

Annex III

Supervisory review and evaluation process (SREP)

010	Date of the last update of information in this template	30 April 2026
020	Scope of application of SREP (Articles 108 to 110 of Directive 2013/36/EU)	<p>Description of the approach of the competent authority to the scope of application of SREP including:</p> <ul style="list-style-type: none">— 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,— 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.
		<p>Credit Institutions Act (OG 22/2026)</p> <p>Decision on the method of exercising supervision of credit institutions and imposing supervisory measures (OG 87/2021 and 150/2024)</p> <p>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</p> <p>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</p> <p>Guidelines on the interpretation of the different circumstances when an institution shall be considered as failing or likely to fail under Article 32(6) of Directive 2014/59/EU</p> <p>Guidelines on triggers for use of early intervention measures pursuant to Article 27(4) of Directive 2014/59/EU</p> <p>Entities subject to supervision are, in accordance with Article 95, 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, financial holding companies and mixed financial holding companies referred to in Title X. of the same Act. The Croatian National Bank conducts supervision of credit institutions to the extent prescribed by Article 98 of the Credit Institutions Act and in accordance with Articles 1 and 3 of the Decision on the method of exercising supervision of credit institutions and imposing supervisory measures. The Croatian National Bank conducts supervision on individual and consolidated level of the group of credit institutions as prescribed by Article 135 of Credit Institutions Act.</p> <p>A credit institution, in accordance with Article 5, paragraph (1) of the Credit Institutions Act may be established as a bank, a savings bank, a housing savings bank or a credit institution referred to in Article 4, paragraph (1), item (1), sub-item (b) of Regulation (EU) No 575/2013.</p> <p>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. As of 1 January 2023, the Croatian National Bank became a full member of the Single Supervisory Mechanism (SSM), and the Croatian National Bank and the European Central Bank perform their tasks within the SSM in accordance with Article 6 of Regulation No. 1024/2013.</p> <p>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, by the type, scale and complexity of the activities of the credit institution concerned and by the proportionality principle (in accordance with Article 98, paragraph (4) of the Credit Institutions Act). The Croatian National Bank acts in line with the European Central Bank's classification regime, which provides a key starting point to decide on the intensity</p>

of the SREP assessment. First of all, the differentiation between Significant institutions (SIs) and Less significant institutions (LSIs) provides a scale for tailoring supervisory intensity. In addition, Regulation (EU) No 575/2013 introduced the concept of small and non-complex credit institutions, which provides a basis for additional possibility of applying the principle of proportionality. In accordance with the methodology established by the SSM framework regulation (EU) No 468/2014, high-risk LSIs and LSIs with significant impact are determined as follows:

- High-Impact LSIs - LSIs are classified as high impact based on criteria such as size, importance for the economy, cross-border activities and business model. An LSI that is considered to be an SNCI as per CRR II cannot be designated as a high-impact LSI unless it is the largest LSI in a jurisdiction where all the LSIs are classified as SNCIs. The identification exercise for high-impact LSIs is performed annually and the list of High-impact LSIs is published on the ECB's website.

- High-risk LSIs - LSIs are classified as high risk based on a risk assessment and on their compliance with capital and leverage requirements.

The classification method translates the risk profile, business model or size of LSIs into multiple levels of supervisory engagement (in terms of frequency, scope and depth of supervisory assessment). The update of the SREP assessment is carried out annually for each LSI, a comprehensive assessment every year or every second or third year, depending on the categorization of the credit institution.

The Croatian National Bank conducts SREP assessments for less significant supervised entities and less significant supervised groups in line with the SSM SREP methodology of the European Central Bank for less significant institutions; the assessment is performed in line with the EBA Guidelines. In addition, the Croatian National Bank applies its own methodology in the process of determining additional regulatory capital to cover unexpected losses for risks specific to the domestic banking system, for inadequate management systems or for other circumstances indicating significant supervisory concern. Documented summary of the overall SREP assessment is produced at least annually, regardless of the institution's impact classification. A comprehensive assessment is conducted with a minimum frequency that depends on the institution's impact classification and in line with the rules of the multi-year SREP approach. This multi-year approach allows the supervisor to tailor for each year the depth of the analysis of each risk which may be assessed either via comprehensive SREP assessment (the risk level, risk control and the relevant material subcategories are assessed) or via a less granular base SREP assessment (the analysis only at the level of the risk category). In the case of non-HI LSIs, a comprehensive SREP assessment including all material risks is required at least every three years or earlier, as decided by the supervisor and taking into account the risk profile of the institution.

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, the Croatian National Bank has in its internal methodology, in accordance with Article 1 paragraph (3) of 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 an adequate quantitative threshold.

030 **Assessment of SREP elements**
(Articles 74 to 96 of Directive 2013/36/EU)

Description of the approach of the competent authority to the assessment of individual SREP elements (as referred to in EBA Guidelines on common procedures and methodologies for SREP EBA/GL/2022/03) 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

Credit Institutions Act (OG 22/2026)

Decision on the method of exercising supervision of credit institutions and imposing supervisory measures (OG 87/2021 and 150/2024)

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

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

Guideline (EU) 2025/2595 of the European Central Bank of 10 December 2025 on the supervisory approach by national competent authorities to coverage of non-performing exposures held by less significant supervised entities (ECB/2025/40)

Significant institutions – the ECB is responsible for the supervision of significant institutions, refer to the ECB disclosure for information on SREP for SIs.

Less significant institutions

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.

The Croatian National Bank conducts SREP assessments for less significant supervised entities and less significant supervised groups in line with the SSM SREP methodology of the European Central Bank for less significant institutions; the assessment is performed in line with the EBA Guidelines. In addition, the Croatian National Bank applies its own methodology in the process of determining additional regulatory capital to cover unexpected losses for risks specific to the domestic banking system, for inadequate management systems or for other circumstances indicating significant supervisory concern. The SREP assessment for LSIs relies extensively on quantitative and qualitative analysis and covers four elements as follows:

Element 1. Business model - assessment of business model viability and sustainability

Element 2. Internal governance and risk management - assessment covers the following categories: organisational structure, management body, risk management function, compliance function, internal audit function, risk management framework, remuneration, risk culture and risk data aggregation and risk reporting

Element 3. Risks to capital (i.e. credit risk, market risk, IRRBB and operational risk/information and communication technologies risks) and capital adequacy - assessment of risks to capital, challenging institution's internal assessment of capital needs and institution's internal capital stressed estimates

a) credit risk - the assessment of credit risk is based on the assessment of different portfolios and aspects such as composition and the quality of the portfolio, evolution and developments in the portfolio, loss-absorption capacity of the institution; the assessment covers many sub-categories such as concentration risk, counterparty risk, country risk, residual risk, specialised lending etc.;

b) market risk - the assessment of market risk includes but is not limited to the assessment of: interest rate and credit spread risk in the trading book, equity risk, FX risk (including the gold positions), commodity risk, default and migration risks in the trading book, risks related to market liquidity, credit value adjustment risk and risks related to other fair value adjustments

c) IRRBB and CSRBB - the assessment is performed taking into account two main perspectives: economic value perspective and earnings perspective

d) operational risk and information and communication technologies risks (ICT risks) - the assessment is divided into two main categories: operational risk and ICT risks. The objective of the assessment of operational risk and ICT risks is to determine whether operational risk losses and their coverage, as well as the level of the ICT risks, can be considered as adequate, and the assessment of the frameworks for managing these risks seeks to determine whether these frameworks are adequate for the appropriate identification, measurement, monitoring, reporting and mitigation of these risks. In addition to the aforementioned two risk categories, operational resilience of the institution is also assessed in order to determine whether the institution is able to keep its critical operations operationally resilient through an unplanned disruption

e) challenging institution's internal assessment of capital needs - the objective is to assess whether the institution's ICAAP framework is reliable and proportionate to the nature, scale and complexity of the institution's activities, checking for instance how the institution identifies, measures and aggregates its risks; how the ICAAP is embedded into its daily management process, including the role of the management body as well as the roles of internal control, validation and audit as part of the governance framework of ICAAP; how the ICAAP affects the capital planning and also how the forward-looking perspective is considered

f) challenging institution's internal capital stressed estimates - assessment of the institution's capacity to cover its capital needs from a forward-looking perspective, assuming stressed economic and financial developments.

Element 4. Risks to liquidity and funding and liquidity adequacy - assessment of risks to liquidity, challenging institution's internal assessment of liquidity needs and institution's internal liquidity stressed estimates

Assessment of risks to capital and risks to liquidity and funding is focused on the assessment of both quantitative (risk level) and qualitative (risk controls) perspectives. Assessment of business model includes the assessment only of risk level while for the internal governance and risk management only risk controls are assessed.

In addition, in order to address all the risks that are not covered or not sufficiently covered by the Pillar I requirements, the assessment of the risk of excessive leverage is conducted as well by considering risk drivers in the areas of contingent leverage, window dressing and the evolution of the total exposure measure as well as items excluded from the Pillar I requirements for the leverage ratio.

All risk elements are scored from 1 to 4 (score 1 - low risk, score 4 - high risk) on a risk level and/or risk control basis. These two scores are then combined to produce an overall score (1 to 4) for the risk element in question. The compilation of all risk elements' scores is combined to produce an overall SREP score. This overall SREP score reflects the supervisor's overall assessment of the viability of the institution: higher scores reflect higher risks to the viability of the institution stemming from one or several features of its risk profile.

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 implementation of the proportionality principle in the scope of the analysis is driven by the concept of materiality. Within element 3 (risks to capital), only those risks that are identified as material for the institution are assessed and scored. The risk categories Business model assessment, Internal governance and risk management as well as the two risk categories of element 4 (short-term liquidity risk and funding sustainability risk) are considered material for all LSIs and therefore the corresponding assessments shall be conducted in any case. The materiality of the risk is derived from its impact on the prudential elements of the institution if the risk materializes.

More details on the implemented ECB methodology can be found on:

https://www.bankingsupervision.europa.eu/banking/lisi/srep_for_lsis/html/index.en.html

040 **Review and evaluation of ICAAP and ILAAP**
(Articles 73, 86, 97 and 98 of Directive 2013/36/EU)

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 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

Credit Institutions Act (OG 22/2026)

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

Guidelines on ICAAP and ILAAP information collected for SREP purposes (EBA/GL/2016/10)

Guidelines on institutions' stress testing (EBA/GL/2018/04)

In the course of supervision of the operations of an LSI, 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.

The ICAAP/ILAAP reliability is assessed based on the following criteria:

- Completeness of information - as determined by the Guidelines on ICAAP and ILAAP information collected for SREP purposes (EBA/GL/2016/10)
- Granularity – the ICAAP calculations/methodologies should allow the calculations to be broken down by risk type;
- Credibility – the calculations/methodologies used should demonstrably cover the risk they are looking to address and should be based on recognised or appropriate methods and prudent assumptions;
- Comprehensibility – the underlying drivers of the calculations / methodologies should be clearly specified. Institutions should provide an explanation of the most fallible areas of the methods used, and how these are accounted for and corrected in the final ICAAP/ILAAP calculation; and
- Comparability – the holding period/risk horizon and confidence levels of the ICAAP/ILAAP calculations should be considered.

The assessment covers five main areas:

- Internal governance & roles of the management body and senior management
 - Capital planning /Funding strategy and liquidity planning
 - Scenario design and stress testing, contingency funding plan
 - Internal controls, independent reviews and ICAAP/ILAAP documentation
 - Data, infrastructure, risk capture, management and aggregation.
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ICAAP and ILAAP is required from the institution.	<p>The ICAAP/ILAAP assessment results in a score (from 1 to 4) which identifies the ICAAP/ILAAP as strong/adequate/weak/inadequate. If the ICAAP/ILAAP calculations are deemed reliable or partially reliable, these calculations are taken into account as one of the key inputs in the determination of the amount of capital considered adequate for the institution and in the determination of additional own funds requirements.</p> <p>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 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 Article 19 of the Decision on the internal capital adequacy assessment process and internal liquidity adequacy assessment process for credit institutions.</p> <p>In accordance with Article 5, paragraph (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.</p>
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050 **Overall SREP assessment and supervisory measures**
(Articles 102 and 104 of Directive 2013/36/EU)

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 22/2026)

Decision on the method of exercising supervision of credit institutions and imposing supervisory measures (OG 87/2021 and 150/2024)

Guideline (EU) 2025/2595 of the European Central Bank of 10 December 2025 on the supervisory approach by national competent authorities to coverage of non-performing exposures held by less significant supervised entities (ECB/2025/40)

Guidelines on triggers for use of early intervention measures pursuant to Article 27(4) of Directive 2014/59/EU (EBA/GL/2015/03)

On the basis of the SREP assessment, the Croatian National Bank determines whether the arrangements, strategies, policies, processes and procedures implemented by the LSI and the own funds and liquidity held by the LSI ensure a sound management and coverage of their risks. 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. 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 XI. and XIX. of the Credit Institutions Act and Title V of the Decision on the method of exercising supervision of credit institutions and imposing supervisory measures.

Supervisory measures are carried out on the basis of a decision or agreements of understanding, in which the deadline and method of action of the credit institution to eliminate irregularities, i.e. weaknesses or deficiencies in business operations, are mandatory. After the supervision, the Croatian National Bank may conclude a memorandum of understanding with the credit institution if it determines weaknesses or deficiencies in the credit institution's operations that do not constitute a violation of regulations, if, after the supervision, it deems it necessary for the credit institution to take actions and procedures to improve operations, or if according to the data at its disposal, it is reasonable to expect that there will be violations of the regulations in the next 12 months. In accordance with Article 102 of the Credit Institutions Act, the

Croatian National Bank will issue a timely decision imposing to the credit institution to take supervisory measures if, within the framework of its supervisory powers, it determines:

- 1) that by its actions or omission of particular actions the credit institution acted contrary to the Credit Institutions Act, Regulation (EU) No 575/2013 or other regulations governing the operation of credit institutions;
- 2) that on the basis of information available to the Croatian National Bank it may be reasonably expected that the credit institution will breach the provisions of the Credit Institutions Act, Regulation (EU) No 575/2013 or other regulations governing the operation of credit institutions within the following 12 months;
- 3) the existence of the circumstances referred to in Article 107, paragraph 1 of the Credit Institutions Act
- 4) weaknesses or deficiencies in the credit institution's operation which do not constitute a breach of regulations; or
- 5) that it is necessary that the credit institution takes actions and procedures to improve its operation.

Article 343 of the Credit Institutions Act regulates the "Right to be heard" process.

If, on the basis of the SREP assessment, the Croatian National Bank determines that the risks or risk elements to which the credit institution is exposed are not or are not fully covered by the Pillar I. capital requirements, it will impose, in accordance with the provisions of Article 105, paragraph (1) of the Credit Institutions Act, the supervisory measure of additional regulatory capital (P2R). It will be considered that risks or elements of risk are not or not fully covered by capital requirements only if the amounts, type and distribution of regulatory capital assessed as appropriate by the Croatian National Bank, taking into account the assessment that is in accordance with Article 180, paragraph (2) of this Act made by the credit institution, are higher than the capital requirements prescribed by Parts 3, 4 and 7 of the Regulation (EU) No. 575/2013 and Chapter 2 of Regulation (EU) 2017/2402. The Croatian National Bank estimates the appropriate amount of capital for each individual risk by determining, evaluating and quantifying the risks to which the credit institution is exposed, taking into account its risk profile.

The amount of adequate regulatory capital is determined by the Croatian National Bank taking into account the Pillar I requirements, which represent the minimum requirements, the results of the assessment of internal capital requirements as assessed by the credit institution as part of the ICAAP if it is considered reliable or partially reliable, the results of a comparison in relation to the supervisory reference values, results of all relevant previous supervisory activities and other relevant parameters, including supervisory judgement.

Based on the results of the SREP assessment, the Croatian National Bank considers and decides on the need to impose special requirements or measures for liquidity, qualitative or quantitative, which cover the liquidity risks to which the credit institution is exposed. When deciding on the application of these measures, the Croatian National Bank takes into account the business model of the credit institution, its systems, processes and mechanisms and, in particular, the requirements for liquidity and the findings of the supervision carried out in accordance with Article 98 of the Credit Institutions Act.

In accordance with Article 108 of the Credit Institutions Act, credit institutions are required to assess and maintain the level of internal capital at a level sufficient to cover all risks to which they are exposed, and to ensure that their regulatory capital also covers potential losses resulting from stress scenarios, including risks determined as part of the supervisory stress testing referred to in Article 98, paragraph (7) of the same Act. The guidelines on additional regulatory capital (P2G) are established by the Croatian National Bank based on the results of supervisory stress testing, and in the absence of these results, it may take into account other sources of information, such as the results of stress tests conducted by the credit institution as part of the ICAAP and, the results of supervisory stress testing of other credit institutions or the existing level of the guidelines on additional regulatory capital.

In line with EBA Guidelines on triggers for use of early intervention measures pursuant to Article 27(4) of Directive 2014/59/EU (EBA/GL/2015/03), an overall SREP score of 4 or a combination of an overall SREP score of 3 and a SREP score of 4 in at least one of the four SREP elements constitute a trigger for the application of early intervention measures.

The Croatian National Bank shall determine that the less significant credit institution is failing or is likely to fail where one or more of the following circumstances occurs:

- 1) the less significant credit institution infringes or there are objective elements to support a determination that will, in the near future, infringe the requirements for continuing authorisation in a way that would justify the withdrawal of the authorisation, including but not limited to,

because the less significant credit institution has incurred or is likely to incur losses that will deplete all or a significant amount of its own funds

2) the assets of the less significant credit institution are or there are objective elements to support a determination that will, in the near future, be less than its liabilities

3) the less significant credit institution is or there are objective elements indicating that will, in the near future, be unable to pay its liabilities as they fall due or

4) extraordinary public financial support is required except when, in order to remedy a serious disturbance in the economy of the Republic of Croatia and preserve financial stability, the extraordinary public financial support takes any of the following forms:

a) a state guarantee to back liquidity support provided by the central bank according to its terms and conditions;

b) a state guarantee of newly issued liabilities of the less significant institution or

c) an investment in own funds or purchase of capital instruments under certain conditions.

Supervisory measures in the early intervention phase are prescribed by Article 271 of the Credit Institutions Act.
