



HNB

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**Decision**  
**on amendments to the Decision on public disclosure of compliance with**  
**prudential requirements by credit institutions**

**Zagreb, October 2011**

Pursuant to Article 178, paragraph (3) of the Credit Institutions Act (Official Gazette 117/2008, 74/2009 and 153/2009) and Article 43, paragraph (2), item (9) of the Act on the Croatian National Bank (Official Gazette 75/2008), the Governor of the Croatian National Bank hereby issues the

**Decision  
on amendments to the Decision on public disclosure of compliance with prudential  
requirements by credit institutions**

**Article 1**

In the Decision on public disclosure of compliance with prudential requirements by credit institutions (Official Gazette 1/2009, 75/2009 and 2/2010), in Article 1, paragraph (2), the words "with the exception of electronic money institutions" are deleted.

**Article 2**

Article 2 is amended to read:

"Credit institutions shall adopt an internal bylaw prescribing in detail:

- 1) the criteria for compliance with public disclosure requirements, including the criteria for determining material and confidential information;
- 2) the assessment of the appropriateness of disclosed information, including their verification and frequency of disclosure; and
- 3) the assessment of whether the information publicly disclosed conveys the credit institution's risk profile comprehensively to market participants."

**Article 3**

In Article 5, paragraph (3), the word "require" is replaced by the word "order".

**Article 4**

In Article 7, paragraph (4), the Croatian word translated as "new" is replaced by another Croatian word, with no relevance to the English translation.

**Article 5**

In Article 8, a new paragraph (6) is added which reads:

"(6) Where a credit institution assesses that the information referred to in Chapters II and III of this Decision fails to convey the credit institution's risk profile

comprehensively to market participants, the credit institution shall publicly disclose the additional information necessary. By way of exception, the credit institution shall not be required to disclose additional information if such information is not material or if it is confidential."

#### **Article 6**

In Article 10, paragraph (2) is amended to read:

"(2) In addition to the disclosure referred to in paragraph (1) of this Article, credit institutions shall also disclose the quantitative information on own funds and capital requirements referred to in Articles 13 and 14 of this Decision and on the IRB Approach and the credit risk mitigation techniques referred to in Articles 24 and 25 of this Decision as at 30 June, at the latest until 30 September of the current year."

#### **Article 7**

In Article 13, the words "in accordance with the Decision on own funds of credit institutions" are inserted after the word "shall".

In paragraph (3), item (3) is deleted.

Item (4) becomes item (3), and item (5) becomes item (4).

#### **Article 8**

In Article 14, a new paragraph (6) is added which reads:

"(6) Credit institutions shall disclose separately the capital requirement for specific interest rate risk of securitisation positions referred to in paragraph (3), item (3) of this Article."

#### **Article 9**

In Article 16, paragraph (1), the words "in accordance with Title II of the Decision on the capital adequacy of credit institutions" are inserted after the words "dilution risk".

#### **Article 10**

Article 19 is amended to read:

"(1) Credit institutions calculating the capital requirements for market risks under the internal models referred to in Part 6.3.3 and Part 7 of Title III of the Decision on the capital adequacy of credit institutions shall disclose qualitative and quantitative information.

(2) The qualitative information on the application of internal models for the calculation of capital requirements for market risks shall be:

- 1) for each portfolio:
  - the characteristics of the internal models used;
  - separately for the capital requirements referred to in Article 578, paragraphs (6) and (23) of the Decision on the capital adequacy of credit institutions, the methodologies used and risks measured through the application of an internal model, including a description of the approach applied by the credit institution to determine liquidity horizons, the methodologies used by the credit institution to achieve a capital assessment that is consistent with the required soundness standard and the approaches used in the valuation of the internal model;
  - a description of stress testing applied to the portfolio; and
  - a description of the approaches used for back-testing and validating the accuracy and consistency of the internal models and modelling processes;
- 2) the scope of application of the internal model previously approved by the Croatian National Bank; and
- 3) a description of the trading book position valuation system referred to in Part 2.3 of Title III of the Decision on the capital adequacy of credit institutions.

(3) The quantitative information on the application of internal models for the calculation of capital requirements for market risks shall be:

- 1) the highest, the lowest and the mean measure over the reporting period and as per the period end of the following:
  - the daily value-at-risk, VaR;
  - the stressed-value-at-risk, VaR; and
  - the capital requirements in accordance with Article 578, paragraphs (6) and (23) of the Decision on the capital adequacy of credit institutions, provided separately;
- 2) the capital requirements in accordance with Article 578, paragraphs (6) and (23) of the Decision on the capital adequacy of credit institutions, provided separately, together with the weighted average liquidity horizon for each portfolio covered; and
- 3) for each business day a comparison of the daily end-of-day value-at-risk measures to the one-day changes of the portfolio's value by the end of the subsequent business day and, on the basis of back-testing, an analysis of any important overshooting during the reporting period."

## **Article 11**

In Article 21, paragraph (1), the words "in accordance with Title II of the Decision on the capital adequacy of credit institutions" are inserted after the words "non-trading book".

## **Article 12**

In Article 22, in its introductory sentence, the words "in accordance with the Decision on the management of interest rate risk in the non-trading book" are inserted after the words "non-trading book".

## **Article 13**

Article (23) is amended to read:

"(1) Credit institutions calculating risk-weighted exposure amounts for credit risk in accordance with Part 5 of Title II of the Decision on the capital adequacy of credit institutions shall disclose the qualitative and quantitative information on securitisation.

(2) Credit institutions shall disclose the information on securitisation separately for the trading and the non-trading book, where such a breakdown is relevant.

(3) The qualitative information on securitisation shall be:

- 1) a description of the credit institution's objectives in relation to securitisation activity;
- 2) the nature of other risks, including liquidity risk inherent in securitised assets;
- 3) the types of risk, in terms of seniority of underlying securitisation positions and in terms of assets underlying those securitisation positions assumed and retained with resecuritisation activity;
- 4) the different roles played by the credit institution in the securitisation process;
- 5) an indication of the extent of the bank's involvement in each of the roles played in the securitisation process;
- 6) a description of the processes in place to monitor changes in the credit and market risk of securitisation exposures, including how the behaviour of the underlying asset impacts securitisation exposures and a description of how those processes differ from resecuritisation exposure;
- 7) a description of the credit institution's policy governing the use of hedging and unfunded credit protection to mitigate the risks of retained securitisation and resecuritisation exposures, including identification of material hedge counterparties by relevant type of risk exposure;
- 8) the approaches applied by the credit institution to calculate risk weighted exposure amounts related to securitisation activities, including the type of securitisation exposures to which each approach applies;
- 9) the types of securitisation special purpose entities (hereinafter: SPPEs) that the credit institution, as a sponsor, uses to securitise third-party exposures, including indications whether and in what form and to what extent the credit institution has exposure to these SPPEs, separately for on- and off-balance sheet exposures, as well as a list of entities that the credit institutions manages and advises and that invest either in the securitisation positions that the credit institution has securitised or in SPPEs that the credit institution sponsors;

- 10) a summary of the credit institution's accounting policies for securitisation activities, including:
    - whether the transactions are treated as sales or financings;
    - the recognition of gain on sales;
    - the methods, key assumptions and inputs for valuing securitisation positions and changes from the previous period;
    - the treatment of synthetic securitisations if not covered by other accounting policies;
    - how assets awaiting securitisation are valued and whether they are recorded in the credit institution's non-trading book or trading book; and
    - policies for recognising liabilities on the balance sheet for arrangements that could require the credit institution to provide financial support for securitised assets;
  - 11) the names of the ECAs used for securitisation by the credit institution and the types of exposure for which each ECAI is used;
  - 12) where applicable, a description of the internal assessment approach for positions in ABCP programmes defined in Part 5.5.3 of Title II of the Decision on the capital adequacy of credit institutions, including:
    - the structure of the internal assessment process and relation between internal assessment and external ratings;
    - the use of internal assessment, other than for capital allocation;
    - the control mechanisms for the internal assessment process, including description of independence, accountability and internal assessment process review;
    - the exposure types to which the internal assessment process is applied; and
    - the stress factors used for determining credit enhancement levels, by exposure type;
  - 13) an explanation of significant changes to any of the quantitative information referred to in paragraph (4) of this Article since the last reporting period.
- (4) The quantitative information on securitisation shall be:
- 1) separately for the trading and the non-trading book, the following information classified by exposure type:
    - the total amount of outstanding exposures securitised by the credit institution, provided separately for traditional and synthetic securitisation and securitisation for which the credit institution acts only as sponsor;
    - the aggregate amount of on-balance sheet securitisation positions, retained or purchased, and off-balance sheet securitisation exposures;
    - the aggregate amount of assets awaiting securitisation;
    - for securitised exposures subject to the early amortisation provision: the aggregate drawn exposures, attributed to the originator's and investors' interests respectively; the aggregate capital requirements incurred by the credit institution against the originator's interests; the aggregate capital

- requirements incurred by the credit institution against the investor's shares of drawn balances and undrawn lines;
- the amount of securitisation positions that are deducted from own funds or risk weighted at 1 250%;
  - a summary of securitisation activities in the current reporting period, including the amount of exposures securitised and recognised gain or loss on sale;
- 2) separately for the trading and non-trading book:
- the aggregate amount of securitisation positions retained or purchased and the associated capital requirements, broken down between securitisation and resecuritisation exposures and further broken down into a meaningful number of risk weight or capital requirement bands, for each capital requirements approach used;
  - the aggregate amount of resecuritisation exposures retained or purchased, broken down according to the exposure before or after hedging or insurance and the exposure to the providers of unfunded credit protection, broken down according to the credit worthiness categories of the providers of unfunded credit protection or the names of the providers of unfunded credit protection;
- 3) for the non-trading book and regarding exposures securitised by the credit institution:
- the amount of impaired or past due assets securitised, broken down by exposure type; and
  - the losses recognised by the credit institution in the current reporting period, broken down by exposure type;
- 4) for the trading book, the total outstanding exposures securitised by the credit institution and subject to the calculation of capital requirements for market risks, broken down by securitisation type (traditional or synthetic) and exposure type."

#### **Article 14**

In Article 24, paragraph (1), the words "in accordance with Title II, Chapter 3 of the Decision on the capital adequacy of credit institutions" are inserted after the word "shall".

#### **Article 15**

In Article 25, paragraph (1), the words "in accordance with Title II, Chapter 4 of the Decision on the capital adequacy of credit institutions" are inserted after the word "shall".

#### **Article 16**

In the entire text of the Decision, the Croatian word translated as "provision" in various grammatical numbers and cases is replaced by another Croatian word in appropriate grammatical numbers and cases, with no relevance to the English translation.

### **Article 17**

This Decision shall be published in the Official Gazette and shall enter into force on 30 June 2012.

No.:  
Zagreb

**Croatian National Bank**  
**Council Chairman**  
**Governor**  
**Željko Rohatinski, m.p.**