Annual Report 2023

Board of Supervisors analysis and assessment

The EBA Board of Supervisors (BoS) takes note of the Annual Report 2023, submitted by the Executive Director ('Authorising Officer') in accordance with Article 47(1) of the Financial Regulation applicable to the EBA.

Analysing and assessing the Annual Report 2023, the BoS has made the following observations.

This report contains a comprehensive account of the activities carried out by the EBA in the implementation of its mandate and work programme during 2023. The EBA has met its obligations under Article 47(1), providing a detailed account of the results achieved in relation to the objectives set in the work programme for 2023, and financial and management information.

The BoS takes note of the reports of the European Court of Auditors and the Internal Audit Service, and of the EBA's response to these reports.

The BoS notes that the Executive Director has no reservations or critical issues to report that would affect the presentation of the annual accounts for the financial year 2023 to the discharge authority.

Paris, 14 June 2024

José Manuel Campa

Chair of the Board of Supervisors

Introduction

The European Banking Authority (EBA) was established on 1 January 2011 under Regulation (EU) No 1093/20101 of the European Parliament and of the Council of 24 November 2010.

The Authority is part of the European System of Financial Supervision (ESFS).

The EBA works to contribute to the stability and effectiveness of the European financial system through simple, consistent, transparent, fair regulation and supervision that benefits all EU citizens.

A key task of the EBA is to contribute to the creation of a European Single Rulebook in banking, a single set of harmonised rules for financial institutions throughout the EU. This creates a level playing field and provides a high level of protection to depositors, investors and consumers. The Authority also plays an important role in fostering the convergence of supervisory and resolution practices to ensure harmonised application of the rules. Finally, the EBA assesses risks and vulnerabilities in the EU banking sector through, in particular, regular risk assessment reports and pan-European stress tests.

Other tasks currently set out in the EBA's mandate include:

- investigating alleged incorrect or insufficient application of EU law by national authorities;
- taking decisions directed at individual competent authorities (CAs) or financial institutions in emergency situations;
- mediating to resolve disagreements between CAs in cross-border situations;
- acting as an independent advisory body to the European Parliament, the Council and the Commission;
- taking a leading role in promoting transparency, simplicity and fairness in the market for consumer financial products or services across the internal market;
- leading, coordinating and monitoring the EU financial sector's fight against money laundering and terrorist financing until the transfer of the EBA's task to the new dedicated European AML/CFT authority is completed;
- monitoring new and existing financial activities and contributing to the establishment of a common European approach towards technological innovation;
- integrating ESG considerations into regulation through enhanced disclosure, advanced risk management standards, and updates to the prudential framework and stress test methodologies.

- To perform these tasks, the EBA issues regulatory and non-regulatory instruments, including technical standards, guidelines, recommendations, opinions and ad hoc or regular reports.
- The technical standards are legal acts that specify particular aspects of an EU legislative text (directive or regulation) and aim at ensuring consistent harmonisation in specific areas. Once adopted by the European Commission, technical standards are legally binding and directly applicable in all Member States.

Executive Summary

The 2023 Annual Report of the European Banking Authority (EBA, hereinafter also 'the Authority') presents the main achievements and activities of the organisation in fulfilling its mandate and its Work Programme (WP) over the last 12 months. The EBA's achievements are presented against the backdrop of macroeconomic and geopolitical developments.

The report highlights the EBA's mission to contribute to the stability and effectiveness of the European financial system through simple, consistent, transparent, fair regulation and through supervision that benefits all EU citizens.

The year 2023 was an eventful and productive year, with the agency delivering on over 95% of the tasks under its remit. These achievements came despite the challenges facing us all, such as the ongoing war in Ukraine, the turmoil in the US banking system that spread to our shores, high inflation and interest rates, and the lingering effects of the COVID-19 pandemic.

Alongside its day-to-day tasks and responsibilities in strengthening the EU's banking sector, the EBA's main priorities and deliverables in 2023 included a number of highlights, from finalising the implementation of Basel III in the EU and running an enhanced EU-wide stress test, to putting data at the service of stakeholders and delivering on digital finance and Markets in Crypto-Assets Regulation / Digital Operational Resilience Act (MiCAR/DORA) mandates.

The EBA's core achievements came to fruition thanks to the dedication of its workforce of 250 people and the support of its members.

Alongside its priorities, the EBA carried out other tasks to enhance its capacity to fight money laundering and terrorist financing in the EU, to implement the environmental, social and governance (ESG) roadmap, and to conduct risk assessments. The EBA also worked in areas such as recovery and resolution, payment services, consumer and depositor protection, equivalence, and supervisory convergence and independence.

Foreword by the Chairperson



As I reflect back, 2023 was a year marked by our collective efforts to navigate through the many challenges faced by increased geopolitical tensions and an uncertain economic environment of rising interest rates. I am pleased that the banking sector continues building its resilience in the face of this increasingly uncertain macroeconomic environment.

What loomed large at the start of 2023 were the potential impacts that higher interest rates could have on financial instability. While this resulted in moments of turbulence in the banking sectors in the US and Switzerland, European banks weathered this period well.

In the face of these challenges, the robustness of our banks has shown to be a positive contribution to overall stability. They have stood as a beacon of strength and continued to support the economy. Our stress tests, conducted in the summer, showed that high levels of capital and liquidity compounded with higher rates serving as the bulwarks safeguarding European banks.

Nevertheless, vigilance must remain front and centre for banks and regulators to remain proactive in monitoring and managing potential economic risks. We also need to continue to assess the effectiveness of the regulatory framework to address the challenges ahead.

Our existing regulatory framework has shown to be an important pillar to ensure the orderly functioning and integrity of financial markets while bolstering the stability of the EU's financial system. That is why we remain resolute in our commitment to implementing the Basel III prudential rules in the European Union via the banking package. Our work in 2023 led to the development of a roadmap, that will guide us during the next years to the framework's implementation in the EU as we are expected to deliver on mandates in a broad range of technical areas. With strong rules, we get strong bank.

We can never predict what will come our way, but what we can control is our ability to react to it. The EBA has been able to adapt its workplan and react to unforeseen developments throughout these recent years and I hope we will continue to do so in the future.

To bolster resilience, banks must shift more towards sustainable profitability, stable funding, proactive asset quality management, and robust crisis management frameworks.

Policymakers must also play their part by swiftly implementing crucial measures to deepen financial markets in the EU and ensure effective integration. This includes progressing in concrete areas such as the Crisis Management and Deposit Insurance package and advancing towards the establishment of the European Deposit Insurance Scheme. These actions are essential to shore up our banking sector and operate within a financially stable

environment.

At the same time, we remain committed to fostering a sustainable economy, embracing our role in shaping a regulatory framework that supports this transition while ensuring the robustness of our banking sector. To that end, we are incorporating ESG risk factors in several key areas of the regulatory framework, including risk management, disclosures, and climate stress testing. By embedding sustainability within the bedrock of the regulatory framework, we continue our journey towards sustainable economic growth.

Furthermore, as the digital transformation of the sector accelerates, so are our efforts in this area. Our contribution to the establishment of uniform rules under the Operational Resilience Act (DORA) and Markets in Crypto-Assets Regulation (MiCAR), underscore our dedication to ensuring operational resilience and embracing innovative technologies responsibly.

We are also preparing for our new oversight and supervisory responsibilities under DORA and MiCAR.

All in all, the EBA has proven once more to be adaptable while never losing sight of its key priorities amid an ever-changing world and economic landscape. As I now look ahead to the coming years, I want to send out the clear message that we will continue to prioritise resilience, sustainability, and the deepening of a single market in the EU financial sector.

Last but not least, I want to thank the EBA staff for the work undertaken and achieved in 2023 as detailed in the Annual Report 2023. Furthermore, achieving these objectives was made possible thanks to the continued support and cooperation of our partners such as national competent authorities, the European Commission, other European institutions, and all other stakeholders, who proven reliable partners. The EBA values these fruitful working relationships as we continue to navigate towards a better future together.

By staying proactive, and collaborative with our partners, we can navigate through uncertainties and challenges, and move towards a future where the banking sector remains a cornerstone of our society, able to best serves citizens.

Interview with the Executive Director



What has kept the EBA busy over the past 12 months, and how should we remember 2023?

We should remember 2023 as a year of transformations for the EBA. Maybe the most obvious transformation was that of the financial and economic conditions, with high levels of inflation and new uncertainties about growth and geopolitical developments. This had to be factored into our regular risk analyses and of course in the EU-wide stress test carried out with EU competent authorities. The latter was, again, a pretty serious undertaking: it tested the resilience of a larger sample of banks from 16 EU and EEA countries under both baseline and adverse scenarios. The adverse scenario was in sharp contrast with that of our previous stress-test in 2021: not a low interest rate environment for long anymore but an economy with higher inflation and high interest rates that led to a very severe economic downturn with harsh market shocks. Overall, the results were very positive, showing that banks could withstand such shocks, keep high levels of capital and continue providing lending to the economy.

Another important step was the agreement reached by EU legislators on the "Banking Package" which will conclude the regulatory transformation started in the wake of the Great Financial Crisis. Our teams have been fully mobilised. They supported the co-legislators throughout this important endeavour, provided impact assessments, engaged with a wide range of stakeholders. Last December, we published a detailed planning for the implementation of the 140 mandates conferred to the EBA in the coming years.

The EBA has also been busy responding to the digital transformation of the financial sector. The regulatory framework indeed needs to take into account the increasing role of new technologies, allowing for innovation to flourish while also enhancing operational resilience to best serve the EU economy and its citizens. In practice, we have developed the foundations for implementing the Digital Operational Resilience Act and the Markets In Crypto-Assets Regulation which will bring new types of entities within the regulatory framework.

Let me add yet another transformation to the list: that of EBA's continued efforts to keep up the fight against money laundering and terrorist financing (ML/TF) within the EU financial sector. We have kept enhancing standards and the exchanges of information among competent authorities through a dedicated database and the establishment of more than 260 AML/CFT colleges by now. We also launched a new platform with competent authorities to support the Commission's preparations for the future EU AML authority.

Last but not least, the EBA has continued to transform its own organisation, rolling out the first instalments of a very comprehensive HR strategy, complementing its internal control set-up, further embedding modern ICT tools, and launching a new website.

All in all, as I reflect on the past 12 months, it is very clear to me that the EBA has again demonstrated its ability to tackle evolving mandates and circumstances, and to be an efficient link between legislators and competent authorities.

With so many priorities to juggle, how has the EBA managed to achieve so much?

Indeed, when one looks at our work programme or at the continuous flow of new information on our (by the way revamped) website, it is very clear that the EBA achieved a

lot last year.

This is thanks to the ability and talent of our staff, and of the colleagues we work with at the national and European levels. This may sound self-evident, but at the heart of our agency is people, and we are very committed to supporting them in developing their work and projects.

Creating a motivating and inclusive environment is core to harnessing the full potential of our workforce, to driving innovation and creativity. This was the reason why, at the end of 2022, we embarked on a comprehensive HR strategy. The objective is to further empower our staff members, increase their well-being, offer them career development opportunities, especially through internal or external mobility.

We also invest in technology, to bolster our workforce with modern tools. As part of this journey, we moved to cloud-based tools and systems in 2023, offering more advanced functionality and security. Our collaborative platform allows us to work seamlessly and securely from anywhere, driving efficiency and innovation.

Are we where we want to be? Certainly not. Much more can and should be done from a HR and IT modernisation perspective, but the first results look positive. This seems also well received by our colleagues, as evidenced by the high favourable rates of our latest staff survey (72% overall, i.e. +7ppt compared to 2021). Of course, we will try to keep up the momentum, further improve or consolidate depending on the areas.

With the new stakeholders you will be engaging in the future and your new role, what steps have you taken to adjust your communication strategy?

Engaging with stakeholders at all steps of our work has always been at the core of EBA's work. As you say, this becomes even more important now that our responsibilities will involve new stakeholders, with some of them being not entirely familiar with the EU regulatory and financial stability framework. As our work can ultimately affect the lives of every citizen in Europe, we have a duty to be open and timely in our communications.

Under the leadership of our Chairperson, we have therefore started to rejuvenate, revamp, and rethink how we communicate with our stakeholders, EU citizens, and the media. This

involved affirming our core values and mission statement, adopting a new visual identity and developing a new website, to communicate more effectively, make our work more accessible and better spread our messages.

So far, much of our communications activity has been revolving around consultations, publications, and announcements of key decisions, along with external events. This already means a lot of news presence as we publish on average eight different news stories a week on our website.

As our remit expands, we are exploring new opportunities to communicate effectively. Here again we can rely on our staff: everyone at the EBA can play their part in supporting our collective work, by relaying key messages, disseminating data, informing about new initiatives. Each staff member is a potential ambassador, showcasing what they do and what the EBA does, thus ensuring a multiplier effect.

Finally, our data strategy also largely contributes to our external engagement: most risk analyses are now supported with rich datasets which can be uploaded by external users and offer good data analytics. We trust this will encourage our stakeholders to stay tuned to the EBA.

As technology and innovation permeate every facet of our work, what are in your view the opportunities as well as the challenges of SupTech, RegTech and Artificial Intelligence for your Authority?

We should not only encourage and support innovation in the financial sector, it is also very important that we embrace it as an organisation.

Regulatory technology (RegTech), supervisory technology (SupTech), Artificial Intelligence (AI), all present many, and often untold, opportunities and challenges. They should help us augment automation, data analytics, and real-time monitoring, allowing for more streamlined and data-driven decision-making. AI is of particular interest. It is already showing promise when it comes to predictive analytics, risk assessment, and fraud detection, suggesting the possibility of an earlier, more reliable detection of emerging risks. And it could help improve regulatory outcomes too.

Another potential benefit of these innovations lies in the potential they offer to facilitate the collaboration and sharing of knowledge with industry stakeholders and competent authorities. By leveraging digital platforms and participating in initiatives like the EBA FinTech Knowledge Hub and the European Forum for Innovation Facilitators, we can grow common regulatory approaches and ensure a harmonised response to digital finance challenges across the EU.

While the benefits seem very important, there are also significant challenges. One is to be selective and to pick the most impactful initiatives. The rapid pace of technological change also requires us to continuously adapt and evolve our practices and capabilities. Finally, we must also address issues related to data privacy, cybersecurity, and algorithmic bias to ensure the integrity and fairness of regulatory and supervisory processes. Furthermore, as technology becomes increasingly sophisticated, there is a growing need for skilled professionals capable of navigating and leveraging these tools effectively.

With this in mind, we have decided, in 2023, that embedding innovation in our working model should be one of the core priorities for the EBA's management team. And we are working on it!

Abbreviations and acronyms

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