

Pursuant to Article 4, paragraph (1), item (40), 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), Article 465, paragraph (2), Article 467, paragraph (3), Article 468, paragraph (3), Article 478, paragraph (3), Article 479, paragraph (4), Article 480, paragraph (3), Article 481, paragraph (5) and Article 486, paragraph (6) of Regulation (EU) No 575/2013 (OJ L 176, 27.6.2013), Article 197, paragraph (2) of the Credit Institutions Act (Official Gazette 117/2008, 74/2009, 153/2009, 108/2012 and 54/2013) and Article 43, paragraph (2), item (9) and Article 77 of the Act on the Croatian National Bank (Official Gazette 75/2008 and 54/2013), 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**

For the purposes of 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), this Decision specifies:

- 1) the manner of the valuation of assets and off-balance sheet items and calculation of own funds in accordance with 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 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 of Regulation (EU) No 575/2013;
- 5) stricter criteria for the application of the risk-weight of 35 % for exposures secured by mortgages on residential property in the Republic of Croatia for the purposes of Article 125 of Regulation (EU) No 575/2013;
- 6) 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;
- 7) 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;
- 8) 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 individual terms used in this Decision have the following meaning:

- 1) "exposure" means exposure as determined in Article 5, item (1) of Regulation (EU) No 575/2013;
- 2) "default" means default as determined in Article 178 of Regulation (EU) No 575/2013;
- 3) "financial institution" means financial institution as determined in Article 4, paragraph (1), item (26) of Regulation (EU) No 575/2013;
- 4) "unfunded credit protection" means unfunded credit protection as determined in Article 4, paragraph (1), item (59) of Regulation (EU) No 575/2013;
- 5) "authorisation" means authorisation as determined in Article 4, paragraph (1), item (42) of Regulation (EU) No 575/2013;
- 6) "group of connected clients" means a group of connected clients as determined in Article 4, paragraph (1), item (39) of Regulation (EU) No 575/2013;
- 7) "risk of excessive leverage" means the risk of excessive leverage as determined in the Decision on risk management;
- 8) "own funds" mean own funds as determined in Article 4, paragraph (1), item (118) of Regulation (EU) No 575/2013;
- 9) "risk profile" means a risk profile as determined in the Decision on risk management;
- 10) "Internal Ratings Based Approach" or "IRB Approach" means the Internal Ratings Based Approach or IRB Approach as determined in Part Three, Title II, Chapter 3 of Regulation (EU) No 575/2013;
- 11) "loss given default" or "LGD" means a loss given default or LGD as determined in Article 4, paragraph (1), item (55) of 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" are government bodies financed by the budget of the Republic of Croatia which include legislative authorities, executive authorities, the constitutional court, judicial and justice authorities 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**

A credit institution shall effect the valuation of assets and off-balance sheet items and the calculation of own funds in accordance with the International Accounting Standards applied pursuant to Regulation (EC) No 1606/2002.

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

### ***Capital ratios in the transitional period***

#### **Article 4**

A credit institution shall apply Article 465, paragraph (1) of Regulation (EU) No 575/2013, meeting at all times the requirement for a Common Equity Tier 1 capital ratio of 4.5% and a Tier 1 capital ratio of 6%.

### ***Unrealised losses in the transitional period***

#### **Article 5**

A credit institution shall apply Article 467, paragraph (1) of Regulation (EU) No 575/2013, using 100 % as the applicable percentage.

### ***Unrealised gains in the transitional period***

#### **Article 6**

A credit institution shall apply Article 468, paragraph (1) of Regulation (EU) No 575/2013, using 100 % as the applicable percentage.

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

**Article 7**

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.

***Consolidated reserves in the transitional period***

**Article 8**

A credit institution shall apply Article 479, paragraphs (1) and (2) of Regulation (EU) No 575/2013, using 0 % as the applicable percentage.

***Calculation on the consolidated basis in the transitional period***

**Article 9**

A credit institution shall apply Article 480, paragraph (1) of Regulation (EU) No 575/2013, using 1 as the applicable factor.

***Additional filters and deductions in the transitional period***

**Article 10**

A credit institution shall apply Article 481, paragraphs (1) and (2) of Regulation (EU) No 575/2013, using 0 % as the applicable percentage.

***Grandfathering of instruments in the transitional period***

**Article 11**

A credit institution shall apply Article 486, paragraphs (1) to (4) of Regulation (EU) No 575/2013, using the following applicable percentages:

- 1) 80 % in the period from 1 January to 31 December 2014;
- 2) 60 % in the period from 1 January to 31 December 2015;
- 3) 40 % in the period from 1 January to 31 December 2016;
- 4) 20 % in the period from 1 January to 31 December 2017; and
- 5) 0 % in the period from 1 January 2018 to 31 December 2021.

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

***Regional governments or local authorities***

**Article 12**

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 13**

A credit institution shall apply Article 116 of Regulation (EU) No 575/2013, treating exposures to the following public sector entities in the Republic of Croatia as exposures to the central government:

- public institutions established by the Republic of Croatia in accordance with the Public Institutions Act, the liabilities of which are guaranteed by the Republic of Croatia on a joint and several and unlimited basis (e.g. Croatian Pension Insurance Administration, Croatian Institute for Health Insurance, Croatian Employment Service, Central Registry of Insured Persons, Croatian Environment Agency, Energy Institute Hrvoje Požar, Croatian Academic and Research Network CARNet, Croatian Radiotelevision, Croatian Waters, etc.);
- the State Agency for Deposit Insurance and Bank Rehabilitation;
- the Croatian Financial Services Supervisory Agency;
- legal persons with public authorities, the liabilities of which are guaranteed by the Republic of Croatia (e.g. Croatian Competition Agency, State Audit Office, Croatian Agency for SMEs and Investments, etc.);
- funds established by the Republic of Croatia or the Government of the Republic of Croatia, the liabilities of which are guaranteed by the Republic of Croatia on a joint and several and unlimited basis (e.g. Fund for Financing the Decommissioning of the Krško Nuclear Power Plant and the Disposal of KNPP Radioactive Waste and Spent Nuclear Fuel); and
- Croatian Bank for Reconstruction and Development.

### ***Criteria for exposures secured by mortgages on residential property***

#### **Article 14**

(1) When assigning a risk weight of 35 % to exposures 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.

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

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

#### **Article 15**

(1) For the purposes of Article 178, paragraph (2), item (d) of Regulation (EU) No 575/2013, a credit obligation is considered material provided one of the following conditions are met:

- 1) the total amount of the credit obligation past due of an individual debtor exceeds HRK 1750, in the case of debtors to which the credit institution applies the standardised approach and debtors in the exposure category determined in Article 147, paragraph (2), item (d) of Regulation (EU) No 575/2013; or
- 2) the total amount of the credit obligation past due of an individual debtor exceeds HRK 1750 and the past due amount accounts for over 2.5 % of the total exposure of the credit institution to an individual debtor, in the case of debtors in the exposure category determined in Article 147, paragraph (2), items (a), (b) and (c) of Regulation (EU) No 575/2013.

(2) A credit institution may set a lower materiality threshold for a credit obligation past due than that prescribed in paragraph (1) of this Article, provided it is appropriate for exposure classes and does not result in identification of defaults that occurred for purely technical reasons or in generating artificially low LGDs.

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

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

#### **Article 16**

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 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**

### ***Entry into force***

#### **Article 17**

This Decision shall be published in the Official Gazette and shall enter into force on 1 January 2014.

No 341-020/12-13/BV  
Zagreb, 24 December 2013

Governor  
**Boris Vujčić**