



TOPICS:

Market Risk and Credit Risk

SOURCE:

European Banking Authority

The EBA Publishes Its Annual Assessment of Banks' Internal Approaches for Capital Requirements Calculation

- The EBA published its **2025 benchmarking** reports assessing the consistency and comparability of **internal market and credit risk models** used by EU banks. The findings indicate **continued progress in model reliability and convergence** across institutions, while also identifying specific areas requiring supervisory attention as major regulatory reforms move toward implementation.
- For **market risk**, the EBA reports improved data quality, consistency and comparability among participating banks. The assessment is divided into two frameworks: the Internal Model Approach (IMA) and the Alternative Standardised Approach (ASA), reflecting the increasing importance of the ASA under the forthcoming Fundamental Review of the Trading Book (FRTB) regime. The IMA exercise, covering 43 banks across 13 jurisdictions, found that variability in Value-at-Risk (VaR) remains historically low, demonstrating greater consistency in modelling practices. However, higher levels of dispersion persist in stressed VaR (sVaR) and Incremental Risk Charge (IRC) measures.

The ASA results showed further convergence and stability, with dispersion in the Sensitivities-Based Method (SBM) declining to 8%. While most observed deviations were considered justified, seven banks were identified for additional supervisory review.

- For **credit risk**, the EBA observed a stable overall picture combined with gradual structural improvements linked to the ongoing Internal Ratings Based (IRB) reform programme. The proportion of Exposure at Default (EAD) assessed under IRB models continues to decline, while the growing number of approved model changes suggests steady progress in implementing the EBA's IRB roadmap. Between 2015 and 2024, Probability of Default (PD) variability decreased across several asset classes, while Loss Given Default (LGD) variability remained broadly stable with a modest downward trend. Differences in underlying portfolio risk explain part of the variation in PD estimates, whereas collateralisation levels account for only some of the observed LGD differences.

