

EBA/CP/2025/21

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Consultation Paper

Draft Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing under Directive 2013/36/EU

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Responding to this consultation

The EBA invites comments on all proposals put forward in this paper and in particular on the specific questions summarised in 5.2.

Comments are most helpful if they:

- respond to the question stated;
- indicate the specific point to which a comment relates;
- contain a clear rationale;
- provide evidence to support the views expressed/ rationale proposed; and
- describe any alternative regulatory choices the EBA should consider.

Submission of responses

To submit your comments, click on the 'send your comments' button on the consultation page by 26 January 2026. Please note that comments submitted after this deadline, or submitted via other means may not be processed.

Publication of responses

Please clearly indicate in the consultation form if you wish your comments to be disclosed or to be treated as confidential. A confidential response may be requested from us in accordance with the EBA's rules on public access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the EBA's Board of Appeal and the European Ombudsman.

Data protection

The protection of individuals with regard to the processing of personal data by the EBA is based on Regulation (EU) 1725/2018 of the European Parliament and of the Council of 23 October 2018. Further information on data protection can be found under the [Legal notice section](#) of the EBA website.

Executive Summary

The EBA, pursuant to Article 107(3) of Directive 2013/36/EU (CRD), has been mandated to develop guidelines promoting common procedures and methodologies for the supervisory review and evaluation process (SREP). The SREP is the core supervisory process that consolidates findings from all supervisory activities into a comprehensive assessment of an institution. The guidelines, addressed to competent authorities, also aim to harmonise supervisory stress testing across the EU in accordance with Article 100 of Directive 2013/36/EU.

Since the issuance of the previous SREP Guidelines, the regulatory framework has evolved considerably. The “banking package” (Directive (EU) 2024/1619 and Regulation (EU) 2024/1623), together with other legislation such as the Digital Operational Resilience Act – DORA (Regulation (EU) 2022/2554) and the IRRBB/CSRBB package, have substantially upgraded the regulatory and supervisory landscape. At the same time, nearly ten years of the SREP implementations, dedicated peer reviews and lessons from past financial market turmoil have highlighted areas where the SREP framework can be further streamlined and improved.

Against this backdrop, the update of the SREP Guidelines became necessary to integrate regulatory changes, reflect nearly a decade of supervisory experience, and ensure simplification while preserving their core objectives and structure.

Therefore, the revised guidelines consolidate all relevant SREP provisions into a single, comprehensive framework, retaining the core elements while integrating new aspects such as ESG factors, operational resilience, third-country branches and clarifications on the interaction between the revised Pillar 1 and Pillar 2 capital requirements, including the output floor. They also repeal the separate ICT SREP Guidelines (EBA/GL/2017/05) as the ICT risk assessment has been integrated into the revised guidelines to ensure consistency and foster simplification. In addition, this revision enhances the proportionality, sequencing, and effectiveness of the supervisory process, taking into account institutions’ track record in addressing deficiencies. Overall, the revised guidelines aim to strengthen supervisory convergence across the EU, improve clarity, and ensure the SREP remains fit for purpose in light of both regulatory developments and supervisory experience.

These guidelines also fulfil the mandates under Article 48n(6) of Directive (EU) 2024/1619 to issue guidelines on the SREP for third-country branches, and under Article 104a(7) of the same Directive to issue guidelines to operationalise the requirements where an institution becomes bound by the output floor.

Next steps

The draft Guidelines are published for a three-month consultation period. The EBA will finalise these guidelines once the consultation responses have been assessed. Upon publication of the final Guidelines, the existing SREP Guidelines and the Guidelines on ICT risk assessment under the SREP will be repealed and replaced. The revised Guidelines are expected to apply from 1 January 2027.

Background and rationale

1. The EBA is mandated to foster sound and effective supervision and to drive supervisory convergence across the EU arising from the requirements under the CRD and more generally from its obligations under its founding regulation. The SREP is the core supervisory process through which competent authorities form a comprehensive view on the risk profile of the institutions, as well as on their overall viability and sustainability, and may impose adequate supervisory measures to ensure material risks are properly addressed.
2. Article 107 of the CRD mandates the EBA to draft guidelines for competent authorities, specifying the common procedures and methodologies for the SREP and for the assessment of the organisation and treatment of risks referred to in Articles 76 to 87a of the CRD, in a manner that is appropriate to the size, structure and internal organisation of institutions, and the nature, scope, and complexity of their activities. Additionally, Article 100(2) of the CRD empowers the EBA to issue guidelines to ensure that common methodologies are used by competent authorities when conducting annual supervisory stress tests for SREP purposes.
3. Based on those mandates, the EBA's primary objective for these guidelines is establishing consistent, efficient and effective supervisory practices and application of European Union law throughout the EU so that institutions with similar risk profiles, business models and geographic exposures are subject to broadly equivalent supervisory expectations, actions and measures, where applicable, including institution-specific prudential requirements. To achieve this objective, in addition to specifying the SREP procedures and methodologies, these guidelines also provide guidance for setting subsequent supervisory measures that competent authorities should consider.
4. The first version of the guidelines was published in 2014 (and entered into force 1 January 2016), while a subsequent upgrade has been published in 2018 as part of the EBA Pillar 2 Roadmap to incorporate P2G and supervisory stress test elements (and applied since 1 January 2019). Finally, the last update was carried out in 2021 to account for the changes brought by Directive (EU) 2019/2034 (CRD V), provisions with regards to, inter alia, the introduction of the assessment of the risk of excessive leverage (P2R-LR and P2G-LR), the revision of the methodology for the P2G determination and the cooperation with AML/CFT supervisors (applicable from 1 January 2023).
5. This third review aims to align the guidelines with regulatory developments that took place since their latest revision. In particular, these revised guidelines take into account changes stemming from Directive (EU) 2024/1619 (CRD VI) amending Directive 2013/36/EU, Regulation (EU) 2024/1623 (CRR III) amending Regulation (EU) No 575/2013 and Regulation (EU) 2022/2554 (DORA) as well as the issuance by the EBA of other relevant guidelines and technical standards. At the same time, this review takes stock of nearly ten years of the SREP implementation, dedicated peer reviews and lessons from past financial market turmoil which have highlighted areas where the SREP framework can be further streamlined and improved. It is clarified these

guidelines are addressed to the competent authorities of credit institutions and of investment firms¹, in relation to the investment firms referred to in Article 1(2) and (5) of Regulation (EU) 2019/2033, which are supervised for compliance with prudential requirements under Directive 2013/36/EU and Regulation (EU) No 575/2013.

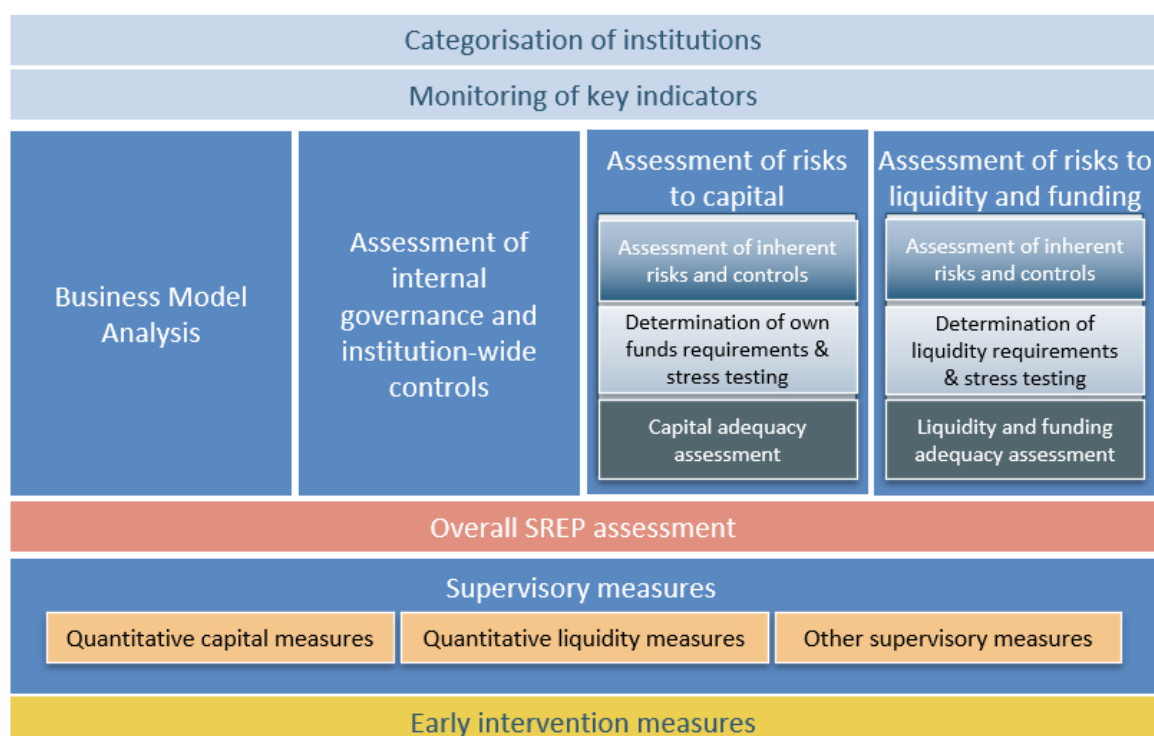
6. In particular, a key objective of this review is to enhance the readability and use of the guidelines, while at the same time supporting a risk-focused supervisory approach. This approach is considered more suitable for the current, more mature stage of the SREP, which requires more targeted and focused guidance compared to the one originally developed in 2014. The simplification effort was carried out mainly through the following steps:
 - a. streamlining the text with focus on core assessment. The emphasis remains on the key areas to be assessed, while references to outdated provisions or assessments already set out in other relevant EBA policy products have been removed (these are now listed in a table at the beginning of each SREP title and section);
 - b. establishing a single, comprehensive set of SREP Guidelines. The previous SREP Guidelines were complemented by a separate set ICT risk assessment (ICT SREP Guidelines – EBA/GL/2017/05). In addition, the CRD VI requires the EBA to issue SREP Guidelines for third-country branches, as well as guidelines specifying how to operationalise cases in which an institution becomes bound by the output floor. All of these elements are now integrated into this revised set: the ICT SREP Guidelines will be repealed and the ICT risk assessment provisions are integrated in Title 6 under the operational risk assessment; new guidance for third-country branches has been added as a Title 12; and the considerations on the output floor – drawing on the relevant EBA Opinion² – have been integrated into Title 7;
 - c. incorporating new aspects into existing SREP elements. As further explained in the subsequent paragraphs, new cross-cutting dimensions – such operational resilience and ESG risk factors – have been integrated across the existing SREP elements, rather than being introduced as a separate element or independent risk categories.
7. The cyclical nature of the SREP assessment requires that the overall framework is applied at the start of a SREP cycle. Since the SREP cycle often corresponds to a calendar year, these guidelines are expected to apply from 1 January 2027, following the consultation period and the publication of the final version. However, competent authorities are encouraged to take revised guidance into account, and where possible, to introduce its elements at an earlier stage.

The general SREP framework is built around the following major components (as presented in Figure 1).

¹ Competent authorities supervising class 2 and class 3 investment firms that are subject to the requirements under IFD/IFR are covered by the SREP Guidelines for investment firms (EBA/GL/2022/09) and by the Commission Delegated Regulation (EU) 2023/1668 on additional own funds requirements for investment firms.

² EBA/Op/2025/01 “*Opinion of the European Banking Authority on interaction between Pillar 2 requirements and the output floor*”.

Figure 1: Overview of the SREP framework



8. As illustrated in the figure above, the well-established SREP framework – in place since 2016 – has not been materially altered by this review. Experience has shown that its core elements are well embedded in the ongoing supervisory practices and provide a solid basis for supervisory dialogue. In this spirit, the introduction of few new elements (through this revision) maintains the overall framework valid and up to date. Subsection “3.1 The general SREP framework” provides an overview of the different elements of the framework as well as a summary of the new aspects introduced through this review. The dedicated subsection “3.2 Cross-cutting and more general elements” addresses in greater detail the cross-cutting and overarching elements – such as the scoring framework, supervisory effectiveness, operational resilience, ESG risks, SREP for third-country branches, and the link with other relevant processes – and explains their underlying rationale.

3.1 The general SREP framework

Categorisation of institutions and application of the principle of proportionality

9. The application of the principle of proportionality in the SREP is anchored in the categorisation of institutions, which defines the minimum level of supervisory engagement, modulating the frequency of assessments and shaping the supervisory dialogue both for individual SREP elements and for the overall SREP outcome. As proportionality lies at the core of supervisory engagement, the revised guidelines – drawing on supervisory experience in SREP

implementation and on the peer review on proportionality under the SREP³ – aim to foster risk-focused supervision and a more efficient use of supervisory resources.

10. To this aim an enhanced flexibility in identifying the appropriate supervisory engagement coexists with the retention of the existing four categories of institutions defined by size, systemic importance, scale, nature, and complexity of activities. Categories 1 and 4 continue to follow the CRR definitions of “large institutions” and “small and non-complex institutions”. Retaining the categories is essential to ensure a common understanding of materiality, a consistent treatment across the EU, and effective supervisory dialogue, particularly in cross-border cases. They also serve as a benchmark for assessing supervisory convergence ex post.
11. Competent authorities will continue to categorise all institutions under their remit for SREP purposes, while applying the following principles:
 - a. categorisation may be applied at group or individual entity level as appropriate (e.g. assigning different categories to subsidiaries and/or to the consolidated entity, where justified);
 - b. the supervisory approach should be tailored to the risk profile of each institution and to emerging risks. This is consistent with a multi-year SREP approach where in-depth assessments of selected risks or risk factors are planned over a longer (multi-year) period;
 - c. despite of the assigned category, lighter reviews of SREP elements or risk areas that are deemed immaterial or not relevant in the context of the current risk profile of the institution may be undertaken where risks have been assessed as unchanged vis-a-vis the previous SREP cycles;
 - d. institutions may be reassigned to a lower or higher category to better reflect their risk profile and business model or supervisory needs. This refinement fosters risk-focused supervision and a more efficient use of supervisory resources.
12. As an additional element of proportionality, large institutions (under the CRR) that are not G-SIIs may be allocated to Categories 1, 2 or 3 depending on their business model and risk profile. For a subset of the smallest Category 4 institutions, the minimum frequency for assessing all SREP elements may be extended from three to five years, provided they maintain a stable low-risk profile, sound financial metrics and healthy margins, and quarterly monitoring does not raise material concerns. Competent authorities retain discretion to increase the frequency of engagement whenever warranted.

Monitoring of key indicators

13. Regular monitoring of key quantitative and qualitative indicators supports the SREP by flagging changes in the institution’s financial conditions and risk profile. Such monitoring should prompt updates to the assessment of the SREP elements as new material information arises. This revision has not introduced major changes to this Title apart from integrating DORA-related indicators in the competent authorities’ monitoring systems.

³ EBA/REP/2025/02

Business model analysis (BMA)

14. Without undermining the responsibility of the institution's management body for organising and running its business, the supervisory business model analysis should assess both the viability of the current business model and the sustainability of the strategic plans. This analysis should also help identify key vulnerabilities that may not be captured by other elements of the SREP, including those arising from ML/TF, ICT and ESG risks.
15. One of the main changes introduced by this review is that this Title now explicitly focuses on the most material areas of assessment for an institution's business model. It also explicitly enables the use of prior supervisory assessments as a baseline where no material changes have occurred since the previous SREP cycle, provided materiality is duly assessed. The BMA now also includes reference to climate-related and environmental risks, as well as the institution's capacity to ensure medium to long-term resilience to ESG risks, operational resilience, and the ability to withstand geopolitical events. Although addressed only at high level in the guidelines, these elements are nonetheless expected to form part of an institution's overall BMA, serving to complement the more traditional drivers and to enrich the supervisory assessment in this area.

Assessment of internal governance and institution-wide controls

16. As part of the overall governance assessment, competent authorities should determine whether the internal governance framework of an institution is adequate given its risk profile, size, nature and complexity, and whether the institution sufficiently adheres to the requirements and standards of good internal governance and risk controls arrangements, including aspects such as diversity, non-discrimination and sound code of conduct.
17. As part of the risk management framework, competent authorities should review the institution's internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP). The assessment should focus on the soundness, effectiveness and comprehensiveness of these processes, as well as on the reliability of the institution's internal estimates to support the supervisory determination of capital and liquidity adequacy. Furthermore, competent authorities should also assess the adequacy of institutions' stress testing programmes, including scenarios and assumptions, and their outcomes.
18. The main changes introduced in this Title relate to the integration of the DORA framework and the third-party risk management framework within the institutions' overall risk management framework and to the importance of institutions' risk data aggregation and risk reporting capabilities through ICT systems, also reflecting BCBS principles⁴. Business continuity management aspects have been grouped under Title 6.4 to better reflect the latest BCBS principles and the DORA framework. Moreover, related CRD VI changes have been reflected regarding the institutions' statements of responsibilities and mapping of duties as well as the management body's knowledge and skills on ESG and ICT risks. Lastly, the institution's ability to

⁴ Basel Committee on Banking Supervision – Principles for effective risk data aggregation and risk reporting (January 2013)

effectively and timely remedy the deficiencies identified and/or supervisory concerns is evaluated by competent authorities, as part of the overall assessment of internal governance and institution-wide controls, in an effort to promote supervisory effectiveness.

Assessment of risks to capital

19. The SREP Guidelines provide guidance for the assessment of the most common risks to capital, encompassing credit and counterparty risk, market risk, operational risk and interest rate and credit spread risk from non-trading activities (IRRBB and CSRBB), further split into risk sub-categories. Competent authorities should focus their assessment on the material risks the institution is or might be exposed to, including any additional institution-specific risks that are not described in detail in the guidelines. The assessment should be performed in terms of the risk exposure as well as the quality of management and controls employed to mitigate the impact of the risk.
20. The market risk section now includes an approach to ensure the capital adequacy of subsidiaries of third country groups subject to transfer pricing arrangements envisaging the redistribution of market risk losses from other third country group entities. Competent authorities should assess the materiality of the impact of these arrangements and set additional own fund requirements under Pillar 2 to address this risk. To support competent authorities in this assessment, the approach includes a quantitative formula to measure the risk.
21. The methodologies and internal processes for identification, measurement, monitoring and control of IRRBB are subject to the SREP as part of the risks to capital. In addition to covering IRRBB, the scope of Title 6.5 has been extended to also provide guidance for the assessment of CSRBB. The addition was made in view of the increased relevance of this risk type, in line with the EU legislative framework and the BCBS Standards. The additional provisions on CSRBB are proportionate and adapted to reflect the less mature stage of this risk compared to IRRBB while still providing meaningful guidance to competent authorities. Competent authorities should reflect the outcome of the CSRBB assessment in a combined IRRBB/CSRBB score.
22. This review provides a non-exhaustive breakdown of risks to capital into sub-categories, included in the Annex, to support a risk-based and proportionate supervisory approach. This intends to further promote consistent risk identification across jurisdictions, while remaining non-exhaustive and flexible, hence not limiting the scope of supervisory assessment. Moreover, the assessment of ESG elements has been integrated into the existing risks to capital and similarly, operational resilience has been incorporated into the operational risk section.

SREP capital assessment

23. Since an institution may face risks that are not covered or not fully covered by the own funds requirements in accordance with the CRR or the capital buffers specified in the CRD, the SREP Guidelines include guidance on the determination of the quantity and composition of additional own funds requirements (P2R) determined to cover such risks, emphasising their institution-specific nature. As a separate stack of own funds requirements, the SREP Guidelines also include

guidance on the assessment of the risk of excessive leverage and on the determination of the quantity and composition of additional own funds required to cover that risk (P2R-LR).

24. Where the outcomes of the relevant stress tests suggest that an institution may not be able to meet the applicable own funds requirements under stress conditions, or is excessively sensitive to the assumed scenarios, competent authorities should take appropriate supervisory measures to ensure the institution is adequately capitalised, including the imposition of guidance on additional own funds, separately, to address the risk of excessive leverage and other risks (P2G-LR and P2G).
25. To increase convergence and level the playing field between institutions, the SREP Guidelines specify the quality of capital competent authorities should require institutions to hold to meet their guidance on additional own funds, CET1 capital for P2G coverage, and Tier 1 for P2G-LR coverage, respectively.
26. In light of the overhaul of the Level 1 provisions under the banking package on the Pillar 1 framework to implement the revised Basel standards⁵, the guidelines have been updated to reflect the interaction between Pillar 1 own funds requirements (P1R) and P2R, as well as the introduction of the output floor⁶.
27. In general, as an operationalisation of the CRD requirement under Article 104a(1), the guidelines foresee that – when a relevant change in the regulatory framework for determining P1R has, or is expected to have, material impact on an institution’s capital profile – competent authorities are expected to assess this impact in terms of its interplay with the relevant P2R. The objective of this assessment is to ensure that the complementary nature of P1R and P2R components is preserved, i.e. that P2R addresses only those risks, or elements of risk, that are not covered or not sufficiently covered by P1R. Based on its outcome, this assessment may lead to a redetermination of the quantity or composition of the P2R, either within the annual SREP cycle or at an adjusted frequency.
28. More specifically on the output floor, the guidelines set out how its interaction with P2R should be operationalised, thereby fulfilling the mandate in Article 104a(7) of CRD VI. The provisions reflect those set out in the previously referenced EBA/Op/2025/01.

Assessment of liquidity and funding risks and SREP liquidity and funding assessment

29. The SREP Guidelines provide guidance for the assessment of the risks to liquidity and funding the institution is or might be exposed to over various time horizons, as well for the related risk management controls. Competent authorities should focus their assessment on risks identified as material for the institution.

⁵ BCBS Basel III: Finalising post-crisis reforms – December 2017.

⁶ Aimed at limiting the unwarranted variability in the own funds requirements produced by internal models relative to an institution using the standardised approaches.

30. Competent authorities should determine whether the liquidity resources held by the institution ensure an appropriate coverage of risks to liquidity and funding, where applicable, taking adequate supervisory measures. Among such measures, competent authorities may consider imposing specific liquidity requirements to address concerns related to the institution's liquidity and funding resources.
31. The guidance on the assessment of risks to liquidity and funding and on the liquidity adequacy assessment were merged into one Title (Title 8) in view of their strong interlinkage. The incorporation also resulted in the merger of the scores combining the liquidity and funding risk assessment scores and liquidity adequacy score into one overall liquidity and funding adequacy score. This provides for a more streamlined approach. In particular, under the proposed approach the assessment of liquidity risk already encompasses the consideration of the amount and quality of liquidity available to mitigate the risk, and there is a combined assessment of the risk management and control framework addressing both liquidity risk and funding risk. The resulting liquidity and funding adequacy score should reflect the supervisory view of the capacity of the institution's liquidity resources to mitigate/cover the risks to liquidity and funding.

Overall SREP assessment and communication

32. Having conducted the assessment of the above SREP elements, competent authorities should form a comprehensive overview of the risk profile and viability of the institution concluding with the overall SREP assessment. As part of the effort to enhance supervisory effectiveness (see next section) the revised guidelines introduce a dedicated section devoted to the communication of the SREP assessment, comprising of all the relevant information that competent authorities are expected to share with institutions as a basis for an enhanced supervisory dialogue.
33. Although conceptually related to the overall SREP assessment, the consideration on any necessary supervisory measures to address concerns emerged by the SREP has been moved from this Title to the specific assessment areas (e.g. BMA, governance and institution-wide controls, risks to capital and risks to liquidity and funding) to directly link them with the relevant assessment areas. This aims to enhance the relevance of supervisory measures and hence supervisory effectiveness.

3.2 Cross-cutting and more general elements

Scoring framework

34. To help facilitating communication with the competent authorities and colleges of supervisors, foster comparability and a level playing field across institutions as well as to adequately prioritise supervisory resources and measures in the assessment of SREP elements, competent authorities should score from a range of '1' (low risk) to '4' (high risk), to reflect the supervisory view for each element-specific title of the guidelines. Scores should be assigned based on supervisory judgement, taking into account the considerations outlined in the tables at the end of each relevant section and title of these guidelines.

35. In this regard, the revised guidelines explicitly clarify that, while these considerations serve as a common baseline for assigning scores, they should not be interpreted as a mechanical checklist to be completed for each element, nor should they be seen as establishing a hierarchy of importance among the elements. Instead, they are intended to guide competent authorities in assigning scores by considering the interplay and relevance of the different elements within the specific dimension of the institution being assessed. More granular scores (such as qualifiers) can be also assigned by competent authorities for their internal purposes, provided that these are consistent with the overarching scoring framework set out in these guidelines. Competent authorities are also encouraged to use the full range of available scores to differentiate institutions and avoid undue clustering.

Supervisory effectiveness

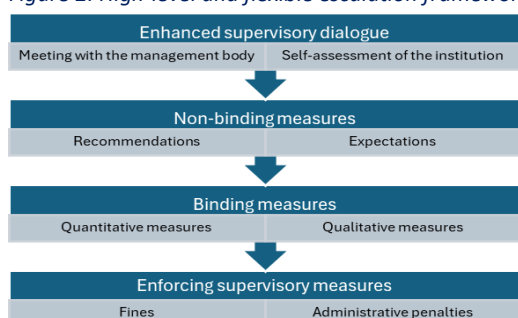
36. Past supervisory experience and recent financial market turmoil events have further underscored the need for supervisors not only to anticipate and detect, at an early stage, potential deficiencies that could threaten institutions' financial soundness, but also to intervene promptly and decisively to ensure their timely remediation. As a way of drawing on these experiences and lessons learned, and with a view to strengthening supervisory effectiveness and establish a high-level common framework across the EU, the revised guidelines introduce targeted provisions in the following areas:

- a. a high-level and flexible escalation framework for supervisory actions;
- b. a non-exhaustive list of supervisory measures/findings based on the specific SREP elements and sub-elements, building on the supervisory powers set out in the CRD;
- c. the ability of institutions to remedy identified deficiencies or supervisory concerns in an effective and timely manner;
- d. transparency and communication concerning the outcome of the SREP.

37. The escalation framework, illustrated in Figure 2, is designed to assist competent authorities in selecting the most appropriate supervisory actions and measures in light of identified deficiencies. Within this framework, competent authorities are expected to focus on the root causes of deficiencies, reflect them in the scores assigned under these guidelines, and use such root causes as the basis for subsequent supervisory decisions and measures. While particularly relevant to the SREP, the escalation framework is conceived as an overarching structure applicable to all supervisory activities and capable of extension beyond the SREP. The framework is characterised by the following features:

- a. high-level: it does not prescribe binding or automatic measures to be applied to specific deficiencies. The type, scope, depth and level of detail of the measures remain at full discretion of the competent authorities, depending on the nature of the findings and on what constitute the most effective means of remediation.
- b. flexible: supervisory measures are not strictly sequential. Competent authorities may escalate or de-escalate measures, as appropriate, in light of the specific circumstances.

Figure 2: High-level and flexible escalation framework for supervisory actions



38. Supervisory effectiveness also depends on the capacity/ability and willingness of institutions to respond adequately to supervisory measures, hence these should form part of the competent authorities' assessment of internal governance and institution-wide controls.

39. The guidelines also reinforce transparency and communication regarding SREP outcomes. All relevant expectations for competent authorities regarding the communication related to the SREP have been now rationalised and grouped into a single Title. These expectations include, beyond the indication of material risk drivers supporting any additional own funds requirement (P2R and P2R-LR) that should be duly justified to institutions, a description of the overall outcome of the SREP, including a summary of the assessment and the overall SREP score. Furthermore, in line with the principle of risk-based supervision, where appropriate and depending on the specific remedial action required, competent authorities may disclose to institutions the SREP scores for relevant elements or sub-elements.

ESG

40. In line with the increased prominence of environmental, social and governance (ESG) risks in the financial sector – and, in particular, with the requirement under Article 98(9) of the CRD to include in the SREP an assessment of institutions' governance and risk management processes for addressing ESG risks, as well as their exposures to such risks – the guidelines specify how competent authorities should take ESG risks into account in the SREP.

41. Since ESG risks materialise through the traditional categories of financial risks and should be managed as part of institutions' core business strategy, governance arrangements and risk management framework, they are integrated across the existing SREP elements rather than treated as separate or stand-alone category of risk in a separate module.

42. This approach enables competent authorities to assess the prudential impact of ESG risks within the established SREP framework, including in the assessment of the business model, the assessment of internal governance and institution's wide controls and risks to capital, liquidity and funding. At the same time, the guidelines acknowledge that competent authorities may adopt a gradual approach to the assessment of social and governance risks, initially prioritizing environmental risks, recognizing the greater capacity to quantify climate-related risks compared to other types of environmental risks, while progressively enhancing supervisory practices as data availability, methodologies and analytical tools evolve.

Operational resilience

43. The concept of operational resilience has become prominent at the EU and international level due to the increase of cyber threats, supply chain disruptions and financial system interdependencies that can expose institutions to systemic risks. The emphasis on resilience to ensure continuity of critical or important functions and in parallel to maintain financial stability is reflected in the DORA framework as well as in the latest BCBS principles on operational resilience and the sound management of operational risk. It is therefore necessary to introduce the concept of operational resilience within the SREP framework while acknowledging that its key components are already reflected in the EU regulatory framework and embedded in the existing SREP framework.
44. To this end, consistently with the treatment of other cross-cutting elements, such as ESG risks, and in line with the overarching objectives of simplification and rationalisation pursued in the revised guidelines, operational resilience is integrated within the SREP framework rather than developed as a stand-alone module. In particular, the revised guidelines clarify that the assessment of institutions' level of operational resilience should draw on the existing SREP assessments of operational risk and other related areas, including governance, business continuity planning and testing, mapping of interconnections and interdependencies, third-party dependency management, incident management, and ICT (including cyber security).

SREP for third-country branches

45. In view of the significant and increasing presence of third-country branches in the EU, CRD VI establishes a prudential framework setting out common requirements for third-country branches (TCBs) and facilitating the effective and comprehensive supervision of the activities of third-country groups in the EU. Under the new framework, competent authorities shall evaluate if the governance arrangements implemented by TCBs and the capital endowment and liquidity held by them ensure a sound management and coverage of their material risks and the EBA is mandated with the development of Guidelines setting out common procedures and methodologies for this SREP for TCBs. The SREP Guidelines for TCBs are incorporated as a separate title in the SREP Guidelines (Title 12) allowing cross-references to other relevant parts of the Guidelines, while ensuring that the assessment is sufficiently tailored and proportionate to the specific nature of TCBs.
46. In particular, the SREP should be conducted with a level of frequency and intensity that is proportionate to the classification of TCBs as class 1 or class 2 under CRD VI Article 48(a) reflecting the nature, scale and complexity of the activities. Competent authorities should assess the business model, internal governance arrangements and controls, booking arrangements and the capital endowment and liquidity of the TCB (the SREP elements for TCBs). Recognising the status of the branch and its reliance on the third-country parent, competent authorities should also assess whether the TCB has sufficient independence in its governance and risk management to act in the best interests of the branch, safeguarding its safety, soundness and viability. The outcome of the assessment feeds into the overall viability score of the TCB. Unlike the overall

SREP score for institutions, the scoring table for TCBs does not provide a score ‘F’ for TCBs considered as ‘failing or likely to fail’ as, while TCBs are in scope of Directive 2014/59/EU (BRRD) with some specific conditions, they cannot be subject to ‘failing or likely to fail’ under BRRD Article 32(4).

Link between SREP and other supervisory processes

47. Competent authorities should reflect in the SREP assessment available information and outcomes from other supervisory activities, including on-site inspections, approvals of internal models, authorisation approvals, outcomes of supervisory stress testing, assessment of recovery and resolution plans, market conduct and consumer protection activities, AML/CFT activities, etc. Likewise, the findings from the SREP assessment should inform other supervisory processes.
48. The revised guidelines further stress the importance for competent authorities to consider the SREP as the process integrating all outcomes of their activities during the supervisory cycle. This aims to streamline the supervisory process, allow the reallocation of resources to the most relevant risk areas and to make sure that consistent feedback is given to institutions throughout the different supervisory tasks. In particular, in light of the significant efforts undertaken – and the progress achieved – in recent years in the area of recovery planning, both by institutions and competent authorities, the linkage between recovery planning outcomes and the SREP framework has been further reinforced.
49. In the revised guidelines, beyond its role in the assessment of governance and institution-wide controls, the outcome of the recovery planning assessment also informs the assessment of capital and liquidity adequacy through the overall recovery capacity (ORC). The ORC provides an indication of an institution’s overall ability to restore its financial position following a material deterioration in its financial condition in severe stressed scenarios.
50. More specifically, the ORC has been included as one of several informative elements to be considered by competent authorities when assigning SREP scores for capital and liquidity adequacy under Title 7 and Title 8. Its inclusion is intended to provide an additional forward-looking perspective in the supervisory assessment of institutions’ capital and liquidity profiles, particularly regarding their resilience and potential recoverability through the implementation of recovery options under stress conditions. This inclusion is intended to be applied flexibly and does not imply a mechanistic or automatic correlation between the ORC scores and SREP scores for capital or liquidity adequacy. Rather, it forms part of a broader set of factors to be taken into account in the capital and liquidity adequacy scoring process.
51. These guidelines also identify the relevant building blocks required for an effective supervisory stress testing programme. They focus on different forms of supervisory stress testing and objectives, the respective use for SREP purposes, aspects related to the organisation, resources and communication, and possible methodologies. In particular, the supervisory stress testing section complements the assessment on capital adequacy by further clarifying and operationalising procedures for setting P2G and P2G-LR.

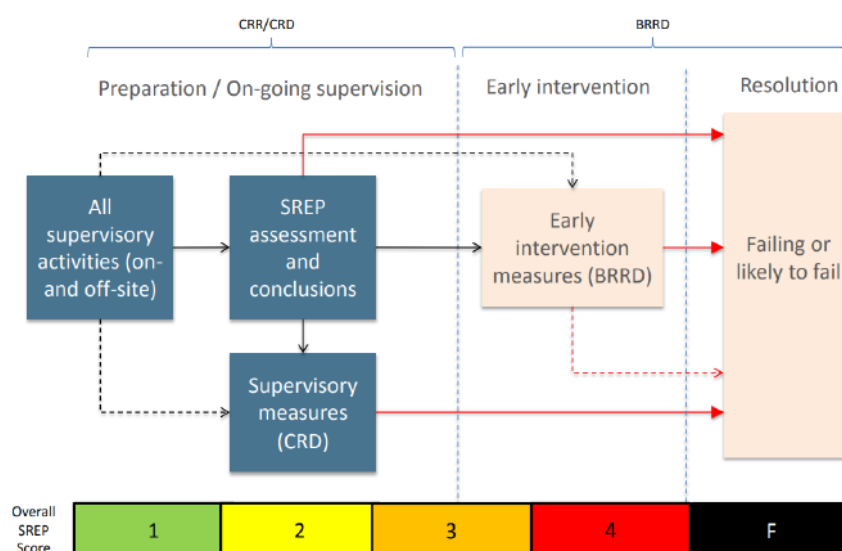
Link between SREP and assessment of the risk of money laundering and terrorism financing

52. The revised guidelines keep unchanged the provisions on how anti-money laundering (AML) and countering the financing of terrorism (CFT)-related aspects should be factored into the SREP. Such common guidance is important because failure to address ML and terrorist financing risks by institutions can have detrimental effects on the financial soundness of these institutions and the integrity of the internal market and financial stability. Therefore, prudential supervisors should consider, to the extent known to them, ML/TF risks from a prudential perspective throughout their work, including in the SREP, and cooperate with the authorities and bodies responsible for ensuring compliance with AML/CFT requirements.

Link between the SREP and early intervention measures and resolution

53. The SREP assessment may also be used in setting triggers for early intervention measures, as provided for in Article 27 of Directive 2014/59/EU (BRRD). It also allows for the determination of an institution as 'failing or likely to fail', which activates the formal interaction procedure with resolution authorities pursuant to Article 32 of that Directive. To this end, these guidelines should be read together with the EBA Guidelines on triggers for use of early intervention measures⁷ and guidelines on the interpretation of the different circumstances when an institution shall be considered as failing or likely to fail⁸. No changes have been proposed to this part in the revised guidelines.

Figure 3: Link between ongoing supervision, early intervention and failing or likely to fail



⁷ EBA Guidelines on triggers for use of early intervention measures (EBA/GL/2015/03).

⁸ EBA Guidelines on the interpretation of the different circumstances when an institution shall be considered as failing or likely to fail (EBA/GL/2015/07).

Draft Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing under Directive 2013/36/EU

Compliance and reporting obligations

Status of these guidelines

1. This document contains guidelines issued pursuant to Article 16 of Regulation (EU) No 1093/2010⁹. In accordance with Article 16(3) of Regulation (EU) No 1093/2010, competent authorities and financial institutions must make every effort to comply with the guidelines.
2. Guidelines set the EBA view of appropriate supervisory practices within the European System of Financial Supervision or of how Union law should be applied in a particular area. Competent authorities as defined in Article 4(2) of Regulation (EU) No 1093/2010 to whom guidelines apply should comply by incorporating them into their practices as appropriate (e.g. by amending their legal framework or their supervisory processes), including where guidelines are directed primarily at institutions.

Reporting requirements

3. According to Article 16(3) of Regulation (EU) No 1093/2010, competent authorities must notify the EBA as to whether they comply or intend to comply with these guidelines, or otherwise with reasons for non-compliance, by [dd.mm.yyyy]. In the absence of any notification by this deadline, competent authorities will be considered by the EBA to be non-compliant. Notifications should be sent by submitting the form available on the EBA website with the reference 'EBA/GL/202x/xx'. Notifications should be submitted by persons with appropriate authority to report compliance on behalf of their competent authorities. Any change in the status of compliance must also be reported to EBA.
4. Notifications will be published on the EBA website, in line with Article 16(3).

⁹ Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC, (OJ L 331, 15.12.2010, p.12).

1. Title 1. Subject matter, scope and definitions, level of application and implementation

Subject matter

1. These guidelines specify the common procedures and methodologies for the functioning of the supervisory review and evaluation process (SREP) referred to in Articles 48n, 97 and 107(1)(a) of Directive 2013/36/EU¹⁰, including those for the assessment of the organisation and treatment of risks, including money laundering and terrorist financing, referred to in Articles 76 to 87 of that Directive and processes and actions taken with reference to Articles 48o, 98, 100, 101, 102, 104, 104a, 104b, 104c, 105, 107(1)(b) and 117 of that Directive. In addition, these guidelines aim to provide common methodologies to be used by competent authorities when conducting supervisory stress tests in the context of their SREP as referred to in Article 100(2) of Directive 2013/36/EU.
2. These guidelines do not set methodologies for the stress tests conducted by the EBA in cooperation with other competent authorities in accordance with Article 22 of Regulation (EU) No 1093/2010; however, they do describe the range of stress tests to help set the appropriate context for the consideration of future EBA stress tests as one part of the supervisory stress tests.

Level/Scope of application

3. Competent authorities should apply these guidelines in accordance with the level of application determined in Article 110 of Directive 2013/36/EU following the requirements and waivers used pursuant to Articles 108 and 109 of Directive 2013/36/EU.
4. For parent undertakings and subsidiaries included in the consolidation, competent authorities should adjust the depth and the level of granularity of their assessments to correspond to the level of application established in the requirements of Regulation (EU) No 575/2013 specified in Part One, Title II of that Regulation, in particular recognising waivers applied pursuant to Articles 7, 10 and 15 of Regulation (EU) No 575/2013 and Article 21 of Directive 2013/36/EU.
5. Where an institution has a subsidiary in the same Member State, but no waivers specified in Part One of Regulation (EU) No 575/2013 have been granted, a proportionate approach for the

¹⁰ Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176 27.6.2013, p. 338).

assessment of capital and liquidity adequacy may be applied by focusing on the assessment of allocation of capital and liquidity across the entities and potential impediments to the transferability of capital or liquidity within the group.

6. For cross-border groups, procedural requirements should be applied in a coordinated manner within the framework of colleges of supervisors established pursuant to Article 116 or 51 of Directive 2013/36/EU. Title 10 explains the details of how these guidelines apply to cross-border groups and their entities.
7. When an institution has established a liquidity subgroup pursuant to Article 8 of Regulation (EU) No 575/2013, competent authorities should conduct their assessment of risks to liquidity and funding, and apply supervisory measures, for the entities covered by such a subgroup at the level of the liquidity subgroup.

Addressees

8. These guidelines are addressed to competent authorities as defined in Article 4(2), points (i) and (viii) of Regulation (EU) No 1093/2010.

Definitions

9. Unless otherwise specified, terms used and defined in Regulation (EU) No 575/2013¹¹, Directive 2013/36/EU, Directive 2014/59/EU¹² or the EBA Guidelines on institutions' stress testing¹³, have the same meaning in the guidelines. In addition, for the purposes of these guidelines, the following definitions apply:

'AML/CFT supervisor' means a competent authority responsible for the supervision of institutions' compliance with the provisions of Directive (EU) 2015/849.

'Capital buffer requirements' means the own funds requirements specified in Chapter 4 of Title VII of Directive 2013/36/EU.

'Consolidating institution' means an institution that is required to abide by the prudential requirements on the basis of the consolidated situation in accordance with Part 1, Title 2, Chapter 2 of Regulation (EU) No 575/2013.

¹¹ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176 27.6.2013, p. 1).

¹² Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012 of the European Parliament and of the Council (OJ L 173 12.6.2014, p. 190).

¹³ EBA Guidelines on institutions' stress testing (EBA/GL/2018/04).

‘Counterbalancing capacity’ means the institution’s ability to hold, or have access to, excess liquidity over short-term, medium-term and long-term time horizons in response to stress scenarios.

‘Credit spread risk’ means the risk arising from changes in the market value of debt financial instruments due to fluctuations in their credit spread.

‘Funding risk’ means the risk that the institution will not have stable sources of funding in the medium and long term, resulting in the current or prospective risk that it cannot meet its financial obligations, such as payments and collateral needs, as they fall due in the medium-to-long term, either at all or without increasing funding costs unacceptably.

‘FX lending’ means lending to borrowers, regardless of the legal form of the credit facility (e.g. including deferred payments or similar financial accommodations), in currencies other than the legal tender of the country in which the borrower is domiciled.

‘FX lending risk’ means the current or prospective risk to the institution’s earnings and own funds arising from FX lending to unhedged borrowers.

‘Internal capital adequacy assessment process (ICAAP)’ means the process for the identification, measurement, management and monitoring of internal capital implemented by the institution pursuant to Article 73 of Directive 2013/36/EU.

‘Internal liquidity adequacy assessment process (ILAAP)’ means the process for the identification, measurement, management and monitoring of liquidity implemented by the institution pursuant to Article 86 of Directive 2013/36/EU.

‘Institution’s category’ means the indicator of the institution’s systemic importance assigned based on the institution’s size and complexity and the scope of its activities.

‘Interest rate risk’ (IRR) means the current or prospective risk to the institution’s earnings and own funds arising from adverse movements in interest rates.

‘Intraday liquidity’ means the funds that can be accessed during the business day to enable the institution to make payments in real time.

‘Intraday liquidity risk’ means the current or prospective risk that the institution will fail to manage its intraday liquidity needs effectively.

‘Macro-prudential requirement’ or ‘measure’ means a requirement or measure imposed by a competent or designated authority to address macroprudential or systemic risk.

‘Material currency’ means a currency in which the institution has material balance-sheet or off-balance-sheet positions.

‘Money laundering and terrorist financing (ML/TF) risk’ means the risk as defined in the EBA Risk-Based Supervision Guidelines¹⁴.

‘Operational resilience’ means the ability of an institution to deliver critical or important functions through disruption. This ability enables an institution either directly or indirectly, including through the use of functions provided by third-party service providers, to identify and protect itself from threats and potential failures, respond and adapt to, as well as recover and learn from disruptive events in order to minimise their impact on the delivery of critical or important function through disruption.

‘Overall capital requirement (OCR)’ means the sum of the total SREP capital requirement (TSCR), capital buffer requirements and macroprudential requirements, when expressed as own funds requirements.

‘Overall leverage ratio requirement (OLRR)’ means the sum of the total SREP leverage ratio requirement (TSLRR) and the G-SII leverage ratio buffer requirement in accordance with Article 92(1a) of Regulation (EU) No 575/2013.

‘Overall SREP assessment’ means the up-to-date assessment of the overall viability of an institution based on assessment of the SREP elements.

‘Overall SREP score’ means the numerical indicator of the overall risk to the viability of the institution based on the overall SREP assessment.

‘Pillar 1 own funds requirements’ or ‘P1R’ means the own funds requirements the institution is required to hold in accordance with Parts Three, Four and Seven of Regulation (EU) No 575/2013 and Chapter 2 of Regulation (EU) 2017/2402.

‘Pillar 2 guidance’ or ‘P2G’ means the level and quality of own funds the institution is expected to hold in excess of its OCR, determined in accordance with the criteria specified in these guidelines.

‘Pillar 2 guidance for the risk of excessive leverage’ or ‘P2G-LR’ means the level and quality of own funds the institution is expected to hold in excess of its OLRR, determined in accordance with the criteria specified in these guidelines.

‘Pillar 2 requirement’ or ‘P2R’ means the additional own funds requirements imposed in accordance with Article 104(1)(a) of Directive 2013/36/EU to address risks other than the risk of excessive leverage.

¹⁴ EBA Guidelines on the characteristics of a risk-based approach to anti-money laundering and terrorist financing supervision, and the steps to be taken when conducting supervision on a risk-sensitive basis under Article 48(10) of Directive (EU) 2015/849 (amending the Joint Guidelines ESAs 2016 72) (‘The Risk-Based Supervision Guidelines’) (EBA/GL/2021/16).

‘Pillar 2 requirement for the risk of excessive leverage’ or ‘P2R-LR’ means the additional own funds requirements imposed in accordance with Article 104(1)(a) of Directive 2013/36/EU to address the risk of excessive leverage.

‘Reputational risk’ means the current or prospective risk to the institution’s earnings, own funds or liquidity arising from damage to the institution’s reputation.

‘Risk appetite’ means the aggregate level and types of risk the institution is willing to assume within its risk capacity, in line with its business model, to achieve its strategic objectives.

‘Risk score’ means the numerical expression summarising the supervisory assessment of an individual risk to capital, liquidity and funding representing the likelihood that a risk will have a significant prudential impact on the institution (e.g. potential loss) after considering risk management and controls and before consideration of the institution’s ability to mitigate the risk through available capital or liquidity resources.

‘Risks to capital’ means distinct risks that, should they materialise, will have a significant prudential impact on the institution’s own funds over the next 12 months. These include but are not limited to risks covered by Articles 79 to 87 of Directive 2013/36/EU.

‘Risks to liquidity and funding’ means distinct risks that, should they materialise, will have a significant prudential impact on the institution’s liquidity over different time horizons.

‘SREP element’ means one of the following: business model analysis, assessment of internal governance and institution-wide risk controls, assessment of risks to capital, SREP capital assessment, or SREP liquidity and funding assessment.

‘Supervisory benchmarks’ means risk-specific quantitative tools or methodologies developed by the competent authority to provide an estimation of the own funds required to cover risks or elements of risks not covered by Regulation (EU) No 575/2013.

‘Survival period’ means the period during which the institution can continue operating under stressed conditions and still meet its payments obligations.

‘Total risk exposure amount (TREA)’ means total risk exposure amount as defined in Article 92 of Regulation (EU) No 575/2013.

‘Total SREP capital requirement (TSCR)’ means the sum of own funds requirements as specified in Article 92(1), points (a) to (c) of Regulation (EU) No 575/2013 and additional own funds requirements determined in accordance with the criteria specified in these guidelines to address risks other than the risk of excessive leverage.

‘Total SREP leverage ratio requirement (TSLRR)’ means the sum of own funds requirements as specified in Article 92(1), point (d) of Regulation (EU) No 575/2013 and additional own funds requirements determined in accordance with the criteria specified in these guidelines to address the risk of excessive leverage.

‘Unhedged borrowers’ means retail and SME borrowers without a natural or financial hedge that are exposed to a currency mismatch between the loan currency and the hedge currency; natural hedges include in particular cases where borrowers receive income in a foreign currency (e.g. remittances/export receipts), while financial hedges normally presume that there is a contract with a financial institution.

‘Viability score’ means the numerical expression summarising the supervisory assessment of a SREP element and representing an indication of the risk to the institution’s viability stemming from the SREP element assessed.

Date of application

10. These guidelines apply from 1 January 2027.

Repeal

11. The EBA Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing of 18 March 2022 (EBA/GL/2022/03) and the EBA Guidelines on ICT risk assessment under the SREP (EBA/GL/2017/05) are repealed with effect from 1 January 2027. The references to the Guidelines repealed shall be construed as reference to these guidelines.

2. Title 2. SREP framework

2.1. Overview of the SREP framework

12. Competent authorities should have a comprehensive SREP framework covering the following components, which should be assessed on a regular basis. The SREP engagement model in section 2.4 sets out how this framework can be calibrated across diverse institutions in application of the proportionality principle. These components are:

- a. categorisation of the institution as specified in section 2.1.1;
- b. monitoring of key indicators as specified in Title 3;
- c. business model analysis (BMA) as specified in Title 4;
- d. assessment of internal governance and institution-wide controls as specified in Title 5;
- e. assessment of risks to capital as specified in Title 6;
- f. assessment of the adequacy of the institution's own funds as specified in Title 7;
- g. assessment of risks to liquidity and funding and SREP liquidity and funding assessment as specified in Title 8; and
- h. overall SREP assessment (including the application of supervisory measures - and early intervention measures, where necessary) and communication as specified in Title 9 and section 2.1.2 respectively.

13. Competent authorities should consider the SREP as an ongoing process that integrates the outcome of all the supervisory activities and all available sources of information into a comprehensive supervisory overview of an institution. The SREP should include consideration of the following:

- a. outcome of previous SREP assessments, business model analysis and ongoing off-site supervision;
- b. institution's financial reporting, strategic plan(s), regulatory reporting (common reporting – COREP, financial reporting – FINREP, and credit register, where available) and internal reporting (e.g. management information, capital and liquidity reporting, internal risk reports);
- c. institution's ICAAP/ILAAP and recovery planning arrangements;
- d. on-site inspections;
- e. internal model assessments;
- f. targeted deep-dive analysis;
- g. horizontal thematic reviews;
- h. stress testing analysis;
- i. third-party reports (e.g. audit reports, reports by equity/credit analysts); and

- j. other relevant sectoral or macroeconomic studies/surveys.

2.1.1. Categorisation of institutions

14. Competent authorities should categorise all institutions under their supervisory remit into four different categories based on the size, systemic importance, nature, scale and complexity of the activities of the institutions concerned and also considering Article 97(4) of Directive 2013/36/EU. The categorisation should reflect the assessment of systemic risk posed by institutions to the financial system.
15. Within a group of entities, if competent authorities determine that the relevance of different entities within the group, based on the elements listed in paragraph 17, varies, they may apply categorization at the individual level to reflect these differences (e.g. assigning different categories to various group subsidiaries and/or consolidated entity).
16. Competent authorities should review the categorisation of their institutions periodically, and following events that may affect the business models' riskiness, or major corporate operations such as a large divestment, a merger or acquisition, an important strategic action, etc.
17. To ensure a minimum level of comparability, competent authorities should refer to the categories below as a starting point:
 - ▶ category 1 – all institutions defined as 'large institutions' in Article 4(1), point 146 of Regulation (EU) 575/2013. Competent authorities may classify 'large institutions' as Category 2 or Category 3 institutions for proportionality reasons provided they are not G-SIIs.
 - ▶ category 2 – (i) medium to large institutions other than those included in Category 1 which are not a 'small and non-complex institution' as defined in Article 4(1), point 145 of Regulation (EU) 575/2013 and operate in several business lines, including non-banking activities, or have sizeable cross-border activities, and offering credit and financial products to retail and corporate customers; (ii) non-systemically important specialised institutions with significant market shares in their lines of business or payment systems, or trading platforms / markets for financial instruments; (iii) institutions considered important, due to their size, activities, or business model (e.g. central institutions of an IPS, CCPs, CSDs, central cooperative banks or central savings banks), for the economy (e.g. in terms of total assets over gross domestic product – TA/GDP) or for the banking sector in a particular Member State.
 - ▶ category 3 – (i) small to medium institutions other than those included in Categories 1 and 2, which are not 'small and non-complex institution' as defined in Article 4(1), point 145 of Regulation (EU) 575/2013 and operating in a limited number of business lines, or have non-significant cross-border activities, offering predominantly credit products to retail, corporate and institutional customers with a limited offering of financial products; (ii) specialised institutions with less-significant market shares in their lines of business or payment systems, or financial exchanges.

- ▶ category 4 – all institutions defined as ‘small and non-complex institution’ in Article 4(1), point 145 of Regulation (EU) 575/2013 and all other small non-complex institutions that do not fall into Categories 1 to 3 (e.g. with a limited scope of activities and non-significant market shares in their lines of business).

2.1.2. Continuous assessment of risks, escalation framework and supervisory measures

18. Competent authorities should continuously assess the risks to which the institution is or might be exposed through their supervisory activities according to the SREP engagement model set out in section 2.4.
19. Competent authorities should ensure that the findings of their assessments are clearly documented, with a focus on the root causes of the identified deficiencies. These findings should be reflected in the SREP scores assigned in accordance with these guidelines and should inform subsequent supervisory measures that competent authorities may apply as specified in Articles 102, 104 and 105 of Directive 2013/36/EU and national law, and, when applicable, early intervention measures as specified in Article 27 of Directive 2014/59/EU, or any combination of the above.
20. As part of their ongoing supervisory activities, competent authorities should ensure that an institution, upon identifying specific deficiencies, acts efficiently and effectively to address them. In this regard, competent authorities should establish a high-level escalation framework for supervisory measures, supporting the selection of the most appropriate measures (both quantitative and qualitative) to address the identified deficiencies. This is without prejudice to the supervisory powers provided under the applicable legal framework and the competent authorities’ discretion to determine the most appropriate measures based on the specific circumstances and deficiencies.
21. The framework referred to in the previous paragraph should consider the following actions, which are not to be intended as strictly sequential and may be escalated or de-escalated as appropriate:
 - a. engaging in an enhanced supervisory dialogue with the institution, such as a meeting with the management body or to require a self-assessment from the institution;
 - b. communicating corrective actions expected from the institution (non-binding measures), such as supervisory expectations or recommendations;
 - c. requiring specific corrective action(s) from the institution (binding measures), such as setting qualitative measures the institution needs to comply with and/or setting/increasing Pillar 2 requirement or liquidity requirements; and
 - d. enforcing supervisory measures to remedy the deficiencies identified, such as administrative penalties, remedial measures or fines.

22. When selecting measures, competent authorities should identify the full escalation path, taking into account the information available and the nature, size and complexity of the institution. The selection should be guided by the following considerations, as applicable:

- a. the intended outcome the measures aim to achieve and, where feasible, the expected timelines for the institution to address the deficiencies;
- b. the severity of the deficiencies and the potential prudential impact of not addressing the issue (i.e. whether it is necessary to address the issue with a specific measure) and whether the deficiencies have already been addressed/covered by other measures;
- c. the demonstrated ability or intention of the institution to remediate to the deficiencies;
- d. whether other measures would achieve the same objective with less of an administrative and financial impact on the institution;
- e. the possibility that risks and vulnerabilities identified may be correlated or self-reinforcing, or both, meriting an increase in the rigorousness of supervisory measures; and
- f. any other factors deemed relevant by the competent authorities.

23. Without prejudice to the discretion of the competent authorities in selecting the most appropriate measures, all available quantitative and qualitative measures should be used in a way that allows to best address the risk level and/or deficiencies. This should take into account the nature of the risk (quantitative and/or qualitative), the escalation process, and the fact that quantitative measures should be applied to address deficiencies in internal governance, including internal control arrangements, and other issues, where other supervisory measures have not been effective or are considered insufficient to address the identified deficiencies within an appropriate timeframe¹⁵.

24. The provisions of this title are without prejudice to the possibility of competent authorities to take supervisory measures directly linked to the outcomes of any supervisory activities (e.g. on-site examinations, assessments of the suitability of members of the management body and key functions, etc.) where the outcomes of such activities necessitate immediate application of supervisory measures to address material deficiencies.

2.1.3. Dialogue with institutions

25. Competent authorities should engage in dialogue with institutions as they perform their supervisory activities.

26. On completion of the overall SREP assessment, competent authorities should communicate the outcomes to the institution in accordance with Title 9 and inform them of any action the institution has to take to comply with supervisory measures applied based on the findings.

¹⁵ In accordance with Article 104a(1)(b) of Directive 2013/36.

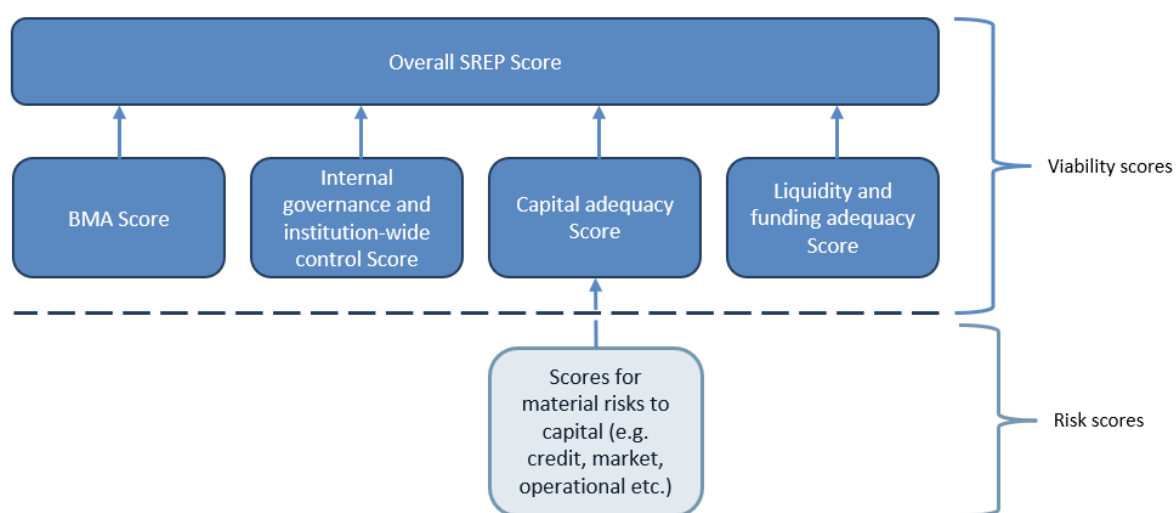
2.2. Scoring in the SREP

27. Competent authorities should apply a consistent scoring system to help facilitate communication between competent authorities and colleges of supervisors, foster comparability and a level playing field across institutions, and prioritise supervisory resources and measures in the assessment of the SREP elements. They should summarise the outcomes of their assessments by assigning risk scores, SREP element scores and an overall SREP score.

28. When assigning risk scores, SREP elements scores and the overall SREP score, competent authorities should refer to the considerations outlined in the tables at the end of each relevant section and title of these guidelines, alongside the application of supervisory judgment. While these considerations serve as a baseline for assigning scores, they should not be interpreted as a mechanical checklist to be completed for each element, nor should they be seen as establishing a hierarchy of importance among the elements. Instead, they are intended to guide competent authorities in assigning scores by considering the interplay and relevance of the different elements within the specific dimension of the institution being assessed.

29. The risk scores aim to capture the likelihood that the risks to capital, liquidity and funding will have a significant impact on the institution. The SREP element scores and the overall SREP score indicate the magnitude of risks to the institution's viability; in particular the overall SREP score should reflect the supervisory view of the overall viability of the institution as specified in Title 9.

Figure 1. Overview of the scoring framework



30. The scores are: 1 (low risk), 2 (medium-low risk), 3 (medium-high risk), and 4 (high risk – this represents the worst possible assessment). An additional score of 'F' is available only for the overall SREP score, as explained in paragraph 38. Competent authorities may introduce more granular scoring for their internal purposes, such as planning of resources, provided the overall scoring framework set out in these guidelines is respected.

31. Competent authorities should review the scores upon completion of the SREP assessments with the minimum frequency set out in the SREP engagement model in section 2.4. The scores should also be reviewed without undue delay on the basis of material new findings or developments.

2.2.1. Risk scores

32. Risk scores are assigned to summarise risks to capital (as specified in Title 6). These scores represent the likelihood that a risk will have a significant prudential impact on the institution (e.g. potential loss), after considering the quality of risk controls to mitigate this impact (i.e. residual risk), but before consideration of the institution's ability to mitigate the risk through available capital or liquidity resources.

33. Competent authorities should determine the risk score through an assessment of an institution's inherent risk level, while duly considering the adequacy of the institution's risk management and controls framework. In particular, an adequate risk management and controls framework may mitigate the prudential impact of a specific risk, while a weak framework may amplify the prudential impact. The assessment of inherent risk and the adequacy of management and controls should be made with reference to the considerations specified in Table 6 for credit and counterparty risk, in Table 8 for market risk, in Table 10 for operational risk, in Table 12 for interest rate and credit spread risk in the banking book (IRRBB and CSRBB), in Table 17 for liquidity and funding.

34. When assessing risks to capital, competent authorities should also consider relevant sub-categories, e.g. concentration risk or country risk as part of the credit and counterparty risk assessment, as set out in Title 6. Depending on the materiality of any of these subcategories to a particular institution, competent authorities may decide to assess and score them individually.

35. Competent authorities may use different methods to apply the risk scores, they could score 'risk' and 'risk management and controls' separately (resulting in an intermediate and final score) or score them together. Competent authorities may also aggregate all the risks to capital into an aggregate score.

2.2.2. SREP element scores and overall SREP score

36. At the end of the overall SREP assessment, competent authorities should form a comprehensive overview of the risk profile and viability of the institution based on the four SREP elements:

- a. business model and strategy as specified in Title 4;
- b. internal governance and institution-wide controls as specified in Title 5;
- c. capital adequacy, as specified in Title 7; and
- d. liquidity and funding adequacy, as specified in Title 8.

37. Capital adequacy and liquidity and funding adequacy represent the supervisory view of the capacity of the institution's capital and liquidity resources to mitigate/cover risks to capital and

liquidity and funding, as set out in Titles 6 and 8, and/or other elements for which additional own funds have been determined as set out in Title 7.

38. The final score is an overall SREP score. This incorporates the four SREP element scores above and supervisory judgement. Competent authorities should ensure that the overall SREP score provides an indication of the institution's overall viability, including whether the institution is 'failing or likely to fail' within the meaning of Article 32 of Directive 2014/59/EU, also having regard to the EBA Guidelines on 'failing or likely to fail'¹⁶. When the outcome of the overall SREP assessment suggests that an institution can be considered to be 'failing or likely to fail', competent authorities should apply a score of 'F' and follow the process of engaging with resolution authorities as specified in Article 32 of Directive 2014/59/EU.

39. Competent authorities should ensure that the SREP element scores and the overall SREP score:

- a. reflect the likelihood that supervisory measures are needed to address concerns;
- b. are considered among the triggers for the decision on whether to apply early intervention measures in accordance with the EBA Guidelines on triggers for use of early intervention measures¹⁷; and
- c. inform the prioritisation and planning of supervisory resources and the setting of priorities in the supervisory examination programme (SEP).

2.3. Organisational arrangements

40. Competent authorities should ensure that, for conducting SREP, their organisational arrangements include at least the following:

- a. description of the roles and responsibilities of their supervisory staff with respect to performing the SREP, as well as the relevant reporting lines, in both normal and emergency situations;
- b. procedures for documenting and recording findings and supervisory judgements;
- c. arrangements for the approval of the findings and scores, as well as escalation procedures where there are dissenting views within the competent authority, in both normal and emergency situations;
- d. arrangements for organising dialogue with the institution following the model of minimum engagement as stipulated in section 2.4 to assess individual SREP elements; and
- e. arrangements for consultations with an institution and communicating the outcomes of the SREP to the institution, also reflecting the interaction within colleges of supervisors for cross-border groups and their entities, also in accordance with Commission Implementing Regulation (EU) No 710/2014¹⁸.

¹⁶ EBA Guidelines on the interpretation of the different circumstances when an institution shall be considered as failing or likely to fail under Article 32(6) of Directive 2014/59/EU (EBA/GL/2015/07).

¹⁷ EBA Guidelines on triggers for use of early intervention measures (EBA/GL/2015/03).

¹⁸ Commission Implementing Regulation (EU) No 710/2014 of 23 June 2014 laying down implementing technical standards with regard to conditions of application of the joint decision process for institution-specific prudential

41. When defining arrangements for dialogue with institutions, competent authorities should consider potential implications of providing the scores to the institutions in terms of their disclosure obligations pursuant to the requirements of Regulation (EU) No 596/2014¹⁹ and Directives 2014/57/EU²⁰ and 2004/109/EC²¹.

2.4. Proportionality and supervisory engagement

42. Competent authorities should adjust the scope, frequency, granularity and intensity of supervisory engagement with an institution in accordance with its category and taking into account the principle of proportionality. When planning SREP activities, competent authorities should refer to the minimum SREP engagement model outlined in Table 1. The model maps the intensity of the supervisory engagement to the institution's category. The model should not be interpreted as an obstacle to allocate resources on identified supervisory priorities. Competent authorities may therefore, regardless of the categorisation of the institution, set the focus and granularity of their assessment to reflect the risk profile of the institution, the materiality of the different risks, trends and risks emerging through the monitoring of key indicators as outlined in Title 3, stress testing as outlined in Title 11 or the outcome of previous SREP assessments.

43. Under this model, competent authorities should form a view on all the SREP elements (business model analysis, governance/internal controls, risks to capital, and risks to liquidity and funding) according to the minimum frequency set out in Table 1, while remaining able to make a yearly meaningful and comprehensive assessment of an institution's viability (summary of the overall SREP assessment).

44. This view should be based on information gathered through the full range of supervisory activities listed in paragraph 13. In particular, information from previous years may also serve as a baseline for the assessment and summary of the overall SREP assessment, provided that the competent authority has determined - also taking into account the quarterly monitoring of the indicators - that the institution's risk profile has not materially changed.

45. Competent authorities should engage with the institutions' management body and senior management²² based on the minimum frequency indicated in Table 1. Regardless of the category of the institution, competent authorities should intensify their engagement to follow

requirements according to Directive 2013/36/EU of the European Parliament and of the Council (OJ L 188, 27.6.2014, p. 19).

¹⁹ Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market-abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC (OJ L 173, 12.6.2014, p. 1).

²⁰ Directive 2014/57/EU of the European Parliament and of the Council of 16 April 2014 on criminal sanctions for market abuse (market-abuse directive) (OJ L 173, 12.6.2014, p. 179).

²¹ Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (OJ L 390, 31.12.2004, p. 38)

²² As defined in Article 3(9) of Directive 2013/36/EU.

up on findings from previous SREP assessments or to monitor institutions with higher/rapidly changing risk profiles or with a poor overall SREP score.

46. Where institutions are part of cross-border groups, competent authorities should discuss how they plan to perform their SREP assessment within the framework of colleges of supervisors to identify concerns at an early stage and adjust and coordinate the approach among the authorities as specified in Title 10.

Table 1. Application of SREP to different categories of institutions

Category	Monitoring of key indicators	Evaluation of all SREP elements (at least)*	Summary of the overall SREP assessment	Minimum level of engagement/dialogue with institution's management body and senior management
1	Quarterly	Annual	Annual	Continuous/ongoing
2	Quarterly	Every 2 years	Annual	Continuous/ongoing
3	Quarterly	Every 3 years	Annual	Risk-based at least every 3 years
4	Quarterly	Every 3 years, extensible to 5 years**	Annual	Risk-based at least every 3 years

*With focus and granularity of the review tailored to reflect the risk profile of the institution, the materiality of the different risks, and trends and risks emerging through supervisory activities. This can be based on previous assessment if nothing has materially changed according to the available information (e.g. monitoring of indicators and reporting).

**The minimum frequency for assessing all SREP elements can be extended from 3 to 5 years for category 4 institutions provided that: (i) they have a stable low-risk profile, stable financial metrics and healthy margins; and (ii) the quarterly monitoring of KRIs does not give rise to concerns.

47. Where competent authorities determine that institutions have similar risk profiles or may be exposed to similar emerging risks, they may conduct thematic SREP assessments on multiple institutions as a single assessment (e.g. a BMA may be conducted on all small mortgage lenders given that it is likely to identify the same business viability issues for all these institutions). Competent authorities may also use tailored methodologies for the application of the SREP for institutions with similar risk profiles, such as similar business models or geographical location of exposures in accordance with Article 97(4a) of Directive 2013/36/EU.

48. For institutions covered by the supervisory examination programme required by Article 99 of Directive 2013/36/EU, competent authorities should ensure that the level of engagement and application of the SREP is determined by that programme.

49. When planning SREP activities, competent authorities should coordinate activities with other parties directly or indirectly involved in the assessment, in particular when input is required from them.

3. Title 3. Monitoring of key indicators

50. Competent authorities should regularly monitor key financial and non-financial indicators to observe changes in the financial and operational conditions and risk profiles of institutions. Where monitoring reveals a material change in the risk profile of an institution, or any anomalies in the indicators, competent authorities should investigate the causes, and, where relevant, review the assessment of the relevant SREP element, including the risk score as relevant, to capture the new information.
51. Consistent with the SREP engagement model in section 2.4, competent authorities should monitor key financial and non-financial indicators at least quarterly for all institutions and establish more frequent monitoring to reflect the specific features of an institution or emerging risks and trends, subject to data availability (e.g. market data).
52. Competent authorities should set up monitoring systems to identify patterns, material changes and anomalies in the behaviour of the indicators (or combinations of indicators), for instance by setting out alerts based on materiality thresholds. Competent authorities should set escalation procedures to deal with anomalies. Identification of material changes or anomalies in indicators, especially in cases where changes are outliers to the peer-group performance, should be considered by competent authorities as a prompt for further investigation.
53. Competent authorities should tailor the monitoring systems, and the escalation procedures in case of anomalies, to reflect the institution's size, complexity, business model and risk profile, focussing on the geographies, sectors and markets where the institution operates.
54. The monitoring systems should as a minimum be based on information and data reported to the competent authorities and may include EBA dashboards or indicators. Monitoring systems should include at least the following institution-specific indicators:
- a. indicators related to the institution's business model analysis (see Title 4), internal governance and controls (see Title 5), risks to capital (see Title 6) and risks to liquidity and funding (see Title 8); indicators for risk of excessive leverage (see Title 7) and indicators deduced from the application of Regulation (EU) 2022/2554;
 - b. all the ratios derived from the application of Regulation (EU) 575/2013 and from the national law implementing Directive 2013/36/EU for calculating the minimum prudential requirements (e.g. Core Tier 1 - CET1, liquidity coverage ratio - LCR, net stable funding ratio - NSFR, Leverage ratio, etc.);
 - c. the minimum requirements for own funds and eligible liabilities (MREL) as specified by Directive 2014/59/EU;
 - d. relevant market-based indicators (e.g. equity price, credit default swap - CDS spreads, bond spreads, etc.);

- e. where applicable²³, and particularly in case of idiosyncratic or systemic events, recovery indicators used in the institution's own recovery plans; and
- f. where available, indicators based on quantitative or qualitative information from reporting provided to competent authorities that may point to ML/TF risk.

55. Competent authorities should accompany institution-specific indicators with relevant macroeconomic indicators, where available, in the geographies, sectors and markets where the institution operates. They should also consider relevant independent market research and analysis, including threat landscape reports, where these are available, as an informative source of alternative points of view.

²³ If not waived in the context of simplified obligations as determined in article 4 of Directive 2014/59/EU.

4. Title 4. Business model analysis (BMA)

4.1. General considerations

56. This title specifies criteria for the assessment of the business model and strategy of the institution. The purpose of this assessment by competent authorities is to achieve a comprehensive understanding – both in current and forward-looking perspectives – of the institution's operations, identify significant existing or potential vulnerabilities which are most likely to have a material impact on the institution, and assess the overall soundness of its business model and strategy. Following this assessment, competent authorities should determine:

- a. the viability of the institution's current business model, measured by its ability to generate acceptable returns (e.g. in terms of return on equity higher than the cost of equity and commensurate to the risk it takes on) over the next 12 months; and
- b. the sustainability of the institution's strategy, based on its ability to generate acceptable returns (e.g. in terms of return on equity higher than the cost of equity) over a forward-looking period of at least three years, as derived from its strategic plans and financial projections.

57. Competent authorities should use the outcome of the BMA to support the assessment of all other elements of the SREP. Competent authorities may assess specific aspects of the BMA, in particular the quantitative assessment of the business model, as part of the assessment of other SREP elements (e.g. understanding the funding structure can be part of the risks to liquidity assessment).

58. Competent authorities should take into account ESG risks, in particular environmental transition and physical risks, when performing the BMA with a view to assessing the strategic and prudential implications of these risks for the business model of the institution in the short, medium and long term.

59. Competent authorities should also use the business model analysis to assess prudential implications of ML/TF risks, linked to the business model of the institution. In this respect, competent authorities should use the input received from AML/CFT supervisors to complement their findings from ongoing supervision and evaluate whether they give rise to prudential concerns related to ML/TF risk. Where the assessment indicates the business model of the institution gives rise to prudential concerns related to ML/TF risk, competent authorities should

share the outcome of the prudential assessment of the business model with the AML/CFT supervisor²⁴.

60. To conduct the BMA, competent authorities should use at least the following sources of quantitative and qualitative information:

- a. institution's strategic plan(s) with current-year and forward-looking forecasts, and underlying economic assumptions;
- b. financial reporting (e.g. profit and loss - P&L, balance-sheet disclosures);
- c. regulatory reporting (COREP, FINREP and credit register, where available);
- d. internal reporting (management information, including – where available – contribution to the profitability by business lines, capital planning, liquidity reporting, operational resilience, internal risk reports);
- e. recovery plans;
- f. resolution plans, including the work and outcome of resolvability assessment provided by the resolution authority in accordance with Article 14 of Directive 2014/59/EU;
- g. institution's plan to address ESG risks, to be prepared in accordance with Article 76(2) of Directive 2013/36/EU;
- h. third-party reports (e.g. audit reports, reports by equity/credit analysts); and
- i. other relevant macroprudential or financial stabilities studies/surveys (e.g. from the International Monetary Fund - IMF, macroprudential authorities and institutions, European institutions).

4.2. Identifying the areas of focus for the BMA

Assessment areas

61. In accordance with the engagement model set out in Title 2, competent authorities should focus their analysis on the most material assessment areas for the business model of the institution. The scope and depth of the BMA may be differentiated depending on the number and nature of supervisory reviews already performed on that institution. This assessment should in any case allow competent authorities to form a view on the overall institution's business model viability and sustainability.

62. Competent authorities should form a view on the materiality of the changes to the institution's business model compared to prior supervisory review, in order to decide the scope and depth of their assessment and the extent to which prior supervisory assessment can be used as a baseline for the new one. In forming such a view, competent authorities should in particular consider whether there have been relevant changes in the following areas of the institution:

- a. the previously communicated and assessed strategic plan;

²⁴ In accordance with the EBA AML/CFT Cooperation Guidelines (EBA/GL/2021/15).

- b. the structure and composition of the balance sheet, including changes in sources of profit and their concentration, asset growth, changes in the liabilities structure, or shift in the relevant financial and risk indicators, also considering the results of the indicator monitoring outlined in Title 3; and
- c. governance and operations, including acquisition or merger of other entities, the opening of new business lines, and changes to IT infrastructure.

Identification of most important business lines

63. Competent authorities should carry out a materiality assessment of the institution's business lines to determine the key areas for the BMA to focus on. When performing this assessment, competent authorities should take into account:

- a. the relevance of the business lines in terms of generating profits/ losses, including the geographies, subsidiaries/branches and product lines that are most material based on their contribution to the overall revenues/costs in the P&L, risk (e.g. based on TREA or other measures of risk) and/or organisational/statutory priorities (e.g. specific obligations for public sector banks to offer specific products);
- b. previous supervisory findings, including those arising from onsite inspections – where these findings can provide indicators on business lines requiring further investigation – as well as findings and observations from internal or external audit reports – whether the internal audit function has identified specific issues regarding the sustainability or viability of certain business lines;
- c. outcomes of thematic supervisory reviews – whether a sector-wide analysis has revealed common underlying issues that prompt additional institution-specific analysis;
- d. importance to strategic plans – whether there are business lines that the institution wishes to grow substantially, or decrease; and
- e. peer comparisons – whether a business line has performed atypically (been an outlier) compared to peers, where such information is available to competent authorities. To identify relevant peers for the BMA, competent authority should consider the rival product/business lines targeting the same source of profits/customers.

4.3. Assessment of BMA robustness and identification of vulnerabilities

64. Competent authorities should perform an analysis of quantitative features of the institution's current business model to assess its ability to generate acceptable profits in the short, medium and long term, given the institution's risk appetite and its funding and capital structures. Areas for analysis by competent authorities should include:

- a. drivers of profitability, including trends, by assessing the underlying elements of the institution's earning capacity, after exception items and one-offs, the breakdown of income streams, the breakdown of costs and costs allocation, impairment provisions and key ratios (e.g. net interest margin, cost/income, loan impairment, cost of risk). This assessment may

be complemented by the analysis of the relevant risk-adjusted profitability metrics (e.g. Return On Allocated Capital - ROAC or the Risk-Adjusted Return on Capital Return - RAROC), where these are available and deemed reliable;

- b. the balance sheet, including trends, by assessing the asset and liability mix, the funding structure, the change in the TREA and own funds, and key ratios (e.g. return on equity/assets, Core Tier 1, funding gap), as well as concentrations in the P&L and balance sheet related to customers, sectors and geographies; and
- c. risk appetite and tolerance levels, by assessing the formal limits put in place by the institution by risk type and its adherence to them to understand the risks that the institution is willing to take to drive its financial performance and to ensure operational resilience. This should also cover the impact tolerance for ICT disruptions.

65. Competent authorities should perform an analysis of qualitative features of the institution's current business model to understand its success drivers and key dependencies. Areas for analysis by competent authorities should include:

- a. business environment, by assessing the forward-looking environment in which the institution operates based on its main or material geographic and business exposures. As part of this assessment, competent authorities should develop an understanding of the key macroeconomic variables, market trends, the competitive landscape and other relevant developments (such as regulatory and legal changes);
- b. key internal and external dependencies, by assessing main exogenous and endogenous factors that may influence the success of the business model;
- c. franchise and areas of competitive advantage, by assessing the reputation of the institution and the strength of relationships with customers, suppliers and partners, as well whether there are areas in which the institution has a competitive advantage over its peers; and
- d. ICT support, by assessing the level and adequacy of alignment between the ICT and the business in terms of strategy, objectives, activities, resources and functions, and by considering whether any ICT-related concerns could impact the institution's business strategy and objectives.

66. Competent authorities should complement the analysis by carrying out a forward-looking analysis (both quantitative and qualitative) of the institution's financial projections and strategic plan to understand the underlying assumptions and dependencies, plausibility and riskiness of its business strategy. Areas for analysis by competent authorities should include:

- a. overall strategy and success drivers, by assessing the main quantitative and qualitative management objectives and the gap between the envisaged business model - post execution - and the current one;
- b. projected financial performance, by assessing the plausibility and consistency of the assumptions made by the institution that drive its strategy and forecasts; and
- c. execution capabilities, by assessing management's track record on delivering previous strategies and forecasts, as well as the overall ability of the institution to make use of

competitive advantages and success drivers in carrying out its business and to generate returns in an effective way. As part of this assessment, competent authorities should consider:

- i. the adequacy of the cost allocation framework - in terms of adequacy to reflect the profitability of business lines/units;
- ii. the fund transfer pricing framework – in terms of adequate determination of the net income component for each business line/unit, product and customer;
- iii. the loan pricing framework – in terms of adequate governance of the loan pricing process, pricing methodology, appropriate consideration of all the loan pricing components and ex post profitability monitoring and reporting of product pricing decisions; and
- iv. the revenue sharing framework between institutions established in the Union that are part of third-country groups and other entities of that group established outside of the Union and not consolidated by the EU parent undertaking – in terms of fair sharing of P&L between entities or business lines taking part in the life cycle of transactions, and of the adequate governance.

67. In the analysis, competent authorities should consider any indications that the business model and activities give rise to increased ML/TF risks, including crypto-asset activities or deposit-taking or establishment or use of legal entities in high-risk third countries, as identified in accordance with Article 9 of Directive (EU) 2015/849. Where present, these indications should be complemented by quantitative analysis, as appropriate, focusing in particular on the materiality of the revenues and the income from operations run in such high-risk third countries, the concentrations of exposures to customers for which the institution apply enhanced customer due diligence as set out in Chapter II, Section 3 of Directive 2015/849. Competent authorities should exchange information with the AML/CFT supervisor on these indications as laid out in paragraph 5963.

4.4. Business model viability and sustainability

68. Competent authorities should assess the resilience of the institution's business model to external shocks and its adaptability to structural changes in terms of its capacity to absorb them and adapt to exogenous factors that could threaten business and strategic objectives. Areas for analysis by competent authorities should include:

- a. climate-related and environmental risks, including those arising from the process of transition towards regulatory objectives applicable in the jurisdiction(s) where the institution operates, by assessing their impact on the institution's current and future business environment and business strategy and the institution's exposure to material transition and physical risks as well as the development and implementation of a plan to monitor and address the financial risks stemming from ESG factors;
- b. digitalisation, by assessing the use and adoption level of new technologies and impact on the institution's business strategy and business plan, execution capabilities and cost control, as well as revenue generation;

- c. operational resilience, by reviewing the institution's operational resilience framework and its consideration to the business strategy by the management body;
- d. geopolitical events, by assessing the source of geopolitical uncertainties and its inclusion in the business strategy, as well as its financial impact on the institution's current and future profitability; and
- e. crypto-asset activities, if applicable, by assessing the institution's exposures to crypto-assets or the provision of crypto-asset services and any other activities related to crypto-assets, considering the related evolving risks.

69. Based on the performed analysis, competent authorities should form, or update, their view on the following elements:

- a. key vulnerabilities to which the institution's business model and strategy expose it or may expose it, such as excessive concentrations or risk taking, poor strategic steering of profitability and execution capabilities;
- b. viability of the institution's current business model, as defined in paragraph 56, given its quantitative performance, risk appetite, funding structure, key success drivers and dependencies and business environment; and
- c. sustainability of the institution's strategy, as defined in paragraph 56, based on the plausibility of its strategic plan and financial forecasts and given the supervisory assessment of the projected financial performance, the overall strategy, level of operational resilience and the execution capabilities. Competent authorities should also consider the capacity of the institution to ensure its medium to long-term resilience to ESG risks by taking into account long time horizons of at least 10 years, including by reviewing the environmental business model resilience analyses conducted by the institution in compliance with the EBA Guidelines on environmental scenario analysis.

4.5. Summary of findings, scoring and supervisory measures

70. Based on the assessment of the viability and sustainability, and of any potential risks and vulnerabilities to the institution, competent authorities should form a view on the institution's business model. This view should be reflected in a summary of findings, accompanied by a viability score based on the considerations specified in Table 2.

Table 2. Supervisory considerations for assigning a business model score

Score	Supervisory view	Considerations
1	The business model and strategy pose a low level of risk to the viability of the institution.	• The institution has a strong competitive position in its chosen markets and a strategy likely to reinforce this. • The institution generates strong and stable returns which are commensurate to the risk it takes on, given its risk appetite and funding structure and that are not driven by excessive risk taking, or reliance on an unrealistic strategy. • There are no material asset concentrations or unsustainable concentrated sources of income.

Score	Supervisory view	Considerations
		- The institution has financial forecasts drawn up based on plausible assumptions about the future business environment. - The institution addresses strategic implications of material ESG risks, in particular environmental transition and physical risks, for its business model in the short, medium and long term through a robust transition planning process. - Strategic plans are appropriate given the current business model and management execution capabilities.
2	The business model and strategy pose a medium-low level of risk to the viability of the institution.	- The institution faces competitive pressure on its products/services in one or more key markets. Some doubt about its strategy to address the situation. - The institution generates average returns compared to peers and/or historic performance which are broadly commensurate to the risk it takes on, given its risk appetite and funding structure. - There are some asset concentrations or concentrated sources of income. - The institution has financial forecasts drawn up based on optimistic assumptions about the future business environment. - The institution broadly addresses strategic implications of material ESG risks, in particular environmental transition and physical risks, for its business model through an overall reasonable yet not fully robust transition planning process. - Strategic plans are reasonable given the current business model and management execution capabilities, but not without risk.
3	The business model and strategy pose a medium-high level of risk to the viability of the institution.	- The institution has a weak competitive position for its products/services in its chosen markets and may have few business lines with good prospects. The institution's market share may be declining significantly. There are doubts about its strategy to address the situation. - The institution generates returns that are often weak or not stable or not commensurate to the risk it takes given its risk appetite or funding structure and that raise supervisory concerns. - There are material asset concentrations or concentrated sources of income. - The institution has financial forecasts drawn up based on overly optimistic assumptions about the future business environment. - The institution addresses strategic implications of material ESG in particular environmental transition and physical risks, for its business model only partially. Its transition planning process shows some weaknesses and/or deficiencies. - Strategic plans may not be plausible given the current business model and management execution capabilities.
4	The business model and strategy pose a high level of risk to the viability of the institution	- The institution has a very poor competitive position for its products/services in its chosen markets and participates in business lines with very weak prospects. Strategic plans are very unlikely to address the situation. - The institution generates very weak and highly unstable returns or relies on an unacceptable risk appetite or funding structure to generate appropriate returns. - The institution has extreme asset concentrations or unsustainable concentrated sources of income.

Score	Supervisory view	Considerations
		• The institution has financial forecasts drawn up based on very unrealistic assumptions about the future business environment. • The institution is exposed to material ESG risks, in particular environmental transition and physical risks, and does not address strategic implications for its business model. Its transition planning process is inconsistent with the broader business strategy. Its transition planning process shows severe weaknesses and/or deficiencies. • Strategic plans are not plausible given the current business model and management execution capabilities.

71. The table below presents a non-exhaustive list of supervisory measures that competent authorities may take in case of identified deficiencies in the institution's business model. Competent authorities should decide on the type of the supervisory measure based on its effectiveness to the specific identified deficiency. Competent authorities may apply additional supervisory measures (including quantitative measures in accordance with Article 104(1)(a) of the Directive 2013/36/EU) or a combination of them if these are deemed more appropriate to address the identified deficiencies.

Table 3. Potential and non-exhaustive list of supervisory measures stemming from the BMA

Potential supervisory measures for competent authorities in accordance with Article 104(1)(b), (d), (e), (f), (m) of Directive 2013/36/EU - Competent authorities may require the institution to:
A. adjust the financial plan assumed in the strategy, if it is not supported by internal capital planning or credible assumptions;
B. make changes to organisational structures, reinforcement of risk management and control functions and arrangements to support the implementation of the business model or strategy;
C. make changes to and reinforcement of IT systems to support the implementation of the business model or strategy;
D. make changes to the business model or strategy;
E. reduce the risk inherent in the products they originate/distribute, including requiring changes to the risks inherent in certain product offerings; and/or requiring improvements to the governance and control arrangements for product development and maintenance;
D. reduce the risk inherent in its systems, including requiring improvements to the systems, or increasing the level of investment or speeding-up the implementation of new systems; and/or requiring improvements to the governance and control arrangements for system development and maintenance;
G. reduce the risk inherent in their activities, including outsourced activities and requiring changes to or reduction of certain activities with a view to reducing their inherent risk; and/or requiring improvements to governance and control arrangements and oversight of outsourced activities
H. adjust its business strategy to address ESG risks, including by requesting a reinforcement of the targets, measures, and actions included in its plan to be prepared in accordance with Article 76(2) of Directive 2013/36/EU.

5. Title 5. Assessing internal governance and institution-wide controls

5.1. General considerations

76. When assessing the internal governance and institution-wide controls, competent authorities should verify inter alia the overall compliance of the institution with the following:

Title	Reference
EBA Guidelines on internal governance	EBA/GL/2021/05 (under review)
Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders	EBA/GL/2021/06 (under review)
EBA Guidelines on ICAAP and ILAAP information	EBA/GL/2016/10
EBA Guidelines on institutions' stress testing	EBA/GL/2018/04
EBA Guidelines on loan origination and monitoring	EBA/GL/2020/06
EBA Guidelines on sound management of third-party risk	Under consultation (EBA/CP/2025/12)
Regulation on digital operational resilience for the financial sector and accompanied technical standards and guidelines ("DORA")	Regulation (EU) 2022/2554
EBA Guidelines on sound remuneration policies	EBA/GL/2021/04
EBA Guidelines on the benchmarking exercises on remuneration practices, the gender pay gap and approved higher ratios	EBA/GL/2022/06
EBA Guidelines on the applicable notional discount rate for variable remuneration	EBA/GL/2014/01
RTS on the criteria to define managerial responsibility, control functions, material business units and a significant impact on a material business unit's risk profile, and criteria for identifying staff members or categories of staff whose professional activities have an impact on the institution's risk profile that is comparably as material	Delegated Regulation (EU) 2021/923
ITS on institutions' public disclosures of the information	Implementing Regulation (EU) 2024/3172
EBA Guidelines on disclosure requirements	EBA/GL/2016/11
EBA Guidelines on the management of ESG risks	EBA/GL/2025/01
EBA Guidelines on environmental scenario analysis	Under consultation (EBA/GL/2025/02)

77. Competent authorities should assess the adequacy of the institution's internal governance arrangements, taking into account the nature, scale and complexity of the risks inherent in the business model and the institution's activities. Competent authorities should identify the extent to which the institution complies with the applicable legal and regulatory requirements regarding sound internal governance arrangements, including the ones listed in the previous paragraph, and identify any deficiencies. Competent authorities should assess whether material

risks are posed due to poor internal governance arrangements and their potential effect on the risk profile, operational resilience and sustainability of the institution. For these purposes, the following areas should be assessed, in accordance with the proportionality principle and supervisory engagement outlined in Title 2:

- a. organisational structure, management body and its committees;
- b. risk culture and business conduct;
- c. remuneration policies and practices;
- d. internal control functions;
- e. risk management framework;
- f. ICT systems, risk data aggregation and risk reporting;
- g. ML/TF risks and prudential concerns; and
- h. recovery planning governance.

78. Competent authorities should take into account ESG risks, in particular environmental transition and physical risks, when assessing the areas covered by points (a) to (f) of the previous paragraph.

79. The assessment of internal governance should inform the specific assessment of risk management and controls as specified in Titles 6 and 8, as well as the assessment of ICAAP and ILAAP in the SREP capital assessment (Title 7) and the SREP liquidity and funding assessment (Title 8). Likewise, a risk-by-risk analysis of ICAAP calculations/capital estimates reviewed under Title 7, and any deficiencies identified thereby, should inform the assessment of the overall ICAAP framework assessed under this title.

80. As part of the overall assessment of internal governance and institution-wide controls, competent authorities should evaluate the institution's ability to effectively and timely remedy the deficiencies identified and/or supervisory concerns expressed by competent authorities. In conducting this evaluation, competent authorities should consider whether the institution's track record demonstrates its ability and intention to address supervisory concerns and/or identified deficiencies in an effective and timely manner and whether this has been already taken into account in the assessment of other SREP areas. For this purpose, competent authorities should leverage on the assessment of the following elements:

- a. role of management body in (i) assessing the effectiveness of the institution's governance arrangements, in particular relating to the remediation actions, and (ii) taking appropriate measures to address supervisory concerns and/or deficiencies (effective reaction to supervisory concerns);
- b. the risk culture within the institution;
- c. the adequacy and timeliness of information provided and exchanged with the competent authority;
- d. the quality of internal reporting on remediation actions to the management body, senior management and internal control functions; and

- e. the role of internal control functions in reviewing the adequacy and effectiveness of the remediation actions undertaken.

81. When conducting the assessment of internal governance and institution-wide controls at subsidiary level, in addition to the elements listed in this title, competent authorities should assess whether group-wide policies and procedures are implemented consistently at subsidiary level and whether group entities have taken appropriate measures to ensure that their activities are compliant with all applicable laws and regulations.

5.2. Organisational structure, management body and its committees

82. In assessing the institution's organisational structure, management body and its committees, competent authorities should assess institution's compliance with Articles 74, 88, 91 of Directive 2013/36/EU, EBA Guidelines on internal governance and the Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders. In the context of assessing the institution's organisational and operational structure, and where applicable the group's, competent authorities should consider inter alia whether:

- a. it is appropriately and clearly established, with well-defined, transparent and consistent lines of responsibility, including for the management body and its committees;
- b. it is suitable for the size and the complexity of the business and operations; and
- c. it is transparent to stakeholders, including staff and shareholders.

83. In the context of assessing the institution's management body, competent authorities should consider inter alia whether:

- a. the management body knows and understands the institution's legal, organisational and operational structure ('know your structure') and its risks, including appropriate oversight;
- b. where applicable, the management body of the consolidating institution understands both the organisation of the group and the roles of its different entities, and the links and relationships among them;
- c. the management body collectively has an appropriate understanding of the institution's business model and activities and keeps up to date with sufficient knowledge and skills on relevant risks, including on ICT risks, ESG risks and other emerging risks, through regular training;
- d. the institution has a policy to promote diversity and inclusion within the management body and regularly assesses these, including gender balance, and whether the composition, functioning and succession planning of the management board support effective decision-making and reflect the institution's diversity and inclusion objectives;
- e. the members of the management body interact effectively, including between its management and supervisory functions;

- f. each member of the management body acts with independence of mind, with sufficient time commitment and is appropriately informed of the risk situation of the institution; and
- g. the management body in its supervisory function has established, where applicable, risk, audit, nomination and remuneration committees and whether these committees fulfil their tasks as prescribed by the applicable legal and regulatory framework.

84. When reviewing the composition and functioning of the institution's management body and its committees, competent authorities should also consider any relevant findings from the suitability assessments performed by the institution, or where relevant by the competent authorities, on the institution's members of the management body and key function holders. Competent authorities should review the outcome of the identification process of key function holders by the institution and evaluate the level of individual accountability by taking into account the individual statements on the roles and duties of all members of the management body in its management function, senior management and key function holders and the mapping of duties, including details of the reporting lines, of the lines of responsibility, and of the persons who are part of the governance arrangements of the institution, and of their duties.

5.3. Risk culture and business conduct

85. In assessing the institution's risk culture and business conduct, competent authorities should assess institution's compliance with the EBA Guidelines on internal governance. In this context, competent authorities should consider inter alia whether:

- a. the institution has consistent corporate values and a sound risk culture, which (i) are supported by effective and robust policies and procedures, communication and training to all staff, including a code of conduct and appropriate framework for managing conflicts of interests and reporting mechanisms to foster responsible, ethical behavior and to monitor and manage related party exposures, and (ii) promote an environment of open communication and effective challenge;
- b. the management body, senior management and key function holders are committed in promoting a strong risk and corporate culture and responsible business conduct;
- c. a strong level of risk awareness is demonstrated across the institution; and
- d. the institution integrates risk awareness into its decision-making processes, including appropriate risk ownership;

86. Competent authorities should assess whether the institution has an appropriate framework in place to identify, document and manage related party transactions, including an approval process, exposure limits, arm's length terms, monitoring and reporting mechanisms. Competent authorities should also evaluate the level of oversight by the management body.

5.4. Remuneration policies and practices

87. In assessing the institution's remuneration policies and practices, competent authorities should assess institution's compliance with Articles 74, 92, 94 of Directive 2013/36/EU, Delegated

Regulation (EU) 2021/923 and the EBA Guidelines on sound remuneration policies. In this context, competent authorities should consider inter alia whether:

- a. the institution has implemented appropriate and gender-neutral remuneration policies and practices for all staff, approved, regularly reviewed and overseen by the management body, and whether these policies adhere to the applicable legal and regulatory requirements;
- b. the internal control functions are involved in the design of the remuneration policies and verify their proper review, monitoring and update;
- c. the remuneration policies and practices promote sound and effective risk management, including by taking into consideration the institution's risk appetite in terms of ESG risks, and are consistent with the institution's business and risk strategies, risk culture and corporate values, the long-term interests of the institution, conflicts of interest measures and do not provide incentives for excessive risk-taking;
- d. the institution has correctly identified all its staff whose activities have a material impact on its risk profile in accordance with the applicable legal and regulatory requirements;
- e. the ratio of variable and fixed remuneration is appropriate and the variable remuneration component does not exceed 100% of the fixed remuneration component (or 200% with shareholders' approval) for the identified staff;
- f. the institution has made a proper allocation of the fixed and variable components, with no use of vehicles or practices to circumvent remuneration requirements; and
- g. variable remuneration is based on performance (considering both financial and non-financial criteria) and whether the institution adheres to related legal and regulatory requirements on deferral and retention periods, pay out in instruments, clawback and malus clauses.

5.5. Internal control functions

88. In assessing the institution's internal control functions, competent authorities should assess institution's compliance with the EBA Guidelines on Internal Governance and the relevant provisions of the DORA framework. In this context, competent authorities should consider inter alia whether:

- a. the institution has an appropriate internal control framework covering all areas, consistent with the 'three lines of defence' model, including well-functioning, effective and independent risk management, compliance and internal audit functions;
- b. the heads of internal control functions (i) are established at an adequate hierarchical level that provides them with the appropriate authority and stature needed to fulfil their responsibilities, (ii) have direct access and can report directly to the management body in its supervisory function, and (iii) have all the resources necessary to perform their tasks; and
- c. the institution has adequate written internal control policies effectively implemented and a clear allocation of responsibilities for the implementation of the framework, segregation of duties, sound administrative and accounting procedures and robust reporting arrangements.

89. Competent authorities should assess whether the risk management function covers the whole institution, having a holistic view of all risks, is actively involved at an early stage in elaborating the institution's risk strategy and monitors its effective implementation. Competent authorities should also determine whether the risk management function provides the management body with complete, updated and relevant risk-related information to enable setting the institution's risk appetite level and related risk limits. Competent authorities should also consider the risk management function's assessment of the robustness and sustainability of the risk strategy and appetite as well as its involvement in the evaluation of the impact of material changes or exceptional transactions on the institution's and group's (where applicable) overall risk.
90. Competent authorities should assess whether the compliance function effectively assesses and mitigates risks from non-compliance with applicable legal and regulatory requirements, contractual obligations or internal rules and codes of conduct, including ethical rules, and ensures that all material management decisions take into account these risks.
91. Competent authorities should assess whether the internal audit function independently reviews and provides objective assurance, in accordance with the audit plan and detailed work programme, on the appropriateness and effectiveness of the institution's policies, procedures and internal controls and on the compliance of all the institution's activities, including activities provided by third-party service providers, with legal and regulatory requirements. Where applicable, competent authorities should assess whether the group-wide internal audit function is independent, has a group-wide risk-based audit plan, has appropriate resources and stature and has a direct reporting line to the management body of the consolidating institution.

5.6. Risk management framework

92. In assessing the institution's risk management framework, competent authorities should assess institution's compliance with the EBA Guidelines on Internal Governance, the EBA Guidelines on the sound management of third-party risk and the DORA framework. In this context, competent authorities should consider inter alia whether:
- a. the institution has established an appropriate risk management framework and risk management processes, encompassing an appropriate and implemented risk strategy, risk appetite, including a third-party risk management policy, ICAAP and ILAAP frameworks and stress testing capabilities and results;
 - b. where applicable, the group-wide risk management framework covers all material risks regardless of whether the risk arises from entities not subject to consolidation and establishes a comprehensive view on all risks the institution is or might be exposed to;
 - c. the management body has the ultimate responsibility for the risk strategy, risk appetite and risk management framework and provides appropriate direction and oversight;
 - d. the institution, and where applicable the consolidating institution, has documented and implemented an appropriate risk strategy and risk appetite, which cover all the institution's material risks, contain risk limits and tolerances, and reflect the institution's financial resources;

- e. the risk management framework establishes adequate procedures for risk identification, measurement, mitigation and monitoring and the extent to which it is embedded in, and how it influences, the overall strategy of the institution;
- f. the decision-making processes are clear, transparent and adequately documented, and take into account the appropriate risk considerations, and whether policies and amendments to policies are communicated in a proper and timely manner; and
- g. there are appropriate and consistent links between the business strategy, risk strategy, digital operational resilience strategy, risk appetite and risk management framework, and the capital and liquidity management frameworks, as well as the institution's plans to address ESG risks in accordance with Article 76(2) of Directive 2013/36/EU.

93. Competent authorities should assess whether the institution has in place a well-documented new product approval policy, approved by the management body, that addresses the development of new markets, products and services, and significant changes to existing ones, including exceptional transactions. Competent authorities should also consider whether the risk management and compliance functions are appropriately involved in the assessment and approval of new products or significant changes to existing ones, with approvals linked to the adequacy of the respective controls.

ICAAP and ILAAP frameworks

94. In assessing the institution's ICAAP and ILAAP frameworks, competent authorities should assess institution's compliance with the EBA Guidelines on ICAAP and ILAAP information. The assessment of the institution's ICAAP and ILAAP frameworks should encompass periodic review of the ICAAP and ILAAP and determine their soundness, effectiveness and comprehensiveness. In this regard, competent authorities should:
- a. assess how ICAAP and ILAAP are integrated into the institution's overall risk management and strategic management practices, including capital and liquidity planning, as well as the extent of their forward-looking nature;
 - b. consider the appropriateness of the ICAAP and ILAAP to assess and maintain an adequate level of internal capital and liquidity to cover the institution's risks and to take sound business decisions (e.g. in relation to allocating capital under the business plan), including under stressed conditions;
 - c. assess whether the ICAAP and ILAAP are embedded into the decision-making and management processes at all levels in the institution (e.g. limit setting, performance measurement, etc.);
 - d. verify whether the ICAAP and ILAAP frameworks are subject to regular oversight by the management body, including the approval of these frameworks and their outcomes;
 - e. assess whether the ICAAP and ILAAP are consistently and proportionately implemented in all the institution's business lines and legal entities and cover all material risks to which the institution is or might be exposed to;

- f. assess compliance with related legal and regulatory requirements and also consider whether institution's ICAAP identifies emerging risks and/or low-probability, high-impact risks, including ICT risks, environmental risks and geopolitical uncertainties; and
- g. assess whether any deviations from the institution's standard ICAAP or ILAAP for one or more of its legal entities or business lines are justified.

95. These assessments should contribute to the determination of P2R and to the assessment of capital adequacy as outlined in Title 7, as well as to the evaluation of liquidity and funding adequacy as outlined in Title 8.

Assessment of institution's stress testing

96. In assessing the institution's stress testing, competent authorities should assess institution's compliance with the EBA Guidelines on stress testing and the EBA Guidelines on environmental scenario analysis for the integration of environmental risks. This assessment encompasses the review of the institution's stress testing programme, taking into account the size and internal organisation, and the nature, scale and complexity of the activities of the institution.

97. Competent authorities should perform a qualitative assessment of the institution's stress testing programme, as well as a quantitative assessment of the results of stress tests. Competent authorities should consider the outcomes of qualitative and quantitative assessments together with the results of supervisory stress tests (see Title 11) for the purposes of assessing capital and liquidity adequacy and determining the appropriate supervisory response to the deficiencies identified. If the stress testing review identifies deficiencies in the institution's governance and institution-wide controls, these should be considered by competent authorities in the assessment of these areas. Furthermore, the results of an institution's stress tests can be used for the assessment of the institution's capital planning, and in the quantification of liquidity requirements for the assessment of liquidity adequacy.

98. Competent authorities should assess the extent to which stress testing is embedded in the institution's risk management framework, including how stress testing is considered in the processes of setting up the institution's risk appetite and limits. Furthermore, competent authorities should assess the involvement of institution's senior management and management body in the stress testing programme, including the related internal reporting, and the degree of integration of stress testing and its outcomes into the decision-making processes.

99. When assessing the stress testing programme, the results of stress tests and proposed management actions, competent authorities should consider both idiosyncratic and system-wide perspectives. Competent authorities should consider the feasibility of management actions in stress situations, including whether the timelines for the implementation of the actions are realistic and consider the idiosyncrasies of the institution. For the review of stress testing programmes of cross-border groups, competent authorities should take into account potential barriers to the transferability of capital and liquidity within groups and the functioning of any intra-group financial support arrangements, which may arise in stressed conditions.

100. Competent authorities should assess the results of stress tests and whether the institution is able to maintain the applicable TSCR, at all times, in an adverse scenario and if it has identified a set of management actions to address any potential breaches of the TSCR. Competent authorities should also consider the impact of stress tests on the institution's leverage ratio, as well as its eligible liabilities held for the purposes of minimum requirements for eligible liabilities (MREL) as referred to in Directive 2014/59/EU.
101. In the assessment of stress test results, competent authorities should also consider all known future regulatory changes affecting the institution within the scope and the time horizon of the stress test exercise.

5.7. ICT systems, risk data aggregation and risk reporting

102. Competent authorities should assess whether the institution's ICT systems are reliable, resilient and adequate to measure, assess and report on the size, composition and quality of exposures across all the institution's risk types, products and counterparties and fully support risk data aggregation capabilities at normal times and times of stress.
103. Competent authorities should verify whether the institution develops and maintains appropriate risk data aggregation and risk reporting capabilities commensurate with its risk profile. In particular, competent authorities should assess whether the institution is able to generate accurate, consistent, complete and reliable risk data and reporting for the entire institution, capturing all material risks, and appropriately reflecting the institution's risk profile and capital and liquidity needs, and whether these can be aggregated and made available in a timely and flexible manner to the management body and senior management. Where applicable, competent authorities should assess whether the institution has established an effective group-wide management information and reporting system applicable to all business units and legal entities, and this information is available to the management body of the institution's parent undertaking on a timely basis.
104. Competent authorities should determine whether the management body of the institution and senior management review and approve the institution's risk data aggregation and risk reporting framework, including deployment of adequate resources to support these efforts. Competent authorities should also assess whether the institution's risk data aggregation capabilities and risk reporting practices are independently validated by the second line of defense.

5.8. ML/TF risks and prudential concerns

105. When analysing the internal governance framework and institution-wide controls, competent authorities should also take into account the assessments received from AML/CFT supervisors and evaluate whether these give rise to prudential concerns. Conversely, where the competent authority's assessment indicates the shortcomings in an institution's internal controls and governance framework and institution-wide controls give rise to prudential concerns related to

ML/TF risk, competent authorities should share the outcome of that assessment with AML/CFT supervisors.

106. Competent authorities should assess whether the institution's overall internal governance and risk management framework includes also the management of the ML/TF risks.

107. Competent authorities should assess from a prudential perspective whether the roles and responsibilities of the management body with regard to the AML/CFT framework are being complied with. Competent authorities should take into account any supplementary information received from the AML/CFT supervisors following their assessment in line with the EBA Guidelines on policies and procedures in relation to compliance management and the role and responsibilities of the AML/CFT Compliance Officer²⁵.

5.9. Recovery planning governance

108. To assess internal governance and institution-wide controls, competent authorities should consider findings and deficiencies identified in the assessment of the recovery planning governance framework conducted in accordance with Articles 6 and 8 of Directive 2014/59/EU.

109. Similarly, findings identified from the assessment of the SREP elements, including internal governance and institution-wide control arrangements, should inform the assessment of institution's recovery plans.

5.10. Summary of findings, scoring and supervisory measures

110. Following the above assessment, competent authorities should form a view on the adequacy of the institution's internal governance arrangements and institution-wide controls. This view should be reflected in a summary of findings, accompanied by a viability score based on the considerations specified in Table 4.

Table 4. Supervisory considerations for assigning a score for internal governance and institution-wide controls

Score	Supervisory view	Considerations
1	Deficiencies in internal governance and institution-wide control arrangements pose a low level of risk to the viability of the institution.	• The institution has a robust and transparent organisational structure with clear responsibilities and separation of risk-taking from risk management and control functions. • The composition and functioning of the management body are appropriate. • The time commitment of the management body members is appropriate and they comply with the limitation on the number of directorships, where relevant. • There is a sound risk culture and business conduct, including management of conflicts of interest and whistleblowing processes.

²⁵ EBA/GL/2022/05

Score	Supervisory view	Considerations
		• The institution has adopted a diversity policy that fosters a diverse management body composition and complies with the targets set. • The remuneration policy is in line with the institution's risk strategy and long-term interests. • The risk management framework and risk management processes, including the ICAAP, ILAAP, NPAP, stress testing framework, capital planning and liquidity planning, are appropriate. • The internal control framework and internal controls are appropriate. • The risk management, compliance and internal audit functions are independent, operate effectively, have sufficient resources, and the internal audit function operates in accordance with established international standards and requirements. • ICT systems, risk data aggregation and risk reporting are appropriate. • The integration of ESG risks into the internal governance and risk management framework is appropriate. • The recovery planning governance framework is appropriate. • The institution addresses swiftly identified deficiencies and/or concerns expressed by competent authorities and effectively remediates them within a short timeframe providing satisfactory outcomes. Additionally, the institution proactively reports and informs the competent authorities throughout this process.

Score	Supervisory view	Considerations
2	Deficiencies in internal governance and institution-wide control arrangements pose a medium-low level of risk to the viability of the institution.	• The institution has a largely robust and transparent organisational structure with clear responsibilities and separation of risk-taking from risk management and control functions. • The composition and functioning of the management body are largely appropriate. • The time commitment of the management body members is largely appropriate, and, where relevant, they comply with the limitation on the number of directorships. • There is a largely sound risk culture and business conduct, including management of conflicts of interest and whistleblowing processes. • The institution has adopted a diversity policy that fosters a diverse management body composition, and largely complies with the targets set or has implemented appropriate measures to achieve the targets set in the policy. • The remuneration policy is largely in line with the institution's risk strategy and long-term interests. • The risk management framework and risk management processes, including the ICAAP, ILAAP, NPAP, stress testing framework, capital planning and liquidity planning, are largely appropriate. • The internal control framework and internal controls are largely appropriate. • The risk management, compliance and internal audit functions are independent and their operations are largely effective. • ICT systems, risk data aggregation and risk reporting are largely appropriate. • The integration of ESG risks into the internal governance and risk management framework is largely appropriate. • The recovery planning governance framework is largely appropriate. • The institution is able to adequately address most of the deficiencies identified and/or concerns expressed by competent authorities, within an acceptable timeframe and – where applicable – complies with the reporting requirements set by the competent authorities in relation to these deficiencies.
3	Deficiencies in internal governance and institution-wide control arrangements pose a medium-high	• The institution's organisational structure and responsibilities are not fully transparent and risk-taking is not fully separated from risk management and control functions.

Score	Supervisory view	Considerations
	level of risk to the viability of the institution.	• There are doubts about the appropriateness of the composition and functioning of the management body. • There are doubts about the appropriate time commitment of the management body member and where relevant they do not comply with the limitation on the number of directorships. • There are doubts about the appropriateness of the risk culture and business conduct, including management of conflicts of interest and/or whistleblowing processes. • The institution has not adopted a diversity policy and has not implemented measures to achieve an appropriate level of diversity within the management body. • There are concerns that the remuneration policy may not be aligned with the institution's risk strategy and long-term interests. • There are doubts about the appropriateness of the risk management framework and risk management processes, including the ICAAP, ILAAP, NPAP, stress testing framework, capital planning and/or liquidity planning. • There are doubts about the appropriateness of the internal control framework and internal controls. • There are doubts about the independence and effective operation of the risk management, compliance and internal audit functions. • There are doubts about the appropriateness of ICT systems, risk data aggregation and risk reporting. • There are doubts about the appropriateness of the integration of ESG risks into the internal governance and risk management framework. • The recovery planning governance framework was assessed as potentially having material deficiencies and/or having material impediments to its effective implementation and supervisory concerns have not been fully addressed. • The institution faces significant challenges or demonstrates limited intention to adequately address the deficiencies identified and/or concerns expressed by competent authorities, in terms of the quality of the remediation actions and/or the timeframe for their implementation, which might indicate

Score	Supervisory view	Considerations
		the need for escalation. The institution also has challenges in reporting on its remediation status to competent authorities.
4	Deficiencies in internal governance and institution-wide control arrangements pose a high level of risk to the viability of the institution.	• The institution's organisational structure and responsibilities are not transparent and risk-taking is not separated from risk management and control functions. • The composition and functioning of the management body are inappropriate. • The time commitment of the management body members is insufficient, and, where relevant, they do not comply with the limitation on the number of directorships. • The risk culture and business conduct, including management of conflicts of interest and/ or whistleblowing processes are inappropriate. • The institution has not adopted a diversity policy, the management body is not diverse and the institution has not implemented measures to aim for an appropriate level of diversity. • The remuneration policy is not aligned with the institution's risk strategy and long-term interests. • The risk management framework and the risk management processes, including the ICAAP, ILAAP, NPAP, stress testing framework, capital planning and/or liquidity planning, are inappropriate. • The risk management, compliance and/or internal audit functions are not independent, not operating effectively and/or the internal audit function is not operating in accordance with established international standards and requirements. • The internal control framework and internal controls are inappropriate. • The ICT systems, risk data aggregation and risk reporting are inappropriate. • The integration of ESG risks into the internal governance and risk management framework is inappropriate. • The recovery planning governance framework was assessed as having material deficiencies and/or having material impediments to its effective implementation and supervisory concerns have not been fully addressed. • The institution is unable or does not intend to adequately address deficiencies identified

Score	Supervisory view	Considerations
		and/or concerns expressed by competent authorities and lacks the capability to remedy them within an acceptable timeframe, following escalation from competent authorities. The institution also has severe challenges in reporting on its remediation status to competent authorities.

111. The table below presents a non-exhaustive list of supervisory measures that competent authorities may take in case of identified deficiencies in institution's internal governance and institution-wide controls. Competent authorities should decide on the type of supervisory measure based on its effectiveness towards the specific identified deficiency. Competent authorities may apply additional supervisory measures or a combination of these with the ones listed in the table below, if these are deemed more appropriate to address the identified deficiencies. For breaches of DORA, competent authorities should consider the applicable corrective and remedial measures provided in Article 50 of DORA.

Table 5. Potential and non-exhaustive list of supervisory measures stemming from the assessment of institution's internal governance and institution-wide controls

Potential supervisory measures for competent authorities in accordance with Article 104(1)(b), (d), (e), (f), (g), (j), (m), (n) of Directive 2013/36/EU and Article 50 of Regulation (EU) 2022/2554 – Competent authorities may require the institution to:
A. enhance and have a more active involvement of the management body or its committees;
B. develop and implement corrective action plans to address deficiencies;
C. strengthen internal controls;
D. improve the internal governance framework;
E. enhance reporting mechanisms and oversight;
F. limit variable remuneration;
G. implement compliance management systems;
H. have additional or more frequent reporting requirements;
I. reinforce specific arrangements, processes, mechanisms and strategies;
J. reperform stress tests using modified assumptions;
K. enhance governance and risk management arrangements applied to ESG risks.

6. Title 6. Assessing risks to capital

6.1. General considerations

112. Competent authorities should assess and score the risks to capital that have been identified as material for the institution.
113. The purpose of this title is to provide common methodologies to be considered for assessing individual risks and risk management and controls. It is not intended to be exhaustive and gives leeway to competent authorities to take into account other additional criteria that may be deemed relevant based on their experience and the specific features of the institution.
114. This title provides competent authorities with guidance for the assessment and scoring of the following risks to capital:
- a. credit and counterparty risk;
 - b. market risk;
 - c. operational risk; and
 - d. interest rate risk from non-trading activities (IRRBB).
115. The title also identifies a set of subcategories within each risk category above, which need to be taken into account when risks to capital are assessed. Depending on the materiality of any these subcategories to a particular institution, they can be assessed and scored individually. Annexes I-IV present non-exhaustive lists of sub-categories for credit risk, market risk, operational risk and IRRBB that competent authorities should consider, when relevant.
116. The decision on materiality depends on the supervisory judgement. However, for FX lending risk, in light of the ESRB Recommendation on lending in foreign currencies²⁶, materiality should be determined taking into account the following threshold: loans denominated in foreign currency to unhedged borrowers constitute at least 10% of an institution's total loan book (total loans to non-financial corporations and households), where such a total loan book constitutes at least 25% of the institution's total assets.
117. Competent authorities should also assess other risks that are identified as material to a specific institution but are not listed above (e.g. pension risk, strategic and business risk, step-in risk, intra- and inter-risk concentration). The following may assist with the identification process:
- a. drivers of TREA;
 - b. risks identified in the institution's ICAAP;

²⁶ESRB Recommendation on lending in foreign currencies (ESRB/2011/1), OJ C 342, 22.11.2011, p. 1.

- c. risks arising from the institution's business model (including those identified by other institutions operating a similar business model);
- d. information stemming from the monitoring of key indicators;
- e. findings and observations from internal or external audit reports; and
- f. recommendations and guidelines issued by the EBA, as well as warnings and recommendations issued by macroprudential authorities or the ESRB.

118. The above elements should also be taken into account by competent authorities when they are planning the intensity of their supervisory activity in relation to the assessment of a specific risk.

119. For credit, market and operational risk, competent authorities should verify the institution's compliance with the minimum requirements specified in the relevant EU and national implementing legislation. However, these guidelines extend the scope of the assessment beyond those minimum requirements to allow competent authorities to form a comprehensive view on risks to capital.

120. When evaluating risks to capital, competent authorities should also consider the potential impact of funding cost risk following the methodology included in Title 8 and may decide on the necessity of measures to mitigate this risk.

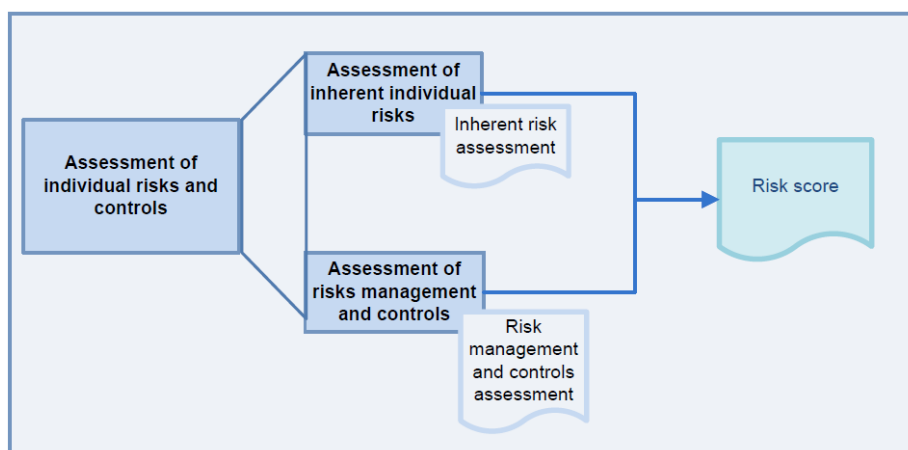
121. In their implementation of the methodologies specified in this title, competent authorities should identify relevant quantitative indicators and other metrics, which could also be used to monitor key indicators, as specified in Title 3.

122. For each material risk, competent authorities should assess and reflect in the risk score:

- a. inherent risk (risk exposures); and
- b. the quality and effectiveness of risk management and controls.

123. This assessment flow is represented in Figure 2 below.

Figure 2. Assessment workflow for risks to capital



124. When performing their assessments, competent authorities should use all available information sources, including regulatory reporting, ad hoc reporting agreed with the institution, the institution's internal metrics and reports (e.g. internal audit report, risk management reports, information from the ICAAP), on-site inspection reports and external reports (e.g. the institution's communications to investors, rating agencies). While the assessment is intended to be institution-specific, comparison with peers should be considered to identify potential exposure to risks to capital. For such purposes, peers should be defined on a risk-by-risk basis and might differ from those identified for BMA or other analyses.
125. In the assessment of risks to capital, competent authorities should also evaluate the accuracy and prudence of the calculation of minimum own fund requirements to identify situations where minimum own funds calculations may underestimate the actual level of risk. This assessment would inform the determination of the P2R as provided in section 7.2.3.
126. The outcome of the assessment of each material risk should be reflected in a summary of findings that provides an explanation of the main risk drivers, and a risk score, as specified in the following sections.

6.2. Assessment of credit and counterparty risk

6.2.1. General considerations

127. When assessing the credit risk management framework, competent authorities should verify inter alia the overall compliance of the institution with the following:

Title	Reference
EBA Supervisory handbook for the validation of internal ratings-based systems	EBA/REP/2023/29
EBA Guidelines on the management of ESG risks	EBA/GL/2025/01
EBA Guidelines on internal governance	Under revision (EBA/GL/2021/05)
EBA Guidelines on loan origination and monitoring	EBA/GL/2020/06
EBA Guidelines on management of non-performing and forborne exposures	EBA/GL/2018/06
EBA Guidelines on connected clients under Article 4(1)(39) of Regulation (EU) No 575/2013	EBA/GL/2017/15

128. Competent authorities should assess credit risk arising from all non-trading book exposures (including off balance sheet items). They should also assess the counterparty credit risk and the settlement risk that could fall under both non-trading and trading books. In order to perform such assessment, competent authorities should consider all the components that determine potential credit losses, and in particular:
- the probability of a credit event (i.e. default), or correlated credit events, that mainly concerns the borrowers and their ability to repay relevant obligations;
 - the size of exposures subject to credit risk; and
 - the recovery rate of the credit exposures in the event of borrowers defaulting.

129. Competent authorities should take into account the possibility that these components may deteriorate over time and worsen compared to expected outcomes.
130. Competent authorities should assess the impact of ESG risks on the inherent credit risk as well as the adequacy of the credit risk controls related to ESG risks. In particular, competent authorities should consider environmental transition and physical risks when carrying out the assessment of credit concentration risk and real estate risk, as well as when assessing credit risk in specific portfolios or exposure classes considered as materially exposed to environmental risks.
131. In addition, competent authorities should also pay attention to consideration given to ML/TF risks within the context of the credit-granting process, including whether the institution has systems and controls in place to ensure funds used to repay loans are from legitimate sources.

6.2.2. Assessment of inherent credit risk

Identification of material sources of credit risk

132. Competent authorities should assess credit risk from both a current and forward-looking perspective, integrating the analysis of the current portfolio's credit risk with the assessment of the institution's credit risk strategy, risk appetite and risk limits (potentially as part of the wider assessment of strategy carried out as part of the BMA). Competent authorities should also consider how the expected, as well as the stressed, macro-economic developments could affect those elements.
133. To assess the inherent credit risk of an institution, competent authorities should first identify its credit risk exposure. To achieve this and ensure consistent identification of the sources of credit risk the institution is or might be exposed to, they should consider the following sources of information:
 - a. regulatory reporting templates, such as COREP and FINREP, taking into account the relevant regulatory exposure classes based on the institution's approach to own funds requirements (i.e., standardized or IRB);
 - b. insights gained from the assessment of other SREP elements (such as the BMA) and from prior supervisory activities; and
 - c. comparisons of the institution's position with its peers, where available. In particular, for institutions using the internal ratings-based approach, competent authorities should consider the result of the supervisory benchmarking exercise carried in accordance with Article 78 of the Directive 2013/36/EU.
134. Competent authorities should focus their assessment primarily on the most significant identified sources of credit risk, evaluating their materiality for the institution from a prudential perspective. To conduct this assessment, they should consider the following elements:
 - a. the credit risk strategy and appetite and relevant limits;

- b. the amount of exposure value for the considered portfolio, compared to the total exposure value of credit exposures, including its growth over time;
 - c. the amount of own funds requirement for credit risk for the considered portfolio compared to the total own funds requirement, including its growth over time;
 - d. where relevant, the internal capital allocated for credit risk for the considered portfolio by the institution compared to the total internal capital; and
 - e. the composition and quality of the institution's on- and off-balance sheet credit-related items in the performing (including forborne exposure) and non-performing portfolio, including the level and change over time of impairments and write-offs and of the default rates of the credit portfolio.
135. Competent authorities should assess the materiality of the risk in relation to the current portfolio, as well as with an historical and forward-looking perspective (previous change in these figures and forecasts, where available).
136. As additional source of information for the materiality assessment, competent authorities should – where available and appropriate – consider the internal credit risk parameters used by the institution. This includes assessing their adequacy in accurately quantifying credit risk exposures across different portfolios, with particular attention to evidence from the yearly report produced by the validation function of the institution, and more specifically on backtesting outcomes – that is, comparing estimated parameters with observed outcomes as conducted by the institution. Competent authorities should place emphasis on portfolios where the estimated parameters have underestimated the observed outcomes.
137. Competent authorities should also consider the results of stress tests performed by the institution to identify any previously unidentified sources of credit risk, such as those emerging from changes in credit quality, credit concentrations, collateral value and credit exposure during a stressed period.
138. Based on the materiality assessment performed in the previous paragraphs, as well as the size and complexity of the institution's credit risk and credit portfolio, competent authorities should choose the relevant level of details for the assessment.

Nature, size and composition of the institution's credit portfolio (on- and off-balance sheet credit-related items)

139. Competent authorities should assess the nature of the credit exposures (i.e. the types of borrowers and exposures) and analyse the composition of the institution's credit portfolio. In performing this assessment, competent authorities should also consider how the nature of credit risk exposure can affect the size of exposure (e.g. credit lines/undrawn commitments drawn down by borrowers, foreign currency denomination, etc.), taking into consideration the institution's legal capacity to unilaterally cancel undrawn amounts of committed credit facilities.

140. To assess the nature of credit risk, competent authorities should consider at least the following subcategories of credit risk by carrying out a more detailed assessment of those subcategories which are considered most relevant for the institution²⁷:

- a. credit concentration risk;
- b. counterparty credit risk and settlement and delivery risk;
- c. country risk;
- d. credit risk from securitisations;
- e. FX lending risk;
- f. real estate risk;
- g. equity risk in the banking book;
- h. dilution risk; and
- i. model risk for regulatory approved models.

141. Where specialised lending exposures are deemed material, competent authorities should assess such exposures separately from other lending activities, given that the risk of such exposures lies in the profitability of the asset or project financed (e.g. commercial real estate, energy plant, shipping, commodities, etc.) rather than the borrower (which is generally a special purpose vehicle). In conducting this assessment, competent authorities should consider:

- a. the profitability of the projects and the conservativeness of the assumptions underlying the business plans (including the credit risk of the main customers);
- b. the impact of changes in regulation, especially for subsidised sectors, on future cash flows;
- c. the impact of changing market demand, where relevant, and the existence of a market for the potential future sale of the object financed;
- d. the existence of a syndicate or of other lenders sharing the credit risk;
- e. any form of guarantee pledged by the sponsors; and
- f. the potential increase in concentration risk that these activities may entail.

Portfolio credit quality

142. When assessing portfolio credit quality, competent authorities should pay particular attention to the adequacy of the classification of credit exposures and assess the impact of potential misclassification, with the subsequent delay in the provisioning and recognition of losses by the institution.

143. Competent authorities should carry out an analysis to distinguish between performing, non-performing and forborne exposure categories, considering both the number of obligors and the relevant amounts/volumes. Competent authorities should assess the overall credit quality

²⁷ Please refer to Annex I for a non-exhaustive breakdown of credit risk sub-categories and further details on their assessment.

at portfolio level and the different quality grades within each of the above categories to determine the institution's overall credit risk. As part of this assessment, competent authorities should analyse default and migration risk by exposure classes, taking into account trends in the credit quality over time, and they should consider whether the actual portfolio credit quality is consistent with the stated risk appetite and establish reasons for any deviations.

144. This should result in an overall assessment on the end-to-end credit cycle of the institution, from origination through the monitoring and management of each exposure categories. In conducting these analysis, competent authorities should employ peer comparison and use benchmark portfolios (i.e. portfolios of borrowers common to groups of institutions) where appropriate and possible. This analysis should be carried out taking into account:

- a. asset quality indicators, historical trends and grow rates by types of borrowers, sectors and product, borrowers' credit grade distribution, historical migration rates across credit grades, delinquency and default rates for different time horizons;
- b. the non-performing rates and coverage per portfolio, sector, geography and changes over time, also taking into account the relevant inflows/outflows from each relevant portfolio, the distribution of the exposures across classes of non-performing exposures (i.e. past-due, doubtful, etc.), the level and change over time of impairments and write-offs for each relevant driver, historical recovery rates and the duration of the recovery process, foreclosed assets and changes over time, as well as the time since exposures were classified as non-performing.

145. Competent authorities should assess whether the level of loan loss provisions and credit valuation adjustments are appropriate for the quality of the exposures and, where relevant, for the level of collateral, assessing in particular whether the level of loan loss provisions is consistent with the level of risk in different portfolios, over time and compared with the institution's relevant peers as well as relevant macro-economic developments and whether the credit valuation adjustments to derivatives' market values reflect the creditworthiness of relevant counterparties. Where deemed necessary, competent authorities should use on-site inspections or other appropriate supervisory actions to assess whether or not the level of loan loss provisioning and risk coverage is adequate, by assessing a sample of loans, for example. When conducting such assessment, competent authorities should also consider any findings raised by internal and external auditors, where available.

146. When evaluating the inherent credit risk of an institution, competent authorities should also take into account the results of stress tests performed by the institution to identify any previously unidentified sources of credit risk, such as those emerging from changes in credit quality, credit concentrations, collateral value and credit exposure during a stressed period.

Level and quality of the credit risk mitigation framework

147. Competent authorities should consider the level and quality of guarantees (including credit derivatives) and of available collateral that would mitigate credit losses where credit events

occur, including those not accepted as eligible credit risk mitigation techniques for own funds calculations. In performing such assessment, competent authorities should consider:

- a. the coverage provided by collateral and guarantees by portfolio, borrower type, rating, sector, and other relevant aspects;
- b. collateral values, for performing and non-performing exposures; and
- c. historical recovery ratios by type and amount of collateral and guarantees.

148. Competent authorities should also assess the materiality of the residual risk (as referred to in Article 80 of Directive 2013/36/EU) and in particular the adequacy and enforceability of collateral agreements and of guarantees, the timing and the ability to realise collateral and execute guarantees under the national legal framework, the liquidity and volatility in asset values for collateral and the recoverable value of collateral under any credit enforcement actions. Competent authorities should also assess the concentration of guarantors and collateral, as well as the correlation with borrowers' creditworthiness (i.e. wrong-way risk) and the potential impact in terms of the effectiveness of protection.

ESG factors

149. When assessing the impact of ESG factors and ESG risks on the inherent credit risk, competent authorities should aim at taking into account the specific characteristics of these risks such as their forward-looking nature and distinct impacts over various time horizons and developing their capacity to factor in these characteristics into their assessment, giving priority to environmental factors and risks.

6.2.3. Assessment of credit risk management and control framework

150. To achieve a comprehensive understanding of the institution's credit risk profile, competent authorities should review the institution's credit risk management and control framework and its adequacy with respect to the inherent credit risk exposures. For this assessment, competent authorities should also rely on the outcome coming from the assessment of other SREP elements (such as the BMA and governance areas). For institutions subject to the application of the NPE (reduction) strategies and the associated governance and operational guidance, competent authorities should also assess whether institutions meet specific requirements set out in the relevant EBA guidelines for such strategies and their operationalisation, including with respect to meeting the consumer protection obligations.

Credit risk strategy and appetite

151. Competent authorities should assess whether the institution has a sound, clearly formulated and documented credit risk appetite, strategy and limits approved by the management body. For this assessment, among other factors, competent authorities should take into account the role of the management body in setting, approving and reviewing the credit risk strategy and appetite, the proper implementation of this strategy by the senior management as well as its

appropriateness for the institution given its business model, overall risk appetite, current and prospective market environment and financial condition.

Organisational and internal control framework

152. Competent authorities should assess whether the institution has an appropriate organisational framework and governance arrangements to enable effective credit risk taking, management, measurement and control, with sufficient (both qualitative and quantitative) human and technical resources to carry out the required tasks. They should in particular assess whether the institution's management body and senior management understand the assumptions underlying the credit measurement system. For this assessment, competent authorities should take into account the adequacy of the lines of responsibility, as well as staffs' skills and experience to perform their tasks, for taking on, measuring, monitoring and reporting credit risk, including management of NPEs, and in particular NPE workout, and finally the existence of a clear separation between risk-takers and risk managers.
153. Competent authorities should assess whether the institution has appropriate policies and procedures for the credit granting, identification, measurement, reporting and control of credit risk and whether these are consistent with the institution's credit risk strategy and cover all the main businesses and processes. This includes the assessment of whether these policies are clearly formalised, communicated and applied consistently across the institution and the banking group it belongs to. For this assessment, competent authorities should take into account whether the management body approves these policies and discusses and reviews them regularly, in line with risk strategies as well as whether senior management is responsible for drawing up and implementing the policies and procedures, as defined by the management body.
154. Competent authorities should assess whether the institution has an appropriate framework for identifying, understanding, measuring, monitoring and reporting credit risk, in line with the institution's size and complexity. In this regard, competent authorities should consider whether the institution has adequate data infrastructure and whether analytical techniques are appropriate to enable the institution to adequately manage their credit risk, and to fulfil supervisory reporting requirements, and to detect, measure and regularly monitor the credit risk inherent in all on- and off-balance-sheet activities (where relevant at group level).
155. Competent authorities should assess whether the institution's management body and senior management understand the assumptions underlying the credit measurement system and whether they are aware of the degree of relevant model risk. They should assess whether the institution has undertaken stress testing to understand the impact of adverse events on its credit risk exposures and on the adequacy of its credit risk provisioning, by considering the stress test frequency, relevant risk factors identified, assumptions underlying the stress scenario; and the internal use of stress testing outcomes for capital planning and credit risk strategies.

156. Competent authorities should assess whether the institution has defined and implemented continuous and effective monitoring of credit risk exposures (including credit concentration) throughout the institution, amongst others, by means of specific indicators and relevant triggers to provide effective early warning alerts. Competent authorities should assess whether the institution has implemented regular reporting of credit risk exposures, including the outcome of stress testing, to the management body, senior management and the relevant credit risk managers.
157. Competent authorities should assess whether the institution has a strong and comprehensive internal control framework and sound safeguards to mitigate its credit risk in line with its credit risk strategy and appetite. For this assessment, competent authorities should in particular pay attention to the adequate scope covered by the institution's control functions (including all consolidated entities, geographical locations and credit activities), to the existence of operating limits and other practices aimed at keeping credit risk exposures within levels acceptable to the institution in accordance with its risk appetite and limits. For this purpose, competent authorities should pay particular attention to whether institution has appropriate internal controls and practices to ensure that breaches of (or exceptions to) policies, procedures and limits are reported in a timely manner to the appropriate level of management for action, including checks to identify, assess and manage ML/TF risks to which the institution is exposed as a result of the credit granting activities.
158. In conducting this assessment, competent authorities should consider whether the limit system is adequate for the institution's complexity and its capacity to measure and manage credit risk. This includes assessing whether the limits established are absolute or whether breaches thereof may occur. In the latter case, the institution's policies should clearly describe the period of time during which and the specific circumstances under which such breaches of limits are possible. Furthermore, competent authorities should assess the adequacy of the procedures in place to keep credit managers informed about their limits, as well as whether such limits are subject to regular review and updates (e.g. to remain aligned with changes in strategy).
159. Competent authorities should also assess the functionality of the internal audit function in terms of adequacy, scope and frequency of internal audits on the credit risk management framework. These audits should capture the review of the main elements of credit risk management, measurement and controls framework across the institution and the adherence to relevant external regulations of the internal policies and procedures and any deviations from either.
160. For institutions adopting an internal rating-based approach to determining minimum own funds requirements for credit risk, competent authorities should also assess whether the internal validation process is sound and effective in challenging model assumptions and identifying any potential shortcomings with respect to the credit risk management system. This assessment should be based – where available – on the information stemming from already performed supervisory activities on internal models (such as onsite inspections) and

taking into account the supervisory practices detailed in the EBA Supervisory handbook for the validation of internal ratings-based systems²⁸.

6.2.4. Summary of findings, scoring and supervisory measures

161. Following the above assessment, competent authorities should form a view on the institution's credit and counterparty risk. This view should be reflected in a summary of findings, accompanied by a risk score based on the considerations specified in Table 6. Where, based on the materiality of certain risk sub-categories, the competent authority decides to assess and score them individually, the guidance provided in this table should be applied, as far as possible, by analogy.

Table 6. Supervisory considerations for assigning a credit and counterparty risk score

Risk score	Supervisory view	Considerations in relation to inherent risk	Considerations in relation to adequate management and controls
1	There is a low risk of significant prudential impact on the institution considering the level of inherent risk and the management and controls.	- The nature and composition of credit risk exposure imply non-material risk/very low risk. - Exposure to complex products and transactions is not material/very low. - The level of credit concentration risk is not material/very low. - The level of forborne and non-performing exposures is not material/very low. - The credit risk posed by performing exposures is not material/very low. - The impact of ESG factors and ESG risks on credit risk is not material/very low. - The level of coverage of provisions and of credit valuation adjustments are adequate and reliable to a very high level of certainty. - The level of coverage and quality of guarantees and collateral are very high.	- Risk management and controls are adequate with respect to the requirements set out in the relevant EBA Guidelines. - There is consistency between the institution's credit-risk policy and strategy and its overall strategy and risk appetite. - The organisational framework for credit risk is robust with clear responsibilities and separation of tasks between risk takers and management and control functions. - Credit-risk measurement, monitoring and reporting systems are appropriate. - Internal limits and the control framework for credit risk are sound. - Limits allowing the credit risk to be mitigated or limited are in line with the institution's credit risk management strategy and risk appetite. - ESG risks are properly integrated into the credit risk management and controls.
2	There is a medium-low risk of significant prudential impact on the institution considering the level of inherent risk and the management and controls.	- The nature and composition of credit risk exposure imply low to medium risk. - Exposure to complex products and transactions is low to medium.	ESG risks are properly integrated into the credit risk management and controls.

²⁸ EBA/REP/2023/29.

Risk score	Supervisory view	Considerations in relation to inherent risk	Considerations in relation to adequate management and controls
	management and controls.	• The level of credit concentration risk is low to medium. • The level of forborne and non-performing exposures is low to medium. • The credit risk posed by performing exposures is low to medium. • The impact of ESG factors and ESG risks on credit risk is low to medium. • The level of coverage of provisions and of credit valuation adjustments are adequate and reliable to a high level of certainty. • The level of coverage and quality of guarantees and collateral are high.	
3	There is a medium-high risk of significant prudential impact on the institution considering the level of inherent risk and the management and controls.	• The nature and composition of credit risk exposure imply medium to high risk. • Exposure to complex products and transactions is medium to high. • The level of credit concentration risk is medium to high. • The level of forborne and non-performing exposures is medium to high. • The credit risk posed by performing exposures is medium to high and subject to further deterioration under stressed conditions. • The impact of ESG factors and ESG risks on credit risk is medium to high. • The level of coverage of provisions and of credit valuation adjustments is medium. • The level of coverage and quality of guarantees and collateral are medium.	• Risk management and controls are not compliant with respect to the requirements set out in the relevant EBA Guidelines. • There is a lack of consistency between the institution's credit-risk policy and strategy and its overall strategy and risk appetite. • The organisational framework for credit risk is not sufficiently robust; there is no clear separation of tasks between risk takers or management and control functions. • Credit-risk measurement, monitoring and reporting systems are not appropriate. • Internal limits and the control framework for credit risk are not sufficiently sound. • Limits allowing the credit risk to be mitigated or limited are not in line with the institution's credit risk management strategy and risk appetite.
4	There is a high risk of significant prudential impact on the institution	• The nature and composition of credit risk exposure imply high risk.	• ESG risks are insufficiently integrated into the credit risk management and controls.

Risk score	Supervisory view	Considerations in relation to inherent risk	Considerations in relation to adequate management and controls
	considering the level of inherent risk and the management and controls.	- Exposure to complex products and transactions is high. - The level of credit concentration risk is high. - The level of forborne and non-performing exposures is high. - The credit risk posed by performing exposures is high. - The impact of ESG factors and ESG risks on credit risk is high. - The level of coverage of provisions and of credit valuation adjustments is low. - The level of coverage and quality of guarantees and collateral are low.	

162. The table below presents a non-exhaustive list of supervisory measures that competent authorities may take in case of identified deficiencies in the institution's credit and counterparty risk management framework. Competent authorities should decide on the type of the measure based on its effectiveness to the specific identified deficiency. Competent authorities may apply additional supervisory measures (including quantitative measures in accordance with Article 104(1)(a) of the Directive 2013/36/EU) or a combination of them if these are deemed more appropriate to address the identified deficiencies.

Table 7. Potential and non-exhaustive supervisory measures for credit and counterparty risk

Potential supervisory measures for competent authorities in accordance with Article 104(1)(b), (d), (e), (f), (m) of Directive 2013/36/EU - Competent authorities may require the institution to:
A. involve the management body or its committees more actively in relevant credit decisions;
B. improve credit risk measurement systems;
C. improve controls on credit processes, including credit granting, monitoring and recovery;
D. enhance collateral management, evaluation and monitoring;
E. enhance the quality and frequency of reporting on credit risk to the management body and senior management;
F. apply a specific provisioning policy, and – where permitted by accounting rules and regulations – require it to increase provisions;
G. adjust internal risk parameters and/or risk weights used to calculate risk exposure amounts for specific products, sectors or types of obligors;
H. apply higher haircuts to the value of collateral;
I. reduce large exposures or other sources of credit concentration risk;
J. tighten credit-granting criteria for all or some product or obligor categories;
K. reduce its exposure to, or acquire protection for, specific types of facilities (e.g. mortgages, export finance, commercial real estate, securitisations, etc.), obligor categories, sectors, countries, etc.;
L. implement an appropriate strategy to reduce the amount or share of nonperforming exposure;
M. Enhance the credit risk management related to ESG factors and risks, potentially based on one or several actions listed above.

6.3. Assessment of market risk

6.3.1. General considerations

163. When assessing the market risk management framework, competent authorities should verify inter alia the overall compliance of the institution with the following:

Title	Reference
RTS on CVA risk of securities financing transactions	EBA/CP/2024/14
RTS on the method for identifying the main risk driver of a position and for determining whether a transaction represents a long or a short position	EBA/CP/2024/10
EBA Guidelines on the management of environmental, social and governance (ESG) risks	EBA/GL/2025/01
RTS on the exemption from the residual risk add-on own funds requirements for certain type of hedges	EBA/CP/2024/04
RTS on profit and loss attribution requirements, risk factor modellability assessment, and the treatment of FX and commodity risk in the banking book	EBA/RTS/2024/18
RTS on the materiality of extensions and changes to the use of Fundamental Review of the Trading Book (FRTB) IMA and changes to the subset of modellable risk factors	EBA/RTS/2024/15
RTS on extraordinary circumstances for continuing the use of an internal model	EBA/RTS/2024/17
RTS on the assessment methodology to verify an institution's compliance with the internal model approach	EBA/RTS/2023/05
RTS on emerging markets and advanced economies	EBA/RTS/2022/01
RTS on residual risk add-on	EBA/RTS/2021/10
RTS on gross jump-to-default amounts	EBA/RTS/2021/09
RTS on default probabilities and losses given default for default risk model under the FRTB	EBA/RTS/2022/02
RTS on the capitalisation of non-modellable risk factors under the FRTB	EBA/RTS/2020/12
RTS on the treatment of non-trading book positions subject to foreign-exchange risk or commodity risk	EBA/RTS/2020/09
RTS on exclusion from CVA of non-EU non-financial counterparties	EBA/RTS/2017/01
ITS on closely correlated currencies	2023/1718 2015/2197
RTS amending RTS on CVA proxy spread	EBA/RTS/2017/07
RTS on prudent valuation	EBA/RTS/2020/04
RTS on the definition of materiality thresholds for specific risk in the trading book	EBA/RTS/2013/14
RTS on the conditions for assessing the materiality of extensions and changes of internal approaches for credit, market and operational risk	EBA/RTS/2014/10
RTS on non-delta risk of options in the standardised market risk approach	EBA/RTS/2015/09 EBA/RTS/2013/13
RTS in relation to credit valuation adjustment risk	EBA/RTS/2013/17
RTS on appropriately diversified indices	EBA/ITS/2013/10
RTS on the definition of market	EBA/RTS/2013/16
EBA Guidelines on the treatment of structural FX under Article 352(2) of the CRR	EBA/GL/2020/09
EBA Guidelines on corrections to modified duration for debt instruments	EBA/GL/2016/09
EBA Guidelines on the treatment of CVA risk under SREP	
EBA Guidelines on the Incremental Default and Migration Risk Charge (IRC)	EBA/GL/2012/3
EBA Guidelines on Stressed Value-At-Risk (Stressed VaR)	EBA/GL/2012/2

164. In these guidelines, references to 'market risk' will encompass all the following risks, which should be assessed by competent authorities:

- a. the market risk arising from all on- and off-balance-sheet positions which are subject to losses arising from movements in market prices, i.e. risks in trading book positions as well as the foreign-exchange and commodity risk in the non-trading book;
- b. the risk of losses arising from changing CVA amounts in response to changes in counterparty credit spreads and/or market prices, impacting the fair value of derivative transactions and, if applicable, of security financing transactions (SFTs); and
- c. the risk linked to the valuation of fair valued instruments in the sense of Article 105 of Regulation (EU) 575/2013.

165. Competent authorities should adjust the scope, frequency, granularity and intensity of the market risk assessment in accordance with the category of the institution and the materiality and complexity of its exposures (e.g. due to the presence of complex derivatives), taking into account the principle of proportionality set out in section 2.4. Competent authorities may perform a less granular analysis for institutions which meet the conditions of the small trading book as set out in Article 94 of Regulation (EU) 575/2013. For firms with immaterial exposures, the assessment should focus on the adequacy of the risk management and governance structure and the quality and effectiveness of systems and controls.

166. Competent authorities should take into account the impact of environmental risks on the inherent market risk as well as the adequacy of the market risk management framework and controls related to environmental risks.

6.3.2. Assessment of inherent market risk

167. Through the assessment of inherent market risk competent authorities should determine the main drivers of the institution's risk exposures and evaluate the risk of significant prudential impact on the institution. To develop such an understanding, competent authorities should first identify the market risks to which the institution is or may be exposed and focus their attention on the subcategories and drivers deemed the most material for the institution.

168. To support this analysis, competent authorities should consider, as a minimum, the products, activities and business lines of the institution. They should compare the own funds requirements for market and CVA risk and the additional valuation adjustment deducted from the institution own funds, against the total own funds requirements. Where relevant they should compare the internal capital allocated to those risks by the institution against the total internal capital. They may also consider the relative weight of market risk positions in terms of total assets, the relative weight of net gains on market risk positions to total operating income and the historical changes in these figures and forecasts. Also, the strategy of the institution as regards market activities and the related risk appetite should be taken into account. When considering market activities, competent authorities should refer to the risks mentioned in paragraph 164 which may encompass the trading and non-trading book.

Nature and composition of the institution's risk activities

169. The first step in assessing the nature of the inherent market risk of an institution is to identify its market risk exposures consistently and comprehensively. Competent authorities should use available regulatory reporting templates, such as COREP and FINREP, internal reporting, insights gained from the assessment of other SREP elements (such as the BMA) or prior supervisory activities, and comparisons with the institution's peers, where available.

170. Competent authorities should base their assessment primarily on the most significant identified sources of risk, evaluating their materiality for the institution from a prudential perspective. To assess the nature of market risk, competent authorities should consider at least the following subcategories²⁹:

- a. interest rate risk (trading book);
- b. credit spread for non-securitisation, credit spread for securitisation (trading book);
- c. equity risk (trading book);
- d. migration risk (for business subject to a default risk charge);³⁰
- e. default risk (for business subject to a default risk charge);
- f. foreign exchange risk, including translation risk (both in the trading and banking book);
- g. commodities risk (trading and banking book);
- h. CVA risk (trading and banking book); and
- i. valuation risk (fair valued instruments in the trading and non-trading books).

171. Competent authorities should also consider:

- a. the complexity of financial products (e.g. products valued using mark-to-model techniques, products bearing non-delta risks and basis risks). Competent authority may assess this by using as an indicator the add-on resulting from residual risks as per Article 325u of Regulation 575/2013/EU;
- b. the liquidity of the institution's exposure. The competent authority can do so by assessing whether the institution is exposed to subcategories with high liquidity horizons in accordance with Table 2 of Article 325bd of Regulation 575/2013/EU;
- c. the concentration of market risk towards specific names, sectors, economies, risk-classes; and
- d. the employment of specific market operations the risk of which may not be fully represented by the market risk own funds requirements (e.g. high-frequency trading).

172. When appropriate, competent authorities should also consider the internal risk measures of institutions. These could include the internal VaR or expected shortfall not used in the

²⁹ Please refer to Annex II for a non-exhaustive breakdown of market risk sub-categories.

³⁰ Migration risk is treated as part of credit spread risk under the Fundamental Review of the Trading Book.

calculations of own funds requirements or sensitivities of the market risk to different risk factors and potential losses.

173. Competent authorities should also assess the institution's ability to form a comprehensive view on the degree of market concentration risk to which it is exposed, either from exposures to a single risk factor or from exposures to multiple risk factors that are correlated, thereby paying specific attention to concentrations in complex and illiquid products. They should review the firm's own assessment of concentrations and illiquid positions. Competent authorities should require institutions to reduce exposure towards a given CCP in case of excessive concentration risk, or to realign exposures across their clearing accounts in accordance with Article 7(a) of Regulation 648/2012.
174. When determining whether P2R should be imposed for the market risk to which the institution is exposed, in line with paragraph 303, competent authorities should consider whether the Pillar 1 methodology adequately captures the risk, taking into account that:
 - a. institutions employing the alternative standardised approach are required under Pillar 1 to calculate an add-on (residual risk add-on) for the risks inherent in complex financial products that are not sufficiently captured in the sensitivity-based method and the default risk charge;
 - b. institutions employing the internal model approach or the alternative internal model approach are required to capture all material risks in those internal models; and
 - c. the risk-weights provided in the alternative standardised approach, the expected shortfall measures referred to in Article 325bb of Regulation 575/2013/EU and the stress scenario risk measures referred to in Article 325bk of Regulation 575/2013/EU in the alternative internal model approach are designed to cater for the positions' liquidity in line with liquidity horizon referred to in Table 2 of Article 325bd of Regulation 575/2013/EU.
175. Competent authorities should identify and analyse in relation to market risk positions and the corresponding governance arrangements, any transfer pricing arrangements between institutions established in the Union that are part of a third-country group and other entities of that group established outside of the Union and not consolidated by the EU parent undertaking. The analysis should include:
 - a. a quantitative component to identify the materiality of the transfer pricing arrangements relative to the trading book total P&L and the own funds of the institution;
 - b. a qualitative component to assess if the effect of these arrangements is transparent to the institution's management board and appropriately reflected in the risk management governance; and
 - c. a qualitative component to assess how the transfer pricing arrangement affects the business decisions of the institution, including how the dynamics of the transfer pricing arrangement potentially affect the decisions of front-office desks, and the potential conflicts of interest that the arrangement may create.

176. Competent authorities should identify the materiality of the transfer pricing in the context of trading book items by focusing on the transfer pricing arrangements that meet the following conditions:
- a. they involve at least one entity of the group that is established outside of the Union and for which the highest level of consolidation is outside the Union; and
 - b. they are based on a transaction profit method (TPM) - or any similar practice that would be economically equivalent – according to which the profits and losses relating to positions owned by several entities are re-distributed across those entities on the basis of the marginal contribution ‘m’ of each entity towards key-metrics set out in the pricing arrangement.
177. For institutions under paragraph 176, point (a), where the profits and losses, re-allocated as a result of transfer pricing arrangements based on transaction profit methods, are material (e.g. account for more than 5% of the P&L generated by the institution) and this risk is not covered or fully covered by P1R, competent authorities should:
- a. consider this risk for the determination of P2R;
 - b. consider the results of the components listed in paragraph 175, such as the materiality of the transfer pricing arrangements, in relation to the market risk capital requirements of the portfolio whose profits and losses are used to determine the amount to be transferred to the institution as well as potential weaknesses in the related governance arrangements; and
 - c. determine P2R that sufficiently cover the market risks not captured under P1R which are generated under the transfer pricing arrangement. To that end, competent authorities may use the calculation method as laid down in Annex V or an alternative methodology that provides accurate measurement of the risk not covered in P1R and identifies the consequent P2R, considering as a reference the methodology in Annex V.

Profitability analysis and stress testing

178. Competent authorities should analyse the historic profitability, including volatility of profits, of market activities to gain a better understanding of the institution’s risk profile for market risk. This analysis could be performed at portfolio level as well as being broken down by business line, asset class or desk depending on the materiality and complexity of the institution’s exposures (as emerging from the BMA or other supervisory insight).
179. Competent authorities should distinguish between trading and non-trading revenues (such as commissions, clients’ fees, etc.) on one hand and realised and unrealised profits/losses on the other hand.
180. For those asset classes and/or exposures generating significant profits or losses, competent authorities should assess profitability in comparison to the level of risk assumed by the institution (e.g. VaR/net gains on financial assets and liabilities held for trading) to identify and

analyse possible inconsistencies. Where possible, competent authorities should compare the institution's figures to its historical performance and its peers.

181. Competent authorities should assess whether an institution has implemented adequate stress tests that complement its risk measurement system. For this purpose, they should take into account the following elements:
- a. stress test frequency;
 - b. whether relevant risk drivers are identified (e.g. illiquidity/gapping of prices, concentrated positions, one-way markets, etc.);
 - c. assumptions underlying the stress scenario; and
 - d. internal use of stress testing outcomes for capital planning and market risk strategies.

6.3.3. Assessment of the market risk management and control framework

182. To achieve an adequate understanding of the management of market risk, commensurate to the institution's risk profile, competent authorities should review the institution's risk management and control framework and its adequacy with respect to inherent risk exposures. For this assessment, the competent authority should use the paragraphs set out in this section, while also leveraging on:
- a. the outcome of the assessment of other SREP elements (such as the BMA and governance areas); and
 - b. the outcome of the assessment referred to in Article 325c of Regulation 575/2013/EU for institutions using the alternative standardised approach, and the outcome of the assessment performed in accordance with the Delegated Regulation (EU) 2024/1085, especially in relation to the requirements referred to in Article 104b, Article 325bi, and Article 325bj of Regulation 575/2013/EU.
183. Competent authorities should also assess the policies and procedures of institutions to allocate the positions to the trading book and to the banking book, as described by Title 1 of Chapter 3 of Regulation 575/2013/EU.

Market risk strategy and risk appetite

184. Competent authorities should assess whether institutions have sound, clearly formulated and documented risk appetite, strategy and limits approved by their management body. For this assessment, among other factors, competent authorities should take into account the role of the management body in setting, approving and reviewing the risk strategy and appetite, the proper implementation of this strategy by the management body as well as its appropriateness for the institution given its business model, overall risk appetite, current and perspective market environment and financial condition.

Organisational and internal control framework

185. Competent authorities should assess whether the institution has an appropriate organisation framework for identifying, understanding, measuring, monitoring and controlling market risk, with sufficient (both qualitative and quantitative) human and technical resources to carry out the required tasks. For this assessment, competent authorities should take into account the adequacy of the lines of responsibility for taking, monitoring, reporting and controlling market risk, their coverage of the entire institution, the existence of a clear separation between the front office and back office and between the risk-taking and the control functions, and the skills and expertise of staff involved.
186. Competent authorities should assess whether the institution has clearly defined policies and procedures for the identification, management, measurement and control of market risk and whether these are sound and consistent with the institution's risk strategy and cover all the main businesses and processes. This includes the assessment of whether these policies and procedures are clearly formalised, communicated and applied consistently across the institution.
187. In particular, the assessment should cover the positions to be included/excluded from the trading book for regulatory purposes, the policies on internal hedges and the procedures for new market activities and/or products.
188. Competent authorities should assess whether the institution has an appropriate framework for identifying, understanding and measuring market risk, in line with the institution's size and complexity, and that this framework is compliant with relevant minimum requirements in accordance with the applicable legal and regulatory framework.
189. Competent authorities should assess whether institutions have in place an adequate monitoring and reporting framework for market risks that ensures there will be prompt action at the appropriate level of the institution's senior management or management body in case of breaches. The monitoring system should include specific indicators and relevant triggers to provide effective early warning alerts and should inform the management body and senior management about current exposures and measures compared to policy limits.
190. Competent authorities should assess whether the institution has a strong and comprehensive limit systems and control framework with sound safeguards to mitigate its risks in line with its risk strategy and appetite. For this assessment, competent authorities should pay particular attention to the adequate scope covered by the institution's control functions (including all consolidated entities, geographical locations and market activities), to the existence of operating limits (including individual limits at desk or business-unit level which should be daily monitored) and other practices aimed at keeping market risk exposures within levels acceptable to the institution in accordance with its risk appetite and limits.
191. Competent authorities should also assess whether the internal validation process is sound and effective in challenging model assumptions and identifying any potential shortcomings with

respect to the market risk management system. For institutions adopting an internal approach to determining minimum own funds requirements for market risk, this assessment should be based – where available – on the information stemming from already performed supervisory activities on internal models (such as on-site inspections).

192. Competent authorities should also assess the functionality of the internal audit function in terms of adequacy, scope and frequency of internal audits on the market risk management framework. This should comprise the review of the main elements of risk management, measurement and controls framework across the institution and the adherence to relevant external regulations of the internal policies and procedures and any deviations from either.

6.3.4. Summary of findings, scoring and supervisory measures

193. Following the above assessment, competent authorities should form a view on the institution's market risk. This view should be reflected in a summary of findings, accompanied by a risk score based on the considerations specified in Table 8. Where, based on the materiality of certain risk sub-categories, the competent authority decides to assess and score them individually, the guidance provided in this table should be applied, as far as possible, by analogy.

Table 8. Supervisory considerations for assigning a market risk score

Risk score	Supervisory view	Considerations in relation to inherent risk	Considerations in relation to adequate management and controls
1	There is a low risk of significant prudential impact on the institution considering the level of inherent risk and the management and controls.	- The nature and composition of market risk exposures imply not material/very low risk. - The institution's exposures to market risk are non-complex. - The level of market risk concentration is not material/very low. - The institution's market risk exposures generate non-volatile returns.	- There is consistency between the institution's market risk policy and strategy and its overall strategy and risk appetite. - The organisational framework for market risk is robust, with clear responsibilities and a clear separation of tasks between risk-takers and management and control functions.
2	There is a medium-low risk of significant prudential impact on the institution considering the level of inherent risk and the management and controls.	- The nature and composition of market risk exposures imply low to medium risk. - The complexity of the institution's market risk exposures is low to medium. - The level of market risk concentration is low to medium. - The institution's market risk exposures generate	- Market risk measurement, monitoring and reporting systems are appropriate. - Internal limits and the control framework for market risk are sound and in line with the institution's risk management strategy and risk appetite.

Risk score	Supervisory view	Considerations in relation to inherent risk	Considerations in relation to adequate management and controls
		returns that have a low to medium degree of volatility.	
3	There is a medium-high risk of significant prudential impact on the institution considering the level of inherent risk and the management and controls.	• The nature and composition of market risk exposures imply medium to high risk. • The complexity of the institution's market risk exposures is medium to high. • The level of market risk concentration is medium to high. • The institution's exposures to market risk generate returns that have a medium to high degree of volatility.	• There is not full consistency between the institution's market risk policy and strategy and its overall strategy and risk profile. • The organisational framework for market risk does not sufficiently separate responsibilities and tasks between risktakers and management and control functions.
4	There is a high risk of significant prudential impact on the institution considering the level of inherent risk and the management and controls.	• The nature and composition of market risk exposures imply high risk. • The complexity of the institution's market risk exposures is high. • The level of market risk concentration is high. • The institution's exposures to market risk generate returns that have a high degree of volatility.	• Market risk measurement, monitoring and reporting systems are not undertaken with sufficient accuracy and frequency. • Internal limits and the control framework for market risk are not in line with the institution's risk management strategy or risk appetite.

194. The table below presents a non-exhaustive list of supervisory measures that competent authorities may take in case of identified deficiencies in the institution's market risk management framework. Competent authorities should decide on the type of the measure based on its effectiveness to the specific identified deficiency. Competent authorities may apply other supervisory measures (including quantitative measures in accordance with Article 104(1)(a) of the Directive 2013/36/EU) or a combination of them if these are deemed more appropriate to address the identified deficiencies.

Table 9. Potential and non-exhaustive supervisory measures for market risk

Potential supervisory measures for competent authorities in accordance with Article 104(1)(b), (e) and (f) of Directive 2013/36/EU - Competent authorities may require the institution to:
A. enhance the quality and frequency of the market risk reporting to the institution's management body and senior management;
B. enhance the performance of the institution's internal approaches, or of its back-testing or stress testing capacity;
C. perform more frequent and in-depth internal audits of market activity;

Potential supervisory measures for competent authorities in accordance with Article 104(1)(b), (e) and (f) of Directive 2013/36/EU - Competent authorities may require the institution to:

D. restrict investment in certain products when the institution's policies and procedures do not ensure that the risk from those products will be adequately covered and controlled;
E. divest financial products when the valuation processes of the institution do not produce conservative valuations that comply with the standards of Regulation (EU) No 575/2013;
F. reduce the level of inherent market risk (e.g. through hedging or sale of assets or increase of derivatives settled through central counterparties (CCPs), etc.) when significant shortcomings have been found in the institution's measurement or control systems;
G. present a plan to reduce its exposures to distressed assets and/or illiquid positions gradually.

6.4. Assessment of operational risk

6.4.1. General considerations

195. When assessing the operational risk management framework, competent authorities should verify inter alia the overall compliance of the institution with the following:

Title	Reference
RTS on operational risk loss	EBA/RTS/2025/03
RTS and ITS on the new Business Indicator framework for operational risk	EBA/RTS/2025/02 EBA/ITS/2025/06
RTS on operational risk losses	EBA/RTS/2025/03
RTS on operational risk management framework	Under development (under Article 323 of Regulation (EU) 575/2013)
Regulation on digital operational resilience for the financial sector and accompanied technical standards and guidelines ("DORA framework")	Regulation (EU) 2022/2554, Delegated Regulations (EU): 2024/1772, 2024/1773, 2024/1774, 2025/301, 2025/295, 2025/420, 2025/532, 2025/1190, Implementing Regulations (EU): 2024/2956, 2025/302, JC/GL/2024/34, JC/GL/2024/36
EBA Guidelines on internal governance	Under revision (EBA/GL/2021/05)
EBA Guidelines on sound management of third-party risk	Under consultation (EBA/CP/2025/12)
EBA Guidelines on the management of ESG risks	EBA/GL/2025/01

196. Competent authorities should assess operational risk throughout all the business lines and operations of the institution, taking into account findings from the assessment of internal governance arrangements and institution-wide controls as specified in Title 5. In conducting this assessment, competent authorities should determine how operational risk may materialise, also considering the loss data set of the institution and potential impacts from other related risks (e.g. boundary credit-related and market-related operational risk).

197. Competent authorities should assess the materiality of operational risk arising from third-party service providers and whether these could affect the institution's performance, risk management and ability to deliver its critical or important functions through disruption in the context of operational resilience (section 6.4.5) or raise legal risk. When assessing third-party risk management, competent authorities should refer to the DORA framework for ICT services provided by ICT third-party service providers and the EBA Guidelines on the sound management of third-party risk for other third-party services.

198. When assessing operational risk, competent authorities should assess ICT risk, pursuant to the DORA framework, and its potential impact on the institution's critical or important functions, including any potential financial, reputational, regulatory and strategic impact to the institution.
199. Competent authorities should determine whether the institution has an adequate operational resilience approach to be able to withstand, adapt to and recover from disruptions when they materialise and whether this has been adequately and consistently aligned with the existing risk management framework, business continuity plans and third-party management.
200. When assessing operational risk, competent authorities should assess, if applicable, whether the institution's policies and procedures identify, evaluate and manage appropriately the operational risks arising from crypto-assets activities and their supporting technology.
201. Competent authorities should assess reputational risk jointly with operational risk as it is inherently linked to operational risk events. However, the outcome of reputational risk assessment should not be reflected in the scoring of operational risk but, where relevant, should be considered as part of the BMA and/or the liquidity risk assessment, as its main effects can deteriorate investors', depositors' or interbank-market participants' confidence to the institution.
202. Competent authorities should assess the impact of ESG risks on the inherent operational and reputational risks as well as the adequacy of the operational risk and reputational risk controls related to ESG risks. In particular, competent authorities should consider environmental risks and greenwashing risks when carrying out the assessment of legal risk and reputational risk.

6.4.2. Assessment of inherent operational risk

203. Competent authorities should develop a thorough understanding of the institution's inherent operational risk exposures and evaluate the significance of the prudential impact of this risk for the institution as well as the impact on its ability to deliver critical or important functions through disruption.
204. To support this assessment, competent authorities should consider the own funds requirement for operational risk compared to the total own funds requirement, and where relevant the internal capital allocated for operational risk by the institution compared to the total internal capital. Moreover, competent authorities should leverage the knowledge gained from the assessment of other SREP elements (in particular from Title 4 and Title 5), from the comparison with peers, from any other supervisory activities including the input from the AML/CFT supervisors and market surveillance authorities and from other relevant information sources.
205. Competent authorities should consider at minimum key operational risk factors, potential disruptive scenarios, and where relevant, analyse them by business line, legal entity, geography, and event type category (subject to data availability) and benchmark the

institution's position against its peers. These factors should at least cover the institution's main strategy for operational risk and operational risk appetite, business environment (including geographical presence, ICT operations, and distribution channels), recent significant corporate events (such as mergers, acquisitions, disposals and restructuring), ICT systems and other ICT-related aspects as per section 6.4.2.3, process changes, third-party arrangements, regulatory compliance issues, business ambitions and incentive schemes and other key operational risk drivers.

Nature and significance of operational risk exposures

206. Competent authorities should determine the nature of operational risk exposures by analysing exposures to the main sources and drivers of operational risk to form a forward-looking view on prospective operational risk. For this analysis, competent authorities:

- a. may consider the operating model, business lines, products, processes and geographies relevant to the institution, assessment of dependencies and operational risk exposures to primary risk drivers (e.g. processes, people, systems and external factors) and interactions of risk drivers, leveraging the institution's self-risk assessment, peer analysis, data and public and/or consortium databases, if available and relevant;
- b. should consider both the frequency and the severity of the events to which the institution is exposed and distinguish those causing high-severity losses and those occurring with high frequencies. Based on this distinction, competent authorities should assess the trends of operational risk losses and their concentration; and
- c. should leverage scenario analyses and consider planned business operations and prospective operational risk analyses performed by the institution, where available, taking into account any corrective measures and mitigation actions already implemented and effective.

207. Following the identification and analysis of the major sources and drivers of operational risk, competent authorities should focus on those with the most material potential impact to the institution.

208. A primary source of information competent authorities should consider that it is the institution's loss and event data set as it can provide valuable insights on the evolution of the institution's operational risk profile. Competent authorities should periodically assess the comprehensiveness, accuracy and quality of the loss data. Another source of information should be the institution's records of all ICT-related incidents and significant cyber threats (as per Article 17(2) of DORA) and the identified sources of ICT risk (as per Article 8(2) of DORA).

Assessment of operational risk sub-categories

209. Competent authorities should focus the assessment of operational risk sub-categories to those which are considered material for the institution. Competent authorities should also apply their expert judgement to identify significant sub-categories, based on all available internal

and external information sources. In conducting the assessment, competent authorities should always pay attention to the following aspects of operational risk³¹:

- a. legal risk;
- b. model risk; and
- c. ICT risk;

6.4.2.1. Legal risk

210. Competent authorities should consider the following when assessing the relevance and significance of the institution's exposures to legal risk:

- a. mis-selling of products or services;
- b. conflicts of interest in conducting business;
- c. manipulation of benchmark interest rates, foreign exchange rates or any other financial instruments or indices;
- d. barriers to switching financial products during their lifetime and/or to switching financial service providers;
- e. automatic renewals of products or exit penalties; and/or
- f. customer complaints processing;
- g. violation of national and international rules and regulations (tax rules, internal fraud or internal theft, anti-money laundering rules, anti-terrorism rules and economic sanctions); and
- h. ESG-related, in particular environmental-related and greenwashing-related, litigation exposures.

211. Competent authorities should consider whether the institution may incur any expenses, fines, penalties or punitive damages from legal proceedings and the number and content of complaints. The outcomes of the Title 4 assessment should be also leveraged, along with scrutinising the incentive policies, to obtain high-level insights into sources of potential misconduct. In this context, competent authorities should also consider whether the institution has in place adequate and effective systems and processes to implement and comply with restrictive measures (e.g. sanctions), including assessing institution's compliance with the EBA Guidelines on internal policies, procedures and controls to ensure the implementation of Union and national restrictive measures (EBA/GL/2024/14).

212. However, the competent authority should apply a forward-looking approach, also considering the possible impact of regulatory developments and the activity of relevant authorities in respect of consumer protection and the supply of financial services in general.

³¹ Please refer to Annex III for a non-exhaustive breakdown of operational risk sub-categories.

6.4.2.2. Model risk

213. Under the operational risk, competent authorities should assess model risk, with specific regard to internal non-regulatory models (e.g. AI models, product pricing, setting and monitoring risk limits, ICAAP/ILAAP models, recovery options, etc.).

214. For the assessment of model risk, competent authorities should consider:

- a. to what extent and for which purposes the institution uses models to make decisions and the business significance of such decisions. Competent authorities should determine the business/activity for which the institution makes significant use of models and assess the potential impact of model risk through, amongst others, sensitivity and scenario analyses or stress testing; and
- b. the soundness of control mechanisms (in terms of methods, frequency, follow-up, etc.), including a model approval process, regular reviews performed and the institution's level of awareness of model deficiencies or market and business developments.

215. When conducting the model risk assessment, competent authorities should consider the assessment of other risks to capital and risks to liquidity and funding, in particular with respect to the adequacy of methodologies used for measuring risk, pricing and evaluating assets and/or liabilities. The results of such an assessment should inform the findings on operational risk.

6.4.2.3. ICT risk - Assessment of inherent ICT risk

Identification of material ICT risks

216. In line with the DORA framework, competent authorities should review the institution's identification, classification and documentation of all ICT supported business functions, roles and responsibilities, the information assets³² and ICT assets³³ supporting those functions, and their roles and dependencies in relation to ICT risk. This review should assist competent authorities to develop a thorough understanding of the institution's inherent ICT risk exposures (ICT risk profile), identify its material inherent ICT risk and form an opinion on its prudential impact. For this purpose, competent authorities should consider at least the following, where relevant and applicable:

- a. report on the review of ICT risk management framework (as per Article 6(5) of DORA);
- b. the sources of ICT risk, in particular the risk exposure to and from other financial entities, identified by the institution under Article 8(2) of DORA;
- c. major ICT-related incidents reported (as per Article 19(1) of DORA), including the trend of aggregated annual costs and losses caused by major ICT-related incidents (as per Article 11(10) of DORA);

³² Article 3(6) of Regulation (EU) 2022/2554

³³ Article 3(7) of Regulation (EU) 2022/2554

- d. outcomes of the tests envisaged in the digital operational resilience testing programme (as per Article 24 of DORA)), including summary of the threat-led penetration testing (TLPT) findings and related remediation plans (as per Article 26(6) of DORA);
- e. register of information in relation to all contractual arrangements on the use of ICT services provided by ICT third-party services providers (as per Article 28(3) of DORA), including degree of concentration on ICT third-party service providers, including ICT intra-group providers, per type of ICT services and/or ICT systems;
- f. recommendations and opinions from the Lead Overseers (as per Article 40(3) and Article 42(7) of DORA) and related responses, reports and information from critical ICT third-party service providers (as per Article 35(1)(c), Article 42(1) and Article 48(2) of DORA);
- g. level of complexity of ICT systems and results of ICT risk assessment on legacy ICT systems (as per Article 8(7) of DORA);
- h. risk assessment on major changes (as per Article 8(3) of DORA);
- i. level of adoption and integration of digital technologies;
- j. locations, namely the regions or countries, of data centres and sensitive designated areas, including where contractual ICT services are provided by ICT third-party service providers, also covering data processing and storage location;
- k. any related material deficiencies or weaknesses identified under Title 5;
- l. ICT risk and controls self-assessments (if provided in the ICAAP information);
- m. ICT risk-related management information submitted to the institution's management body;
- n. ICT-related internal and external audit findings; and
- o. external threat environment, including threats and vulnerabilities that could compromise institution's data integrity.

Review of ICT systems and ICT services

217. Competent authorities should review the institution's relevant documentation, methodology and processes, and form an opinion on which ICT systems and ICT services support critical or important functions. For this purpose, competent authorities should consider:

- a. the ICT systems supporting critical or important functions as well as the critical information assets and ICT assets identified by the institution (as per Article 8 of DORA); and
- b. key processes dependent on ICT third-party service providers, including interconnections with ICT third-party service providers that support critical or important functions, identified by the institution (as per Article 8.5 of DORA).

Identification and mapping of material ICT risks to critical ICT systems and ICT services

218. Following the review of the institution's dependency on information assets and ICT assets, ICT risk profile, ICT systems and ICT services, competent authorities should form an opinion on the material ICT risks that can have a significant prudential impact on the institution's ICT systems

and services that support critical or important functions and a significant impact on its ability to operate under disruption. For this purpose, competent authorities should consider:

- a. financial loss, including potential customer compensation, legal and remediation costs, contractual damages, costs and lost revenue;
- b. potential for business disruption, considering (but not limited to) the criticality of the services affected, including institution's transactions and operations (including third-party dependencies), the number of clients and/or financial counterparts and/or branches and employees potentially affected;
- c. potential data losses;
- d. potential reputational impact;
- e. potential regulatory impact, including the potential for public censure, fines or even variation of permissions;
- f. potential strategic impact on the institution; and
- g. potential geographical spread.

219. Competent authorities should then map the identified material ICT risk into the ICT risk categories set out in Annex III. Institutions are expected to maintain their own categorisation rather than using the one set out in the Annex.

6.4.3. Assessment of operational risk management and control framework

220. Competent authorities should assess the framework and arrangements the institution has in place to manage and control operational risk taking into account the outcome of the analysis of the overall risk management and internal control framework addressed in Title 5, as this will influence the institution's operational risk exposures. Regarding ML/TF risk, the competent authority should take into account the assessment provided by the AML/CFT supervisor.

Operational risk strategy and appetite

221. Competent authorities should assess whether the institution has a sound, clearly formulated and documented operational risk strategy and appetite level approved by the management body, which outlines the nature, types and levels of operational risk the institution is willing to assume. For this assessment, among other factors, competent authorities should take into account the role of the management body in setting, approving, implementing and reviewing the operational risk strategy and appetite (including ICT risk appetite and digital operational resilience strategy), the strategy's sufficient coverage and appropriateness with respect to the nature and materiality of the institution's operational risk profile.

Organisational and internal control framework

222. Competent authorities should assess the institution's compliance with Article 323 of the Regulation (EU) No 575/2013. In this assessment, competent authorities should evaluate the soundness and effectiveness of the organisational framework and governance arrangements

to enable effective operational risk management, measurement and control, with sufficient human and technical resources to carry out the required tasks. Competent authorities should take into account whether clear lines of responsibility are in place for the identification, evaluation, mitigation, monitoring and reporting of operational risk as well as adherence to the three lines of defence model.

223. Competent authorities should assess whether the institution has a strong control framework and sound safeguards to mitigate its operational risk, including appropriate policies and procedures, covering also residual risk, and whether these are consistent with the institution's operational risk management appetite and strategy and cover all the key operations and processes. This includes, amongst others, the assessment of whether these policies and procedures are clearly formalised, communicated and applied consistently across the institution.
224. Competent authorities should also assess the functionality of the internal audit function in terms of adequacy, scope and frequency of internal audits on the operational risk management framework.
225. When models are used for decision-making purposes (e.g. product pricing, AI models, evaluation of financial instruments, client profiling etc.), competent authorities should assess whether there is a sound internal validation process and/or model-review process to identify and mitigate model risk (other than regulatory models).

Business continuity, response and recovery

226. Competent authorities should assess the institution's compliance with the (i) EBA Guidelines on Internal Governance in relation to the overall business continuity management and with the (ii) DORA framework in relation to the ICT business continuity policy and ICT response and recovery plans. In this regard, competent authorities should determine whether ICT business continuity policy and ICT response and recovery plans form an integral part of the institution's overall business continuity policy and response and recovery plan.
227. Competent authorities should assess whether the institution has established effective business continuity management with tested business continuity, response and recovery plans covering at least its critical or important functions, including those contracted to third-party providers, and whether these consider a range of severe but plausible scenarios to which the institution may be vulnerable. Competent authorities should also assess whether the institution's business continuity policy enables appropriate response and recovery measures to any type of incident.
228. Competent authorities should determine whether the institution's business continuity management includes:
 - a. Business Impact Analysis (BIA);

- b. appropriate recovery strategies incorporating key internal and external dependencies and clearly defined recovery priorities and resilience levels;
- c. comprehensive and flexible plans to deal with plausible disruptive scenarios, which are established based on the BIA and in coordination with internal and external stakeholders;
- d. plans that establish contingency strategies and response and recovery procedures;
- e. effective testing of the design and operational effectiveness of the plans;
- f. BCM awareness and training programmes; and
- g. communications plans for informing management and all relevant stakeholders, and crisis-management documentation, measures and a crisis management function where applicable (as per Article 11(7) of DORA).

229. Competent authorities should assess whether the institution's business continuity, response and recovery plans are:

- a. establishing roles and responsibilities, including clear guidance on potential succession, and setting out the internal decision-making process along with definition of activation triggers;
- b. reviewed to ensure contingency strategies remain consistent with current operations, risks and threats, resilience levels, and recovery objectives and priorities;
- c. prioritising business continuity actions using risk-based approach;
- d. tested regularly to ensure that recovery objectives and timeframes can be met; and
- e. involving the institution's third-party service providers, where possible;

230. Competent authorities should also assess whether testing results are documented and reported to the management body.

Assessment of ICT risk management framework

231. Competent authorities should assess the institution's compliance with the DORA framework and the EBA Guidelines on internal governance in relation to the internal governance and organisation of the management of ICT risk. Competent authorities should form a view on whether the institution's management body is held overall accountable for managing ICT risk and appropriately defines, approves and oversees the implementation of all ICT-related arrangements. Competent authorities should consider whether the members of the management body possess sufficient knowledge and skills to understand and assess ICT risk and its impact on the institution's operations.

232. Competent authorities should assess how the roles and responsibilities for all ICT-related functions and the established governance arrangements are embedded and integrated in the institution's internal control and governance framework to manage ICT risk. For this purpose, competent authorities should consider whether the institution has effectively assigned the responsibility for managing and overseeing ICT risk to an independent control function, that has direct access and can report directly to the management body in its supervisory function, and assess whether the institution demonstrates:

- a. clear communication, allocation and integration of roles and responsibilities in all ICT-related functions, including ICT supported business functions, and processes;
- b. sufficient and appropriate budget to fulfil digital operational resilience in terms of all types of resources, including relevant awareness programmes, training, and ICT skills for all staff (as per Article 5(2)(g) of DORA); and
- c. adequate follow-up and response by the management body on ICT audit findings and findings reported under Article 13(5) of DORA.

233. Competent authorities should develop a thorough understanding of the institution's ICT risk management framework and assess whether the institution has in place sufficient and appropriate strategies, policies, procedures, ICT protocols and tools, including tolerance levels, to address effectively, efficiently and comprehensively the material ICT risk in line with the DORA framework. For this purpose, competent authorities should consider, where applicable:

- a. the adequacy of institution's ICT risk management policies³⁴, processes and procedures, covering inter alia ICT third-party management, ICT-related incident detection and response, ICT asset management, encryption and cryptography, ICT operations security, network security, access control, and whether these have been approved by the management body and communicated to all relevant stakeholders (as per Article 14 of DORA);
- b. the adequacy of institution's risk tolerance level of ICT risk and the impact tolerance for ICT disruptions (as per Article 6(8)(b) of DORA);
- c. the adequacy of the institution's digital operational resilience strategy, including its alignment with the business strategy;
- d. the consistency of the strategy on ICT third-party risk, including the ICT multi-vendor strategy, where available, with the overall business strategy and ICT risk management framework;
- e. the residual risk from the institution's identified risks in respect to contractual arrangements on the use of ICT services supporting critical or important functions;
- f. the residual risk from the institution's identified risks on ICT projects impacting critical or important functions reported to the management body, and also on ICT systems acquisitions, development and maintenance and ICT changes;
- g. the soundness and comprehensiveness of digital operational resilience testing programme;
- h. the trend and magnitude of major ICT-related incidents and findings reported to the management body as per Article 17(3)(e) and Article 13(5) of DORA;
- i. ICT risk controls specific for the identified material ICT risk;

³⁴ In accordance with the DORA framework, these should include at least the information security policy, backup policies, ICT asset management policy, encryption and cryptographic controls policy, cryptographic key management policy, ICT project management policy, acquisition, development, and maintenance of ICT systems policy, human resources policy, physical and environmental security policy, ICT-related incident management policy, policy on the use of ICT services supporting critical or important functions provided by ICT third-party service providers.

- j. timely reporting of ICT risk management aspects to the management body and senior management; and
- k. internal audit coverage and findings.

234. When assessing ICT risk management, competent authorities should pay particular attention to ICT third-party risk management, including the institution's concentration level to ICT third-party service providers. For this purpose, competent authorities should ensure close cooperation with the Lead Overseers of critical ICT third-party providers (CTPPs), in accordance with the ESAs' Joint Guidelines on the oversight cooperation and information exchange (JC/GL/2024/36), in case the institution under assessment receives ICT services from a CTPP. Competent authorities should also review the effectiveness of the dedicated role established by the institution, or the designated member of senior management, on the monitoring of ICT third-party arrangements.

235. Competent authorities should consider whether the internal audit function is effective and possess sufficient knowledge, skills and expertise to audit institution's ICT risk management framework, by reviewing whether:

- a. the ICT risk management framework is audited with the required quality, focus and frequency and commensurate to the ICT risk profile of the institution;
- b. the audit plan includes audits on the material ICT risks identified by the institution, including independent reviews of ICT response and recovery plans;
- c. critical ICT audit findings are timely verified and remediated, including reporting to the management body; and
- d. ICT audit findings, including agreed actions, are formally followed up and progress reports periodically reviewed by the senior management and/or the audit committee.

6.4.4. Assessment of reputational risk

236. Competent authorities should assess the reputational risk to which the institution is exposed by leveraging the understanding gained from Title 4 to Title 6.2. Such an assessment should also focus on the overall reputational risk framework, ensuring the ability of the institution to effectively manage any reputation events. For this assessment, competent authorities should avoid double counting aspects already considered under the assessment of legal risk (section 6.4.2.1).

237. When assessing the relevance of reputational risk, competent authorities should consider the size of the institution as well as the nature, scale and complexity of their services, activities and operations (for example, listed equities or debts or participation in interbank markets).

238. Competent authorities should consider both internal and external factors or events that might give rise to reputational concerns, excluding events that result in legal proceedings. For Category 1 and Category 2 institutions, competent authorities should consider all the following indicators in their assessment:

- a. negative media/social media coverage and consumer-association initiatives that could deteriorate the public perception and reputation of the institution;
- b. the number of and changes in customer complaints or sudden loss of customers or investors;
- c. negative events relating to the institution's peers that could be associated by the public with the whole financial sector or a group of institutions;
- d. the reputation of individuals involved in the management of the institution or with qualifying shareholdings;
- e. involvement or operation in sectors or jurisdictions highly exposed to ML/TF or with individuals associated with high risk from an ML/TF perspective;
- f. involvement or operation in sectors or jurisdictions and/or with counterparties highly exposed to material issues or public controversies related to ESG factors;
- g. the reputational impact of ICT-related incidents as recorded by the institution in accordance to the Commission Delegated Regulation (EU) 2024/1772; and
- h. other 'market' indicators, if available (e.g. rating downgrades or changes in the share price throughout the year).

239. Competent authorities should assess the significance of the institution's reputational risk exposure and its interconnectedness with the other risks by leveraging the relevant risk assessments (including from other supervisory authorities) to identify any possible secondary effects in either direction.

240. In the context of the operational risk analysis, competent authorities should take into account the relevance and significance of the institution's exposures to ML/TF risk from a prudential perspective under the scope of operational risk. In this respect, competent authorities should use the relevant input received from AML/CFT supervisors to supplement their findings from ongoing supervision and evaluate whether they give rise to prudential concerns related to ML/TF risk.

241. Competent authorities should bear in mind that any institution can be exposed to ML/TF risk regardless of the institution's size or financial soundness. Therefore, sufficient attention should also be paid to institutions that are perceived to be financially sound and may have a good reputation given that these institutions might be specifically targeted for ML/TF purposes. Attention should also be paid to institutions that are very successful in attracting new customers/expanding market share – especially by using non-traditional distribution channels - since this could be related to weak customer due diligence controls at the on boarding phase.

242. Competent authorities should share relevant information on operational risk issues identified that can give rise to ML/TF risks and concerns such as deficiencies in the institutions' ICT system or internal control framework with AML/CFT supervisors.

243. Competent authorities should assess whether the institution has implemented adequate arrangements, strategies, processes and mechanisms to manage reputational risk. In particular, competent authorities should take into account whether:

- a. the institution has formalised policies and processes in place for the identification, management and monitoring of this risk, including a robust code of conduct, and whether these policies and processes are proportionate to its size and its relevance in the system;
- b. the institution addresses this risk in a precautionary manner, including putting in place appropriate metrics and monitoring tools, coverage of potential reputation issues in contingency plans, conducting relevant training and awareness sessions and leveraging lessons learned;
- c. the institution conducts stress testing or scenario analysis to assess any secondary effects of reputational risk (e.g. liquidity and funding costs, securitisation transactions, access to correspondent banking service, etc.);
- d. the institution acts to protect its brand through tools to monitor media/social media, protocols to address misinformation and adverse publicity as well as prompt communication campaigns; and
- e. the institution considers the potential impact of its strategy and business plans, and more generally of its behaviour, on its reputation.

6.4.5. Operational resilience

244. Competent authorities should form a holistic view on the ability of the institution to deliver critical or important functions through disruption (level of operational resilience), an outcome that benefits from the effective management of operational risk. For this purpose, competent authorities should leverage on their existing assessments on operational risk management, business continuity, change management capabilities, third-party services and the ICT upon which the institution relies to holistically evaluate whether these elements collectively support the institution's operational resilience. Competent authorities should also consider whether the existing risk management framework, business continuity plans, and third-party management (already assessed in the context of the DORA framework, EBA Guidelines on Internal Governance, EBA Guidelines on the sound management of third-party risk and recovery and resolution framework) are implemented consistently within the institution. Moreover, competent authorities should consider whether the institution has sufficiently mapped the internal and external interconnections and interdependencies that are needed to deliver its critical or important functions.

245. Competent authorities should consider the attention given by the management body and senior management on the institution's ability to respond to and recover from disruptions under the assumption that failures will occur. For this purpose, competent authorities should consider whether:

- a. the management body takes an active role in establishing a broad understanding of the operational resilience approach across the institution and in monitoring the maturity level of the institution's operational resilience; and
- b. timely reporting on the institution's ongoing operational resilience is provided in support to the management body's oversight, particularly when major identified deficiencies could affect the delivery of the institution's critical or important functions.

6.4.6. Summary of findings, scoring and supervisory measures

246. Following the above assessment, competent authorities should form a view on the institution's operational risk. This view should be reflected in a summary of findings, accompanied by a risk score based on the considerations specified in Table 10. Where, based on the materiality of certain risk sub-categories, the competent authority decides to assess and score them individually, the guidance provided in this table should be applied, as far as possible, by analogy.

Table 10. Supervisory considerations for assigning an operational risk score

Risk score	Supervisory view	Considerations in relation to inherent risk	Considerations in relation to adequate management and controls
1	There is a low risk of significant prudential impact on the institution considering the level of inherent risk and the management and controls.	- Operational risk exposures are limited to a few high-frequency/low-severity impact categories. - The significance of the exposure to operational risk is not material/very low, as shown by scenario analysis and compared with the losses of peers. - The level of gross losses (before recoveries and including losses on credit portfolio caused by operational risk) experienced by the institution in recent years has been not material/very low or has decreased from a higher level. - No significant ICT risk exposures, simple/resilient/agile ICT architecture and no material/very low ICT risks. - The level of concentration risk towards third-party service providers is low, with simple subcontracting chains. - The threat intensity that could result into major operational disruption (including ICT-	- There is consistency between the institution's operational risk policy and strategy and its overall strategy and risk appetite. - The organisational framework for operational risk is robust with clear responsibilities and a clear separation of tasks between risk-takers and management and control functions. - Operational risk framework includes all relevant risks. - Operational risk measurement, monitoring and reporting systems are appropriate. - The control framework for operational risk is sound. - ICT risk management and controls are adequate with respect to the requirements set out in the DORA framework. - Third-party risk management framework is sound and effective, along with appropriate contractual arrangements.

Risk score	Supervisory view	Considerations in relation to inherent risk	Considerations in relation to adequate management and controls
		related incidents) of critical or important functions is low.	Effective and sound business continuity management, including tested business continuity, response and recovery plans.
2	There is a medium-low risk of significant prudential impact on the institution considering the level of inherent risk and the management and controls.	- Operational risk exposures are mainly in high-frequency/low-severity impact categories. - The significance of the exposure to operational risk is low to medium, as shown by scenario analysis and compared with the losses of peers. - The level of gross losses experienced by the institution in recent years has been low to medium, or is expected to increase from a lower historic level or decrease from a higher historic level. - Low ICT risk exposures, moderately complex/partially constrained ICT architecture and low/medium ICT risks. - The level of concentration risk towards third-party service providers is medium, with moderate subcontracting chains. - The threat intensity that could result into major operational disruption (including ICT-related incidents) of critical or important functions is medium.	
3	There is a medium-high risk of significant prudential impact on the institution considering the level of inherent risk and the management and controls.	- Operational risk exposures extend to some low-frequency/high-severity impact categories. - The significance of the exposure to operational risk is medium to high, as shown by scenario analysis and compared with the losses of peers. - The level of gross losses experienced by the institution in recent years has been medium to high, or is expected to increase from a lower historic level or decrease from a higher historic level. - Indications of possible significant ICT risk exposures, complex/rigid/fragmented ICT	- The consistency between the institution's operational risk policy and strategy and its overall strategy and risk appetite is not sufficiently developed or even inadequate. - The organisational framework for operational risk is not sufficiently robust. - Operational risk framework does not include all relevant risks. - Operational risk measurement, monitoring and reporting systems are inappropriate. - The control framework for operational risk is tenuous.

Risk score	Supervisory view	Considerations in relation to inherent risk	Considerations in relation to adequate management and controls
		architecture and medium/high ICT risks. - The level of concentration risk towards third-party service providers is high, with moderate to long/complex subcontracting chains. - The threat intensity that could result into major operational disruption (including ICT-related incidents) of critical or important functions is high.	- ICT risk management and controls are not compliant with respect to the requirements set out in the DORA framework. - Third-party risk management framework is incomplete/weak, along with inadequate contractual arrangements. - Inadequate business continuity management, including unreliable/ineffective/incomplete business continuity, response and recovery plans.
4	There is a high risk of significant prudential impact on the institution considering the level of inherent risk and the management and controls.	- Operational risk exposures extend to all main categories. - The significance of the exposure to operational risk is high and increasing, as shown by scenario analysis and compared with the losses of peers. - The level of gross losses experienced by the institution over the last few years has been high, or risk has significantly increased. - Multiple indications of significant ICT risk exposures, highly complex/fragile ICT architecture and high ICT risks. - The level of concentration risk towards third-party service providers is very high/severe, with long/complex subcontracting chains. - The threat intensity that could result into major operational disruption (including ICT-related incidents) of critical or important functions is very high/severe.	

247. The table below presents a non-exhaustive list of supervisory measures that competent authorities may take in case of identified deficiencies in the institution's operational risk management framework and operational resilience (taking into account the close interconnection of operational resilience and operational risk management). Competent authorities should decide on the type of the measure based on its effectiveness to the specific identified deficiency. Competent authorities may apply additional supervisory measures (including quantitative measures in accordance with Article 104(1)(a) of the Directive 2013/36/EU) or a combination of these with the ones listed in the table below, if these are

deemed more appropriate to address the identified deficiencies. For breaches of DORA, the competent authorities should consider the applicable corrective and remedial measures provided in DORA Article 50.

Table 11. Potential and non-exhaustive list of supervisory measures stemming from the assessment of operational risk and operational resilience

Potential supervisory measures for competent authorities in accordance with Article 104(1)(b), (d), (e), (f), (m) of Directive 2013/36/EU and Article 50 of Regulation (EU) 2022/2554 – Competent authorities may require the institution to:
A. enhanced and more active involvement of the management body or its committees;
B. improvement of operational risk measurement systems;
C. strengthening controls on operational processes, including identification, monitoring, response and recovery;
D. improvements on the operational governance framework;
E. enhanced operational risk reporting to the management body and senior management;
F. development and implementation of corrective action plans to address deficiencies;
G. limitation of certain third-party arrangements, in particular for critical or important functions;
H. enhanced stress testing and scenario analysis of operational risk;
I. implementation of stronger operational measures;
J. enhanced business continuity, response and recovery plans;
K. enhanced operational risk management related to ESG risks, potentially based on one or several actions listed above.

6.5. Assessment of interest rate risk and credit spread risk arising from non-trading book activities

6.5.1. General considerations

248. When assessing the inherent interest rate risk arising from interest rate-sensitive positions from non-trading on and off-balance sheet activities (commonly referred to as interest rate risk in the non-trading book, or IRRBB) and credit spread risk arising from positions in the non-trading book (commonly referred to as CSRBB) and the adequacy of the internal control framework, competent authorities should verify the overall compliance of the institution with the following:

Title	Reference
Guidelines on IRRBB and CSRBB under Article 84(6) of Directive 2013/36/EU	EBA/GL/2022/14
RTS on IRRBB supervisory outlier tests under CRD Article 98(5a)	Commission delegated Regulation (EU) 2024/856
RTS specifying the supervisory shock scenarios, the common modelling and parametric assumptions and what constitutes a “Large decline”	
RTS on the IRRBB standardised and simplified standardised methodologies under CRD Article 84(5)	Commission delegated Regulation (EU) 2024/857

249. Competent authorities should assess IRRBB, including hedges for these positions, irrespective of their recognition and measurement, and irrespective of the recognition and measurement of losses and gains, for accounting purposes.

250. Competent authorities should consider the relevance and materiality of at least the following subcategories³⁵ when assessing IRRBB: gap risk, basis risk and option risk.
251. Assessment of IRRBB should be differentiated from assessment of CSRBB that competent authorities should also conduct in accordance with section 6.5.3. In particular, competent authorities should take into account whether institutions' internal systems adequately assess and monitor the risk from CSRBB from an economic value and net interest income (including market value changes) perspective and appropriately define CSRBB and determine its scope³⁶.
252. Based on the overall assessment of the inherent risk of IRRBB and the risk management and controls for IRRBB and CSRBB, competent authorities should form a view on the IRRBB and CSRBB resulting in a combined score using the criteria laid out in Table 12.

6.5.2. IRRBB

6.5.2.1. Assessment of inherent IRRBB

253. Through the assessment of the inherent level of IRRBB, competent authorities should determine the main drivers of the institution's IRRBB exposure and evaluate the potential prudential impact of this risk on the institution.

Preliminary assessment

254. To determine the scope of the IRRBB assessment, competent authorities should first identify the sources of IRRBB to which the institution is or might be exposed and if there have been any significant changes. To do so, competent authorities should leverage the knowledge gained from ICAAP and ILAAP information collected for SREP purposes, from reporting established on IRRBB, from the assessment of other SREP elements, from the comparison of the institution's position with those of its peers and from any other supervisory activities. As part of this, competent authorities should consider the institution's governance of interest rate risk, including its main IRRBB strategy and its risk appetite in relation to IRRBB, and the level of internal capital the institution has allocated to IRRBB.

Nature and composition of the institution's interest rate risk profile

255. Competent authorities should form a clear view on how changes in interest rates can have an adverse impact on an institution's net interest income (and, where relevant, its earnings) and economic value (the present value of expected cash flows) to gain both a short-term and a longer-term view on the possible threat to capital adequacy.
256. For this purpose, competent authorities should analyse and form a clear view on the structure and features of the institution's assets, liabilities, and off-balance-sheet exposures, including their sensitivities to changes in interest rates, maturities and repricing dates, and the

³⁵ Please refer to Annex IV for a non-exhaustive breakdown of IRRBB sub-categories.

³⁶ Also considering the guidance in EBA/2022/14.

proportion of products and positions with uncertain maturities (e.g. with embedded options or prepayment features) and any associated behavioural assumptions.

257. In addition, competent authorities should review the hedging strategy of the institution and to what extent a natural hedge may apply (considering also the robustness of modelling of repricing maturities for items with an undefined maturity), the amount of derivatives used for hedging purposes and whether the derivatives may mitigate sensitivity in EVE, NII or other metrics used by the institution internally.
258. Competent authorities should also pay attention to any concentrations (e.g. in the loan or bond portfolios) in terms of repricing maturity or on products with automatic or behavioural optionality, non-performing exposures and the nature of IRRBB embedded in fair value instruments including less liquid instruments such as level 3 assets and liabilities.
259. When analysing the impact on the institution's earnings, competent authorities should be aware of how much the institution's returns depend on interest rate-sensitive positions, and they should determine how different changes in interest rates would affect the institution's net interest income, as well as determining the effects of changes in the market value of instruments – depending on accounting treatment – either shown in the profit and loss (P&L) account or directly in equity (e.g. via other comprehensive income).
260. When analysing the impact on the institution's economic value and earnings, competent authorities should first consider the results of the supervisory outlier tests stipulated in Article 98(5) of Directive 2013/36/EU and further specified in Delegated Regulation (EU) 2024/856, to get an initial benchmark against which to compare how interest rate changes would affect the institution. For this assessment, competent authorities should pay particular attention to the sensitivity of cash flows to repricing, in terms of both their timing and amount and to changes in the underlying key assumptions (particularly for customer accounts without specific repricing dates, customer accounts with embedded customer optionality and/or equity capital).
261. Where the institution is identified as an outlier by the supervisory outlier test on net interest income, competent authorities should consider analysing additional dimensions to complement the assessment, when deemed appropriate (e.g. given the institution's the business model). Additional dimensions to consider may include market value changes of fair value instruments, the evaluation of the worst NII projections versus current realized NII and versus administrative expenses/overhead cost and net commissions/fees for capturing embedded losses/gains due to observed changes in the interest rates and in the market conditions.
262. Competent authorities should pay attention to the sensitivity of cash flows to changes in the valuation of fair value instruments in the non-trading book, including interest rate derivatives used for the hedging of non-trading book instruments (e.g. impact of mark-to-market changes in fair value instruments on P&L, hedge account effectiveness).

263. In addition to using the supervisory outlier test stipulated in Article 98(5) of Directive 2013/36/EU and further specified in Delegated Regulation (EU) 2024/856, competent authorities may require institutions to take into account other interest rate shock scenarios.
264. In their quantitative assessment, competent authorities should also consider the results of the institution's internal or standardised methodologies for measuring IRRBB, among which competent authorities should also assess, for those institutions operating in different currencies, the impact for the economic value and earnings measures coming from different currencies and, where an internal methodology is applied, the approaches that the institutions use for the aggregation across these currencies. Through the analysis of these methodologies, competent authorities should gain a deeper understanding of the main risk factors underlying the institution's IRRBB profile.
265. When analysing the results of both the impact of the supervisory outlier tests, and the institution's internal or standardised methodologies, competent authorities should consider 'point in time' figures as well as historical trends. These rates should be compared to peers and considered in the context of the global market situation.

Shock Scenarios and stress testing

266. Competent authorities should assess and take into account the results of the interest rate shock scenarios for ongoing management as well as the IRRBB stress tests performed by the institution as part of its ongoing internal management process. In this context, competent authorities should be aware of the main sources of the institution's IRRBB and in particular of the effect of changes in behavioural assumptions such as on NMD.
267. If, when the outcome of the institution's shock scenarios and stress tests is reviewed, particular accumulations of repricing/maturity at different points on the curve are revealed or suspected, competent authorities may need to carry out additional analyses.

6.5.2.2 Assessment of IRRBB management and control framework

268. To achieve a comprehensive understanding of the institution's interest rate risk profile in the non-trading book, competent authorities should review the governance and framework underlying its interest rate exposures.

IRRBB strategy and appetite

269. Competent authorities should assess whether the institution has a sound, clearly formulated and documented IRRBB strategy and appetite, approved by the management body. For this assessment, among other factors, competent authorities should take into account the role of the management body in setting, approving and reviewing the IRRBB strategy and appetite, the proper implementation of this strategy by senior management as well as its appropriateness for the institution given its business model, its market environment and role in the financial system, and capital adequacy.

Organisational and internal control framework

270. Competent authorities should assess whether the institution has an appropriate organisational framework and clearly assigned responsibilities for IRRBB management, measurement, monitoring and control functions with sufficient human and technical resources. For this assessment, competent authorities should take into account the adequacy of the lines of responsibility for the overall management of IRRBB, and for taking, monitoring, controlling and reporting IRRBB, including the independence of the IRRBB control area.
271. Competent authorities should assess whether the institution has clearly defined policies and procedures for the management of IRRBB that are consistent with its IRRBB strategy and appetite, approved and reviewed regularly by the management body. The policies should be clearly formalised and communicated and applied consistently across the institution, as well as across banking groups. Competent authorities should verify that policies define the procedures for new product development, major hedging or risk management initiatives, ensuring that these are subject to adequate procedures and controls before they are undertaken and the institution has undertaken an analysis of their possible impact in its overall risk profile.
272. Competent authorities should assess whether the institution has an appropriate framework for identifying, evaluating, managing and mitigating IRRBB, in line with the level, complexity and riskiness of non-trading book positions and the institution's size and complexity. The assessment should encompass internal models, such as those related to customer behaviour (e.g. models of deposit stability and loan early repayment). In this assessment competent authorities should evaluate whether the risk managers and the institution's senior management understand the assumptions underlying the measurement systems and they are aware of the degree of model risk that prevails in the institution's risk measurement techniques.
273. In addition, they should consider whether the information systems and measurement techniques enable management to measure the inherent IRRBB in all its material on- and off-balance- sheet exposures (where relevant at group level), including internal hedges, in concentrations in maturities and counterparties, in the non-trading book portfolio. The IRRBB framework should be subject to regular reviews and evaluations of the effectiveness of the framework. Competent authorities should compare internal reviews and evaluations with information from COREP.
274. Competent authorities should assess the institution's approach to modelling the behaviour of non-maturity deposits (NMDs), including whether this takes account of relevant risk factors impacting NMD repricing behaviour. Competent authorities should use appropriate analytical tools for this assessment, taking into account the institution's business model. Approaches that may be relevant include evaluation of how the institution segments NMDs using risk factors related to the customer, institution or market profile and benchmarking with peers that have a similar risk profile. In addition, competent authorities should consider how the

institution balances historical data with forward looking approaches and expert judgment, and review the impact on NII and EVE if behavioural assumptions were adjusted.

275. Competent authorities should consider whether the institution's internal measurement systems (IMS) take into account all material forms of interest rate risk to which the institution is exposed (e.g. gap risk, basis risk and option risk). The IMS should be properly calibrated, independently validated, back-tested and reviewed at an appropriate frequency. Competent authorities should take into account whether the IMS is supported by documentation considering the nature, scale and complexity of the IRRBB inherent in the business model and the institution's activities.
276. Competent authorities should assess whether the institution has an appropriate monitoring and internal reporting framework for IRRBB that ensures there is prompt action at the appropriate level of the institution's senior management or management body, where necessary. The monitoring system should include specific indicators and relevant triggers to provide effective early warning alerts (e.g., for breaches of IRRBB limits). Competent authorities should take into account whether the management and control area reports the results of the monitoring regularly to the management body and senior management, with an appropriate frequency depending on the scale, complexity and level of IRRBB exposures.
277. Competent authorities should assess whether the institution has a strong and comprehensive control framework and sound safeguards to mitigate its exposures to IRRBB in line with its risk management strategy and risk appetite, including an appropriate limit system on both IRRBB measures. The internal control function should include all consolidated entities, all geographical locations and all financial activities. Competent authorities should assess the functionality of the internal audit function, including whether its reviews are conducted sufficiently frequently and cover the main elements of the IRRBB framework.

6.5.3. CSRBB

6.5.3.1. Assessment of inherent CSRBB

278. Through the assessment of the inherent level of CSRBB, competent authorities should understand the main drivers of the institution's CSRBB exposure and evaluate the potential prudential impact of this risk on the institution.
279. To determine the scope of the CSRBB assessment, competent authorities should first identify the sources of CSRBB to which the institution is or might be exposed and if there have been any significant changes. As part of this, competent authorities should have regard to the institution's governance of credit spread risk, including its CSRBB strategy and its risk appetite in relation to CSRBB, and the treatment of CSRBB within the ICAAP context.
280. Competent authorities should form a clear view on how changes in credit spreads can have an adverse impact on an institution's net interest income (and, where relevant, its earnings) and economic value to gain both a short-term and a longer-term view on the possible threat to

capital adequacy. For this purpose, competent authorities should consider the approach applied by the institution to form this clear view on the structure and features of the institution's assets, liabilities, and off-balance-sheet exposures, and how these are driving the level and direction of CSRBB.

281. When analysing the impact on the institution's earnings, competent authorities should consider the impact of credit spread-sensitive positions on the institution's return, the impact of the changes in credit spreads on the institution's net interest income, and the effects of changes in the market value of instruments - depending on account treatment - either shown in the profit and loss (P&L) account or directly in equity (e.g. via other comprehensive income).
282. Competent authorities should consider the results of the institution's methodologies for measuring CSRBB, where appropriate. Through the analysis of these methodologies, competent authorities should gain a deeper understanding of the main risk factors underlying the institution's CSRBB profile.

6.5.3.2. Assessment of CSRBB management and control framework

283. To achieve a comprehensive understanding of the institution's credit spread risk profile in the non-trading book, competent authorities should review the governance and framework underlying its interest rate exposures.
284. The review of the institution's governance of CSRBB should include the following elements:
 - a. the institution's CSRBB strategy and appetite;
 - b. the institution's organisational framework and allocation of responsibilities with respect to CSRBB management, measurement, monitoring and control functions; and
 - c. the institution's policies and procedures for the management of CSRBB.
285. For the assessment of these areas, competent authorities should refer to section 6.5.2.2 on the assessment of the IRRBB management and control framework, with the principles contained also applicable to the assessment of CSRBB management.
286. When analysing the perimeter of assets and liabilities covered by the CSRBB assessment, also as considered within the institution's methodologies, competent authorities should assess whether any potential exclusion of instruments from the relevant perimeter is only made in the absence of sensitivity to credit spread risk and is appropriately documented and justified, as required in paragraph 124 of the EBA Guidelines on IRRBB and CSRBB. Factors to take into account include:
 - a. whether the institution includes all assets and liabilities accounted at fair value;
 - b. whether the institution includes all assets and liabilities whose credit spread risk can be inferred from a direct/indirect or even modelled market price, whatever their accounting treatment;

- c. the potential relevance of credit spreads in the institution's pricing practice for different assets/liabilities (for example through explicit references to observed market prices or more indirect relevance); and
 - d. differences, if any, that the institution applies between the perimeter for EVE and NII in the measurement of CSRBB (e.g. due to the NII time horizon or other reasons).
287. To analyse the institution's measurement of CSRBB, competent authorities should consider, where appropriate, to review which shock scenarios the institution is considering, and, how and why the shocks may be different between balance sheet items.
288. Competent authorities should check the exclusion of idiosyncratic spread in the institution's measurement of CSRBB or its inclusion only for proportionality reasons, as long as it is ensured that the measures will yield more conservative results.
289. Competent authorities should assess whether the institution has an appropriate framework for identifying, evaluating, managing and mitigating CSRBB, in line with the level, complexity and riskiness of non-trading book positions and the institution's size and complexity. They should consider whether the information systems and measurement techniques enable management to measure the inherent CSRBB in all its material on- and off-balance- sheet exposures (where relevant at group level) in the non-trading book portfolio. The CSRBB framework should be subject to regular reviews and evaluations of its effectiveness. In this context, competent authorities should assess whether significant measurement assumptions are reviewed at least annually and more frequently during rapidly changing market conditions.
290. Competent authorities should consider whether the institution's internal measurement systems (IMS) take into account all sources of CSRBB which are relevant for the institution's business model. The IMS should be properly calibrated, independently validated, back-tested and reviewed at an appropriate frequency. Competent authorities should take into account whether the IMS is supported by documentation considering the nature, scale and complexity of the CSRBB inherent in the business model and the institution's activities.
291. Competent authorities should assess whether the institution has an appropriate monitoring and internal reporting framework for CSRBB that ensures there is prompt action at the appropriate level of the institution's senior management or management body, where necessary. Competent authorities should take into account whether the management and control area reports the results of the monitoring regularly to the management body and senior management, with an appropriate frequency depending on the scale, complexity and level of CSRBB exposures.
292. Competent authorities should assess whether the institution has a strong and comprehensive control framework and sound safeguards to mitigate significant exposures to CSRBB in line with its risk management strategy and risk appetite. The internal control function should include all consolidated entities, all geographical locations and all financial activities. Competent authorities should assess the functionality of the internal audit function, including

whether its reviews are conducted sufficiently frequently and cover the main elements of the CRSBB framework.

6.5.4. Summary of findings, scoring and supervisory measures

293. Following the above assessments, competent authorities should form a view on the institution's IRRBB and CSRBB. This view should be reflected in a summary of findings, accompanied by a score based on the considerations specified in Table 12. If, based on the materiality of certain risk subcategories, the competent authority decides to assess and score them individually, the guidance provided in this table should be applied, as far as possible, by analogy.

Table 12. Supervisory considerations for assigning an IRRBB and CSRBB score

Risk score	Supervisory view	Considerations in relation to inherent risk	Considerations in relation to adequate management and controls
1	There is a low risk of significant prudential impact on the institution considering the level of inherent risk and the management and controls.	For IRRBB: - The sensitivity of the economic value to changes in interest rates is not material/very low. - The sensitivity of earnings to changes in interest rates is not material/very low. - The sensitivity of the economic value and earnings to changes in the underlying assumptions (e.g. in the case of products with embedded customer optionality) are not material/very low.	For IRRBB and CSRBB: - There is consistency between the institutions risk policy and strategy for interest rate- and credit spread risk and its overall strategy and risk appetite. - The organisational framework for interest rate and credit spread risk is robust with clear responsibilities and a clear separation of tasks between risk-takers and management and control functions.
2	There is a medium-low risk of significant prudential impact on the institution considering the level of inherent risk and the management and controls.	For IRRBB: - The sensitivity of the economic value to changes in interest rates is low to medium. - The sensitivity of earnings to changes in interest rates is low to medium. - The sensitivity of the economic value and earnings to changes in the underlying assumptions (e.g. in the case of products with embedded customer optionality) is low to medium.	- Interest rate and credit spread risk measurement, monitoring and reporting systems are appropriate. - There are clearly defined internal policy limits together with their associated risk mitigation measures, and the control framework for interest rate and credit spread risk (if material) that are sound and are in line with the institution's risk strategy and risk appetite.
3	There is a medium-high risk of significant prudential impact on the institution considering the level of inherent risk	For IRRBB: - The sensitivity of the economic value to changes in interest rates is medium to high. - The sensitivity of earnings to changes in interest rates is medium to high. - The sensitivity of the economic value and earnings to changes in the underlying assumptions (e.g.	- There is inconsistency between the institutions risk policy and strategy for interest rate- and credit spread risk and its overall strategy and risk appetite. - The organisational framework for interest rate and credit spread risk does not sufficiently separate responsibilities and tasks between risk-takers and

Risk score	Supervisory view	Considerations in relation to inherent risk	Considerations in relation to adequate management and controls
	and the management and controls.	in the case of products with embedded customer optionality) is medium to high.	management and control functions.
4	There is a high risk of significant prudential impact on the institution considering the level of inherent risk and the management and controls.	For IRRBB: • The sensitivity of the economic value to changes in interest rates is high. • The sensitivity of earnings to changes in interest rates is high. • The sensitivity of the economic value and earnings to changes in the underlying assumptions (e.g. in the case of products with embedded customer optionality is high.)	• Interest rate and credit spread risk measurement, monitoring and reporting systems are not undertaken with sufficient accuracy and frequency. • Internal policy limits, risk mitigation measures and/or the control framework for interest rate and credit spread risk (if material) are not aligned among themselves or not in line with the institution's risk strategy and risk appetite.

294. The table below presents a non-exhaustive list of supervisory measures that competent authorities may take in case of identified deficiencies in the institution's IRRBB and CSRBB management framework. Competent authorities should decide on the type of the measure based on its effectiveness to the specific identified deficiency. Competent authorities may apply additional supervisory measures (including quantitative measures in accordance with Article 104(1)(a) of the Directive 2013/36/EU) or a combination of them if these are deemed more appropriate to address the identified deficiencies.

Table 13. Potential and non-exhaustive supervisory measures for IRRBB and CSRBB

Potential supervisory measures for competent authorities in accordance with Article 104(1)(b), (f), (j), and Article 84(3) of Directive 2013/36/EU - Competent authorities may require the institution to:
A. enhance their stress testing capacity;
B. enhance the reporting of IRRBB management information to the management body and senior management;
C. apply variations to internal limits to reduce the risk inherent in activities, products and systems;
D. provide additional or more frequent reporting of the institutions' IRRBB positions;
E. use the standardised methodology for IRRBB;
F. specify modelling and parametric assumptions, other than those identified by the EBA RTS (in accordance with the last paragraph of Article 98(5) of Directive 2013/36/EU.

7. Title 7. SREP capital assessment

7.1. General considerations

295. Competent authorities should determine through the SREP capital assessment whether the own funds held by the institution provide sound coverage of risks to capital to which the institution is or might be exposed, if such risks are assessed as material to the institution.
296. Competent authorities should do this by determining and setting the quantity (amount) and quality (composition) of additional own funds the institution is required to hold to cover institution-specific risks and elements of risks that are not covered or not sufficiently covered by P1R, and, where necessary, own funds requirements to address deficiencies in models, controls, governance or other deficiencies, as well as risk arising from the institution's business model (P2R for risks other than risk of excessive leverage and P2R-LR for risk of excessive leverage).
297. When a material impact on institution's capital profile is or may be expected due to relevant changes to the regulatory framework for determining P1R or to its implementation on the specific institution, competent authorities should assess such impact in terms of interaction with the P2R. Such assessment may result in redetermining the quantity or composition of the P2R to make sure the institution's overall own funds requirements are in line with Article 104a(1) of Directive 2013/36/EU, in particular that P2R cover risks or elements of risks that are not covered or not sufficiently covered by the P1R. To perform such an assessment, competent authorities may increase the frequency of the SREP assessment as set out in the SREP engagement model in section 2.4 or of specific elements thereof.
298. To address potential capital inadequacies, including in stressed conditions, competent authorities should take appropriate supervisory measures, including, where relevant, establishing and communicating P2G and P2G-LR which is the quantity (amount) and quality (composition) of own funds that the institution is expected to hold over and above its OCR or its OLRR.
299. When setting the P2R and, where relevant, P2G, competent authorities should:
- take into account any supervisory measures it has applied or is planning to apply to an institution;
 - clearly justify all elements of additional own funds requirements for P2R and P2R-LR as well as for P2G and P2G-LR; and
 - apply P2R and P2R-LR as well as P2G and P2G-LR in a consistent manner to ensure broad consistency of prudential outcomes across institutions.

300. Competent authorities should assess the adequacy of the institution's own funds and the impact of economic stress thereon, as well as risks posed by excessive leverage, as a key determinant of the institution's viability. This determination should be summarised in a score taking into account the considerations specified at the end of this Title.

7.2. Determining Pillar 2 requirement for risks other than the risk of excessive leverage ('P2R')

301. Competent authorities should determine P2R for risks other than the risk of excessive leverage, where they identify any of the situations listed in Article 104a(1) of Directive 2013/36/EU for an institution, including in particular:

- a. the risk of unexpected losses, and of expected losses insufficiently covered by provisions, over a 12-month period (except where Regulation (EU) No 575/2013 specifies own funds requirements over a different period), which individual institutions are facing due to their activities, including those reflecting the impact of certain economic and market developments;
- b. model deficiencies for internal approaches for the calculation of own funds requirements ('regulatory model deficiencies') as assessed in the context of Article 101 of Directive 2013/36/EU, excluding those already covered by the fact that an institution has become bound by the output floor in accordance with Article 92 of the Regulation 575/2013; and
- c. deficiencies in internal governance, including internal control arrangements and other deficiencies, as well as risk arising from the institution's business model, identified following the risk assessment outlined in Titles 4 to 6, where other supervisory measures have not been effective or are considered insufficient to address the identified deficiencies.

7.2.1. Determining additional own funds to cover unexpected losses

302. When setting P2R for the risk of unexpected losses pursuant to point (a) of the following paragraph, competent authorities should consider each type of risk that may jeopardise the institution's capital position. Competent authorities should set P2R to cover the risk of unexpected losses by determining the capital considered adequate to cover the type of risk and deducting the relevant part of P1R.

303. Competent authorities should determine on a risk-by-risk basis, the amounts of capital considered adequate, by identifying, assessing and quantifying the risks to which the institution is exposed, taking into account its full risk profile. The determination of the amounts of capital considered adequate should include:

- a. institution-specific risks or elements of risks that are not covered by the P1R;
- b. institution-specific risks or elements of such risks that are not sufficiently covered by the P1R.

304. Competent authorities should ensure that the amount of capital considered adequate to cover each risk identified in accordance with Articles 79 to 85 and 87a of Directive 2013/36/EU is not

lower than the relevant part of the applicable P1R covering that risk. In exceptional cases where it is overly burdensome, especially for small institutions, to meaningfully disentangle the amount of capital considered adequate on a risk-by-risk basis, competent authorities should comply with the first sentence of this paragraph on a best-effort basis, using the ICAAP calculations, supervisory judgement and other sources of information.

305. When identifying, assessing and quantifying risks to which the institution is exposed, competent authorities should rely on the following sources of information:

- a. the ICAAP and the outcomes of its assessment by the competent authority, including the ICAAP calculations where deemed reliable or partially reliable in accordance with paragraphs 309 to 311;
- b. supervisory reporting; and
- c. the outcome of supervisory assessment, including any relevant previous supervisory activities, and benchmarking, as well as other relevant inputs, including those arising from interaction and dialogue with the institution.

306. The ICAAP and outcomes of its assessment should be taken into account by competent authorities as one of the key inputs for the identification and assessment of risks relevant for the institution. The determination of the amount of capital considered adequate and P2R on a risk-by-risk basis should take into account the ICAAP calculations if deemed reliable or partially reliable, as well as the outcomes of supervisory benchmarking and other relevant inputs as appropriate, including the supervisory judgement.

307. For the purposes of Article 98(1), point (f) of Directive 2013/36/EU and the determination of P2R, competent authorities should assess and consider diversification effects arising from geographical, sectoral or any other relevant drivers within each material risk category (intra-risk diversification). For each of the risks to capital covered by Regulation (EU) No 575/2013, such diversification effects should not reduce the minimum own funds requirements calculated in accordance with Article 92 of Regulation (EU) No 575/2013.

308. However, diversification between risks in different categories, including those covered by Regulation (EU) No 575/2013 (inter-risk diversification) should not be considered as part of the determination of P2R.

ICAAP calculations

309. Competent authorities should assess the reliability of the ICAAP calculations by assessing whether they are:

- a. granular: the calculations/methodologies should allow calculations to be broken down by risk type, rather than presenting a single (economic capital) calculation covering all risks;
- b. credible: the calculations/methodologies used should demonstrably cover the risk they are looking to address (e.g. the credit concentration risk calculation should use appropriate sector breakdowns that reflect actual correlations and portfolio compositions) and should

be sufficiently robust, stable, risk sensitive and conservative to adequately quantify losses associated with the risks. Such calculations/methodologies should be consistent with the institutions' strategic processes, including the institutions' risk appetite;

- c. understandable: the underlying drivers and key assumptions of the calculations/methodologies should be clearly specified. A 'black box' calculation should not be acceptable. Competent authorities should ensure that the institution provides an explanation of the key assumptions used, including at least time horizon, confidence levels, correlation assumptions, key parameters, the most fallible areas of the models used, and how these are accounted for and corrected in the final ICAAP calculation; and
- d. comparable: the calculations/methodologies should clearly mention the main assumptions in terms of the overall level of conservatism, the holding periods/risk horizons and confidence levels (or equivalent measurement) in order to allow the adjustment that may be requested or enacted by competent authorities in order to facilitate comparability with peers and supervisory benchmarking.

310. Competent authorities should further assess the reliability of the ICAAP calculations by comparing them against the outcome of the supervisory benchmarks for the same risks, and other relevant inputs.

311. An ICAAP calculation should be considered partially reliable where, despite not meeting all the criteria of paragraph 309, the calculation still seems highly credible, though this should be on an exceptional basis and accompanied by steps to improve deficiencies identified in the ICAAP calculation.

Supervisory benchmarks and other relevant inputs

312. Competent authorities should develop and apply risk-specific supervisory benchmarks as a means to challenge ICAAP calculations for those material risks, or elements of such risks, that are not covered or not sufficiently covered by Regulation (EU) No 575/2013, or to further support the determination of risk-by-risk P2R, especially where ICAAP calculations for those material risks, or elements of such risks, are deemed unreliable or are unavailable.

313. The supervisory benchmarks should be developed to provide a prudent, consistent (i.e., as applicable, calibrated to equivalent holding periods/risk horizons and confidence levels as required by Regulation (EU) No 575/2013), transparent and comparable measure with which to calculate and compare across institutions the capital considered adequate for a given risk.

314. When applying supervisory benchmarks, competent authorities should consider the business model of institutions and, to the extent appropriate, complement these with the application of supervisory judgement to account for business-model-specific and institution-specific considerations.

315. Competent authorities should use other relevant inputs to support the determination of risk-by-risk P2R. Other relevant inputs may include the outcomes of risk assessments (following

the criteria specified in Title 6), peer-group comparisons, including report(s) and benchmarks issued by the EBA.

316. Other relevant inputs should prompt the competent authority to reassess the appropriateness/reliability of an ICAAP/supervisory benchmarks for a specific risk, and/or make adjustments to the outcome, where they prompt doubts about its accuracy.
317. To ensure consistency in determining P2R, competent authorities should use the same peer groups established to analyse risks to capital as specified in Title 6.
318. When competent authorities take supervisory benchmarks as well as other relevant inputs into consideration for the determination of P2R, as part of the dialogue with the institution, they should explain the rationale and general underlying principles behind the inputs used.

7.2.2. Determining own funds or other measures to cover regulatory model deficiencies not covered by the fact that an institution has become bound by the output floor

319. If, during the ongoing review of internal approaches for the calculation of own funds requirements, competent authorities identify model deficiencies that could lead to underestimation of the P1R, they should set P2R only where this is determined to be more appropriate than other supervisory measures. Competent authorities should only set P2R to cover these deficiencies:
 - a. where it is not possible to address them under P1R through other supervisory measures, such as requiring institutions to adjust their models or apply an appropriate margin of conservatism to their estimates; and
 - b. taking into account whether the institution has become bound by the output floor in accordance with Article 92 of Regulation (EU) No 575/2013 and, if this is the case, proceed as explained in the next paragraph.

Such P2R should only be set as an interim measure while the deficiencies are addressed.

320. When an institution becomes bound by the output floor as set out in Article 92(3) of Regulation (EU) No 575/2013, competent authorities should:
 - a. ensure the nominal amount of P2R does not automatically increase as a result of the institution becoming bound by the output floor ('temporary cap'), in accordance with Article 104a(6) point (a) of Directive 2013/36/EU. To this end, the applicable percentage of the P2R previously communicated to the institution by the competent authority following the last SREP cycle will be applied to the institution's unfloored TREA (U-TREA), as set out in Article 92(4) of Regulation (EU) No 575/2013. This approach will remain in place until the performance of the review described in point b.;
 - b. without delay, and no later than the end date of the next SREP, review the P2R imposed on the institution in accordance with Article 104(1), point (a) of Directive 2013/36/EU. As part of this review, competent authorities should:

- i. remove any part of the P2R that may be covering regulatory model deficiencies for the calculation of own funds requirements that is already covered by the output floor, in order to eliminate any potential double-counting effects; and
- ii. consider whether there are undue arithmetic effects (i.e., where the P2R nominal amount increase is not due to an increase in risk but results from the P2R being expressed as a percentage of TREA) on the nominal amount of P2R arising from the automatic increase in the TREA due to the fact that the institution has become bound by the output floor and remove them as appropriate.
- c. communicate to the institutions the applicable own funds requirements following the review in point (b), with particular emphasis on any findings related to double counting elements. Competent authorities may also require institutions to disclose, as part of their Pillar 3 reporting, the impact of either the temporary cap or the review of double counting - whichever is applicable at the reference date - on the reported P2R.

321. For the purpose of the previous paragraph, competent authorities should encourage institutions to inform them at an early stage when they foresee (based on estimates) they may become bound by the output floor. This is to facilitate as far as possible, the review of double counting elements described in the previous paragraph.

322. Competent authorities should perform the review described in paragraph 320 at the time an institution first becomes bound by the output floor. Following the conclusion of this review, the temporary cap on P2R does not apply and the P2R communicated by competent authorities applies to floored TREA. Competent authorities should have regard to the fact that as long as an institution is bound by the output floor, no additional own funds requirements shall be imposed that would double-count the risks that are already fully covered by the fact that the institution is bound by the output floor, in accordance with Article 104a(8) of Directive 2013/36/EU, and in line with paragraph 297.

7.2.3. Determining own funds or other measures to cover other deficiencies

323. Competent authorities should set P2R to cover deficiencies – identified following the risk assessment outlined in Titles 4 to 6 – where other supervisory measures have not been effective or are considered insufficient to address the identified deficiencies. Competent authorities should only set such P2R as an interim measure while the deficiencies are addressed.

324. Competent authorities should only set P2R to cover funding risk – identified following the risk assessment outlined in Title 8 – where this is determined to be more appropriate than other supervisory measures.

325. Where an institution repeatedly fails to establish or maintain an adequate level of own funds to cover the P2G, competent authorities should set P2R to cover that additional risk not later than 2 years after the breach of guidance. Competent authorities may postpone that decision

where they allow institutions to operate below the level of guidance due to economic or market conditions or institution-specific circumstances, in line with paragraphs 455 and 456.

7.2.4. Determining the composition of Pillar 2 requirements

326. Where necessary, and having regard to the institution's specific circumstances, competent authorities may decide to require the institution to cover P2R with a higher quality of capital than that referred to in Article 104a(4) of Directive 2013/36/EU³⁷. This decision should be clearly justified, highlighting the specific circumstances that led to it. In their justifications competent authorities should refer to elements such as:

- a. the specific nature of the institution, its shareholding structure and, where relevant, the group structure, potentially affecting the possibility to raise capital;
- b. the specific nature of risks faced by the institution, potentially leading to a particularly rapid depletion of CET1 capital.

7.3. Pillar 2 requirements for the risk of excessive leverage ('P2R-LR')

327. Where, as a result of the assessment of the risk of excessive leverage in accordance with Article 104a (3) and (4) of Directive 2013/36/EU, competent authorities determine P2R-LR to address this risk, they should add this requirement to the own funds requirement based on the leverage ratio as set out in Article 92(1), point (d) of Regulation (EU) No 575/2013 and not to the P1R based on the TREA as set out in Article 92(1), points (a) to (c). Competent authorities should consider the leverage ratio requirement and P2R-LR as a separate stack from the TREA-based requirements and P2R for all other types of risk (i.e. available own funds can simultaneously be used to meet requirements in the TREA-based stack and in the leverage ratio-based stack of own funds requirements).

7.3.1. Assessment of risk of excessive leverage

328. In line with the concept of the leverage ratio (and its stack of requirements) as a backstop to the TREA-based own funds requirements, in the assessment of the risk of excessive leverage, competent authorities should focus on potential material vulnerabilities not covered or not sufficiently covered by the own funds requirements as set out in Article 92(1) point (d) of Regulation (EU) 575/2013 that may require corrective measures to the business activities of the institution, that were not envisaged in its business plan.

329. In assessing the risk of excessive leverage, competent authorities should consider all of the following aspects and adapt the depth of the assessment of each aspect according to its relevance for the institution:

³⁷ At least 56.25% CET1 and at least 75% Tier 1.

- a. elements of risk of excessive leverage that are considered not covered or not sufficiently covered by the leverage ratio own funds requirement set out in Article 92(1), point (d) of Regulation (EU) No 575/2013, as a result of in particular:
 - i. regulatory arbitrage/optimisation of the leverage ratio by exchanging exposures counted in the leverage ratio for economically similar exposures that may be less counted in the leverage ratio exposure calculation;
 - ii. regulatory arbitrage/optimisation by minimising the leverage ratio exposure in the form of temporary reductions of transaction volumes in key financial markets (particularly in the money market, of certain activities such as SFTs, but also in the derivative market) around reference dates resulting in the reporting and public disclosure of elevated leverage ratios ('window-dressing activities'); and
 - iii. specific features of the business model, business activities or other bank idiosyncrasies that either increase or decrease the extent to which the institution is exposed to the risk of excessive leverage but are not covered or not sufficiently covered in the calculation of the leverage ratio. Competent authorities should consider, where applicable, high exposures to written options on equity or short positions via credit derivatives that may have an elevated exposure to peak losses, as these positions are not fully captured in the leverage ratio exposure (in contrast to, for example, written credit derivatives), and concentrations in certain off-balance sheet items where the idiosyncrasies inherent to the business activities of the institution may lead to increased volatility in drawdowns.
- b. elements of risk of excessive leverage that are explicitly excluded from or not explicitly addressed by the leverage ratio own funds requirement, including due to the exclusions listed in Article 429a of Regulation (EU) No 575/2013, particularly where there are concerns about the assessment of continued compliance with the conditions for these exclusions and where the reliance on a single exclusion is highly significant for the institution and the amount excluded is unduly volatile; and
- c. the changes in the institution's leverage ratio and its components, including the foreseeable impact of current and future expected losses on the leverage ratio, taking into account the business model of the institution.

7.3.2. Determination of P2R-LR

330. Competent authorities should determine the P2R-LR as the difference between the capital considered adequate to cover the risk of excessive leverage and the leverage ratio own funds requirements as set out in Article 92(1), point (d) of Regulation (EU) No 575/2013. This amount cannot be negative.

331. When setting P2R-LR, competent authorities should consider in particular:

- a) elements of risk of excessive leverage that are considered not covered or not sufficiently covered by the leverage ratio own funds requirement set out in Article 92(1), point (d) of Regulation (EU) No 575/2013, particularly where the assessment of the aspects described in paragraphs 328 and 329 indicate a high vulnerability when compared to the leverage ratio exposure; and

- a. elements of risk of excessive leverage that are explicitly excluded from or not explicitly addressed by the leverage ratio own funds requirement, including due to the exclusions listed in Article 429a(1) of Regulation (EU) No 575/2013 assessed in accordance with paragraph 329, point b. Competent authorities should set P2R-LR only in those cases, where particularly extensive use of a certain exclusion results in a level of leverage ratio that does not appropriately reflect the risk faced by the institution.

332. Competent authorities should identify, assess and quantify the risk of excessive leverage using the sources of information and methods set out in paragraphs 305 and 306, to the extent that they are relevant for this risk.

7.3.3. Composition of P2R-LR

333. Competent authorities should add the P2R-LR to the minimum leverage ratio Tier 1 requirement. In order to meet this additional requirement, institutions should also be able to use any Tier 1 capital.

334. Where necessary, and having regard to the institutions' specific circumstances, competent authorities may decide to require institutions to cover P2R-LR with a higher quality of capital than that specified in the previous paragraph. This decision should be clearly justified, highlighting the specific circumstances that led to it, taking into account the individual risk situation of the institution and considering situations where materialisation of the risk of excessive leverage may require a higher quality of capital to cover potential losses.

7.4. Reconciliation with the capital buffers and any macroprudential requirements

335. In determining Pillar 2 requirements (or other capital measures), competent authorities should reconcile the Pillar 2 requirements with any existing capital buffer requirements by addressing the same risks or elements of risks. Competent authorities should not set Pillar 2 requirements or other capital measures (including P2G) where the same risk is already covered by specific capital buffer requirements. Any Pillar 2 requirements or other capital measures should be institution-specific and should not cover macroprudential or systemic risks.

7.5. Determining the TSCR, TSLRR, OCR and OLRR

336. Competent authorities should determine and express the TSCR in terms of CET1 Capital, Tier 1 Capital and Total Own Funds according to Table 14 below:

Table 14. Determination of TSCR in terms of CET1, T1 and total own funds

	TSCR = (a) + (b)	
	Component (a)	Component (b)
In terms of CET1 Capital	Own funds requirement under Article 92(1)(a) of Regulation (EU) No 575/2013	P2R required to be held in CET1 capital in accordance with Section 7.2
In terms of Tier 1 Capital	Own funds requirement under Article 92(1)(b) of Regulation (EU) No 575/2013	P2R required to be held in Tier 1 capital in accordance with Section 7.2
In terms of Total Own Funds	Own funds requirement under Article 92(1)(c) of Regulation (EU) No 575/2013	Total P2R set in accordance with Section 7.2

337. Competent authorities should determine the TSLRR (in terms of Tier 1 capital) as the sum of:

- a. the leverage ratio own funds requirement pursuant to Article 92(1), point (d) of Regulation (EU) No 575/2013; and
- b. the additional own funds required to address the risk of excessive leverage (determined in accordance with the criteria specified in section 7.3).

338. Where competent authorities require institutions to cover P2R-LR with a higher quality of capital in line with paragraph 334, they should determine the TSLRR (in terms of CET1) as the part of the additional own funds referred to in point b of the previous paragraph, that is required by the competent authority to be held in the form of CET1 capital.

339. Where considering the possibility of requiring a higher quality of capital, competent authorities should aim to avoid overlaps with other existing requirements within the relevant TREA-based or leverage ratio-based stack of requirements and with MREL.

340. Competent authorities should determine the OCR as the sum of:

- a. TSCR; and
- b. combined capital buffer requirements.

341. Competent authorities should determine the OLRR as the sum of:

- a. TSLRR; and
- b. the G-SII leverage ratio buffer requirement in accordance with Article 92(1a) of Regulation (EU) No 575/2013.

342. Competent authorities should not consider items and instruments other than those eligible for the determination of own funds (as defined in Part Two of Regulation (EU) No 575/2013) in the assessment/calculation of the TSCR, TSLRR, OCR or OLRR.

7.6. Meeting requirements in stressed conditions – Use of P2G and P2G-LR to address the quantitative outcomes of stress testing

343. Competent authorities should determine by means of stress testing the adequacy of the institution's own funds (quantity and composition) in stressed conditions and whether supervisory measures, including P2G, P2G-LR, revised capital planning and other measures are necessary to address potential inadequacies. To assess capital adequacy in stressed conditions, competent authorities should consider:

- a. the use of the qualitative outcomes (e.g. deficiencies identified in risk management and control) of institutions' stress tests and supervisory stress testing; and
- b. the use of the quantitative outcomes of institutions' stress tests, if the ICAAP is deemed reliable, and of supervisory stress tests, pursuant to Article 100 of Directive 2013/36/EU as specified in Title 11, and including, for example:
 - i. prescribing specific 'anchor' scenarios/assumptions to be implemented by institutions; and
 - ii. conducting system-wide stress tests using consistent methodologies and scenarios run either by institutions or by supervisors.

344. Competent authorities should assess as appropriate the quantitative outcomes of stress tests with regard to the adequacy and quality of the institution's own funds and determine whether the quantity and quality of own funds are sufficient to cover applicable capital requirements, and in particular:

- a. OCR including its combined buffer requirements under the baseline scenario over a forward-looking time horizon of at least 2 years; and
- b. TSCR under the adverse scenarios over a forward-looking time horizon of at least 2 years.

345. Competent authorities should determine P2G and P2G-LR, and, where the determination leads to a positive value, they should set P2G or P2G-LR to address supervisory concerns about the sensitivity of the institution to the adverse scenarios used in the supervisory stress tests. P2G should not be used to cover risks or elements of risks already covered by the P2R in accordance with section 7.2. Similarly, P2G-LR should not be used to cover those aspects of risk of excessive leverage already covered by P2R-LR in accordance with section 7.3.

346. The level of P2G should protect against the potential breach of TSCR in an adverse scenario. Similarly, the level of P2G-LR should protect against the breach of TSLRR in an adverse scenario. Where the quantitative outcomes of the supervisory stress tests suggest that the institution is not expected to breach its TSCR under the adverse stress test scenario, competent authorities may decide not to set P2G. Similarly, competent authorities may decide not to set P2G-LR where TSLRR is not expected to be breached under the adverse stress test scenario.

347. Competent authorities should determine and set P2G and P2G-LR based on the outcomes of the adverse scenario of the relevant supervisory stress tests, including the EU-wide stress tests

performed by the EBA or any other relevant supervisory stress tests performed on a system-wide basis over a forward-looking horizon of at least 2 years.

348. On the basis of establishing a proportionate approach for non-Category 1 institutions and subsidiaries of cross-border groups, for setting and updating P2G and P2G-LR competent authorities may consider the outcomes of simplified forms of supervisory stress tests (e.g. through the use of supervisory prescribed ‘anchor’ scenarios, sensitivity analysis, top-down stress tests conducted by designated authorities, portfolio level impacts from consolidated level stress tests), past supervisory stress tests or institutions’ stress tests in accordance with paragraph 343. The simplified forms of supervisory stress tests may be carried out on an individual basis rather than as part of the system-wide exercise.
349. Competent authorities should determine and set P2G and P2G-LR in accordance with the minimum engagement model specified in section 2.4. In particular, the minimum frequency with which P2G and P2G-LR are determined and set should be the frequency of the capital adequacy assessment under the SREP minimum-engagement model.
350. Notwithstanding the previous paragraph, competent authorities:
- a. should assess whether the existing P2G and P2G-LR is still appropriate whenever the results of new supervisory stress tests are available, and revise them if necessary; and
 - b. may determine P2G and P2G-LR only every second year instead of annually, including for SREP Category 1 institutions. However, in the year that follows the year of determining P2G, competent authorities should assess, on the basis of all relevant information, including outcomes of past supervisory stress tests, together with additional sensitivity analysis (i.e. simplified forms of supervisory stress testing), whether P2G and P2G-LR are still relevant or need to be updated.
351. When calibrating the P2G, competent authorities should ensure that it is set at a level appropriate to cover at least the anticipated maximum stress impact, which should be calculated based on the changes in the CET1 ratio (i.e. considering both movements in CET1 capital and TREA) in the worst year of stress and taking into account the level of applicable capital requirements. The maximum stress impact for the purpose of setting the P2G should be understood as the difference between the lowest CET1 ratio in the adverse scenario over the stress test horizon and the actual CET1 ratio at the starting point.
352. When calibrating the P2G-LR, the maximum stress impact should be calculated based on the changes in the Tier 1 capital in the worst year of stress and taking into account the applicable leverage ratio capital requirements. The maximum stress impact for the purpose of setting the P2G-LR should be understood as the difference between the lowest leverage ratio in the adverse scenario over the stress test horizon and the actual leverage ratio at the starting point.
353. Competent authorities should obtain the P2G starting point specific for each institution by offsetting elements that already cover risks reflected in the maximum stress impact. In particular, competent authorities should offset the relevant measures, in particular capital

conservation buffer, in accordance with paragraph 357. In addition, when setting the P2G and P2G-LR starting points, competent authorities may consider, where relevant, other adjustments to the maximum stress impact related to the static balance sheet assumption or the different time horizon between the stress test exercise and the time of the starting point.

354. Where setting the P2G and P2G-LR, competent authorities should ensure an adequate link between their respective starting points as well as their final values. For this purpose, they may decide to use a bucketing approach to classify institutions according to the P2G and P2G-LR starting points, based on the relevant supervisory stress tests set out in paragraph 347 or based on other approaches set out in paragraph 348. Consequently, competent authorities may assign a fixed range of P2G or P2G-LR levels to each bucket and set the final P2G and P2G-LR within the range of the assigned bucket or, exceptionally, outside the range of the relevant bucket, based on the institution-specific considerations. Competent authorities should aim to avoid cliff effects between buckets, for instance by allowing partial overlap between the P2G or P2G-LR levels for adjacent buckets, and they should ensure that the resulting final P2G and P2G-LR are institution-specific.

355. When determining the final P2G and P2G-LR, competent authorities should consider, where relevant and available, the following factors:

- a. the year when the maximum stress impact occurs in relation to the starting point and time horizon of the scenarios used in the stress tests;
- b. the outcome of a reliable institution stress test, taking into account the specific scenario definitions and assumptions, in particular where they are deemed more relevant for the business model and risk profile of the institution or where the internal scenarios are more severe than the supervisory scenarios;
- c. changes occurring after the cut-off date of the stress test exercise with a material impact on the institutions' risk profile or capital position (e.g. sale of non-performing loans). These changes may include interim changes of the risk profile including structural changes in the institutions' activity or balance sheet;
- d. relevant management mitigating actions of the institution that are deemed credible and highly certain following their supervisory assessment;
- e. information about supervisory views on the relevance of supervisory stress testing to the institution's strategy, financial plans and business model;
- f. reduced certainty on the actual sensitivity of the institution to adverse scenarios;
- g. any potential overlaps with the P2R or P2R-LR;
- h. the institution's overall recovery capacity as specified in the EBA Guidelines on overall recovery capacity in recovery planning³⁸;
- i. the quality (composition) of the institution's available own funds, including at the worst year of stress; and

³⁸ EBA Guidelines on overall recovery capacity in recovery planning (EBA/GL/2023/06) - Section II. Assessment of ORC – 'adjusted ORC'.

j. whether or not the institution is under restructuring or resolution.

356. For the purpose of determining P2G, competent authorities should also consider the extent to which stress scenarios cover all the material risks contributing to the P2R in TSCR. Competent authorities should in particular have regard to the fact that macroeconomic downturn scenarios may not entirely capture some risks, for example pension risk or some elements of credit concentration risk (e.g. single name concentration), that may amplify potential losses under the tested adverse scenarios.

357. In addition, competent authorities should consider the extent to which the existing combined buffer requirements and other applicable measures already cover risks revealed by stress testing. In this regard, competent authorities:

- a. should offset P2G against the capital conservation buffer (CCB), as P2G and the CCB overlap in nature;
- b. should in exceptional cases, offset P2G on a case-by-case basis against the countercyclical capital buffer (CCyB) - while no overlap is in principle expected between them - based on the consideration of underlying risks covered by the buffer and factored into the design of the scenarios used for the stress tests, after liaising with the macroprudential authority;
- c. should not offset P2G against the systemic risk buffers (G-SII/O-SII buffers and the systemic risk buffer), as those are intended to cover the risks an institution poses to the financial system;
- d. should not offset P2G-LR against the G-SII leverage ratio buffer requirement specified in Article 92(1a) of Regulation (EU) No 575/2013; and
- e. may review the P2G communicated to that institution to ensure that its calibration remains appropriate where an institution becomes bound by the output floor, in accordance with Article 104b(4a) of Directive 2013/36/EU.

358. Where competent authorities determine P2G, they should add this guidance on top of the OCR. Where competent authorities determine P2G-LR, they should add this guidance on top of OLRR. Competent authorities should consider OCR and OLRR as two separate stacks of requirements. Consequently, the available own funds can simultaneously be used to meet P2G and P2G-LR.

7.7. Summary of findings, scoring and supervisory measures

359. Following the above assessment, competent authorities should form a view on whether existing own funds resources provide sound coverage of the risks to which the institution is or might be exposed. This view should be reflected in a summary of findings, accompanied by a viability score based on the considerations specified in Table 15.

360. In setting the score for capital adequacy, where applicable, competent authorities should consider the score of the overall recovery capacity with regard to capital (weak, adequate with potential room for improvement, satisfactory) as specified in paragraphs 41-43 of the EBA

Guidelines on overall recovery capacity in recovery planning³⁹. The consideration of the overall recovery capacity score in the context of capital adequacy is especially relevant in case of a ‘weak’ overall recovery capacity score for capital.

Table 15 - Supervisory considerations for assigning a score to capital adequacy

Score	Supervisory view	Considerations
1	The quantity and composition of own funds held pose a low level of risk to the viability of the institution.	• The institution is able to comfortably meet its P2G and P2G LR. • The institution holds a level of own funds comfortably above its OCR and OLRR, and is expected to do so in the future. • Stress testing does not reveal any discernible risk regarding the impact of a severe but plausible economic downturn on own funds or leverage. • The free flow of capital between entities in the group, where relevant, is not impeded, or all entities are well capitalised above supervisory requirements. • The institution has a plausible and credible capital plan that has the potential to be effective if required. • The overall recovery capacity of the institution with regard to capital, resulting from the supervisory assessment, is ‘satisfactory’. • There is no material/a very low risk of excessive leverage.
2	The quantity and composition of own funds held pose a medium-low level of risk to the viability of the institution.	• The institution has difficulty meeting its P2G or P2G LR. Management mitigating actions to address this are assessed as credible. • The institution is near to breaching some of its capital buffers but is still clearly above its TSCR and TSLRR. • Stress testing reveals a low level of risk regarding the impact of a severe but plausible economic downturn on own funds or leverage, but management actions to address this seem credible. • The free flow of capital between entities in the group, where relevant, is or could be marginally impeded. • The institution has a plausible and credible capital plan that, although not without risk, has the potential to be effective if required. • The overall recovery capacity of the institution with regard to capital, resulting from the supervisory assessment, is ‘satisfactory’ or ‘adequate with room for improvement’. • There is a low level of risk of excessive leverage.
3	The quantity and composition of own funds held pose a medium-high level of risk to the viability of the institution.	• The institution does not meet its P2G or P2G LR. There are concerns about the credibility of management mitigating actions to address this.

³⁹ EBA/GL/2023/06

Score	Supervisory view	Considerations
		• The institution is using some of its capital buffers. There is potential for the institution to breach its TSCR or TSLRR if the situation deteriorates. • Stress testing reveals a medium level of risk regarding the impact of a severe but plausible economic downturn on own funds or leverage. Management actions may not credibly address this. • The free flow of capital between entities in the group, where relevant, is impeded. • The institution has a capital plan that is unlikely to be effective. • The overall recovery capacity of the institution with regard to capital, resulting from the supervisory assessment, is 'adequate with room for improvement' or 'weak'. • There is a medium level of risk of excessive leverage.
4	The quantity and composition of own funds held pose a high level of risk to the viability of the institution.	• The institution does not meet its P2G or P2G LR (or deliberately has not established P2G or P2G LR) and will not be able to do so in the foreseeable future. Management mitigating actions to address this are assessed as not credible. • The institution is near to breaching its TSCR or TSLRR. • Stress testing reveals that TSCR or TSLRR would be breached near the beginning of a severe but plausible economic downturn. Management actions will not credibly address this. • The free flow of capital between entities in the group, where relevant, is impeded. • The institution has no capital plan, or one that is manifestly inadequate. • The overall recovery capacity of the institution with regard to capital, resulting from the supervisory assessment, is 'weak' • There is a high level of risk of excessive leverage.

361. The table below provides a non-exhaustive list of supervisory measures that competent authorities may take in case of identified deficiencies in the institution's capital adequacy, including in stress conditions. Competent authorities should decide on the type of supervisory measure based on its effectiveness to the specific identified deficiency. Competent authorities may apply additional supervisory measures or a combination of them if these are deemed more appropriate to address the identified deficiencies.

Table 16. Potential and non-exhaustive supervisory measures for capital adequacy

Potential supervisory measures for competent authorities in accordance with Article 104(1)(a), (c) (h), (i), (j) of Directive 2013/36/EU - Competent authorities may require the institution to:
A. hold additional own funds requirements by setting TSCR and determining P2G, where relevant
B. submit a credible capital plan that addresses the risk of not meeting its applicable capital requirements, in case the quantitative outcomes of the stress tests indicate that, under the given stress scenarios, an institution will not be able to meet the requirements, and set a deadline for its implementation;
C. make changes to capital plans as appropriate, including to the proposed management actions, or take additional mitigating actions that would become relevant given the scenarios and current macroeconomic conditions;
D. limit variable remuneration as a percentage of net revenues where it is inconsistent with the maintenance of a sound capital base;
E. restrict or limit its business or operations or divest activities that pose excessive risks to its soundness;
E. reduce the risk inherent in certain activities, products and systems of institutions, including activities provided by third-parties;
F. use net profits to strengthen own funds;
G. restrict or prohibit distributions or interest payments to shareholders, members or holders of Additional Tier 1 instruments where such a prohibition does not constitute an event of default;
H. impose additional or more frequent reporting requirements, including reporting on own funds and leverage.

362. When competent authorities assess the credibility of the capital plan or the revised capital plan, in line with points B. and C. of Table 16, they should consider the following criteria:

- a. it covers the entire assumed stress testing time horizon;
- b. it puts forward a set of credible mitigating and management actions, such as restricting dividend payments, etc.;
- c. the institution is willing and able to take such actions in order to address the breaches of the applicable capital requirements in the system-wide stress tests;
- d. whether the mitigating and management actions are subject to any legal or reputational constraints, for instance due to contrary or conflicting former public announcements (e.g. on dividend policies, business plans and risk appetite);
- e. the probability that mitigating and management action would enable the institution to fully meet its applicable capital requirements within an appropriate timeframe;
- f. the proposed actions are broadly in line with macroeconomic considerations and with known future regulatory changes affecting an institution within the scope and timeline of the assumed adverse scenarios; and
- g. the range of recovery options and their analysis as set out in the institution's recovery plan.

363. Competent authorities should expect institutions to implement the revised capital plan, including further changes made based on the results of the supervisory assessment of and dialogue with the institution.

8. Title 8. Assessing risks to liquidity and funding and SREP liquidity and funding assessment

8.1. General considerations

364. Competent authorities should assess the institution's material liquidity and funding risks and whether the institution's liquidity and funding provides appropriate coverage of the risks assessed. The purpose of this title is to provide methodologies to be considered when assessing individual risks and risk management and controls. It is not intended to be exhaustive and gives leeway to competent authorities to take into account other additional criteria that may be deemed relevant based on their experience and the specific features of the institution in their assessment of the institution's liquidity and funding.

365. When assessing the inherent liquidity and funding risk and the adequacy of the liquidity and funding risk internal control framework, competent authorities should verify inter alia the overall compliance of the institution with the following:

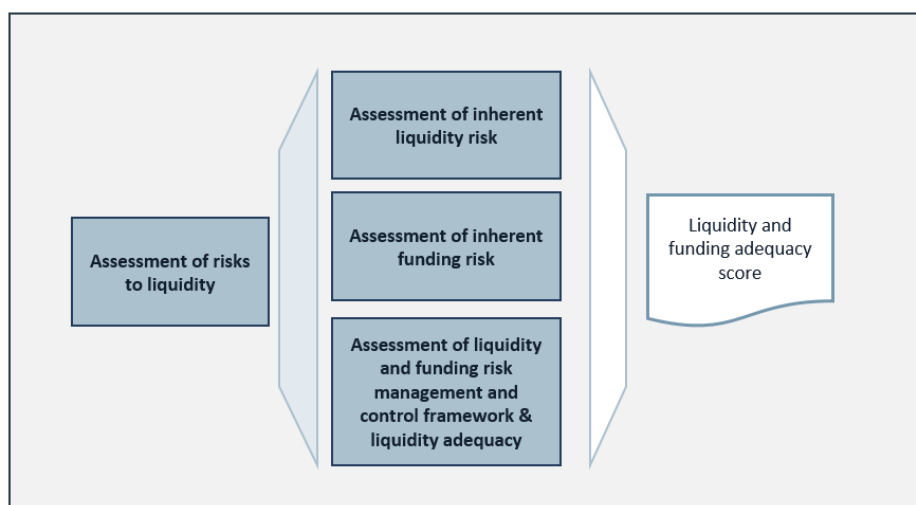
Title	Reference
RTS to supplement Regulation (EU) No 557/2013 with regard to liquidity coverage ratio (LCR)	Commission delegated Regulation (EU) No 2015/61
RTS on criteria for a preferential treatment in cross-border intragroup financial support under LCR	Commission delegated regulation (EU) 2017/1230
RTS on additional liquidity outflows	Commission delegated regulation (EU) 2017/208
EBA Guidelines on the management of environmental, social and governance (ESG) risks	EBA/GL/2025/01
EBA Guidelines on institutions' stress testing	EBA/GL/2018/04

366. The methodology comprises six main components:

- a. assessment of inherent liquidity risk (section 8.2);
- b. assessment of inherent funding risk (section 8.3);
- c. assessment of liquidity and funding risk management and control framework (section 8.4);
- d. summary of findings and scoring for liquidity and funding adequacy (section 8.5);
- e. determination of potential SREP liquidity and funding risk measures (section 8.6); and
- f. benchmarking and setting of quantitative liquidity and funding requirements (section 8.7).

367. The assessment flow is documented graphically in Figure 3.

Figure 3. Elements of the assessment of risks to liquidity and funding



368. In the assessment of risks to liquidity and funding, competent authorities should review, among others, the institution's liquidity coverage ratio (LCR), as specified in the Commission Delegated Regulation (EU) 2015/61⁴⁴ and the net stable funding ratio (NSFR), as established in Title IV of Part Six of the Regulation (EU) No 575/2013, and the institution's ILAAP. They should also consider the recommendations, guidelines and guidance included in LCR and NSFR implementation reports issued by the EBA, as well as warnings and recommendations issued by macroprudential authorities or the ESRB. However, these guidelines extend the scope of the assessment beyond those minimum requirements, aiming to allow competent authorities to form a comprehensive view of the risks.
369. Competent authorities should ensure the assessment pays attention to how the institution's business model impacts its liquidity and funding risk profile, taking into account the outcome of the business model analysis conducted under Title 4. In doing so, they should pay attention to how the institution's business model has changed over time and whether this has resulted in any increased risks. Competent authorities should monitor key quantitative indicators to capture trends and inform this analysis.
370. To assist with the quantitative assessment of the institution's liquidity and funding risks and adequacy, competent authorities should refer to the additional guidance available in section 8.7 on benchmarking and setting quantitative liquidity and funding requirements.
371. Competent authorities shall also evaluate any information with a potential impact on liquidity and funding position (e.g. from AML/CFT competent authorities).
372. In reviewing the quality of the institution's organisational and risk management arrangements for managing liquidity and funding risk, competent authorities should ensure that those covers all of its material legal entities, branches and subsidiaries.

373. Competent authorities should take into account the impact of environmental risks on the inherent liquidity and funding risks as well as the adequacy of the liquidity and funding risk management and control framework related to environmental risks.
374. The outcome of the assessment of each individual risk should be reflected in a summary of findings and an explanation of the main risk drivers and a score, as explained in the following sections.

8.2. Assessment of inherent liquidity risk

375. Competent authorities should assess the institution's short- and medium-term liquidity risk over an appropriate set of time horizons, including intraday periods, to ensure that the institution maintains adequate levels of liquidity buffers, under both normal and stressed conditions. This assessment includes the following elements:
- a. evaluation of liquidity needs in the short and medium term;
 - b. evaluation of intraday liquidity risk;
 - c. evaluation of liquidity buffer and counterbalancing capacity; and
 - d. supervisory liquidity stress testing.
376. For the assessment of liquidity needs, buffers and counterbalancing capacity under normal conditions, competent authorities should support the analysis with evidence from the reporting templates for additional monitoring metrics as specified in the ITS on supervisory reporting. When assessing liquidity needs in stressed conditions, competent authorities should also consider actions the institutions may take to preserve its reputation/franchise. This should consider reputational effects on large wholesale and retail counterparties including those potentially triggered via social or other channels. Competent authorities may perform less granular intraday liquidity risk evaluation and liquidity stress testing, where this is justified by lower materiality of these sources of risk, especially for Category 3 and Category 4 institutions, and taking into account the results of the ILAAP.

Evaluation of liquidity needs in the short and medium term

377. Competent authorities should assess the institution's liquidity needs in the short and medium term under both normal and stressed conditions. They should take into account the effect on the institution's stressed liquidity needs before 30 days, between for example 30 days and 3 months, and after for example 3 to 12 months of severe but plausible stresses covering idiosyncratic, market-wide and combined shocks. Competent authorities should also analyse the size, location and currency of the liquidity needs and the separate impacts of shocks in its different material currencies to reflect currency convertibility risk and risk of possible disruptions in the access to foreign exchange markets (including idiosyncratic such as, for example, the loss of access to correspondent banking account denominated in a foreign currency).

378. Competent authorities should support the assessment of short-term liquidity risk by analysing the LCR, as specified in Commission Delegated Regulation (EU) 2015/61, including whether the LCR is correctly measured and reported and adequately identifies the institution's coverage of liquidity needs. Competent authorities should also assess whether institutions are periodically testing their ability to report the LCR on a daily basis in order to make sure that institutions will be able to deliver reliable data according to Article 414 of Regulation (EU) 575/2013 when needed.
379. In evaluating the impact of shocks on the institution's liquidity needs, competent authorities should take into account all material sources of liquidity risk for the institution, in particular:
- a. the possibility that any applicable EU regulatory requirement would not adequately identify the institution's liquidity needs in the event of the type of stress scenario used for the requirement, including where maturities are shorter than 30 days;
 - b. risks arising in respect of wholesale counterparties regarding on-balance-sheet items and funding concentrations. Competent authorities should have regard to the volatility of funding provided by counterparties that all belong to the most material sectors serviced and potential contagion risks. In this respect, particular attention should be paid to funding gathered through new business lines and distribution channels as well as from clients running activities bearing an increased level of risk (crypto-asset issuers and services providers);
 - c. risks arising in respect of contingent cash flows/off-balance-sheet items (for example, credit lines, margin calls) and activities (for example, liquidity support for unconsolidated special-purpose vehicles beyond contractual obligations);
 - d. inflows and outflows on a gross basis as well as a net basis; where there are very large inflows and outflows, competent authorities should pay specific attention to the risk to the institution when inflows are not received when expected, even when the net outflow risk is limited;
 - e. risks arising in respect of retail counterparties including funding concentrations. For this purpose, competent authorities should make use of the methodology on the classification of retail deposits into different risk buckets, pursuant to Articles 24 and 25 of Commission Delegated Regulation (EU) 2015/61;
 - f. the risk that excessive risks in the medium- to long-term funding profile will adversely affect the behaviour of counterparties relevant to the short-term liquidity position; and
 - g. risk arising in the context of fiduciary deposits⁴⁰.
380. Competent authorities should ensure that their assessment of the institution's short-term liquidity needs considers the impact of digitalisation (including for example instant payments) and potential for the spread of information on social media to increase the speed of withdrawals in a stressed scenario.

⁴⁰ The best practices are available in the EBA report: Monitoring of liquidity coverage ratio implementation in the EU – Second report (EBA/REP/2021/07).

Evaluation of intraday liquidity risk

381. Competent authorities should assess the institution's exposure to intraday liquidity risk for a selected time horizon. This assessment should include, as a minimum, an evaluation of intraday liquidity available or accessible under normal conditions as well as under financial or operational stress (e.g. IT failures, legal constraints on the transfer of funds, suspension/termination of access to correspondent banking services and/or clearing services for currencies, commodities or instruments significant for the institution). This should particularly consider how in times of stress institution's increased intraday collateral needs may limit an institution's ability to use liquidity buffer to cover stressed outflows when needed.
382. For those jurisdictions where reporting on intraday risk is not yet available, competent authorities may rely on the institution's own analysis of intraday liquidity risk.

Evaluation of liquidity buffer and counterbalancing capacity

383. Competent authorities should assess the adequacy of the institution's liquidity buffer and counterbalancing capacity regarding the characteristics of the assets considered under different stress scenarios within a month as well as over different time horizons, potentially up to 1 year, including overnight. The assessment should include consideration of the classification and quality of liquid assets (as specified in the Commission Delegated Regulation (EU) 2015/61), their compliance with general and operational requirements for high-quality liquid assets, and whether the liquidity buffer and counterbalancing capacity are in line with the institution's risk appetite.
384. Competent authorities should consider factors that might reduce the institution's ability to monetise its liquid assets in a timely manner during a stress period including such as high concentrations with individual counterparties or type of assets, assets in the buffer that are encumbered or borrowed, and the denomination of liquid assets in a different currency to the institution's liquidity needs. Competent authorities should also consider the likely value of committed liquidity facilities that may be included in the counterbalancing capacity.
385. Competent authorities should review (where applicable) the appropriateness of the institution's assumptions concerning its ability to access repo markets and central bank funding in a stressed period, including regarding the suitability and availability of assets to serve as collateral. They should take into account whether the institution tests its market access by selling or repo-ing on a periodic basis. Equally they should review the institutions' assumptions regarding time to liquidity under stress.

Supervisory liquidity stress testing

386. Competent authorities should run their own liquidity stress tests to independently assess short- and medium-term liquidity risks. Stress scenarios should be anchored to the 30-day LCR stress assumptions, but competent authorities may extend the scope of their assessment by exploring risks within 30 days as well as beyond 30 days, and altering LCR assumptions to

reflect risks not adequately covered in the LCR. This should include a supervisory stress test combining institution-specific and market-wide stress.

8.3. Assessment of inherent funding risk

387. Competent authorities should assess the institution's funding risk and whether the medium- and long-term assets and off-balance-sheet items are adequately met with a range of stable funding instruments under both normal and stressed conditions. This assessment includes the following elements:

- a. evaluation of the institution's funding profile;
- b. evaluation of risks to the stability of the funding profile;
- c. evaluation of actual market access; and
- d. evaluation of expected change in funding risks based on the institution's funding plan.

Evaluation of the institution's funding profile

388. Competent authorities should assess the appropriateness of the institution's funding profile, including both medium- and long-term contractual and behavioural mismatches, in relation to its business model, strategy and risk appetite. They should take into account whether the institution's medium- and long-term assets and off-balance-sheet items are adequately met with a range of stable funding instruments, pursuant to Article 413 of Regulation (EU) No 575/2013. Competent authorities should support this assessment by analysing the NSFR as specified in Title IV of Part Six of Regulation (EU) No 575/2013 and assess whether this has been correctly reported.

389. Competent authorities should consider the impact on the institution's funding profile of any (local) regulatory and contractual factors affecting the behavioural characteristics of funding providers (e.g. regulations regarding clearing, bail-in, deposit guarantee schemes, etc., as they may influence the behaviour of funding providers).

390. Competent authorities should assess whether potential shortcomings arising from the institution's funding profile, such as maturity mismatches breaching acceptable boundaries, excessive concentrations of funding sources, excessive levels of asset encumbrance or inappropriate or unstable funding of long-term assets, could lead to an unacceptable increase in the cost of funding and a loss of funding access for the institution. In particular, assumptions regarding the stickiness of funding attracted via channels that rely on fintech or are less traditional, for example online deposit platforms – need to be closely assessed when planning or designing stress scenarios.

Evaluation of risks to the stability of the funding profile

391. Competent authorities should consider factors that may reduce the stability of the funding profile in relation to the type and characteristics of assets, off-balance-sheet items and liabilities. They should take into account the structural maturity mismatch between assets and

liabilities (including the impact of any currency mismatches), appropriate structural funding metrics (e.g. loan/deposit ratio, customer funding gap and behaviourally adjusted maturity ladder), and funding characteristics that could indicate increased ML/TF risks and concerns from a prudential perspective. Competent authorities should also consider impact of losses on the stability of funding; knowing that funding providers may be sensitive to much lower losses than those that would endanger capital ratios.

392. Competent authorities should assess risks to the sustainability of the funding profile arising from concentrations in funding sources (particularly in the type of funding instruments used, specific funding markets, single or connected counterparties). For example, they should consider the characteristics of the most material sectors serviced by the institution and how this impacts the institution's funding risk profile, paying particular attention to exposures to cyclical or volatile sectors.

393. Competent authorities should also assess the risk that asset encumbrance may have an adverse effect on the market's appetite for the unsecured debt of the institution (in the context of the specific characteristics of the market(s) in which the institution operates and the institution's business model).

Evaluation of actual market access

394. Competent authorities should be aware of the institution's actual market access and current and future threats to this market access including disruptions in the access to foreign exchange markets (including idiosyncratic). For the assessment, they should take into account the degree to which the institution makes high demands on particular markets or counterparties (including central banks) relative to those markets'/counterparties' capacity, any significant or unexpected changes in the issuance of debt, the risk that news about the institution may negatively influence the market (perception/confidence) and therefore market access, and signs that short-term liquidity risks may reduce the access the institution has to its major funding markets.

Evaluation of expected change in funding risks based on the institution's funding plan

395. Competent authorities should assess the expected change in funding risks based on the institution's funding plan and form a view on the feasibility of the plan (such as backtesting, considering alternative scenarios).

8.4. Assessment of liquidity and funding risk management and control framework

396. To achieve a comprehensive understanding of the institution's liquidity and funding risk profile and their interconnectedness, competent authorities should also review the governance and risk management framework underlying its liquidity and funding risk. To this end, competent authorities should assess:

- a. the liquidity risk and funding strategy and liquidity and funding risk appetite;
- b. the organisational framework, policies and procedures;
- c. risk identification, measurement, management, monitoring and reporting;
- d. the institution's liquidity/funding-specific stress testing;
- e. the internal control framework for liquidity risk and funding risk management;
- f. the institution's liquidity contingency plans and recovery plans; and
- g. the institution's funding plans.

Liquidity and funding risk strategy and risk appetite

397. Competent authorities should assess whether the institution has a sound, clearly formulated, documented and communicated liquidity/funding risk strategy and appetite, approved by the management body. For this assessment, among other factors, competent authorities should take into account the role of the management body in setting, approving and reviewing the liquidity/funding risk strategy and appetite (including its major underlying assumptions), the proper implementation of this strategy by the management body as well as its appropriateness for the institution given its business model, overall risk tolerance, role in the financial system, financial condition and funding capacity.

Organisational framework, policies and procedures

398. Competent authorities should assess whether the institution has an appropriate organisational framework and governance arrangements for liquidity and funding risk management, including a robust ILAAP framework in line with paragraph 94 of Title 5 of these Guidelines. Further, they should assess whether the institution has implemented appropriate measurement and control functions, with sufficient human and technical resources to develop and implement these functions and to carry out the required monitoring tasks. The liquidity risk control and monitoring of systems and processes should be controlled by an independent function.

399. Competent authorities should assess whether the institution has appropriate policies and procedures for the management of liquidity and funding risk and whether these are consistent with the institution's liquidity risk appetite. This includes assessment of whether the policies and procedures are properly defined, formalised and effectively communicated throughout the institution. The management body should approve and regularly review the policies and procedures, and these should be implemented by senior management.

400. Competent authorities should assess the adequacy of the institution's approach to maintaining market access in its significant funding markets, including any testing undertaken of market access, the institution's approach to maintaining an ongoing presence in the markets (for specific small institutions or specialised business models, testing of access to markets may not be relevant), the institution's approach to developing strong relationships with funding

providers, and any evidence that the institution would continue to have ongoing market access in times of stress.

Risk identification, measurement, management, monitoring and reporting

401. Competent authorities should assess whether the institution has an appropriate framework and IT systems for identifying and measuring liquidity and funding risk, in line with the institution's size, complexity, risk appetite and risk-taking capacity. They should take the following factors into account:

- a. whether the institution has implemented appropriate methods for projecting its cash flows over an appropriate set of time horizons, assuming business-as-usual and stress situations, and comprehensively across material risk drivers;
- b. whether the institution uses appropriate key assumptions and methodologies, which are regularly reviewed, recognising interaction between different risks (credit, market, IRRBB etc.) arising from both on- and off-balance sheet items; and
- c. whether the institution understands its ability to access financial instruments wherever they are held, having regard to any legal, regulatory and operating restrictions on their use, including, for example, the inaccessibility of assets due to encumbrance during different time horizons.

402. Competent authorities should assess whether institutions have an appropriate reporting framework for liquidity and funding risk that has been agreed by the senior management. They should take into account the quality of information systems and internal information flows used to generate reporting and whether the reporting is understandable for the target audience, accurate and usable (e.g. timely, not overly complex, within the correct scope, etc.). The reporting should be provided regularly to appropriate recipients (such as the management body, senior management or an asset-liability committee).

403. Competent authorities should assess the adequacy of the process of measuring intraday liquidity risk, especially for those institutions that participate in payment, settlement and clearing systems. They should take into account whether the institution adequately monitors and controls cash flows and liquid resources available to meet intraday requirements and forecasts when cash flows will occur during the day; and whether the institution carries out adequate specific stress testing for intraday operations considering also business developments (e.g. possibility for instant payments).

404. Competent authorities should assess whether the institution has an adequate set of liquidity and funding indicators. They should take into account:

- a. whether the indicators adequately reflect the institution's liquidity risk profile including the degree of diversification of assets in the liquidity buffer and the consistency between the currency denomination of their liquid assets and the distribution by currency of their liquidity outflows;

- b. whether the indicators adequately cover key liquidity risk aspects related to potential cliff risks such as the concentration of outflows maturities (considering also any potential early withdrawal of liabilities) and central bank support programmes;
- c. whether the indicators permit identification of the institution's structural funding vulnerabilities, including any concentrations in particular markets, currencies, counterparties, and maturities; and
- d. whether the indicators provide an insight into the 'stickiness' of the institutions' funding (independent of what is assumed in the LCR or NSFR), including the breakdown into homogenous categories according to their risk properties, and the proportion of deposits outside the scope of a guarantee/insurance scheme.

405. Institutions should be able to demonstrate that the indicators are adequately documented, periodically revised, used as inputs to define the risk appetite of the institution, part of management reporting and used for setting operating limits.

Institution's liquidity- and funding-specific stress testing

406. Competent authorities should assess whether an institution has implemented adequate liquidity-specific stress testing, in accordance with the EBA Guidelines on institutions' stress testing⁴¹:

- a. to understand the impact of adverse events on its risk exposure and to be able to assess the adequacy of its liquid assets, counterbalancing capacity and funding structure; and
- b. to cover risks that may crystallise during different types of stress scenarios and/or to address risks posed by control, governance or other deficiencies.

407. Competent authorities should take into account whether the framework permits the institution to:

- a. determine the institution's survival horizon given its existing liquidity buffer and stable sources of funding, and taking into account the institution's risk appetite, during a severe but plausible liquidity stress period;
- b. analyse the impact of stress scenarios on its consolidated group-wide liquidity position and on the liquidity position of individual entities and business lines; and
- c. understand where risks could arise, regardless of its organisational structure and the degree of centralised liquidity risk management.

408. Competent authorities should ensure that the institution provides the modelled impact of different types of stress scenarios (as explained in the EBA Guidelines on institutions' stress testing), as well as a number of sensitivity tests (on the basis of proportionality). The stress scenarios and shocks simulated in them should be based not only on the past, but also make

⁴¹ EBA/GL/2018/04

use of hypothetical stress scenarios based on expert judgement. Competent authorities should analyse whether the following scenarios are considered as a minimum:

- a. short-term and prolonged;
- b. institution-specific and market-wide (occurring simultaneously in a variety of markets); and
- c. a combination of (a) and (b).

409. An important aspect that competent authorities should consider when assessing the institution's stress testing framework is the modelling of the impact of the hypothetical stress scenario(s) on the institution's cash flows and on its counterbalancing capacity and survival horizon, and whether the modelling reflects the different impacts that economic stress may have on both an institution's assets and its in- and outflows.

410. Competent authorities should also assess whether the institution takes a conservative approach to setting stress testing assumptions. Depending on the type and severity of the scenario, competent authorities should consider, as relevant, the appropriateness of a number of assumptions, in particular:

- a. the run-off of retail funding;
- b. the reduction of secured and unsecured wholesale funding;
- c. the correlation between funding markets and diversification across different markets;
- d. additional contingent off-balance sheet exposures;
- e. funding tenors (e.g. where the funding provider has call options);
- f. the impact of any deterioration of the institution's credit rating;
- g. FX convertibility and access to foreign exchange markets and correspondent banking accounts;
- h. the ability to transfer liquidity across entities, sectors and countries;
- i. estimates of future balance-sheet growth; and
- j. due to reputational risks, an implicit requirement for the institution to roll over assets and to extend or maintain other forms of liquidity support.

411. Competent authorities should assess whether the management framework of the institution's liquidity-specific stress testing is appropriate and whether it is properly integrated into the overall risk management strategy. They should take into account:

- a. whether the extent and frequency of stress tests are appropriate to the nature and complexity of the institution, its liquidity risk exposures and its relative importance in the financial system;
- b. whether the outcomes of stress testing are integrated into the institution's strategic planning process for liquidity and funding and used to increase the effectiveness of liquidity management in the event of a crisis, including in the institution's liquidity contingency and recovery plan;

- c. whether the institution has an adequate process for identifying suitable risk factors for conducting stress tests, having regard to all material vulnerabilities that can undermine the liquidity position of the particular institution;
- d. whether assumptions and scenarios are reviewed and updated sufficiently frequently; and
- e. where the liquidity management of a group is being assessed, whether the institution pays adequate attention to any potential obstacles to the transfer of liquidity within the group.

Liquidity and funding risk internal control framework

412. Competent authorities should assess whether the institution has a strong and comprehensive internal limit and control framework and sound safeguards to mitigate its liquidity and funding risk in line with its risk appetite and ensure the availability of a diversified funding structure. They should take into account whether the limit and control framework is adequate for the institution's complexity, size and business model and reflects the different material drivers of liquidity risk and the outcomes of liquidity stress tests.
413. Competent authorities should consider whether the institution has limits to ensure consistency between the currency denomination of their liquid assets and the distribution by currency of their net liquidity outflows in accordance with Article 8(6) of Commission Delegated Regulation (EU) 2015/61.
414. Competent authorities should assess whether the limits are approved and regularly reviewed by the competent bodies of the institution and communicated to all relevant business lines. This process, along with how the institution monitors compliance with limits and the escalation process for breaches, should be clearly documented in its procedures.
415. Competent authorities should assess whether the institution has implemented an adequate transfer pricing system as part of the liquidity risk control framework, which incorporates all relevant liquidity costs, benefits and risks. Competent authorities should take into account whether the transfer pricing mechanism allows management to give appropriate incentives for managing liquidity risk, and whether the system and its calibration are reviewed and updated appropriately given the size and complexity of the institution. In addition, competent authorities should assess whether the institution's policy on incorporating the funds transfer pricing (FTP) methodology into the internal pricing framework is used for assessing and deciding on transactions with customers (this includes both sides of the balance sheet, e.g. granting loans and taking deposits).
416. Competent authorities should assess whether the institution has adequate controls regarding the liquid-assets buffer, including concentration limits and appropriate ongoing monitoring of the adequacy of the buffer and for changes in market conditions that could affect the institution's ability to liquidate its assets quickly.

Liquidity contingency plans

417. Competent authorities should assess whether the institution's liquidity contingency plan (LCP) adequately specifies the policies, procedures and action plans for responding to severe potential disruptions to the institution's ability to meet its liquidity needs and fund itself. They should take into account the content and scope of contingency funding measures included in the LCP, and in particular factors such as:

- a. whether the LCP adequately explains governance arrangements for its activation and maintenance;
- b. whether the LCP appropriately reflects the institution's liquidity- and funding-specific and wider risk profile;
- c. whether the institution has a framework of liquidity early warning indicators, including among others those established as liquidity indicators in the EBA GL on recovery plan indicators that are likely to be effective in enabling the institution to identify deteriorating market circumstances in a timely manner and to determine quickly what actions need to be taken;
- d. whether the LCP describes clearly that the LCR liquidity buffer is designed to be used in case of stress, even if that leads to LCR values below 100%, including that it is part of the expected management of liquidity risk under stress that subsequent communications to senior management take place if established lower LCR values are reached. The LCP should clearly reflect and describe how liquidity risk should be managed under stress to steer towards targeted LCR levels as closely as possible;
- e. whether the LCP clearly articulates all material (potential) funding sources, including the estimated amounts available for the different sources of liquidity and the estimated time needed to obtain funds from them;
- f. whether the measures are in line with the institution's overall risk strategy and liquidity risk appetite; and
- g. the appropriateness of the assumptions regarding the role of central bank funding in the institution's LCP. Examples of factors competent authorities may consider could include the institution's views on:
 - I. the current and future availability of potential alternative funding sources connected to central bank lending programmes;
 - II. the types of lending facilities, the acceptable collateral and the operational procedures for accessing central bank funds; and
 - III. the circumstances under which central bank funding would be needed, the amount required and the period for which such a use of central bank funding would probably be required.

418. Competent authorities should assess whether the actions described in the LCP are feasible in relation to the stress scenarios in which they are meant to be taken. They should take into account factors such as:

- a. the level of consistency and interaction between the institution's liquidity-related stress tests, its LCP, its liquidity early warning indicators and, where applicable, its liquidity related recovery plan; and
- b. whether the actions defined in the LCP appear likely to enable the institution to react adequately to a range of possible scenarios of severe liquidity stress, including institution-specific and market-wide stress, as well as the potential interaction between them; and whether the actions defined in the LCP are prudently quantified in terms of liquidity-generating capacity under stressed conditions and the time required to execute them, taking into account operational requirements such as pledging collateral at a central bank.

419. Competent authorities should assess the appropriateness of the institution's governance framework with respect to its LCP. They should take into account factors such as:

- a. the appropriateness of escalation and privatisation procedures detailing when and how each of the actions can and should be activated;
- b. whether the institution has adequate policies and procedures with respect to communication within the institution and with external parties; and
- c. the degree of consistency between the LCP⁴² and the institution's business continuity plans.

Funding plans

420. Competent authorities should assess whether the funding plan is feasible and appropriate in relation to the nature, scale and complexity of the institution, its current and projected activities and its liquidity and funding profile. They should take into account factors such as:

- a. whether the funding plan addresses alternative scenarios. Competent authorities should pay particular attention to the robustness of the plan for supporting the projected business activities under adverse scenarios;
- b. the expected change in the institution's funding profile arising from the execution of the funding plan and whether this is suitable given the institution's activities and business model;
- c. whether the funding plan supports any required or desired improvements in the institution's funding profile;
- d. their own view on the (changes in) market activity planned by institutions in their jurisdiction on an aggregated level, and what that means for the feasibility of individual funding plans; and
- e. whether the funding plan is:
 - I. integrated with the overall strategic plan of the institution;
 - II. consistent with its business model; and
 - III. consistent with its liquidity risk appetite;

⁴² In case the LCP is fully integrated into the recovery plan, this will be incorporated into the liquidity ORC score. In case the LCP is not incorporated into the recovery plan and the two documents are separate, the LCP needs to be analysed separately.

421. In addition, competent authorities may consider:

- a. whether the institution adequately analyses and is aware of the appropriateness and adequacy of the funding plan given the institution's current liquidity and funding positions and their projected development. As part of this, competent authorities may consider whether the institution's senior management can explain why the funding plan is feasible and where its weaknesses lie;
- b. the institution's policy for determining what funding dimensions and what markets are significant to the institution (and whether it is adequate);
- c. the time horizon envisaged by the institution for migration to a different funding profile, if required or desired, bearing in mind that there may be risks involved if migration towards the end state is either too fast or too slow; and
- d. whether the funding plan contains different strategies and clear management procedures for timely implementation of strategy changes.

422. Competent authorities should assess whether the institution's funding plan is appropriately implemented. As a minimum, they should take into account:

- a. whether the funding plan is properly documented and communicated to all the relevant staff; and
- b. whether the funding plan is embedded in the day-to-day operations of the institution, especially in the funding decision-making process.

423. In addition, competent authorities may take into account whether the institution is able to reconcile the funding plan with the data provided to competent authorities in the funding plan template.

424. Competent authorities should consider the quality of the institution's processes for monitoring the execution of the funding plan and its ability to react to deviations in a timely manner. For this assessment, competent authorities should take into account factors such as:

- a. the quality of the updates to (senior) management regarding the current status of the execution of the funding plan;
- b. whether the funding plan envisages alternative fall-back measures to be implemented if there are changes in the market conditions; and
- c. the policy and practice of the institution regarding the regular review, back-testing, and updating of the funding plan when the actual funding raised significantly differs from the funding plan.

8.5. Summary of findings, scoring and supervisory measures

425. Following the above assessment, competent authorities should form a view on the institution's liquidity and funding risks and the capacity of the institutions' liquidity resources to cover/mitigate these. This view should be reflected in a summary of findings, accompanied by a liquidity and funding adequacy score based on the considerations specified in Table 17. The

liquidity and funding adequacy score should reflect the view of competent authorities on whether the existing liquidity resources provide appropriate coverage of the liquidity and funding risks. Competent authorities may consider the use of intermediate scores for liquidity and funding risk where deemed relevant.

426. In setting the liquidity and funding adequacy score, competent authorities should, where applicable, consider the score of the liquidity overall recovery capacity in recovery planning (weak, adequate with potential room for improvement, satisfactory) as specified in paragraphs 41-43 of the EBA Guidelines on overall recovery capacity in recovery planning⁴³. The consideration of the overall recovery capacity score in the context of liquidity adequacy is especially relevant in case of a ‘weak’ overall recovery capacity score for liquidity.

Table 17. Supervisory considerations for assigning a liquidity and funding adequacy score

Risk score	Supervisory view	Considerations in relation to inherent risk	Considerations in relation to adequate management and controls
1	There is a low risk of significant prudential impact on the institution considering the level of inherent risk and the management and controls.	• There is non-material/very low risk arising from mismatches (e.g. between maturities, currencies, etc.). • The size and composition of the liquidity buffer is adequate and appropriate. • The level of other drivers of liquidity risk (e.g. reputational risk, inability to transfer intra-group liquidity, etc.) is not material/very low. • The institution’s counterbalancing capacity and liquidity buffers are comfortably above supervisory quantitative requirements and are expected to remain so in the future. • The free flow of liquidity between entities in the group, where relevant, is not impeded, or all entities have a counterbalancing capacity and liquidity buffers above supervisory requirements. • There is non-material/very low risk from the institution’s funding profile or its sustainability. • The risk posed by the stability of funding is not material. • Other drivers of funding risk (e.g. reputational risk, access to funding markets, etc.) are not material/very low.	• There is consistency between the institution’s liquidity/funding risk policy and strategy and its overall strategy and risk appetite. • The organisational framework for liquidity and funding risk is robust with clear responsibilities and a clear separation of tasks between risk-takers and management and control functions. • Liquidity and funding risk measurement, monitoring and reporting systems are appropriate. • Internal limits and the control framework for liquidity risk are sound and are in line with the institution’s risk management strategy and risk appetite. • The institution has a plausible and credible liquidity contingency plan that has the potential to be effective if required.

⁴³ EBA/GL/2023/06

Risk score	Supervisory view	Considerations in relation to inherent risk	Considerations in relation to adequate management and controls
		• The composition and stability of longer-term funding (>1 year) pose non-material/very low risk in relation to the activities and business model of the institution. • The overall recovery capacity of the institution with regard to liquidity resulting from the supervisory assessment, is 'satisfactory'.	
2	There is a medium-low risk of significant prudential impact on the institution considering the level of inherent risk and the management and controls.	• Mismatches (e.g. between maturities, currencies, etc.) entail low to medium risk. • The risk posed by the size and composition of the liquidity buffer is low to medium. • The level of other drivers of liquidity risk (e.g. reputational risk, inability to transfer intra-group liquidity, etc.) is low to medium. • The institution's counterbalancing capacity and liquidity buffers are above supervisory quantitative requirements, but there is a risk that they will not remain so in the future. • The free flow of liquidity between entities in the group, where relevant, is or could be marginally impeded. • The risk posed by the stability of funding is low to medium. • Other drivers of funding risk (e.g. reputational risk, access to funding markets, etc.) are low to medium. • The composition and stability of longer-term funding (>1 year) pose a low level of risk in relation to the activities and business model of the institution. • The overall recovery capacity of the institution with regard to liquidity, resulting from the supervisory assessment, is 'satisfactory' or 'adequate with room for improvement'.	
3	There is a medium-high risk of significant prudential impact on the	• Mismatches (e.g. between maturities, currencies, etc.) entail medium to high risk. • The risk posed by the size and composition of the liquidity buffer is medium to high.	• There is not full consistency between the institution's liquidity and funding risk policy and strategy and its overall strategy and risk appetite.

Risk score	Supervisory view	Considerations in relation to inherent risk	Considerations in relation to adequate management and controls
	institution considering the level of inherent risk and the management and controls.	• The level of other drivers of liquidity risk (e.g. reputational risk, inability to transfer intra-group liquidity, etc.) is medium to high. • The institution's counterbalancing capacity and liquidity buffers are deteriorating and/or are below supervisory quantitative requirements, and there are concerns about the institution's ability to restore compliance with these requirements in a timely manner. • The free flow of liquidity between entities in the group, where relevant, is impeded. • The risk posed by the institution's funding profile and its sustainability is medium to high. • The risk posed by the stability of funding is medium to high. • Other drivers of funding risk (e.g. reputational risk, access to funding markets, etc.) are medium to high. • The composition and stability of longer-term funding (>1 year) pose a medium level of risk in relation to the activities and business model of the institution. • The overall recovery capacity of the institution with regard to liquidity, resulting from the supervisory assessment, is 'adequate with room for improvement' or 'weak'.	• The organisational framework for liquidity and funding risk does not sufficiently separate responsibilities and tasks between risk-takers and management and control functions. • Liquidity and funding risk measurement, monitoring and reporting systems are not undertaken with sufficient accuracy and frequency. • Internal limits and the control framework for liquidity and funding risk are not in line with the institution's risk management strategy or risk appetite. • The institution has a liquidity contingency plan that is unlikely to be effective or the institution has no liquidity contingency plan, or one that is manifestly inadequate
4	There is a high risk of significant prudential impact on the institution considering the level of inherent risk and the management and controls.	• Mismatches (e.g. between maturities, currencies, etc.) entail high risk. • The risk posed by the size and composition of the liquidity buffer is high. • The level of other drivers of liquidity risk (e.g. reputational risk, inability to transfer intra-group liquidity, etc.) is high. • The institution's counterbalancing capacity and liquidity buffers are rapidly deteriorating and/or are below the supervisory quantitative requirements, and there are serious concerns about the institution's ability to restore	

Risk score	Supervisory view	Considerations in relation to inherent risk	Considerations in relation to adequate management and controls
		compliance with these requirements in a timely manner. • The free flow of liquidity between entities in the group, where relevant, is severely impeded. • The risk posed by the institution's funding profile and its sustainability is high. • The risk posed by the stability of funding is high. • Other drivers of funding risk (e.g. reputational risk, access to funding markets, etc.) are high. • The composition and stability of longer-term funding (>1 year) pose a high level of risk in relation to the activities and business model of the institution. • The overall recovery capacity of the institution with regard to liquidity, resulting from the supervisory assessment, is 'weak'.	

427. Following the liquidity and funding adequacy scoring of section 8.5, competent authorities should determine whether it is necessary to set specific liquidity and funding requirements to cover risks to liquidity and funding to which an institution is or might be exposed.

428. The next table provides a non-exhaustive list of qualitative and quantitative supervisory measures that competent authorities may use in case a specific deficiency is identified. Competent authorities may apply additional supervisory measures (including quantitative measures in accordance with Article 104(1)(a) of Directive 2014/36/EU or a combination of them if these are deemed more appropriate to address the identified deficiencies.

429. Where competent authorities determine that quantitative measures may be necessary, they should refer to the additional guidance in the subsequent section on benchmarking and setting quantitative liquidity and funding measures.

430. It is relevant to note that part of the measures mentioned in table 18 are of a qualitative nature. Where fundamental weaknesses arise, particularly in terms of management of liquidity and funding, qualitative measures should be prioritized, where possible.

Table 18. Potential and non-exhaustive supervisory measures for liquidity and funding risk

Potential supervisory measures for competent authorities in accordance with Articles 102, 104(1) (b), (j), (k), and Article 105 of Directive 2013/36/EU, Article 8 of Commission Delegated Regulation (EU) 2015/61, and Article 428b(5) of Regulation (EU) No 575/2013
A. require institutions to hold an LCR higher than the regulatory minimum, of such a size that shortcomings identified are sufficiently mitigated;
B. require institutions to apply a minimum survival period of such length that identified shortcomings are sufficiently mitigated;
C. require institutions to hold a minimum total amount of liquid assets or counterbalancing capacity, of such a size that identified shortcomings are sufficiently mitigated;
D. require institutions to hold a NSFR higher than the regulatory minimum, of such a size that shortcomings identified are sufficiently mitigated;
E. require institutions to hold a minimum total amount of available stable funding, of such a size that identified shortcomings are sufficiently mitigated;
F. impose specific liquidity requirements, including restrictions on maturity mismatches between assets and liabilities;
G. impose administrative penalties or other administrative measures, including prudential charges;
H. impose requirements on the concentration of the liquid assets held, including: - requirements for the composition of the institution's liquid-assets profile in respect of counterparties, currency, etc.; and/or - caps, limits or restrictions on funding concentrations.
I. impose restrictions on short-term contractual or behavioural maturity mismatches between assets and liabilities, including: - limits on maturity mismatches (in specific time buckets) between assets and liabilities; - limits on minimum survival periods; and/or - limits on dependency on certain short-term funding sources, such as money market funding.
J. impose additional or more frequent reporting requirements on liquidity positions, including: - the frequency of regulatory reporting on LCR; and/or - the frequency and granularity of other liquidity reports, such as 'additional monitoring metrics'.
K. require action to be taken to address deficiencies identified with regard to the institution's ability to identify, measure, monitor and control liquidity risk, by means including: - enhancing its stress testing capacity to improve its ability to identify and quantify material sources of liquidity risk to the institution; - enhancing its ability to monetise its liquid assets; - enhancing its liquidity contingency plan and liquidity early warning indicators framework; and/or - enhancing reporting of liquidity management information to the institution's management body and senior management.
L. require action to be taken to amend the institution's funding profile, including: - reducing its dependency on certain (potentially volatile) funding markets,, such as wholesale funding markets, such as wholesale funding; - reducing the concentration of its funding profile with respect to counterparties, peaks in the long-term maturity profile, (mismatches in) currencies, etc.; and/or - reducing the amount of its encumbered assets, potentially differentiating between total encumbrance and overcollateralisation (e.g. for covered bonds, margin calls, etc.).
M. Require additional or more frequent reporting on the institution's funding positions, including: - increased frequency of regulatory reporting relevant to the monitoring of the funding profile (such as the NSFR report and 'additional monitoring metrics'); and/or - increased frequency of reporting on the institution's funding plan to the supervisors.
N. Require actions to be taken to address deficiencies identified with regard to the institution's control of funding risk, including: - require actions to be taken to address deficiencies identified with regard to the institution's control of funding risk, including: - enhancing reporting on funding risk to the institution's management body and senior management;

Potential supervisory measures for competent authorities in accordance with Articles 102, 104(1) (b), (j), (k), and Article 105 of Directive 2013/36/EU, Article 8 of Commission Delegated Regulation (EU) 2015/61, and Article 428b(5) of Regulation (EU) No 575/2013

- restating or enhancing the funding plan; and/or
- placing limits on its risk appetite;
- enhance the institution's stress testing capabilities by means including requiring the institution to cover a longer stress period.

431. When setting structural, long-term supervisory requirements, competent authorities should consider the need for additional short/medium-term liquidity and/or own fund requirements as an interim solution to mitigate the risks that persist while the structural requirements produce the desired effects.

432. Where competent authorities conclude that there is a high risk that the institution's cost of funding will increase notably, they should consider requesting changes to the funding structure to mitigate the funding cost risk, or even own funds measures (as covered in Title 7) to compensate for the P&L impact if the institution cannot pass the increased costs of funding to its customer.

8.6. Benchmarking and setting of quantitative liquidity and funding requirements

Determination of specific quantitative liquidity and funding requirements

433. To support their liquidity and funding adequacy scoring and calibrate specific quantitative requirements where deemed potentially necessary (e.g. any of the measure referred to in table 18 above that are quantitative), competent authorities should consider supervisory liquidity and funding benchmarks as quantitative tools. They should be used to provide a prudent, consistent, transparent and comparable benchmark with which to calculate and compare specific quantitative liquidity requirements for institutions with similar business models and risk profiles. In developing supervisory benchmarks, competent authorities should use supervisory assessment of risks to liquidity and funding and the results of supervisory liquidity stress testing.

434. Competent authorities should use the most appropriate benchmark for the institution's business model, applying judgement to the outcome of the benchmark to account for business-model-specific considerations where necessary. When competent authorities take supervisory benchmarks into consideration for the determination of specific liquidity requirements, they should explain to the institution the rationale and general underlying principles behind the benchmarks.

435. Competent authorities should assess the suitability of any benchmarks applied to institutions and continually review and update them in light of the experience of using them.

436. A key input to the competent authority's benchmarks for the quantification of specific quantitative liquidity or funding requirements will be the data collected through the

supervisory reporting under Article 415 of Regulation (EU) No 575/2013 on liquidity and on stable funding on an individual and consolidated basis and on additional liquidity monitoring metrics.

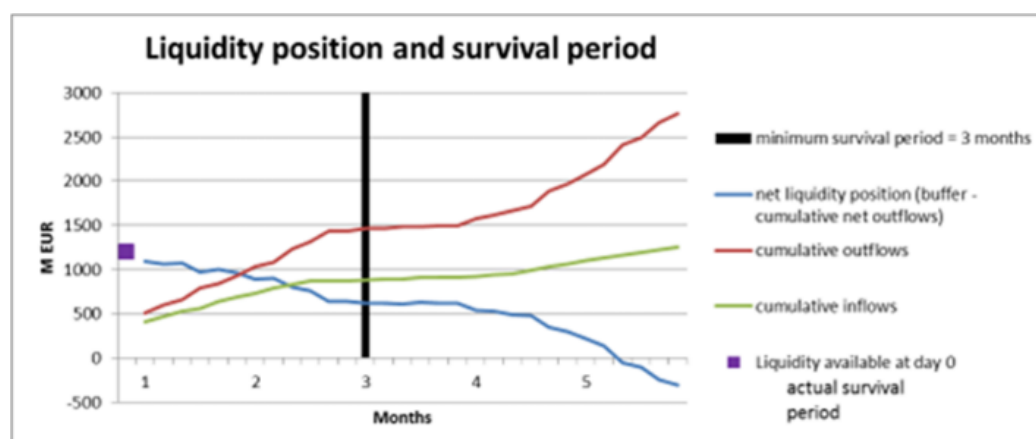
437. Below are some examples of the possible approaches:

- a. Example 1: institution with an initial liquidity buffer of EUR 1 200 mln Cumulative inflows and cumulative outflows estimated under stressed conditions are projected through a time horizon of 5 months. During this time horizon, the institution makes use of the liquidity buffer each time inflows fall below outflows. The result is that, under the stressed conditions defined, the institution would be able to survive 4.5 months, which is longer than the minimum survival period set by supervisors (in this example, 3 months);

Table 19: Illustrative example of benchmark for liquidity quantification

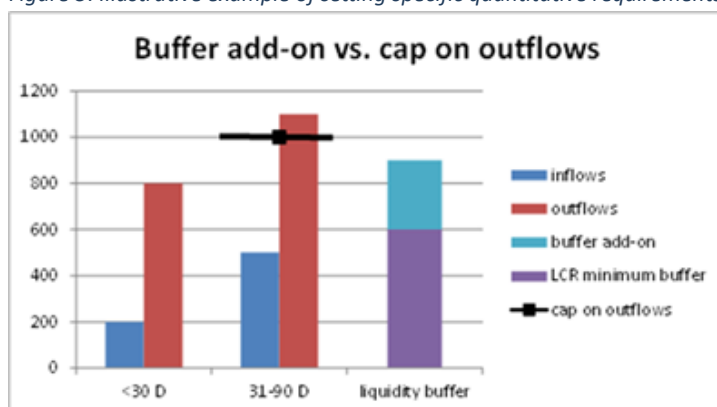
Time horizon in months	cumulative outflows	cumulative inflows	cumulative net outflows	net liquidity position (buffer - cumulative net outflows)	Liquidity available at day 0
					1,200
1	511	405	106	1,094	
	598	465	133	1,067	
	659	531	128	1,072	
	787	563	224	976	
	841	642	199	1,001	
	933	693	240	960	
2	1,037	731	306	894	
	1,084	788	295	905	
	1,230	833	397	803	
	1,311	875	435	765	
	1,433	875	558	642	
	1,440	876	564	636	
3	1,465	882	583	617	
	1,471	889	582	618	
	1,485	891	594	606	
	1,485	911	574	626	
	1,492	916	576	624	
	1,493	916	577	623	
4	1,581	918	663	537	
	1,618	945	673	527	
	1,666	956	710	490	
	1,719	993	726	474	
	1,885	1,030	856	344	
	1,965	1,065	900	300	
5	2,078	1,099	980	220	
	2,192	1,131	1,061	139	Survival period
	2,415	1,163	1,252	-52	
	2,496	1,194	1,302	-102	
	2,669	1,224	1,445	-245	
	2,764	1,253	1,511	-311	

Figure 4. Illustrative example of setting specific quantitative liquidity requirement



- b. Example 2: the supervisory minimum survival period is set at 3 months. An alternative measure to setting a minimum survival period, which can also address the supervisory concern that the gap between inflows and outflows is unacceptably high, is to set a cap on outflows. In the figure below, the mechanism for setting a cap on outflows is shown by the black horizontal bar. An institution is required to reduce its outflows to a level below the cap. The cap can be set for one or more time buckets and for net outflows (following correction for inflows) or gross outflows. The alternative of adding a buffer requirement instead is shown in the third column.

Figure 5: Illustrative example of setting specific quantitative requirements



438. Where competent authorities have not developed their own benchmark for the quantification of specific quantitative liquidity requirements, they can apply a benchmark using the following steps particularly in the case of liquidity risk:
- comparative analysis, under stressed conditions, of net cash outflows and eligible liquid assets over a set of time horizons: up to 1 month (including overnight), from 1 month to 3 months and from 3 months to 1 year; for this purpose, competent authorities should project net outflows (gross outflows and inflows);
 - counterbalancing capacity throughout different maturity buckets, considering stressed conditions (for example, prudent valuation under stress assumptions for liquid assets versus current valuation under normal conditions and after a haircut), building a stressed maturity ladder for the year ahead;
 - based on the assessment of the stressed maturity ladder, estimation of the survival period of the institution;
 - determination of the desired/supervisory minimum survival period, taking into account the institution's risk profile and market and macroeconomic conditions; and
 - if the desired/supervisory minimum survival period is longer than the institution's current survival period, competent authorities may estimate additional amounts of liquid assets (additional liquidity buffers) to be held by the institution to extend its survival period to the minimum required.

Articulation of specific quantitative liquidity and funding requirements

439. To articulate the specific quantitative liquidity requirements, competent authorities should use one of the following approaches, unless another approach is considered more appropriate in specific circumstances:

- a. approach 1 – require an LCR higher than the regulatory minimum, of such a size that shortcomings identified are sufficiently mitigated;
- b. approach 2 – require a minimum survival period of such a length that identified shortcomings are sufficiently mitigated; the survival period can be set either directly, as a requirement, or indirectly, by setting a cap on the amount of outflows over the relevant time buckets considered; competent authorities may require different types of liquid assets (e.g. assets eligible for central banks), to cover risks not (adequately) covered by the LCR;
- c. approach 3 – require a minimum total amount of liquid assets or counterbalancing capacity, either as a minimum total amount or as a minimum amount in excess of the applicable regulatory minimum, of such a size that identified shortcomings are sufficiently mitigated; competent authorities may set requirements for the composition of liquid assets, including operational requirements (e.g. direct convertibility to cash, or deposit of the liquid assets at the central bank).

440. To articulate the specific quantitative stable funding requirements appropriately, competent authorities should use one of the following approaches, unless another approach is considered more appropriate in specific circumstances:

- a. approach 4 – require a NSFR higher than the regulatory minimum, of such a size that shortcomings identified are sufficiently mitigated;
- b. approach 5 – require a minimum total amount of available stable funding, either as a minimum total amount or as a minimum amount in excess of the applicable regulatory minimum, of such a size that identified shortcomings are sufficiently mitigated.

441. Competent authorities should structure quantitative liquidity or funding requirements in such a manner as to deliver broadly consistent prudential outcomes across institutions, bearing in mind that the types of requirements may differ between institutions because of their individual circumstances. In addition to the quantity, the structure should specify the expected composition and nature of the requirement. In all cases, it should specify the supervisory requirement and any applicable Directive 2013/36/EU requirements. Liquidity buffers and counterbalancing capacity held by the institution to meet supervisory requirements should be available for use by the institution during times of stress.

442. Competent authorities should ensure they are immediately notified by the institution if it does not meet the requirements or does not expect to meet the requirements in the short term. The notification should be accompanied by a plan drawn up by the institution for the timely restoration of compliance with the requirements. Competent authorities should assess the feasibility of the plan and take appropriate supervisory measures if the plan is not considered feasible. Where the plan is considered feasible, competent authorities should: determine any

necessary interim supervisory measures based on the circumstances of the institution; monitor the implementation of the restoration plan; and closely monitor the institution's liquidity position, asking the institution to increase its reporting frequency if necessary.

443. Notwithstanding the above, competent authorities may also set qualitative requirements in the form of restrictions/caps/limits on mismatches, concentrations, risk appetite, quantitative restrictions on the issuance of secured loans, etc., in accordance with the criteria specified in Title 9 of the Guidelines.

444. Below are some examples of the different approaches for the structure of specific quantitative liquidity requirements:

Example of specific requirements articulation

As of 1 January 2025, and until otherwise directed, Bank X is required to:

- a. Approach 1 – ensure that its counterbalancing capacity is at all times equal to or higher than e.g. 125% of its liquidity net outflows as measured in the LCR.
- b. Approach 2 – ensure that its counterbalancing capacity results at all times in a survival period that is greater than or equal to 3 months, measured by the internal liquidity stress test / the maturity ladder / specific metrics developed by the supervisor.
- c. Approach 3:
 - ensure that its counterbalancing capacity is at all times equal to or higher than EUR X billion; or
 - ensure that its counterbalancing capacity is at all times equal to or higher than EUR X billion in excess of the minimum requirement under the LCR.
- d. Approach 4 – ensure that its available stable funding is at all times equal to or higher than e.g. 125% of its required stable funding as measured in the NSFR.
- e. Approach 5:
 - ensure that its available stable funding is at all times equal to or higher than EUR X billion; or
 - ensure that its available stable funding is at all times equal to or higher than EUR X billion in excess of the minimum requirement under the NSFR.

9. Title 9. Overall SREP assessment and communication

9.1. General considerations

445. This title covers how the findings from the assessments of each SREP elements are combined into the overall SREP assessment, as well as how the respective outcome is communicated - including the articulation and justification of own funds requirements and guidance. It also addresses how the non-exhaustive supervisory measures listed at the end of each relevant sections and titles of these guidelines interact with other relevant frameworks (i.e. early intervention measures, resolution authorities' assessments, macroprudential measures and AML/CFT).

9.2. Overall SREP assessment

446. In determining the overall SREP assessment, competent authorities should consider the findings of the assessments of the SREP elements, specifically:

- a. the risks to which the institution is or may be exposed;
- b. the likelihood that the institution's governance, control deficiencies and/or business model or strategy are likely to exacerbate or mitigate these risks, or expose the institution to new sources of risk;
- c. whether the institution's own funds and liquidity resources provide sound coverage of these risks; and
- d. the potential for positive and negative interaction between the elements (e.g. competent authorities may consider a strong capital position as a potential mitigating factor for certain concerns identified in the area of liquidity and funding, or by contrast, that a weak capital position may exacerbate concerns in that area).

447. On the basis of these considerations, competent authorities should determine the institution's viability, defined as its proximity to a point of non-viability on the basis of the adequacy of its own funds and liquidity resources, governance, controls and/or business model or strategy to cover the risks to which it is or may be exposed. As a result of this determination, competent authorities should:

- a. take any supervisory measures necessary to address concerns;
- b. determine future supervisory resourcing and planning for the institution, including whether any specific supervisory activities should be planned for the institution as part of the Supervisory Examination Programme;

- c. determine the need for early intervention measures as specified in Article 27 of Directive 2014/59/EU; and
- d. determine whether the institution can be considered to be ‘failing or likely to fail’ within the meaning of Article 32 of Directive 2014/59/EU.

448. The overall SREP assessment should be reflected in a viability score based on the considerations specified in table 20 and clearly documented in an annual summary of the overall SREP assessment. This annual summary should also include the overall SREP score and scores for elements of the SREP, and any supervisory findings made over the course of the previous 12 months.

Table 20. Supervisory considerations for assigning the overall SREP score

Score	Supervisory view	Considerations
1	The risks identified pose a low level of risk to the viability of the institution.	• The institution’s business model and strategy do not raise concerns. • The internal governance and institution-wide control arrangements do not raise concerns. • The institution’s risks to capital and liquidity pose a non-material/a very low risk of a significant prudential impact. • The composition and quantity of own funds held do not raise concerns. • The institution’s liquidity position and funding profile do not raise concerns. • No material concerns about the credibility and feasibility of the institution’s recovery plan.
2	The risks identified pose a medium-low level of risk to the viability of the institution.	• There is a low to medium level of concern about the institution’s business model and strategy. • There is a low to medium level of concern about the institution’s governance or institution-wide control arrangements. • There is a low to medium level of risk of a significant prudential impact caused by risks to capital and liquidity. • There is a low to medium level of concern about the composition and quantity of own funds held. • There is a low to medium level of concern about the institution’s liquidity position and/or funding profile. • There is a low to medium level of concern about the credibility and feasibility of the institution’s recovery plan.
3	The risks identified pose a medium-high level of risk to the viability of the institution.	• There is a medium to high level of concern about the institution’s business model and strategy. • There is a medium to high level of concern about the institution’s governance or institution-wide control arrangements. • There is a medium to high level of risk of a significant prudential impact caused by risks to capital and liquidity. • There is a medium to high level of concern about the composition and quantity of own funds held by the institution. • There is a medium to high level of concern about the institution’s liquidity position and/or funding profile.

Score	Supervisory view	Considerations
		There is a medium to high level of concern about the credibility and feasibility of the institution's recovery plan
4	The risks identified pose a high level of risk to the viability of the institution.	- There is a high level of concern about the institution's business model and strategy. - There is a high level of concern about the institution's governance or institution-wide control arrangements. - There is a high level of risk of a significant prudential impact caused by risks to capital and liquidity. - There is a high level of concern about the composition and quantity of own funds held by the institution. - There is a high level of concern about the institution's liquidity position and/or funding profile. - There is a high level of concern about the credibility and feasibility of the institution's recovery plan.

449. When determining that an institution is 'failing or likely to fail', as reflected by an overall SREP score of 'F', competent authorities should engage with the resolution authorities to consult on findings following the procedure specified in Article 32 of Directive 2014/59/EU.

9.3. Communication of the overall SREP assessment

450. Competent authorities should communicate the outcome of the SREP assessment to the institution by means of an official letter, addressed to the management body of the institution.

451. The communication of the SREP assessment to institutions, and, where relevant, to other competent or resolution authorities, should at least include the following elements:

- a. the relevant level of application, the date and the date of the application of the SREP assessment, as well as the reference dates of the information used in its preparation in accordance with Article 10 of the Commission Implementing Regulation (EU) No 710/2014;
- b. a description of the outcome of the SREP, including a summary of the assessment and the overall SREP score. Where remedial action is required from the institution for specific SREP elements or sub-elements, competent authorities should consider sharing the score for these elements and sub-elements, where appropriate;
- c. the required level and quality of the P2R, in accordance with the process and criteria specified in Title 7, including the institution-specific justification for setting the requirements, separately for the risk of excessive leverage and for other types of risks. The justification should provide a clear indication of the material risk drivers contributing to the P2R. In case of relevant changes to the regulatory framework for determining the P1R applicable to an institution, communication should include the outcome of the assessment performed as per paragraph 297 of Title 7. In justifying P2R, competent authorities should:
 - i. refer to the extent possible to the risk categories and subcategories/elements as described in Title 6 and sections 7.2 and 7.3, taking into account the existing definitions of specific risk types in the applicable legislation, with the aim of ensuring overall comparability across institutions; and

- ii. identify the main deficiencies to be covered by these requirements until they are addressed line with paragraph 323.
- d. in communicating the required level of capital and quality of the Pillar 2 requirements according to the previous point, competent authorities should:
 - i. communicate the institution's TSCR as a proportion (ratio) of the TREA, broken down in terms of the composition of the requirement. The TSCR should be expressed using the following formula:

$$TSCR\ ratio = \frac{TSCR}{TREA}$$

- ii. communicate the institution's TSLRR as a proportion (ratio) of the leverage ratio exposure (LRE), broken down in terms of the composition of the requirement. The TSLRR should be expressed using the following formula:
- $$TSLRR\ ratio = \frac{TSLRR}{LRE}$$
- iii. communicate the institution's OCR and its component parts – the Pillar 1 own funds requirements, P2R and the buffer requirements – as a proportion (ratio) of the TREA, broken down in terms of the composition of the requirement; and
 - iv. communicate the institution's OLRR and its component parts – the leverage ratio own funds requirement, P2R-LR and G-SII leverage ratio buffer requirement – as a proportion (ratio) of the LRE, broken down in terms of the composition of the requirement.
 - e. The expected level and quality of the P2G and P2G-LR in accordance with the process and criteria specified in section 7.6, where their determination results in a positive value, including:
 - i. all applicable own funds ratios affected by P2G (CET1, T1 and total own funds) and leverage ratio requirement affected by P2G-LR and that own funds held for the purposes of P2G cannot be used to meet any of the elements of OCR and that P2G-LR cannot be used to meet any of the elements of OLRR;
 - ii. the relevant time limits for its establishment;
 - iii. the institution-specific justification for setting the guidance and the main elements of the methodology used; and
 - iv. the potential supervisory reaction to situations where P2G and P2G-LR are not met.
 - f. a statement on the liquidity held and any specific liquidity requirements set by the competent authority other than those laid down in Article 4(2) Commission Delegated Regulation 2015/61 and 428b(2) of Regulation No 575/2013, including the institution-specific reasons for these requirements; and
 - g. If applicable, a statement on other supervisory measures, whether qualitative or quantitative, including any early intervention measures that the competent authority intends to take.

9.4. Supervisory reaction to a situation where TSCR or OCR is not met

452. TSCR as determined in accordance with these guidelines and communicated in the SREP assessment is a legally binding requirement that institutions have to meet at all times, including in stressed conditions. If TSCR is no longer met, the competent authorities should consider additional intervention powers in accordance with Directives 2013/36/EU and 2014/59/EU, including withdrawal of authorisation in accordance with Article 18(d) of Directive 2013/36/EU, application of early intervention measures in accordance with Article 27 of Directive 2014/59/EU, determination that an institution is failing or likely to fail in accordance with art. 32(4)4a of Directive 2014/59/EU and relevant Guidelines and resolution actions in accordance with that Directive. When exercising those powers, competent authorities should consider whether measures are proportionate to the circumstances and their judgement on how the situation is likely to develop.
453. Competent authorities should also monitor whether the institutions meet the OCR. Where necessary, competent authorities should take measures to ensure that institutions comply with requirements set out in Articles 141 to 142 of Directive 2013/36/EU.

9.5. Supervisory reaction to a situation where P2G is not met

454. Competent authorities should monitor whether the amount of own funds expected according to P2G is established and maintained by the institution over time. When the institution's own funds drop, or are likely to drop, below the level determined by P2G, the competent authority should expect the institution to notify it and prepare a revised capital plan. In its notification, the institution should explain what adverse consequences are likely to force it to do so and what actions are envisaged for the eventual restoration of compliance with P2G as part of an enhanced supervisory dialogue.
455. There are generally three situations to be considered by a competent authority in which an institution could fail to meet its P2G:
- a. Where the level of own funds falls below the level of P2G (while remaining above OCR) in institution-specific or external circumstances in which risks that P2G was aimed at covering have materialised, the competent authority may allow the institution to temporarily operate below the level of P2G, provided that the revised capital plan is considered credible in accordance with the criteria set out in section 7.7. Competent authority may also consider adjusting the level of P2G where appropriate;
 - b. Where the level of own funds falls below the level of P2G (while remaining above the OCR) in institution-specific or external circumstances as a result of the materialisation of risks that P2G was not aimed at covering, competent authorities should expect the institution to increase the level of own funds to the level of P2G within an appropriate timeline; and
 - c. Where the institution disregards P2G, does not incorporate it into its risk management framework or does not establish own funds to meet P2G within the relevant time limits set

out by the competent authority, this may lead to competent authorities applying additional supervisory measures as set out in table 16.

Where the permission to operate below the level of P2G as referred to in point (a) has not been granted and the institution's own funds are repeatedly below the level of P2G, the competent authority should impose P2R in accordance with Title 7.

456. Notwithstanding particular supervisory responses in accordance with the previous paragraph, competent authorities may also consider the application of the capital and additional supervisory measures set out in Title 7, where these are deemed more appropriate to address the reasons for the own funds falling below the level determined by P2G.

9.6. Interaction between supervisory, early intervention measures and resolution authorities assessment

457. In addition to the supervisory measures, competent authorities may apply early intervention measures as specified in Article 27 of Directive 2014/59/EU, which are intended to supplement the set of supervisory measures specified in Articles 104 and 105 of Directive 2013/36/EU.

458. Competent authorities should apply early intervention measures without prejudice to any other supervisory measures, and when applying early intervention measures, should choose the most appropriate measure(s) to ensure a response that is proportionate to the particular circumstances.

459. When setting supervisory or early intervention measures, competent authorities should, in addition to considering the escalation framework set out in Title 2, also take into account the results of the resolvability assessment conducted by the resolution authority, including the related work programme, with a view to ensuring consistency in supervisory actions.

9.7. Interaction between supervisory and macroprudential measures

460. Where an institution is subject to macroprudential measures and the SREP assessment determines that these macroprudential measures do not adequately address the institution-specific risk profile or deficiencies present in the institution (i.e. the institution is exposed to or poses a higher level of risk than the level targeted by the macroprudential measure, or the deficiencies identified are more material than those targeted by the measure), competent authorities should consider supplementing the macroprudential measures with additional institution-specific measures.

9.8. Interaction between supervisory and AML/CFT measures

461. When applying supervisory measures to address prudential deficiencies related to ML/TF risk, competent authorities should engage with AML/CFT supervisors so that the underlying

deficiencies/vulnerabilities are adequately addressed by the appropriate measures within the respective remit of AML/CFT supervisors and competent authorities from their respective perspectives⁴⁴.

462. Where competent authorities in the course of exercising their supervisory activities have reasonable indications of deficiencies in the institution's systems and controls framework or the internal governance framework that are related to AML/CFT or reasonable grounds to suspect that the institution has increased exposure to ML/TF risks, they should:
- a. notify the AML/CFT supervisor of these deficiencies and risks as soon as they are identified and liaise with them in line with the AML/CFT Cooperation Guidelines;
 - b. assess the impact that such deficiencies and risks may have on the prudential situation of the institution; and
 - c. liaise with AML/CFT supervisors and in line with the respective authorities' mandates and functions, consider the most appropriate prudential supervisory measures to address these deficiencies and risks in addition to any measures taken by the AML/CFT supervisors.
463. Where the competent authorities are notified or become aware of supervisory measures or sanctions planned or imposed by the AML/CFT supervisors, they should consider whether and how the potential prudential implications of the weaknesses and failures identified by the AML/CFT supervisors need to be mitigated.

⁴⁴ In accordance with the EBA AML/CFT Cooperation Guidelines (EBA/GL/2021/15).

10. Title 10. Application of the SREP to cross-border groups

464. This title addresses the application of the SREP procedures and methodology as specified in these guidelines in relation to cross-border groups and their entities. It also provides links with the joint assessment and decision process to be carried out pursuant to Article 113 of Directive 2013/36/EU and the Commission Implementing Regulation (EU) No 710/2014.

465. In the SREP, competent authorities should also consider the potential ML/TF risks, taking into account input received from the AML/CFT competent authority of the Member State where a parent undertaking is established as well as AML/CFT supervisors responsible for the AML/CFT supervision of establishments of the group in different jurisdictions, in particular the assessments of ML/TF risks, material weaknesses and breaches of AML/CFT legislation, that are linked to the cross-border banking group structure.

466. When assessing prudential implications of ML/TF risks in the SREP for a cross-border group, competent authorities should leverage the information obtained through bilateral engagements with relevant AML/CFT competent authorities in accordance with the AML/CFT Cooperation Guidelines and through their participation in AML/CFT colleges⁴⁵ and prudential colleges.

10.1. Application of the SREP to cross-border groups

467. When applying the SREP and these guidelines to cross-border groups, competent authorities should assess the viability of the group as a whole, as well as its individual entities. Consolidating supervisors should perform the initial assessment of the parent undertaking and the group of institutions on a consolidated level, while the other competent authorities should perform the initial assessment of the entities under their supervision (individual, or sub-consolidated, where relevant).

468. When these guidelines are applied to the subsidiaries of a cross-border group, competent authorities for subsidiaries should, when performing their initial assessment, primarily consider institutions on an individual basis, as they would with a standalone institution. The findings from such initial assessments, where relevant, should also include the identification of key vulnerabilities in the cross-border or group context, and reflect strengths and mitigating factors related to the entity being part of the group.

⁴⁵ AML/CFT colleges as defined in the Joint guidelines on cooperation and information exchange for the purpose of Directive (EU) 2015/849 between competent authorities supervising credit and financial institutions ('The AML/CFT Colleges Guidelines' and in Article 2(8) of Directive (EU) 2024/1640.

469. The results of any such initial assessment of the SREP elements, including, if identified, views on key dependencies on the parent/group, should serve as an input into the joint assessment and decision process pursuant to the requirements of Article 113 of Directive 2013/36/EU, and should therefore be discussed by the competent authorities within the framework of the colleges of supervisors established pursuant to Article 116 of Directive 2013/36/EU.
470. In accordance with Article 3 of the Commission Implementing Regulation (EU) No 710/2014, prior to the start of the joint decision process the consolidating supervisor and the relevant competent authorities need to agree on a joint decision timetable of steps to be followed in the process and adhere to the agreed timetable throughout the process.
471. Following the discussions within the colleges of supervisors and outcomes of the joint assessment process, competent authorities should finalise their respective SREP assessments, making the necessary adjustments based on the outcomes of the college discussions.
472. Where a competent authority's assessment revealed specific deficiencies related to intra-group positions negatively affecting the overall viability of the entity on an individual basis, competent authorities should, within the colleges of supervisors, discuss whether the final assessment of an entity should be changed considering the overall group dimension, including the consolidated group business model, strategy and existence and specific features of intra-group financial support arrangements.
473. Competent authorities should discuss and coordinate the following within the colleges of supervisors:
- a. planning, including frequency, and timelines for performing the assessment of various SREP elements for the consolidated group and its entities to facilitate preparation of the group risk and liquidity risk reports required for the joint decisions as specified in Article 113 of Directive 2013/36/EU and in Article 3 of the Commission Implementing Regulation (EU) No 710/2014 taking into account the proportionality and supervisory engagement set out in Title 2;
 - b. details of the application of benchmarks used for the assessment of SREP elements;
 - c. approach to assessing and scoring subcategories of risks individually, where such subcategories have been identified as material;
 - d. inputs required from the institution at consolidated and entity level for conducting the assessment of SREP elements, including those from the ICAAP and ILAAP;
 - e. outcomes of the assessment, including the SREP scores assigned to various elements, and the overall SREP assessment and overall SREP score at consolidated and entity level. When discussing the assessment of individual risks to capital and liquidity, competent authorities should focus on the risks that are identified as material for the respective entities;
 - f. cross-border prudential implications of ML/TF risks and concerns; and
 - g. planned supervisory and early intervention measures, if relevant.

474. When preparing the summary of the overall SREP assessment for the cross-border group and its entities, competent authorities should structure it in a way that will facilitate filling in the templates for the SREP report, group risk report, liquidity risk assessment and group liquidity risk assessment report templates required for the joint decision under Article 113 of Directive 2013/36/EU as specified in the Commission Implementing Regulation (EU) No 710/2014.

10.2. SREP capital assessment and institution-specific prudential requirements

475. The determination of capital adequacy and related requirements and guidance in accordance with the process described in Title 7 for cross-border groups is part of the competent authorities' joint decision process pursuant to Article 113 of Directive 2013/36/EU.

476. For parent or subsidiary institutions of a cross-border group, the application of P2R and P2R-LR pursuant to Article 104(1)(a) of Directive 2013/36/EU should be carried out in accordance with the joint decision process provided for in Article 113(1)(a) of that Directive.

477. In the context of discussions on the adequacy of the level of own funds and determining P2R and P2R-LR, competent authorities should consider:

- a. the assessment of the materiality of risks and deficiencies identified at both consolidated and individual entity level (i.e. which risks are material to the group as a whole and which are material to just one entity) and the level of own funds required to cover such risks;
- b. where deficiencies identified are common across all entities (e.g. same governance deficiencies present in all entities, or deficiencies in the models used across several entities), coordinating the assessment and supervisory response, and in particular, deciding whether measures should be imposed at a consolidated level or proportionally at entity level for the entities where common deficiencies are present;
- c. outcomes of ICAAP assessments and views on the reliability of ICAAP calculations and their possible use as an input in determining P2R;
- d. outcomes of the supervisory benchmark calculations used to determine P2R for all entities within the group and at a consolidated level; and
- e. P2R to be imposed on entities and at a consolidated level to ensure there is consistency of final own funds requirements and whether there is a need for transferring own funds from consolidated to entity level.

478. To determine the TSCR as specified in Title 7, competent authorities should consider the same level of application as the joint decision requirements under Article 113(1)(a) of Directive 2013/36/EU. In particular, the TSCR and other capital measures, if applicable, should be set at consolidated and solo levels for entities operating in other Member States. For the sub-consolidated level, the TSCR and other capital measures should cover only the parent undertaking of the sub-consolidated group to avoid double counting of P2R considered by competent authorities for subsidiaries in other Member States.

479. If the outcome of the supervisory assessment of the risk of excessive leverage for the parent or subsidiary institutions of a cross-border group is that Pillar 2 requirements to address the risk of excessive leverage P2R-LR should be set, that should be carried out in accordance with the joint decision process provided for in Article 113(1)(a) CRD and reflect the separate stack of own funds requirements based on the leverage ratio.
480. In the context of the discussions on the adequacy of the level of own funds to cover the risk of excessive leverage and determining P2R-LR, competent authorities should consider:
- a. aspects included in paragraph 329; and
 - b. Pillar 2 requirements to cover the risk of excessive leverage imposed on entities and at a consolidated level to ensure there is consistency of final own funds requirements and whether there is a need for transferring own funds from consolidated to entity level.
481. All the relevant information regarding the determination of P2G and P2G-LR for parent or subsidiary institutions of a cross-border group should be shared among competent authorities and their setting should be carried out in accordance with the joint decision process pursuant to Article 113(1)(c), of Directive 2013/36/EU. In particular, competent authorities should discuss the approach to establishing P2G and P2G-LR at solo level where no data from the supervisory stress tests is available at solo level, or, where relevant, agree on the application of P2G and P2G-LR at consolidated level only. The P2G and P2G-LR should be duly reflected in the joint decision document prepared in accordance with Article 113 of Directive 2013/36/EU.

10.3. SREP liquidity assessment and institution-specific prudential requirements

482. The determination of measures to address any significant matters and material findings relating to liquidity supervision and relating to the need for institution-specific liquidity requirements should be subject should be conducted in accordance with the joint decision process pursuant to Article 113 of Directive 2013/36/EU.
483. For Article 113(1)(b) of Directive 2013/36/EU, competent authorities should consider ‘matters’ to be significant and/or ‘findings’ to be material at least where:
- a. specific quantitative liquidity requirements are proposed by competent authorities; and/or
 - b. measures other than specific quantitative liquidity requirements are proposed by competent authorities and the score assigned to liquidity risk and/or funding risk adequacy is ‘3’ or ‘4’.

10.4. Application of other supervisory measures

484. Competent authorities responsible for the supervision of cross-border groups and their entities should discuss and coordinate, where possible, application of all supervisory and early intervention measures to the group and/or its material entities to ensure that the most appropriate measures are consistently applied to the identified vulnerabilities, taking into

account the group dimension, including inter-dependencies and intra-group arrangements as discussed above.

485. Competent authorities responsible for the prudential supervision of entities of a cross-border group should, when imposing supervisory or administrative measures including sanctions on institutions for their failure to address deficiencies related to ML/TF risks adequately, liaise with the relevant AML/CFT supervisors in accordance with section 8 of the AML/CFT Cooperation Guidelines⁴⁶ and in line with the respective authorities' mandates and functions, consider the most appropriate prudential supervisory measures to address these deficiencies and risks in addition to any measures taken by the AML/CFT supervisors.

⁴⁶ EBA AML/CFT Cooperation Guidelines (EBA/GL/2021/15).

11. Title 11. Supervisory stress testing

11.1. Use of supervisory stress testing by competent authorities

486. Competent authorities should, also on the basis of Article 100 of Directive 2013/36/EU, use supervisory stress testing to facilitate the SREP and, in particular, supervisory assessment of its key elements, as described in Title 4 to Title 8. The integration of ESG factors into supervisory stress testing should be carried out in accordance with the Joint Guidelines on integrating ESG risks in supervisory stress tests. In particular, supervisory stress testing should help competent authorities, where appropriate, with the following:

- a. the assessment of institutions' individual risks to capital as referred to in Title 6, or risks to liquidity and funding as referred to in Title 8;
- b. the assessment of the reliability of institutions' stress testing programmes, as well as the relevance, severity and plausibility of scenarios for institutions' own stress tests used for ICAAP and ILAAP purposes. This may include challenging institutions' main assumptions and risk drivers;
- c. the assessment of institutions' ability to meet TSCR and OCR in the context of the assessment of capital adequacy, as specified in section 7.7. Depending on the coverage and type of supervisory stress test, this assessment may be limited only to some elements of TSCR covered by the design features of the supervisory stress testing (e.g. P2R for individual risk categories, if the stress test covers only such risk categories);
- d. the determination of P2G for institutions;
- e. the identification of possible vulnerabilities or weaknesses in institutions' risk management and controls on individual risk areas;
- f. the identification of possible deficiencies in overall governance arrangements or institution-wide controls referred to in Title 5. In particular, if a competent authority identifies by means of supervisory stress testing, deficiencies in the institution's own stress testing programmes or supporting risk data infrastructure, these should be taken into account in the assessment of the overall governance and risk management framework of that institution; and
- g. the determination of specific quantitative liquidity requirements in the context of the assessment of liquidity adequacy, especially where a competent authority has not developed specific supervisory benchmarks for liquidity requirements. Certain elements of the liquidity supervisory stress tests should, where appropriate, be used as inputs when setting specific liquidity requirements for institutions as specified in section 8.6.

487. Furthermore, supervisory stress testing should help competent authorities to assess supervisory organisational procedures and to plan supervisory resources, considering also other relevant information, in particular for the more frequent and in-depth assessment of

certain SREP elements in the case of non-Category 1 institutions, and for the purposes of determining the scope of the supervisory examination programme required by Article 99 of Directive 2013/36/EU.

488. Competent authorities should also, where appropriate, use supervisory stress testing outcomes to:

- a. support the analysis needed for the purposes of granting various permissions and authorisations required by Regulation (EU) No 575/2013 or Directive 2013/36/EU, for example in relation to qualifying holdings, mergers and acquisitions, and shares buy-backs;
- b. support a thematic analysis of the potential vulnerabilities of a group of institutions with similar risk profiles;
- c. on the basis of a medium to long-term scenario analysis carried out in accordance with the Joint Guidelines on integrating ESG risks in supervisory stress tests, support the analysis of the potential impacts of ESG factors on the institutions' business model; and
- d. motivate institutions to enhance their internal stress testing and risk management capabilities: in particular, a supervisory stress test with a bottom-up component could motivate institutions to further develop and improve their data aggregation, risk modelling and IT tools for stress testing and risk management purposes.

11.2. Key elements of supervisory stress testing

489. When deciding on the key elements of supervisory stress testing, competent authorities should consider, inter alia, the following:

- a. coverage, in terms of covering certain risk factors or multiple risk factors, certain individual portfolios or activities or sectors/geographies, all or several portfolios;
- b. design, in terms of the following: single-factor or simple multi-factor sensitivity analysis, solvency or liquidity stress testing, reverse stress testing or medium to long-term scenario analysis. Competent authorities should choose the design that is most appropriate for the objective pursued by the stress test;
- c. scope, in terms of covering the perimeter of cross-border groups, ensuring that all relevant group entities are taken into account;
- d. sample of institutions covered by stress tests: when planning supervisory stress testing, competent authorities should consider the appropriate sample for the purposes of the exercise, in particular when using supervisory stress testing for thematic assessments of certain business lines/models or impact studies/assessments; and
- e. approach, namely top-down stress test, bottom-up stress test, combination of both, prescribing specific anchor scenarios for institutions.

490. When designing and conducting supervisory stress tests for SREP purposes, competent authorities should consider the outcomes of asset quality reviews (AQR), where available, appropriate and not already incorporated into institutions' financial statements. Combining supervisory stress testing with AQRs can be considered useful in ensuring that the balance-

sheet positions of the institutions covered by the supervisory stress tests are reported accurately with improved and comparable starting points across participating institutions.

11.3. Organisational and governance arrangements within competent authorities

491. Competent authorities should establish an effective programme for supervisory stress testing. This programme should be supported by appropriate organisation, governance and IT arrangements ensuring that supervisory stress tests can be conducted with appropriate frequency. The supervisory stress testing programme should support the effective implementation of the supervisory examination programme for individual institutions. The programme should also reflect how the competent authority takes decisions regarding the choice of forms of supervisory stress testing in close connection with the objectives of each exercise.
492. The governance, organisation and IT arrangements supporting the supervisory stress testing programme should include at least the following:
- a. sufficient human and material resources, data and IT infrastructure to design and conduct supervisory stress tests. In particular, the supervisory stress testing programme should be supported by adequate data and an appropriate methodological approach covering all aspects, including scenarios and assumptions (e.g. templates, guidance, documentation), and ensuring both flexibility and appropriate levels of quality and controls;
 - b. a quality assurance process covering stress testing design, development and execution, and the comparability of results across institutions; and
 - c. the integration of supervisory stress testing into other relevant supervisory processes. Hence, when required and subject to any legal constraints, the organisation should support the internal sharing of information and utilisation of all aspects of the stress testing programme.
493. As part of governance arrangements, competent authorities should ensure that the supervisory stress testing programme is reviewed regularly, both qualitatively and quantitatively, to ensure that its continued adequacy.
494. Competent authorities should ensure that they have processes and arrangements in place for an effective dialogue with institutions regarding supervisory stress tests and their outcomes. This dialogue should reflect the intended objectives, be established in particular but not exclusively when supervisory stress tests are run for the purposes of the assessment of the overall capital adequacy of institutions and be organised within the more general context of the SREP assessments as set out in these guidelines. For the purposes of such a dialogue both at the technical and managerial level, where relevant, the competent authorities should ensure that:

- a. adequate, sufficiently detailed and accurate explanation and guidance is provided to institutions on the application of the methodologies and assumptions used in a bottom-up stress test;
- b. adequate, sufficiently detailed and accurate instructions are given to institutions with regard to the supporting information required by them to be submitted to competent authorities along with the results of the stress tests; and
- c. explanation is provided to institutions following discussions, where relevant, of the outcomes of supervisory stress tests that lead to the application of supervisory measures. This should be considered by competent authorities in particular in the context of system-wide stress tests that trigger supervisory measures.

495. When applying supervisory stress testing to cross-border groups, competent authorities should exchange information and, where feasible, appropriately discuss the process within the colleges of supervisors. In particular, competent authorities should ensure that relevant details on the methodologies, scenarios and major assumptions as well as the results of supervisory stress tests, especially those aimed at assessing capital or liquidity adequacy, are made available and discussed.

496. Competent authorities should also identify what information regarding supervisory stress tests and their outcomes may be publicly disclosed, taking into account the intended purposes of the supervisory stress tests. When deciding on the public disclosure of the results or methodologies of supervisory stress tests, competent authorities should consider their own role in the exercise and the approach chosen and also consider the extent of their own analysis to accompany published results.

12. Title 12. Assessing third-country branches

497. This title addresses the application of the SREP procedures and methodology as specified in these guidelines in relation to third-country branches (TCBs). It also addresses the application by competent authorities of supervisory measures to address deficiencies identified through the SREP assessment of TCBs.

498. When performing the SREP assessment for TCBs, competent authorities should verify inter alia the overall compliance of the TCB with the related legal and regulatory framework:

Title	Reference
EBA Guidelines on internal governance	Under revision (EBA/GL/2021/05)
Draft RTS specifying the booking arrangements that TCBs are to apply under Article 48h(4) of Directive 2013/36/EU	Under consultation (EBA/CP/2025/16)
EBA Guidelines on instruments available for TCBs for unrestricted and immediate use to cover risks or losses under Article 48e(2)(c) of Directive 2013/36/EU	Under consultation (EBA/CP/2025/17)

499. The SREP assessment of a TCB should include an assessment of the branch's business model, internal governance arrangements and controls, capital endowment and liquidity resources and booking arrangements (the SREP elements for TCBs). In line with the supervisory review and evaluation process for credit institutions (the SREP for credit institutions), the assessment of these areas should be conducted on a continuous basis and accompanied by ongoing monitoring of key indicators.

500. The review should be conducted with a level of frequency and intensity that is proportionate to the TCB's classification as class 1 or class 2 under Article 48a of Directive 2013/36/EU and the nature, scale, and complexity of the TCBs' activities. For class 1 TCBs, competent authorities should apply at a minimum the level of supervisory engagement for category 3 institutions as set out in table 1 of section 2.4.5. For class 2 TCBs, competent authorities should apply at a minimum the level of supervisory engagement for category 4 institutions as set out in table 1 of section 2.4.5.

501. In addition to assessing the core SREP elements for TCBs, competent authorities should ensure they understand the branch's other material risks and how these are mitigated. This includes any significant exposures to credit risk, market risk, operational risk and IRRBB. Competent authorities may deem it appropriate to perform a more in-depth assessment of one or more of these areas based on the relevance and materiality of the risk for the TCB. In such cases, competent authorities should use the guidance in the relevant corresponding titles of these Guidelines as the basis for the assessment and seek to apply the principles contained in a manner proportionate to the TCB.

502. Where competent authorities exercise their right under Article 48a of Directive 2013/36/EU to subject the TCB to requirements for credit institutions under the Directive, effectively treating the TCB as a subsidiary, competent authorities should apply the SREP for credit institutions to the TCB in question and refer to the relevant titles of these Guidelines (Titles 2, 3, 4, 5, 6, 7, 8, 9, 10, and 11, as well as section 12.1.2 of this section, on business model analysis).
503. Competent authorities should use the findings from the assessment of the individual SREP elements for TCBs to score each area. The competent authority should use this analysis to form an overall assessment and score for the TCB and use the considerations in table 21 as a guide in this regard. The overall assessment and score should also take account of the assessment and scoring of the TCB's other material risks (where applicable). Based on the overall SREP assessment and the assessment of the individual SREP elements for TCBs, competent authorities should take supervisory measures as specified in section 12.3 of this title to address any deficiencies identified.

12.1. Application of SREP to third-country branches

12.1.1. General considerations

504. The SREP assessment should focus on the TCB's material risks, and how these are dependent on the business and the risk profile of the rest of the group and how they are managed. Recognising the status of the branch and its reliance on the third-country parent, the assessment should also focus on whether the branch has sufficient independence in its governance and risk management to act in the best interests of the branch, safeguarding its safety, soundness and viability and its capacity to fulfil its commitment to clients and counterparties within the Member State where they have been authorised to carry out business.
505. To inform the assessment, competent authorities should take into account the results of the independent third-party assessment of the branch and the independent opinion on compliance with booking requirements mandated by Articles 48g(8) and 48h(3) respectively of Directive 2013/36/EU. They should also cooperate with the authority responsible for supervision of the head undertaking ("the home authority") under administrative or other arrangements in accordance with Article 48c(2) of Directive 2013/36/EU and take into account the results of the home authority's supervisory assessments of the branch where available.
506. Competent authorities should ensure that the scope of the assessment contains measures to identify TCBs of systemic importance or posing financial stability risks. Further, the assessment should enable identification of TCBs for which authorisation under Title III, Chapter 1 of Directive 2013/36/EU (as a subsidiary) may be appropriate. Competent authorities should refer to Article 48i for criteria to consider in this regard.
507. Where the review of the TCB's governance, business model, or activities, gives competent authorities reasonable ground to suspect that, in connection with the TCB, money laundering

or terrorist financing is being or has been committed or attempted, or that there is increased risk thereof, the competent authority is required to immediately notify the EBA and the TCB's AML/CFT supervisor in accordance with Article 48n(4) of Directive 2013/36/EU.

12.1.2. Business model analysis

508. Competent authorities should analyse the TCB's business model and strategy to understand the key drivers of its risks. They should use the guidance provided in Title 4 as the basis for the assessment and seek to apply the principles contained in a manner proportionate to the TCB. Competent authorities should verify that the strategy for the third country branch and a separate assessment of the associated risks is adequately documented along with evidence of its review and scrutiny by branch management.

509. Competent authorities should pay specific attention to the outreach of the TCB activities, to assess whether it complies with the territorial scope of the authorisation granted by the competent authority where the TCB is established. Attention should also be paid to any cross-border business activity carried out upon reverse solicitation.

510. Competent authorities should consider how the head undertaking's strategic priorities for the TCB impact its risk profile. They should pay attention to any earnings or strategic targets set for the TCB branch and whether these are supported by the TCB's resourcing and risk management capabilities. They should also assess the nature of the services and activities offered by the TCB and how, if at all, these diverge from the offering of the wider group and whether this results in any increased risks or go beyond the scope of services and activities authorised to be carried out by the TCB, which cannot be more extensive than that of the direct head undertaking in the third country.

12.1.3. Assessment of internal governance arrangements and controls

511. Competent authorities should assess the adequacy of the TCB's governance arrangements using Title 5 and section 7 of the EBA Guidelines on internal governance under Directive 2013/36/EU⁴⁷ as a guide as well as the TCB-specific considerations below. The assessment should include the overall framework, risk culture and risk conduct, remuneration policies and practices, and the internal control and risk management framework including the management of ICT risks and third-party risks.

512. In conducting the assessment of internal governance, competent authorities should consider whether the TCB maintains sufficient substance in the Member State in accordance with the requirements in paragraph 90(g) of the EBA Guidelines on internal governance for institutions.

Organisational framework

513. Competent authorities should assess whether the persons directing the TCB:

⁴⁷ EBA/GL/2021/05

- a. have sufficient understanding of the activities and risks of the branch and knowledge of the local market, as well as of EU and national regulations of the Member State;
- b. have sufficient authority, stature, and independence, taking into account the extent they are empowered to contribute to decisions by the head undertaking affecting the branch; and
- c. spend sufficient time within its Member State and in the premises of the branch to effectively fulfil their role.

514. Where the TCB branch has established a management committee, competent authorities should review its role in ensuring adequate governance. In the absence of such body, competent authorities should review whether an appropriate and proportionate alternative framework for senior management oversight of the TCB's activities and risks has been implemented.

Relation with the head undertaking

515. Competent authorities should assess the TCB's relation with the head undertaking, including whether the branch is integrated into the group governance and risk management framework effectively. They should take into account whether:

- a. the branch's reporting to the head undertaking provides sufficient visibility of the branch's material risks; and
- d. the risk framework applied to the TCB adequately addresses EU financial services regulation.

516. Where the TCB engages in back-to-back or intragroup operations, competent authorities should verify that the branch has an appropriate framework for managing its counterparty credit risk.

Internal control framework and third-party risk management

517. Competent authorities should assess whether the TCB has robust internal control functions. For class 1 TCBs (and class 2 TCBs where applicable in accordance with Article 48g(3) of Directive 2013/36/EU), competent authorities should assess whether suitable heads of internal control functions have been appointed who are independent and have sufficient capacity to fulfil the function as provided for in Article 76(6) of Directive 2013/36/EU.

518. Competent authorities should assess whether the TCB conducts appropriate due diligence and ongoing oversight of functions provided by third-party service providers. They should verify that third-party arrangements, including intragroup arrangements, are governed by documented agreements and that the TCB has access to all information required to exercise its monitoring including when using subcontractors. Competent authorities should review the TCB's management of its ICT risks, including whether the TCB maintains an appropriate register of its third-party service providers including when subcontractors performing critical or important function are used.

12.1.4. Assessment of capital endowment and liquidity resources

519. Competent authorities should assess:

- a. whether the TCB branch meets the minimum capital endowment requirement as specified in Article 48e(1) of Directive 2013/36/EU;
- b. the concentration of the capital endowment on a particular form of instrument or on instruments from a particular geographical location, or the currency inconsistency of the capital endowment instruments with the TCB's liabilities, especially with deposits, would lead to heightened volatility of the value of the instruments and to the potential breach of the minimum requirement; and
- b. whether the capital endowment is held in an eligible escrow account in the member state where the third country branch has been authorised and the capital endowment instruments meet the criteria specified in Article 48e(2) of Directive 2013/36/EU and the conditions set in the EBA Guidelines on instruments available for third country branches for unrestricted and immediate use to cover risks or losses⁴⁸.

520. Competent authorities should assess whether the institution holds sufficient liquid and unencumbered assets to mitigate its liquidity risks and in particular that the branch's liquid assets are sufficient for cover liquidity outflows over a minimum of 30 days in line with Article 48f(1) of Directive 2013/36/EU. For Class 1 TCBs, the assessment should cover the branch's compliance with the liquidity coverage requirement as described in the same Article.

521. In conducting the capital endowment and liquidity assessment, competent authorities should consider whether the TCB maintains documentation that is adequate for a prompt and accurate review of its compliance with the minimum capital endowment and liquidity requirement.

522. Competent authorities should assess:

- a. the quality of the engagement between the TCB and head undertaking on capital and liquidity management decisions, including how the branch is covered in group capital and liquidity planning processes, monitoring and stress testing and the existence of appropriate escalation mechanisms for the branch to promptly notify the head undertaking of potential or actual capital or liquidity issues; and
- b. whether the cross-border intra-group funding arrangements are within the limits of the exception allowed under Article 48c(4) (d) of Directive 2013/36/EU and do not disguise cross-border business activities in breach of the territorial scope of the authorisation, for instance where the intragroup funding provided to a TCB established in another member state in exchange for a (total or partial) share of the economic risks and returns of a specific asset.

⁴⁸ EBA/CP/2025/17

12.1.5. Assessment of booking arrangements

523. Competent authorities should assess whether the TCB has an adequate framework for managing and recording assets and liabilities booked or originated in the Member State, including off-balance sheet items. Competent authorities shall verify that the TCB's framework includes a registry book that adequately documents all assets and liabilities booked or originated by the branch in line with Regulatory Technical Standards under Article 48h(4) of Directive 2013/36/EU and a policy in compliance with Article 48h of Directive 2013/36/EU.
524. Competent authorities should assess whether the activities performed by the TCB, its assets and liabilities booked or originated, or other hedging arrangements identified in the registry book are in line with the TCB's policy on booking arrangements and its business strategy.
525. Where the TCB engages in back-to-back booking arrangements, competent authorities should verify that transactions with an EU nexus are neither systematically or substantially back-to-backed, and are risk managed from the EU in accordance with the EBA Guidelines on internal governance for institutions. Competent authorities should assess whether the TCB appropriately manages the risks of back-to-back and remote booking arrangements respectively, including counterparty credit risk, CVA risk, and settlement risk.
526. Competent authorities should assess whether the TCB manages assets and liabilities autonomously. They should consider whether the TCB demonstrates independence in accepting new activities, including through the enforcement of a risk appetite agreed by the branch management. They should consider whether the TCB has sufficient controls and reporting to independently understand and act upon the risks of actual or prospective activities. They should take into account whether the TCB's framework adequately addresses both the prudential risks of the booked activities in so far as they impact the branch's capital and liquidity risk profile, and AML/CFT risks.
527. Where the TCB originates assets and liabilities for other branches or subsidiaries of the same group, competent authorities should assess whether any particular risks arise from these arrangements including operational vulnerabilities and legal constraints.

12.2. Summary of findings, scoring and supervisory measures

528. Following the above assessment, competent authorities should form an overall risk on the key risks of the TCB. This view should be reflected in an annual summary of the overall SREP assessment, accompanied by a viability score based on the considerations specified in table 21. The annual summary should also include any supervisory findings made over the course of the previous 12 months.

Table 21. Supervisory considerations for assigning the overall SREP score

Score	Supervisory view	Considerations
1	The risks identified pose a low level of risk to the viability of the TCB branch.	• The TCB's business model and strategy do not raise concerns. • The TCB's internal governance and controls arrangements do not raise concerns. • The TCB's risks are not material or risk management and controls are adequate to mitigate those risks that are identified as material. • The TCB's capital endowment and liquidity position do not raise concerns. • The TCB's booking arrangements do not raise concerns.
2	The risks identified pose a medium-low level of risk to the viability of the TCB.	• There is a low to medium level of concern about the TCB's business model and strategy. • There is a low to medium level of concern about the TCB's governance or control arrangements. • There is a low to medium level of concern about the TCB's material risks and their management and control. • There is a low to medium level of concern about the TCB's capital endowment and/or liquidity position. • There is a low to medium level of concern about the TCB's booking arrangements.
3	The risks identified pose a medium-high level of risk to the viability of the TCB.	• There is a medium to high level of concern about the TCB's business model and strategy. • There is a medium to high level of concern about the TCB's governance or control arrangements. • There is a medium to high level of concern about the TCB's material risks and their management and control. • There is a medium to high level of concern about the TCB's capital endowment and/or liquidity position. • There is a medium to high level of concern about the TCB's booking arrangements.
4	The risks identified pose a high level of risk to the viability of the TCB.	• There is a high level of concern about the TCB's business model and strategy. • There is a high level of concern about the TCB's governance or control arrangements. • There is a high level of concern about the TCB's material risks and their management and control. • There is a high level of concern about the TCB's capital endowment and/or liquidity position. • There is a high level of concern about the TCB's booking arrangements.

529. Competent authorities may, on the basis of the vulnerabilities and deficiencies identified in the assessment of the SREP elements for TCBs, impose supervisory measures requiring the TCB to:

- a. hold an amount of capital endowment in excess of the minimum requirements laid down in Article 48e of Directive 2013/36/EU;

- b. restrict the form of instruments allowed under the EBA [Guidelines on instruments available for third country branches for unrestricted and immediate use to cover risks or losses under Article 48e(2)(c) of Directive 2013/36/EU], the instruments from a particular jurisdiction or the instruments denominated in a particular currency;
- c. introduce operational conditions additional to those under the EBA Guidelines on instruments available for third country branches for unrestricted and immediate use to cover risks or losses under Article 48e(2)(c) of Directive 2013/36/EU;
- d. meet other specific liquidity requirements in addition to the requirements laid down in Article 48f of Directive 2013/36/EU;
- e. reinforce their governance, risk management or booking arrangements;
- f. restrict or limit the scope of their business or of the activities they conduct, as well as the counterparties to those activities;
- g. reduce the risk inherent in their activities, products and systems, including outsourced activities, and stop engaging in such activities or offering such products;
- h. comply with additional reporting requirements in accordance with Article 48k(3) or increase the frequency of the regular reporting;
- i. make public disclosures; and
- j. On a case-by-case basis and having had regard to the criteria in Article 48i(1) of Directive 2013/36/EU, competent authorities may require the TCB to apply for authorisation as a subsidiary under Title III, Chapter 1 of the Directive. This includes where the competent authority assesses that the TCB is of systemic importance or poses significant financial stability risks in line with Article 48j of Directive 2013/36/EU.

530. For TCBs of systemic importance, competent authorities may also consider:

- a) Requiring the TCB to structure its assets or activities in such a manner that it ceases to qualify as of systemic importance or that it ceases to pose an undue risk to the financial stability of the Union or the Member State where it is established; and
- b) imposing additional prudential - including governance - requirements on the TCB.

Annex I – Credit risk sub-categories

The table below presents a non-exhaustive list of sub-categories for credit risk that competent authorities should consider when relevant.

Credit risk sub-categories	Legal references/Definitions	Assessment areas	Legal references related to the assessment areas
Credit concentration risk	<i>The risk that the institution will incur significant credit losses stemming from a concentration of exposures to a small group of borrowers, to a set of borrowers with similar default behaviour or to highly correlated financial assets and concentrated credit risk mitigation.</i>	• Single-name concentrations (including a client or group of connected clients as defined for large exposures) • Sectoral concentrations • Geographical concentrations • Product concentration • Collateral and guarantees concentration • Hidden sources of concentration that can materialise under stressed conditions, when the level of credit risk correlation can increase compared to normal conditions	Regulation (EU) 575/2013: Art. 129, 170, 171, 184, 207, 209, 395, 400-401 Directive 2013/36/EU: Art. 81, 98
Counterparty credit risk	<i>The risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows</i>	• The quality of counterparties and relevant CVAs and the complexity of transactions • The wrong-way risk arising when the exposure to a counterparty is adversely correlated with its credit quality • The exposure to counterparty credit and settlement risks in terms of both current market values and nominal amount, compared to the overall credit exposure and to own funds • The proportion of transactions processed through financial market infrastructures that provide payment versus delivery settlement • The proportion of transactions to central counterparties and the effectiveness of loss protection mechanisms for them • The proportion of transactions to central counterparties established in third countries the effectiveness of loss protection mechanisms for them, and how any excessive exposure to non-EU CCPs is reduced • The proportion of non-centrally cleared OTC transactions and the effectiveness of loss protection mechanisms for them	Regulation (EU) 575/2013: Art. 181, 246, Part Three, Title II, Chapter 6 Directive 2013/36/EU: Art. 79

Credit risk sub-categories	Legal references/Definitions	Assessment areas	Legal references related to the assessment areas
		• The existence, significance, effectiveness and enforceability of netting agreements	
Settlement and delivery risk	The risk arising in the case of transactions with debt instruments, equities, foreign currencies and commodities (excluding repurchase transactions and securities or commodities lending and securities or commodities borrowing) remain unsettled after their due delivery date.		Regulation (EU) 575/2013: Art. 1,92, Part Three, Title V
Country risk	The risk that the institution will incur credit losses associated to the business carried out in a specific country due to adverse circumstances and/or events, including the impact of geopolitical events, in the specific country	• The risk of a deterioration in the quality of an institution's exposures in a specific country (including collective debtor risk – i.e. the default by a large group of debtors), stemming from threats, occurrences, and the escalation of adverse events associated with wars, terrorism, and tensions among states and political actors affecting international relations • The degree of concentration within all types of exposures to country risk, including sovereign exposures, in proportion to the whole institution's credit portfolio (per obligor and amount) • The economic strength and stability of the borrower's country and its track record in terms of punctual payment and occurrence of serious default events • The risk of other forms of sovereign intervention that can materially impair the creditworthiness of borrowers (e.g. deposit freezes, expropriation or punitive taxation) • The transfer risk linked to cross-border foreign currency lending for material cross-border lending and exposures in foreign currencies	

Credit risk sub-categories	Legal references/Definitions	Assessment areas	Legal references related to the assessment areas
Credit risk from securitisations	<i>The risks arising from securitisation transactions in relation to which the credit institutions are investor, originator or sponsor, including reputational risks, such as arise in relation to complex structures or products.</i>	• The appropriateness of allocation of securitisation exposures to the banking book and trading book and the consistency with the institution's securitisation strategy • The rating and the performance of the securitisation tranches held by the institution, the nature, composition and quality of the underlying assets • The consistency of the capital relief with the actual risk transfer for originated securitisations • Whether there is a clear distinction between drawn and undrawn amounts for liquidity facilities provided to the securitisation vehicle • The existence of contingency plans for Asset-Backed Commercial Paper conduits managed by the institution in the event that an issuance of commercial paper is not possible because of liquidity conditions, and the impact on the total credit risk exposure of the institution	<i>Regulation (EU) 575/2013: Art. 67, Part Three, Title II, Chapter 5 Directive 2013/36/EU: Art. 82</i>
FX lending risk	<i>The additional credit risk arising from FX lending exposures to unhedged retail and SME borrowers</i>	• Any non-linear relationship between market risk and credit risk where exchange rates may have a disproportional impact on the credit risk of an institution's FX loans portfolio such as a material increase in both the outstanding value of debt and the flow of payments to service such debt and an increase in the outstanding value of debt compared to the value of collateral assets denominated in the domestic currency	
Equity risk in the banking book	<i>The risk of loss on financial instruments from changes in equities posted in the banking book</i>	• The risk of decline in the value of the institution's equity investments and ensure that this risk is appropriately captured by the institution's risk framework • Where relevant, on participation risk in strategic holdings (both insurance and non-insurance)	<i>Regulation (EU) 575/2013: Art. 133</i>

Credit risk sub-categories	Legal references/Definitions	Assessment areas	Legal references related to the assessment areas
Real estate risk	<i>The risk of loss due to changes in the market value of real estate own assets or of financial instruments linked to real estate assets</i>	• The risk of decline in the value of the institution's real estate investments • Where relevant, the value of financial instruments linked to real estate assets (e.g. real estate investment trusts, REITs)	<i>For immovable properties owned by an institution Regulation (EU) 575/2013: Art. 134(1) - SA Art. 156 - IRB</i>
Dilution risk	<i>CRR Article 4 (53)</i>	• Dilution risk for all credit portfolios for which the IRB approach is not adopted, and for those whose dilution risk is deemed immaterial from a portfolio perspective • How exposures that are immaterial within each portfolio or exposure class are factored in the institution's aggregate dilution risk assessment • Where relevant, whether the risk assessment of exposures to dilution risk in the acquiring business for merchant payment systems (for example, in the portfolio of contingent liabilities for chargeback positions) is appropriate and based upon a consistent segmentation of the underlying positions according to their key contractual features – i.e. the nature of underlying sales transactions, the timing of processed payments, and the application of standard risk mitigation mechanisms.	
Model risk (for regulatory approved models)	<i>CRR Article 4(1), point (52b)</i>	• Monitor whether the institution continues to fulfil the minimum requirements and ensure that related own funds requirements are not underestimated • The assessment may be based on the insights gained in other supervisory actions, including those carried out in accordance with Article 101 of Directive 2013/36/EU	<i>Directive 2013/36/EU: Art. 3</i>

Annex II – Market risk sub-categories

The table below presents a non-exhaustive list of sub-categories for market risk that competent authorities should consider when relevant.

Market risk sub-categories (level 1)	<i>Legal references/Definitions⁴⁹</i>
General interest rate risk (trading book)	<i>The risk of losses arising from changes in the market value of debt instruments due to a change in the level of interest rates unrelated to any specific attributes of those individual debt instruments.</i> <u>Relevant legal references for capital treatment:</u> > Pre-Fundamental review of the Trading Book (FRTB) - internal models Regulation (EU) 575/2013, Part Three, Title IV, Chapter 5 - Article 362 > Pre-FRTB – Standardised Approach /Post-FRTB - Simplified Standardised Approach Regulation (EU) 575/2013, Part Three, Title IV, Chapter 2, Section 2, Subsection 2 – Articles 339-340 (general risk of debt instruments) > Post-FRTB - Alternative Standardised Approach Regulation (EU) 575/2013, Part Three, Title IV, Chapter 1a, Section 2 – Articles 325d-325k (Sensitivity-based method, general interest rate risk) > Post-FRTB - Alternative internal model approach Regulation (EU) 575/2013, Part Three, Title IV, Chapter 1b – Articles 325az-325bp (Expected shortfall / Stress Scenario Risk Measure (SSRM) component)
Credit spread risk (trading book)	<i>The risk arising from changes in the market value of debt financial instruments due to fluctuations in their credit spread (please refer to “Definitions”, Title 1)</i> - Capital treatment differentiated by type of instrument / portfolio: 1) Credit spread risk of non-securitisations

⁴⁹ In this table, we refer to ‘Pre-Fundamental Review of the Trading Book (FRTB)’ for the definition and treatment applicable before the FRTB comes into effect. Post-FRTB refers to the definitions and approach applicable once the FRTB comes into effect.

**Market risk sub-
categories (level 1)**

Legal references/Definitions⁴⁹

2) Credit spread risk of securitisations (outside the alternative correlation trading portfolio (ACTP))

3) Credit spread risk of securitisations included in the ACTP

- Also covers sovereign risk, i.e. risk of losses due to decreasing market values of sovereign exposures

Relevant legal references for capital treatment

> Pre-FRTB – internal models

Regulation (EU) 575/2013, Part Three, Title IV, Chapter 5 CRR - Article 362

(Value at Risk (VaR) - component; and additional ACTP component ('comprehensive risk measure') for positions in the ACTP)

> Pre-FRTB – Standardised Approach /Post-FRTB - Simplified Standardised Approach

Regulation (EU) 575/2013, Part Three, Title IV, Chapter 2, Section 2, Subsection 1 – Articles 335-338 (specific risk of debt instruments)

> Post-FRTB - Alternative Standardised Approach

Regulation (EU) 575/2013, Part Three, Title IV, Chapter 1a, Section 2 – Articles 325d-325k (Sensitivity-based method, credit spread risk (CSR) non-securitisation, CSR securitisation non-ACTP, CSR securitisation-ACTP)

> Post-FRTB - Alternative internal model approach

Regulation (EU) 575/2013, Part Three, Title IV, Chapter 1b – Articles 325az-325bp (Expected shortfall / SSRM component)

The risk of a change in the market value of an instrument due to a broad equity-market movement or due to factors related to the issuer of the instrument or, in the case of a derivative, the issuer of the underlying instrument.

**Equity risk
(trading book)**

Relevant legal references for capital treatment

> Pre-FRTB – internal models

Regulation (EU) 575/2013, Part Three, Title IV, Chapter 5 - Article 362 CRR

> Pre-FRTB – Standardised Approach /Post-FRTB - Simplified Standardised Approach

Regulation (EU) 575/2013, Part Three, Title IV, Chapter 2, Section 3 – Articles 341-344 (general risk of equity instruments + specific risk of equity instruments)

Market risk sub-
categories (level 1)

Legal references/Definitions⁴⁹

> Post-FRTB - Alternative Standardised Approach

Regulation (EU) 575/2013, Part Three, Title IV, Chapter 1a, Section 2 – Articles 325d-325k (Sensitivity-based method, risk class equity risk)

> Post-FRTB - Alternative internal model approach

Regulation (EU) 575/2013, Part Three, Title IV, Chapter 1b - Articles 325az-325bp (Expected shortfall / SSRM component)

The risk of loss on financial instruments due to the deterioration of the creditworthiness of the issuer or of the issuer of reference assets or underlying assets. This excludes default risk. **Under FRTB this risk is treated as part of credit spread risk.**

Migration risk

Relevant legal references for capital treatment

> Pre-FRTB – internal models

Regulation (EU) 575/2013, Part Three, Title IV, Chapter 5, Section 4 - Articles 372-376

> Post-FRTB - Alternative Standardised Approach

Regulation (EU) 575/2013, Part Three, Title IV, Chapter 1a, Section 2 – Articles 325d-325k

> Post-FRTB - Alternative internal model approach

Regulation (EU) 575/2013, Part Three, Title IV, Chapter 1b – Articles 325az-325bp

The risk of loss on financial instruments due to the default of the issuers of those financial instruments or of the issuers of reference or of underlying assets. Also covers sovereign risk, i.e. risk of losses due to the default of sovereign exposures.

Default risk
(trading book)

Relevant legal references for capital treatment

> Pre-FRTB – internal models

Regulation (EU) 575/2013, Part Three, Title IV, Chapter 5 – Articles 372-376 ('Incremental default risk charge'-component)

> Post-FRTB - Alternative Standardised Approach

Regulation (EU) 575/2013, Part Three, Title IV, Chapter 1a, Section 5 – Articles 325v-325ad

Market risk sub-categories (level 1)	<i>Legal references/Definitions⁴⁹</i>
Foreign exchange risk (trading and banking books)	> <i>Post-FRTB - Alternative internal model approach</i> <i>Regulation (EU) 575/2013, Part Three, Title IV, Chapter 1b - Articles 325az-325bp (default risk charge)</i>
	<i>Regulation (EU) 575/2013, Article 4(1), point (142) - includes, among others, translation risk and structural foreign exchange risk</i>
	<u><i>Relevant legal references for capital treatment</i></u>
	<i>I) Exemption for Structural Foreign Exchange positions (S-FX positions)</i> - <i>Regulation (EU) 575/2013, Article 104c</i> - <i>Guidelines on S-FX (EBA/2020/09);</i>
	<i>II) Treatment of positions other than S-FX positions</i> > <i>Pre-FRTB – internal models</i> <i>Regulation (EU) 575/2013, Part Three, Title IV, Chapter 5 – Articles 362-377</i> > <i>Pre-FRTB – Standardised Approach /Post-FRTB - Simplified Standardised Approach</i> <i>Regulation (EU) 575/2013, Part Three, Title IV, Chapter 3 – Articles 351-354</i> > <i>Post-FRTB - Alternative Standardised Approach</i> <i>Regulation (EU) 575/2013, Part Three, Title IV, Chapter 1a, Section 2 – Articles 325d-325k (Sensitivity-based method, risk class foreign exchange risk)</i> > <i>Post-FRTB - Alternative internal model approach</i> <i>Regulation (EU) 575/2013, Part Three, Title IV, Chapter 1b Articles 325az-325bp (Expected shortfall / SSRM component)</i>
Commodities risk (trading and banking books)	<i>Regulation (EU) 575/2013, Article 4(1), point (143)</i>
	<u><i>Relevant legal references for capital treatment</i></u> > <i>Pre-FRTB – internal models</i>

**Market risk sub-
categories (level 1)**

Legal references/Definitions⁴⁹

Regulation (EU) 575/2013, Part Three, Title IV, Chapter 5 – Articles 362-377

> Pre-FRTB – Standardised Approach /Post-FRTB - Simplified Standardised Approach

Regulation (EU) 575/2013, Part Three, Title IV, Chapter 4 – Articles 351-354

> Post-FRTB - Alternative Standardised Approach

Regulation (EU) 575/2013, Part Three, Title IV, Chapter 1a, Section 2 – Articles 325d-325k (Sensitivity-based method, risk class commodities risk)

> Post-FRTB - Alternative internal model approach

Regulation (EU) 575/2013, Part Three, Title IV, Chapter 1b – Articles 325az-325bp (Expected shortfall / SSRM component)

**Credit valuation
adjustment risk
(trading and
banking books)**

Regulation (EU) 575/2013, Article 381

**Valuation risk
(trading and non-
trading books)**

The risk of losses from revisions of or adjustments to the accounting value of fair-valued assets and liabilities (Regulation (EU) 575/2013, Article 105 and Regulation (EU) 2016/101)

Market risk sub-categories (level 2)

Legal references/Definitions

- Market price uncertainties
- Close-out costs
- Valuation model risks
- Unearned credit spreads
- Investing and funding costs
- Concentrated positions
- Future administrative cost

RTS on Prudent Valuation
(Regulation (EU) 2016/101)

Market risk sub-
categories (level 1)

Legal references/Definitions⁴⁹

- Early termination
- Operational (valuation) risks

Residual risk	<i>Regulation (EU) 575/2013, Article 325u and RTS on Residual Risk Add-on (Regulation (EU) 2022/2328) - comprises the broad categories of risks arising from instruments with exotic underlying and residual risk of instruments bearing other residual risks</i> <u>Relevant legal references for capital treatment</u> > Post-FRTB - Alternative Standardised Approach Regulation (EU) 575/2013, Part Three, Title IV, Chapter 1a, Section 4 – Article 325u
Market risk: Model risk	Regulation (EU) 575/2013, Article 4(1), point (52b)
Market risk: Risks by linearity	- Delta risk (risk of changes of the value of a financial instrument due to a change in the value of the risk factor (first order effects)) - Vega risk (risk arising from changes of the volatility of the underlying of a non-linear instrument) - Curvature risk (incl. gamma risk) (risks not captured under delta and vega risk, including risk arising from second order effects of changes in the underlying and from other parameters of options)
Market risk: Market liquidity and concentration risk	<i>The risk that the institution will incur market/liquidity losses stemming from a concentration either from exposures to a single risk factor or from exposures to multiple risk factors that are correlated, or from instruments with high liquidity horizons</i>
Market risk: Basis risk	<i>Risk of losses due to imperfect correlation in the value change of nominally offsetting instruments</i>

Annex III – Operational risk sub-categories

The table below presents a non-exhaustive list of sub-categories for operational risk that competent authorities should consider when relevant.

Operational risk sub-categories (level 1)	Legal references/Definitions	Operational risk sub-categories (level 2)	Legal references/Definitions
Legal risk	<i>CRR Article 4(1), point (52a)</i>		
Model risk	<i>CRR Article 4(1), point (52b)</i>		
ICT risk	<i>CRR Article 4(1), point (52c)</i>	ICT availability and continuity risk	<i>The risk that performance and availability of ICT systems and data are adversely impacted, including the inability to timely recover the institution's services, due to a failure of ICT hardware or software components; weaknesses in ICT system management; or any other event.</i>
		ICT security risk (including cyber)	<i>The risk of unauthorised access to ICT systems and data from within or outside the institution (e.g. cyber-attacks).</i>
		ICT change risk	<i>The risk arising from the inability of the institution to manage ICT system changes in a timely and controlled manner.</i>
		ICT data integrity risk	<i>The risk that data stored and processed by ICT systems are incomplete, inaccurate or inconsistent across different ICT systems impairing the soundness or continuity of the institution's services and activities and potentially resulting in operational, financial, legal, or reputational impact.</i>
		ICT third-party risk	<i>DORA Article 3 (18), including ICT concentration risk (DORA Article 3 (29)) on both critical and non-critical ICT third-party services providers.</i>

Operational risk sub-categories (level 1)	Legal references/Definitions	Operational risk sub-categories (level 2)	Legal references/Definitions
Third-party risk (non-ICT)	<i>The risk that may arise for a financial entity in relation to the use of function provided by third-party service providers or by subcontractors of the latter, including the provision of a function or the support to a function, including through outsourcing arrangements (upcoming EBA Guidelines on sound management of third-party risk)</i>		
Credit risk (operational risk events related to credit risk not accounted for in the risk-weighted exposure for credit risk)	<i>CRR Article 317 (5)</i>		
Market risk (operational risk events related to market risk)	<i>CRR Article 317 (6)</i>		

Annex IV – IRRBB sub-categories

The table below presents a non-exhaustive list of sub-categories for IRRBB that competent authorities should consider when relevant.

IRRBB sub-categories (level 1)	<i>Legal references/Definitions</i>	IRRBB sub-categories (level 2)	<i>Legal references/Definitions</i>
Gap risk	<i>EBA/GL/2022/14 (para.7 “Definitions”)</i>		
Basis risk	<i>EBA/GL/2022/14 (para.7 “Definitions”)</i>		
Option risk	<i>EBA/GL/2022/14 (para.7 “Definitions”)</i>	Automatic option risk	<i>EBA/GL/2022/14 (para.7 “Definitions”)</i>
		Behavioural option risk	<i>EBA/GL/2022/14 (para.7 “Definitions”)</i>

Annex V – Transfer pricing risk measurement

P2R for transfer pricing risk should be determined by summing up the P2R corresponding to the risk linked to each transfer pricing arrangement that is based on the transaction profit-method (TPM) as referred to in paragraph 176 of these guidelines. P2R corresponding to a transfer pricing arrangement belonging to the set TPM should be determined as follows:

- a. The institution should identify the portfolio whose profits and losses are used as a basis to determine the amount to be allocated to the institution in accordance with the transfer pricing arrangement;
- a) On the basis of (i) empirical evidence and (ii) key-metrics included in the pricing arrangement as referred to in paragraph 177, point b) of these guidelines, the institution should determine its marginal contribution 'm' to the key metrics used to determine the portion of profits and losses to be allocated across the entities taking part to the transfer pricing arrangement;
- b. The institution should obtain the market risk capital requirements (*C_{MRPortfolio}*) relating to the portfolio identified in point (a);
- c. The P2R for the transfer pricing arrangement is $m \times C_{MRPortfolio}$. This may be capped by the maximum loss that can be allocated to the institution in accordance with the transfer pricing arrangement.

An institution may be provided with *C_{MRPortfolio}* by an entity established outside of the Union with which there is the transfer pricing arrangement. That entity may provide the capital requirements on the basis of the rules for market risk applicable in the jurisdiction where it is established. Where those third country provisions are based on a Pillar 1 capital framework that is not in line with the Pillar 1 market risk capital framework implemented in the EU in accordance with Regulation (EU) 575/2013, competent authorities should increase the requirement by a factor of 1.5.

Competent authorities may set the P2R of a transfer pricing arrangement to a lower value than the one obtained in accordance with the first paragraph of this Annex when all the below conditions are met:

- a. In the context of that transfer pricing arrangement, the institution is assessed to hold and manage most of the market risk relating to the portfolio on which the transfer pricing arrangement is based;
- b. the booking model implies that the institution may allocate its trading book losses to other entities taking part to the transfer pricing arrangement; and
- c. The institution provides sufficient evidence that, in light of its role as main contributor to the transfer pricing arrangement in the sense of point (a), the capital requirements for market risk relating to the positions that are subject to the transfer pricing arrangement already cover for potential losses resulting from the transfer pricing arrangement.

5. Accompanying documents

5.1. Draft cost-benefit analysis / impact assessment

Directive (EU) 2024/1619 amending Directive 2013/36/EU entered into force on 9 July 2024, and will become applicable on 11 January 2026, with certain exceptions, in particular with regard to third-country branches.

In this context, the EBA has undertaken a third revision of the Supervisory Review and Evaluation Process (SREP) Guidelines (GLs) to ensure alignment with the changes introduced by CRR3/CRD6. The revision reflects key considerations including: (i) the application of proportionality as a key driver of the revision to support risk-based supervision; (ii) considerations on operational resilience to enable a holistic assessment of institution's ability to deliver critical or important functions in the event of disruptions; (iii) the inclusion of ESG risks to enable a more comprehensive and forward-looking supervisory approach; (iv) the treatment of market risk transfer pricing models to ensure that institutions are adequately capitalised for the risks they bear and to establish a level playing field; (v) considerations on the interaction between the revised Pillar 1 framework (including the output floor) and Pillar 2 to avoid double counting and ensure consistency in capital requirements; (vi) the inclusion of provisions for third-country branches to support the assessment of material risks to their operations; (vii) the introduction of a high-level supervisory escalation framework to promptly identify and address deficiencies in institutions; and (viii) the repeal of the stand-alone ICT SREP GLs, with ICT risk assessments now integrated into the general SREP GLs.

The updates aim to incorporate the relevant CRR3/CRD6 provisions into the existing set of GLs, which underpin the day-to-day activities of supervisory authorities and ensure a coherent, risk-based, and proportionate supervisory framework across the EU.

5.1.1. Policy objectives

The focus of the third revision of the SREP GLs is on, inter alia, incorporating elements relating to proportionality, operational resilience, ESG risks, market risk transfer pricing models, interaction between Pillar 1 and Pillar 2 frameworks, third-country branches, supervisory effectiveness, and ICT risk assessments.

5.1.2. Baseline scenario

The SREP GLs were first published in December 2014 and entered into force in January 2016. The first revision took place in 2017, with the updated GLs applying from 2019. A second review was carried out in 2021 to align the GLs with the regulatory developments since the last revision. This updated version came into force in January 2023. The revision reflected the changes introduced by Regulation (EU) 2019/876 amending the CRR and Directive (EU) 2019/878 amending the CRD, as well as other relevant EBA GLs and technical standards.

5.1.3. Options considered

In preparing these revised SREP GLs, the EBA considered the following policy options during the drafting process to ensure alignment with the CRR3/CRD6 provisions.

Proportionality

One of the key drivers for the revision of the SREP GLs was to further clarify and improve the application of proportionality, which is already embedded in the existing SREP GLs, in order to better support risk-based supervision. The revision of the proportionality provisions also took into account the recommendations of the peer review on the application of proportionality in the SREP⁵⁰ and the relevant recommendations of the EBA's Advisory Committee on Proportionality (ACP).

The revision focused primarily on two areas that are central to the application of proportionality in the SREP: the categorisation of institutions (Section 2.1.1) and the supervisory engagement model (Section 2.4).

The minimum supervisory engagement model has been revised to allow for a lighter assessment of SREP elements or risk areas that are considered immaterial or unchanged since the last assessment. In addition, competent authorities are given more flexibility in categorising institutions for SREP purposes—in particular for 'large' institutions under Regulation (EU) No 575/2013 that are not G-SIIs, given their high degree of heterogeneity. Flexibility has also been increased with regard to the frequency and granularity of SREP assessments. In this context, two policy options were considered.

Option 1: Retaining the minimum frequency for the assessment of all SREP elements for small and non-complex institutions while increasing flexibility with regard to the granularity of the assessment

Under this option, competent authorities would retain the current minimum frequency for the assessment of all SREP elements for all categories of institutions, while at the same time being granted greater flexibility in adjusting the level of granularity of the assessment.

This approach would allow competent authorities to adjust the scope and depth of the SREP assessment to reflect the institution's risk profile, the materiality of individual risks and SREP elements, and emerging risks. It allows for a lighter and more targeted assessment of risks that are considered immaterial and supports maintaining previous assessments and scores where no material changes have occurred, based on available supervisory information (e.g. monitoring indicators and reporting).

The additional flexibility offered under Option 1 is considered sufficient to support a risk-based approach without requiring changes to the minimum frequency of assessments under the supervisory engagement model.

⁵⁰ <https://www.eba.europa.eu/publications-and-media/press-releases/eba-publishes-its-peer-review-application-proportionality-under-supervisory-review-and-evaluation>.

Option 2: Extending the minimum frequency for the assessment of all SREP elements for small and non-complex institutions while increasing flexibility with regard to the granularity of the assessment

In addition to the flexibility regarding the granularity of the assessment described in Option 1, this option provides for an extension of the minimum frequency for the assessment of all SREP elements from three to five years for a subset of Category 4 institutions (i.e. small and non-complex institutions), provided they meet certain criteria:

- a stable, low-risk profile;
- stable financial metrics and healthy margins;
- no concerns based on the quarterly monitoring of key risk indicators.

This extension enables competent authorities to use their supervisory resources more efficiently, particularly in jurisdictions with a large number of small and non-complex institutions. The approach includes safeguards to ensure that:

1. the extended frequency applies only to institutions that meet the above criteria;
2. supervisory attention can be intensified if new risks emerge or other indicators change (in addition to the quarterly monitoring of key risk indicators);
3. the minimum level of dialogue with the institution's management body and senior management is maintained at a risk-based frequency of at least every three years.

This approach is consistent with a multi-year SREP strategy, where in-depth assessments of selected risks or risk factors are planned over a longer (multi-year) time horizon.

Option 2 is the preferred option as it supports a risk-based supervisory engagement model and enables a more targeted use of supervisory resources, in particular for competent authorities supervising a large number of small and non-complex institutions.

Operational resilience

Operational resilience has gained international prominence, particularly through the BCBS framework. Although its key components are already reflected in the EU regulatory framework and embedded in the existing SREP GLs, it was considered appropriate to specifically introduce the concept of operational resilience. In this context, two policy options were considered.

Option 1: Introduction of a stand-alone module on operational resilience in the SREP GLs

One option is to introduce a dedicated module within the SREP GLs that focuses exclusively on operational resilience. This would improve the visibility of the supervisory assessment of an institution's ability to maintain critical or important functions during disruptions, thereby increasing the attention paid to this area by both the competent authorities and the supervised institutions.

However, given the interdependence of operational risk and operational resilience, this approach would require strong interlinkages with existing SREP elements, in particular with the areas of

internal governance and operational risk management. This could lead to overlaps in assessments and duplication of work, which would increase the complexity of the SREP and the burden on both the competent authorities and the supervised institutions.

Furthermore, this option would not be consistent with the simplification objective of the revised SREP GLs or with the objective of more effective and efficient supervision. In addition, the current EU regulatory framework does not necessarily justify expanding the scope and complexity of the SREP solely for the purpose of operational resilience, particularly given the potential regulatory burden on institutions.

Option 2: Integrating operational resilience into existing SREP elements

Alternatively, operational resilience could be integrated into the existing SREP elements. This approach would incorporate considerations of operational resilience into the assessment of internal governance, operational risk management, and other relevant elements, making operational resilience a regular ‘business-as-usual’ part of the SREP.

This option is more closely aligned with the BCBS framework, which recognises that while operational resilience and operational risk management have different objectives, they are closely related and share common principles. Effective operational risk management supports operational resilience, and together they provide a complementary framework towards reducing the frequency and impact of operational risk events, while safeguarding critical operations.

Implementing this integration would require supervisors to assess the institution’s ability to deliver critical or important functions even in the event of disruptions, with a focus on the following areas:

- internal governance;
- operational risk management;
- business continuity planning and testing;
- mapping of interconnections and interdependencies;
- third-party dependency management;
- incident management;
- ICT, including cyber security.

This approach is also consistent with the BCBS’s Core Principles for Effective Banking Supervision, which group operational risk and operational resilience under a single core principle in relation to prudential regulation and institutional requirements.

Option 2 is the preferred option.

ESG risks

The SREP GLs that came into force in January 2023 contained first references to ESG risks. However, in line with the requirements of CRD6, a more comprehensive approach to dealing with ESG risks is necessary. In this context, two policy options were considered.

Option 1: Introduction of a stand-alone module on ESG risks in the SREP GLs

One option is to create a dedicated module within the SREP GLs that deals exclusively with ESG risks. This would improve visibility of the supervisory assessment of ESG risks and allow for the specific characteristics of these risks, such as their forward-looking nature and their potential to materialise over different, including long-term, time horizons, to be adequately captured.

However, this approach would require close interlinkages with existing SREP elements, as ESG risks typically materialise through traditional financial risk categories, as clarified in the CRR3 definition. Moreover, ESG risks should not be managed in isolation by institutions, but rather embedded in the institution's core business strategy, governance arrangements, and risk management framework.

The introduction of a stand-alone module could lead to overlaps and duplication of work, which would increase the complexity of the SREP and the burden on both the competent authorities and the supervised institutions.

Option 2: Integrating ESG risks into existing SREP elements

Alternatively, ESG risks could be integrated into existing SREP elements. This approach would incorporate ESG considerations into the assessment of the business model, internal governance, risks to capital, and risks to liquidity and funding, thereby making ESG risks a regular 'business-as-usual' part of the SREP.

This option is more closely aligned with the regulatory definition of ESG risks and their role as drivers of traditional financial risk categories such as credit, market, and operational risks. Implementing this integration would require targeted guidance and capacity building within the competent authorities, which the EBA could support through its supervisory convergence activities.

In addition, while ESG risks would be assessed using existing SREP elements, competent authorities could still leverage insights from specific supervisory activities related to ESG risks (e.g. thematic reviews, on-site inspections) to inform their assessment of the relevant SREP elements.

Option 2 is the preferred option.

Market risk – transfer pricing models

Certain transfer pricing arrangements may expose institutions to market risk that is not adequately captured under the Pillar 1 framework. In particular, entities established in the Union that are part of a third-country group may be subject to re-allocated gains or losses from market risk activities conducted and recorded elsewhere in the group. To ensure these institutions are adequately capitalised for this risk, two policy options were considered.

Option 1: Introduction of a methodology for the calculation of Pillar 2 requirements

One option is to introduce an approach to address the market risk of transfer pricing arrangements based on a transaction profit method, including a formula for determining P2R⁵¹.

This option is grounded in the principle of business neutrality: institutions exposed to market risk through the transfer pricing arrangement should be capitalised in the same way as those managing the risks directly. Thereby, the following two scenarios are considered equivalent from a market risk perspective:

1. the institution manages the risk locally within the Union and calculates a Pillar 1 capital requirement;
2. initially, the institution transfers its market risk through back-to-back positions to a related entity (e.g. sibling or parent) located outside the Union. Subsequently, the institution enters into a transfer pricing arrangement whereby a portion of the economic gains or losses arising from the market risk activities is re-allocated based on pre-agreed metrics (e.g. 10% of the group's gains/losses will be allocated to the subsidiary established in the Union). In this scenario, the institution does not calculate a Pillar 1 capital requirement for the risk.

In the second scenario, there is no Pillar 1 capital requirement because transfer pricing arrangements typically do not qualify as financial instruments under accounting standards. The Pillar 2 approach can mimic the capital charge that would apply under the assumption that the transfer pricing arrangement is considered a financial instrument.

The proposed risk measurement approach is not mandatory and competent authorities can apply equally robust, alternative methodologies that meet certain conditions. This ensures flexibility in addressing institution-specific circumstances and allows for proportionality in supervisory responses.

Option 2: Do not introduce a methodology in the SREP GLs

Alternatively, the SREP GLs could not provide for a methodology and competent authorities would be able to determine how best to assess and address the risk. This option may result in inconsistent treatment across jurisdictions and could perpetuate regulatory arbitrage, whereby institutions bearing market risk through transfer pricing arrangements are not subject to equivalent capital requirements.

Option 1 is the preferred option. It ensures that institutions are adequately capitalised for market risk arising from transfer pricing arrangements, promotes consistency across supervisory practices, and establishes a level playing field between institutions directly capitalising their market risk as

⁵¹ According to this method the profits and losses relating to positions owned by several entities are re-distributed across those entities on the basis of the marginal contribution of each entity towards key metrics set out in the pricing arrangement.

part of a Pillar 1 capital requirement and those institutions that bear the risk but have no capital against it.

Interaction between the revised Pillar 1 framework (including the output floor) and Pillar 2

The implementation of the revised Basel framework in the EU required careful consideration of the possible interactions between the output floor (OF) and the Pillar 2 requirements (P2R). In particular, there was a risk that applying the OF to an institution's TREA could lead to double counting of risks that had already been addressed by the P2R set by the competent authorities under the CRD.

To avoid this, the EBA was mandated under Article 104a(7) of Directive 2013/36/EU to issue GLs to ensure that the interaction between the OF and the P2R does not lead to overlapping capital requirements. These GLs also operationalise the requirement set out in Article 104a(6) of Directive 2013/36/EU. Given the relevance of this issue for the SREP assessment, the forthcoming GLs under Article 104a(7) of Directive 2013/36/EU have been incorporated into the revised SREP GLs. Pending the adoption of the revised SREP GLs and to promote harmonised supervisory approaches, both proactive and reactive, the EBA has issued an Opinion on the initial entry into force of the OF. In this context, two policy options were considered, which are not mutually exclusive but rather additive, with Option 2 encompassing Option 1.

Option 1: Integration of the EBA Opinion on the output floor

This option involves incorporating the provisions already set out in the EBA Opinion into the guidelines, with a specific focus on the interaction between OF and P2R. The following guidance would apply:

1. once an institution becomes first bound by the OF, the applicable P2R percentage – as communicated to the institution following the last SREP cycle – should be applied to the unfloored TREA (so-called 'temporary cap'). This operationalises the temporary cap under Article 104a(6)(a), ensuring that P2R is not increased solely because of OF has become binding;
2. when reviewing double counting, competent authorities should consider offsets for P2R add-ons related to 'regulatory model deficiencies', where these exist. The add-on must relate to a model used to determine the TREA, and the offset amount must not exceed the impact of the OF on the TREA;
3. competent authorities that use methodologies to determine P2R amounts based on a multiplication of the TREA should pay attention to automatic arithmetic increases (i.e. where the P2R nominal amount increase is not due to an increase in risk but results from the P2R being expressed as a percentage of TREA). These authorities are expected to consider how to prevent undue effects when performing the one-off double counting review of the OF.

Option 2: Integration of the EBA Opinion on the output floor and more general provision on the interaction between P1R and P2R

In addition to the provisions under Option 1 – limited to the interaction between OF and P2R – this approach would involve a more comprehensive assessment by competent authorities of the interactions between P1R and P2R, where a material impact on an institution’s capital profile is expected due to relevant changes to the regulatory framework for determining P1R. The aim is to ensure that P2R continues to cover risks, or elements of risks, that are not covered or not sufficiently covered by the P1R, in line with Article 104a(1)⁵² of Directive 2013/36/EU.

The revised Pillar 1 framework, as set out in CRR3/CRD6, introduces improved and more risk-sensitive measurement approaches – both standardised and advanced – for determining TREA. Against this background, and taking into account the overarching requirement to avoid double counting between Pillar 1 and Pillar 2 frameworks, the revised guidelines encourage competent authorities, in cases of relevant changes to the regulatory framework for determining P1R, to ensure that P2R prevent overlaps with risks already covered under Pillar 1. In such cases, this may require a redetermination of the quantity or composition of the P2R to ensure that the institution’s overall own funds requirements are in line with Article 104a(1) of Directive 2013/36/EU.

Option 2, which also encompasses Option 1, is the preferred option as it provides a broader operationalisation of the requirement under Article 104a(1) of Directive 2013/36/EU and aims to ensure that the complementary nature between P1R (including the OF) and P2R is maintained.

Third-country branches

The EBA is mandated with issuing GLs to further specify the common procedures and methodologies for the SREP for third-country branches (TCBs) and for the assessment of material risks to their operations in accordance with Article 48n(6)(a) of Directive 2013/36/EU.

As part of this process, competent authorities are expected to evaluate whether the arrangements, strategies, processes, and mechanisms implemented by TCBs – along with their capital endowment and liquidity – ensure sound management and coverage of material risks to their operations and viability. This mandate is part of the new prudential framework for TCBs introduced by CRD6, which provides competent authorities with the necessary tools to monitor the specific risks posed by TCBs operating within the EU. In this context, two policy options were considered.

Option 1: Develop stand-alone SREP GLs for third-country branches

One option is to develop a dedicated set of GLs on common procedures and methodologies for the SREP of TCBs. This approach would be consistent with the precedent set for investment firms, for

⁵² “Competent authorities shall impose the additional own funds requirement [...] where [...] the institution is exposed to risks or elements of risks that are not covered or not sufficiently covered [...] by the own funds requirements set out in Parts Three, Four, and Seven of Regulation (EU) No 575/2013 and in Chapter 2 of Regulation (EU) 2017/2402 of the European Parliament and of the Council.”

which separate SREP GLs (EBA/GL/2022/09) were developed in accordance with subparagraph 4 of Article 45(2) of Directive (EU) 2019/2034.

However, unlike investment firms, TCBs are governed under a dedicated Title (Title VI) within the existing regulatory framework for credit institutions under Directive 2013/36/EU. Therefore, developing separate SREP GLs for TCBs would represent a departure from the Level 1 approach, which integrates TCBs within the broader framework of credit institutions.

This option was also considered in light of the European Commission's initiative to reduce regulatory burdens and simplifying EU legislation. While separate GLs could offer clarity, they could also contribute to fragmentation and complexity in the supervisory framework.

Option 2: Incorporate SREP GLs for third-country branches into the revised SREP GLs for credit institutions

Alternatively, the SREP GLs for TCBs could be incorporated into the revised SREP GLs for credit institutions. This approach would combine both mandates, under Article 48n(6)(a) and Article 107(3) of Directive 2013/36/EU, into a single, coherent set of GLs.

There are no legal constraints preventing the consolidation of GLs from different but related mandates. Given that the section on TCBs is relatively short and concise, this approach would support the overall streamlining of the revised SREP GLs.

From a timing perspective, the planned publication of the revised SREP GLs by the end of June 2026 would allow for timely fulfilment of the mandate by the legal deadline of 10 July 2026. As an alternative option, in the event of delays, the section on TCBs could be carved out and published separately to ensure compliance with the deadline.

From a content perspective, consolidating the SREP GLs for credit institutions and TCBs in a single document allows competent authorities to use existing methodologies while addressing the specific risks and context of TCBs in a separate section, which is consistent with the integrated approach at Level 1.

Option 2 is the preferred option.

Supervisory effectiveness

Recent episodes of stress in the banking sector have once again highlighted the importance of effective supervisory measures, in particular the ability of competent authorities to promptly identify and address deficiencies in the institutions under their remit, using the most appropriate supervisory tools available. In this context, two policy options were considered.

Option 1: Introduction of an escalation framework for supervisory measures in the SREP GLs

One option is to introduce a dedicated module within the SREP GLs that deals explicitly with supervisory measures, with a focus on establishing a high-level escalation framework. This

framework would support the competent authorities in selecting the most appropriate measures – both qualitative and quantitative – to address identified deficiencies.

The proposed escalation framework would include the following steps:

- supervisory dialogue;
- communication of expected corrective actions, such as supervisory expectations or recommendations (non-binding measures);
- adoption of specific corrective actions to be implemented by the institution (binding measures);
- enforcement of supervisory measures, including administrative penalties, sanctions, and other applicable remedial measures.

The general objectives of the escalation framework are:

1. to provide practical guidance and support to supervisors, promoting clarity and consistency across competent authorities;
2. to promote the full and effective use of supervisory tools;
3. to improve predictability and transparency for institutions.

The framework should be high-level and flexible. Competent authorities may consider additional or alternative measures based on the supervisory powers granted to them under the applicable legal framework. The steps outlined are not intended to be followed in a strict sequential manner and may be escalated or de-escalated as appropriate, while preserving the discretion of the competent authorities.

Option 2: Maintain the current SREP GLs unchanged

Alternatively, the SREP GL could remain unchanged with regard to supervisory measures, meaning that this issue is not addressed.

However, given the central importance of supervisory measures for the SREP assessment and the crucial importance of effective supervision for the timely and appropriate resolution of institutional deficiencies, Option 1 is the preferred option.

ICT risk assessment

The current SREP GLs refer to the ICT SREP GLs (EBA/GL/2017/05) for assessing ICT risk and complement the assessment of operational risk (Title 6.4), the business model (Title 4), and internal governance and institution-wide controls (Title 5). Although the ICT SREP GLs did not introduce a distinct methodology – they largely mirror the assessment of operational risk – they did establish a separate process, which was often interpreted as treating ICT risk separately from operational risk. This approach has led to certain unintended overlaps and complications in the consolidation of supervisory assessments. In particular, the results of the related peer review (EBA/REP/2022/25) highlighted the challenges of integrating ICT risk into the broader operational risk framework, which has led to inconsistencies in supervisory practices.

Since their application from 1 January 2018, the ICT SREP GLs have supported competent authorities in improving supervisory attention on ICT risks and promoting harmonised supervisory practices. However, with the entry into force of the Digital Operational Resilience Act (DORA) on 17 January 2025, the regulatory landscape has changed significantly as DORA consolidates ICT risk management requirements across the EU financial services framework.

Thereby, Directive 2013/36/EU was amended by Directive (EU) 2022/2556 to explicitly address ICT risks and clarify their inclusion in the scope of the SREP, thereby ensuring legal certainty and enabling supervisory authorities to effectively identify and monitor ICT risks. In this context, two policy options were considered.

Option 1: Retaining the ICT SREP GLs as a separate policy product and adapting it to the DORA framework

Under this option, the ICT SREP GLs would be revised to take account of the DORA framework but would remain a separate policy product. However, this approach would require a comprehensive revision that would have only limited added value from both a supervisory and institutional perspective. It could also lead to disproportionate emphasis on ICT risks compared to other SREP elements and would not be consistent with the objective of simplifying the SREP and the EU's broader efforts to reduce regulatory burden and streamlining of policy frameworks.

Option 2: Integration of the ICT SREP GLs into the general SREP GLs and adapting them to the DORA framework

Alternatively, the ICT SREP GLs could be repealed and integrated into the general SREP GLs in a targeted and comprehensive manner. This approach would ensure balanced supervisory attention across all key SREP elements and align ICT risk assessment with the harmonized requirements of the DORA framework.

From a regulatory perspective, the revised Regulation (EU) 575/2013 contains a definition of ICT risk that is consistent with DORA. In addition, the updated definition of operational risk (Article 4(1)(52) of Regulation (EU) 575/2013) explicitly includes ICT risk, and the supplementary technical standards on the taxonomy of operational risk (pursuant to Article 317(9) of Regulation (EU) 575/2013) require that operational loss events be attributed, among other things, to ICT risk.

This option also reflects the recommendation of the relevant peer review,⁵³ which took place in October 2022, to integrate the ICT SREP GLs into the general SREP GLs and ensure that ICT risks are appropriately highlighted within the SREP.

Option 2 is the preferred option.

⁵³ https://www.eba.europa.eu/sites/default/files/document_library/Publications/Reports/2022/1041612/Peer%20Review%20Report%20on%20ICT%20Risk%20assessment%20under%20the%20SREP.pdf

5.2. Overview of questions for consultation

General

Q1. What are the respondents' views on the overall amendments and clarifications made to the revised guidelines (across Titles 2 – 12)?

Q2. What are the respondents' views on the integration of ESG risks and factors across the existing SREP elements in the revised guidelines?

Title 2: SREP framework

Q3. What are the respondents' views on the enhanced simplification and proportionality aspects?

Q4. What are the respondents' views on the introduction of a high-level escalation framework?

Title 3: Monitoring of key indicators

Q5. Do you consider the coverage and level of detail of this Title appropriate for its intended purpose?

Title 4: Business model analysis

Q6. Do you consider the coverage and level of detail of this Title appropriate for its intended purpose?

Title 5: Assessing internal governance

Q7. What are the respondents' views on the updated section 5.7 "ICT systems, risk data aggregation and risk reporting"?

Title 6.2: Assessment of credit and counterparty risk

Q8. Do you consider the coverage and level of detail of this Title appropriate for its intended purpose?

Title 6.3: Assessment of market risk

Q9. Do you agree with the treatment proposed to account for transfer pricing risk in the context of trading book activities? Please elaborate.

Title 6.4: Assessment of operational risk

Q10. What are the respondents' views on the integration of the EBA GL on ICT risk assessment under the SREP (EBA/GL/2017/05) and DORA aspects?

Q11. What are the respondents' views on the introduction of operational resilience (section 6.4.5)?

Title 6.5: Assessment of IRRBB and CSRBB

Q12. What are respondents' views on the additional section on CSRBB and the combined score for IRRBB and CSRBB?

Title 7: SREP capital assessment

Q13. What are the respondents' views on the proposed assessment of the interaction between Pillar 1 and Pillar 2 requirements and on the proposed approach for operationalizing concerning cases where an institution becomes bound by the output floor?

Title 8: Assessing risks to liquidity and funding and SREP liquidity and funding assessment

Q14. What are the respondents' views on the merger with the 'SREP liquidity assessment' and the merger of the scores into a combined liquidity and funding adequacy score?

Title 9: Overall SREP assessment and communication

Q15. What are the respondents' views in relation to enhanced communication aspects?

Title 10: Application of the SREP to cross-border groups

Q16. Do you consider the coverage and level of detail of this Title appropriate for its intended purpose?

Title 11: Supervisory stress testing

Q17. Do you consider the coverage and level of detail of this Title appropriate for its intended purpose?

Title 12: Assessing third-country branches

Q18. Do respondents consider the guidance for the assessment of third-country branches appropriate and sufficiently clear?