

**THE AUTHORITY'S
SUPERVISORY REVIEW AND EVALUATION PROCESS -
GENERAL FRAMEWORK**

SREP 1: The SREP should be an integrated part of the authority's overall risk-based approach to supervision.

- a. The evaluation process will be an integral, explicit and formal part of the authority's overall supervisory approach.
- b. The evaluation process underpins the authority's dialogue with the institution (and does not replicate the role of the institution's management).

SREP 2: The SREP should apply to all authorised credit institutions.

The scope and application of the SREP will be determined by reference to the Banking Act 1994, Banking Rules and where appropriate, to the CRD.

SREP 3: The SREP should cover all the activities of a credit institution.

- a. All significant business units of the institution, whether operating domestically or overseas, will be considered in the evaluation process.
- b. Other risks to the consolidated group will also be captured, for example where services such as IT, accounting, or payment and settlement functions are being provided, or control functions are being exercised from outside the consolidated group on an outsourced basis (even if within the wider group).

SREP 4: The SREP should cover all material risks and internal governance.

- a. The authority will formally evaluate the credit institution's business risks and internal governance (including risk controls, compliance, and internal audit).
- b. The evaluation will focus on identifying each credit institution's risk profile and assessing the quality of the credit institution's risk management system. The business risks covered should span all activities and all significant business units. The evaluation of controls should include, at a minimum, an assessment of the quality of internal governance, management body, organisational structure, the risk management and control environment and internal audit and compliance functions. The authority should review the controls that have been put in place to mitigate risk, as well as the adequacy and composition of capital held against those risks.

- c. The evaluation should be forward-looking in the sense that it should consider, based on information known at the time, whether the risk profile of the institution is likely to change over the forthcoming period.
- d. The authority may use stress tests to help determine the need for early intervention.

SREP 5: The SREP will assess and review the credit institution's ICAAP.

The authority will assess the credit institution's ICAAP as part of its SREP. This should include a consideration of the assumptions, components, methodology, coverage and outcome of the institution's ICAAP. This review should cover both the credit institution's risk management processes and its assessment of adequate capital. The authority should review the controls in place to mitigate risk, as well as the adequacy and composition of capital held against those risks.

SREP 6: The SREP will assess and review the credit institution's compliance with the capital requirements as laid down in the BR/04 & BR/08.

As part of the SREP, the authority must also evaluate the credit institution's compliance with the minimum requirements under BR/04 and BR/08. In addition to the ICAAP requirements, an evaluation of the methods and models used in advanced approaches would be included, as well as an assessment of the institution's large exposures position and an evaluation of disclosure under BR/07- *Publication of Audited Financial Statements of Credit Institutions Authorised under the Banking Act 1994*.

SREP 7: The SREP should identify existing or potential problems and key risks faced by the credit institution and deficiencies in its control and risk management frameworks; and it should assess the degree of reliance that can be placed on the outputs of the institution's ICAAP.

This process will enable the authority to tailor its approach to the individual credit institution, provide the foundation for the authority's general approach to the credit institution and its actions and encourage credit institutions to improve their risk management systems.

SREP 8: The SREP will provide information to the authority about the need to apply prudential measures.

Once it has evaluated the adequacy of a credit institution's capital in relation to its risk profile, the authority should identify any prudential measures or other regulatory actions required. For example, where there is an imbalance between business and risk controls, the authority should consider the range of remedial regulatory actions that may be needed to rectify a deficiency in controls and/or perceived shortfalls in capital, either as a long term requirement(s) or as a short term action(s).

SREP 9: The results of the SREP will be communicated to the credit institution at the appropriate level, together with any action that is required of the credit institution and any significant action planned by the authority.

- a. The authority will communicate the results of its risk assessment to the credit institution. This may be done as part of the dialogue between the authority and the credit institution on the internal systems used to assess capital adequacy.
- b. This review and evaluation allows the authority, among other things, to provide qualitative feedback to the credit institution about the adequacy of its risk management and internal controls in relation to its business risk profile, and to assess and understand the extent to which the output of the ICAAP can serve as an input to the SREP.

SREP 10: The authority's evaluation should be formally reviewed internally at least on an annual basis, to ensure that it is up-to-date and remains accurate.

- a. Although the authority considers that such review would not always constitute a full risk assessment, the authority plans at least to take stock of any significant changes to the overall risk profile of a particular institution over the past year. It will take into account the results of any regulatory visits, inspections and other information received during the period, and will consider whether the timing of the next full assessment, as agreed during the previous full assessment process, remains appropriate.
- b. Notwithstanding the above, any significant new information received in the course of ongoing monitoring and supervision which may affect the credit institution's risk profile will trigger consideration by the authority of the need for a formal review or a full risk assessment.