In 2022, the world faced numerous challenges. The Russian invasion of Ukraine triggered a global humanitarian crisis and hurt the economy. Additionally, the shift to higher interest rates impacted asset values and credit quality. Implementing Basel III rules and European Union (EU) banking regulations became vital for banking sector resilience.

Digital transformation in EU banking and payments was recognised as an area of significant focus. Financial institutions were encouraged to embrace innovative technologies responsibly, balancing risks and opportunities. Regulatory initiatives like the Digital Operational Resilience Act (DORA) and the Markets in Crypto-Assets (MiCA) Regulation aimed to enhance operational resilience and safeguard financial stability while promoting innovation.

A review of the Payment Services Directive (PSD 3) sought to harmonise the payments market and prevent regulatory arbitrage. The overall objective was to create a robust regulatory and supervisory framework that supports the transition to a more sustainable economy while ensuring the banking sector’s resilience.

Environmental, social and governance (ESG) factors were seen as critical for a sustainable future, with ongoing efforts to integrate them into the banking sector. ESG factors were acknowledged as pivotal in shaping the financial industry’s role in combating climate change and fostering sustainability. Efforts to integrate ESG aspects into the EU banking sector were ongoing, focusing on risk management, disclosures, supervisory practices, climate stress testing and the prudential framework. The goal was to prevent greenwashing and address all dimensions of ESG for a sustainable future.

JOSÉ MANUEL CAMPA

In 2022, the European Banking Authority (EBA) faced another challenging year amidst global economic uncertainties and unexpected events such as the ongoing conflict in Ukraine. Despite these obstacles, the EBA managed to accomplish 95% of its tasks outlined in its 2022 work programme. This achievement was attributed to the dedication and agility of its staff, improved operational processes and a new internal mobility policy.

One key focus was enhancing the use of banking and financial data. The EBA aimed to become a trusted data source, expanding the European Centralised Infrastructure for Supervisory Data (EUCLID) platform and contributing to the European Commission’s data strategy.

Sustainability remained central, with the EBA investigating ESG risks, incorporating them into rulemaking and achieving its environmental targets. Gender equality was actively promoted.

In terms of innovation, the EBA improved collaboration tools and began a cloudification program, ensuring robust data security.

Looking ahead, the EBA will continue work on prudential regulation, expand risk identification tools, prepare for regulatory changes and assist in establishing an EU anti-money laundering (AML) authority. The organisation is confident in its capabilities and modern infrastructure.

FRANÇOIS-LOUIS MICHAUD
Achievements in 2022

Evaluating the robustness of EU banks

Analysing risks and vulnerabilities

The EBA plays a crucial role in evaluating the robustness of EU banks and identifying risks and vulnerabilities in the banking sector. The EBA examines both quantitative and qualitative information, including data reported by banks and market developments, to assess factors such as solvency, liquidity, credit risk, profitability and viability of banks’ business models.

The 2022 Risk Assessment Report showed that in 2022, EU banks maintained high capital ratios, with an average Common Equity Tier 1 (CET1) ratio of 15.3%. They also had comfortable leverage ratios and increased liquidity levels. However, some banks experienced large withdrawals due to a lack of confidence, highlighting the need for continued vigilance. The report also found that EU banks intended to increase market-based funding but faced challenges in meeting funding requirements, especially with the tightening of monetary policies and the need to repay central bank loans and meet minimum regulatory requirements. The report also emphasised the risk of currency mismatch in foreign currency funding.
The Asset Encumbrance Report indicated that banks made extensive use of central bank funding in 2021, leading to an increase in the overall encumbrance ratio. However, by the end of 2022, the asset encumbrance ratio had decreased to 25.8% due to a decrease in encumbered assets and collateral.

Key risks identified in 2022 risk dashboards

The EBA’s Risk Dashboard highlighted several key risks in 2022, including trends in asset quality and loan exposures. While EU banks expanded their loan exposures, the demand for loans was limited in the second half of the year due to increasing interest rates, inflationary pressures and heightened uncertainty. The energy sector’s exposure increased, leading to liquidity needs and concentration of exposures in a few banks. The asset quality improved overall, but credit risk, especially from non-performing loans, needed close monitoring.

The Risk Dashboard also identified risks in residential and commercial real estate markets. EU banks had significant exposure to residential real estate, and although the demand for mortgage loans increased, rising interest rates and economic slowdown curbed growth. Commercial real estate exposures increased, and the sector faced challenges due to higher interest rates, rising energy costs, and changes in work practices.

The EBA highlighted operational risks, including digitalisation and ICT usage by banks and their customers. It also conducted surveys on various risks, such as business model viability, profitability, asset quality, funding risks, conduct risk, ESG considerations, fintech and AML.
**Stress test activities: enhancing banking sector resilience and climate risk preparedness**

The EU-wide stress test, a key tool for competent authorities, evaluates the resilience of EU banks to severe shocks, aiding supervisory decisions and risk mitigation strategies. This process assesses whether recent capital accumulation by banks can cover losses and support the economy during stressful periods. Market transparency is also fostered by publishing consistent, bank-specific data on the impact of common shocks.

Preparations for the 2023 EU-wide stress test concluded in 2022, including workshops and consultations with the industry, resulting in the release of stress test methodology and templates. The 2023 exercise will include an expanded sample size (70 banks), with significant methodology enhancements based on previous exercises. Notable improvements involve incorporating lessons learned, introducing top-down items for net fee and commission income (NFCI), and an in-depth sectoral analysis.

The addition of targeted sectoral analysis, prompted by events like COVID-19 and the war in Ukraine, requires banks to detail their exposure breakdowns by economic sector. This promotes the credibility of stress test outcomes. Additionally, the realism of the exercise is enhanced by recalibrating reference rate pass-through on certain deposits.
Further advancement involves integrating top-down stress-test capacity. Collaborating with the European Central Bank (ECB) and competent authorities, the EBA developed top-down models, with the NFCI model set for 2023 implementation. This approach streamlines projections, minimising reporting burden and ensuring consistency. The EBA aims to maximise the value of results and explore expanding top-down approaches to other risk areas.

Mandates from the European Commission’s Sustainable Finance Strategy prompt the EBA to conduct regular climate change stress tests and create guidelines for assessing ESG risks. The EBA’s strategy includes separating climate stress tests from EU-wide tests and practical adaptation of stress-testing frameworks. A workshop will guide the development of climate risk stress test frameworks, ensuring the banking sector’s preparedness. Furthermore, the EBA will revise guidelines on stress testing to encompass climate change and long-term ESG impacts.
The Russian invasion of Ukraine has had significant impacts on the Ukrainian state, society and economy, as well as on the European banking sector. The EBA has responded to these challenges by evaluating the readiness of the regulatory framework and deploying tools to ensure a coordinated response among prudential supervisors.

The initial assessment of the impact of the conflict on the EU banking sector showed that the direct exposures of EU banks to Russian and Ukrainian counterparties posed idiosyncratic risks, but did not threaten the financial stability of the EU market. However, the second-round effects, including heightened uncertainty and disruptions in production lines, had a more substantial impact. This led to high inflation and an energy crisis, which affected the macroeconomic environment and posed risks to banks’ balance sheets and operational stability.

The EBA provided transparency by reporting on the evolution of banks’ exposures to Russia and Ukraine through its Risk Dashboard. It also cooperated with the European Securities and Markets Authority (ESMA) in addressing excessive volatility in energy derivatives markets. The European Commission requested that the EBA focus on the role of banks in providing collateral transformation services and facilitating providing guarantees as collateral by non-financial counterparties to minimise liquidity challenges faced by energy companies.

Banks played a crucial role in supporting energy firms by providing clearing services for derivative products and extending short-term credit to meet collateral obligations. However, the increase in energy prices and liquidity problems strained banks’ capacity to further support energy firms. The EBA emphasised the importance of increasing transparency around margin calls and explored the use of banks’ guarantees as collateral for clearing members.

The EBA has taken various regulatory and supervisory actions to address the impacts of the conflict on the banking sector. It evaluated the potential impacts of the conflict on the regulatory framework, ensured a consistent supervisory approach, and facilitated information-sharing among supervisory colleges. The EBA also focused on de-risking and financial inclusion, providing guidelines to address the adverse impact of de-risking on vulnerable customers and consulting on guidelines related to money laundering and terrorist financing (ML/TF) risk management.

Additionally, the EBA supported the implementation of sanctions by designing templates for the reporting of deposits falling under economic sanctions. These templates were meant for voluntary use by national authorities responsible for monitoring the sanctions.
Overall, the EBA has been actively monitoring and responding to the challenges posed by the Russian invasion of Ukraine, aiming to safeguard the stability of the European banking sector and mitigate the impacts on financial institutions and their customers.

Updating the prudential framework

The Single Rule Book

In 2022, the EBA played a significant role in updating the prudential framework and contributing to the implementation of Basel III in the EU. The EBA focused on ensuring consistency and effectiveness in the application of prudential and resolution rules in the banking sector. It also provided input to stakeholders for future-proofing the regulatory framework.

One of the key areas the EBA addressed was the Interest Rate Risk in the Banking Book (IRRBB). It developed guidelines and regulatory technical standards (RTS) to capture IRRBB positions and assess credit spread risk. The EBA also monitored the implementation of these standards and their impact on EU institutions.

The EBA conducted monitoring work on capital, including the implementation of its opinion on legacy instruments and the review of pre-CRR (Capital Requirements Regulation) CET1 instruments. It also monitored the total loss-absorbing capacity and minimum requirement for own funds and eligible liabilities (TLAC/MREL) and worked to ensure consistency in capital and eligible liabilities across institutions.

The implementation of International Financial Reporting Standards (IFRS) 9 was another focus area for the EBA. It monitored the implementation of IFRS 9 and its interaction with prudential requirements, particularly in relation to high default portfolios (HDPs). The EBA conducted data-collection activities and developed templates to assess the variability of expected credit loss outcomes and their impact on prudential ratios.

The EBA made progress in finalising the framework for large exposures in the EU. It developed RTS to identify shadow banking entities and groups of connected clients. It also worked on updating the framework for securitisation, including providing clarity on risk retention rules and developing criteria for the simple, transparent and standardised (STS) label for synthetic securitisation.

In the area of market and credit valuation adjustment risk, the EBA finalised all RTS falling under phase 3 of the Fundamental Review of the Trading Book (FRTB) roadmap. It supported the consistent application of the Single Rulebook through Q&As and monitored the implementation of the Structural FX Guidelines.
The EBA also worked on completing its roadmap for investment firms, addressing topics such as liquidity risk measurement, exemptions from liquidity requirements, Pillar 2 add-ons, and procedures for the Supervisory Review and Evaluation Process (SREP). It continued its work on market infrastructure, particularly on the validation of initial margin models.

Overall, the EBA played a crucial role in building the Single Rulebook for banking in the EU, contributing to the update of the prudential framework, and ensuring consistency and effectiveness in its application.

**Supervisory practices**

The 2022 European Supervisory Examination Programme (ESEP) focused on enhancing supervisory practices within the EU. The EBA plays a vital role in harmonising supervisory approaches through the ESEP. Key topics for supervisory attention were aligned with Union Strategic Supervisory Priorities and included addressing COVID-19’s impact on asset quality, ICT risks, digital transformation, ESG and ML/TF risks. While these topics were integrated into supervisory work, authorities are still developing capacity for digital transformation and ESG assessments.

**Figure 10.** Key topics incorporated into CAs’ supervisory priorities in 2022

<table>
<thead>
<tr>
<th>Impact of the COVID-19 pandemic on asset quality and adequate provisioning</th>
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<tbody>
<tr>
<td>• Most CAs closely monitored exiting moratoria, reviewed institution’s NPE management and provisioning as well as loan originating practices.</td>
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<table>
<thead>
<tr>
<th>ICT security risk and ICT outsourcing risk, risk data aggregation</th>
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<tbody>
<tr>
<td>• Most CAs reviewed ICT security risk and the ICT requirements set for outsourcing service providers.</td>
</tr>
<tr>
<td>• Almost half of CAs did not or just partially verify risk data aggregation capabilities.</td>
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<table>
<thead>
<tr>
<th>Digital transformation and FinTech players</th>
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<tbody>
<tr>
<td>• Just over half of the CAs assessed the digital strategy setting and the role of the management body</td>
</tr>
<tr>
<td>• Almost half of the CAs fully reviewed the implementation of the digital strategy and approach towards FinTech solutions</td>
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<tr>
<th>ESG</th>
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<tbody>
<tr>
<td>• Almost three-quarters of CAs reviewed how banks promote the internal understanding of their specific ESG risks</td>
</tr>
<tr>
<td>• More than one-third of CAs did not (fully) verify if ESG factors were reflected in the business/credit strategy and in the governance framework</td>
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<tr>
<th>AML/CFT</th>
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<tbody>
<tr>
<td>• Most CAs verified the exchange of AML/CFT information within the institution and assessed the AML/CFT aspect as part of the suitability assessments of members of the management body.</td>
</tr>
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</table>

Supervisory colleges, aimed at fostering cooperation among authorities, operated well in 2022, with refinements from 2021. Improvements were noted in document distribution and early warning indicator exchanges. Enhancements are expected in procedural aspects of joint decisions for 2023. In this context, the EBA promotes shared good practices, aiding cross-border assessments and joint inspections.

The **EBA’s peer review** found that competent authorities incorporated EBA Guidelines on ICT risk assessment into supervisory practices, but challenges persisted. Competent authorities struggled with building ICT supervisory expertise, applying proportionality and integrating ICT risk assessment into the overall supervisory process. The review facilitated sharing of best practices and recommendations for capacity-building and horizontal analysis.
In the realm of governance and remuneration, the EBA refined remuneration benchmarking following the separation of regulatory frameworks for institutions and investment firms. Focus is now placed on the gender pay gap and high earners, aiming to expose inequalities. A rise in high earners receiving over EUR 1 million remuneration was attributed to good institutional performance, relocations and salary hikes.

Figure 12: Distribution of high earners by payment bracket of EUR 1 million and Member State

Efforts to assess fitness and propriety of financial institution key members led to database development and guidelines by the three European Supervisory Authorities (ESAs). Diversity in management bodies gained attention for its impact on decision-making and risk-taking. Although improvements were observed in gender balance, progress was slow. Diverse management bodies demonstrated better return on equity (RoE). The EBA committed to continued diversity monitoring and benchmark studies.

Resolution framework

The EBA is actively engaged in crisis preparedness and resolution framework enhancement. It has developed guidelines to improve recovery planning and crisis readiness. The EBA strives to harmonise rules, increase resolution framework transparency, monitor resolution planning progress and promote uniform resolution practices.

The EBA issued guidelines on resolvability and transferability to standardise practices among resolution banks. It also focused on testing the capabilities developed under these guidelines. Transparency efforts include consultations on bail-in implementation and a roadmap for transparency improvement. Its annual minimum requirement for own funds and eligible liabilities (MREL) shortfall report shows progress in addressing shortfalls, with manageable impact on banks’ profitability.

Under the European Resolution Examination Programme (EREPI), the EBA is promoting information-sharing and practices alignment among resolution authorities. Priority areas include MREL shortfalls, valuation management, and liquidity and funding. The EBA plans to assess implementation of 2022 pri-
orities and share good practices observed to enhance readiness.

In terms of deposit guarantee schemes (DGSs), the EBA has revised guidelines to enhance risk-based contributions and improve calculation methods. It has also published extensive data on DGS financial means, deposit coverage and qualified financial means.

Leveraging EUCLID: making the most of banking and financial data

EUCLID is the platform and data infrastructure developed and used by the EBA to gather and analyse regulatory data from a wide range of financial institutions. It covers supervisory, resolution, remuneration and payments data. In 2022, EUCLID experienced significant growth and expansion. The EBA started collecting supervisory data from a sample of 55 EU banks in 2011 and expanded the reporting sample to cover the largest 200 EU and European Economic Area credit institutions by 2014. In 2019, the EBA began onboarding resolution groups and credit institutions subject to resolution reporting in preparation for EUCLID. With the deployment of EUCLID, the EBA started collecting data for the entire population of banks, including around 650 banking groups and 4 300 credit institutions. The reporting population was further expanded in 2022 to include investment firms and groups of investment firms. This led to a significant increase in the number of reporting files forwarded to the EBA through EUCLID.

The expanded scope of EUCLID allows the EBA to conduct a more comprehensive and detailed analysis for its reports, dashboards and impact assessment studies. It supports the EBA in its policy work, such as drafting technical standards or guidelines and providing replies to Calls for Advice. The EBA maintains continuous interactions with national authorities and reporting officials to ensure the seamless implementation of workflows and quality assurance processes across the reporting chain.

Enhancing transparency

Enhancing transparency is a key focus for the EBA. The EBA publishes various products
to disclose banking information to the wider public, including the EU-wide transparency exercise, remuneration and governance data, and data on diversity practices. The transparency exercise, conducted since 2011, promotes market discipline and consistency in EU banks’ figures. The results of the exercise provide detailed information on capital, risk exposure, profit and loss, and other relevant areas.

Remuneration and governance data are collected and published to ensure transparency in remuneration practices within the EU. The EBA also collects data on diversity practices, including diversity policies, targets for underrepresented gender and gender pay gap information.

In addition to data dissemination, the EBA is involved in supporting non-performing loan (NPL) markets by promoting data standardisation for NPL transactions. It developed implementing technical standards (ITS) specifying templates for providing information on NPLs when selling or transferring them. The goal is to reduce information asymmetry, increase market efficiency and attract smaller investors to NPL markets.

The EBA also continued to work on enhancing the efficiency of its supervisory reporting framework, including efforts towards integrated reporting and improving market discipline through Pillar 3 disclosure requirements. It collaborates with the European Insurance and Occupational Pensions Authority (EIOPA) to improve the Data Point Model (DPM) Standard.

To meet users’ expectations on data dissemination, the EBA focuses on enhancing the development of tools and support for interpreting and applying the data provided through EUCLID. It also engages with users to gather feedback and identify areas for improvement. The EBA’s future data dissemination efforts involve leveraging emerging technologies, such as interactive tools, dashboards, and machine learning, to enhance accessibility and analysis of the data.

Digital resilience, financial innovation and consumer protection
In the field of digital resilience, the EBA and other ESAs have been actively involved in implementing the Digital Operational Resilience Regulation and Directive (DORA) along with other cybersecurity-related legislative acts. They have set up a subcommittee on digital operational resilience and coordinated efforts to harmonise cybersecurity and resilience across the EU financial sector. The ESAs are working on delivering more than 15 policy products to the European Commission during the implementation period.

In the digitisation of payment services and electronic money, the EBA has responded to the European Commission’s Call for Advice on the review of the PSD2 by providing over 200 recommendations for further improvements. These recommendations aim to enhance competition, facilitate innovation, reduce payment fraud, protect consumers’ money and data, and address various challenges in payment services.

The EBA has also issued guidelines on the limited network exclusion under PSD2 to ensure a harmonised and consistent application of legal requirements. Additionally, amendments to the RTS on strong customer authentication and secure communication have been published to reduce friction for customers using account information services and achieve a balance between security, innovation and competition.

Regarding financial innovation, the EBA has published RTS aimed at improving the landscape for investors using crowdfunding platforms. These RTS focus on reducing information asymmetries between project owners and investors, setting common standards for credit risk assessment, governance and risk management structures.

In the realm of crypto-assets, the EBA has been actively involved in the implementation of the Markets in Crypto-Assets Regulation (MiCA). They have provided technical inputs, developed an implementation plan and warned consumers about the risks associated with crypto-assets. The EBA is also monitoring crypto-asset market developments, participating in international standard-setting work, and preparing for its supervisory role under MiCA.

To enhance supervisory capacity in dealing with advanced technologies, the EBA is collaborating with ESMA and EIOPA on the EU Supervisory Digital Finance Academy. This 3-year project aims to strengthen competent authorities’ staff by providing comprehensive training on digital finance and practical workshops on regulation and supervision of financial innovations.

Furthermore, the EBA conducted a study on the use of Supervisory Technology (SupTech) by competent authorities in the EU. The study revealed that competent authorities are embracing SupTech and using technology to support various supervisory processes, such as data analysis, collaboration, reporting, and addressing areas like microprudential supervision, consumer protection, AML and resolution.

### Figure 16: Key topics incorporated into CAs’ supervisory priorities in 2022

<table>
<thead>
<tr>
<th>Topic</th>
<th>Value</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fraud share when NOT authenticating with SCA (%)</td>
<td>0.0421 %</td>
<td>0.1752 %</td>
</tr>
<tr>
<td>Fraud share when authenticating with SCA (%)</td>
<td>0.0238 %</td>
<td>0.1209 %</td>
</tr>
<tr>
<td>Fraud share when NOT authenticating with SCA (%)</td>
<td>0.0441 %</td>
<td>0.1448 %</td>
</tr>
<tr>
<td>Fraud share when authenticating with SCA (%)</td>
<td>0.0188 %</td>
<td>0.094 %</td>
</tr>
</tbody>
</table>

- Fraud share when NOT authenticating with SCA (%)
- Fraud share when authenticating with SCA (%)
In summary, the EBA and other ESAs have been actively involved in implementing various regulations and directives to enhance digital resilience, improve payment services and electronic money, foster financial innovation, regulate crypto-assets and utilise SupTech for more efficient supervision.

Fighting money laundering and terrorism financing

The EBA has implemented a comprehensive regulatory framework to address financial crime, particularly ML/TF. This framework ensures a consistent approach to identifying, assessing and managing risks across all areas of supervision and throughout the life cycle of financial institutions.
In 2022, the EBA strengthened this framework by issuing new guidelines on important aspects of anti-money laundering and counter-terrorist financing (AML/CFT) governance and internal controls. They also provided clarity on applying AML/CFT rules in a digital context through the remote customer onboarding Guidelines. Additionally, the EBA published Guidelines for AML Compliance Officers, setting common standards to enhance institutions’ AML/CFT defences and protect them from abuse by financial criminals.

The EBA revised its SREP Guidelines to include considerations for ML/TF risks, developed uniform criteria for assessing the seriousness of AML/CFT breaches, and prepared for 10 new mandates under the recast Regulation on the transfer of funds and crypto-assets.

The EBA reviewed competent authorities’ approaches to addressing ML/TF risk in banks. The reviews focused on supervisory cooperation and the role of prudential supervisors in the AML/CFT framework. The findings from these reviews, along with recommendations, will be published in 2023. The reviews indicated that while supervisory cooperation was prioritised, it was not always systematic or effective, hindering AML/CFT efforts.

To support effective implementation of the AML/CFT framework, the EBA worked on building supervisory capacity. They conducted on-site assessments of competent authorities and provided bilateral feedback and recommendations. The EBA also assessed competent authorities’ responses to specific cases, such as the Luanda Leaks, and evaluated their approaches to ML/TF risks in the payment institutions sector.

The EBA fostered cooperation and coordination among EU financial services supervisors to address EU-wide ML/TF risks. They monitored and supported EU AML/CFT colleges, worked on unwarranted de-risking, and led a common response to emerging financial crime risks following Russia’s invasion of Ukraine. The establishment of the central AML/CFT database, EuReCa (EBA’s central database on AML/CFT), enabled the exchange of information on deficiencies and corrective measures taken by financial institutions.

Figure 18: Types of entities concerned by the material weaknesses reported up to 31 December 2022

- CDO Measures
- Systems and controls
- Suspicious Transaction reporting
- Record-Keeping
- Risk Management System
- AML/CFT Other Situation
- Group-wide policies and procedures
The EBA provided technical advice to the European Commission and co-legislators to strengthen the EU’s AML/CFT defences. They emphasised the importance of supervisory cooperation and a holistic approach in fighting financial crime. The guidelines issued by the EBA clarified the roles and responsibilities of the AML/CFT compliance officer and the management body in financial institutions. The guidelines aimed to establish a common understanding and promote effective AML/CFT compliance measures.

The EBA collected positive feedback from the industry about the guidelines on the role of AML compliance officers, finding them useful and valuable in enhancing their work. The guidelines became applicable from 1 December 2022, and EU supervisors confirmed their compliance or intention to comply with these guidelines.
Integrating ESG risks into the regulatory framework

The EBA’s work on sustainable finance aligns with EU and international activities. It contributes to the Platform on Sustainable Finance at the EU level and participates in international initiatives like the Network for Greening the Financial System and the Basel Committee on Banking Supervision. The EBA cooperates with other EU financial sector authorities to ensure consistency of actions.

The EBA prioritises ESG risks and integrating them into the regulatory framework. The EBA follows a comprehensive approach to support the EU’s transition to a sustainable economy. In 2022, the EBA focused on ESG-related stress testing, disclosures, prudential treatment, risk management, supervision and addressing greenwashing.

The EBA published a discussion paper seeking feedback on whether dedicated prudential treatment for exposures related to environmental and/or social objectives is justified. The feedback received to this discussion paper will be considered before formulating policy recommendations in a final report to be published in 2023.

In the supervision of investment firms, the EBA published a report assessing ESG factors and risks for prudential supervision. This report lays the foundation for considering ESG aspects in the SREP of investment firms.

To address concerns about greenwashing, the EBA, along with other ESAs, collected input through a Call for Evidence. This initiative aims to define greenwashing, identify risks and supervisory tools, and gather examples of potential greenwashing practices. Obtaining a more granular understanding of greenwashing will help inform policymaking and supervision and foster the reliability of sustainability-related claims.

The EBA is enhancing the management of ESG-related risks by preparing guidelines on the identification, assessment, management and monitoring of ESG risks. This work builds on supervisory findings, international frameworks and discussions on robust risk management practices for EU banks.

The EBA published a renewed roadmap on sustainable finance to align with evolving market and regulatory developments. The roadmap covers transparency and disclosures, risk management, prudential regulation, green standards and labels, and monitoring of sustainable finance and ESG risk profile. While the roadmap outlines the EBA’s objectives and timeline, changes to timelines are possible due to ongoing regulatory developments. The EBA remains committed to contributing to European and international efforts to address ESG risks and promote sustainable finance.
EXECUTIVE SUMMARY OF THE ANNUAL REPORT 2022

Figure 20: Key objectives of the EBA’s roadmap on sustainable finance

1. Transparency and Disclosures
   - Facilitating access to information and promoting market discipline

2. Risk Management and Supervision
   - Integrating ESG factors and risks in risk management and supervision
   - Identifying the areas for possible enhancements to better capture environmental and social risks

3. Prudential Treatment of Exposures
   - Embedding ESG risks gradually in the stress testing framework to help identify banks’ value-destroying activities

4. Stress-Testing
   - Embedding ESG risks gradually in the stress testing framework to help identify banks’ value-destroying activities

5. Standards and Labels
   - Supporting definitions and methodologies for sustainable banking products

6. Greenwashing
   - Specifying key features, drivers and costs of greenwashing and assessing its interaction with supervisory framework

7. Supervisory Reporting
   - Integrating information on ESG risks in supervisory reporting

8. ESG Risks and Sustainable Finance Monitoring
   - Monitoring material ESG risks and developments in sustainable finance
Enhancing efficiency and effectiveness

In 2022, the EBA focused on enhancing its efficiency and effectiveness through various initiatives. It aimed to empower its staff, improve stakeholder engagement, strengthen research initiatives, promote its work, create a greener organisation, enhance digitalisation, and strengthen the question-and-answer (Q&A) process.

To empower its staff and ensure organisational agility, the EBA focused on attracting and developing talented individuals, fostering teamwork, leveraging tools and services, and strengthening partnerships. It implemented internal mobility policies and invested in staff development and external mobility through staff exchanges with other organisations.

The EBA organised policy research workshops and seminars to discuss banking sector challenges, regulatory reforms and supervisory topics. It invited economists, researchers, policymakers and academics to promote discussion and improve the policymaking process.

The EBA engaged in communication activities to promote its work through its website, press interviews, social media platforms, and the production of factsheets, infographics and data visualisations. It published press releases, conducted interviews, and responded to queries to increase awareness and engagement. In terms of stakeholder engagement, the EBA expanded its engagement with core stakeholders such as the Council of the EU, the European Parliament, other ESAs and the ECB Single Supervisory Mechanism. It also reached out to new stakeholders in areas like cyber risk, crime prevention, data protection and competition. The goal was to build trust, facilitate cooperation, and ensure transparency in regulatory and supervisory processes.

The EBA made significant progress in creating a greener organisation by implementing environmental best practices and achieving environmental objectives in areas such as travel, energy consumption, waste management and procurement. The Authority obtained the Eco-Management and Audit Scheme (EMAS) certificate, becoming the first European agency in France to receive it. Communication played a crucial role in raising awareness about sustainability and environmental management.

To strengthen risk management, the EBA developed an Enterprise Risk Management (ERM) framework, including a risk register, risk appetite statement, ERM policy and an ERM lifecycle document. It conducted awareness sessions and developed a risk toolkit. The EBA identified strategic risks and imple-
mented mitigation measures. It aimed to optimise performance, deliver on its mandate and take a comprehensive approach to risk management.

Technological infrastructure and digital collaboration methods were improved to enhance user satisfaction and service efficiency. Digitisation efforts were also emphasised, with the EBA implementing a Collaboration Platform using Microsoft 365 tools. This platform facilitated internal and external cooperation, secure information exchange, knowledge retention, and improved mobility and efficiency. It enhanced security, compliance and user access management, while providing future capabilities and integration with legacy systems.

The EBA made internal changes to enhance the efficiency and accountability of its Q&A process. It committed to answering stakeholders’ questions within 9 months and applied new admissibility criteria. The Q&A process played a vital role in providing clarifications on the Single Rulebook and ensuring consistent application of regulations and supervision.
Priorities for 2023

- The ESG roadmap
- Finalising the Basel III implementation in the EU
- Stress-testing banks
- Data at the service of stakeholders
- Regulating and supervising digital finance
- Next steps in the EU fight against money laundering and the financing of terrorism
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