



REPORT ON CONVERGENCE OF SUPERVISORY PRACTICES IN 2022

EBA/REP/2023/11

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Abbreviations

AML/CFT	anti-money laundering/countering the financing of terrorism
BCBS	Basel Committee on Banking Supervision
BMA	business model analysis
BRRD	Bank Recovery and Resolution Directive
CA	competent authority
COREP	common reporting
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CS	credit spread
CSRBB	credit spread risk in the banking book
DPM	data point model
EBA	European Banking Authority
ECB	European Central Bank
ECL	expected credit losses
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
ESE	European Supervisors Education Initiative
ESEP	European Supervisory Examination Programme
ESG	environmental, social and corporate governance
EU	European Union
EuReCa	European reporting system for material CFT/AML weaknesses
FINREP	reporting of financial information
FX	foreign exchange
GL	Guideline
GRP	group recovery plan
HDP	high-default portfolios
ICAAP	internal capital adequacy assessment process
ICT	information and communications technology
IFRS	International Financial Reporting Standards
ILAAP	internal liquidity adequacy assessment process
IMV	initial market valuation
IPU	intermediate EU parent undertaking
IQD	interquartile dispersion
IRB	internal ratings based
IRRBB	interest rate risk in the banking book
ITS	implementing technical standards
KFH	key function holder
JD	joint decision
KPI	key performance indicator

ML/TF	money laundering/terrorist financing
MREL	minimum requirement for own funds and eligible liabilities
NPE	non-performing exposure
NPL	non-performing loan
ORC	overall recovery capacity
PD	probability of default
P2G	pillar 2 guidance
P2R	pillar 2 requirements
RTS	regulatory technical standards
SUPRISC	Supervision, Risks and Innovation Standing Committee
SGOS	Sub-group on Ongoing Supervision
SREP	supervisory review and evaluation process
sVaR	stressed value at risk
TCG	third-country group
TSCR	total SREP capital requirement
UK	United Kingdom
USSP	Union Strategic Supervisory Priorities
VaR	value at risk
WCCA	Written Coordination and Cooperation Arrangements

Executive Summary

One of EBA's key objectives, in line with its legal mandate¹, is to enhance supervisory convergence across the internal market. In accordance with Article 107 of the Capital Requirements Directive (CRD), the EBA reports annually to the European Parliament and Council on the degree of convergence of supervisory practices. The effects of the different tools, the EBA is deploying to ensure convergence in supervisory practices, are described in this Report: the development and follow-up of the key topics identified in EBA's 2022 European Supervisory Examination Programme (ESEP)², the EBA college monitoring approach for 2021-2023, peer reviews and benchmarking exercises, policy developments and EBA's training activities.

The two overarching Union Strategic Supervisory Priorities (USSPs), stipulated in the EBA's founding Regulation³, set for 2020-2022 on 'business model sustainability and adequate governance structures' formed the strategic foundation for supervisory attention in the EBA's convergence work on prudential supervision in 2022.

The common supervisory impetus across the EU met its goal but digital transformation and ESG will call for more attention.

The five key topics, introduced in the EBA's 2022 ESEP, namely the impact of the COVID-19 pandemic on asset quality, ICT, digital transformation, as well as environmental, social and corporate governance (ESG) and money laundering/terrorist financing (ML/TF) risks, were overall adequately incorporated into competent authorities' (CA) supervisory priorities, supervisory assessments and colleges' work. However, CAs are still in the process of building up their capacity to review the risks associated with the digital transformation and ESG, and supervisory attention on these topics was not always homogeneous, in particular when compared to attention given to the review of the asset quality/provisioning, and ICT and ML/TF risks. Supervisors consciously applied proportionality in their supervisory practices, either in the identification of the set of institutions to review or in the level of the assessment performed.

In 2022 supervisors made good use of the available tools offered in the relevant EBA Guidelines⁴ monitoring the lasting implications of the *COVID-19 pandemic*. Also, a step forward was made in the supervision of sound lending standards and practices. Supervisory attention in relation to asset quality and non-performing exposures shifted to the monitoring of the consequences of the Russian invasion of Ukraine and the changed macroeconomic environment.

ICT risks are still considered as high. ICT security and outsourcing risks are followed closely by CAs and supervisory colleges, and weaknesses identified need close supervisory attention. The risk data

¹ Article 1(5)(g) of EBA's founding Regulation ([Regulation \(EU\) No 1093/2010](#)).

² [The EBA examination programme for prudential supervisors for 2022](#).

³ Article 29a of EBA's founding Regulation.

⁴ [EBA Guidelines on loan origination and monitoring \(EBA/GL/2020/06\)](#).

aggregation was instead covered by just slightly more than half of the CAs, notwithstanding the fact that institutions' capabilities are still generally assessed as being suboptimal.

CAs overall were not yet engaged in a comprehensive review of the *digital transformation strategies* and their implementation by institutions. The setting of the digital implementation strategy was fully assessed by almost two-thirds of the CAs, however the review of the impact of the implementation of the digital transformation strategy and moreover the approach towards FinTech solutions were not yet fully part of the supervisory work. However, also following the supervisory assessments, the institution's understanding of the need to build up an environment suitable for integration with relevant third parties improved.

Environmental and climate risks are increasingly part of the supervisory activities. The depth of supervisory assessments depends on how institutions have integrated *ESG risk* in their business strategies, risk appetite and loan origination practices and their risk, governance and reporting framework, which differ considerably since not all institutions have even established a strategic or an operational plan.

ML/TF risks are consistently high and thus covered by most CAs and supervisory colleges, however with some having not fully incorporated the specific elements of the ML/TF risk in the SREP waiting for the revised SREP Guidelines⁵.

The EBA peer reviews and benchmarking exercises provided support for supervisory convergence and uncovered certain risks.

The results of the EBA peer reviews on the ICT risk assessment under the SREP⁶ and the supervision of the management of non-performing exposures (NPE)⁷ showed that the respective EBA Guidelines⁸ were implemented by the CAs but also that it is high time to build the necessary supervisory capacity and expertise in CAs. The EBA supported CAs in ensuring the quality of internal modelling of credit and market risk exposures through its annual EU-wide supervisory benchmarking exercise for credit and market risk models⁹ and worked on an extension of its IFRS 9 benchmarking exercise including high-default portfolios (HDP).

Supervisors showed ability to react to macro events that affected the financial situation of institutions under their supervision, although cooperation should be enhanced.

After contributing to the resilience shown by the European banking system to the COVID-19 crisis¹⁰, where adequate capital ratios, asset quality and liquidity were preserved, CAs also undertook numerous supervisory activities to assess the direct and indirect implications of the Russian

⁵ [EBA Guidelines on common procedures and methodologies for the supervisory review and evaluation process \(SREP\) and supervisory stress testing \(EBA/GL/2022/03\)](#).

⁶ [Peer Review Report on ICT Risk assessment under the SREP | EBA/REP/2022/25](#).

⁷ [Peer Review Report on NPE management \(EBA/REP/2022/12\)](#).

⁸ [EBA Guidelines on ICT risk assessment under the SREP \(EBA/GL/2017/05\)](#); [EBA Guidelines on the management of non-performing and forborne exposures \(EBA/GL/2018/06\)](#).

⁹ [EBA publishes annual assessment of banks' internal approaches for the calculation of capital requirements](#).

¹⁰ [Closure Report of COVID-19 measures \(EBA/REP/2022/32\)](#).

aggression against Ukraine, the asset concentration in energy sensitive sectors as well as the consequences of interest rate rises, inflation risk and related asset price corrections. However, EBA found, through its monitoring activities of supervisory colleges, that cooperation and timely information exchange should improve when crisis events materialise, also to detect potential emerging risks. EBA provided also support to this effort by initiating crisis related policy initiatives for supervisory colleges and recovery planning.

Possibilities for enhancement in the functioning of supervisory colleges still exists.

The interactions and the organisation of the supervisory colleges are overall of a high quality, with refinements and some good practices compared to 2021. For 2023, improvements in some procedural aspects of joint decisions (JDs) in accordance with the ITS on the joint decision¹¹ will be sought.

Several policy developments support the further convergence in prudential supervision.

The EBA updated (i) its SREP Guidelines, clarifying the determination of pillar 2 capital add-ons and pillar 2 guidance (P2G) and implementing the separate stack of own funds requirements for the risk of excessive leverage, and (ii) its Guidelines in relation to the interest rate risks in the banking book (IRRBB) and credit spread in the banking book (CSRBB)¹² and (iii) provided an opinion in relation to the IPU requirements set out in the CRDV¹³.

In the follow-up in 2023 priority will be given to the high risk and not fully covered areas of the ESEP 2022.

The EBA will continue monitoring risky areas (macroeconomic and geopolitical risks, including the institutions policy and management of highly leveraged exposures, ICT security risks, ML/TF risks) and/or areas from the ESEP 2022 that were not fully covered in CAs supervisory work programs (data aggregation risk, digital transformation risk and ESG risk) as part of the ESEP 2023¹⁴ follow-up. It is the EBA's common practice to integrate the results of the monitoring activities in policy work and its training activities. Lastly, EBA will facilitate and monitor the implementation of qualitative Key Performance Indicators (KPIs) for supervisory colleges in 2023.

¹¹ [Commission Implementing Regulation \(EU\) No 710/2014.](#)

¹² [Guidelines on technical aspects of the management of interest rate risk arising from non-trading book activities \(EBA/GL/2022/14\).](#)

¹³ [Opinion on the set-up and operationalisation of Intermediate EU Intermediate Parent Undertaking\(s\) \(EBA/Op/2022/12\).](#)

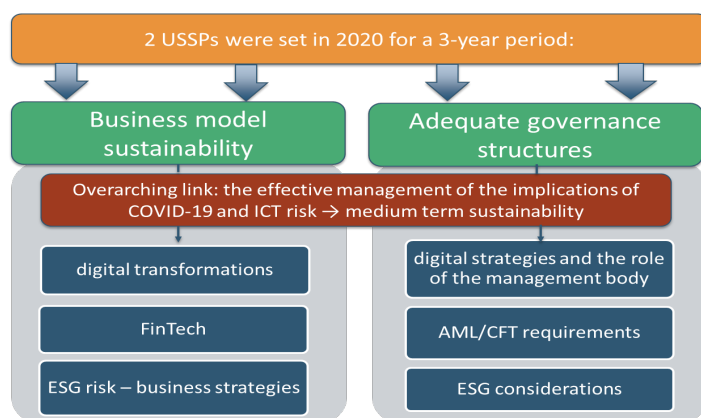
¹⁴ [The EBA sets examination programme priorities for prudential supervisors for 2023 \(EBA/REP/2022/28\)](#)

Background and introduction

The EBAs' Union Strategic Supervisory Priorities (USSPs) and European Supervisory Examination Plan (ESEP).

1. The EBA Regulation stipulates that according to Article 29(a) the EBA shall identify, at least every 3 years, by 31 March, up to two USSPs which shall reflect future Union-wide developments and trends for a cycle of three years ahead.
2. Those USSPs, because of their general and strategic character build a layer of supervisory attention in the convergence work. The ESEP offers refinement of those USSPs in terms of supervisory activities and actions, driving supervisory convergence in prudential supervision. For its first cycle of USSPs, starting in 2020 and ending in 2022, the EBA identified the USSPs of 'business model sustainability and adequate governance structures'. Competent authorities (CAs) have subsequently integrated those priorities starting from their 2021 work programmes¹⁵.
3. The implications of COVID-19 pandemic and information and communication technology (ICT) risks are key short-term risks in the banking sector, and their effective management is of the utmost importance to ensure medium-term sustainability, representing the overarching link between the USSPs and the ESEP in 2022.
4. Furthermore, the business models' sustainability is reflected in the 2022 ESEP via the special focus on digital transformation strategies and their implementation, FinTech players and the environmental, social and corporate governance (ESG) risk in the business strategies, which all should contribute towards sustainable operation of institutions. The attention on the governance-related aspects of anti-money laundering and countering the financing of terrorism (AML/CFT) requirements as well as the respective ESG considerations, as described in the ESEP, form further key elements of the sound governance practice, as put forward by the USSP.

Figure 1: USSPs 2020-2022 and the key priorities in the ESEP 2022



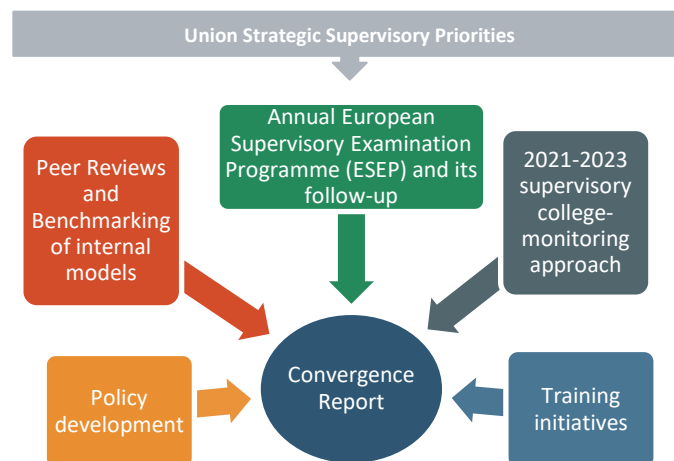
¹⁵ The first detailed roll-out is described in [the EBA Report on convergence of supervisory practices in 2021 \(EBA/REP/2022/10\)](#).

The EBA reports yearly to the European Parliament and Council on the results of the use of its convergence tools.

5. In line with Article 1(5)(g) of its founding Regulation¹⁶, the EBA is required to foster and promote supervisory convergence across the European Union (EU). Specifically in the context of the supervisory review and evaluation process (SREP) that forms an integral part of the prudential supervision conducted by CAs, the EBA is required, i) to develop common procedures and methodologies for the supervisory review; as well as to ii) report annually on the degree of convergence of supervisory practices to the European Parliament and the Council¹⁷.

6. The EBA Report on Convergence of Supervisory Practices in 2022 (Report) summarises i) how the EBA pursued supervisory convergence in 2022 in the context of the SREP and ongoing supervision via various convergence tools under its disposal, and ii) the EBA's main observations on the respective developments and conclusions.

Figure 2: Supervisory convergence tools



7. Section 1 of this Report analyses the degree of progress in the convergence of supervisory methodologies and measures, including the use of proportionality, achieved through the implementation of the 2022 ESEP by the CAs. This section includes the main outcomes of the CAs assessments of the ESEP 2022 selected key topics, gathered through the structured information collection from CAs and the EBA observations stemming from colleges' monitoring activities. Section 2 of the Report explains how convergence in the context of supervisory colleges evolved focusing on the closely monitored colleges. Section 3 describes the policy developments concerning SREP and ongoing supervision as well as for supervisory colleges. EBA's training activities supporting supervisory convergence are listed in section 4 of the Report.

¹⁶ Article 1(5)(g) of EBAs founding Regulation ([Regulation \(EU\) No 1093/2010](#)).

¹⁷ Article 107 of the CRD.

1. Supervisory convergence in the SREP and ongoing supervision

1.1. Implementation and results of the 2022 ESEP

8. The EBA drives the convergence in supervision by annually setting out key topics for heightened supervisory attention to inform CAs' processes for selecting supervisory priorities and to influence their supervisory practices on the selected topics.

The EBA collected structured information on the follow-up of the key topics from CAs and from its observations in the closely monitored colleges.

9. To ensure supervisors' ability to address these key areas in their 2022 activities, the ESEP together with a set of attention points for CAs was finalised and shared with the supervisory community in November 2021.

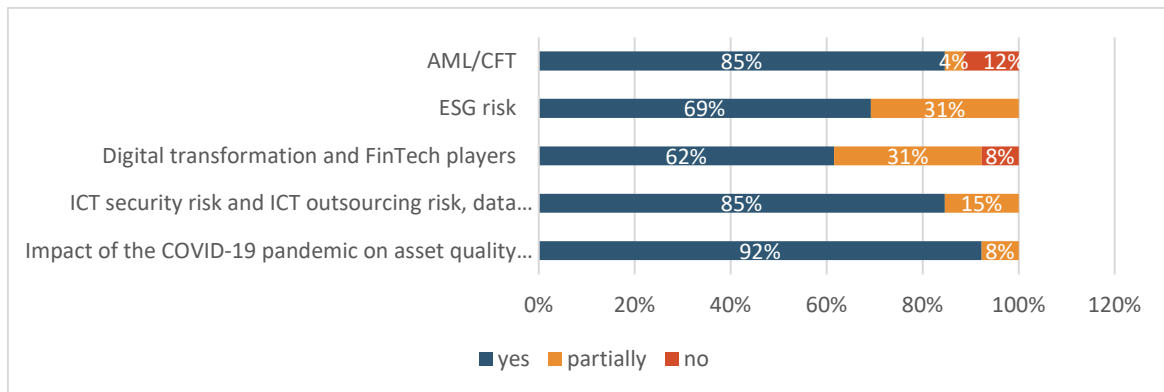
10. At the end of 2022 the EBA followed up with the CAs on whether and how the key topics were reflected in supervisory priorities and incorporated into supervisory work.¹⁸ In addition, the EBA followed how the nine closely monitored supervisory colleges addressed the key topics within their Supervisory Examination Programmes (SEPs), covered those in college discussions and implemented those through sharing supervisory assessments and outcomes.

11. The 2022 ESEP ensures continuum in the supervisory work from 2021, as most of the priority areas included in the 2021 Convergence Plan have been preserved for 2022, such as the impact of the COVID-19 pandemic on asset quality and information and communication technology risk, in particular ICT security risk.

¹⁸ The relevant subgroup of the Supervision, Risks and Innovation Standing Committee (SUPRISC) collected information, which was then analysed in a desk-based review and summarised in this section of the report. Twenty-six CAs contributed to the information collection.

Although the five key topics were overall adequately incorporated into CAs' supervisory priorities, the increasing importance of digital transformation and ESG risks will call for more attention.

Figure 3: Key topics incorporated into CAs' supervisory priorities in 2022 (% of CAs)



12. The impact of the COVID-pandemic on asset quality and adequate provisioning was well incorporated in the supervisory priorities. The fact that two CAs incorporated the topic partially was related either to the prioritisation of risks stemming from the current macroeconomic developments or to local market specificities.

13. In relation to the ICT security and ICT outsourcing risk and risk data aggregation almost all CAs incorporated the key topics to a great extent in their priorities.

14. The key topic of digital transformation and FinTech players has been fully incorporated by little more than half of the CAs and partially by one-third of the CAs. In two CAs this topic is not part of the supervisory priorities.

15. ESG risks, in comparison to the digital transformation, have been incorporated by all CAs (though by one-third partially) into their supervisory priorities focusing on the 'E' (climate/environmental risks). CAs have done thematic reviews, questionnaires or set the supervisory expectations on the management of climate risks for all institutions or in some cases a specified category of institutions.

16. AML/CFT is a priority for the vast majority of CAs, but also when it is not the case CAs ensured to appropriately follow-up on AML/CFT concerns.

17. Sections 1.1.1 to 1.1.5 present the degree of supervisory convergence achieved by the CAs, in terms of the topics covered in supervisory reviews, the way in which proportionality has been applied and the tools used ('CAs supervisory activities'), followed by some specificities for supervisory colleges stemming from EBA's observations through its colleges' monitoring activities ('Implementation in supervisory colleges'). Each section ends with a short description of the

weaknesses and risks identified in the CAs' and supervisory colleges' assessments (*'results of supervisory assessments'*).

1.1.1 Impact of the COVID-19 pandemic on asset quality and adequate provisioning

CAs supervisory activities – the attention for sound lending standards and practices evolved.

18. The topic was a priority for CAs in 2021 and 2022 and was addressed as part of ongoing supervision and SREP. All CAs, except one, closely monitored the three key attention points, namely the loans exiting moratoria, the institution's management of the NPE and provisioning. Few CAs did not assess (in full) all attention points. All CAs followed the indicators in relation to the loans exiting moratoria¹⁹, the NPE²⁰ and provisioning²¹.

19. CAs applied a proportionate approach. Half of the CAs monitored as a starting point all institutions. Their preliminary quantitative assessment of the risk exposure to the COVID-19 pandemic (e.g. loans under moratoria, public guarantees, etc.) defined the further course of their monitoring activities. The other CAs used a risk-based approach from the start and focused their monitoring activities solely on retail and corporate finance banks with important exposures on sectors impacted by the COVID-19 pandemic or on institutions with a substantial deterioration of their loan portfolio.

20. In comparison to 2021, CAs moved forward with the implementation of the EBA Guidelines on loan origination and monitoring²². In 2021 about two-thirds of the CAs and in 2022 more than three-quarters of CAs verified whether the institution implemented the provisions of these Guidelines based on a gap analysis on its credit granting practices and assessed whether the credit granting practices of the institution ensure the adequate assessment of the creditworthiness and credit risk of borrowers.

21. Most CAs verified whether the institution defines its appetite and strategy for leveraged transactions and the types of transactions they are prepared to enter, including values for parameters²³.

¹⁹ Forbearance ratio, share of loans under moratoria, share of loans with COVID-19 public guarantees.

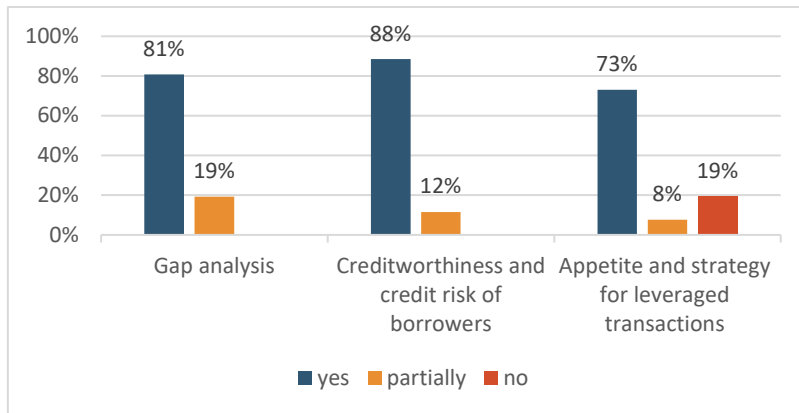
²⁰ Non-performing loan (NPL) ratio.

²¹ Coverage ratio of NPL, classification of exposures per stage of impairment, coverage ratio per stage of impairment.

²² [EBA Guidelines on loan origination and monitoring \(EBA/GL/2020/06\)](#).

²³ Such as probability of default, level of collateralisation and leverage levels when relevant.

Figure 4: CAs verifying the elements of credit granting practices (% of CAs)

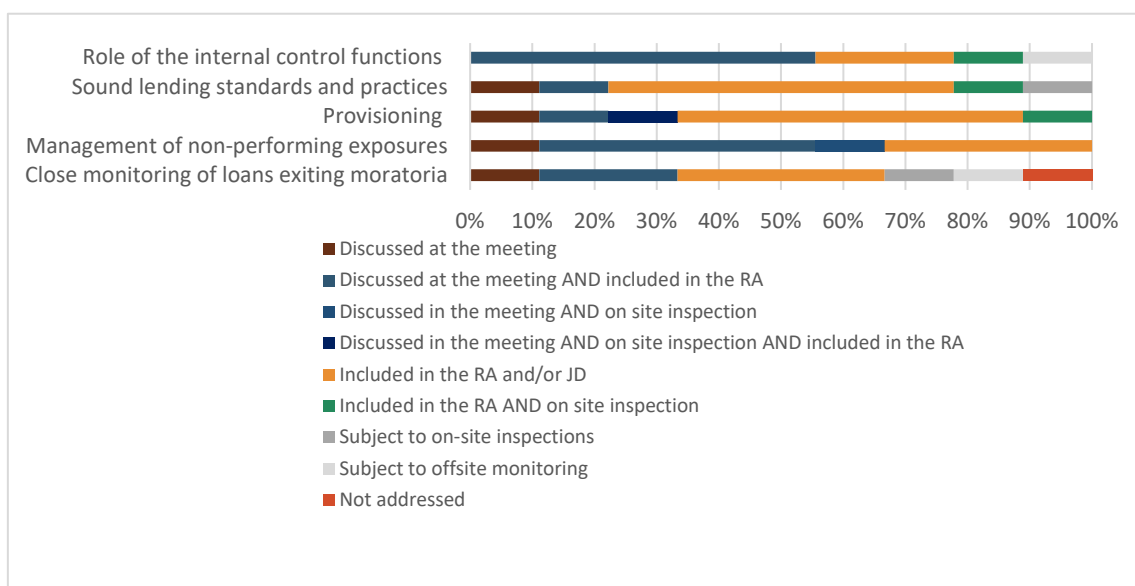


22. CAs were expected to be vigilant about potentially lower probability of default (PD) estimates that may be excessively driven by the extraordinary COVID-19 support measures and thereto carefully consider the internal ratings based (IRB) parameters. This was followed-up by 74% of the CAs and 26% of the CA did not do so. Reasons for this include that the institutions under their supervision were not using IRB models and most requests for model changes under the CAs’ approval in 2022 were based on data from before, and thus not biased by, the COVID-19 pandemic.

23. CAs generally assessed whether the institution’s internal control functions ensure that the procedures for the identification, measurement, management, and monitoring of credit risk, are adequate and fit for purpose in the context of the implications of the COVID-19 pandemic.

Implementation in supervisory colleges - the management and provisioning of NPEs was reflected in a lot of activities of colleges.

Figure 5: Attention points under the key topic COVID-19 pandemic (% of closely monitored colleges)



24. Overall, the topic and all its attention points were well covered by the closely monitored supervisory colleges, in particular the management and provisioning of NPEs and the impact of the COVID-19 pandemic on the level of NPEs. In several supervisory colleges it was noted that there are no longer loans from the COVID-19 pandemic in a moratorium. For some institutions, credit risk in specific segments (commercial or residential real estate, mortgages, leveraged finance) was being further investigated.

Results of supervisory assessments - risks of the COVID-19 pandemic on asset quality and adequate provisioning decreased and the focus moved to the consequences of the Russian invasion of Ukraine.

25. As observed in the EBA Closure Report of COVID-19 measures ²⁴, overall the EU banking system has proved resilient to the COVID-19 crisis, preserving adequate capital ratios, displaying on average improved asset quality and continuing to hold substantial liquidity.

26. Meanwhile the Russian invasion of Ukraine and the uncertainties associated to the economic outlook bring new risks, albeit of a different nature than during the pandemic. With very few exceptions all CAs undertook supervisory activities to assess the direct and indirect implications of the Russian aggression against Ukraine, the asset concentration in energy sensitive sectors as well as the consequences of interest rate rises, inflation risk and related asset price corrections. All CAs required regularly, and, depending on bank`s exposure, frequent reporting of the direct exposures towards Russia, Ukraine and Belarus which were further analysed.

27. The highest attention was warranted to the indirect implications as CAs undertook vulnerability assessments, monitored second round effects, conducted walk-away scenarios as well as examined whether there was a change in the number of cyber-attacks. Recommendations on scenarios to be used in the internal capital adequacy assessment process (ICAAP) were also given. CAs had dialogues with the institutions on an ongoing basis and also within the SREP cycle.

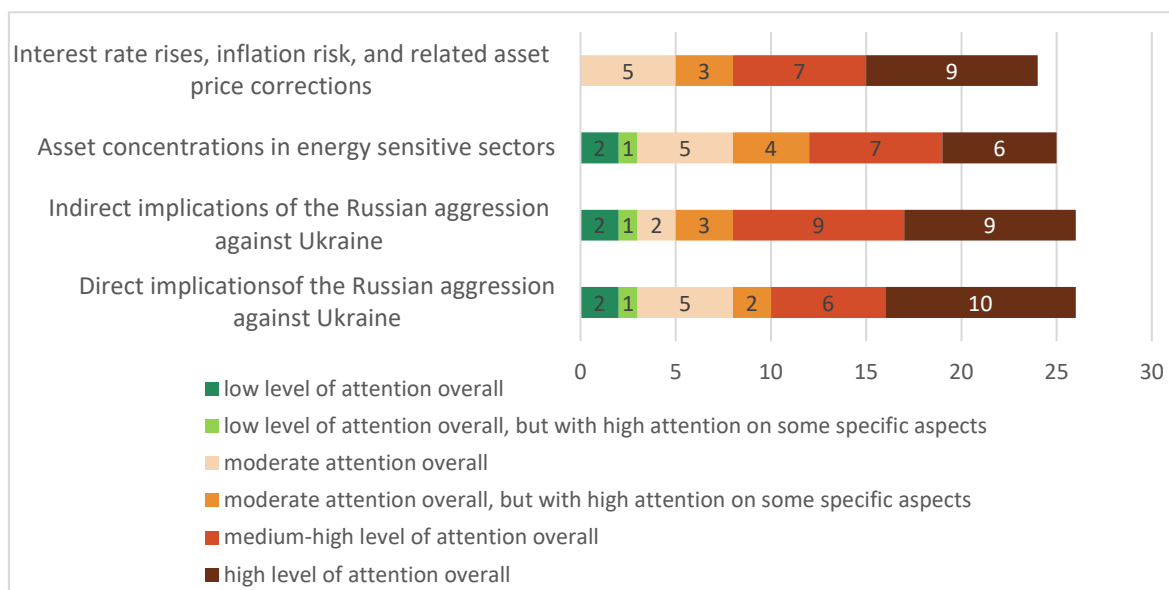
28. The majority of CAs warranted a medium-high to high level of attention to the concentration of assets in the energy intensive sectors. Some CAs reported to have done a top-down macroprudential analysis in combination with a bottom-up survey with institutions, others conducted an analysis based on data at client`s level or other specific databases.

29. Some supervisors focused on institutions` capital plans, in particular of those aiming at paying dividends to their shareholders, as well as, where relevant on the impact of the extra profit tax on banks to fund measures to ease cost of living pressures.

30. The close monitoring of the asset quality will stay in the focus of the CAs with an emphasis on the implications on asset quality and provisioning of the deteriorating macroeconomic environment.

²⁴ Closure Report of COVID-19 measures (EBA/REP/2022/32).

Figure 6: Level of attention warranted to the emergence of geopolitical risks (number of CAs)



1.1.2 ICT security risk, ICT outsourcing risk and risk data aggregation

CAs supervisory activities – the coverage of risk data aggregation needs to be improved.

31. ICT security risk was already a key topic for CAs in the previous three years, as the COVID-19 outbreak contributed to elevated security risks and other external ICT-related threats. Over the course of 2022, a major point of concern were the consequences of the Russian aggression in Ukraine on institutions' risk profile and the increasing tendency in cyber-attacks.

32. Proportionality was applied in the selection of institutions (for example more or less significant institutions, focus on multi-client service providers) or in the intensity of analysis depending on the SREP categorisation. The most significant institutions received particular attention via on-site inspections and/or off-site supervision, with special focus on ICT security and/or ICT outsourcing risk. Few CAs explained to use different ICT risk questionnaires for several groups of institutions depending on the institution's systemic importance and took the institution's size and business model into account in evaluating the maturity of controls.

33. Over the course of 2022, CAs were expected to investigate whether effective information security measures had been established by banks to ensure an appropriate mitigation of cyber risks, in line with the requirements set for financial institutions in the EU by the EBA Guidelines on ICT and security risk management²⁵. Almost all CAs addressed this attention point in full.

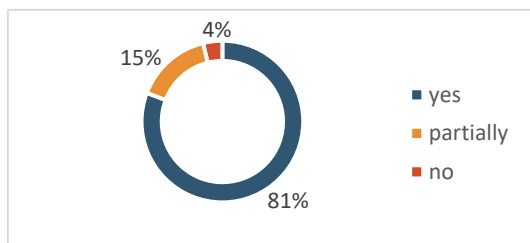
34. CAs also worked to ensure that financial institutions adapted to new challenges, by performing a variety of information security reviews/assessments to ensure the effective identification of vulnerabilities in their ICT systems and services. In addition, most CAs assessed whether dedicated

²⁵ EBA Guidelines on ICT and security risk management (EBA/GL/2019/04).

security awareness programmes have been established by institutions. In 2023, through the ESEP, supervisors are requested to continue monitoring ICT security risk closely and to ensure that potential ICT and cyber risks are identified and addressed.

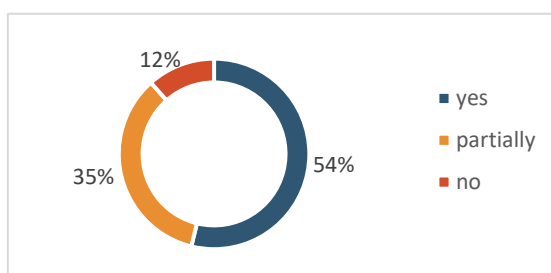
35. Another aspect put forward by the 2022 ESEP was the ICT outsourcing risk. As in the previous year, CAs were expected to assess that contracts and service level agreements with third party providers included appropriate and proportionate ICT security requirements, including minimum cyber security requirements. The assessment was also concerning whether institutions assessed the candidate service providers` ability, capacity, and willingness to ensure an appropriate level of continuity and security of the activities outsourced. Almost all CAs addressed this topic.

Figure 7: Supervisory review of institutions` ICT outsourcing risk (% of CAs)



36. The risk data aggregation was the least subject to supervisory scrutiny, with only 54% of CAs addressing whether institutions` systems fully support risk data aggregation capabilities at normal times as well as during times of stress. In the 2023 ESEP, the EBA highlighted the need for further attention on risk data aggregation in line with the Basel Committee on Banking Supervision (BCBS) 239 standard “Principle for effective risk data aggregation and risk reporting”.

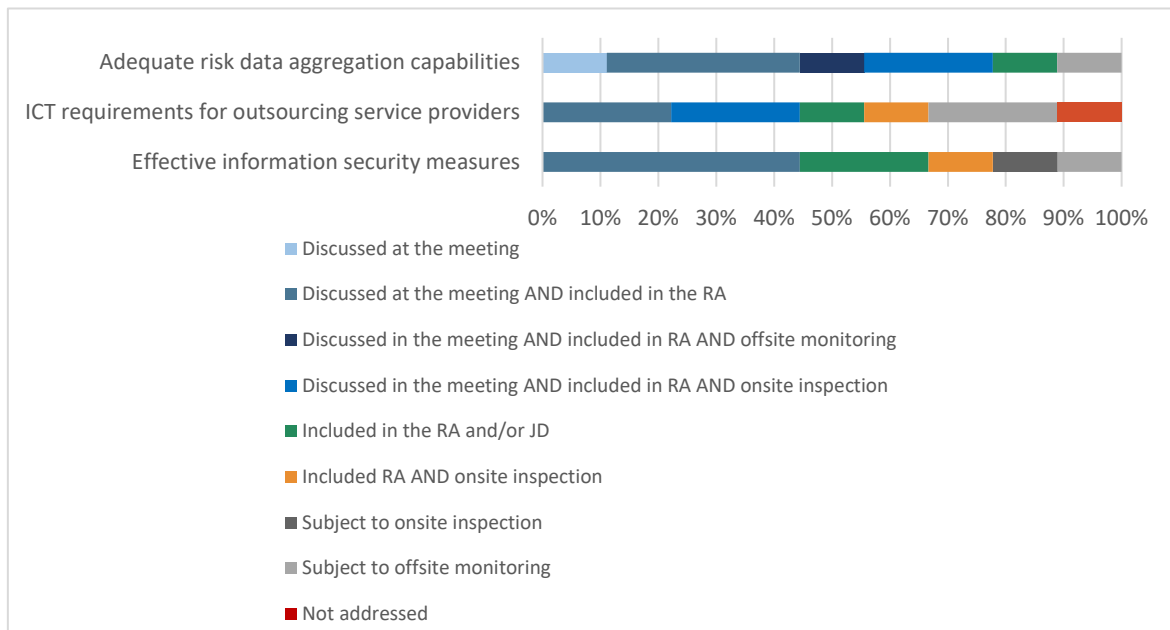
Figure 8: Verification of institutions` risk data aggregation capabilities (% of CAs)



37. CAs used a wide range of supervisory tools, such as ICT risk assessment questionnaires as part of SREP, review and analysis of security incident registry, review of continuity plans for critical outsourced activities, on-site thematic inspections on service providers and off-site monitoring. The interactions with the institutions were organised upon interviews with ICT-security managers, meetings with top management and internal control functions, correspondence and information exchange using secure channels.

Implementation in supervisory colleges - ICT risks a high priority for colleges.

Figure 9: Attention points under the key topic ICT risks (% of closely monitored colleges)



38. Supervisory colleges aimed at reinforcing the controls and ensuring a continuous improvement of the robustness of institution's information systems. In their risk assessments, supervisory colleges focused on implementing and developing adequate control measures against risks arising from ICT incidents and cyber-attacks.

Results of supervisory assessments – weaknesses in ICT security and ICT outsourcing risk still need to be addressed.

39. Besides the increasing attention on this key topic, the supervisory assessments observed by the EBA confirmed several weaknesses and shortcomings in institution's information security defences, for example in the capacity to timely respond in case of severe ICT incidents or persisting gaps in ICT risk management, including implementation delays of required information security, ICT continuity and disaster recovery controls.

40. Banking groups have been improving their control actions in relation to the management of ICT outsourcing risk, by addressing shortcomings and enhancing their outsourcing risk assessment (e.g. adding a dedicated questionnaire on physical risk borne by third parties). Nonetheless, high dependency on third parties and lack of centralised third-party vendor management still need to be addressed. Among the concerns more frequently observed are the inadequacy of the testing of contingency plans for outsourced services, the update of the documentation related to business continuity plans and the disaster recovery plans for some contractors.

41. Regarding risk data aggregation several efforts have been made to move towards automated and standardised data flows and to introduce control frameworks, but capabilities are still generally assessed at suboptimal level, also due to the complex IT, data and group structure, non-

automatised processes with respect to significant elements of ICAAP capital and risk quantification. Shortcomings were often related to divergent data definitions and complex data aggregation and results in data inaccuracies, low reporting timeliness as well as quality and significant operational risk.

1.1.3 Digital transformation and FinTech players

CAs supervisory activities – digital transformation forms a key challenge to be properly supervised.

42. In the context of the COVID-19 pandemic, digitalisation has further increased as it accelerated the technological transformation of banks. Over the course of 2022, slightly more than half of the CAs assessed institutions’ digital strategy setting process and whether the management body in its management function drove, implemented and oversaw the digital strategy. However, the impact of the implementation of the digital transformation strategy was less scrutinised by supervisors, as only slightly less than half of the CAs fully reviewed the impact on the business model and risk profile.

43. Some CAs applied a proportionate approach by paying particular attention during the SREP evaluations to entities with a business model relying on FinTech and digital services or entities launching a significant digital transformation project.

Figure 10: Assessing the digital strategy setting process (% of CAs)

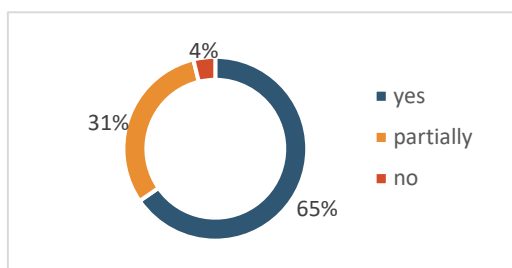
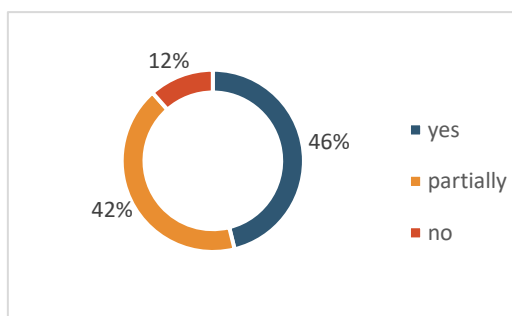


Figure 11: Review of the impact of the implementation of the digitalisation strategy (% of CAs)



44. Another topic that received less supervisory attention was the “approach towards innovative FinTech solutions”, with only half of CAs analysing, within the framework of the business model analysis (BMA), the institution’s approach towards technologically innovative solutions and

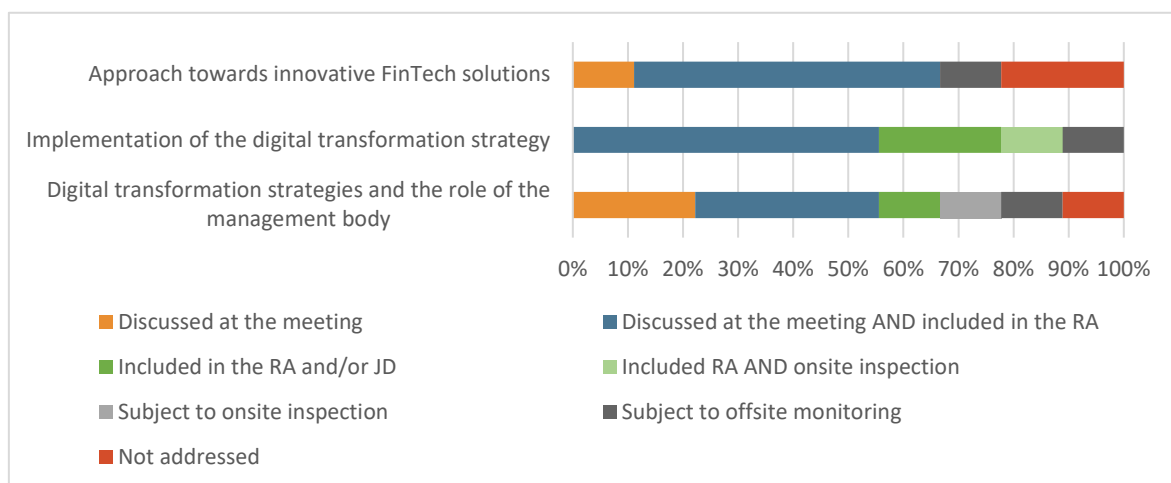
whether and how those were transforming their business model as well as inducing their services and risk profiles.

45. To supervise the implementation of the digital transformation and review institutions' approach towards FinTech solutions, CAs used several different tools such as specific FinTech and/or ICT SREP/risk assessment questionnaires, horizontal analysis and benchmarking, on-site activities, and off-site monitoring. The interactions with the institutions were organised upon digitalisation questionnaires, interviews and meetings with their representatives and their top management as well as consultants and FinTech firms.

Implementation in supervisory colleges – not all attention points of the ESEP were satisfactorily addressed.

46. Digital transformation was covered in supervisory risk assessments and college discussions, however not all supervisory colleges addressed all three attention points.

Figure 12: Attention points under the key topic digital transformation and FinTech (% of the closely monitored colleges)



Results of supervisory assessments - digital transformation and FinTech players, a longer transition.

47. According to the EBA observations namely through colleges' monitoring, digital transformation programs are generally assessed to produce positive results and significant progress, focusing on simplifying client service, creating new mobile applications, guaranteeing a more efficient use of internal resources and capital, increasing the efficiency of employees and the level of information security of digital technologies. However, it is acknowledged that new digital plans, along with the scope and the complexity of the digital transformation, entail new threats and higher execution risks which will need to remain under the spotlight of supervisory action.

48. Also, the banking groups' approach towards innovative FinTech solutions was only rarely covered by the group risk assessment, but when assessed it showed institutions' attention towards the creation of an environment suitable for integration with third parties (e.g., building a unified

interface for communication with external partners, ensuring readiness for the implementation of FinTech projects).

49. As put forward by the 2023 ESEP, CAs are still expected to dedicate closer attention to the institutions' development and implementation of adequate digital strategies and the assessment of their impact on the business models and risk profiles.

1.1.4 ESG risk

CAs supervisory activities – supervisors have started to monitor ESG risk.

50. ESG risks started to be part of the supervisory activities in 2022. Almost three-quarters of the CAs promoted and another quarter of the CAs partially promoted the institutions' understanding of the ESG risks they are exposed to due to their business model and key vulnerabilities. Most of those verified (partly) that the business and credit strategy properly reflect the underlying ESG risk appetite and that responsibilities for implementing and monitoring ESG targets are set.

Figure 13: Promoting institution's understanding of the effects of ESG risk (% of CAs)

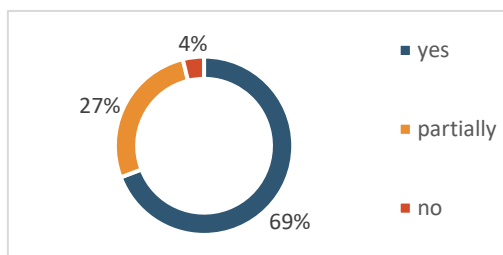
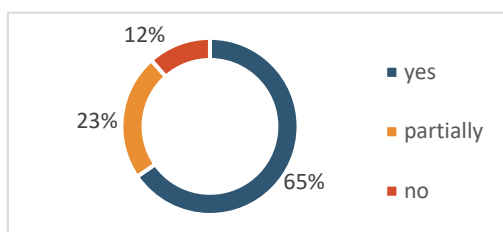
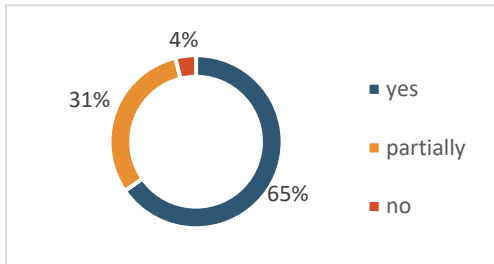


Figure 14: Verifying responsibilities and strategies of ESG risks (% of CAs)



51. CAs were starting monitoring if ESG factors are considered in the governance framework. Just over half of the CAs reported to monitor fully how banks consider ESG factors for example in the responsibilities of the management body, in the business and risk strategy, including the setting of risk appetite or undertake actions to map data gaps and improve data availabilities. First on-site inspections started in 2022 and even if not identified as a formal priority surveys and thematic reviews took place.

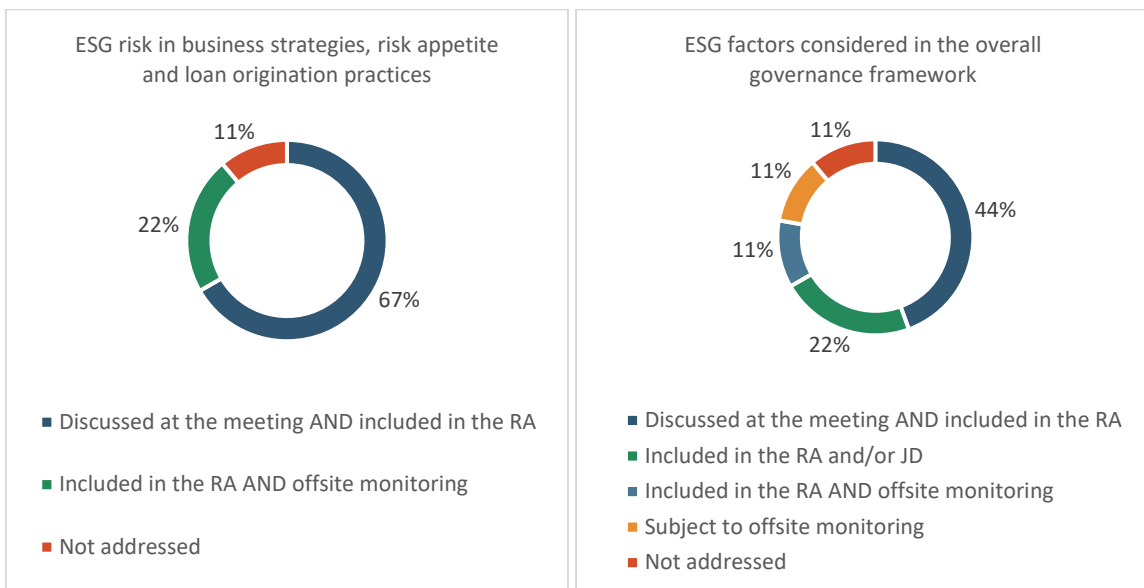
Figure 15: Verifying ESG factors in the overall governance framework (% of CAs)



52. Proportionality was applied in different ways. Some CAs applied their supervisory activities to all institutions under their supervision as they argue that climate and environmental risks can materialise regardless of the size of the institution however the follow-up requests and action plans were proportionate. Other CAs focused their supervisory activities on the largest institutions under their supervision.

Implementation in supervisory colleges – ESG risk has been taken up in most colleges’ risk assessment in a qualitative manner.

Figure 16: Attention points under the key topic ESG risk (% of closely monitored colleges)



53. For the institutions that had defined a group strategy towards ESG risk, CAs covered the ESG risk in the group risk assessment report and in few cases the topic was referred to in the joint decision (JD). In the case the institution was still in the preparatory phase of defining its strategy, the ESG risk was not covered in the risk assessment nor in the JDs. Several institutions were part of a thematic review and their resilience to climate and environmental risks was tested.

Results of supervisory assessments – still many institutions have to advance with the inclusion of ESG risk in strategic and operational planning and their risk, governance and reporting framework.

54. From the EBA observations stemming from colleges' monitoring activities, institutions' inclusion of the ESG risk in business strategies, risk appetite and loan origination practices and their governance framework differ considerably. Some institutions, also those that are materially exposed to ESG risk, must still establish a strategic and operational plan to advance the identification and sound management of climate-related and environmental risks, develop Key Performance Indicators (KPIs), or develop a climate stress-test framework, or allocate responsibilities for management bodies and committees in their internal policies. Institutions that are more advanced are still lagging in building up their framework of KPIs or cannot fully ensure that ESG risks appear regularly and consistently in internal risk reports.

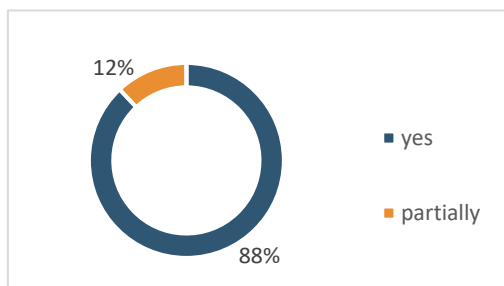
55. CAs are encouraged to continue to integrate the ESG risk in the supervisory review to the extent possible until the SREP Guidelines²⁶ will be updated. The EBA will also continue to monitor, through the implementation of its 2023 ESEP, the inclusion of ESG risks in supervisory practices of CAs and closely monitored colleges.

1.1.5 AML/CFT

CAs supervisory activities - CAs are addressing ML/TF risks in their supervisory work but not systematically in their SREP.

56. Almost all CAs with a few only partially assessed in their supervisory work that adequate AML/CFT information is exchanged between the management body of the institution, the business lines and the internal control functions.

Figure 17: Verifying adequate exchange of AML/CFT information within institutions (% of CAs)

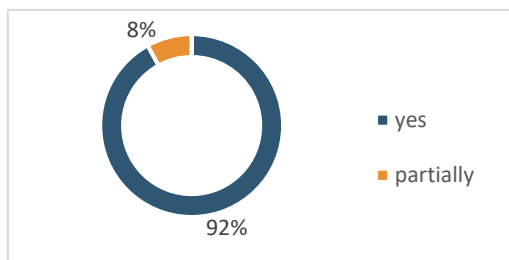


57. The institution's management body is responsible overall for ensuring that the institution complies with AML/CFT requirements, and therefore the anti-money laundering aspect is relevant for the suitability assessment of all members of the management body in all institutions. Almost all CAs, with a few partially, reflected the AML/CFT aspect in the (ongoing) suitability assessment of the members of the management body and key function holders (KFH) for all institutions. CAs reported to have assessed, and again a few only partially, the level of competence and relevant

²⁶ [EBA Guidelines on common procedures and methodologies for the supervisory review and evaluation process \(SREP\) and supervisory stress testing \(EBA/GL/2022/03\)](#).

experience of the institution's management body in AML/CFT to ensure that they are able to set up strong controls and compliance with the requirements under the Anti-Money Laundering Directive (AMLD)²⁷, in particular at institutions exposed to a high level of ML/TF risk.

Figure 18: Verifying AML/CFT aspects in suitability assessments (% of CAs)



58. Concerning proportionality CAs focus on institutions exposed to a high/medium level of inherent ML/TF and/or overall compliance risks and medium/high impact on the market; or alternatively on the institution's categorisation following SREP evaluations. Several CAs mentioned that in deciding on the frequency and intensity of their review of the institution's ML/TF risks from a prudential perspective, they take the risks of the activities of the institution into account because ML/TF concerns can hamper an institution's sustainability regardless of its size.

59. The EBA also identified some misunderstanding from prudential CAs' side in terms of what actions they were expected to undertake in the context of the AML/CFT from a prudential perspective not being a competent authority for AML/CFT. Some prudential CAs reported to just follow-up on the prudential implications of the findings of AML/CFT supervisors, while other CAs assessed from a prudential perspective whether the responsibilities of the management body with regards to ML/TF risks are being complied with. When analysing the internal governance framework and institution-wide controls, prudential CAs should take into account the assessments received from AML/CFT supervisors and evaluate whether these give rise to prudential concerns. This could be the case in particular where findings point to material weaknesses in institution's AML/CFT systems and controls. Conversely, where the CA's assessment indicates shortcomings in an institution's internal controls and governance framework giving rise to prudential concerns related to ML/TF risk, competent authorities should share the outcome of that assessment with AML/CFT supervisors.

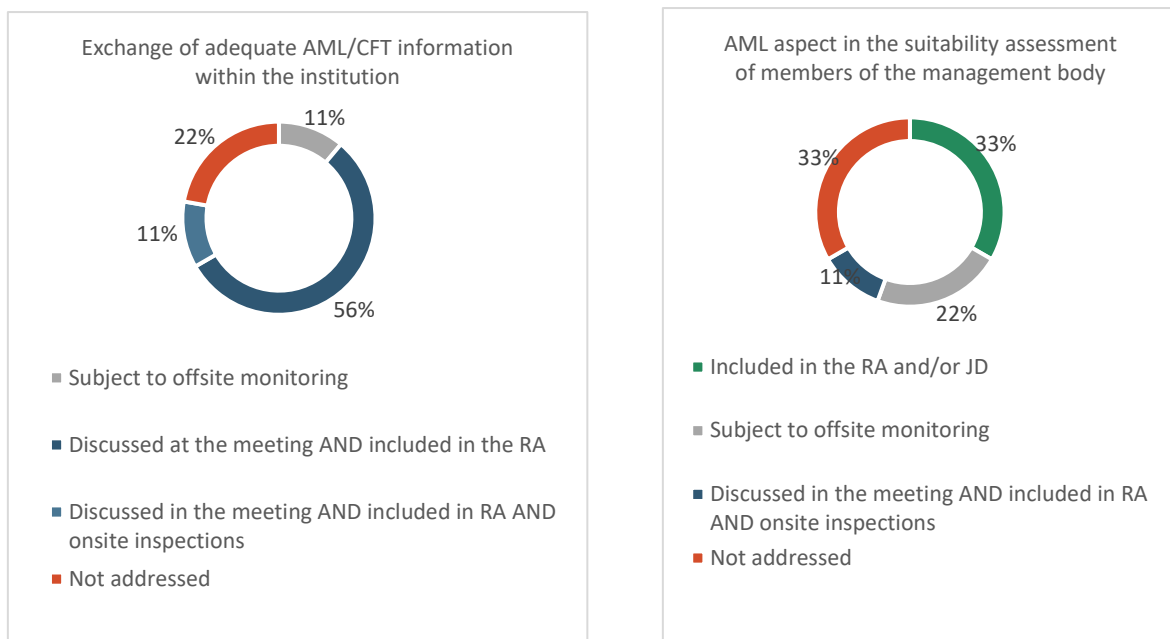
Implementation in supervisory colleges – the integration of the ML/TF risks into the SREP warrants a close cooperation between AML and supervisory colleges.

60. From its observations in the closely monitored colleges the EBA was able to confirm that the ML/TF risks were only partly and in general terms reflected in the SREPs. The exchange of AML/CFT related information and the integration of suitability assessments of members of the management body were not specifically labelled in the SREP as most supervisory colleges addressed ML/TF risk in their SREP solely as part of their assessment of internal governance and risk management and operational risk. From 2023, in correspondence with the updated SREP Guidelines, the outcomes

²⁷ Directive (EU) 2015/849.

of the relevant ML/TF risk assessments or findings from inspections conducted by AML/CFT supervisors should feed into the SREP, where they relate to requirements assessed by the competent authorities under the CRD and CRR.

Figure 19: Attention points under the key topic AML/CTF (% of closely monitored colleges)



61. To highlight the importance of exchanges between prudential and AML/CFT supervisors, some college meetings were already held jointly between the AML/CFT college and the supervisory college or prudential supervisors had been invited to the AML/CFT college as observers. In 2023, the EBA will ensure that the relevant information in the AML/CFT area will be presented in the supervisory college and vice versa. The EBA will also reflect the closer cooperation in the foreseen amendment of the regulatory and implementing technical standards (Regulations) on supervisory colleges^{28 29}.

Results of supervisory assessments – ML/TF risks are consistently high and impacted by governance and operational issues.

62. Stemming from the EBA college monitoring activities, issues in relation to the insufficient budgets and staffing of compliance functions but also the inadequate oversight by the parent undertakings over the subsidiaries, and operational discrepancies in clients' risk profile recording due to weaknesses in the data inputs, impacted the consistently high risk in AML/CTF. Even so the proper oversight of the adequacy and effectiveness of internal controls and governance to ensure compliance with these processes in subsidiaries including suitability assessments in the context of ML/TF risks gained importance in the context of a currently elevated global ML/TF risk and compliance with restrictive measures. In this context prudential supervisors should verify whether

²⁸ [Commission Delegated Regulation \(EU\) 2016/98.](#)

²⁹ [Commission Implementing Regulation \(EU\) 2016/99.](#)

i) institutions reviewed their internal control and governance frameworks and whether ii) such review facilitates the timely implementation of such unprecedented restrictive measures. Coordination and cooperation with the relevant authorities is key in order not to duplicate the work performed by other authorities³⁰.

1.2. Results of peer reviews and benchmarking exercises

1.2.1 Peer review on ICT risk assessment under the SREP

Publication date

17 October 2022

63. The peer review on the ICT risk assessment under the SREP³¹ looked at the supervisory practices in ICT risk assessment in the context of the SREP and the application of the EBA Guidelines on ICT risk assessment under the SREP³² that promote common procedures and methodologies for this assessment.

Challenges in the supervision of ICT risks still exists, though CAs have implemented EBA Guidelines on ICT risk assessment under the SREP into their supervisory practices.

64. The peer review revealed that CAs have largely applied the EBA Guidelines on ICT risk assessment under the SREP and implemented them in their supervisory practices. The CAs generally apply a risk-based approach to the supervision of ICT risk where the frequency and depth of the assessments correlate with the level of ICT risk of the institutions. The main challenges faced by CAs are building the necessary ICT supervisory capacity and expertise, applying proportionality in the assessment, and incorporating the ICT risk assessment and scores into the overall SREP.

65. To enhance convergence, some good supervisory practices were shared in the peer review report with regards to the building up and further development of knowledge and dedicated ICT skills such as the establishment of dedicated training curriculums and mentoring for ICT risks or the setting-up of internal networks. Furthermore, CAs are recommended to perform horizontal comparisons, IT landscape analyses, and automated tools to support the efficiency and effectiveness of their supervisory work in general and the application of proportionality.

1.2.2 Peer review on supervision of NPE management

Publication date

17 May 2022

66. The peer review on supervision of the management of NPE³³ focused on how prudential and consumer protection authorities supervise the management of NPE by credit institutions and how

³⁰ For further information refer to [Sanctions adopted following Russia's military aggression against Ukraine](#).

³¹ [EBA Report on the peer review on ICT risk assessment under the SREP \(EBA/REP/2022/25\)](#).

³² [EBA Guidelines on ICT risk assessment under the SREP \(EBA/GL/2017/05\)](#).

³³ [EBA Report on the peer review on supervision of NPE management \(EBA/REP/2022/12\)](#).

the authorities have implemented the EBA Guidelines on management of non-performing and forborne exposures³⁴.

67. With the concerns of the impact of the COVID-19 pandemic on the quality of credit institutions' credit portfolios and longer-term implications for the NPE level in the EU financial sector, the peer review also aimed at understanding the readiness of the CAs (and to the extent possible of institutions) for dealing with potential post-COVID-19 pandemic NPE increases.

CAs implemented EBA Guidelines on management of non-performing and forborne exposures by applying a risk-based approach depending on the NPE level.

68. The peer review showed that CAs have applied a risk-based approach to the supervision of NPE management by the institutions, where the rigour and comprehensiveness of the supervisory review and supervisory resources allocated to these tasks by the authorities were in line with the magnitude of the NPE level in the jurisdiction or institutions. CAs from jurisdictions with a higher NPE level and involved in the supervision of a large share of institutions with elevated NPE levels, have implemented more sophisticated supervisory processes for NPE supervision and are more engaged with institutions under their supervision on the topics of NPE management.

69. Despite some delays in the implementation of the EBA Guidelines on management of non-performing and forborne exposures by a small number of CAs primarily in relation to smaller and less complex institutions, the Guidelines have been largely implemented by the CAs and applied in their respective supervisory practices. Most CAs have reviewed NPE strategies, regularly monitored them and actively intervened in cases of deficiencies by requesting additional information or resubmissions of the NPE management strategies.

70. The EBA has not identified any significant concerns regarding NPE supervision practices but made a number of general recommendations for further improvements, notably the assessment of the operational capabilities at institutions for the management of NPE and forbearance and the enhancement of the cooperation between prudential and consumer protection functions (and authorities) in the supervision of NPE and forbearance management.

1.2.3 Benchmarking of internal models

Publication date

10 March 2023

71. Since 2015, the EBA has been conducting an annual EU-wide supervisory benchmarking exercise for credit and market risk models, in accordance with Article 78 of the CRD. This article requires, inter alia, that i) CAs conduct an annual assessment of the quality of internal models; and ii) the EBA produces reports to assist CAs in this assessment. This regular benchmarking exercise covers the entire population of institutions authorised to use internal models for calculating own funds

³⁴ [EBA Guidelines on the management of non-performing and forborne exposures \(EBA/GL/2018/06\)](#).

requirements (OFR). The EBA publishes two horizontal reports on the outcomes of the yearly benchmarking exercises³⁵, one with respect to credit risk and another one for market risk.

The three pillars of the market and credit risk exercise of 2022.

- (1) The EU-wide data collection serves to calculate benchmark values for those own-estimated parameters and internal model risk measures which impact OFR.
- (2) A supervisory assessment of the portfolios where an institution shows significant deviation from the benchmark values.
- (3) The EBA horizontal analysis on global trends in average (or median) IRB parameters by exposure class for credit risk and global trends in initial market values (IMV) and risk metrics for market risk.

Market Risk Benchmarking exercise 2022 shows that supervisory attention is still needed for potential modelling issues.

72. Institutions submitted data from the end of 2021 to September 2022. The 2022 results show a small reduction in the dispersion of the IMV regarding the foreign exchange (FX) asset class, while the credit spread (CS) remained stable. The interest rate (IR) average interquartile dispersion (IQD) remains high (16% versus 19% in 2021), but excluding a couple of problematic instruments, the average IQD of the IR asset class is 2%. The very high IQD (21%) in the equity (EQ) asset class is driven by an error in the instruction. Also, the commodities (CO) asset class show a significant jump in the IQD.

73. From a risk factor perspective, FX and CO portfolios exhibit a lower level of dispersion than the IR, EQ and CS asset classes. Except for IMV, in general, variability is lower than in the previous exercise. Regarding the single risk measures, across all asset classes except for CS the overall variability for value at risk (VaR) is lower than the observed variability for stressed VaR (sVaR) (21% and 28% respectively, compared with 27% and 31% in 2021). More complex measures such as the incremental risk charge (IRC) show a higher level of dispersion (45%, compared with 43% in 2021).

74. The 2022 benchmarking exercise introduces the Sensitivities Based Method (SBM) and OFR data collection. The dispersion of the SBM OFR is generally lower than the dispersion for the standard risk measures (VaR and sVaR). On the other hand, there are portfolios where the IQD is higher for the SBM measures with respect to the VaR measures. The level of detail in the SBM OFR submission, allows the supervisors to clearly define which are the asset class and risk class component of the OFR, and this allows to identify the area of potential issues in the application of the standardised methodology.

75. In conclusion, while the dispersion seems reasonable for a plurality of portfolios, and the data submission quality is sufficient, banks and CAs should continue to pay attention to the specific case where the results hint to potential modelling problems.

³⁵ [EBA publishes annual assessment of banks' internal approaches for the calculation of capital requirements.](#)

Credit Risk Benchmarking exercise 2022 shows that the support measures adopted in response to the COVID-19 pandemic continue to play an important role in explaining trends and issues observed in the data.

76. The reference date for the data collection of the credit risk exercise was 31 December 2021 and institutions submitted data between April and September 2022.

77. As regards the impact of the COVID-19 pandemic, the analyses imply that the support measures continue to significantly influence observed default rates and average probabilities of default (PD) estimates. While for exposure to large corporates (LCOR) the average PDs seem to revert to pre-pandemic levels, the average PDs for some high default portfolios (HDP) are significantly below the 2019 levels. Further, the analyses revealed that there is a notable decrease in defaulted exposure and a notable increase in non-defaulted exposure.

78. Apart from this, most deviations from benchmarks could be explained by differences in the underlying risk profiles. In few cases, where no explanations could be found, interviews with the banks were organised and follow-up assessments were completed by the CAs. The analysis and CAs' assessment revealed also: i) a number of cases with erroneous data submissions (which led to resubmissions in most of the cases) or ii) cases with significant developments in observed default rates (and/or average PD estimates) which were a result of the review of default identification process³⁶.

79. Going forward, the EBA expects that the harmonisation of terminology and concepts set out in the products of the IRB roadmap and the foreseen publication of statistics on the dispersion of the conservatism, that is incorporated into the IRB parameter estimates, may support supervisory convergence.

1.2.4 IFRS 9 Benchmarking

Expected publication date	2024
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EBA prepared for the integration of HDPs into the IFRS 9 Benchmarking exercise.

80. The EBA continues to work on monitoring and scrutinising the implementation of IFRS 9, as well as its interaction with prudential requirements following the publication of the EBA report on the IFRS 9 implementation by institutions³⁷ published in November 2021.

81. In line with the staggered approach presented in the IFRS 9 roadmap³⁸, the benchmarking exercise on IFRS 9 is gradually extended. In 2022, the EBA worked on the integration of the HDPs into the benchmarking exercise to assess relevant drivers of variability and related impacts on the prudential ratios arising from the implementation of the IFRS 9 expected credit losses (ECL) model.

³⁶ And/or a result of the recalibration and/or redevelopment of the underlying IRB models.

³⁷ <https://www.eba.europa.eu/eba-notes-significant-efforts-ifrs-9-implementation-eu-institutions-cautions-some-observed>.

³⁸ <https://www.eba.europa.eu/eba-publishes-its-roadmap-on-ifrs-9-deliverables-and-launches-ifrs-9-benchmarking-exercise>.

82. In June 2022, a third data collection was launched to test new quantitative templates on HDPs. The data analysis will be completed in the first half of 2023. However, preliminary findings and data quality checks issues have been considered in the development of the HDPs portfolios IFRS 9 templates of the ITS on supervisory benchmarking 2024³⁹, leveraging to the extent possible on credit risk benchmarking infrastructure and methodology.

83. Purposes of the new ITS are: (i) to widen the scope of the IFRS 9 benchmarking analysis to a higher share of financial instruments subject to the IFRS 9 impairment requirements and (ii) to get a broader view of the existing variability of the ECL outcomes and the related impacts on the amount of own funds and regulatory ratios. Full extension to HDPs is expected to be achieved in the ITS on supervisory benchmarking 2025.

³⁹ <https://www.eba.europa.eu/regulation-and-policy/supervisory-benchmarking-exercises/its-package-2024-benchmarking-exercise>.

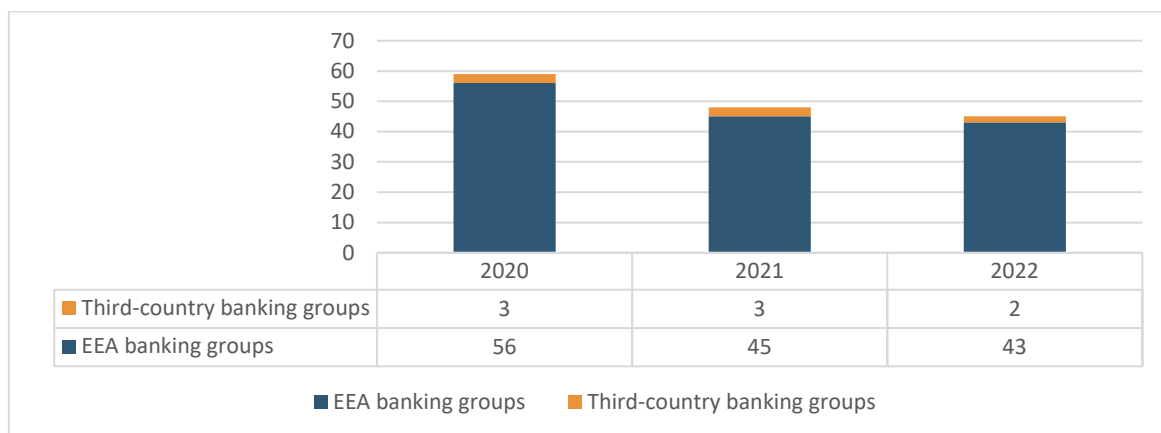
2. Convergence in supervisory colleges

2.1 Monitoring of supervisory colleges in 2022

The number of supervisory colleges for banking groups varies through mergers and acquisitions and institutional changes.

84. Through mergers and acquisitions and institutional changes the number of supervisory colleges for banking groups established change over the years. For 2022, 43 supervisory colleges for cross-border banking groups in the EEA and two active supervisory colleges for third-country banking groups at the EEA sub-consolidated level were reported. Although in 2022, three new supervisory colleges were set up, the total number of active supervisory colleges continued to decrease from 45 to 43 as five supervisory colleges were discontinued. The number of supervisory colleges is expected (see Annex I) to rise, following the implementation of Article 116(1a) of the CRD with the setting-up of supervisory colleges for EEA banking groups where all the cross-border subsidiaries of an EU parent institution, an EU parent financial holding company or an EU parent mixed financial holding company have their head offices in third countries.

Figure 20: Number of supervisory colleges for EEA and third country banking groups



Note: The drop from 2020 is mostly due to the UK's withdrawal from the EU and the close cooperation between the ECB and the Bulgarian National Bank⁴⁰ and the Croatian National Bank⁴¹ which led to the discontinuation of some supervisory colleges⁴² where these CAs were the only members.

⁴⁰ [ECB establishes close cooperation with Bulgaria's central bank.](#)

⁴¹ [ECB establishes close cooperation with Croatia's central bank.](#)

⁴² See section 2.1. in the [EBA Report on convergence of supervisory practices in 2021 \(EBA/REP/2022/10\)](#).

Implementation of the college monitoring approach for 2021-2023.

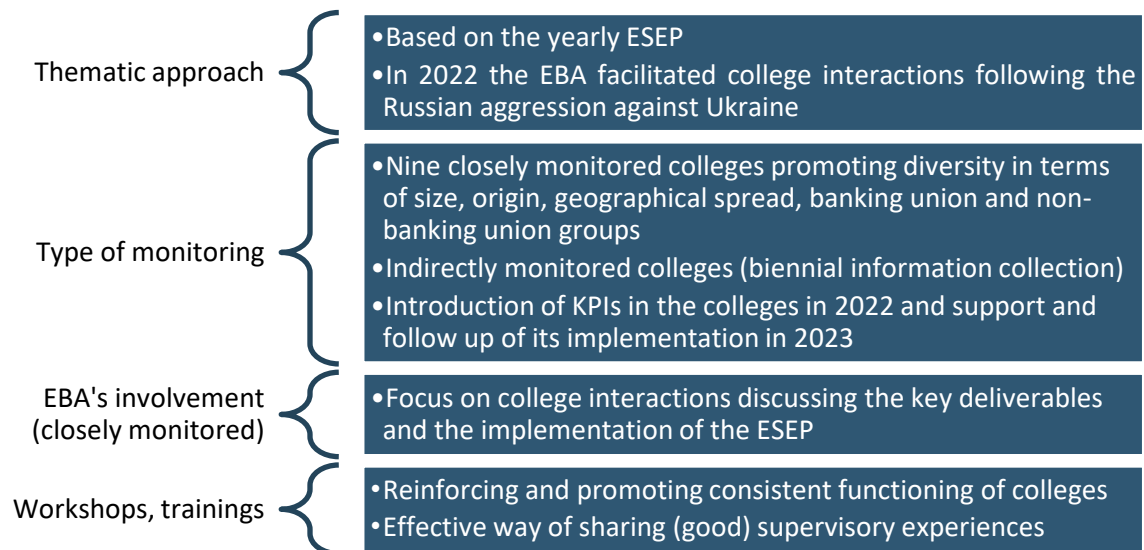
85. The EBA is required to ensure the consistent functioning of colleges of supervisors for cross-border institutions across the Union and promote the efficient and effective functioning of colleges, including in times of turbulence⁴³.

86. Based on the EBA 2021-2023 college-monitoring approach, the EBA continued to monitor closely a limited but diverse group of colleges, in terms of business model, origin, geographical spread and size ('closely monitored colleges'). The focus in this year's Report is on the functioning of those closely monitored colleges.

87. The other EEA supervisory colleges⁴⁴ qualify for the status of 'indirectly monitored colleges'. The EBA continues to interact with these supervisory colleges on a thematic basis, including targeted communications, for example on the implementation of the yearly ESEP and related attention points and biennial information collection.

88. In 2022, the EBA developed and shared with CAs four key success factors/qualitative KPIs for colleges' implementation in 2023 (see section 2.4).

Figure 21: The EBA's college monitoring approach 2021-2023



⁴³ Article 8(1)(i) of EBAs founding Regulation (Regulation (EU) No 1093/2010).

⁴⁴ In 2022, 34 colleges, i.e., 43 minus the 9, which are closely monitored.

2.2 College interactions and organisational aspects

Good practices in supervisory colleges were identified to be spread in 2023.

89. In 2022 and in the context of its college monitoring activity, the EBA continued to:

- Promote good college interactions dedicated to the mandatory deliverables and coordinating supervisory matters.
- Facilitate the EBA's supervisory convergence work, including the implementation of the ESEP.
- Observe college practices, collect and spread good practices and ensure a feedback loop for policy development for the planned update of the Regulations on supervisory colleges.⁴⁵
- Identify synergies between prudential and AML/CFT colleges to enhance their cooperation.
- Enhance the cooperation with the resolution colleges.

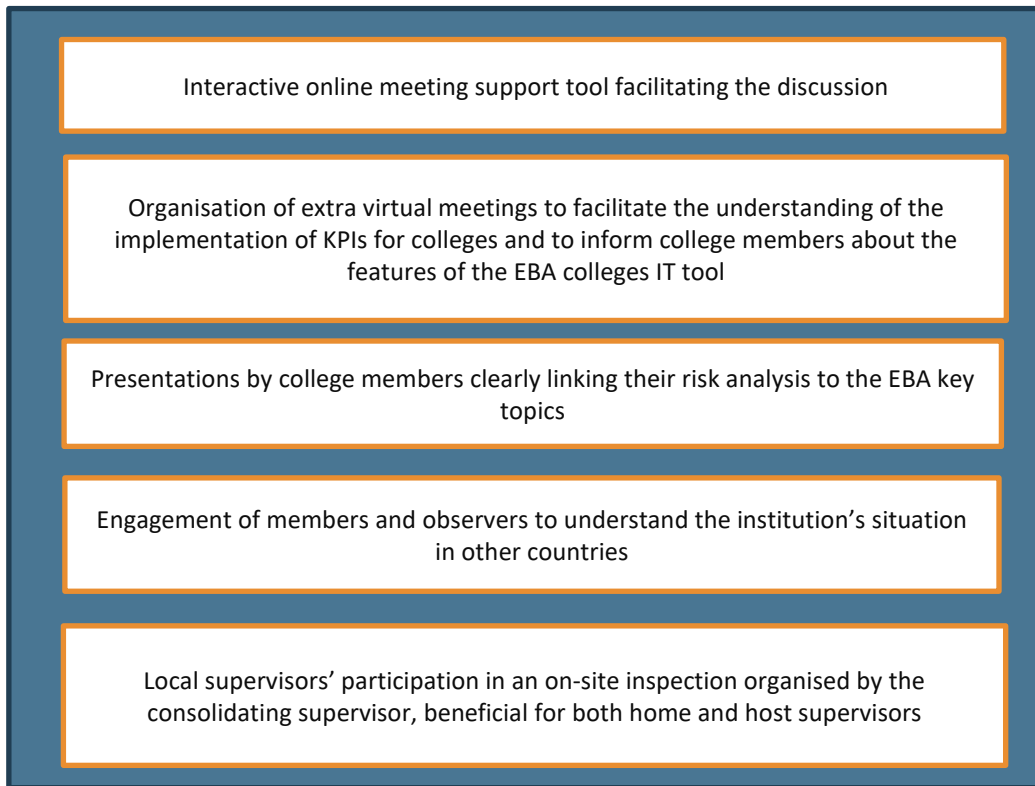
90. In general, the interactions of closely monitored colleges were well organised in 2022 and compared to 2021, improvements were observed in the document distribution and the exchange of the values of the list of indicators.

91. Colleges met mainly virtually due to the continued sanitary uncertainties at the start of the year when several meetings were scheduled. While recognising the benefits that virtual meetings brought, EBA expects colleges to find a proper balance between virtual and in person meetings matching with the purpose of the individual meetings and ensuring a close cooperation within colleges overall. While documents for colleges were sent in a timely manner, debates and discussions remained too limited in several supervisory colleges whereby challenging another's position or posing questions during meetings to the representatives of the institution continued to be one-sided and/or mostly driven by the consolidating supervisor and by the EBA. Hence, the joint decision process will continue to attract the attention of the EBA.

92. The Written Coordination and Cooperation Arrangements (WCCA) should be reviewed regularly. Several colleges updated or started the process of updating the WCCA in relation to modalities for cooperation with third countries, resolution authorities/colleges, AML/CFT authorities/colleges and materiality of branches. For the implementation of the arrangements laid down in the WCCAs, in 2022 in contrast to 2021 all closely monitored colleges met the requirements of Article 10 of Commission Implementing Regulation 2016/99 to exchange at least yearly the values of a list of indicators for their institutions under their supervision, the EU parent undertaking and at consolidated level.

⁴⁵ See also [Report on convergence of supervisory practices in 2021](#).

Figure 22: Good practices identified in supervisory colleges



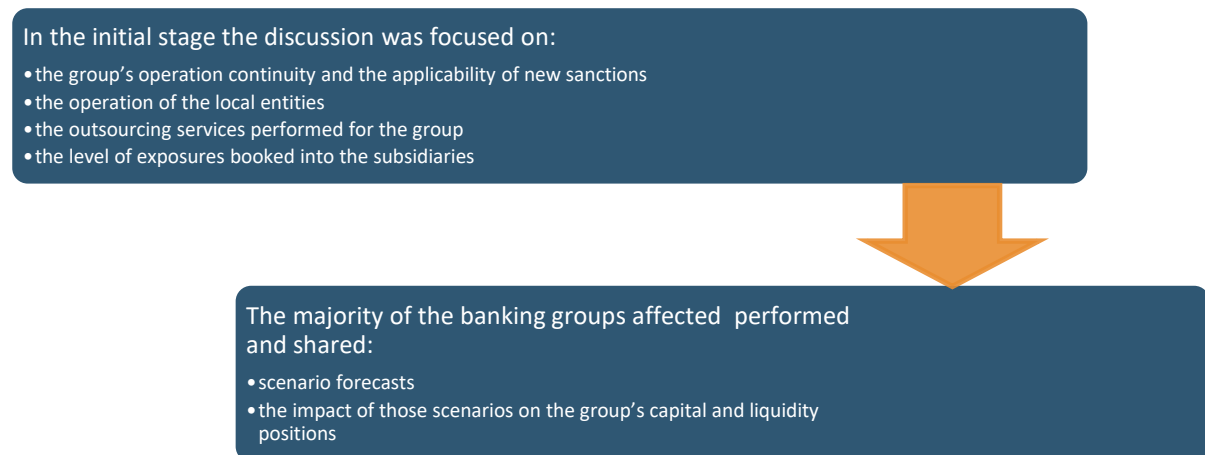
Possibilities for improvement in the functioning of colleges in information exchange on potential risks and vulnerabilities and joint supervisory activities.

93. From the onset of the Russian aggression against Ukraine, the EBA has proactively facilitated information sharing in colleges on the (direct and indirect) implications on the banking groups and its subsidiaries/branches and for coordinating supervisory actions.

94. The EBA has carried out frequent interactions with the supervisory colleges of groups potentially most directly impacted by the consequences of the military aggression, irrespectively of being closely or indirectly monitored. In some cases, the EBA had to initiate interactions reminding the importance of colleges also as a forum for coordinating responses to an adverse event.

95. As a follow-up of the lessons learnt, the EBA is in the process of updating the Regulations on supervisory colleges, specifying that as part of the identification of early warning signs, potential risks and vulnerabilities for the group and its entities, in case of an event of adverse material effect on the risk profile, an enhanced information exchange should be performed.

Figure 23: Information exchange in colleges over time following the Russian aggression against Ukraine



96. Lastly EBA concludes that colleges can further improve by identifying areas of joint work and supervisory activities more frequently.

2.3 Key deliverables of supervisory colleges

2.3.1 Group risk/liquidity risk assessments and joint decision on capital and liquidity

The vast majority of consolidating supervisors made the decomposition of the SREP capital transparent to the college.

97. According to Commission Implementing Regulation (EU) No 710/2014⁴⁶ on the joint decision process for institution-specific prudential requirements (ITS on the JD), one of the first steps of reaching a JD on capital and liquidity is the compilation of the group risk/liquidity risk assessment reports, for which both the consolidating supervisor and the relevant CAs conduct their respective assessments. To reach a solid final group report that incorporates all supervisory views on the risks to which the group and its entities are exposed these draft group and individual risk/liquidity risk assessments are shared and discussed in the supervisory colleges.

98. The closely monitored colleges which were required to compile a draft group risk/liquidity risk assessment have done so in 2022 and had dedicated well-structured discussions in the college setting. Most assessments were finalised and triggered the statutory timeframe⁴⁷ for reaching JDs

⁴⁶ [Commission Implementing Regulation \(EU\) No 710/2014](#).

⁴⁷ i.e., four months.

in accordance with Article 113 of the CRD at the latest by the end of 2022. With very few exceptions, colleges in accordance with Article 8(2) of the ITS on the JD circulated the final group risk and liquidity risk assessment reports including their mandatory annexes. The decomposition of the pillar 2 add-on should be provided in all colleges using Annex IV Table 2 (Excel with the summary of capital adequacy assessment) in accordance with Article 6(4) of the ITS on the JD. While the supervisory practice has improved in this respect compared to last year, full compliance with the applicable regulation still needs to be ensured for all the colleges.

99. A good practice found in colleges that are not required to reach a JD and thus are not required to compile a "group" risk assessment as such, is that the consolidating supervisor and college members discuss relevant risks for the institution in the college meeting, possibly involving the observers. Furthermore, it was recognised that a "group" risk assessment of the institution and its branches was prepared and agreed on a voluntary basis with the observers.

2.3.2 Joint decision on capital and the application of supervisory measures

100. CAs in all colleges set pillar 2 requirements (P2R) for (some of) the subsidiaries of the institutions supervised. The composition of the P2R varied with respect to the institution business model and risk profile, and overall the risks to capital are the main drivers of the P2R, with credit and counterparty risks forming generally the main component.

101. Some colleges included a variety of qualitative requirements in their JDs, for example on the coverage of NPEs, ESG risks, oversight of subsidiaries, remediation plans, share buy backs and variable compensation and remuneration programmes, notwithstanding the fact that it is not legally required⁴⁸.

102. Not all colleges set a pillar 2 guidance (P2G) and when set, the level was generally kept stable.

103. CAs did not take quantitative liquidity measures at group level but liquidity measures were taken at subsidiary level for some banking groups. In several instances supervisors requested improvements in some areas of the internal liquidity adequacy assessment process (ILAAP).

104. It was not yet required to consider the risk of excessive leverage, as recently introduced in the updated SREP Guidelines, in the JDs for the year 2022, still it was sometimes mentioned in the JDs in certain cases leading to qualitative requirements.

⁴⁸ According to Article 113 of the CRD a JD is required on the additional own funds requirements (P2R) and on any guidance on additional own funds (P2G). Thus, no joint decision is required as such for the qualitative requirements, but those need to be mentioned in the JD as memorandum items in line with Article 1 (j) of the ITS on the JD.

The EBA noted the need for college members to adhere to the procedural aspects of JDs.

105. The EBA noted that improvement is expected in the following procedural aspects of JDs:
- The agreed JD timetable is followed by college members accordingly and in case a JD needs to be updated, it follows the process set by ITS on the JD, including thorough discussions in the college about the rationale behind the update.
 - It is utmost important, that the P2R and P2G is communicated to institutions only after the JD has been reached in the supervisory college.

106. In few cases some smaller flaws were flagged. In general, but not in all circumstances, the capital and liquidity JDs in 2022 were taken within the statutory timeframe of four months in accordance with Article 8(3) of the ITS on the JD. Secondly, all consolidating supervisors need to communicate the final group risk and liquidity assessment to the college, triggering the start of the timeframes for reaching the JDs.

2.3.3 Group recovery plan assessment and joint decision

107. Supervisory colleges are mandated by Article 8 of the Bank Recovery and Resolution Directive (BRRD) to review and assess the group recovery plan (GRP) and they shall reach a JD on i) the assessment of the GRP; ii) whether individual plans are to be requested; and on iii) the application of supervisory measures addressing material deficiencies.

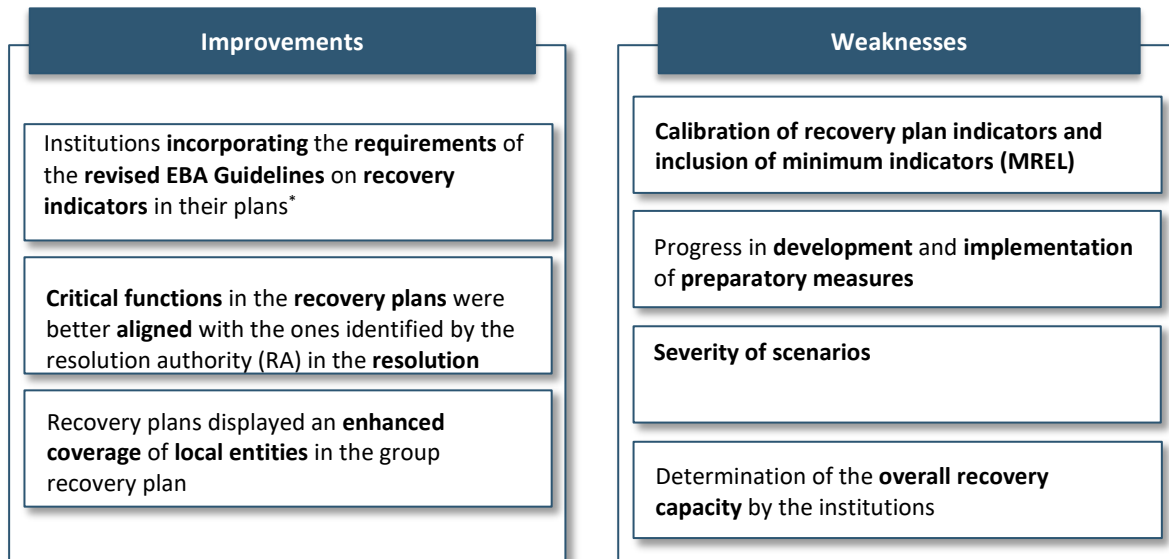
108. In 2022, all closely monitored colleges, which were required to reach a JD have done so within six months of the submission of the plan by the institution, thus meeting the regulatory deadline specified in Article 6(2) of the BRRD.

109. Over the course of 2022, no material deficiencies have been identified in the GRPs of the closely monitored colleges. However, for several closely monitored colleges the CAs informed the institution that they may assess some of the identified deficiencies as 'material' should they persist in the next regular submission of the recovery plan. In such case, the formal submission of a revised plan in accordance with Article 6(5) of the BRRD may be required.

The quality of recovery plans is continuously improving over the years.

110. In general, the CAs' assessments continued to recognise improvements in the quality of the recovery plans, though some supervisory assessments still highlighted some persisting weaknesses as displayed in the figure below.

Figure 24: Improvements and weaknesses in the quality of recovery plans



* *EBA Guidelines on recovery indicators (EBA/GL/2021/11).*

111. The EBA expects that with the application of the future Guidelines on overall recovery capacity⁴⁹ (ORC; Consultation Paper published in December 2022), the quality and comparability of recovery plans will improve as those Guidelines will set up a consistent framework with regards to the ORC determination and further specify the expected severity of scenarios (cf. Chapter 3.2).

2.4 Introduction of qualitative key performance indicators in supervisory colleges

112. To promote further the effective and efficient functioning of supervisory colleges, the EBA, under the scope of its 2021-2023 college monitoring approach, introduced in 2022 four key success factors or KPIs for supervisory colleges with implementation from 2023. The four KPIs are aimed at measuring and enhancing the effectiveness and efficiency of all supervisory colleges which allows supervisors, working together in colleges, to compare their supervisory practices with these qualitative KPIs and identify areas for potential enhancement. EBA supports colleges with the implementation of the KPIs in 2023. Thereto a workshop was organised in early 2023 in which participants shared already some experiences with the implementation of the KPIs.

⁴⁹ CP Draft GLs on overall recovery capacity in recovery planning (EBA/CP/2022/15).

Figure 25: KPIs and their respective measurement points⁵⁰ to be monitored for all colleges



*The key deliverables of the colleges are the group/liquidity risk assessment, the JD on capital and on liquidity and on the group recovery plan and the group recovery plan assessment.

113. CAs that participate in colleges are expected to consider these qualitative KPIs and the respective measurement points in their activities and in the context of assessing the key deliverables of the college. Biennially CAs will report to the EBA, the outcome of which will be discussed in the college and the necessary changes in the college activities will be implemented through a brief action plan.

⁵⁰ For example, the measurement points under the quality of college meetings are attentive to multilateral, in-depth discussions showing a mutual interest in each other's supervisory concerns and to the representatives of the bank being invited to also discuss the relevant topics or areas subject to supervisory concerns instead of the current practice of a mere focus on presentations from the banking group.

3. EBA policy work supporting supervisory convergence

3.1 Products published in 2022

Revised Guidelines on common procedures and methodologies for SREP and supervisory stress testing clarifying P2R and P2G.

Publication date	March 2022	Implementation date	1 January 2023
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114. Following the requirements introduced in the Capital Requirements Directive (CRDV), the EBA updated its SREP Guidelines. The review also considered other relevant regulatory developments and aimed to enhance the common guidance based on observations from the ongoing monitoring of convergence of supervisory practices.

115. The main amendments to the SREP Guidelines aimed at clarifying the determination of pillar 2 capital add-ons and P2G and reflecting their purely micro-prudential perspective, implementing the separate stack of own funds requirements for the risk of excessive leverage, and enhancing the dialogue among institutions and supervisors in relation to the setting of P2R. The revised Guidelines also provide more detailed guidance on the application of proportionality, and on the incorporation of ML/TF risks in the SREP⁵¹. Furthermore, the assessment of the interest rate risk in the non-trading book, and liquidity risk and liquidity adequacy have been aligned with the current regulatory framework.

Updated Guidelines on IRRBB and CSRBB include new aspects in relation to monitoring and evaluating internal systems.

Publication date	October 2022	Implementation date	30 June 2023
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116. Following the requirements introduced in the CRDV⁵², the EBA updated its Guidelines on technical aspects of the management of interest rate risk arising from non-trading book activities⁵³.

117. The updated Guidelines specify new aspects, namely the criteria for the evaluation by an institution's internal system of the IRRBB as well as the criteria for the identification, management and mitigation by institutions of the IRRBB either if it implements internal systems, the standardised

⁵¹ In line with the [EBA Opinion on how to take into account ML/TF risks in the SREP \(EBA/Op/2020/18\)](#).

⁵² Article 84(6) of the CRD.

⁵³ [EBA Guidelines on IRRBB and CSRBB \(EBA/GL/2022/14\)](#). The EBA Guidelines on the management of interest rate risk arising from non-trading book activities from 2018 will be repealed with the application of the updated Guidelines. The sections related to credit spread risk in the banking book (CSRBB) will apply only from 31 December 2023.

approach or the simplified standardised approach⁵⁴. To reinforce proportionality specific thresholds under which banks are not expected to model specific behavioural assumptions, in order to reduce the burden of their modelling, are envisaged.

118. The Guidelines also contain dedicated sections on the identification, assessment and monitoring of credit spread risk in the banking book (CSRBB).

119. Furthermore, they contain specific provisions to determine whether the internal systems implemented by institutions for the purpose of evaluating IRRBB are not satisfactory, in which case a CA may require an institution to use the standardised methodology.

120. The EBA will closely monitor their implementation and more generally the impact of the evolving interest rates on the management of IRRBB by institutions and on other related prudential aspects.

Adoption of an Opinion on the set-up and operationalisation of EU Intermediate Parent Undertaking(s) under Article 21b CRD⁵⁵.

Publication date

27 October 2022

121. Article 21b CRD requires two or more institutions in the Union belonging to the same third country group (TCG) to have one single intermediate parent undertaking (IPU) where the total value of assets of that TCG in the Union is equal to or greater than EUR 40 bn. In specific circumstances, the competent authority may approve the establishment of two IPUs. The IPU determines the consolidation perimeter of the TCG's operations in the EU. An IPU may be a credit institution, a financial holding company, a mixed financial holding company or an investment firm.

122. Considering the novelty of the requirement which has been introduced by the CRDV, and the cross-border footprint of the TCG's presence in the EU, the EBA has deemed it appropriate to adopt an Opinion addressed to competent and resolution authorities with a view to ensuring a harmonised and effective application of the IPU requirement throughout the Union.

123. In particular, the Opinion provides guidance for those cases where the TCG intends to have in place two IPUs and not a single one because it is subject to segregation of activities imposed by mandatory third country law, or because having a single IPU would make resolution less effective. The Opinion clarifies the process, as well as the information requirements and the assessment

⁵⁴ The [EBA/RTS/2022/09](#), published in October 2022, specify the criteria for the evaluation of IRRBB in case a competent authority decides its application in view of a non-satisfactory IRRBB internal system. They also provide a simplified approach for smaller and non-complex institutions. The full package on IRRBB published by the EBA in October 2022 also contains the [EBA/RTS/2022/10](#) that specify the supervisory shock scenarios as well as the criteria to evaluate if there is a large decline in the net interest income or in the economic value of equity that could trigger supervisory measures.

⁵⁵ [Opinion on the set-up and operationalisation of Intermediate EU Intermediate Parent Undertaking\(s\) \(EBA/Op/2022/12\)](#).

criteria, both from a supervisory and/or resolution perspective, for the approval of the two IPUs structure by the CA.

124. In addition, the Opinion underscores the importance of adequate and effective arrangements to ensure the safety and soundness of the IPU and its subsidiaries in the Union, and draws attention to internal governance, outsourcing, risk management, liquidity and funding arrangements.

3.2 Ongoing and future policy work

EBA enhances its Regulatory and Implementing Technical standards on supervisory colleges.

Expected to be published for consultation

May 2023

125. The proposal for updated Regulations on supervisory colleges⁵⁶ incorporates the amendments of the CRDV and CRR2 as well as the results of EBAs ongoing monitoring of supervisory colleges.

126. The legal framework in relation to banks and investments firms has been further developed in the CRDV and CRR2 as well as the IFD/IFR, and these developments necessitate the update of the Regulations on supervisory colleges. The updated Regulations on supervisory colleges reflect that compliance with prudential requirements is ensured on a consolidated basis throughout the group by including mixed financial holding companies and financial holding companies approved under Article 21a of the CRD, as well as IPU established under Article 21b of that Directive. Changes in the pillar 2 framework in the CRDV, in the context of P2G and risk of excessive leverage, should also be channelled into the information exchange in supervisory colleges.

127. Furthermore, EBA has gathered valuable information on the functioning of colleges, as part of its ongoing college monitoring activity, thus the close cooperation, coordination and the information exchanged amongst members with regards to potential risks and vulnerabilities of the supervisory colleges will be enhanced. With these updated Regulations on supervisory colleges, the scope of the supervisory college as a tool for information exchange, with third countries and resolution authorities and AML/CFT authorities is specified as required by the amended CRD.

EBA harmonises the approach in institutions and competent authorities for determination and assessment of the overall recovery capacity in recovery planning.

Published for consultation

December 2022

128. The EBA has developed these own-initiative Guidelines in accordance with Article 16 of its founding Regulation. They are addressed to both institutions and CAs to achieve a harmonised

⁵⁶ See also footnote 28 and 29.

approach to the determination and assessment of the ORC. These Guidelines are composed of two parts:

(i) The first part is addressed to institutions, providing them guidance on setting the framework for the determination of the ORC. In more details, institutions are provided with a set of criteria to assess the credibility and feasibility of their recovery options, including any additional constraining factors related to their simultaneous or sequential implementation, to design the severity of the macroeconomic and financial stresses to be included in the recovery plan. Finally, it provides guidance on how to determine the ORC in terms of the quantitative impact of the recovery options on the capital and liquidity recovery plan indicators under the different stressed scenarios.

(ii) The second part is addressed to CAs in their assessment of the institutions' ORC as part of the overall assessment of the recovery plans. CAs should first assess the compliance of the institutions with the first part of these Guidelines. Finally, to reflect their overall assessment on the reliability of the institutions' ORC, CAs should come up with an 'adjusted ORC', obtained by revising the relevant assumptions and steps performed by the institutions to determine their ORC. The 'adjusted ORC', coupled with additional qualitative elements on the ORC framework by the CAs, will feed in the ORC score, a summary of the supervisory view on the capacity of the institutions to restore their viability and financial position when subject to a range of severe stress.

129. The assignment of an ORC score will prompt the CA to consider the potential identification of supervisory measures including 'material deficiency' or 'area in need of improvement'. The score could inform the overall assessment of the institutions' risk profile within the annual SREP.

4. Training as a convergence tool

130. In relation to the topics covered in this Report several trainings were organised in 2022. The EBA training team facilitated a total of 21 trainings and workshops participated by 4025 participants (see Annex II) from all the European competent and resolution authorities including some attendees from the private sector.

131. The joint EBA/ESE workshop on ‘Current and Best Practices in Recovery Plan Assessment’ held in May offered to the 67 supervisors attending an insight into new policy developments and current practices in recovery planning to support them to improve the quality of their recovery plan assessment. The training benefited from a wide range of speakers from the EBA and amongst CAs and good participant interaction thanks to the ample time dedicated to questions from the audience and use of panel questions.

132. The EBA workshop on ‘Supervisory Colleges’ held in May attracted 78 supervisors, the majority of whom were involved in college related work. The training focused on knowledge transfer and sharing of good practices on the group risk assessment and JD, on supervisory cooperation in the context of AML/CFT, and on the involvement of third country authorities in colleges. An additional workshop, organised in September, which equally contributed to the EBA’s objective of achieving supervisory convergence was held on ‘EBA Colleges Platform – for new users and for existing users’. This workshop introduced new users to the tool, that facilitates secure information exchange in colleges, and promoted its features to existing users.

133. A training on the SREP is available for CAs in the EBA’s E-learning platform and is in the process of being updated to reflect the revision of the SREP Guidelines.

Annex I: 2023 list of supervisory colleges

EEA home country	Name of EEA cross-border banking group
AT	Bausparkasse Wüstenrot
AT	Erste Group
AT	Porsche Bank Group
AT	Raiffeisen Bank International AG
BE	KBC Group
BE	FinAx Group
CZ	J&T Finance Group
DE	Clearstream Financial Holding Group
DE	Deutsche Bank
DE	Commerzbank AG
DE	DZ Bank AG Deutsche Zentral-Genossenschaftsbank
DE	ProCredit Group
DK	Danske Bank
DK	Saxo Bank A/S
EL	Alpha Bank, S.A.
ES	BBVA
ES	Banco de Sabadell, S.A.
ES	Grupo Santander
FI	Nordea
FR	BNP Paribas
FR	La Banque Postale
FR	Crédit Agricole S.A.
FR	Société Générale
FR	ODDO ET CIE

FR	RCI Banque SA
FR	Dexia Group
HU	OTP Bank Nyrt
IE	Allied Irish Banks plc
IE	Bank of Ireland Group plc
IT	Intesa Sanpaolo SPA
IT	UniCredit Group
LI	Liechtensteinische Landesbank Group
LI	VPB Group
LU	Havilland S.A.
LU	Precision Capital S.A.
NL	Adyen N.V.
NL	Citco Bank Nederland N.V. (CBN)
NL	ING Groep N.V.
NL	Triodos Bank
NO	DNB ASA Group
PT	Banco Comercial Português, SA
SE	Handelsbanken
SE	Skandinaviska Enskilda Banken (SEB)
SE	Swedbank
44	Total number of colleges for EEA banking groups

Name of third-country banking groups with supervisory college established in the EEA
Citibank
1 college for third-country banking groups

Annex II: Overview of the Training events the EBA provided to EU Competent Authorities in 2022

No.	Title *	Date	Format	Attendees
1	Introduction to EuReCA	26 January 2022	Live seminar	349
2	Joint European Financial education and Literacy	1 – 2 February 2022	Live seminar	385
3	Regulatory reporting: The data point model (DPM) methodology and its evolution to the DPM Refit	2 – 4 March 2022	Live seminar	217
4	Proportionality	9 – 10 March 2022	Live seminar	149
5	De-risking	11 March 2022	Live seminar	226
6	EBA/BIS Basel III related latest developments in Europe	6 - 7 April 2022	Live seminar	249
7	EuReCA for direct submitters	7 April 2022	Live seminar	130
8	AML/CFT Supervision for the Life Insurance Sector	8 April 2022	Live seminar	96
9	EuReCA for inDirect Submitters	11 May 2022	Live seminar	85
10	Current and Best Practices in Recovery Plan Assessment	11 – 12 May 2022	Live seminar	67
11	Supervisory Colleges	19 May 2022	Live seminar	78
12	Supervisory Reporting: COREP & FINREP	7 – 24 June 2022	E-learning	120
13	EBA Workshop on AI policies and trends	28 June 2022	Live seminar	133
14	Workshop for Banks: improving reporting practices and data quality	30 June 2022	Live seminar	628
15	Implementing the revised EBA Guidelines on DGS stress tests	5 September 2022	Physical workshop	48
16	Workshop on EBA Colleges Platform – for new users	20 September 2022	Live seminar	128
17	Workshop on EBA Colleges Platform – for existing users	20 September 2022	Live seminar	45
18	IFRS 9	15 November 2022	Live seminar	212
19	Integrated reporting - workshop with the authorities	18 November and 1 December 2022	Live seminar	304
20	Enhancing the effectiveness of AML/CFT supervision in the EU: challenges and best practices	1, 2 and 5 December 2022	Live seminar	263
21	DPM refit (joint EBA training with EuroFiling, EIOPA)	13 December 2022	Physical workshop Bank of Spain	113
Total				4025

*The trainings events relating to topics in this Report are highlighted in blue.



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