Executive Summary of the 2023 Annual Report

The 2023 Annual Report of the European Banking Authority (EBA) presents the main achievements and activities of the organisation in fulfilling its mandate and its Work Programme 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.

Finalising the implementation of Basel 3 in the EU

The EBA published a roadmap to guide the implementation of Basel 3, aligning with new EU banking regulations, the Capital Requirements Regulation (CRR 3) and Capital Requirements Directive (CRD 6). The EBA focused on reporting, market risk, and internal model guidelines. Key areas of work included securitisation, capital issuances, liquidity risks, interest rate risks, and supervisory convergence, with 140 new mandates expected in 2024 and beyond. Additionally, the EBA worked on investment firms' regulations and issued updates on covered bonds, own funds, governance, and diversity. Enhanced scrutiny of third-country market access and interest rate risk in the banking book (IRRBB) risks is anticipated for the coming years.

Running an enhanced EU-wide stress test

In 2023, the EBA conducted an EU-wide stress test, expanding the sample to 70 banks across 16 countries, covering 75% of EU banking assets. The test assessed banks' resilience under baseline and adverse scenarios, incorporating supervisory top-down projections for net fee and commission income. For the first time, it included detailed sectoral credit loss data to evaluate the impact of economic uncertainties. Results showed European banks remain resilient despite severe recession, high inflation, rising interest rates, and credit spreads.

Additionally, the EBA performed an ad hoc analysis of unrealised bond losses, noting that, as of February 2023, banks held €75 billion in unrealised losses on bonds at amortised cost, mitigated by €38 billion in hedges. These losses were deemed manageable. The EBA also began developing a Fit-for-55 climate risk scenario to evaluate the financial sector's resilience and support for a low-carbon transition under stress.

Putting data at the service of stakeholders

The EBA advanced its data strategy, focusing on enhancing regulatory data acquisition, sharing, and analysis through the European Centralised Infrastructure for Supervisory Data (EUCLID) platform.

This allowed improved data flow between stakeholders, boosting transparency, risk analysis, and regulatory compliance. The strategy also supported the implementation of a Pillar 3 data hub and prepared for the 2023 transparency exercise, which provided over 1.2 million data points. Additionally, the EBA finalised the data point model (DPM) 2.0 standard to streamline reporting processes, reduce costs, and enable digital regulatory reporting. The EBA worked towards integrating supervisory, statistical, and resolution reporting frameworks, benefiting from technological innovations to reduce reporting burdens and compliance costs, while promoting RegTech solutions.

Delivering on digital finance and MiCAR/DORA mandates

The EBA advanced its work on the Digital Operational Resilience Act (DORA) and the Markets in Crypto-Assets Regulation (MiCAR). DORA, effective from January 2025, aims to improve EU financial sector's digital resilience. The EBA, along with other European Supervisory Authorities, initiated consultations and drafted policies on information and communication technology (ICT) risk management and incident reporting. They also prepared for overseeing critical ICT third-party providers.

MiCAR, in force since June 2023, governs crypto-assets. The EBA launched consultations on technical standards for issuers of asset-referenced tokens (ARTs) and electronic money tokens (EMTs), focusing on governance, stress testing, and market access. To support the industry’s transition, the EBA published guidelines, encouraged early compliance, and developed supervisory frameworks. The EBA also monitored financial innovations like crypto, artificial intelligence, and BigTech, while co-developing a training curriculum for digital finance supervision through the EU Supervisory Digital Finance Academy.

Enhancing capacity to fight money laundering and terrorist financing in the EU

In 2023, the EBA enhanced its capacity to combat money laundering and terrorist financing (ML/TF) across the EU. It updated guidelines and issued new ones, focusing on crypto-asset service providers (CASPs) and restrictive measures compliance. Tackling issues like de-risking and access to financial services for vulnerable groups was also prioritised. The EBA supported ML/TF risk management and set up over 260 anti-money laundering and countering the financing of terrorism (AML/CFT) colleges for coordinated supervision.

Key initiatives included the launch of the EBA’s central database on anti-money laundering and countering the financing of terrorism (EuReCA), a central database tracking AML/CFT deficiencies, and revising guidelines on transfers of funds and crypto-assets. The EBA also facilitated the transition to the new Anti-Money Laundering Authority, ensuring a smooth handover of responsibilities and shaping the future AML/CFT framework.

Implementing the ESG roadmap

The EBA advanced its environmental, social, and governance (ESG) roadmap, focusing on integrating ESG risks into the banking framework to support the EU’s sustainable transition. Key actions included assessing the prudential treatment of ESG risks, publishing a report on the role of environmental and social risks, and proposing enhancements to accelerate their integration. The EBA also issued guidelines on managing ESG risks and worked on improving transparency through principal adverse impact (PAI) indicators. It addressed greenwashing in the financial sector and advised on green loans and mortgages. Additionally, the EBA prepared for the Fit-for-55 climate risk scenario analysis to assess the financial sector's resilience to climate-related risks.

Risk assessment

The EBA continued to assess risks and vulnerabilities in the EU banking sector, focusing on challenges such as the Russian invasion of Ukraine, financial market instability, inflation, and rising interest rates. Despite these challenges, the EU banking sector remained resilient, with high capitalisation (Common Equity Tier 1 ratio at 16%) and robust profitability. However, risks associated with rising interest rates, economic slowdown, and operational risks like cyber threats persist. The EBA monitored liquidity, asset encumbrance, and funding plans, publishing key findings in reports such as the Risk Assessment Report, liquidity studies, and a heat map on interest rate risk management.

Recovery and resolution

In 2023, the EBA enhanced the recovery and resolution framework by developing guidelines on bail-in tool execution and resolvability testing. It published final guidelines on overall recovery capacity to harmonise recovery plans. The EBA also monitored resolution framework convergence and MREL resource buildup to improve crisis preparedness and resilience.

Payment services

The EBA worked to enhance the efficiency, security, and usability of retail payments across the EU. A key deliverable was a peer review of payment institutions' authorisation under revised Payment Services Directive (PSD 2), highlighting transparency improvements but also regulatory inconsistencies. The EBA supported the European Commission’s development of PSD3 and continued assessing payment fraud data.

Consumer and depositor protection

In 2023, the EBA advanced consumer and depositor protection by coordinating mystery shopping activities, developing retail risk indicators, and publishing consumer protection reports. Key initiatives included improving transparency in credit services and complaints handling. The EBA also revised deposit guarantee schemes and analysed changes to deposit coverage, enhancing depositor protection and financial stability.

Supervisory convergence and independence

The EBA mediated a dispute between Spanish and Belgian deposit guarantee schemes and introduced joint ESAs criteria on supervisory independence. It also conducted several peer reviews, focusing on authorisation, mortgage borrower treatment, and qualifying holdings, aiming to enhance supervisory practices and address emerging risks across sectors.