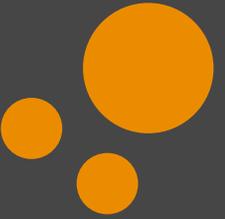


# European Banking Regulation and Supervisory Outlook

13th Banking, Payments & Fintech Forum and EXPO  
Dr. Martin Neisen, PwC



# Agenda



1. Introduction
2. ECB Priorities
3. The evolution of geopolitical risks
4. CRR III & CRD VI
5. Update of the securitisation framework



# Overall SREP results 2025



The SSM notes strong fundamentals of banks under its supervision, with robust capital, liquidity and asset quality in 2025. This leads to **stable overall SREP results** and **aggregated capital requirements**



The biggest challenges for banks **resilience** arise from **geopolitical** and **macroeconomic environments** as well as **digitalisation**. These will be the main supervisory priorities for 2026 as well as the monitoring of improved remediation actions from banks



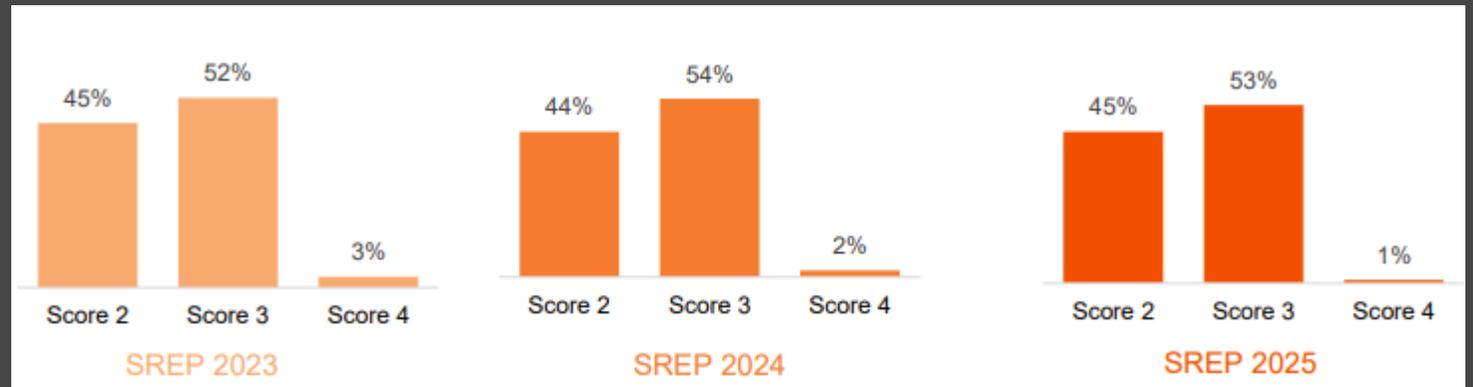
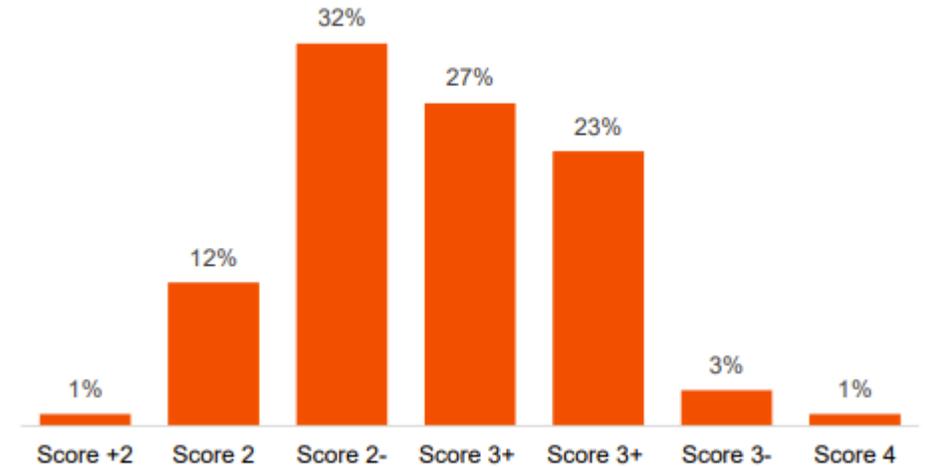
The SSM has revised their SREP methodology, aiming at simplifying the process and better assessing emerging risks as well as enhancing the use of the whole supervisory toolkit and data analytics. The revised process will make supervision more efficient and intrusive.

## Evolution of the overall SREP scores

The average score improved to 2.5 (from 2.6 in 2024), the best since 2016. 74% of institutions received the same overall SREP score as in 2024, while 11% decreased and 15% improved.

Improvements were shown among previously rated 3-, while those rated 2 or better deteriorated. About 25% of banks remain in the weakest categories (scores 3- to 4), requiring continued supervisory attention.

### SREP 2025 Scores



# Supervisory priorities 2026-2028

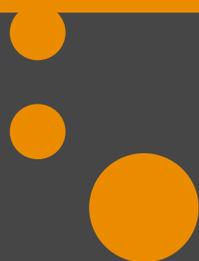


## 1 Strengthening banks' resilience to geopolitical risks and macro-financial uncertainties

<b>Credit Risk</b>	Ensure prudent risk-taking and sound credit standards	★ <b>High priority</b>
<b>Multiple Risks</b>	Ensure adequate capitalisation and consistent implementation of CRR III	
<b>Multiple Risks</b>	Ensure prudent management of climate and nature-related risks	

## 2 Strengthening banks' operational resilience and fostering robust ICT capabilities

<b>Operational Risk</b>	Implement robust and resilient operational risk management frameworks	
<b>Governance</b>	Remedy deficiencies in risk reporting capabilities and related information systems	
<b>Multiple Risks</b>	Medium to long-term priority strategy focusing on banks' digital and, in particular, AI-related strategies, governance and risk management	



# Geopolitical risks are becoming radically more important

- ➔ Geopolitical risks are unforeseeable political events that influence the strategic activities of financial institutions, such as strategy development and market activities.
- ➔ They act as risk drivers that can directly or indirectly influence other risks such as credit or liquidity risks, which can have financial consequences, particularly in the banking sector.
- ➔ Although the Basel regulations do not explicitly cover these risks, it is important for banks to take them into account when making strategic decisions such as acquisitions and setting provisions.
- ➔ Strategies should be developed to minimise the impact of geopolitical risks.
- ➔ Analysing such risks is complex, as many factors interact, but it is crucial for financial stability.



## IMF: markten vergeten groeiende geopolitieke risico's in te prijzen

Marcel de Boer, Marijn Jongma

Volgens het Internationaal Monetair Fonds gaan grote marktschokken vaker optreden. Bepaalde beleggingsstrategieën versterken juist de volatiliteit, in plaats van ze te beperken. De kans dat bedrijven niet aan hun rente- en aflossingsverplichtingen kunnen voldoen, neemt toe.



## In slaap gesust Europa wordt bedreigd van alle kanten: 'De EU is vergeten over haar geopolitieke basis te denken'



# Top 10 geopolitical risks

Geopolitical scenarios are reported on a daily basis | As at March 2025

- **Global trade protectionism** | Tariffs on imports are rising dramatically worldwide and are having a negative impact on macroeconomic forecasts.
- **US-Greenland Sovereignty Dispute** | Heightened diplomatic friction impacting transatlantic stability, Arctic commodity market volatility, and strategic infrastructure risk assessments.
- **Russia-NATO conflict** | The war in Ukraine is dragging on, increasing the risk of escalation beyond Ukraine.
- **European fragmentation** | Subdued economic growth and persistent inflationary pressure are leading to a resurgence of populism.
- **Middle East war** | Regional conflict escalates, threatens energy infrastructure and increases volatility.

■ **Global technology decoupling** | The technology decoupling between the USA and China is accelerating significantly in scope and scale.

■ **Major cyberattacks** | Cyberattacks cause persistent disruption to critical physical and digital infrastructure.

■ **US-China strategic competition** | Tensions escalate significantly over Taiwan or in the South China Sea.

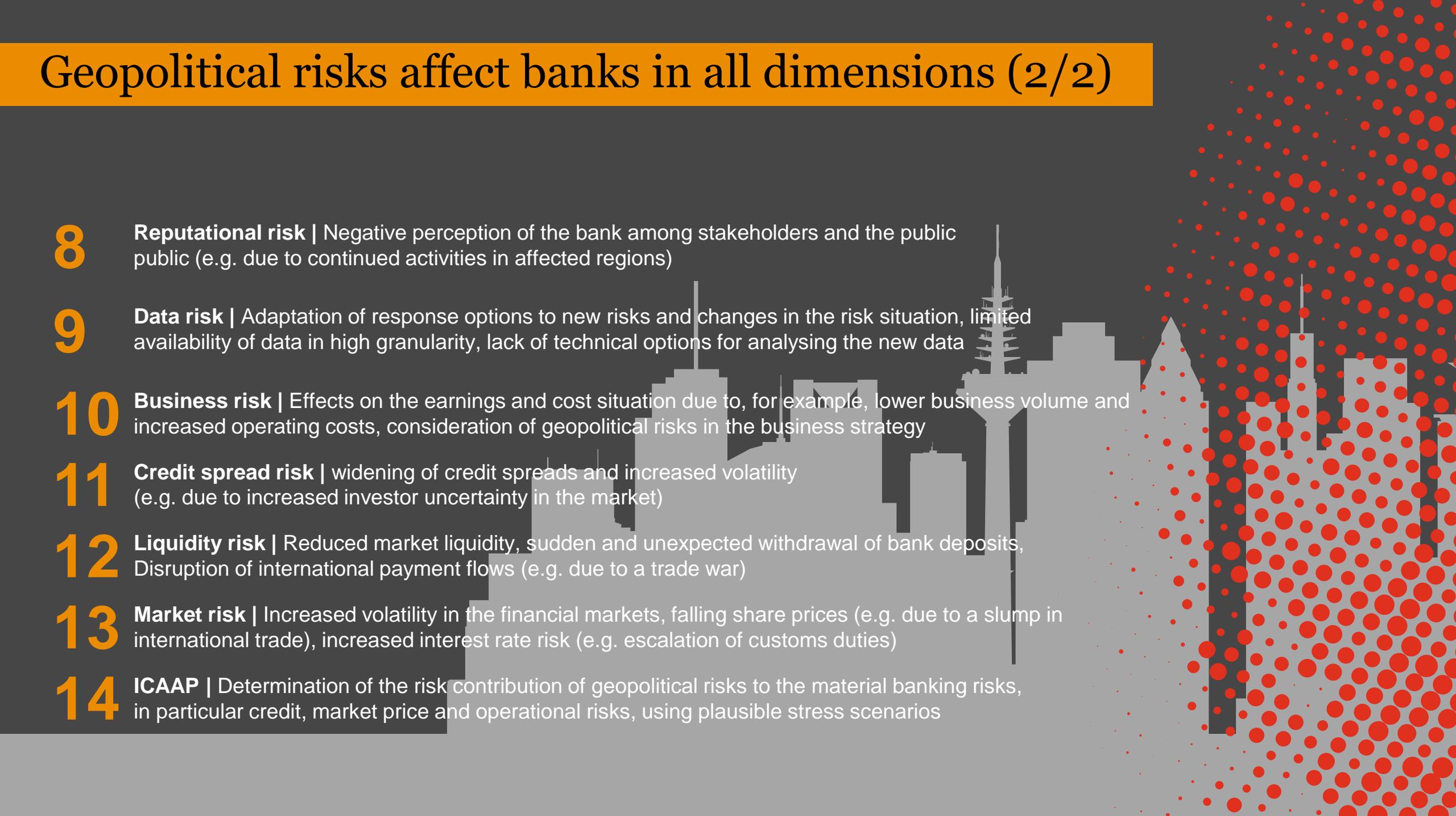
■ **Major terrorist attacks** | A terrorist attack leads to significant loss of life and commercial disruption.

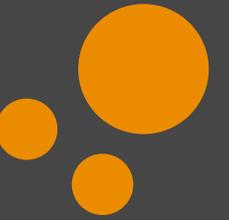
■ **North Korea conflict** | North Korea pushes ahead with its nuclear expansion and undertakes provocative actions such as missile launches.

# Geopolitical risks affect banks in all dimensions (1/2)

- 1 Reporting (across all risks)** | Ensure ad hoc analysis capability (analysis of exposures etc.)
- 2 Valuation** | Risk provisioning, provisions (e.g. legal risks), equity investments, Hedge accounting (e.g. hedging commodity prices)
- 3 Credit risk** | Adjustment of lending standards and governance, review and revaluation of collateral and revaluation of collateral, further development of early risk identification
- 4 Cyber risk** | Limited availability of systems for the technical analysis of financial data of financial data
- 5 IFRS 9** | Consideration of macroeconomic carry-over effects in risk provisioning
- 6 Sanction risk** | Compliance with trade regulations and ensuring transparency in international trade
- 7 IRB** | Consideration of macroeconomic transmission effects on PD/LGD in risk models

# Geopolitical risks affect banks in all dimensions (2/2)

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- 8** **Reputational risk** | Negative perception of the bank among stakeholders and the public public (e.g. due to continued activities in affected regions)
  - 9** **Data risk** | Adaptation of response options to new risks and changes in the risk situation, limited availability of data in high granularity, lack of technical options for analysing the new data
  - 10** **Business risk** | Effects on the earnings and cost situation due to, for example, lower business volume and increased operating costs, consideration of geopolitical risks in the business strategy
  - 11** **Credit spread risk** | widening of credit spreads and increased volatility (e.g. due to increased investor uncertainty in the market)
  - 12** **Liquidity risk** | Reduced market liquidity, sudden and unexpected withdrawal of bank deposits, Disruption of international payment flows (e.g. due to a trade war)
  - 13** **Market risk** | Increased volatility in the financial markets, falling share prices (e.g. due to a slump in international trade), increased interest rate risk (e.g. escalation of customs duties)
  - 14** **ICAAP** | Determination of the risk contribution of geopolitical risks to the material banking risks, in particular credit, market price and operational risks, using plausible stress scenarios



## CRR III and CRD VI

*CRR3 is not the end - it is the beginning of a new era of refinements and reforms*



# CRR3 Update: Fresh updates & lively changes!



## Until 2026: What awaits us!

01 January 2025

### 31.03.2025: Deadline for initial notification

Attention: Extension of the submission deadline not for large loans, MREL, FINREP, ...

### Until probably Q2 2025

Extension to "full set" of reporting requirements (possibly already from 30 September 2025) and phase 2 of disclosure (topics ESG, shadow banks, ...)

### Ongoing

Further clarification of supervision and finalisation of current consultation papers

31 December 2025

## Top 3: Don't miss this until the first announcement!

### Stay agile!

Professionally appropriate **pragmatism**: Various technical uncertainties and pending EBA finalisations require well-founded decisions to be made before the first notification.

With a view to **future developments**: Assumptions made must be continuously reviewed and adjusted as new findings emerge.

### Optimization opportunities

**Process and data optimisation**: Use the comprehensive changes to make your legacy systems future-proof.

**RWA optimisation**: Think about tomorrow today - draw valuable insights for future optimisation measures from the current momentum.

### Prevent surprises!

**Testing** is key: Focus your resources on testing the software, data deliveries and validation rules.

Don't forget **monitoring & validation**: Establish continuous monitoring and validate your systems on an ongoing basis in order to recognise deviations at an early stage and take proactive countermeasures.

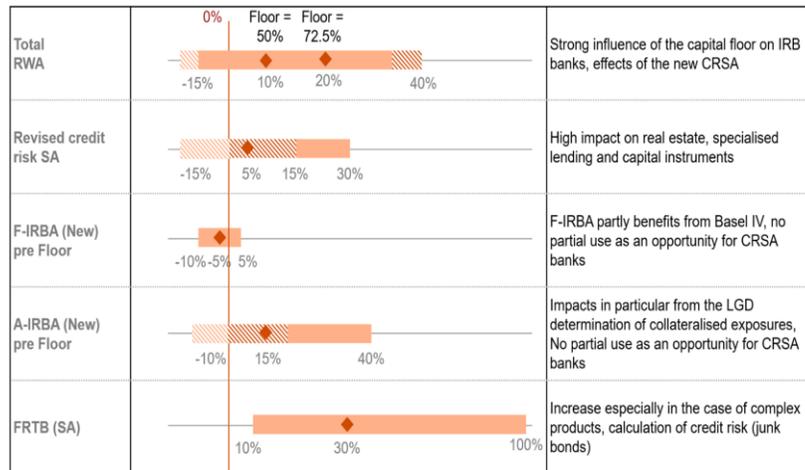


# Impact of CRR3 at Day 1 – Key Takeaways

## Transitional arrangements mask the true impact

The initially moderate RWA effects largely result from the extensive phase-in framework under CRR3.

## CRR 3 impact heavily depends on business model and portfolio...



Basel IV impact
  CRR 3 Reduction
  CRR 3 Increase

## Temporary relief for large IRB banks

- Major institutions using internal models may even experience Day 1 RWA reductions – but these are purely transitional.
- Once the Output Floor becomes binding, most large banks will face significant RWA inflation and tighter capital ratios.
- Average starting date for the Floor impact is expected by 2028

## Heterogeneous effects for small and mid-sized banks

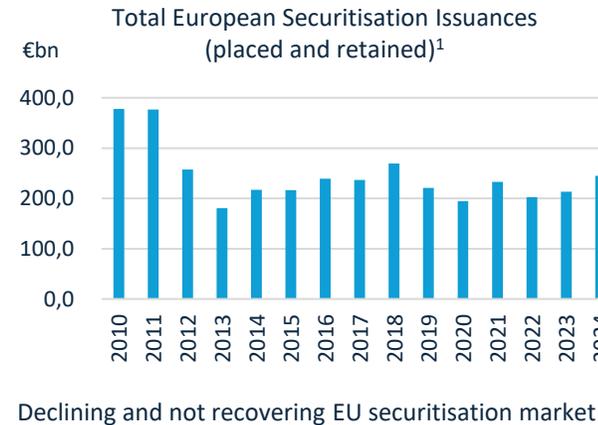
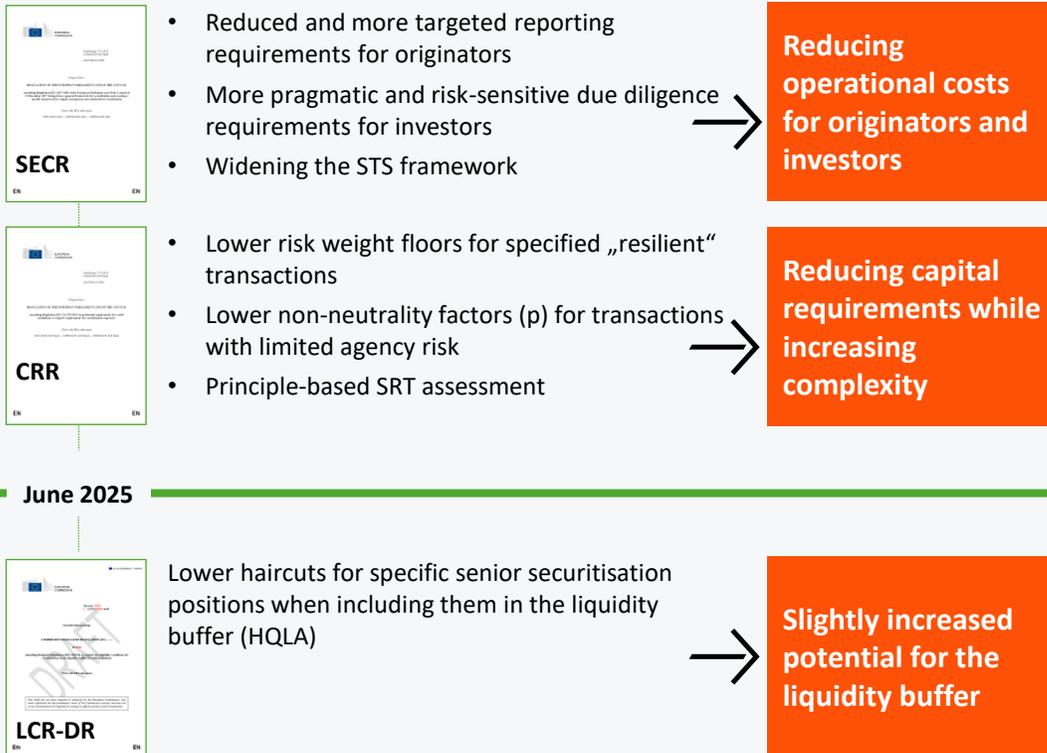
- For institutions using the Standardised Approach, the RWA impact varies strongly depending on business model, risk appetite, and geography.
- Day 1 changes range from –15% (RWA relief) to +10% (RWA increase).

## Macroeconomic headwinds intensify pressure

- Rising default rates and deteriorating asset quality will drive RWAs upward in the short term.
- Higher NPL stocks and the CRR3 Backstop: The deduction of non-covered NPL exposures from own funds will become an increasingly material capital burden.
- Strategic response – active RWA and NPL management**
- Many banks are launching comprehensive RWA optimization programs, with synthetic securitization transactions gaining strong momentum.
- If the number of securitization feasibility studies is any indication, the market is poised for a major boom.

# Securitisation 3.0 - Overview

## EU-COM Proposals for a revision of the Securitisation framework



Complete overhaul of the EU Securitization framework and introduction of the SECR

Great Financial Crisis



Various initiatives and strong political debate to revitalise the EU securitisation market by reducing regulatory impediments for securitisations to play a crucial role in financing the transformation of the EU economies

Immediate regulatory measures

# Thank you



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Partner

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