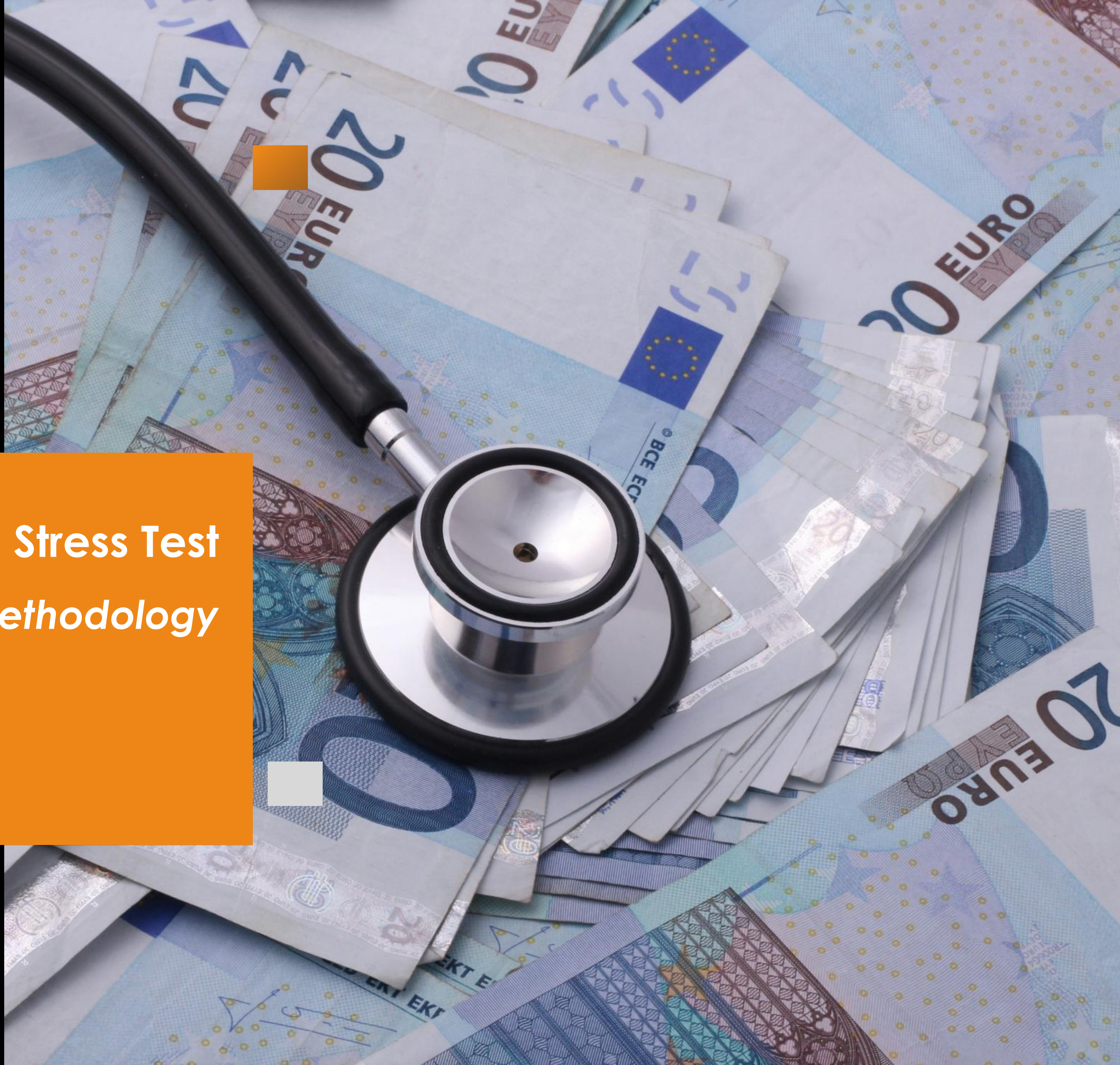
Just in Time



2027 EU-Wide Stress Test

New Aspects from Draft Methodology

July 2026

iason ESSENTIAL SERVICES FOR FINANCIAL INSTITUTIONS

Executive Summary

The EBA has published the **draft methodology, templates and guidance for the 2027 EU-wide Stress Test.** While the overall framework remains broadly consistent with the 2025 exercise, targeted enhancements have been introduced to reflect recent supervisory and regulatory developments.

The main methodological evolution concerns the **integration of stress test reporting with the supervisory reporting framework**, with greater reliance on FINREP-based data and a reduction in bespoke data requirements. This shift improves consistency and efficiency but requires institutions to enhance data mapping, lineage, validation and reconciliation capabilities.

A further key innovation of the 2027 exercise is the introduction of a **dedicated Climate Risk module**, assessing transition and physical risk drivers through **standalone stress-testing analyses** focused on credit risk impacts. As a standalone module, it **does not** have any **impact** on **CET1**.

This document provides an **overview of the main changes compared with the 2025 methodology, structured by risk type**, and highlights the key implementation challenges institutions are expected to address ahead of the 2027 exercise.

At a Glance

Keywords: Stress Test, Credit Risk, Market Risk, Climate Risk

01

Introduction

General Info on the Exercise

Main Updates

Introduction 1/2

General Info on the Exercise

EBA has recently released the **draft methodological note for the 2027 EU-wide Stress Test**. Compared with the 2025 exercise, the framework introduces several important methodological changes, which are summarized below.

Scope

The exercise covers a representative sample of banks with at least EUR 30 billion in total assets, accounting for **around 75% of euro area banking assets.**

A total of **63 banks from the EU and Norway** will participate, ensuring a comprehensive assessment of the resilience of the European banking sector.

Data

Methodological changes have been introduced in line with the EBA's comprehensive **simplification framework**[1], aiming to reduce complexity and better align the stress test templates with **FINREP** and **COREP** reporting frameworks.

Thus, the stress testing **data collection** has been **reduced** by approximately **55%.**

Scenarios

The exercise assesses the **resilience of EU banks** against a common baseline and **adverse** macroeconomic scenario.

It is conducted using year-end 2026 figures and the scenarios covers a period of **3 years from 2027 to 2029**.

These scenarios will be published shortly before the exercise begins, in 2027.

Climate

2027 Methodological Note introduces a **dedicated climate risk module**, in line with Article 23 of Regulation (EU) # 1093/2010, to incorporate environmental systemic risk into the stress-testing framework.

The module assesses the impact of selected **transition and physical risk** shocks that may materialize.

[1]*For further details see: "Efficient reporting: simpler, smarter, proportionate"*
[2]*As a draft methodology, changes may occur in the next releases*

Introduction 2/2

Main Updates

While the 2027 draft methodology includes **several methodological updates** compared with the 2025 exercise, only **a limited number** are expected to require **substantial implementation effort** from banks.

Credit Risk

Credit-risk **scenario templates were reworked** with more detailed geography, sector, and within-year / end-of-year structure

Climate Risk

Climate-risk reporting was added or expanded with dedicated templates and **physical** / **transition-risk** detail

Market Risk

Market-risk introduced **new metrics** to align the methodology with CRR3/FRTB while **expanding the scope** of counterparties considered

Credit Risk

The new Finrep-based provisions template is **more than a reporting** form change: banks will need to **map FINREP** line items into the stress-test structure, adjust internal data extraction, and ensure historical values **reconcile exactly** with FINREP submissions.

Template updates

Minor label, wording, or formatting updates inside existing templates. Some existing sheets **were splitted** or deleted.

02

Credit Risk

Reporting Simplification for Credit Risk

Provisions Data Request and IFRS9 Framework

Other Minor Changes

Securitizations

Credit Risk 1/4

Reporting Simplification for Credit Risk

The EBA is undertaking a **major initiative to simplify regulatory and supervisory reporting.** A dedicated workstream within this initiative focuses on stress testing, **aligning the EU-wide stress test templates with the new supervisory reporting framework** and replacing the previous *ad-hoc* data collection templates. **Provisions are now projected in line with the FINREP classification**, while REA/RWA continue to be reported under the COREP framework.

Credit Risk Exposures for P&L

Credit risk exposures in the CR_SCEN template are now reported on a **Gross Carrying Amount (GCA) basis**, reflecting the transition from the COREP to the FINREP reporting framework. Exposures are now classified according to **supervisory reporting asset classes,** replacing the previous COREP asset class tree classification.

FINREP reporting practices

Banks are requested to provide information by country and sector of counterparty for the CR_SCEN template. This is to follow FINREP reporting practices, in particular: **Credit Risk Mitigation techniques** are **no longer applicable** and the reporting of the **country and sector** of the counterparty is determined according to the **immediate obligor rather than the ultimate risk basis.**

REA and CRM

The 2027 **REA rules still follow COREP CRM logic**:

- **Sector:** when unfunded protection is recognised, the exposure's sector can be attributed to the protection provider instead of the original obligor.
- **Country:** allocations use an ultimate-risk basis, so the exposure may be reassigned from the immediate counterparty's country to the guarantor/protection provider's country.

Credit Risk 2/4

Provisions Data Request and IFRS9 Framework

The **2027** draft **simplifies** the template/data request compared with the previous exercise and **aligns** the **reporting** closely with supervisory reporting rather than introducing a new independent staging framework.

2025

The methodology prescribed **specific backstop rules** for the **classification** of:

- **Stage 2**, Lifetime PD increased by ≥3× vs. origination (*tripling backstop*)
- **Stage 3**, All NPEs classified as S3; low credit risk exemption available

2027

- Complete **alignment with internal staging approach.**
- Introduction of **POCI** (Purchased or Originated Credit-Impaired) category
- **No projected cure rates** and funded collateral capped, aggregation of some transition rates (LRLT - S2)

Credit Risk 3/4

Other Minor Changes

The 2027 framework introduces further new requirements, distinguishes between **on-balance-sheet and off-balance-sheet** SCEN reporting, update the **materiality threshold rules** and separates the **REA templates into STA and IRB components.**

CR_SCEN: If an institution's non-domestic exposures exceed **10% of total exposures**, a geographical breakdown is required. Only non-domestic countries with exposures exceeding **1% of total exposures** are reported individually, up to a maximum of **10 countries**. All remaining non-domestic exposures are aggregated under **"Other"**.

CR_SCEN_OFF_BS: a **dedicated template** has been introduced for **off-balance-sheet exposures**, featuring a **less granular data request** (i.e. no country breakdown and no credit parameters reporting), whereas these exposures were previously reported within the same template.

CR_REA: The data has been reorganized into two separate sheets: **REA Standardized Approach** and **REA Internal Rating**. In addition, the geographical breakdown now follows the same rules as **CR_SCEN**, with reporting limited to the **top five countries**.

CR_SECTOR: considers only **on-balance exposure** and only **country/sector** combinations representing **at least 0.5% of the institution's total exposures** to Non-Financial Corporations (NFCs) are reported. This rule replaces and simplifies the methodology applied in the 2025 EBA stress test.

Credit Risk 4/4

Securitizations

In 2027, securitisation continues to be in scope with a methodology that is **more closely aligned with supervisory reporting** and relies on fewer stress-test-specific data points than in 2025.

2025

- A **common methodology** was applied across all regulatory securitization approaches
- The projection of the Risk Exposure Amount (REA) was based on a **fixed increase in risk weights under the stress scenario**
- Securitization exposures had to be **mapped to the appropriate Credit Quality Step (CQS)** defined in the SEC-ERBA (External Ratings-Based Approach) framework in order to determine the applicable risk weight

2027

- Banks are required to project the impact of the stress scenarios on REA for securitisation exposures
- As defaults and credit deterioration evolve over the horizon, the **distribution of exposures across risk-weight buckets** and **Credit Quality Steps may change accordingly**

03

Market Risk

New Metrics and Methods

More Dynamic CCR Loss

Other Minor Changes

Market Risk 1/3

New Metrics and Methods

The **2027 market risk framework** replaces the mainly VaR/sVaR-based **2025 approach** with a CRR3/FRTB-aligned methodology built around **SBM, DRC, RRAO**, dedicated CVA REA and the output floor.

Market-risk REA projections were mainly based on the legacy **CRR2 framework.**

2025

using VaR, sVaR, IRC, APR, and CVA measures, while also including a **CRR3 restatement** and output-floor calculations for transitional and comparison purposes.

The **2027 methodology** aligns market-risk capital with the CRR3/FRTB framework by restating market-risk REA under a CRR3 structure and **explicitly separating** the main capital components.

2027

The components are**: Sensitivity-Based Method** (SBM), **Default Risk Charge** (DRC), **Residual Risk Add-On** (RRAO), CVA, and the simplified approach.

The templates also distinguish pre-floor and post-floor values for SBM, DRC, and CVA, and include a dedicated MR STREA line for **output-floor computation**, which means the impact of the output floor is captured separately from the underlying market-risk charges.

Market Risk 2/3

More Dynamic CCR Loss

The 2027 EU-wide stress test introduces a **more dynamic approach** to Counterparty Credit Risk (CCR) losses compared to the 2025 exercise, to ensure that the CCR stress impact is more closely tailored to the **individual risk profile** of a bank's specific counterparty portfolio rather than applying a "one-size-fits-all" default assumption.

2025

Banks assumed the default of the **three most vulnerable** counterparties among the **10 largest counterparties** by post-hedging exposure.

2027

The scope is expanded to cover the **40 largest counterparties** by post-hedging exposure, broadening the range of entities included in the analysis.

The number of assumed defaults is no longer fixed at three but now varies **from two to five** depending on the portfolio’s CCR risk profile.

Market Risk 3/3

Other Minor Changes

The 2027 methodology introduces differences also in the **market risk template** structure. The main changes concern **the split of the full revaluation and reserves** templates, as well as **the removal** of the optional full revaluation template.

CSV_MR_FULL_REVAL: The full revaluation market risk template has been split into more granular sub-sections, with a clearer separation between HFT (**CSV_MR_FULL_REVAL_HFT**) and non-HFT positions (**CSV_MR_FULL_REVAL**), as well as more detailed instrument and scenario breakdowns. In addition, the calculation of delta, gamma, and vega **sensitivities has changed**.

CSV_MR_RES: The reserves market risk template has also been split into **more granular reporting blocks**, with a clearer distinction between reserve types, valuation effects, and related risk-factor impacts. Those are **CSV_MR_RES_CVA_FVA** and **CSV_MR_RES_UNCERTAINTY.**

CSV_MR_OPT_REVAL: The optional full revaluation template **has been removed**, which simplifies the reporting scope but also shifts the related content into the redesigned core market risk templates.

04

Climate Risk

Overview

Transition Risk

Physical Risk

Climate Risk 1/3

Overview

2027 Stress Test exercise introduces a **dedicated Climate Risk module** (developed in accordance with Article 23 of Regulation (EU) No 1093/2010), representing a significant evolution in risk methodologies, incorporating **environmental systemic risks.**

The Climate Risk Module is a standalone **add-on** to the **adverse scenario**. It impacts the Credit Risk parameters (PD and LGD) only and is **independent** of the **core stress testing framework**. As a standalone module, it **does not** have any **impact** on **CET1**.

The **climate scenarios** are developed by the ESRB and the ECB in close cooperation with competent authorities, the EBA and national central banks. **Only short-term climate impacts** are captured in the 2027 exercise, representing an initial step towards a more comprehensive assessment in future exercises.

The climate module focuses on **institutions' exposures to non-financial corporations** (NFCs) and to **real estate** (RE) reflecting the materiality of these portfolios with respect to transition and flood risk transmission channels.

The module focuses **only on P&L impact** stemming from the effect of the adverse scenarios related to both transition and physical risk, without considering REA implications.

Climate Risk 2/3

Transition Risk

The **transition risk scope** consists of 1) the **total on-balance exposures to non-financial corporations**, broken down by NACE level 1, and to the relevant NACE Level 2 sectors and 2) the **total housing loan exposures**, classified according to the Energy Performance Certificate (EPC) bucket of the underlying property.

Definition

Transition risk is the risk of any negative financial impact on an institution stemming from the current or prospective impact of the transition to an environmentally sustainable economy on that institution's counterparties or invested assets.

Scenarios

The **Scenario** includes two sets of **transition shocks,** over a **three-year time horizon,** to be applied by banks to assess the impact of transition risk on banks non-financial corporate exposures:

- **Climate variables shocks** (Carbon price, GHG emission, Energy prices)
- **GVA shocks.**

Transmission Channels

Key **transmission channels** include

- Rising operating costs
- **Decarbonization** investment needs
- Technology shifts
- Weaker demand

For **real estate**, the focus is on **affordability** and **collateral** value **sensitivity** to **energy efficiency**, with implications for LGD.

Reporting

Any resulting impact from the climate risk module related to transition risk will be reflected in the **CSV_CL_TR sheet.**

Climate Risk 3/3

Physical Risk

Just in Time

The **physical risk scope** covers **the total of EEA** exposures secured by immovable properties located within the EEA, as well as EEA non-financial corporations across all sectors. The assessment is limited to loans and advances and excludes debt securities.

Definition

Physical risk is the risk of any negative financial impact on an institution stemming from the current or prospective impacts of the physical effects of environmental factors on that institution's counterparties or invested assets.

In this module, the environmental factors are limited to river flood risk.

Scenarios

The **Scenario** assumes a river flood with a 1% probability of occurrence, over **a one-year time horizon,** based on flood depths extracted **JRC river flood hazard maps**, that are produced combining:

- **river flow** simulations
- a digital **elevation model**
- **hydrodynamic simulations.**

Transmission Channels

- Transmitted through **flood-driven impacts** on borrowers and collateral.
- For residential **real estate**, the effect is mainly on LGD.
- For **commercial real estate** and **NFCs**, flood events affect both repayment capacity through operational disruption and collateral recovery values through asset damage.

Reporting

Any resulting impact from the climate risk module related to physical risk will be reflected in the **CSV_CL_PR sheet.**

05

Other Changes

NII Changes

NIEC and Conduct and Other Operational Risks

Other Changes 1/2

NII Changes

Compared with the 2025 Stress Test methodology, the 2027 methodology introduces **refinements** to the definition of **ALDR** and the application of the **NII cap**, with **specific changes** affecting the treatment of the **Held for Trading** (HFT) **portfolio**. It also includes a reduction in the maximum number of country-currency pairs to be reported for disaggregated NII data, decreasing from 50 to 20.

2025

ALDR was **derived indirectly from swap rates**. For each instrument, the swap rate corresponding to its repricing date is identified; these swap rates are the **volume-wheighted** and **matched back** to the closes monthly point on the swap curve. The resulting month, expressed as a fraction of the year, is reportded as the ALDR.

The **cap** was set at the **2024 level**, meaning that Net Interest Income (**NII**) under the **adverse scenario** could **not exceed** the **last observed value before** taking into account the **impact** of **Non-Performing Exposures** (NPEs).

2027

The **ALDR** is **defined** as the **average fraction** of the **year** at which the **portfolio** positions are **repriced**. It is calculated using the **repricing dates** of the instruments held in the portfolio at year-end, weighted by the **volume** of the respective assets. This represents a simplification compared with the 2025 methodology.

The **cap** has been **revised** to explicitly **include** the **NII generated** by **Held for Trading** (HFT) activities. Under the **adverse scenario**, the assumptions applied must not result, at the consolidated group level, in **Net Interest Income** (**including** NII from **Held for Trading** activities) **exceeding** the corresponding **2026 starting-point value**.

Other Changes 2/2

NIEC and Conduct and Other Operational Risks

For these modules, changes are less structural compared with credit risk, market risk, and climate risk, and the 2027 methodology mainly reflects **a roll-forward of the existing framework** alongside a **more mature CRR3 implementation.**

Transition from the **Relevant Indicator** (RI) to the **Business Indicator Component** (BIC) for the Fall-back solution for **conduct risk** and **other operational risk** losses. In addition, institutions are no longer required to report detailed information on the 25 most material loss events, but only the top 5 must be reported in detail, while the remaining events should be covered through a summary note.

Administrative expenses, remaining other operating expenses, depreciation, and other provisions or reversals of provisions are generally **floored at the 2026 level** in the projection, unless supported by permitted **one-off adjustments**.

Cash contributions to resolution funds and DGS are treated **more explicitly** within the MDA and distribution-restriction framework. Compared with 2025, the template introduces clearer floor logic and a dedicated memo line for one-off adjustments.

Under the 2027 methodological note, **revenues and costs** from **discontinued operations** not disposed of by 31 December 2026 must be reported separately in the P&L, rather than within the individual risk-area templates.

06

Conclusions & Take-aways

Conclusions & Take-aways

Just in Time

1 **Limited number of changes** with material implementation impact

2 **Credit risk templates** introduce new reporting requirements, with separate sections for on-balance- and off-balance exposures

3 Dedicated **climate risk reporting** introduced or expanded

4 **NII, NFCI** and cost templates made **more detailed**

5 **FINREP-based** provisions template requires revision of internal data collection

6 **Market risk updated** to a CRR3/FRTB-aligned framework with more dynamic CCR modelling

SIMPLIFICATION

EBA's simplification initiative should reduce reporting duplication and lower the data burden by around 55%, mainly through stronger use of supervisory reporting**. For banks**, the **key implication** is Establish a new FINREP data collection process to be embedded into the stress testing framework, strengthened reconciliation controls and closer coordination across Risk, Finance and Regulatory Reporting.

CLIMATE RISK

Climate risk is now partially embedded in the EU-wide stress test through dedicated **templates covering transition and physical risk** scenarios. **For banks**, this means building **stronger climate data**, scenario translation and portfolio-level impact assessment capabilities, while preparing for a broader integration in future stress test exercises.

ESSENTIAL SERVICES FOR FINANCIAL INSTITUTIONS

iason is an international consulting firm that has been supporting both financial institutions and regulators in topics related to Risk Management, Finance and ICT since 2008

Strategy

Strategic advisory on the **design** of **advanced frameworks** and **solutions** to fulfil both **business** and **regulatory needs** in Risk Management and IT departments

Methodology & Governance

Implementation of the designed **solutions** in bank departments **Methodological support** to both **systemically important financial institutions** and **supervisory entities**

Solution

Advanced **software solutions** for **modelling, forecasting, calculating** metrics and **integrating** risks, all on cloud and distributed in Software-as-a-Service (**SaaS**)

Company Profile

iason is an international firm that consults Financial Institutions on Risk Management.
iason integrates deep industry knowledge with specialised expertise in Market, Liquidity, Funding, Credit and Counterparty Risk, in Organisational Set-Up and in Strategic Planning.

Andrea Mauri

Mattia Bartolucci

Marco Zanolli

Matteo Pastore

www.iasonltd.com