



Are you ready for SREP?

New tool for comprehensive
banking supervision



2017/18

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“

We have harmonized our **main tool**, the Supervisory Review and Evaluation Process, SREP for short. In the SREP we scrutinize each bank. We assess its business model, its governance structure and its risk management. We also assess risks to its capital and liquidity positions. With reference to the SREP, we make banks face up to their problems and deal with them. **Denial is no longer an option.**

— Daniele Nouy

Chair of the Supervisory Board of the ECB

High-level meeting on global and regional supervisory priorities

Basel, 18 October 2017

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SREP – in a nutshell

What is SREP?

SREP is a supervisory tool for banking supervision built around **four main elements**—business model, governance/internal controls, risks to capital and risks to liquidity — which are individually assessed (quantitative and qualitative), scored, and summed up to produce a final **overall SREP** score for a particular bank, while bearing in mind proportionality principle.

Implementing SREP in Serbia

Having in mind recent activities of the National bank of Serbia it is clear that SREP implementation is happening in Serbia as we speak. Local methodology for SREP was published and presented in the public in May 2017, while some banks already experienced some early activities of this quite comprehensive and challenging process.

What overall score means and how it is used by regulatory bodies?

This final overall score reflects the institution's viability and has four positive grades (1-4) and one negative grade (F) indicating that an institution is "failing" or "likely to fail".

The overall assessment is the basis for subsequent supervisory measures (Pillar 2 requirements) such as additional capital and/or liquidity requirements, further prudential measures, or an early intervention.

Are you dealing with SREP already?

May '17

In May 2017, the National Bank of Serbia **published a methodology** for SREP and made a public presentation on Palic conference.

September '17

Starting from 30th September SREP is conducted in respect of **new ICAAP framework**.



Key SREP elements



Business Model Analysis

Peer results

Internal reporting

Market conditions

Risk strategy and appetite

Financial reporting

Macro-economic trends

Regulatory reporting

External audit reports

Strategic plans

Assessment of risks to capital and liquidity

Funding and liquidity buffers

LCP

Stress testing

Group of credit risks

IRRBB

Group of operational risks

ICAAP & ILAAP

Group of market risks

Capital and planning

Assessment of internal governance and institution-wide controls

Information system & business continuity

Risk management framework

Risk and corporate culture

Outsource

Organization

Managing bodies

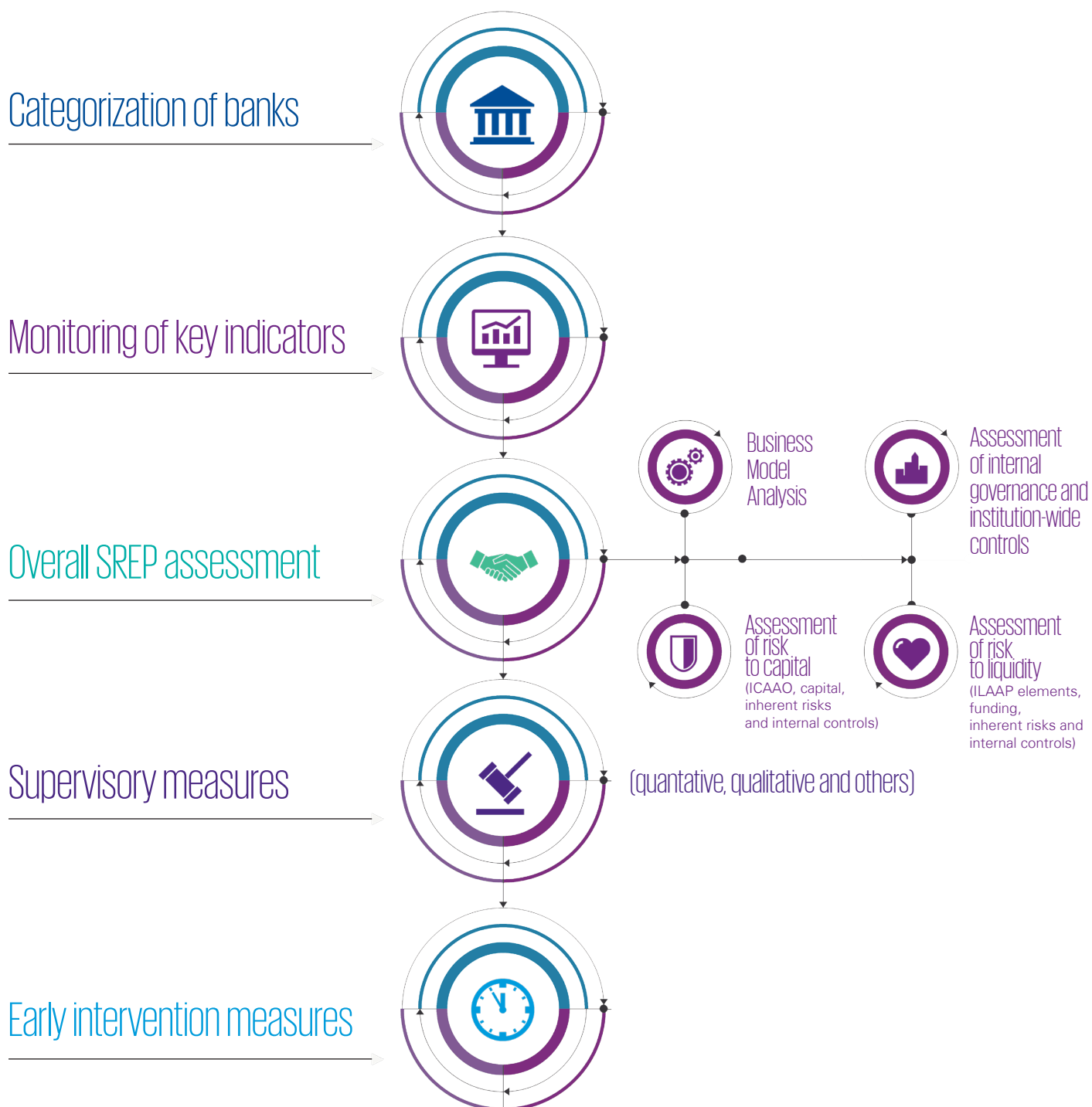
Remuneration policies

Recovery plans

Technical and human resources

Internal control system including IA

SREP – process overview



SREP roadmap



In case you wonder how your bank can reach **OVERALL SCORE**, the answer is quite simple - follow the road and enjoy the ride.



The entire journey starts at **CATEGORIZATION OF BANKS**.

All banks are classified into one of four categories/groups:

1. Systematically important
2. Medium to large
3. Small to medium
4. Other

Importantly, **level and frequency of regulatory engagement and dialogue** is directly connected to the selected category for a bank.

Which category will your bank belong to for SREP purposes? (according to prescribed criteria and not size only)

Turn right onto performing regular **MONITORING OF KEY INDICATORS**

For all banks the regulatory body will be performing **regular monitoring** of key financial and non-financial indicators. These include at least: Financial and risk indicators, Basel 3 indicators, MREL indicators, Recovery indicators, Market based indicators and Macro-economic indicators (to accompany individual ones). Monitoring is performed in **benchmarking style** by comparing banks with selected peer banks, defined thresholds, etc. Although this may appear as a simple task, in fact it is quite challenging (especially with only 30 banks involved) and often involves some judgement.

With whom are you compared with (which are selected peer banks)?

Keep left to continue on performing **BUSINESS MODEL ANALYSIS**

Business model analysis is an element used not only for scoring purposes, but more importantly it **provides solid ground** for all assessments that follow. **SREP is a forward looking process** focused not only on determining viability over a one year period, but on assessing the bank's sustainability over a **period of three years**, since this shapes stability of the financial system in the mid and long-term.

Assessing risk management, governance and internal controls from entirely different perspective

Which measures?

Continue toward OVERALL SREP SCORE and SUPERVISORY MEASURES

Having conducted the assessment of SREP elements, the regulatory body forms **comprehensive, holistic view on the risk profile and viability** of a bank. The outcome serves as a basis for taking any necessary supervisory measures to address concerns.

Slight right onto assessment of CAPITAL AND LIQUIDITY RESOURCES

The regulatory body assesses **quantity and composition of additional own funds** to cover risks not covered or not fully covered with Pillar 1 requirements over economic cycle. Viability is assessed from perspective of the bank's **liquidity position and funding profile** as well.

Congratulations!
You have reached your destination. Let's start again since this is a continuous process.

Is your ICAAP good enough for regulatory standards? What are benchmark values?

Slight right on to assessment of RISKS TO CAPITAL AND LIQUIDITY

The regulatory body focuses on material risks to which a bank is or may be exposed. This is performed for both risk exposure (inherent risks) and the quality of management and controls employed in order to mitigate the impact of risks. This particularly includes a group of credit risks, market risks, operational risk and IRRBB (which is recognized as a very important risk that nearly became Pillar 1 risk). The regulatory body also **decides on ICAAP** and whether results can be used for SREP or **benchmark values** should be used instead.

Head northeast toward assessment of GOVERNANCE & INTERNAL CONTROLS

The focus is on the assessment of internal governance and bank-wide controls in order to ensure that they are adequate (for the bank's risk profile, business model, size and complexity), and to assess the **degree to which the bank adheres to the requirements and standards of good internal governance and risk controls arrangements**.

Heavy regulation on the road during the rain.

How we can assist you

Readiness assessment – avoid uncertainty

We are able to perform readiness assessment efficiently to check each element that is covered by SREP and identify potential gaps early.

Simulating regulatory approach

With our knowledge of different practices on the local market (which is essential for peer comparison), best practices and regulatory approaches, we can simulate assessment that the regulator body would perform.

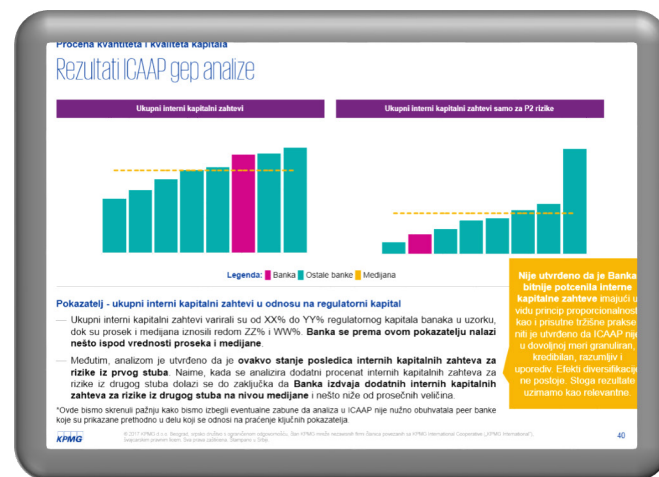
Experiencing SREP readiness assessment

We start with a kick-off meeting. Then we require all necessary documentation (PBC list), briefly analyze it in order to get insight into main areas and perform peer analysis in parallel. In order to perform business model analysis we organize brief and well-structured meetings with top and middle management. Based on all information and data received we perform business model assessment and accordingly SREP readiness assessment that encompasses all areas/elements mentioned previously. This process usually lasts around 1 month and concludes with the presentation of the final report to EB members containing clear description of gaps and recommendations for each one.

What are the quick wins for a bank?

- +** Overall assessment of Risk Management, Governance and Internal controls. Thus, avoiding uncertainty resulting from recent complex and hasty regulatory changes and enabling the bank to adjust in timely manner.
- +** Third-party expert opinion with clear peer comparison perspective for encompassed elements (e.g. such as appropriateness of ICAAP, risk appetite etc.)
- +** Enhancing quality of the system of internal controls (including those activities performed by internal audit).
- +** Performing SREP readiness assessment requires a limited use of a bank's internal resources.

Illustration - Snapshots from SREP readiness assessment report



Readiness assessment

Assessment that we perform is:

Forward looking

We analyze internal documentation and plans in order to assess effects in 3Y horizon.

Highly quantitative

Benchmarking and all analyses that we perform are highly quantitative and facts based.

Challenging Bank vs peers

For more than 2 years we have been building internal tools needed for proper peer comparison and analysis in accordance with KPMG ECB office best practice.

SMART and Structured approach

Our assessment is based on various EBA, BIS and FSB guidelines. Each step of the process is well-designed, structured, tailored in accordance with the proportionality principle and has a clear end purpose.

Risk-based

We have a local team of experts with relevant banking (risk and finance) experience needed for performing such assessment and providing concise and useful recommendations.

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Quick guide into IFRS



Have you tried it yet?

The KPMG Quick Guide into IFRS app provides quick and easy insight into the International Financial Reporting Standards (IFRS).

Key features include:

- summary of insights into IFRS
- glossary of key terminology
- decision tree
- smart search functionality
- links to current hot topics in accounting

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