



EUROPEAN CENTRAL BANK

BANKING SUPERVISION

On-site & Internal Model Inspections

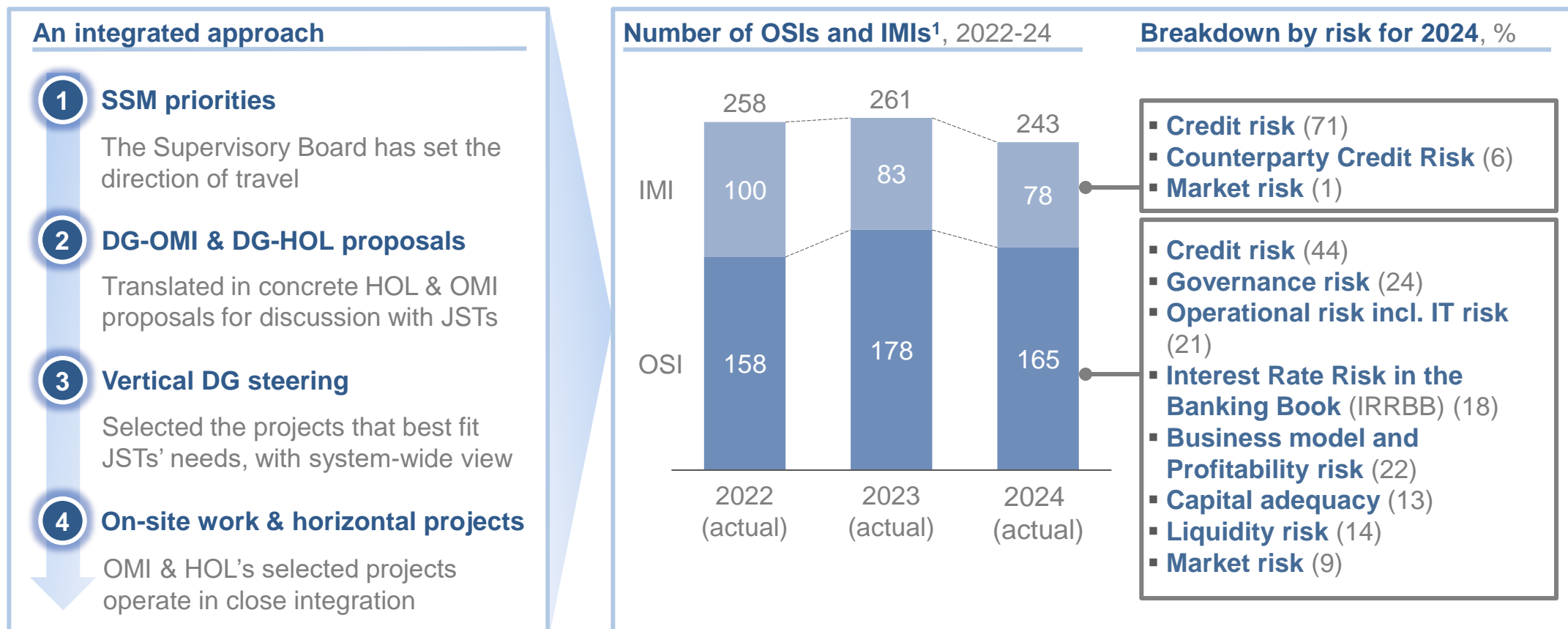
Pedro Machado
SRB Legal Conference
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1 Key elements of on-site inspections and internal model investigations

Key elements	Description
Key elements	<ul style="list-style-type: none"> ▪ Part of the Supervisory Examination Programme (SEP) annually approved by the Supervisory Board. ▪ Entails a significant on-site presence on the premises of a bank (off-site or hybrid investigations are possible too). ▪ Performed by a Head of Mission (HoM) and team members from ECB, NCAs, JSTs, and consultants. ▪ Following a pre-defined scope and resulting in a report to the respective JST detailing the findings.
Objectives	<ul style="list-style-type: none"> ▪ Assess the level and nature of risks to which the bank is exposed, taking into account its risk culture. ▪ Assess the bank's control systems and risk management processes, focusing on detecting weaknesses or vulnerabilities with possible impact on its own funds. ▪ Assess the appropriateness and quality of the bank's corporate governance and internal control framework. ▪ Check bank's compliance with banking regulation, and in the case of internal models, the legal requirements pertaining to internal models. ▪ Update and enrich Joint Supervisory Teams' (JST) knowledge on supervised institutions.
Principles	<ul style="list-style-type: none"> ▪ Risk-based – applying defined techniques considering also based on judgement-based evaluations. ▪ Intrusive – developing an in-depth, cross-institutional, and cross-risk expertise. ▪ Proportionate – commensurate with the size, activities and risk profile of the bank. ▪ Forward-looking – beyond present or historical figures to anticipate possible future impacts. ▪ Action-oriented – leading to remedial actions and/or corrective measures to be taken by the bank.

2 An integrated approach: from SSM priorities to on-site missions & horizontal activities



¹ Source: SSM annual report

3 OSI and IMI in a nutshell



4 Key planning activities & topics

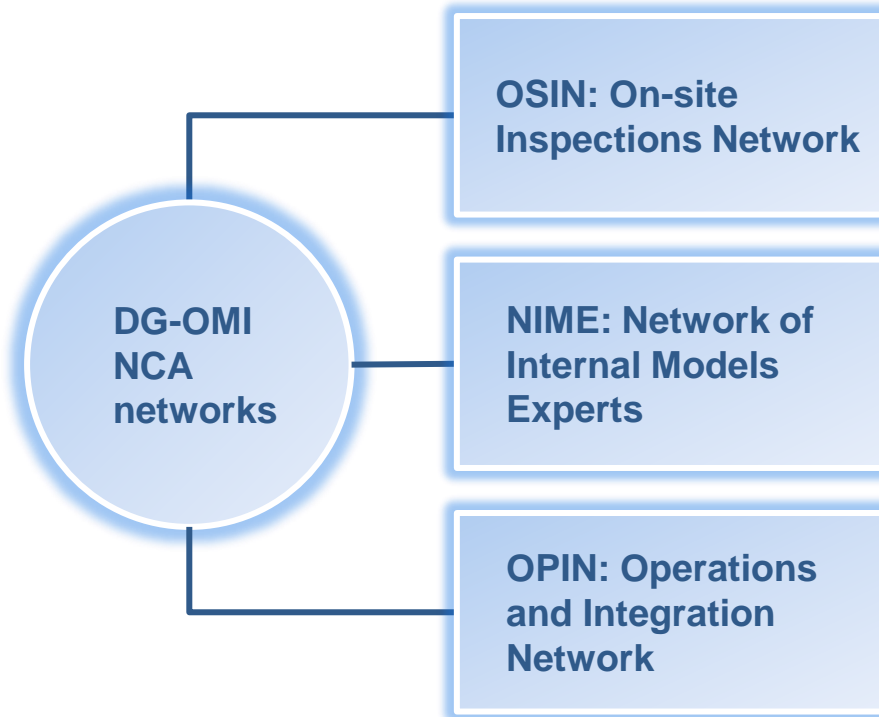
Selected ongoing and upcoming activities & topics

Planning activities & topics

- Responsible for **staffing of OSIs/IMIs by securing NCAs' resources** (local and cross-border) and procuring consultants to support the investigations of SSM priorities in areas where the SSM has not sufficient resources.
- Fostering **cross-border on-site missions**.
- Harnessing **new technology** to free inspectors from repetitive manual tasks and reduce workload: Assisted findings and measures (AFM) project (alongside Medusa) and supporting tools, along with reflection in methodology and processes.
- Supporting **training paths** for SSM inspectors and capability building of on-site community.
- Fostering **efficiency** by streamlining processes, monitoring the duration of on-site phases and achievements of key milestones.
- Promoting **hybrid working modalities** for inspectors and advocating for diversity.
- Optimising **carbon footprint** while being cognisant of DG-OMI's mission.

5 Networks with the NCAs are key

DG-OMI has several networks...



...with the National Competent Authorities (NCAs) that fulfil many different mandates

- Each **DG-OMI network** includes **ECB** (management) **staff** and **NCA** (management) **representatives from up to 21 NCAs**.
- Each network meets **between 4-8 times a year** in a remote or physical set-up.
- **Purpose of these networks** is to:
 - **plan and align** on the **upcoming on-site supervisory activities**;
 - **Hold strategic discussions** on taxonomy of OSIs
 - Discussion and planning of **Centre of Competences**;
 - Define the **SSM understanding of the applicable internal models regulation**;
 - **Develop inspection tools** and **inspections techniques**.



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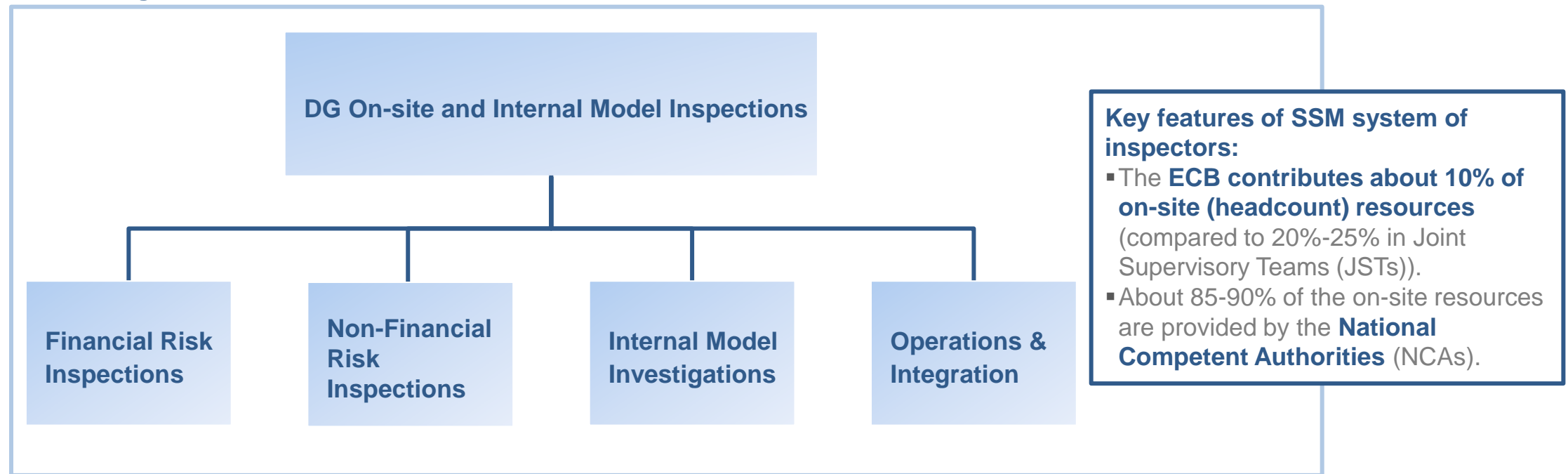
BANKING SUPERVISION

ANNEX



DG On-site and Internal Model Inspections organigram

DG-OMI organisational structure



Introduction to DG-OMI's four divisions

DG-OMI divisions – tasks and responsibilities

Business area	Divisions	Details
 <p>DG On-site and Internal Model Inspections</p>	Financial Risk Inspections	<ul style="list-style-type: none"> Conducting on-site inspections (OSIs) at Significant Institutions (SIs) on Credit Risk and Capital Markets & Treasury and the Asset Quality Review. Maintaining a comprehensive inspection methodology, on-site inspection processes and supporting tools as well as performing consistency checks on all OSI reports.
	Non-Financial Risk Inspections	<ul style="list-style-type: none"> Conducting OSIs at SIs on IT & Operational Risk, Governance & Risk Management, Capital, Business Model and Emerging Risks including Climate Risk. Maintaining a comprehensive inspection methodology, on-site inspection processes and supporting tools as well as performing consistency checks on all OSI reports.
	Internal Model Investigations	<ul style="list-style-type: none"> Conducting internal model investigations (IMIs) to assess SIs' internal models and perform consistency checks on all reports to ensure a harmonised supervision of internal models in the SSM. Maintaining the ECB Guide for internal models and a comprehensive IMI methodology including supporting tools, and shape internal model regulation in international fora.
	Operations and Integration	<ul style="list-style-type: none"> Defining the planning of the on-site programme, managing common processes to support and monitor its execution, preparing the related reporting, coordinating the staffing of all inspections with NCAs and external service providers, and facilitating the integration of our work into the SSM.