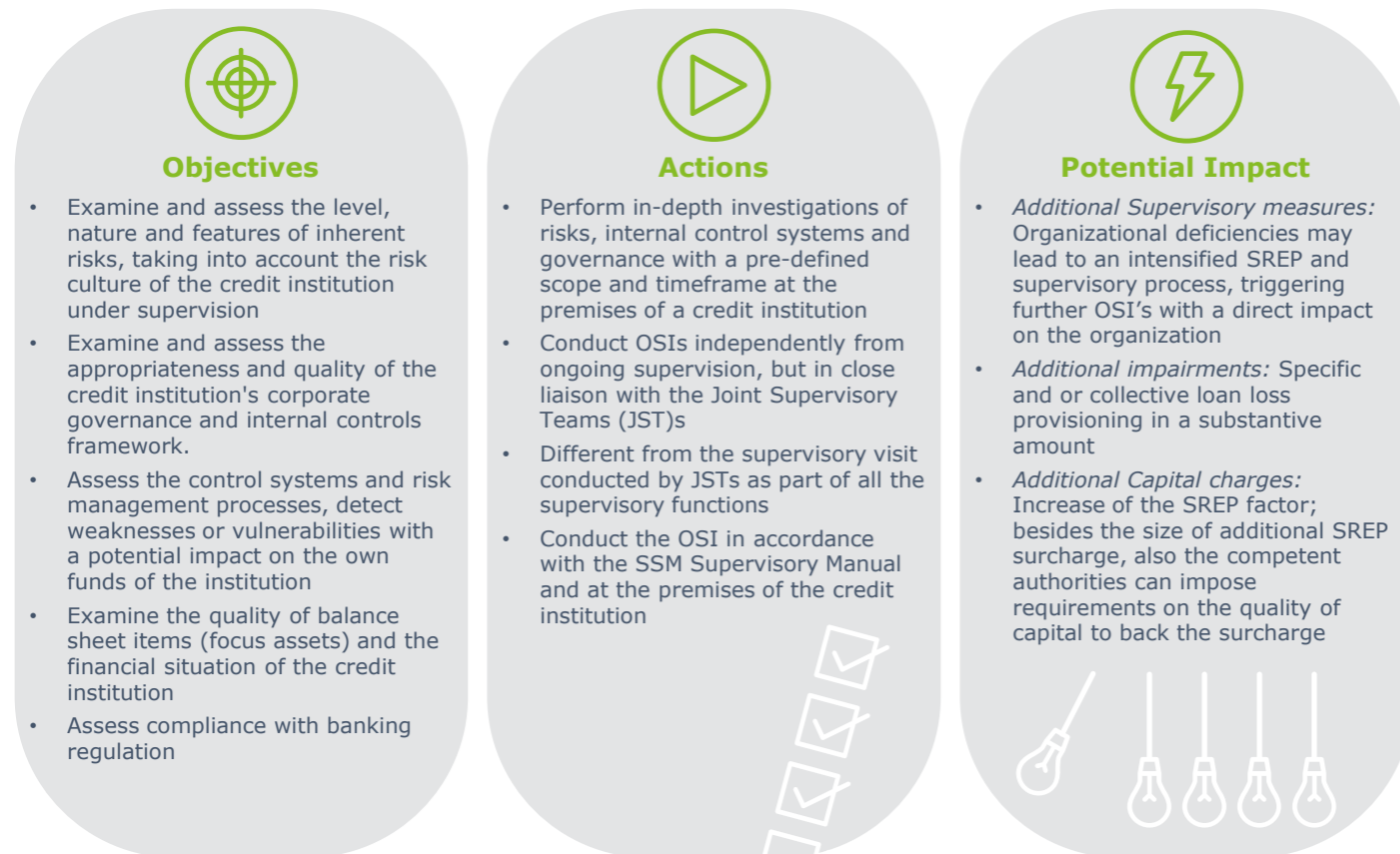
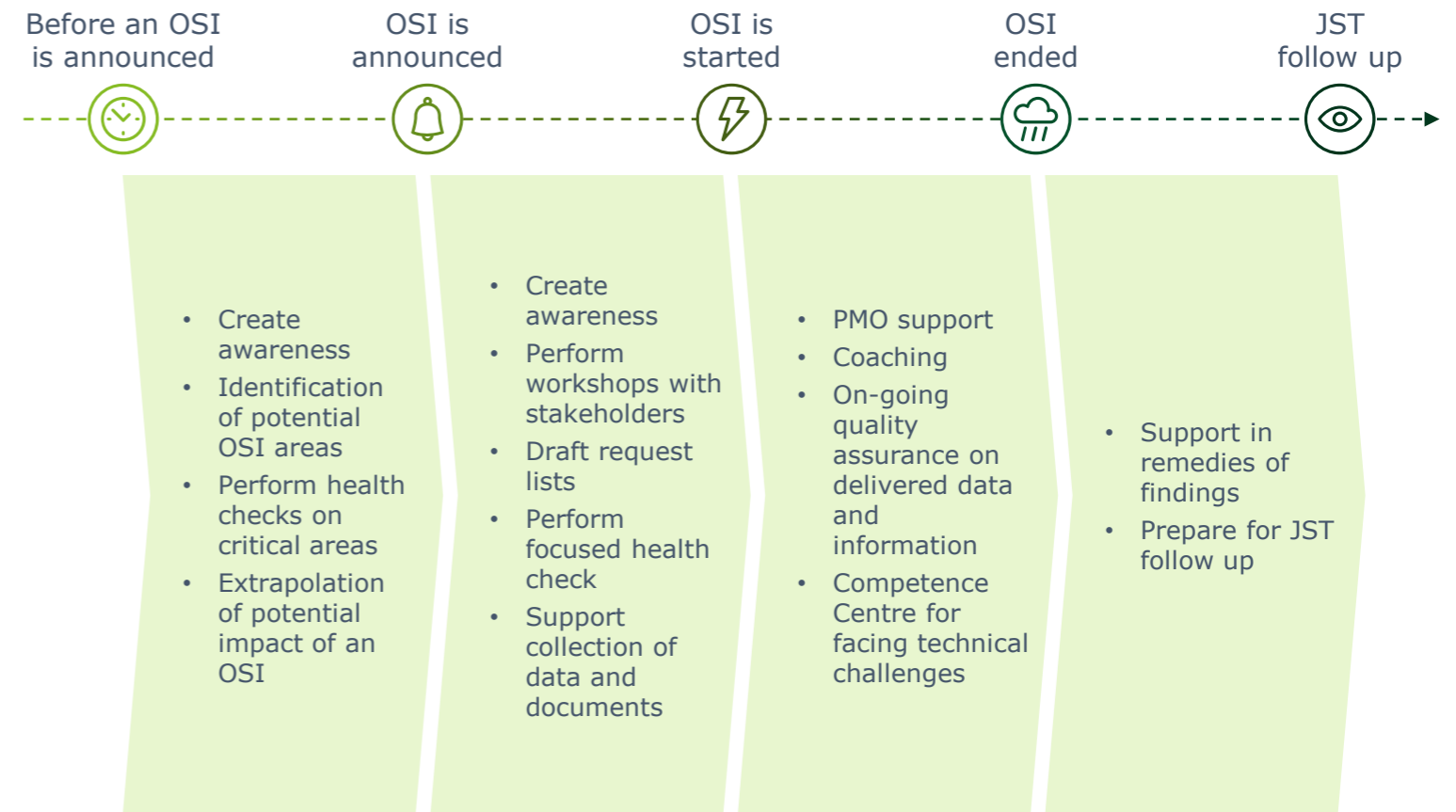


## On-Site Inspections (OSI) Readiness

### OVERVIEW OF ECB ON SITE INSPECTIONS



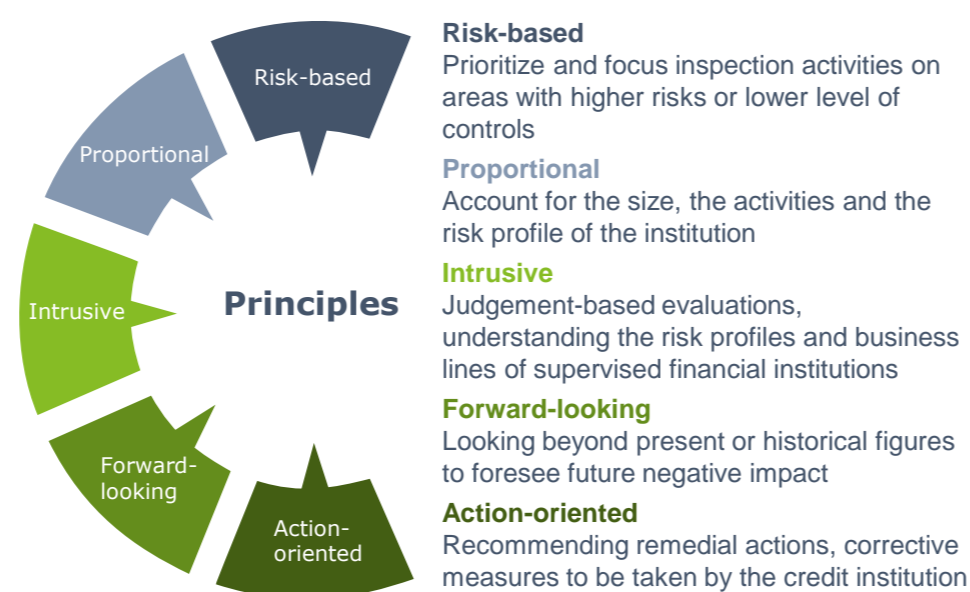
### TIMELINES AND ACTIVITIES FOR OSI SUPPORT



### OSI-SSM APPROACH

- > An OSI can have different triggers and objectives and is usually related to the risk assessment of the credit institution by the JST
- > The main risks will usually not be reviewed in an isolated manner but will be covered in different areas of the mission
- > The timing and scope of an OSI are clearly defined
- > An „ad hoc“ inspection is mostly triggered by a specific event or transaction
- > OSI teams can consist of ECB and/or NCA inspectors, as well as external resources
- > Involvement of ECB staff is not mandatory but the methodology of the ECB must be applied
- > ECB usually leads missions with higher risks and/or potential political impact

### OSI-PRINCIPLES



Direct connection between SREP results and OSI planning:

- key input for the SSM's strategic and operational planning.
- direct impact on the range and depth of off-site and on-site activities



### OSI Mission Topics

- **Business Model Analysis**  
Viability of business model and sustainability of strategies on the basis of the ability to generate returns
- **Credit Risk and Counterparty Risk**  
Governance and organizational framework, Credit risk management and control framework including reporting systems, Credit risk profiles and Quality of exposures including provisioning policies
- **Market Risk**  
Internal market risk management framework, external non-regulatory reporting, compliance with regulatory and disclosure requirements
- **Liquidity and Funding Risk**  
Liquidity risk management framework; external regulatory and non-regulatory reporting, compliance with regulatory and disclosure requirements
- **Operational Risk**  
Internal operational risk management framework, IT risks, outsourcing
- **Internal Governance and Risk Management**  
Management body, internal structure and organization, governance processes, internal control functions, internal governance framework, remuneration, Risk Control function, Compliance Function, Internal Audit Function
- **Internal Capital Adequacy Assessment Process (ICAAP)**  
ICAAP process, level of capital, reflected level of risk, stress tests, risk appetite, strategy and capital planning
- **Pillar 1 Capital Requirements Calculation Process**  
Governance, internal controls and procedures, data integrity with accounting and data quality assurance process, calculation of regulatory capital for major risk types like credit risk, market risk and operational risk

## On-Site Inspections (OSI) Readiness

### DELOITTE METHODOLOGIES



#### Initial analysis of the potential for an OSI

Assess individual situation of the bank, analyze feedback from JST, analyze country and sector environment with a focus on SSM priorities

#### Define scope of work

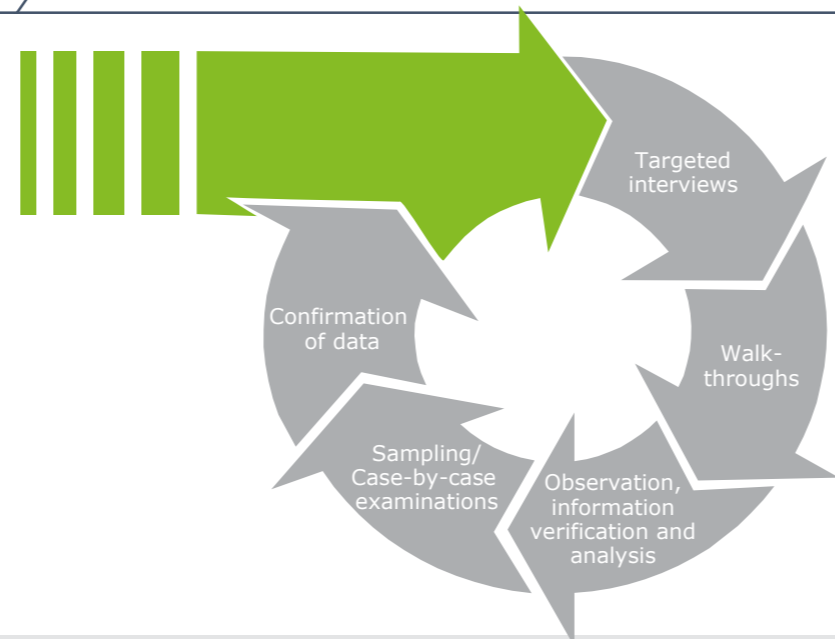
Identify potential impact of an OSI, determine areas of focus and provide a detailed scope and budget offer

#### Develop and perform a specific work program for the institution based on OSI Know-How

Based on known ECB approaches, design a tailored work program focusing on preliminarily identified potential issues; possibility to involve international OSI experts; categorize priorities of deficiencies

#### Remediation

Fix top priority issues; improve documentations and processes; prepare credit institution to face an OSI, detect Quick Wins if OSI is expected soon



1. Governance
2. Organizational and operational framework, structure, policies and procedures
3. Risk inventory, profile, appetite and strategy
4. Risk measurement, models, management and monitoring
5. Risk mitigation
6. Asset Quality/ Valuation
7. Capital adequacy
8. Business continuity/ contingency plans
9. Reporting and disclosure requirements
10. Internal audit
11. IT resources and data security

### HOW CAN WE HELP

#### Deloitte's offering to your bank can include:

- Create awareness of the impact, and prepare your bank for an OSI
- Assist on required analyses and actions to anticipate potential OSI findings
- Create a centralized project management team to setup and run the project to ensure a successful completion of an OSI
- Collect all internal and external required approvals and documentation
- Deep dives on selected portfolios and topics (e.g. Credit Risk Valuations), in preparation for an OSI
- Support data preparation and delivery

#### Key Success Factors



#### Organization

Centralized response team and communication, kick-off meetings and an action plan during OSI for taking ownership of findings



#### Data and IT

Centralized data definition, data quality checks, samplings of portfolios, quantify impact of known challenges. Support in the preparation of data and process flows



#### Governance and Processes

Review of key governance structures and processes to be compliant with regulatory requirements and ECB views on minimum requirements



#### Deficiencies and Issue Management

Become aware of potential deficiencies by running preliminary health checks, use opportunity to understand inspectors' views on issues, anticipate issues and work on remedies and quantify impact

### QUALIFICATIONS



#### Experienced professionals

Senior professionals with broad-based and relevant experiences in regulation, audit and advisory



#### International Team

Global resource and knowledge network: topic clarifications and refinements, training, benchmarking, exchange of technical questions and leading practices, support in all relevant jurisdictions



#### BUCF and ECRS

Collaboration on an international level through the Banking Union Center in Frankfurt (BUCF) and the EMEA Center for Regulatory Strategy (ECRS) providing fundamental views on regulatory changes and issues



#### Experience and multi-dimensional exposure to the supervisory approach

- The direct participation in OSIs under the lead of ECB and NCAs provides substantial insights into the supervisory priorities and regulatory requirements
- The supervisory approach and the critical supervisory view on deficiencies is part of the inherent experience of our professionals
- Deloitte has supported the supervisor in several missions with different topics and provided advice to banks in the preparation before OSIs and remediation after inspections...

...this unique combination of different views enables Deloitte to provide substantial support in relation to OSIs

**BU** Deloitte  
Banking Union  
**CF** Centre in Frankfurt

Europe's most ambitious integration project since the euro. The Banking Union initiative represents a fundamental innovation in supervision of financial services with significant consequences for the structure of the banking sector in the Eurozone and beyond, affecting business models and strategies.