

## GOVERNOR

Pursuant to Article 24, paragraph (2), Article 115, paragraph (2), Article 116, paragraph (4), Article 124, paragraph (2), Article 148, paragraph (2), Article 178, paragraph (2), item (d), Article 201, paragraph (2), subparagraph (2) and Article 478, paragraphs (1) and (2) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, hereinafter referred to as 'Regulation (EU) No 575/2013') as last amended by Regulation (EU) 2022/2036 of the European Parliament and of the Council of 19 October 2022 (OJ L 275, 25.10.2022) amending Regulation (EU) No 575/2013 and Directive 2014/59/EU as regards the prudential treatment of global systemically important institutions with a multiple-point-of-entry resolution strategy and methods for the indirect subscription of instruments eligible for meeting the minimum requirement for own funds and eligible liabilities (OJ L 275, 25.10.2022), Article 11, paragraphs (3) and (4) of the Act on Credit Institutions (Official Gazette 159/2013, 19/2015, 102/2015, 15/2018, 70/2019, 47/2020, 146/2020 and 151/2022) and Article 43, paragraph (2), item (10) of the Act on the Croatian National Bank (Official Gazette 75/2008, 54/2013 and 47/2020), the Governor of the Croatian National Bank hereby issues the

### **DECISION IMPLEMENTING THE PART OF REGULATION (EU) NO 575/2013 PERTAINING TO THE VALUATION OF ASSETS AND OFF-BALANCE SHEET ITEMS AND THE CALCULATION OF OWN FUNDS AND CAPITAL REQUIREMENTS**

#### **I GENERAL PROVISIONS**

##### **Subject matter of the Decision**

##### **Article 1**

This Decision ensures the implementation of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, hereinafter: Regulation (EU) No 575/2013), in the part specifying the following:

- 1) the manner of the valuation of assets and off-balance sheet items and calculation of own funds in accordance with Article 24, paragraph (2) of Regulation (EU) No 575/2013;
- 2) capital ratios, elements for the calculation of own funds and other terms and conditions relating to own funds in accordance with Regulation (EU) No 575/2013;
- 3) the treatment of exposures to regional governments or local authorities for the purposes of Article 115, paragraph (2) of Regulation (EU) No 575/2013;
- 4) the treatment of exposures to public sector entities in the Republic of Croatia for the purposes of Article 116, paragraph (4) of Regulation (EU) No 575/2013;
- 5) stricter criteria for the application of the risk-weight of 35% for exposures or any part of an exposure fully and completely secured by mortgages on residential property in the Republic of Croatia for the purposes of Article 125, paragraph (2) of Regulation (EU) No 575/2013;
- 6) a risk weight higher than 50% for exposures or any part of an exposure fully and completely secured by mortgages on commercial immovable property in the Republic of Croatia for the purposes of Article 126, paragraph (2) of Regulation (EU) No 575/2013;
- 7) the maximum permitted time period available for gradual implementation of the IRB Approach for the purposes of Article 148, paragraph (2) of Regulation (EU) No 575/2013;
- 8) the materiality threshold of a credit obligation past due for the purposes of Article 178, paragraph (2), item (d) of Regulation (EU) No 575/2013; and
- 9) the conditions for the recognition of financial institutions as eligible providers of unfunded credit protection, in accordance with Article 201, paragraph (2), subparagraph (2) of Regulation (EU) No 575/2013.

## **Terms and national measures**

### **Article 2**

(1) The terms used in this Decision:

"exposure", "default", "financial institution", "unfunded credit protection", "authorisation", "group of connected clients", "risk of excessive leverage", "own funds", "risk profile", "Internal Ratings Based Approach" or "IRB Approach", "loss given default" or "LGD", and "public sector entity" shall have the meaning as defined in Regulation (EU) No 575/2013.

(2) For the purposes of this Decision, the individual terms used in this Decision have the following meaning:

1) "regional governments and local authorities in the Republic of Croatia" are counties, including the City of Zagreb, cities and municipalities, representative bodies of counties, cities and municipalities and their executive bodies;

2) "central government in the Republic of Croatia" means state authority bodies financed from the budget of the Republic of Croatia, in particular:

– legislative authorities: the Office of the President of the Republic of Croatia and the Croatian Parliament;

– executive authorities: the Government of the Republic of Croatia, ministries of the Republic of Croatia, central state offices, state administration organisations and state administration offices in counties;

– judicial and justice authorities: High Misdemeanour Court of the Republic of Croatia, administrative courts, High Administrative Court of the Republic of Croatia, commercial courts, High Commercial Court of the Republic of Croatia, municipal courts, county courts, High Criminal Court of the Republic of Croatia, Supreme Court of the Republic of Croatia, Constitutional Court of the Republic of Croatia, municipal state attorney's offices, county state attorney's offices, State Attorney's Office of the Republic of Croatia, State Attorney's Office – Office for the Prevention of Corruption and Organized Crime, Ombudsman for Children, Disability Ombudsman, Gender Equality Ombudsperson, Ombudsman, State Judicial Council, State's Attorney Council, Office for General Affairs of the Croatian Parliament and of the Government of the Republic of Croatia.

(3) The national measures in the Republic of Croatia for the implementation of the transitional provisions referred to in Articles 465 to 491 of Regulation (EU) No 575/2013 are:

1) the Credit Institutions Act (Official Gazette 117/2008, 74/2009, 153/2009, 108/2012 and 54/2013) and the Decision on own funds of credit institutions (Official Gazette 1/2009, 41/2009, 75/2009, 2/2010 and 118/2011), enacted on the basis of that Act, transposing Directive 2006/48/EC;

2) Article 5 of the Decision on own funds of credit institutions transposing Article 57, items (a) to (ca) of Directive 2006/48/EC;

3) Article 5, item (1) of the Decision on own funds of credit institutions transposing Article 57, item (a) of Directive 2006/48/EC;

4) Article 8 of the Decision on the supervision of a group of credit institutions on a consolidated basis (Official Gazette 1/2009, 75/2009, 2/2010 and 67/2013) transposing Article 65 of Directive 2006/48/EC;

5) Article 15, items (1) to (3) of the Decision on own funds of credit institutions transposing Article 57, items (f), (g) and (h) of Directive 2006/48/EC;

6) Article 19, paragraph (8) of the Decision on own funds of credit institutions transposing Article 64, paragraph (3), item (c) of Directive 2006/48/EC;

7) Article 25, paragraph (3) of the Decision on own funds of credit institutions transposing Article 66, paragraph (1), item (a) of Directive 2006/48/EC; and

8) Article 25, paragraph (4) of the Decision on own funds of credit institutions transposing Article 66, paragraph (1), item (b) of Directive 2006/48/EC.

(4) Article 57, item (ca) and Article 66, paragraph (1a) of Directive 2006/48/EC have not been transposed into legislation of the Republic of Croatia.

## **II VALUATION OF ASSETS AND OFF-BALANCE SHEET ITEMS**

## **Valuation**

### **Article 3**

Pursuant to the provisions of Article 24, paragraph (2) of Regulation (EU) No 575/2013, a credit institution shall effect the valuation of assets and off-balance sheet items and the determination of own funds in accordance with the International Accounting Standards applied pursuant to Regulation (EC) No 1606/2002.

## **III CAPITAL RATIOS AND OWN FUNDS**

### **Applicable percentage for deductions in the transitional period**

#### **Article 4**

In the period from 1 January 2014 to 31 December 2017, a credit institution shall apply to each deduction referred to in Article 478, paragraphs (1) and (2) of Regulation (EU) No 575/2013 100% as the applicable percentage.

## **IV USE OF THE STANDARDISED APPROACH FOR THE CALCULATION OF THE RISK-WEIGHTED EXPOSURE AMOUNT**

### **Regional governments or local authorities**

#### **Article 5**

A credit institution shall apply Article 115 of Regulation (EU) No 575/2013 in a way which ensures exposures to units of regional governments or local authorities in the Republic of Croatia are not risk-weighted as exposures to central government.

### **Public sector entities treated as the central government**

#### **Article 6**

A credit institution shall apply Article 116 of Regulation (EU) No 575/2013 in such a way as to treat the exposures to below listed public sector entities in the Republic of Croatia as exposures to the central government:

1. Agency for Transactions and Mediation in Immovable Properties,
2. Croatian Competition Agency,
3. Restructuring and Sale Centre,
4. State Audit Office,
5. Energy Institute Hrvoje Požar,
6. Fund for Financing the Decommissioning of the Krško Nuclear Power Plant and the Disposal of KNPP Radioactive Waste and Spent Nuclear Fuel,
7. Environmental Protection and Energy Efficiency Fund,
8. Croatian Agency for SMEs, Innovations and Investments,
9. Croatian Financial Services Supervisory Agency,
10. Croatian Academic and Research Network – CARNet,
11. Croatian Bank for Reconstruction and Development,
12. Croatian News Agency,
13. Croatian Radiotelevision,
14. Croatian Waters,
15. Croatian Geological Survey,
16. Croatian Pension Insurance Administration,

17. Croatian Institute for Transfusion Medicine,
18. Croatian Employment Service,
19. Croatian Institute for Health Insurance,
20. University Hospital Dubrava,
21. University Hospital Centre Osijek,
22. University Hospital Centre Rijeka,
23. University Hospital Centre "Sestre Milosrdnice",
24. University Hospital Centre Split,
25. University Hospital Centre Zagreb,
26. Ploče Port Authority,
27. Rijeka Port Authority,
28. Zadar Port Authority,
29. Split Port Authority,
30. Dubrovnik Port Authority,
31. Šibenik Port Authority,
32. Osijek Port Authority,
33. Vukovar Port Authority,
34. Slavonski Brod Port Authority,
35. Sisak Port Authority,
36. Agricultural Institute Osijek,
37. Central Registry of Insured Persons,
38. Josip Juraj Strossmayer University of Osijek,
39. University North,
40. University of Dubrovnik,
41. University of Rijeka,
42. University of Split,
43. University of Zadar,
44. University of Zagreb,
45. Institute for Expertise, Professional Rehabilitation and Employment of Persons with Disabilities,
46. Paying Agency for Agriculture, Fisheries and Rural Development,
47. Croatian Regulatory Authority for Network Industries,
48. Juraj Dobrila University of Pula,
49. University of Slavonski Brod,
50. Archaeological Museum of Istria,
51. Public institution Brijuni National Park;
52. Public institution Kornati National;
53. Public institution Krka National Park;
54. Mljet National Park Public Institution;
55. Public institution Paklenica National Park;
56. Public institution Plitvice Lakes National Park;
57. Public institution Nacionalni park Risnjak; and
58. Public institution National Park Northern Velebit.

**Criteria for exposures secured by mortgages on residential property**  
**Article 7**

(1) When assigning a risk weight of 35% to exposures or any part of an exposure fully and completely secured by mortgages on residential property located in the territory of the Republic of Croatia, credit institutions shall, in accordance with Article 125 of Regulation (EU) No 575/2013, apply the criteria prescribed by paragraphs (2) to (6) of this Article.

(2) A credit institution may assign a risk weight of 35% only to those exposures or a part of an exposure secured by mortgages on residential property which is or shall be occupied or let for residential purposes by the owner who is a natural person, under a property leasing contract.

(3) A credit institution may assign the risk-weight referred to in paragraph (2) of this Article provided the owner of the residential property is the owner of not more than two residential properties.

(4) Residential property, in accordance with paragraph (2) of this Article, means a house, a flat or associated parts of the flat in flat ownership intended to be used as a dwelling and a building plot intended to be used for construction of a house.

(5) A garage or a parking spot, in accordance with paragraph (2) of this Article, is considered residential property only if the mortgage on or fiduciary transfer of ownership of a garage or a parking spot is connected with the mortgage on or fiduciary transfer of ownership of a house, flat or associated parts of the flat in flat ownership that are intended to be used as a dwelling.

(6) Holiday homes, in accordance with paragraph (2) of this Article, are not considered residential property.

### **Risk weights for exposures secured by mortgages on commercial immovable property**

#### **Article 8**

The risk weight referred to in Article 126, paragraph (1) of Regulation (EU) No 575/2013 shall be changed to 100% in such a way that exposures or any part of an exposure of a credit institution fully and completely secured by mortgages on commercial immovable property in the Republic of Croatia are as follows:

(a) exposures or any part of an exposure fully and completely secured by mortgages on offices or others commercial premises shall be assigned a risk weight of 100%;

(b) exposures related to property leasing transactions concerning offices or other commercial premises under which the credit institution is the lessor and the tenant has an option to purchase shall be assigned a risk weight of 100% provided that the exposure of the credit institution is fully and completely secured by its ownership of the property.

## **V USE OF THE IRB APPROACH FOR THE CALCULATION OF THE RISK-WEIGHTED EXPOSURE AMOUNT**

### **Materiality of a credit obligation past due**

#### **Article 9**

(1) Credit institutions shall apply to retail exposures the materiality threshold referred to in Article 1, paragraphs (2) and (3) of Commission Delegated Regulation (EU) 2018/171 of 19 October 2017 on supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the materiality threshold for credit obligations past due (Text with EEA relevance) (OJ L 32, 6.2.2018, hereinafter referred to as 'Commission Delegated Regulation (EU) 2018/171') in such a way that the absolute component referred to in paragraph (2), sub-item (2) is set at EUR 100 and the relative component referred to in paragraph (2), sub-item (3) is set at 1%.

(2) Credit institutions shall apply to exposures other than retail exposures the materiality threshold referred to in Article (2), paragraph (2) of Commission Delegated Regulation (EU) 2018/171 in such a way that the absolute component is set at EUR 500, and the relative component is set at 1%.

### **Maximum permitted time period available for the sequential implementation of the IRB approach**

#### **Article 10**

For the purposes of Article 148, paragraph (2) of Regulation (EU) No 575/2013 the maximum permitted time period available for the sequential implementation of the IRB approach may not exceed five years.

## **VI USE OF CREDIT RISK MITIGATION TECHNIQUES**

### **Financial institutions that are eligible providers of unfunded credit protection**

#### **Article 11**

A credit institution may use the financial institutions referred to in Article 201, paragraph (1), item (f) of Regulation (EU) No 575/2013 as eligible providers of unfunded credit protection provided both of the following two conditions are met:

- 1) they are authorised and supervised by the Croatian National Bank, the European Central Bank or the Croatian Financial Services Supervisory Agency; and
- 2) if the regulations governing the taking up and pursuit of the business of these financial institutions require that the following prudential requirements are met:
  - a) obtain an approval from the competent authority to carry out the function of a management board member;
  - b) keep the minimum initial capital needed to establish a financial institution;
  - c) hold the minimum amount of own funds, i.e. keep the minimum capital adequacy ratios needed to ensure operational safety and stability;
  - d) impose limits on holdings in the capital of non-financial institutions;
  - e) impose limits on the maximum permitted exposure to a client or a group of connected clients;
  - f) keep the minimum liquidity coefficient;
  - g) manage the risk of excessive leverage, including leverage ratio calculation;
  - h) publicly disclose information on the risk profile of the activities and risk management methods;
  - i) establish efficient and reliable governance arrangements that include:
    - a clear organisational structure;
    - efficient management of all the risks to which a financial institution is or might be exposed;
    - adequate internal control systems which include the setting up of the risk control function, the compliance function for monitoring compliance of relevant regulations and the internal audit function;
    - remuneration policies that are consistent with and promote sound and effective risk management;
  - j) report to the competent authority; and
  - k) audit the accounts.

## **VII FINAL PROVISIONS**

### **Cessation of the effect of the Decision**

#### **Article 12**

(1) The Decision implementing the part of Regulation (EU) No 575/2013 pertaining to the valuation of assets and off-balance sheet items and the calculation of own funds and capital requirements (Official Gazette 160/2013, 140/2015, 113/2016, 87/2018, 53/2021 and 139/2022) shall cease to have effect on the day of entry into force of this Decision.

(2) Credit institutions shall comply with the requirements referred to in Article 10 of this Decision no later than within six months of the day of entry into force of this Decision.

### **Entry into force**

#### **Article 13**

This Decision shall enter into force on the eighth day after the day of its publication in the Official Gazette.

No. 284-091/09-23/BV  
Zagreb, 12 September 2023

**CROATIAN NATIONAL BANK**  
**GOVERNOR**  
**Boris Vujčić**