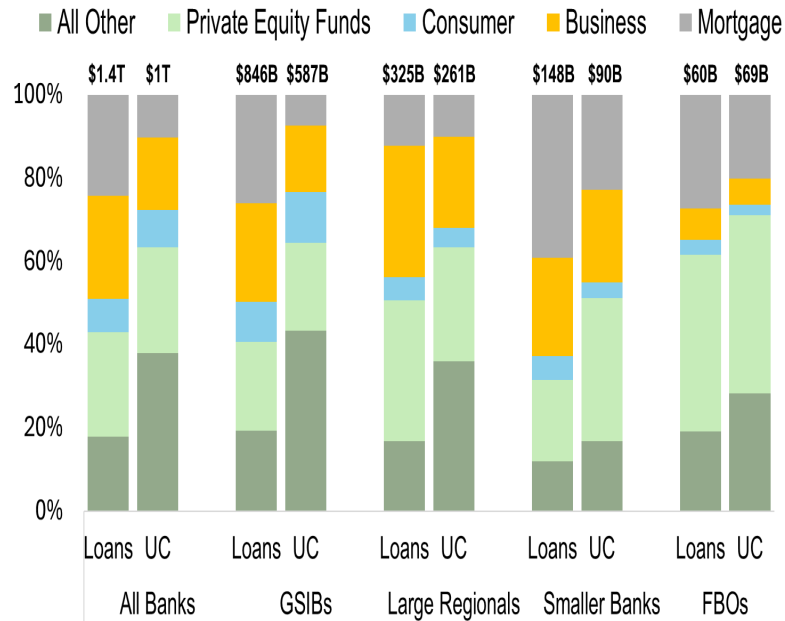


Banks Provide Substantial Finance to PC and NBFIs...

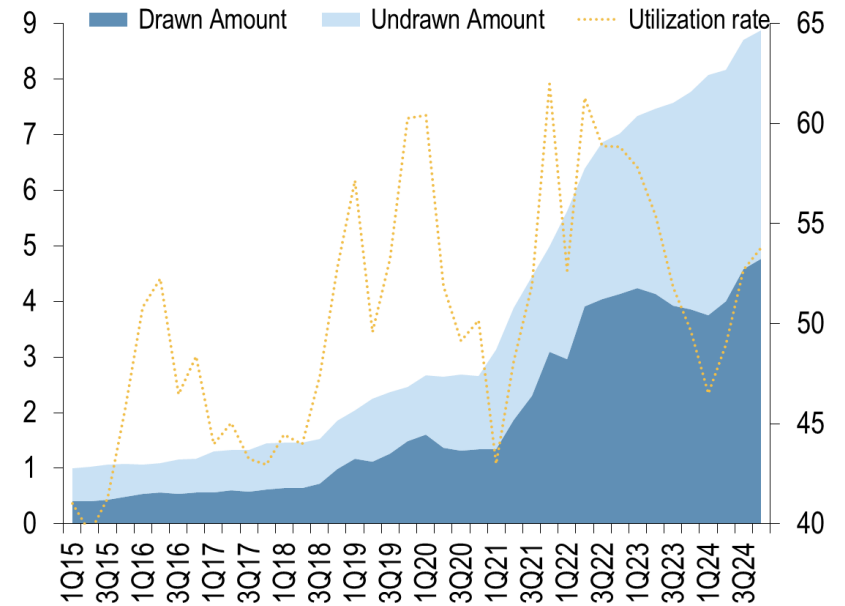
US banks have substantial undrawn commitments with private credit and equity funds.

Revolving debt is growing and has volatile utilization rates

NBFI Exposure, by Type
(Percent of total exposure by bank group)



Revolving-Credit Liabilities of BDCs
(Normalized as 2015:Q1 = 1, left scale; percent, right scale)

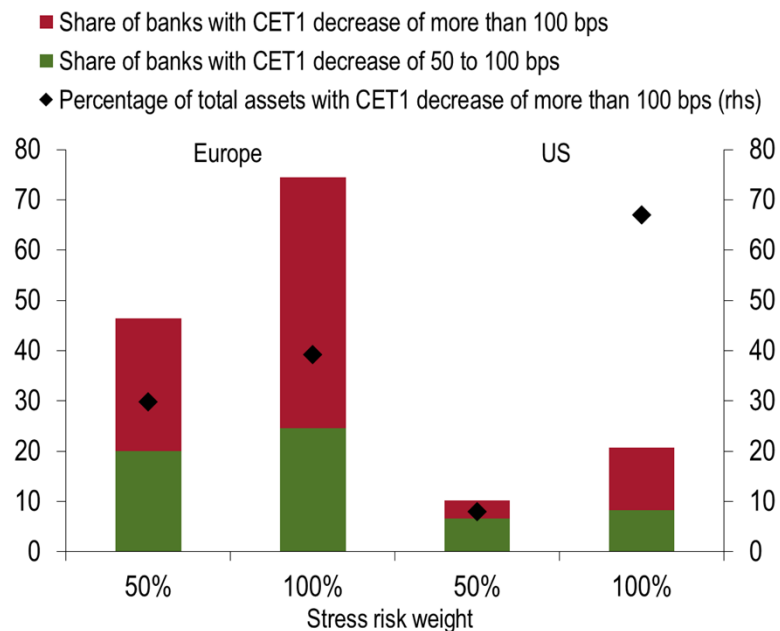


...Which in an Adverse Scenario Could Impact Weaker Institutions.

A deterioration in NBF credit risk, combined with the withdrawal of all unused commitments, could materially affect banks' capital ratios.

Decline in CET1 Ratio and Share of Banks' Total Assets

(Share of banks in sample, left scale; percentage of total assets, right scale)



A few banks could face liquidity pressures to cover potential outflow from NBF credit and liquidity lines

Number of Banks with Negative Net Available Liquidity

(Share of banks in sample, left scale; percent of total assets, right scale)

