

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

**(Official Gazette 1/2009, 75/2009, 2/2010 and 118/2011**  
**- unofficial consolidated version)**

**Zagreb, November 2011**

# **Decision on public disclosure of compliance with prudential requirements by credit institutions**

## **I GENERAL PROVISIONS**

### **Subject matter Article 1**

- (1) This Decision prescribes:
- the type and content of publicly disclosed information on the calculation of the capital adequacy ratio of credit institutions, the risk exposures and the risk management system as set forth in Article 176, paragraphs (1) to (3) of the Credit Institutions Act;
  - the entities subject to public disclosure;
  - the scope of application of public disclosure requirements;
  - the criteria for and frequency of public disclosures; and
  - the time limits for public disclosures.
- (2) All credit institutions with registered offices in the Republic of Croatia and authorised by the Croatian National Bank shall comply with this Decision.

*Under Article 1 of the Decision on amendments to the Decision on public disclosure of compliance with prudential requirements by credit institutions, Official Gazette 118/2011, which enters into force on 30 June 2012, paragraph (2) has been amended.*

- (3) This Decision shall apply *mutatis mutandis* to branches of third-country credit institutions authorised by the Croatian National Bank to provide services.
- (4) For the purposes of this Decision, information subject to public disclosure shall be qualitative and quantitative information.

### **Public disclosure policy Article 2**

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.

*Under Article 2 of the Decision on amendments to the Decision on public disclosure of compliance with prudential requirements by credit institutions, Official Gazette 118/2011, which enters into force on 30 June 2012, paragraph (2) has been amended in its entirety.*

## **Definitions**

### **Article 3**

The terms used in this Decision shall have the following meaning:

- 1) 'material information' means the information the omission or misstatement of which could change or influence the assessment or economic decision of a user relying on that information for the purpose of making economic decisions.
- 2) 'confidential information' means all information, facts and circumstances of which a credit institution becomes aware in the course of providing services to clients or in the course of business with individual clients and information subject to business secrecy, including information whose disclosure could undermine a credit institution's competitive position or render its investments less valuable.

### **Entities subject to public disclosure on an individual basis**

#### **Article 4**

Pursuant to Article 126, paragraph (4) of the Credit Institutions Act, a credit institution shall comply with the requirements set out in this Decision on an individual basis.

### **Entities subject to public disclosure on a consolidated basis**

#### **Article 5**

(1) Pursuant to Article 127, paragraph (3) of the Credit Institutions Act, a credit institution which has its registered office in the Republic of Croatia and is an EU parent credit institution shall comply with the requirements set out in this Decision on a consolidated basis.

(2) Pursuant to Article 127, paragraph (4) of the Credit Institutions Act, a credit institution which has its registered office in the Republic of Croatia and is a subsidiary of an EU parent financial holding company shall comply with the requirements set out in this Decision on a consolidated basis. Where several credit institutions in the Republic of Croatia are subsidiaries of the same EU parent financial holding company, public disclosure requirements shall relate to the credit institution with the largest balance sheet total.

(3) Pursuant to Article 127, paragraph (5) of the Credit Institutions Act and by way of derogation from paragraphs (1) and (2) of this Article, the Croatian National Bank may order a credit institution which has its registered offices in the Republic of Croatia and is a subsidiary of an EU parent credit institution or a subsidiary of an EU parent financial holding company and which is systemically important for the banking system of the Republic of Croatia (hereinafter: systemically important subsidiary credit institution) to comply with the requirements set out in Articles 13 and 14 of this Decision.

*Under Article 3 of the Decision on amendments to the Decision on public disclosure of compliance with prudential requirements by credit institutions, Official Gazette 118/2011, which enters into force on 30 June 2012, paragraph (3) has been amended.*

### **Criteria for determining systemically important subsidiary credit institutions**

#### **Article 6**

(1) A credit institution shall be deemed the systemically important subsidiary credit institution:

- 1) if its total market share, measured as a share of its assets in the total assets of credit institutions in the Republic of Croatia, amounts to or exceeds 2%; or
- 2) if the Croatian National Bank, taking into account its market share in an individual business segment and the nature and scale of services it provides, assesses that it is systemically important for the banking system of the Republic of Croatia.

(2) The three-year average established on the basis of audited financial statements as at 31 December of preceding years shall be used to determine the asset share of a credit institution in the total assets of credit institutions in the Republic of Croatia referred to in paragraph (1), item (1) of this Article.

(3) If the Croatian National Bank assesses that a credit institution is systemically important for the banking system of the Republic of Croatia in accordance with paragraph (1), item (2) of this Article, it shall adopt a decision thereon.

(4) A credit institution shall notify the Croatian National Bank without delay where:

- 1) it is no longer a subsidiary of an EU parent credit institution;
- 2) it is no longer a subsidiary of an EU parent financial holding company;
- 3) its total market share, measured as a share of its assets in the total assets of credit institutions in the Republic of Croatia, falls below 2%; and
- 4) new circumstances arise after the adoption of the decision referred to in paragraph (3) of this Article.

## **Exemptions from public disclosure requirements for subsidiary credit institutions of third-country undertakings**

### **Article 7**

(1) The Croatian National Bank may permit a credit institution which has its registered office in the Republic of Croatia and is a subsidiary of a third-country undertaking, at its request, not to disclose in full or in part the information prescribed in this Decision, provided that:

- 1) such information is disclosed on a consolidated basis by the credit institution's parent undertaking established in a third country; and
- 2) the information referred to in item (1) of this paragraph is comparable to the publicly disclosed information prescribed in this Decision.

(2) A credit institution shall enclose a copy of the information publicly disclosed by its parent undertaking established in a third country or web sites where such information is disclosed with the request referred to in paragraph (1) of this Article.

(3) The Croatian National Bank shall issue a written approval permitting the credit institution referred to in paragraph (1) of this Article a full or partial exemption from the public disclosure requirements prescribed in this Decision.

(4) If new circumstances arise after the issuance of the written approval referred to in paragraph (3) of this Article, the credit institution shall immediately notify the Croatian National Bank thereof.

*Under Article 4 of the Decision on amendments to the Decision on public disclosure of compliance with prudential requirements by credit institutions, Official Gazette 118/2011, which enters into force on 30 June 2012, paragraph (4) has been amended.*

## **Scope of publicly disclosed information and exemption of information from public disclosure**

### **Article 8**

(1) Credit institutions subject to public disclosure shall publicly disclose all the information referred to in Chapter II of this Decision.

(2) If credit institutions calculate their risk-weighted exposure amounts for credit risk under the Internal Ratings Based Approach (hereinafter: IRB Approach), apply credit risk mitigation techniques or use the Advanced Measurement Approach for the calculation of capital requirements for operational risk in accordance with the Decision on the capital adequacy of credit institutions, they shall also publicly disclose the information referred to in Chapter III of this Decision.

(3) By way of derogation from the provision of paragraph (1) of this Article, credit institutions shall not be required to disclose one or more items of information referred to in Chapter II of this Decision where they are not material.

(4) By way of derogation from the provisions of paragraphs (1) and (2) of this Article, credit institutions shall not be required to disclose one or more items of information referred to in Chapter II or Chapter III of this Decision where they are regarded as confidential.

(5) In the cases referred to in paragraph (4) of this Article, credit institutions shall state in their public disclosures the fact that specific items of information are not disclosed, the reason for non-disclosure and publish more general information about the subject matter, except in cases where such information is deemed to be the information referred to in paragraph (4) of this Article.

(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.

*Under Article 5 of the Decision on amendments to the Decision on public disclosure of compliance with prudential requirements by credit institutions, Official Gazette 118/2011, which enters into force on 30 June 2012, paragraph (6) has been added.*

## **Method of disclosure and verification of information**

### **Article 9**

(1) Credit institutions shall disclose on their web sites the information prescribed in Articles 11 to 26 of this Decision.

(2) If equivalent public disclosures are made by credit institutions under accounting, listing or other requirements set out in applicable regulations, it shall be considered that the public disclosure requirements referred to in this Decision have been met. In such cases, credit institutions shall indicate where these disclosures can be found.

(3) For the purpose of public disclosure referred to in paragraph (1) of this Article, the internal audit function of a credit institution shall regularly, and on an annual basis at a minimum, review the processes ensuring timeliness, validity and accuracy of publicly disclosed information.

## **Frequency of and time limits for public disclosure**

### **Article 10**

(1) Credit institutions shall publicly disclose the information prescribed in this Decision on an annual basis at a minimum and at the latest within 5 months following the end of the business year to which it relates.

(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.

*Under Article 6 of the Decision on amendments to the Decision on public disclosure of compliance with prudential requirements by credit institutions, Official Gazette 118/2011, which enters into force on 30 June 2012, paragraph (2) has been amended.*

(3) Credit institutions shall assess on an annual basis at a minimum whether to disclose individual items of information referred to in paragraph (1) of this Article more frequently than prescribed in paragraph (1) of this Article and on a semi-annual basis at a minimum whether to disclose individual items of information referred to in paragraph (2) of this Article more frequently than prescribed in paragraph (2) of this Article, where this is necessary in the light of:

- 1) the scale of their operations and the range of their activities;
- 2) presence in different countries;
- 3) involvement in different financial sectors;
- 4) participation in international financial markets; and
- 5) participation in payment, settlement and clearing systems.

(4) The assessment referred to in paragraph (3) of this Article shall especially take into account the disclosure of quantitative information on own funds and capital requirements referred to in Articles 13 and 14 of this Decision as well as information on exposure to risks and other items prone to rapid change.

## **II GENERAL PUBLIC DISCLOSURE REQUIREMENTS**

### **Risk management strategies and policies**

#### **Article 11**

The risk management objectives and policies of the credit institution shall be disclosed for each separate category of risk, including the risks referred to in this Decision. These disclosures shall include the following qualitative information:

- 1) the strategies and policies to manage those risks;
- 2) the structure and organisation of the risk management function;
- 3) the scope and nature of risk reporting and measurement systems; and
- 4) the methods for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

## **Scope of application of prudential requirements**

### **Article 12**

(1) Credit institutions shall disclose the qualitative and quantitative information on the scope of application of prudential requirements.

(2) The qualitative information on the scope of application of prudential requirements shall be:

- 1) the name (firm name) of the credit institution which has its registered offices in the Republic of Croatia and to which public disclosure requirements apply;
- 2) an outline of the differences in the scope and method of consolidation for the purposes of supervision on a consolidated basis and the preparation of financial statements in accordance with the International Financial Reporting Standards, with a brief description of the undertakings that are:
  - fully consolidated;
  - proportionally consolidated;
  - deducted from own funds as defined in Article 4, paragraph (4) of the Decision on the supervision of a group of credit institutions on a consolidated basis; or
  - neither consolidated nor deducted; and
- 3) any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries.

(3) The quantitative information on the scope of application of prudential requirements shall be:

- 1) the names of all subsidiaries excluded from the group of credit institutions in the Republic of Croatia in the manner referred to in Article 282, paragraph (7) of the Credit Institutions Act whose actual own funds are less than the required minimum;
- 2) the amount by which the actual own funds of the subsidiaries referred to in item (1) of this paragraph are less than the required minimum; and
- 3) the sum of all amounts referred to in item (2) of this paragraph.

(4) The requirement referred to in paragraph (3) of this Article shall be met by those undertakings which are required to calculate own funds in accordance with applicable regulations.

## **Own funds**

### **Article 13**

(1) Credit institutions shall, in accordance with the Decision on own funds of credit institutions, disclose the qualitative and quantitative information on own funds.

*Under Article 7 of the Decision on amendments to the Decision on public disclosure of compliance with prudential requirements by credit institutions, Official Gazette 118/2011, which enters into force on 30 June 2012, paragraph (1) has been amended.*

(2) The qualitative information on own funds shall be the summary information on the main features of all own funds items and components thereof.

(3) The quantitative information on own funds shall be:

- 1) the amount of the original own funds, with separate disclosure of all positive items and deductions as defined in Chapter II of the Decision on own funds of credit institutions;
- 2) the amount of additional own funds as defined in Chapter III of the Decision on own funds of credit institutions;
- 3) the amount of deductions as defined in Chapter VI of the Decision on own funds of credit institutions, with separate disclosure of a negative difference between value adjustments and provisions and expected loss, as well as expected loss amounts for equity exposures laid down in Article 27, paragraph (1), item (6) the Decision on own funds of credit institutions if credit institutions calculate their risk-weighted exposure amounts for credit risk under the IRB Approach; and
- 4) total eligible own funds, net of deductions and limits laid down in Article 25 of the Decision on own funds of credit institutions.

*Under Article 7 of the Decision on amendments to the Decision on public disclosure of compliance with prudential requirements by credit institutions, Official Gazette 118/2011, which enters into force on 30 June 2012, paragraph (3) has been amended. In paragraph (3) item (3) is deleted, and items (4) and (5) become respectively items 3 and 4.*

## **Capital requirements and assessing the adequacy of internal capital**

### **Article 14**

(1) Credit institutions shall disclose the qualitative information on the procedures for assessing the adequacy of internal capital in accordance with the Decision on the internal capital adequacy assessment process for credit institutions and the quantitative information on the compliance with the provisions on the calculation of capital requirements in accordance with the Decision on the capital adequacy of credit institutions.

(2) The qualitative information referred to in paragraph (1) of this Article shall be a summary of the process for assessing the adequacy of internal capital.

(3) The quantitative information referred to in paragraph (1) of this Article shall be:

1) for credit institutions calculating the risk-weighted exposure amounts for credit risk under the Standardised Approach, 12% of the risk-weighted exposure amounts for each of the exposure classes specified in Article 11, paragraph (2) of the Decision on the capital adequacy of credit institutions;

2) for credit institutions calculating the risk-weighted exposure amounts for credit risk under the IRB Approach, 12% of the risk-weighted exposure amounts for each of the exposure classes specified in Article 170, paragraph (1) of the Decision on the capital adequacy of credit institutions;

3) capital requirements for market risks and for settlement and counterparty credit risk calculated in accordance with Part 6 of Title II and Title III of the Decision on the capital adequacy of credit institutions: settlement risk, counterparty credit risk, position risks, the risk of exceeding the permitted exposure limits, foreign-exchange risk and commodities risk, and disclosed separately; and

4) capital requirements for operational risk calculated in accordance with Title IV of the Decision on the capital adequacy of credit institutions, and disclosed separately for each approach applied: the Basic Indicator Approach, the Standardised Approach or the Advanced Measurement Approach.

(4) For the retail exposure class, the requirement referred to in paragraph (3), item (2) of this Article shall apply to each of the sub-classes of exposures specified in Article 172, paragraph (2) of the Decision on the capital adequacy of credit institutions.

(5) For the equity exposure class, the requirement referred to in paragraph (3), item (2) of this Article shall apply to:

1) each of the approaches provided in Part 3.7.3 of Title II of the Decision on the capital adequacy of credit institutions;

2) exchange traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures; and

3) equity exposures permanently exempted from the calculation of capital requirements under the IRB Approach in accordance with Article 180, paragraph (1) of the Decision on the capital adequacy of credit institutions, i.e. equity exposures subject to the calculation of capital requirements under the Standardised Approach.

(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.

*Under Article 8 of the Decision on amendments to the Decision on public disclosure of compliance with prudential requirements by credit institutions, Official Gazette 118/2011, which enters into force on 30 June 2012, paragraph (6) has been added.*

**Counterparty credit risk**  
**Article 15**

- (1) Credit institutions shall disclose the qualitative and quantitative information on the exposure to counterparty credit risk as defined in Part 6.2 of Title II of the Decision on the capital adequacy of credit institutions.
- (2) The qualitative information on the exposure to counterparty credit risk shall be:
- 1) a discussion of the methodology used to assign internal capital and credit limits for counterparty credit exposures;
  - 2) the policies for collateral management and credit valuation adjustments;
  - 3) the policies for exposures to general and specific wrong-way risk; and
  - 4) the impact of the amount of collateral the credit institution would have to provide given a downgrade in its credit rating.
- (3) The quantitative information on the exposure to counterparty credit risk shall be:
- 1) gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposure. Gross positive fair value of contracts is the sum total of the fair values of contracts where the credit institution is owed money by its counterparties, without taking into account netting or the maximum loss a credit institution could incur if all its counterparties default and there is no netting of contracts, and the credit institution holds no counterparty collateral. Net derivatives credit exposure is the credit exposure on derivatives transactions after considering both the benefits from legally enforceable netting agreements and collateral arrangements;
  - 2) credit exposure values under the methods set out in Parts 6.2.2 to 6.2.5 of Title II of the Decision on the capital adequacy of credit institutions, whichever method is applicable;
  - 3) the notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure; and
  - 4) credit derivative transactions (notional), segregated between use for the credit institution's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used, broken down further by protection bought and sold within each product group.

## Credit risk and dilution risk

### Article 16

(1) Credit institutions shall disclose the qualitative and quantitative information on the exposure to credit risk and dilution risk, in accordance with Title II of the Decision on the capital adequacy of credit institutions

*Under Article 9 of the Decision on amendments to the Decision on public disclosure of compliance with prudential requirements by credit institutions, Official Gazette 118/2011, which enters into force on 30 June 2012, paragraph (1) has been amended.*

- (2) The qualitative information on the exposure to credit risk and dilution risk shall be:
- 1) the definitions of 'past due' and 'impaired'; and
  - 2) a description of the approaches and methods adopted for determining value adjustments and provisions.
- (3) The quantitative information on the exposure to credit risk and dilution risk shall be:
- 1) the total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the reporting period broken down by different types of exposure classes;
  - 2) the geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate;
  - 3) the distribution of the exposures by industry or counterparty type, broken down by exposure classes, and further detailed if appropriate;
  - 4) the residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate;
  - 5) by significant industry or counterparty type, the amount of:
    - impaired exposures and past due exposures, provided separately;
    - value adjustments and provisions; and
    - charges for value adjustments and provisions during the reporting period specified in this Decision;
  - 6) the amount of the impaired exposures and past due exposures, provided separately, broken down by significant geographical areas including, if practical, the amounts of value adjustments and provisions related to each geographical area; and
  - 7) the changes in the value adjustments and provisions for impaired exposures, shown separately. The information shall comprise:
    - a description of the type of value adjustments and provisions;
    - the opening balances of value adjustments and provisions;
    - the increase in value adjustments and provisions during the reporting period;
    - any other adjustments including those determined by exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, and transfers between provisions;

- the decrease in value adjustments, the amounts taken against the provisions, recoveries from previous years and write-offs against the value adjustments during the reporting period; and
- the closing balances of value adjustments and provisions.

(4) The value adjustments and recoveries from previous years referred to in paragraph (3), item (7) of this Article shall be disclosed separately.

### **Standardised Approach to credit risk**

#### **Article 17**

(1) Credit institutions calculating the risk-weighted exposure amounts for credit risk under the Standardised Approach shall disclose the qualitative and quantitative information for each of the exposure classes specified in Article 11, paragraph (2) of the Decision on the capital adequacy of credit institutions.

(2) The qualitative information regarding the Standardised Approach to credit risk shall be:

- 1) the names of the eligible External Credit Assessment Institutions (hereinafter: eligible ECAIs) and Export Credit Agencies (hereinafter: ECAs) the credit assessments of which are used by credit institutions and the reasons for any changes;
- 2) the exposure classes for which each ECAI or ECA is used;
- 3) a description of the process used to transfer the issuer and issue credit assessments onto items included in the non-trading book; and
- 4) the association of the external rating of each eligible ECAI or ECA with the credit quality steps prescribed in Part 2.2. of Title II of the Decision on the capital adequacy of credit institutions, taking into account that this information needs not be disclosed if the association of external ratings of all eligible ECAIs complies with the List of eligible External Credit Assessment Institutions referred to in Article 31, paragraph (3) of the Decision on the capital adequacy of credit institutions.

(3) The quantitative information regarding the Standardised Approach to credit risk shall be the information regarding the exposure values and the exposure values after credit risk mitigation associated with each credit quality step prescribed in Part 2.2 of Title II of the Decision on the capital adequacy of credit institutions, as well as those deducted from own funds in accordance with the Decision on own funds of credit institutions and not included in the calculation of the risk-weighted exposure amounts for credit risk as prescribed in Article 12 of the Decision on the capital adequacy of credit institutions.

**Specialised lending exposures and the Simple Risk Weight Approach for equity exposures**  
**Article 18**

Credit institutions applying the IRB Approach for the calculation of the risk-weighted exposure amounts for credit risk for specialised lending exposures for which they cannot demonstrate that their default estimates meet the minimum requirements set out in Part 3 of Title II of the Decision on the capital adequacy of credit institutions or credit institutions applying the Simple Risk Weight Approach for equity exposures in accordance with Part 3.7.3.1 of Title II of the Decision on the capital adequacy of credit institutions shall disclose the following quantitative information regarding:

- 1) the exposures assigned to each category in Table 8 of paragraph (1) of Article 302 of the Decision on the capital adequacy of credit institutions; or
- 2) the exposures assigned to each risk weight mentioned in Article 310 of the Decision on the capital adequacy of credit institutions.

**The use of internal models for the calculation of capital requirements for market risks**  
**Article 19**

(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.

*Under Article 1 of the Decision on amendments to the Decision on public disclosure of compliance with prudential requirements by credit institutions, Official Gazette 118/2011, which entered into force on 31 March 2010, items (4) and (5) have been added.*

*Under Article 10 of the Decision on amendments to the Decision on public disclosure of compliance with prudential requirements by credit institutions, Official Gazette 118/2011, which enters into force on 30 June 2012, Article 19 has been amended in its entirety.*

## **Operational risk**

### **Article 20**

(1) Credit institutions shall disclose the following qualitative information on operational risk:

- 1) the selected approaches and the method and scope of application of individual approaches for the calculation of capital requirements for operational risk; and
- 2) in the case of use of the Advanced Measurement Approach set out in Part 4 of Title IV of the Decision on the capital adequacy of credit institutions, a description of procedures for measuring operational risk, including a discussion of relevant internal and external factors considered in the credit institution's management and measurement approach.

(2) In the case of the combination of approaches, the scope and coverage of the different approaches used shall be disclosed.

**Exposures in equities included in the non-trading book**  
**Article 21**

(1) Credit institutions shall disclose the qualitative and quantitative information on the exposures in equities included in the non-trading book, in accordance with Title II of the Decision on the capital adequacy of credit institutions.

*Under Article 11 of the Decision on amendments to the Decision on public disclosure of compliance with prudential requirements by credit institutions, Official Gazette 118/2011, which enters into force on 30 June 2012, paragraph (1) has been amended.*

(2) The qualitative information on the exposures in equities included in the non-trading book shall be:

- 1) the differentiation between exposures based on their objectives, including for capital gains relationship and strategic reasons; and
- 2) an overview of the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation and any significant changes in these practices.

(3) The quantitative information on the exposures in equities included in the non-trading book shall be:

- 1) the balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value;
- 2) the types, nature and amounts of exchange traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures;
- 3) the cumulative realised gains or losses arising from sales and liquidations in the reporting period; and
- 4) the total unrealised gains or losses and the amounts of losses included in the original or additional own funds.

**Exposure to interest rate risk on positions included in the non-trading book**  
**Article 22**

Credit institutions shall disclose the following information on the exposure to interest rate risk on positions included in the non-trading book, in accordance with the Decision on the management of interest rate risk in the non-trading book:

- 1) qualitative information on the nature (sources) of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk on positions included in the non-trading book; and
- 2) quantitative information on the variation in earnings, economic value or other relevant measure used by the management board, employees or bodies of the credit institution that are responsible for measuring, monitoring and management of

interest rate risk in the non-trading book for upward and downward rate shocks according to the method for measuring the interest rate risk, broken down by currency.

*Under Article 12 of the Decision on amendments to the Decision on public disclosure of compliance with prudential requirements by credit institutions, Official Gazette 118/2011, which enters into force on 30 June 2012, the introductory sentence has been amended.*

## **Securitisation**

### **Article 23**

(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: SSPEs) 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 ECAIs 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.

*Under Article 13 of the Decision on amendments to the Decision on public disclosure of compliance with prudential requirements by credit institutions, Official Gazette 118/2011, which enters into force on 30 June 2012, Article 23 has been amended in its entirety.*

### III QUALIFYING REQUIREMENTS FOR THE USE OF PARTICULAR APPROACHES AND TECHNIQUES

#### IRB approach

#### Article 24

(1) Credit institutions calculating the risk-weighted exposure amounts for credit risk under the IRB Approach shall, in accordance with Title II, Chapter 3 of the Decision on the capital adequacy of credit institutions, publicly disclose the qualitative and quantitative information.

*Under Article 14 of the Decision on amendments to the Decision on public disclosure of compliance with prudential requirements by credit institutions, Official Gazette 118/2011, which enters into force on 30 June 2012, paragraph (1) has been amended.*

(2) The qualitative information regarding the IRB Approach shall be:

- 1) the permission of the Croatian National Bank for the use of the IRB Approach or the permission for the sequential implementation of the IRB Approach;
- 2) an explanation and review of:
  - the structure of internal rating systems and relation between internal and external (credit) ratings;
  - the use of internal estimates other than for calculating the risk-weighted exposure amounts for credit risk under the IRB Approach;
  - the process for managing and recognising credit risk mitigation; and
  - the control mechanisms related to the functioning and validation of rating systems, including a description of independence and accountability of individual persons in the validation process;
- 3) a description of the internal rating process, provided separately for the following exposure classes:
  - central governments and central banks;
  - institutions;
  - corporate (including SMEs, specialised lending and purchased corporate receivables);
  - retail, for each of the sub-classes of exposures referred to in Article 172, paragraph (2) of the Decision on the capital adequacy of credit institutions; and
  - equities.

(3) For the purposes of paragraph (2), item (3) of this Article, the description shall include the types of exposure included in the exposure class, the definitions, methods and data for estimation and validation of the probability of default (hereinafter: PD) and, if applicable, loss given default (hereinafter: LGD) and conversion factors, including assumptions employed in the derivation of these variables, and the descriptions of material deviations from the definitions of default set out in Part

3.5.2.2.1 of Title II of the Decision on the capital adequacy of credit institutions, including the segments affected by such deviations.

(4) The quantitative information regarding the IRB Approach shall be:

1) the exposure values for each of the exposure classes specified in Article 170, paragraph (1) of the Decision on the capital adequacy of credit institutions. Exposures to central governments and central banks, institutions and corporates where credit institutions use own estimates of LGDs or conversion factors for the calculation of risk-weighted exposure amounts for credit risk (hereinafter: AIRB Approach) shall be disclosed separately from exposures for which the credit institutions do not use such estimates;

2) for each of the exposure classes central governments and central banks, institutions, corporate and equity, and across a sufficient number of obligor grades (including default) to allow for a meaningful differentiation of credit risk, credit institutions shall disclose:

–the total exposures (for the exposure classes central governments and central banks, institutions and corporate, the sum of on-balance sheet exposures and exposure values for undrawn commitments; for equities, the outstanding amount);

–for the credit institutions using own LGD estimates for the calculation of risk weighted exposure amounts for credit risk (AIRB Approach), the exposure weighted average LGD in percentage;

–the exposure-weighted average risk weight; and

–for the credit institutions using own estimates of conversion factors for the calculation of risk-weighted exposure amounts for credit risk (AIRB Approach), the amount of undrawn commitments and exposure-weighted average exposure values for each exposure class;

3) for the retail exposure class and for each of the sub-classes as defined in Article 172, paragraph (2) of the Decision on the capital adequacy of credit institutions, either the public disclosures outlined under item (2) above (if applicable, on a pooled basis), or an analysis of exposures (on-balance sheet exposures and exposure values for undrawn commitments) against a sufficient number of EL grades to allow for a meaningful differentiation of credit risk (if applicable, on a pooled basis);

4) the actual value adjustments and provisions in the reporting period for each exposure class (for retail, for each of the sub-classes as defined in Article 172, paragraph (2) of the Decision on the capital adequacy of credit institutions) and a comparison to the previous period;

5) a description of the factors that impacted on actual losses in the preceding period (for example, has the credit institution experienced higher than average default rates, or higher than average LGDs and conversion factors); and

6) the credit institution's estimates against actual losses over a sufficiently long period. At a minimum, this shall include information on estimates of losses against actual losses in each exposure class (for retail, for each of the sub-classes as defined in Article 172, paragraph (2) of the Decision on the capital adequacy of credit

institutions) over a period sufficient to allow for a meaningful assessment of the performance of the internal rating processes for each exposure class (for retail, for each of the sub-classes as defined in Article 172, paragraph (2) of the Decision on the capital adequacy of credit institutions). Where appropriate, the credit institutions shall further decompose this to provide analysis of PDs and, for the credit institutions using own estimates of LGDs and/or conversion factors (AIRB Approach), LGDs and conversion factor outcomes against estimates of PDs, LGDs and/or conversion factors referred to in items (2) and (3) of this paragraph.

## **Credit risk mitigation techniques**

### **Article 25**

(1) Credit institutions applying credit risk mitigation techniques shall, in accordance with Title II, Chapter 4 of the Decision on the capital adequacy of credit institutions, publicly disclose the qualitative and quantitative information on credit risk mitigation techniques.

*Under Article 15 of the Decision on amendments to the Decision on public disclosure of compliance with prudential requirements by credit institutions, Official Gazette 118/2011, which enters into force on 30 June 2012, paragraph (1) has been amended.*

(2) The qualitative information on credit risk mitigation techniques shall be:

- 1) the policies and processes for, and an indication of the extent to which the entity makes use of, on- and off-balance sheet netting;
- 2) the policies and processes for collateral valuation and management;
- 3) a description of the main types of collateral taken by the credit institution;
- 4) the main types of guarantors or counter-guarantors and the main eligible providers of unfunded credit protection in the form of credit derivatives, and their creditworthiness; and
- 5) information about market or credit risk concentrations within the credit mitigation taken.

(3) The quantitative information on credit risk mitigation techniques shall be:

- 1) for credit institutions calculating the risk-weighted exposure amounts for credit risk under the Standardised or IRB Approach, but not providing own estimates of LGDs or conversion factors in respect of the exposure class, separately for each exposure class, the total exposure value (after, where applicable, on- or off-balance sheet netting) that is covered – after the application of volatility adjustments – by eligible financial collateral, and other eligible collateral (funded credit protection); and
- 2) for credit institutions calculating the risk-weighted exposure amounts for credit risk under the Standardised or IRB Approach, separately for each exposure class, the

total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees, counter-guarantees or credit derivatives (unfunded credit protection). For the equity exposure class, this requirement applies to each of the approaches provided in Part 3.7.3 of Title II of the Decision on the capital adequacy of credit institutions.

**Advanced Measurement Approach for the calculation of capital requirements for operational risk**  
**Article 26**

In addition to the information referred to in Articles 14 and 20 of this Decision, credit institutions using the Advanced Measurement Approach for the calculation of capital requirements for operational risk set out in Part 4 of Title IV of the Decision on the capital adequacy of credit institutions shall publicly disclose a description of the use of insurance and other risk transfer mechanisms for the purpose of mitigating the operational risk.

*Under Article 2 of the Decision on amendments to the Decision on public disclosure of compliance with prudential requirements by credit institutions, Official Gazette 2/2010, which entered into force on 31 March 2010, Article 26 has been amended in part.*

**IV TRANSITIONAL AND FINAL PROVISIONS**

**Article 27**

(1) Up to the date of accession of the Republic of Croatia to the European Union, a credit institution which has its registered office in the Republic of Croatia and has the status of an RC parent credit institution, and a credit institution which has its registered office in the Republic of Croatia and is a subsidiary of an RC parent financial holding company shall comply with the public disclosure requirements referred to in this Decision on a consolidated basis.

(2) Credit institutions shall carry out the first assessment in accordance with Article 10, paragraphs (3) and (4) of this Decision by 31 December 2010.

(3) This Decision shall be published in the Official Gazette and shall enter into force on 31 March 2010, with the exception of the provisions of Articles 5 and 6, which shall enter into force on the date of accession of the Republic of Croatia to the European Union.

## **TRANSITIONAL AND FINAL PROVISIONS**

**(Decision on amendments to the Decision on public disclosure of compliance with prudential requirements by credit institutions, Official Gazette 75/2009, which entered into force on 30 June 2009)**

### **Article 1**

In the Decision on public disclosure of compliance with prudential requirements by credit institutions (Official Gazette, 1/2009.), in Article 27, paragraph (2), the words "31 December 2009" are replaced with the words "31 December 2010".

In paragraph (3), the words "1 July 2009" are replaced with the words "31 March 2010".

### **Article 2**

This Decision shall be published in the Official Gazette and shall enter into force on 30 June 2009.

## **TRANSITIONAL AND FINAL PROVISIONS**

**(Decision on amendments to the Decision on public disclosure of compliance with prudential requirements by credit institutions, Official Gazette 2/2010, which entered into force on 31 March 2010)**

### **Article 3**

This Decision shall be published in the Official Gazette and shall enter into force on 31 March 2010.

## **TRANSITIONAL AND FINAL PROVISIONS**

**(Decision on amendments to the Decision on public disclosure of compliance with prudential requirements by credit institutions, Official Gazette 118/2011, which enters into force on 30 June 2012)**

### **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.