

## Annex III

# Supervisory review and evaluation process (SREP)

010	<b>Date of the last update of information in this template</b>	30 June 2021
020	<b>Scope of application of SREP</b> (Articles 108 to 110 of CRD)	<p>Description of the approach of the competent authority to the scope of application of SREP including:</p> <ul style="list-style-type: none"> <li>– what types of institutions are covered by/excluded from SREP, especially if the scope is different from those specified in Regulation (EU) No 575/2013 and Directive 2013/36/EU;</li> <li>– a high-level overview of how the competent authority takes into account the principle of proportionality when considering the scope of SREP and frequency of assessment of various SREP elements.</li> </ul>

**Credit Institutions Act (OG 159/2013, 19/2015, 102/2015, 15/2018, 70/2019, 47/2020 and 146/2020)**  
**Decision on the method of exercising supervision of credit institutions and imposing supervisory measures (OG 23/2014 and 55/2014)**  
**Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012**  
**Commission Delegated Regulation (EU) 2019/348 of 25 October 2018 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the criteria for assessing the impact of an institution's failure on financial markets, on other institutions and on funding conditions**

Entities subject to supervision are, in accordance with Article 178, paragraph 1 of the Credit Institutions Act, credit institutions with head offices in the Republic of Croatia and their branches outside the Republic of Croatia, branches of credit institutions with head offices in other Member States operating in the Republic of Croatia, branches of credit institutions with head offices in third countries operating in the Republic of Croatia, financial holding company or mixed financial holding company from the title III.2.a. of the same Act and credit institutions of the Member States in respect of their direct provision of services within the territory of the Republic of Croatia. The Croatian National Bank conducts supervision of all credit institutions in the Republic of Croatia on an individual basis in accordance with Article 180 (Scope of supervision of credit institutions) of the Credit Institutions Act and in accordance with Articles 1 and 2 of the Decision on the method of exercising supervision of credit institutions and imposing supervisory measures, as well as on a consolidated basis in accordance with Chapter 2 (Prudential consolidation) of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

A credit institution, in accordance with Article 5, paragraph 1 of the Credit Institutions Act may be established as a bank, a savings bank or a housing savings bank. All credit institutions, in other words all banks, savings banks and housing savings banks, fall within the scope of the application of the supervisory review and evaluation process.

The Croatian National Bank, in establishing the frequency and intensity of the supervisory process, is guided by the size and importance of the credit institution for the banking system of the Republic of Croatia and by the nature, scale and complexity of the activities of the credit institution concerned (in accordance with Article 180, paragraph 3 of the Credit Institutions Act).

The Croatian National Bank has, as of 2016, transposed EBA's Guidelines on common procedures and methodologies for the supervisory review and evaluation process (EBA/GL/2014/13 – in July 2018 revised and amended by adopting EBA/GL/2018/03) in the internal methodology (SREP Methodology). According to that methodology, the Croatian National Bank classifies credit institutions into one of four categories based on their size or the nature, scope and complexity of their activities.

Category	Description	Element
1	OSIIs	systemic importance / size

2	> HRK 3bn	size
3	< HRK 3bn	size
4	housing savings banks	business model

– size is determined based on asset size in audited financial statements on the last day of the previous calendar year  
The category from the previous table does not represent the risk profile of the institution but rather its classification upon which the Croatian National Bank decides on the scope and intensity of its supervisory engagement. The minimum supervisory engagement is defined as follows.

Category	Monitoring of key risk indicators	Assessment of all SREP elements (at least)	Summary of the overall SREP assessment	Dialogue
1	Quarterly	Annual	Annual	Ongoing engagement with the CI's management body and senior management; engagement with the CI for assessment of each element
2	Quarterly	Every 2 years	Annual	Ongoing engagement with the CI's management body and senior management; engagement with the CI for assessment of each element
3	Quarterly	Every 3 years	Annual	Risk-based engagement with the CI's management body and senior management; engagement with the CI for assessment of material risk element(s)
4	Quarterly	Every 3 years	Annual	Engagement with the CI's management body and senior management at least every 3 years

However, the supervisory engagement of the Croatian National Bank will be more frequent and intensified for credit institutions with a higher risk profile.

Additionally, in relation to recovery planning as an important input in the assessment of internal governance and controls within SREP, and for the purpose of determining eligibility of credit institutions to draw up recovery plans under simplified obligations, Croatian National Bank has in its internal methodology, in accordance with Article 1 paragraph 3 of the Commission Delegated Regulation (EU) 2019/348 of 25 October 2018 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the criteria for assessing the impact of an institution's failure on financial markets, on other institutions and on funding conditions, set the quantitative threshold to 105 basis points.

Pursuant to Decision (EU) 2020/1016 of the European Central Bank of 24 June 2020 on the establishment of close cooperation between the European Central Bank and Hrvatska Narodna Banka (ECB/2020/31), from 1 October 2020 the European Central Bank is the competent authority for significant supervised entities and significant supervised groups, while the Croatian National Bank is the competent authority for less significant supervised entities and less significant supervised groups. Accordingly, the SSM SREP methodology of the European Central Bank, based on the EBA Guidelines on common procedures and methodologies for the supervisory review and evaluation process, applies to significant supervised entities and groups.

030 **Assessment of SREP elements** Description of the approach of the competent authority to

**Credit Institutions Act (OG 159/2013, 19/2015, 102/2015, 15/2018, 70/2019, 47/2020 and 146/2020)**

(Articles 74 to 96 of CRD)

the assessment of individual SREP elements (as referred to in EBA Guidelines on common procedures and methodologies for SREP-EBA/GL/2014/13) including:

- a high-level overview of the assessment process and methodologies applied to the assessment of SREP elements, including: (1) business model analysis, (2) assessment of internal governance and institution-wide controls, (3) assessment of risks to capital, and (4) assessment of risks to liquidity and funding;
- a high-level overview of how the competent authority takes into account the principle of proportionality when assessing individual SREP elements, including how the categorisation of institutions have been applied.

**Decision on the method of exercising supervision of credit institutions and imposing supervisory measures (OG 23/20104 and 55/2014)**

**Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012**

In the course of supervision of the credit institution's operation, the Croatian National Bank, in accordance with Article 180, paragraphs 1 and 2, Article 181 of the Credit Institutions Act and Article 2 of the Decision on the method of exercising supervision of credit institutions and imposing supervisory measures, assesses the arrangements, strategies, policies, processes and procedures implemented by the institutions to comply with the legal requirements, and evaluates risks to which the institutions are or might be exposed, risks that an institution poses to the financial system taking into account the identification and measurement of systemic risk, and risks revealed by stress testing taking into account the nature, scale and complexity of an institution's activities. On the basis of the review and evaluation, the Croatian National Bank determines whether the arrangements, strategies, policies, processes and procedures implemented by the institutions and the own funds and liquidity held by credit institutions ensure a sound management and coverage of their risks.

The Croatian National Bank exercises supervision of credit institutions by: performing off-site supervision (collecting and analysing reports and information, ongoing monitoring of the operation of credit institutions and other persons required to report to the Croatian National Bank pursuant to the Credit Institutions Act or other laws); carrying out on-site examinations of credit institution's operations; imposing supervisory measures; and issuing opinions, authorisations and approvals in accordance with the Credit Institutions Act, Regulation (EU) No 575/2013 and other regulations of the European Union governing the operation of credit institutions.

The principle of proportionality in the assessment of individual risks is linked to the categorization of credit institutions and materiality of the risk for the credit institution. For credit institutions in categories 1 and 2, the Croatian National Bank conducts a more comprehensive and granular risk assessment than for credit institutions in categories 3 and 4.

The Croatian National Bank assesses risks taking into account quantitative and qualitative elements. According to the internal SREP Methodology<sup>1</sup>, the Croatian National Bank scores following elements: business model and strategy; internal governance and institution-wide controls; individual risks to capital; capital adequacy; individual risks to liquidity and funding; liquidity adequacy and assigns the overall SREP score.

In the assessment of the risk profile, and taking into account the technical criteria for supervisory review set out in Article 181 of the Credit Institutions Act, the Croatian National Bank at a minimum assesses and evaluates the following risks: credit risk, market risks, liquidity risk, interest rate risk in the non-trading book and operational risk.

The Croatian National Bank uses the following scores for SREP elements:

- 1 (low)
- 2 (low to medium risk)
- 3 (medium to high risk)
- 4 (high risk).

Furthermore, for the overall SREP score, an additional score 'F' is used to reflect the supervisory view that the CI is failing or likely to fail.

**Credit Institutions Act (OG 159/2013, 19/2015, 102/2015, 15/2018, 70/2019,47/2020 and 146/2020)**

**Decision on the internal capital adequacy assessment process and internal liquidity adequacy assessment process for credit institutions (OG 20/2014 and 126/2017)**

In the course of supervision of the operations of a credit institution, the Croatian National Bank assesses the safety and stability of operations of the credit institution, in which, among other things, it evaluates the adequacy of the process in place for assessing and maintaining the internal capital and internal liquidity of the credit institution. A credit institution is obliged to submit a written report to the Croatian National Bank on the process of internal capital adequacy assessment and internal liquidity adequacy assessment. In accordance

040 **Review and evaluation of ICAAP and ILAAP**  
(Articles 73, 86, 97, 98 and 103 of CRD)

Description of the approach of the competent authority to the review and evaluation of the internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment

<sup>1</sup> From the date of entering into close cooperation with the European Central Bank, 1 October 2020, for significant credit institutions the Croatian National Bank applies the SSM SREP methodology, still assessing same elements and risks.

process (ILAAP) as part of the SREP, and, in particular, for assessing the reliability of the ICAAP and ILAAP capital and liquidity calculations for the purposes of determining additional own funds and quantitative liquidity requirements including:

- an overview of the methodology applied by the competent authority to review the ICAAP and ILAAP of institutions;
- Information/reference to the competent authority requirements for submission of ICAAP and ILAAP related information, in particular covering what information need to be submitted;
- information on whether an independent review of the ICAAP and ILAAP is required from the institution.

with Article 19 of the Decision on the internal capital adequacy assessment process and internal liquidity adequacy assessment process for credit institutions, the report should at a minimum include an overview of the current financial condition/business model and its expected changes over the next period, the organisational structure, with a description of powers and responsibilities assigned to various functions and organisational units that are involved in the internal capital adequacy assessment process and internal liquidity adequacy assessment, a description of methodologies applied for the determination of the required internal capital and internal liquidity, a description of systems of measuring/assessing risks, the manner of control and the mitigation technique for significant types of risks, a description of the stress testing used by a credit institution in the process of assessing internal capital adequacy and internal liquidity adequacy assessment and the results obtained, its own assessment of the internal capital adequacy assessment process and internal liquidity adequacy assessment process that should identify weaknesses and deficiencies in the actual process and timely corrective measures to be undertaken for their removal and, if the credit institution is a subsidiary of a parent company with a head office outside the Republic of Croatia, the manner in which the process of assessing the internal capital adequacy and the process of assessing the internal liquidity adequacy of the credit institution are harmonised with the process that is carried out by the parent credit institution. The contents of the report are determined in more detail in the Annex to the Decision on the internal capital adequacy assessment process and internal liquidity adequacy assessment process for credit institutions.

In accordance with Article 5 (3) of the Decision on the internal capital adequacy assessment process and internal liquidity adequacy assessment process for credit institutions, the internal audit function of a credit institution shall at a minimum on an annual basis assess the appropriateness of the internal capital and internal liquidity adequacy assessment process.

050 **Overall SREP assessment and supervisory measures**  
(Articles 102 and 104 of CRD)

Description of the approach of the competent authority to the overall SREP assessment (summary) and application of supervisory measures on the basis of the overall SREP assessment. Description of how SREP outcomes are linked to the application of early intervention measures according to Article 27 of Directive 2014/59/EU and determination of conditions whether the institution can be considered failing or likely to fail according to Article 32 of that Directive.

**Credit Institutions Act (OG 159/2013, 19/2015, 102/2015, 15/2018, 70/2019, 47/2020 and 146/2020) Decision on the method of exercising supervision of credit institutions and imposing supervisory measures (OG 23/2014 and 55/2014)**

The overall SREP assessment provides the indication of the credit institution's overall viability. It indicates the likelihood that early intervention measures should be taken or whether the institution is failing or likely to fail. The Croatian National Bank issues supervisory measures for the purpose of timely undertaking of activities to improve the safety and stability of operations of a credit institution and the removal of established illegalities and irregularities. Supervisory measures are implemented by a decision or an agreement of understanding in which there must be a statement of the way in which the credit institution is to act for the sake of eliminating the illegalities, weaknesses or deficiencies in its operations, and the deadlines by which it is to do so. Supervisory measures are defined in Titles XVIII.3, XVIII.4 and XIX. of the Credit Institutions Act and Title VIII. of the Decision on the method of exercising supervision of credit institutions and imposing supervisory measures.