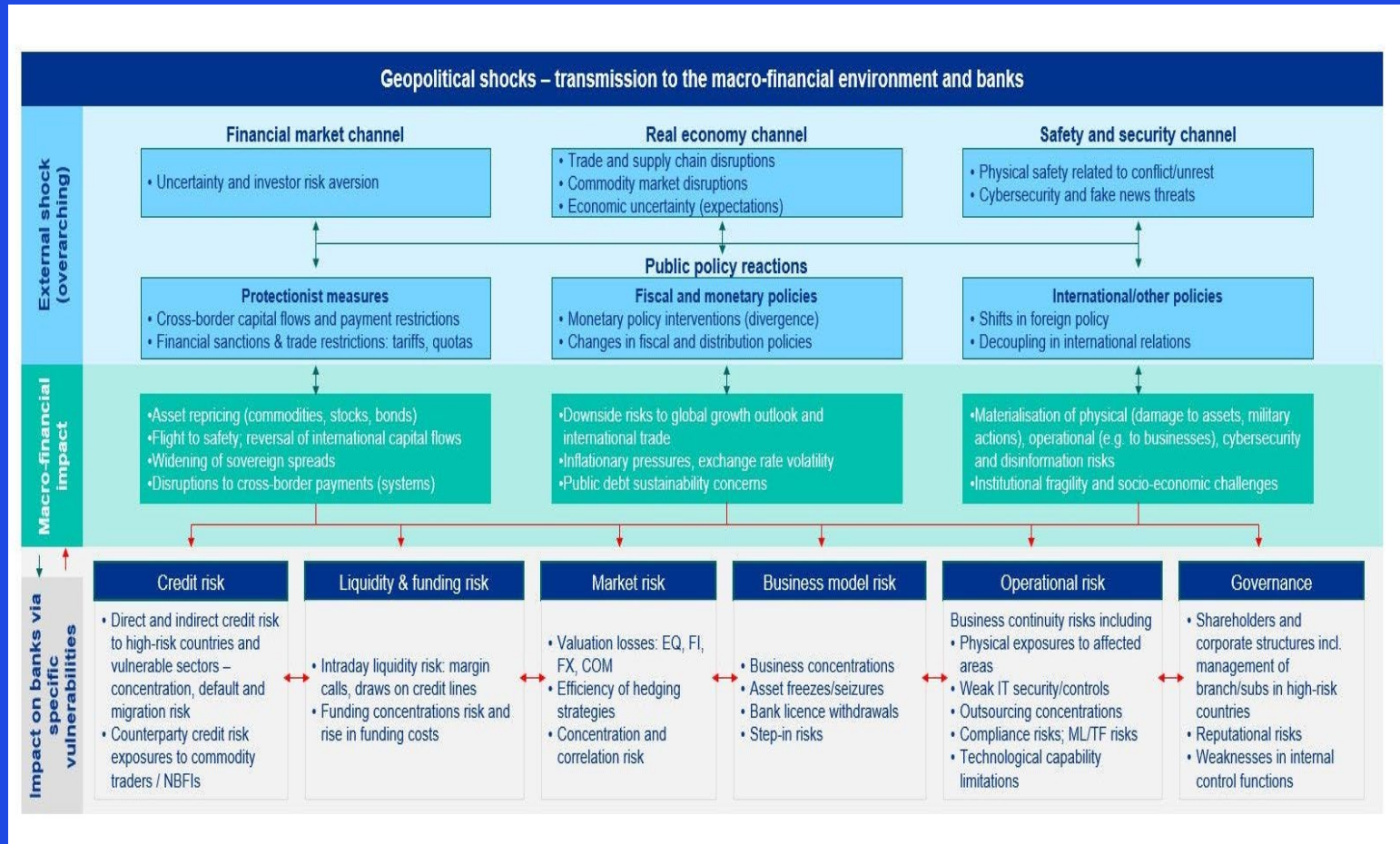


# ECB conceptual framework



## How should Banks manage Geopolitical risk?

- **Governance & Operational schemes** – Predefined crisis response process formalised
- **Materiality analysis** – Probability / Severity matrix
- **Access to relevant and timely data** – Quantitative data & Qualitative information
- **Integration into traditional risk estimation** – Qualitative tools & Scenario analysis
- **Integration into business decisions**

# A concrete example in a recent Geopolitical crisis



**What analyses have you already conducted in the first few days?  
What were the results**

- **Classic MPR sensitivity analyses:** Existing sensitivity models provide initial estimates, but in many cases are not sufficient for geopolitical stress scenarios. Realistic effects (e.g., credit spread shocks, increase in hedging costs) were anticipated in only a few of the existing scenarios.
- Daily calculation of additional **liquidity scenarios**
- **Crisis reports:** Ad hoc reporting in many institutions reveals process and data bottlenecks, partly due to numerous media breaks and manual work.



**What further analysis will be necessary in the coming weeks?  
What will you need to deliver this?**

- Conduct industry and exposure-specific **credit risk analysis** to understand how clients are affected, i.e. understand supply chains and impact channels.
- Simulate effects on risk provisioning by adjusting macroeconomic scenarios (adjusting forward-looking information) or examining the need for management adjustments.
- Validate (and adjust if necessary) geopolitical liquidity risk scenarios
- Test scenario capability and further expand the range of scenarios.
- Identify procedural and technical bottlenecks and determine response measures.

## Impact Assessment Heatmap

