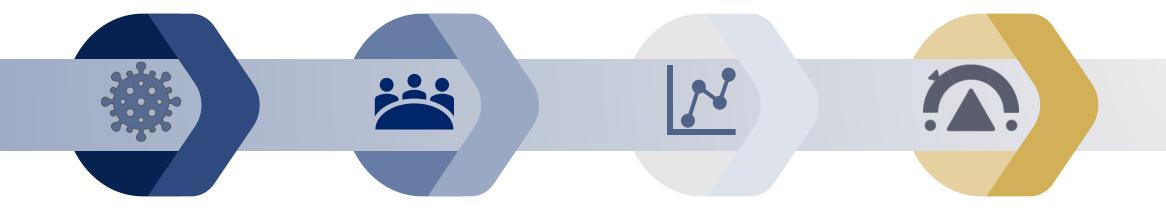


ECB Banking Supervision, in close collaboration with national competent authorities, has reviewed its strategic priorities for the next three years to reflect the urgent challenges and more structural vulnerabilities in the sector



# **Post-COVID** scenario

During the first half of 2022, supervised institutions **performed well overall**, supported by the economic rebound following the progressive **easing** of **restrictions by COVID-19** and the stepwise normalisation of interest rates.

## **Geopolitical context**

The geopolitical shock caused by **Russia's invasion of Ukraine** and its immediate macro-financial consequences have increased uncertainties about the evolution of the economy and financial markets and elevated risks to the banking sector.

# Inflationary pressures

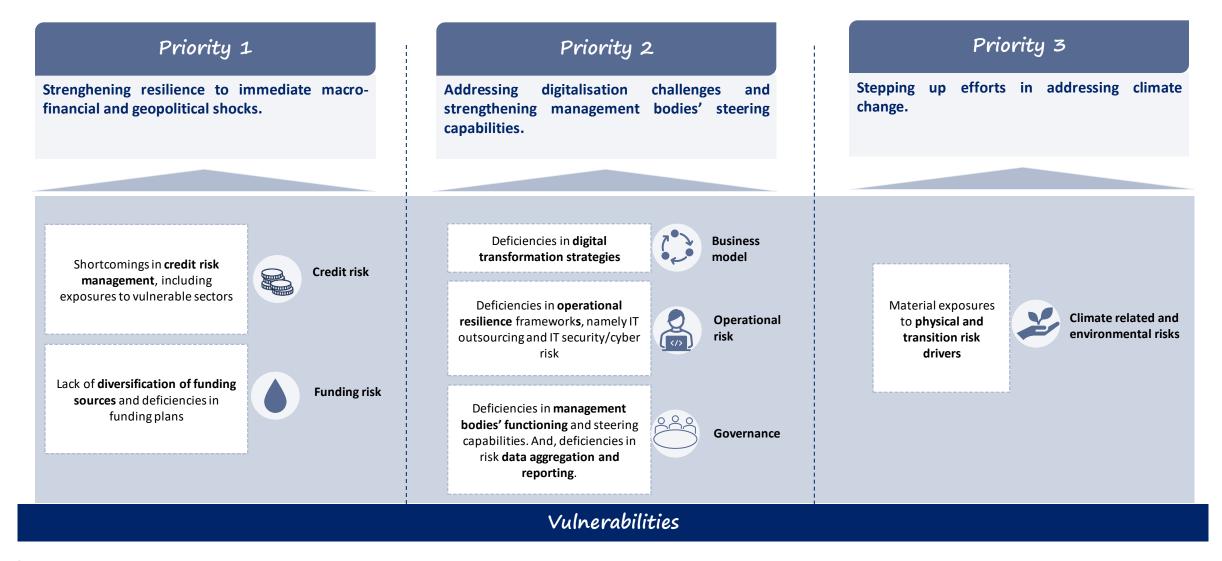
While the direct impact of the war in Ukraine has remained contained so far for most supervised institutions, the macroeconomic shock, which has **exacerbated pre-existing inflationary pressures and lingering supply chain bottlenecks**, has spread, particularly in Europe.

# **Pre-existing risks**

In addition to these more imminent risks, there are other risks of a structural nature: **interest rate and credit spread** risks; **counterparty** risk and **leveraged financie**; risks arising from the implementation of **digital transformation** strategies or **physical and transition risks**.



Supervised institutions should strengthen their resilience to immediate macro-financial and geopolitical shocks, address the challenges of digitalisation and intensify their efforts to address climate change





## Actions on credit risk, liquidity, digital transformation, outsourcing, cyber security and climate risk

Priority 1	Priority 2	Priority 3
Credit risk	Business model	Climate related and environmental risks
<ul> <li>Targeted reviews of loan origination and monitoring, assessing compliance with the related EBA guidelines.</li> <li>Targeted reviews of JERS 9 aimed at assessing</li> </ul>	<ul> <li>Publication of supervisory expectations and reviews of banks' digital transformation strategies and OSIs on digital transformation.</li> </ul>	<ul> <li>Targeted deep dives to follow up on shortcomings identified in the context of the 2022 climate risk stress test and thematic review.</li> </ul>

- Targeted reviews of IFRS 9 aimed at assessing compliance of selected banks with supervisory expectations laid down in the 2020 "Dear CEO" letter.
- On-site inspections: i) IFRS9; ii) energy and/or commodity traders and iii) internal model investigations for some material portfolios.

#### Funding risk

 Review of TLTRO III exit strategies for selected banks.

#### **Operational risk**

- Collecting data from **outsourcing records** to identify interconnections between significant entities and external suppliers.
- Targeted reviews and on-site inspections of outsourcing and cybersecurity management.

#### Governance



• Targeted reviews of the effectiveness of banks' management bodies and will update the supervisory expectation.

- Review of banks' compliance with Pillar 3 disclosure requirements related to climate risk, and benchmarking of banks' practices against supervisory expectations.
- Deep dives on reputational and litigation risk associated with climate-related and environmental strategies and risk profiles for selected banks.
- Preparatory work for reviews of banks' transition planning capabilities and readiness for ESG related mandates expected in the sixth CRD VI.
- Targeted OSIs on climate-related aspects.

#### Why MS?

Management Solutions has in-depth knowledge of financial regulation and extensive experience in supporting on-site inspections (OSIs) through different types of collaboration, adapting to the needs of each entity and making available the different profiles that make up the Firm



### POSSIBLE TYPES OF COLLABORATION

### PMO S

PMO SUPPORT

- Stakeholder coordination
- Development and monitoring of the OSI work plan
- Preparation of meetings with the supervisor



- Support in the preparation of documentation associated with each area
- Support for necessary qualitative and quantitative analyses
- Support in the Loan Tapes file

### DOCUMENTATION IMPROVEMENT

- QA support for updating and improving existing documentation
- Collecting and challenging
   evidence

### SUPPORT FOR REMEDIATION PLANS

- Support in the identification and execution of **remediation plans.**
- PMO support for plan execution
   tracking





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