

Pursuant to Article 161, paragraph (1) 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 the capital adequacy of credit institutions

Article 1

In the Decision on the capital adequacy of credit institutions (Official Gazette 1/2009 and 75/2009), in Article 1, paragraph (3) is deleted.

Article 2

In Article 2, paragraph (1), item (11), the last subparagraph is amended to read:

"The list of legislative, executive, judicial and justice authorities of the Republic of Croatia is published in the Catalogue of public bodies on the HIDRA web site ([www.hidra.hr/Official Documentation/Catalogues of public bodies](http://www.hidra.hr/Official%20Documentation/Catalogues%20of%20public%20bodies))."

Item (13) is amended to read:

"13) **'Public sector entities'** (PSE) means:

- administrative bodies responsible to the central government, local and regional self-government bodies or
- legal persons owned by the central government, the liabilities of which are guaranteed by the central government, which have not been established for commercial purposes.

In the Republic of Croatia the public sector entities include public institutions, other legal persons with public authority and funds that meet the following three conditions:

- they have been established by the Republic of Croatia;
- their operation is governed by a special law; and
- they are subject to public supervision.

In the Republic of Croatia **'public sector entities that are treated as the central government'** include the following:

- 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 solidary 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 authority, the liabilities of which are guaranteed by the Republic of Croatia (e.g. Croatian Competition Agency, State Audit Office, Croatian Agency for Small Businesses, 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 solidary 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
- the Croatian Bank for Reconstruction and Development.

All public sector entities in the Republic of Croatia that are not eligible for treatment as 'central government' shall be treated as 'institutions'.

Public sector entities of third countries may not be treated as 'central government', i.e. they may be treated as 'institutions' only if so prescribed by third-country authorities responsible for the supervision of credit institutions."

Item (14) is amended to read:

"(14) **'Small and medium sized entities'** (SMEs) means persons (including undertakings, sole traders, craftsmen and freelancers) pursuing an economic activity for the purpose of generating profit from production, turnover or rendering of services regardless of their legal form. To be eligible for this category, a person must meet two of the following three criteria:

- its total assets may not exceed HRK 130 million,
- its revenues may not exceed HRK 260 million,
- the average number of its employees in a business year may not exceed 250 employees.

To be eligible for the SME category a person and its connected persons may not exceed the limits referred to in item (14) of paragraph (1) of this Decision.

The fulfilment of this condition shall be determined as follows:

- if the person holds 25% to 50% of the voting rights of the SME or undertakings in which the SME holds 25% or 50% of the voting rights, the data on the connected undertaking shall be proportionately included in the determination on whether the criteria for the SME category are met;
- if connected persons hold 50% or more of the voting rights of the SME and undertakings in which the SME holds 50% or more of the voting rights, the data on connected undertakings shall be included in the entire amount to determine whether the criteria for the SME category are met."

Item (16) is amended to read:

"(16) **'Items belonging to regulatory high-risk categories'** means a high-risk exposure of a credit institution, i.e. investments of a credit institution in venture capital firms and private equity investments."

In item (19), first indent, the words "occupied by a credit institution for its own activities" are deleted.

After item (23), items (24) and (25) are added which read:

"(24) **'Residential real estate property'** means a house, a flat or associated parts of the flat in flat ownership intended to be used as a dwelling or a building plot intended to be used for construction of a house.

A garage or a parking spot shall be considered residential real estate property 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. Holiday homes shall not be considered residential real estate property.

(25) **'Commercial real estate property'** means a commercial building, commercial premises, a garage, a parking spot or a building plot intended to be used for construction of a commercial real estate property or as agricultural land.

A commercial building shall be a building intended to be used for business activity if predominantly used for that purpose. Commercial premises shall be one or more rooms in a commercial or residential building intended to be used for business activity which, as a rule, shall make up a separate unit and have a separate main entrance. A garage or a parking spot are considered commercial real estate property if intended to be used for business activity or predominantly used for that purpose or if the mortgage on or fiduciary transfer of ownership of the garage or parking spot is connected with the mortgage on or fiduciary transfer of ownership of commercial real estate property.

Agricultural land means fields, orchards, olive-groves, vineyards, fish-ponds and other land intended to be used for agriculture if predominantly used for that purpose."

In paragraph (3), item (18), the words "determined by an independent valuer" are replaced by the word "established" and the words "aspects of the property" are replaced by the words "factors that can affect the value".

In paragraph (4), item (10) is amended to read:

"(10) **'Mezzanine securitization position'** means:

1. a securitisation position to which a risk weight lower than 1250% applies; and
2. a securitisation position that is more junior than the most senior position in a securitisation."

Article 3

Article 9 is amended to read:

"(1) Exposure of a credit institution means the amount of all on- and certain off-balance sheet items.

(2) Within the meaning of this Title, off-balance sheet items referred to in paragraph (1) of this Article shall be derivative financial instruments and off-balance sheet liabilities on the basis of which a credit institution is exposed to credit risk."

Article 4

Article 10 is amended to read:

"(1) The valuation of on- and off-balance sheet items shall be effected by the credit institution in accordance with this Decision, International Financial Reporting Standards, regulations and professional standards.

(2) Within the meaning of paragraph (1) of this Article, partly recoverable placements, fully irrecoverable placements and off-balance sheet liabilities shall be reported in the nominal amount of the bookkeeping value reduced by the established value adjustment or provisions for losses arising from off-balance sheet liabilities, except where otherwise provided for in this Decision. Placements and off-balance sheet liabilities classified into risk category A shall not be reduced by the amount of value adjustment or provisions for losses arising from off-balance sheet liabilities, except where otherwise provided for in this Decision."

Article 5

In Article 11, paragraph (2) is amended to read:

"(2) Exposure classes are:

- 1) exposures to central governments or central banks;
- 2) exposures to local and regional self-government bodies;
- 3) exposures to public sector entities;
- 4) exposures to multilateral development banks;
- 5) exposures to international organisations;
- 6) exposures to institutions;
- 7) exposures to corporates;
- 8) retail exposures;

- 9) exposures secured by real estate property;
- 10) past due items;
- 11) items belonging to regulatory high-risk categories;
- 12) exposures in the form of covered bonds;
- 13) securitisation positions;
- 14) exposures in the form of collective investment undertakings; or
- 15) other items."

After paragraph (2), paragraph (3) is added which reads:

"(3) By way of derogation from paragraph (1) of this Article, the credit institution referred to in Article 510, paragraphs (1) and (2) of this Decision shall assign each exposure in the non-trading book and in the trading book to one of the exposure classes referred to in paragraph (2) of this Article and apply to it an appropriate risk weight."

Article 6

In Articles 14 and 17, the word "item" is replaced by the word "liability" in the appropriate grammatical number.

Article 7

In Article 18, the introductory sentence is amended to read:

"Off-balance sheet liabilities according to the degree of risk shall be as follows:"

The last indent is amended to read:

"– other off-balance sheet liabilities also carrying full risk."

Article 8

In Article 20, after the number "100%" a comma is inserted and is followed by the words "and shall be assigned to the other items exposure class."

Article 9

In Article 29, after paragraph (1), paragraph (2) is added which reads:

"(2) By way of derogation from paragraph (1) of this Article, the Croatian National Bank shall consider the methodology of an ECAI which has its registered office in a Member State and is authorised in accordance with the provisions of Regulation 1060/2009 of the European Parliament and the Council, in compliance with the conditions laid down in Part 2.4.1.1 of this Title."

Article 10

In Article 30, paragraph (1) is amended to read:

"The Croatian National Bank may indirectly recognise an ECAI as eligible, including the mapping of its credit assessments in credit quality steps, without carrying out its own evaluation process, when the ECAI has been recognised as eligible by other competent authorities of the Member States."

Paragraph (2) is deleted.

Article 11

In Title II CREDIT RISK, Part 2 STANDARDISED APPROACH, the title "2.1 APPLICATION OF RISK WEIGHTS BY EXPOSURE CLASSES" is amended to read "2.2 APPLICATION OF RISK WEIGHTS BY EXPOSURE CLASSES".

Article 12

In Article 35, after paragraph (1), paragraph (2) is added which reads:

"(2) By way of derogation from paragraph (1) of this Article, exposures to the Croatian National Bank that do not meet the criteria set out in Articles 36 to 39 and Article 617 of this Decision, shall be assigned a risk weight that is, in accordance with Articles 36 and 37 of this Decision, assigned to claims on the Republic of Croatia denominated in that currency."

Article 13

Article 44 is amended to read:

"(1) Exposures to public sector entities of other Member States which are, subject to the discretion of the competent authorities of that Member State, treated as exposures to the central government in which they are established, shall be risk-weighted as exposures to central governments as set out in Articles 35 to 37, Article 39 and Article 617 of this Decision.

(2) Exposures to public sector entities of other Member States which are, subject to the discretion of the competent authorities of that Member State, treated as exposures to institutions, shall be risk-weighted as exposures to institutions as set out in Part 2.2.6 of this Title. The preferential treatment for short-term exposures specified in Articles 51, 53 and 58 of this Decision shall not be applied."

Article 14

Article 45 is amended to read:

"(1) Exposures to public sector entities in third countries, which apply prudential requirements to credit institutions at least equivalent to those applied in the Member States and which are, subject to the discretion of the competent authorities of that third country, treated as institutions, shall be risk-weighted as exposures to institutions as set out in Part 2.2.6 of this Title. The preferential treatment for short-term exposures specified in Articles 51, 53 and 58 of this Decision shall not be applied.

(2) Exposures to public sector entities in third countries shall not be risk-weighted as exposures to central governments."

Article 15

In Article 50, after the words "three months" a comma is deleted in the Croatian text, with no relevance to the English translation, and the words "for which a credit assessment by a nominated ECAI is available" are inserted.

Article 16

In Article 51, after the words "or less" a comma is deleted in the Croatian text, with no relevance to the English translation, and the words "for which a credit assessment by a nominated ECAI is available" are inserted.

Article 17

In Articles 52 and 53, the word "eligible" is replaced by the word "nominated".

Article 18

Article 54 is amended to read:

"By way of derogation from Articles 52 and 53 of this Decision, exposures to institutions for which a credit assessment by a nominated ECAI is not available shall be risk-weighted as exposures to the central government of the jurisdiction in which the institution is incorporated in accordance with Articles 35 to 37 and Articles 39 and 617 of this Decision or the risk weight prescribed in Articles 52 and 53 of this Decision, whichever is the higher."

Article 19

Article 58 is amended to read:

"By way of derogation from Articles 51 and 53 of this Decision, exposures to institutions with registered offices in the Republic of Croatia or a Member State with a residual

maturity of three months or less denominated and funded in the national currency of the borrower may be assigned a risk weight that is one category less favourable than the risk weight assigned to exposures to its central government according to Articles 39 and 617 of this Decision."

Article 20

In Article 61, new paragraph (1) is inserted which reads:

"(1) Unless included in some other class, the following shall be assigned to the corporate exposure class:

- exposures to corporates,
- exposures in the form of shares in closed-end investment funds; and
- exposures to sole traders, craftsmen and freelancers."

The former paragraph (1) becomes paragraph (2).

Article 21

In Article 62, the word "eligible" is replaced by the word "nominated" and the words "risk weight of its central government" are replaced by the words "risk weight equal to that of its central government".

Article 22

In Article 65, paragraph (1) is amended to read:

"(1) Retail exposures shall include exposures to natural persons (who are not sole traders, craftsmen or freelancers), unless they are included in some other class."

After paragraph (1), new paragraphs (2) and (3) are inserted which read:

"(2) By way of derogation from paragraph (1) of this Article, retail exposures may also include exposures to corporates, sole traders, craftsmen or freelancers which meet the criteria set out in paragraph (4) of this Article.

(3) Exposures to persons referred to in paragraph (1) of this Article which do not meet the criteria set out in paragraph (4) of this Article shall be assigned a risk weight of 100%."

The former paragraphs (2) and (3) become paragraphs (4) and (5).

In the former paragraph (2) which becomes paragraph (4), in the third subparagraph, the words "excluding claims secured on residential real estate collateral and included in

Part 2.2.9.1 of this Title" are replaced by the words "excluding claims secured on residential real estate collateral that are included in Part 2.2.9 of this Title".

Article 23

Article 66 is amended to read:

"(1) For a portion of the retail portfolio to be considered diversified, a credit institution shall prescribe in its internal bylaws the groups of identical products, separately for natural persons and SMEs and the diversification ratio referred to in paragraph (2) of this Article for a certain group of identical products shall be less than or equal to 0.2%. Only products with identical risk characteristics in relation to the counterparty, purpose and remaining characteristics can be considered identical products.

(2) A diversification ratio (Pd) shall be calculated as follows:

$$Pd = \frac{1}{n} \cdot 100\%$$

where n is the number of loans per product."

Article 24

In Article 68, the full stop at end of the sentence is deleted and a comma is inserted and is followed by the words "except promissory notes and cheques."

Article 25

Article 69 is amended to read:

"(1) Exposures or any part of an exposure fully and completely secured by mortgages on or fiduciary transfer of ownership of residential or commercial real estate property shall be assigned to the exposure class 'exposures secured by real estate property'.

(2) Exposures or any part of an exposure referred to in paragraph (1) of this Article which do not meet the criteria set out in 2.2.9.1 and 2.2.9.2 of this Title shall be assigned a risk weight of 100%."

Article 26

Article 71 is amended to read:

"(1) A risk weight of 35% may be assigned only to those exposures or a part of an exposure that are secured by residential property which is or shall be occupied by the natural person who is the owner or which the natural person who is the owner of the property lets for residential purposes under a lease contract.

(2) The risk weight referred in paragraph (1) of this Article may be assigned only under the condition that the owner of the residential property is the owner of not more than two residential properties."

Article 27

In Article 72, paragraph (1) is amended to read:

"(1) Exposures to a tenant under a property leasing transaction concerning residential property under which the credit institution is the lessor and the tenant has an option to purchase may be assigned a risk weight of 35%."

Article 28

In Article 73, item (2) is amended to read:

"2) the risk of the borrower does not materially depend upon the cash flow resulting from the use of the residential property given as collateral or the outcome of the project, but rather on the underlying capacity of the borrower to repay the debt from other sources, i.e. the capacity of the borrower to repay the debt does not materially depend upon the cash flow resulting from the use of the residential property serving as collateral."

In item (3), the words "and related to Article 2, paragraph (3), items (18) and (19) of this Decision" are deleted.

Item (4) is amended to read:

"4) the value of the exposure prior to the reduction by the established value adjustments or provisions for losses arising from off-balance sheet liabilities (gross amount) is 75% or less of the value of the real estate property determined in accordance with Article 363 of this Decision (Loan to value ratio of $\leq 75\%$)."

Article 29

Article 74 is amended to read:

"Exposures or any part of an exposure fully and completely secured by mortgages on or fiduciary transfer of ownership of commercial real estate situated within the territory of the Republic of Croatia, in which the owner carries out its activities or which is let by the owner under a lease contract, may be assigned a risk weight of 50%."

Article 30

In Article 75, paragraph (1), the Croatian words translated as "leasing transaction", "lessor" and "tenant" are replaced by other Croatian words, with no relevance to the English translation.

Article 31

Article 77 is amended to read:

"(1) The 50% risk weight shall be assigned to the part of the exposure that does not exceed 50% of the market value of the commercial real estate in question.

(2) By way of derogation from paragraph (1) of this Article, if the commercial real estate is situated within the territory of the Republic of Croatia or a Member State and if rigorous criteria for the assessment of the mortgage lending value have been laid down, the 50% risk weight shall be assigned to the part of the exposure that is lower of the following two amounts:

- 50% of the market value of the property, or
- 60% of the mortgage lending value."

Article 32

Article 78 is amended to read:

"A 100% risk weight shall be assigned to the remainder of the exposure that exceeds the limits set out in Article 77 of this Decision."

Article 33

Article 79 is amended to read:

"Exposures fully and completely secured by mortgages on or fiduciary transfer of ownership of commercial real estate situated within the territory of a Member State may be assigned a 50% risk weight if the competent authorities of that Member State allow credit institutions with registered offices in that Member State to assign a 50% risk weight to exposures or any part of an exposure that are fully and completely secured by mortgages on or fiduciary transfer of ownership of commercial real estate situated within the territory of that Member State."

Article 34

After Article 79 and the title "2.2.10 Past due items", Article 79a is inserted which reads:

"Article 79a

"Past due items shall be assigned to the class of past due items, unless they comply with the criteria for assignment into the class of securitisation positions or the class of items belonging to regulatory high-risk categories."

Article 35

Article 80 is amended to read:

"Unsecured exposures or any part of an unsecured exposure that is past due shall be assigned a risk weight of:

- 1) 150%, if value adjustments are less than 20% of the unsecured part of the exposure gross of value adjustments; and
- 2) 100%, if value adjustments are equal to or no less than 20% of the unsecured part of the exposure gross of value adjustments."

Article 36

Article 81 is amended to read:

"The secured part of the exposure referred to in Article 80 of this Decision shall be the part fully and completely secured by eligible financial collateral and/or guarantees eligible under the Standardised Approach in accordance with Part 4 of this Title."

Article 37

In Article 82, the words "which are past due for more than 90 days" are replaced by the words "which are past due".

Article 38

After Article 82, Article 82a is inserted which reads:

"Article 82a

In relation to past due items referred to in Article 80 of this Decision whose value should be adjusted, the credit institution shall first distribute the total value adjustment to the unsecured part of the exposure."

Article 39

In Article 86, item (1), the words "local and regional self-government bodies" are replaced by the words "units of local and regional self-government".

In items (2), (3), (4) and (5), the Croatian words translated as "credit quality step" are replaced by other Croatian words, with no relevance to the English translation.

Article 40

The title above Article 91 is amended to read "2.2.13 Securitisation positions".

Article 41

In Article 92, the word "eligible" is replaced by the word "nominated".

Article 42

In Article 93, after paragraph (1), paragraph (2) is added which reads:

"(2) Shares in open-end investment funds shall be considered exposures in the form of collective investment undertakings referred to in paragraph (1) of this Article."

Article 43

Article 96 is amended to read:

"Exposures in the form of CIUs may be assigned a risk weight as set out in Articles 98 to 100 of this Decision, if the following eligibility criteria are met:

1) the CIU is managed by a company:

- which is subject to supervision in the Republic of Croatia or a Member State; or
- which has its registered office in a third country provided that the CIU is managed by a company which is subject to supervision that is considered equivalent to that laid down in the Community law and that the cooperation between the Croatian National Bank and the third country competent supervisory authority is sufficiently ensured;

2) the CIU's prospectus or equivalent document includes:

- the categories of assets in which the CIU is authorised to invest; and
- if investment limits apply, the relative limits and methodologies to calculate them; and

3) the business of the CIU is reported on at least an annual basis to enable an assessment to be made of the assets and liabilities, income and operations over the reporting period."

Article 44

Article 97 is deleted.

Article 45

In Articles 98 and 99, paragraph (1), the word "weighted" is inserted before the word "average".

Article 46

In Article 100, after the number "99" the words "of this Decision" are inserted.

Article 47

Article 102 is amended to read:

"Gold bullion held in own vaults or offered as security for liabilities of the credit institution shall be assigned a 0% risk weight."

Article 48

Article 103 is amended to read:

"By way of derogation from Part 2.2.6 of this Title, exposures to the Zagreb Money Market may be assigned a 10% risk weight if they are fully and completely secured by items assigned a 0% or a 20% risk weight and recognised as constituting adequate credit protection in accordance with the provisions of this Decision."

Article 49

In Article 106, after paragraph (1), paragraph (2) is added which reads:

"(2) Exposures referred to in paragraph (1) of this Article shall be included in the exposure class to which the respective legal persons belong."

Article 50

In Article 107, the Croatian words translated as "asset sale and repurchase agreements and outright forward purchases" are replaced by other Croatian words, with no relevance to the English translation.

Article 51

In Article 109, paragraph (1), the words "on- and off-balance sheet items" are replaced by the word "exposures".

After paragraph (2), paragraph (3) is added which reads:

"(3) A credit institution shall not use credit assessments of an ECAI which it controls or in which it has a qualifying holding."

Article 52

In Articles 110 and 114, the Croatian words translated as "credit assessment" in the appropriate grammatical number are replaced by other Croatian words, with no relevance to the English translation.

Article 53

In Article 126, the words "on- and off-balance sheet items" are replaced by the word "exposures".

Article 54

In Article 131, paragraph (2) is amended to read:

"(2) An ECAI shall enclose with an application for recognition the documentation which shall evidence intent by at least one credit institution interested in the recognition of the ECAI."

Paragraph (4) is amended to read:

"(4) An ECAI recognised by the competent authority of a Member State shall list in the application the competent authorities of Member States that have recognised it."

Article 55

In Articles 136, 137, 140, 141, 142, 144, 146 and 149 of this Decision, the Croatian words translated as "credit assessment" in the appropriate grammatical number are replaced by other Croatian words, with no relevance to the English translation.

Article 56

Article 145 is amended to read:

"At the request of the Croatian National Bank, an ECAI shall enable the Croatian National Bank to gain an insight into its ongoing monitoring and review of credit assessments."

Article 57

Article 160 is amended to read:

"(1) An ECAI shall notify the Croatian National Bank without delay of any material changes in its methodology that affect its compliance with the criteria set out in Article 159 of this Decision.

(2) An ECAI recognised by the competent authorities of a Member State shall notify the Croatian National Bank without delay of the decision of any competent authority of the Member State to remove it from the list of eligible ECAIs and of any changes in the mapping of its credit assessments to certain credit quality steps."

Article 58

In Article 178, paragraph (1), item (2), the Croatian words translated as "Simple Risk Weight Approach" are replaced by other Croatian words, with no relevance to the English translation.

In paragraph (2), the Croatian words translated as "Internal Models Approach" are replaced by other Croatian words, with no relevance to the English translation.

Article 59

In Article 203, paragraph (3) is amended to read:

"(3) Credit institutions using the AIRB Approach shall separately estimate LGDs and conversion factors by facility grade or pool on the basis of the average realised LGDs and conversion factors by facility grade or pool using all observed defaults within the data sources (default weighted average)."

Article 60

In Article 219, paragraph (3), the words "paragraph (1)" are replaced by the words "paragraph (2)".

Article 61

In Article 225, the abbreviation "ELBE" is replaced by the abbreviation "EL_{BE}".

Article 62

In Article 267, paragraph (2), the words "to 89" are replaced by the words "to 90".

Article 63

In Article 284, paragraph (4) is amended to read:

"(4) For exposures arising from fully or nearly-fully collateralised derivative instruments listed in Article 586 of this Decision and fully or nearly-fully collateralised margin lending transactions which are subject to a master netting agreement, M shall be the weighted average remaining maturity of the transactions where M shall be at least 10

days. The notional amount of each transaction shall be used for weighting the maturity."

Article 64

In Article 286, the words "from Article 285, paragraphs (2), (3), (6) and (7)" are replaced by the words "from Article 284, paragraphs (2) to (7)."

Article 65

In Article 293, the word "item" in the appropriate grammatical number is replaced by the word "liability" in the appropriate grammatical number.

Article 66

In Article 340, paragraph (1), item (4), after the word "other", the word "legal" is inserted.

After paragraph (4), paragraph (5) is added which reads:

"(5) Promissory notes and cheques shall not be considered debt securities referred to in this Article."

Article 67

In Article 341, item (2) is amended to read:

"2) they qualify as senior debt (have priority in case of bankruptcy of the issuer);"

Article 68

In Article 350, item (1) is amended to read:

"(1) Legal certainty

The mortgage on or fiduciary transfer of ownership of the real estate property shall be enforceable in all jurisdictions which are relevant at the time of the conclusion of the mortgage agreement or agreement on the fiduciary transfer of ownership, and the mortgage or fiduciary transfer of ownership shall be properly filed in the land register on a timely basis. The arrangements shall reflect a perfected lien (i.e. all legal requirements for establishing the pledge shall be fulfilled). The protection agreement and the legal process underpinning it shall enable the credit institution to realise the value of the protection within a reasonable timeframe."

Item (2) is amended to read:

"(2) Monitoring of property values

– The value of the property shall be monitored on an ongoing basis and at a minimum once every year for commercial real estate and once every three years for residential real estate. More frequent monitoring shall be carried out where the market is subject to significant changes in conditions. Statistical methods may be used to monitor the value of the property and to identify property that needs revaluation.

– The property valuation shall be reviewed by an independent valuer when information indicates that the value of the property may have declined materially relative to general market prices. For individual exposures exceeding 5% of the own funds of the credit institution or HRK 20 million (whichever is the lower), the property valuation shall be reviewed by an independent valuer at least every three years. The independent property valuation in relation to such exposures shall not be older than 3 years of the entry into force of this Decision."

Item (3) is amended, with no relevance to the English translation.

Article 69

In Article 354, after paragraph (2), paragraph (3) is added which reads:

"(3) When calculating exposures for transactions referred to in Article 483 of this Decision, a credit institution, which is obligated to calculate capital requirements for position risks, shall not use the Financial Collateral Simple Method for the purpose of calculating the credit risk-mitigating effects of financial collateral."

Article 70

In Article 357, paragraph (1), Article 364, paragraph (2), Article 377, paragraph (2) and Article 425, the words "off-balance sheet item" in the appropriate grammatical number are replaced by the words "off-balance sheet liability" in the appropriate grammatical number.

Article 71

Article 363 is amended to read:

"(1) Real estate property recognised by the credit institution as collateral is valued at or less than the market value by an independent valuer. Exceptionally, if the Republic of Croatia or a Member State has laid down rigorous criteria for the assessment of the mortgage lending value the property must be valued by an independent valuer at or less than the mortgage lending value.

(2) The value of the collateral shall be the market value of the real estate property reduced as appropriate to reflect the results of the monitoring under Article 350 of this Decision and to take account of any prior claims on the property.

(3) By way of derogation from paragraph (2) of this Article, if the mortgage lending value for the real estate property has been established, the value of the collateral shall be the mortgage lending value reduced as appropriate to reflect the results of the monitoring under Article 350 of this Decision and to take account of any prior claims on the property.

(4) In the case of eligible receivables serving as collateral, the value of the collateral shall be the amount receivable.

(5) In the case of other eligible physical collateral, the value of the collateral shall be equal to the market value of the property.

(6) In the case of eligible lease exposures serving as collateral, the value of the collateral shall be determined in accordance with paragraphs (1) to (3) of this Article depending on the type of property leased."

Article 72

In Article 364, paragraph (2), after the last sentence, another sentence is added which reads:

"H_E for exposures in the form of loans is 0%."

Article 73

In Article 366, in Tables 11 and 12, the words "in Article 16" are replaced by the words "in Article 340".

Article 74

In Article 367, the third indent is amended to read:

"– 10 business days for capital market-driven transactions."

Article 75

In Article 399, item (3) is amended to read:

"3) instruments issued by third institutions which will be repurchased on request."

Article 76

In Article 400, paragraph (2), item (10) is amended to read:

"10) insurance company has its registered office in the Republic of Croatia or a Member State or is subject to supervision by a competent authority of a third country which applies prudential arrangements at least equivalent to those applied in the Community."

Article 77

In Article 410, paragraph (1), item (3) is amended to read:

"3) credit linked notes up to the amount of their cash funding."

Article 78

In Article 411, after paragraph (3), paragraph (4) is added which reads:

"(4) When calculating the capital requirement for counterparty credit risk, a credit institution may also include all credit derivatives included in the trading book that are a part of an internal hedge, subject to the compliance of such transfer with the requirements for the recognition of credit risk mitigation set out in this Part of the Decision and subject to consistent application."

Article 79

In Article 420, paragraph (2) is amended to read:

"(2) Credit linked notes issued by the lending credit institution shall be treated as cash collateral up to the amount of cash payments received from buyers of credit linked notes and their valuation and calculation of their effects shall be carried out pursuant to the provisions of Part 4.2.1.3 of this Decision."

Article 80

In Article 423, the formula " $G_A = G^* \times (T - t^*) / (T - t^*)$ " is replaced by the formula " $G_A = G^* \times (t - t^*) / (T - t^*)$ ".

Article 81

Article 427 is amended to read:

"For the purposes of the calculations referred to in Articles 425 and 426 of this Decision, for exposures or parts of exposures guaranteed by the Republic of Croatia or the Croatian National Bank, the central government or the central bank of a Member State, where the guarantee is denominated in the domestic currency of the borrower and the exposure is funded in that currency, $g = 0\%$."

Article 82

In Article 429, the words "the exposure which would, in the absence of the credit protection, produce" are replaced by the words "only of the exposure which would, in the absence of the credit protection, produce".

Article 83

Article 432 is amended to read:

"(1) Where significant credit risk associated with securitised exposures has been transferred from the originator credit institution in accordance with the provisions of Part 5.2 of this Title and the conditions laid down in Article 437a, paragraph (6) are met, that credit institution may:

- in the case of a traditional securitisation – exclude from its calculation of risk-weighted exposure amounts and, if it uses the approach set out under Part 3 of this Title, expected loss amounts, the exposures which it has securitised;
- in the case of a synthetic securitisation – calculate risk-weighted exposure amounts and, if it uses the approach set out under Part 3 of this Title, expected loss amounts in respect of the securitised exposures in accordance with Articles 478 and 479 of this Decision.

(2) Where paragraph (1) of this Article applies, the originator credit institution shall calculate the risk-weighted exposure amounts as laid down in Part 5 of this Title for other positions that it may hold in the securitisation.

(3) Where the originator credit institution fails to transfer significant credit risk in accordance with paragraph (1) of this Article and to meet the conditions laid down in Article 437a, paragraph (6), it shall apply the provisions of Part 2 or Part 3 of this Title in the calculation of risk-weighted exposure amounts for any position that it may hold in the securitisation in question."

Article 84

In Article 433, paragraph (1), in both places the words "Parts 5.4, 5.5 and 5.6" are replaced by the words "Parts 5.3 to 5.6".

Article 85

Article 436 is amended to read:

"The originator credit institution of a traditional securitisation may exclude securitised exposures from the calculation of risk-weighted exposure amounts and expected loss amounts if significant credit risk associated with the securitised exposures has been transferred to third parties and the transfer complies with the following conditions:

- 1) the securitisation documentation reflects the economic substance of the transaction;

- 2) the securitised exposures are put beyond the reach of the originator credit institution and its creditors, including in winding-up or bankruptcy. This shall be supported by the opinion of qualified independent legal counsel;
- 3) the securities issued do not represent payment obligations of the originator credit institution;
- 4) the transferee is a securitisation special-purpose entity (hereinafter: SSPE);
- 5) the originator credit institution does not maintain effective or indirect control over the transferred exposures. An originator shall be considered to have maintained effective control over the transferred exposures if it has the right to repurchase from the SSPE the previously transferred exposures in order to realise their benefits or if it is obligated to re-assume transferred risk. The originator credit institution's retention of servicing rights or obligations in respect of the exposures shall not of itself constitute indirect control of the exposures;
- 6) where there is a clean-up call option, the following conditions are satisfied:
 - the clean-up call option is exercisable at the discretion of the originator credit institution;
 - the clean-up call option may only be exercised when 10% or less of the original value of the exposures securitised remains unamortised; and
 - the clean-up call option is not structured to avoid allocating losses to credit enhancement positions or other positions held by investors and is not otherwise structured to provide credit enhancement; and
- 7) the securitisation documentation does not contain clauses that:
 - other than in the case of early amortisation provisions, require positions in the securitisation to be improved by the originator credit institution including but not limited to altering the underlying credit exposures or increasing the yield payable to investors in response to a deterioration in the credit quality of the securitised exposures; or
 - increase the yield payable to holders of positions in the securitisation in response to a deterioration in the credit quality of the underlying pool."

Article 86

Article 437 is amended to read:

"An originator credit institution of a synthetic securitisation may calculate risk-weighted exposure amounts and, if it uses the approach set out under Part 3 of this Title, expected loss amounts for the securitised exposures in accordance with Articles 478 and 479 of this Decision, if the following conditions are met:

- 1) significant credit risk has been transferred to third parties through credit protection;
- 2) the securitisation documentation reflects the economic substance of the transaction;
- 3) the credit protection by which the credit risk is transferred complies with the eligibility and other requirements under Part 4 of this Title. For this purpose, special purpose entities shall not be recognised as eligible unfunded protection providers;

- 4) the instruments of credit protection used to transfer credit risk do not contain terms or conditions that:
- impose significant materiality thresholds below which credit protection is deemed not to be triggered if a credit event occurs;
 - allow for the termination of the protection due to deterioration of the credit quality of the underlying exposures;
 - other than in the case of early amortisation provisions, require positions in the securitisation to be improved by the originator credit institutions;
 - increase the credit institutions' cost of credit protection or the yield payable to holders of positions in the securitisation in response to a deterioration in the credit quality of the underlying pool; and
- 5) an opinion is obtained from qualified independent legal counsel confirming the enforceability of the credit protection in all relevant jurisdictions."

Article 87

After Article 437, a title and Article 437a are inserted which read:

"5.2a EXPOSURES TO TRANSFERRED CREDIT RISK

Article 437a

(1) A credit institution, other than when acting as an originator, sponsor or original lender, shall be exposed to the credit risk of a securitisation position in its trading book or non-trading book only if the originator, sponsor or original lender has explicitly disclosed to the credit institution that it will retain, on an ongoing basis, a material net economic interest which, in any event, shall not be less than 5%.

(2) Retention of net economic interest means:

- 1) retention of no less than 5% of the nominal value of each of the tranches sold or transferred to the investors;
- 2) in the case of securitisations of revolving exposures, retention of the originator's interest, of no less than 5% of the nominal value of the securitised exposures;
- 3) retention of randomly selected exposures, equivalent to no less than 5% of the nominal amount of the securitised exposures, where such exposures would otherwise have been securitised in the securitisation provided that the number of potentially securitised exposures is no less than 100 at origination; or
- 4) retention of the first loss tranche and, if necessary, other tranches having the same or more severe risk profile and not maturing any earlier than those transferred or sold to investors, so that the retention equals in total no less than 5% of the nominal value of the securitised exposures.

(3) Net economic interest is measured at the origination and shall be maintained on an ongoing basis. It shall not be subject to any credit risk mitigation or any short positions

or any other hedge. The net economic interest shall be determined by the notional value for off-balance sheet items.

(4) 'On an ongoing basis' means that retained positions, interest or expenditures are not hedged or sold.

(5) There shall be no multiple applications of the retention requirements for any given securitisation.

(6) Where an EU parent credit institution or an EU financial holding company, or one of its subsidiaries, as an originator or a sponsor, securitises exposures from several credit institutions, investment firms or other financial institutions which are included in the scope of supervision on a consolidated basis, the requirement referred to in paragraph (1) of this Article may be satisfied on the basis of the consolidated situation of the related EU parent credit institution or EU financial holding company. This paragraph shall apply only where credit institutions, investment firms or financial institutions which created the securitised exposures have committed themselves to adhere to the requirements set out in paragraphs (11) to (13) of this Article and deliver, in a timely manner, to the originator or sponsor and to the EU parent credit institution or an EU financial holding company the information needed to satisfy the requirements referred to in paragraph (14) of this Article.

(7) Paragraphs (1) to (5) of this Article shall not apply where the securitised exposures are claims or off-balance sheet claims on or fully and unconditionally guaranteed by:

- 1) central governments or central banks;
- 2) local and regional self-government bodies and public sector entities of Member States;
- 3) institutions to which a 50% risk weight or less is assigned under Part 2 of this Title; or
- 4) multilateral development banks.

(8) Paragraphs (1) to (5) of this Article shall not apply to:

- 1) transactions based on a clear, transparent and accessible index, where the underlying reference entities are identical to those that make up an index of entities that is widely traded, or are other tradable securities other than securitisation positions; or
- 2) syndicated loans, purchased receivables or credit default swaps where these instruments are not used to package and/or hedge a securitisation that is covered by paragraphs (1) to (5) of this Article.

(9) Before investing, and as appropriate thereafter, credit institutions shall be able to demonstrate to the competent authorities for each of their individual securitisation positions, that they have a comprehensive and thorough understanding of and have

implemented formal policies and procedures appropriate to their trading book and non-trading book and commensurate with the risk profile of their investments in securitised positions for analysing and recording:

- 1) information disclosed under paragraphs (1) to (5) of this Article by originators or sponsors to specify the net economic interest that they maintain, on an ongoing basis, in the securitisation;
- 2) the risk characteristics of the individual securitisation position;
- 3) the risk characteristics of the exposures underlying the securitisation position;
- 4) the reputation and loss experience in earlier securitisations of the originators or sponsors in the relevant exposure classes underlying the securitisation position;
- 5) the statements and disclosures made by the originators or sponsors, or their agents or advisors, about their due diligence on the securitised exposures and, where applicable, on the quality of the collateral supporting securitised exposures;
- 6) where applicable, the methodologies and concepts on which the valuation of collateral supporting the securitised exposures is based and the policies adopted by the originator or sponsor to ensure the independence of the valuer; and
- 7) all the structural features of the securitisation that can materially impact the performance of the credit institution's securitisation position.

(10) Credit institutions shall regularly perform their own stress tests appropriate to their securitisation positions. To this end, credit institutions may rely on financial models developed by an ECAI provided that credit institutions can demonstrate, when requested, that they took due care prior to investing to validate the relevant assumptions in and structuring of the models and to understand methodology, assumptions and results.

(11) Credit institutions, other than when acting as originators or sponsors or original lenders, shall establish formal procedures appropriate to their trading book and non-trading book and commensurate with the risk profile of their investments in securitised positions to monitor on an ongoing basis and in a timely manner performance information on the exposures underlying their securitisation positions. Where relevant, this shall include the exposure type, the percentage of loans more than 30, 60 and 90 days past due, default rates, prepayment rates, loans in foreclosure, collateral type and occupancy, and frequency distribution of credit scores or other measures of creditworthiness across underlying exposures, industry and geographical diversification, frequency distribution of loan to value ratios with band widths that facilitate adequate sensitivity analysis. Where the underlying exposures are themselves securitisation positions, credit institutions shall have the information set out in this subparagraph not only on the underlying securitisation tranches, such as the issuer name and credit quality but also on the characteristics and performance of the pools underlying those securitisation tranches.

(12) Credit institutions shall have a thorough understanding of all structural features of a securitisation transaction that would materially impact the performance of their exposures to the transaction such as the contractual waterfall and waterfall related triggers, credit enhancements, liquidity enhancements, market value triggers, and deal-specific definition of default.

(13) Where the requirements in paragraphs (9), (10), (11), (12) and (15) of this Article are not met by reason of the negligence or omission of the credit institution, the Croatian National Bank shall impose a proportionate additional risk weight on the credit institution of no less than 250% of the risk weight (capped at 1250%) which would, but for paragraphs (11), (12) and (13) of this Title, apply to the relevant securitisation positions under Parts 5.4 to 5.6 of this Title, and shall progressively increase the risk weight with each subsequent infringement of the due diligence provisions. The Croatian National Bank shall take into account the exemptions for certain securitisations provided in paragraphs (7) and (8) of this Article by reducing the risk weight it would otherwise impose under this Article in respect of a securitisation to which paragraphs (7) and (8) of this Article apply.

(14) Sponsor and originator credit institutions shall apply the same sound and well-defined criteria for credit-granting in accordance with the requirements of Articles 115 and 116 of the Credit Institutions Act to exposures to be securitised as they apply to exposures to be held on their book. To this end the same processes for approving and, where relevant, amending, renewing and re-financing credits shall be applied by the originator and sponsor credit institutions. Credit institutions shall also apply the same standards of analysis to participations or underwritings in securitisation issues purchased from third parties whether such participations or underwritings are to be held on their trading or non-trading book.

(15) Sponsor and originator credit institutions shall disclose to investors the level of their commitment under paragraphs (1) to (5) of this Article to maintain a net economic interest in the securitisation. Sponsor and originator credit institutions shall ensure that prospective investors have readily available access to all materially relevant data on the credit quality and performance of the individual underlying exposures, cash flows and collateral supporting a securitisation exposure as well as such information that is necessary to conduct comprehensive and well informed stress tests on the cash flows and collateral values supporting the underlying exposures. For that purpose, materially relevant data shall be determined as at the date of the securitisation and where appropriate due to the nature of the securitisation thereafter."

Article 88

In Article 440, after paragraph (5), paragraph (6) is added which reads:

"(6) The Croatian National Bank shall take the necessary measures to ensure that, with regard to credit assessments relating to structured finance instruments, the ECAI is committed to make available publicly the explanation how the performance of pool of assets affects its credit assessments."

Article 89

In Article 445, paragraph (2), item (2) is amended to read:

"2) of a quality, as assessed by the credit institution, which is at least equivalent of investment grade or better, as assigned by a nominated ECAI; and"

Article 90

In Article 446, paragraph (1) is amended to read:

"(1) When the following conditions are met, to determine its exposure value a conversion figure of 20% may be applied to the nominal amount of a liquidity facility with an original maturity of one year or less and a conversion figure of 50% may be applied to the nominal amount of a liquidity facility with an original maturity of more than one year:

- 1) the liquidity facility documentation shall clearly identify and limit the circumstances under which the facility may be drawn;
- 2) it shall not be possible for the facility to be drawn so as to provide credit support by covering losses already incurred at the time of draw – for example, by providing liquidity in respect of exposures in default at the time of draw or by acquiring assets at more than fair value;
- 3) the facility shall be used solely to cover temporary differences between cash inflows and outflows and shall not be used to provide permanent or regular funding for the securitisation;
- 4) repayment of draws on the facility shall not be subordinated to the claims of investors other than to claims arising in respect of interest rate or currency derivative contracts, fees or other such payments, nor be subject to waiver or deferral;
- 5) it shall not be possible for the facility to be drawn after all applicable credit enhancements from which the liquidity facility would benefit are exhausted; and
- 6) the facility must include a provision that results in an automatic reduction in the amount that can be drawn by the amount of exposures that are in default, or where the pool of securitised exposures consists of rated instruments, that terminates the facility if the average quality of the pool falls below investment grade assigned by an eligible ECAI."

Article 91

After Article 446, a title and Article 446a are inserted which read:

"5.4.4.1a Liquidity facilities only available in the event of a general market disruption

Article 446a

To determine its exposure value, a conversion figure of 0% may be applied to the nominal amount of a liquidity facility that may be drawn only in the event of a general market disruption, provided that the conditions set out in Article 446 of this Decision are met. A general market disruption shall be, *inter alia*, a situation where more than one SPE across different transactions are unable to roll over maturing commercial paper and that inability is not the result of an impairment of the SPE's credit quality or the credit quality of the securitised exposures."

Article 92

In Article 463, paragraph (5) the Croatian word translated as "table" is deleted, with no relevance to the English translation, and the Croatian word translated as "grade" is replaced by another Croatian word, with no relevance to the English translation.

Article 93

In Article 466, after paragraph (1), new paragraph (2) is inserted which reads:

"(2) By way of derogation from paragraph (1) of this Article, a risk weight of 6% may be applied to a position in the most senior tranche of a securitisation where that tranche is senior in all respects to another tranche of the securitisation positions which would receive a risk weight of 7% under Article 465 of this Decision, provided that:

- 1) the competent authority is satisfied that this is justified due to the loss absorption qualities of subordinate tranches in the securitisation; and
- 2) either the position has an external credit assessment which has been determined to be associated with credit quality step 1 in Table 19 or 20 or, if it is unrated, the requirements referred to in Article 462 of this Decision are satisfied, where 'reference positions' are taken to mean positions in the subordinate tranche which would receive a risk weight of 7% under Article 465 of this Decision."

The former paragraphs (2), (3) and (4) become paragraphs (3), (4) and (5).

Article 94

Article 468 is amended to read:

"The provisions in Articles 468a to 470 of this Decision apply for the purposes of determining the exposure value of an unrated securitisation position in the form of certain types of liquidity facilities."

Article 95

After Article 468, a new title and Article 468a are inserted which read:

"5.5.7.1a Liquidity facilities only available in the event of a general market disruption

Article 468a

A conversion figure of 20% may be applied to the nominal amount of a liquidity facility that may be drawn only in the event of a general market disruption and that meets the conditions to be an 'eligible liquidity facility' set out in Article 446 of this Decision."

Article 96

In Title II CREDIT RISK, Part 5 SECURITISATION FRAMEWORK, the title "5.5.7.1 Cash advance facilities" is amended to read "5.5.7.1.b Cash advance facilities".

Article 97

In Article 481, after paragraph (2), paragraph (3) is added which reads:

"(3) Risk-weighted exposure amounts for settlement risk shall be calculated so as to multiply the initial capital requirement referred to in paragraph (2) of this Article by 12.5."

Article 98

In Article 483, paragraph (1), item (2), the words "(included in the trading book)" are deleted.

After paragraph (10), new paragraphs (11) and (12) are inserted which read:

"(11) When a credit institution purchases credit derivative protection against a non-trading book exposure, or against a CCR exposure, it shall compute its capital requirement for the hedged asset in accordance with Part 3 or 4 of this Title. In these cases, the exposure value for CCR for those credit derivatives is set to zero.

(12) By way of derogation from paragraph (11) of this Article, a credit institution may choose to include for the purposes of calculating capital requirements for counterparty credit risk all credit derivatives not included in the trading book subject to the compliance of such transfer with the requirements for the recognition of credit risk mitigation set out in Part 4 of this Title and subject to consistent application."

The former paragraphs (11) and (12) become paragraphs (13) and (14).

Article 99

In Article 486, the abbreviation "CMVi" is replaced by the abbreviation "CMV_i".

The exposure formula is amended to read:

$$\text{"exposure} = \beta \times \max(\text{CMV} - \text{CMC}; \sum_j \left| \sum_i \text{RPT}_{ij} - \sum_l \text{RPC}_{lj} \right| \times \text{CCRM}_j) \text{"}$$

Article 100

In Article 487, paragraph (1), item (1), the abbreviation "p^{ref}" is replaced by the abbreviation "p_{ref}".

Article 101

In Article 488, paragraph (4), item (3) is amended to read:

"3) the counterparty credit risk multiplier (CCRM) applied to each hedging set created for one of the reference debt instruments of an nth-to-default credit derivative shall be equal to 0.3% for reference debt instruments that have a credit assessment by an eligible ECAI equivalent to credit quality step 1 to 3 in accordance with the provisions of Part 2 of this Title and 0.6% for all other reference obligations (debt instruments)."

Article 102

In Article 502, third indent, the Croatian words translated as "internal model" are replaced by other Croatian words, with no relevance to the English translation.

Article 103

In Article 505, paragraph (2), the number "II" is deleted.

Article 104

In Article 507, paragraph (3), item (2), the words "Table 29" are replaced by the words "Table 26".

Article 105

In Article 517, paragraph (3) is amended to read:

"(3) By way of derogation from paragraph (1) of this Article, if a credit institution hedges an exposure to credit risk arising from a non-trading book position or a set of positions using a credit derivative booked in its trading book and if the credit institution

bought the derivative from an eligible protection seller thus transferring credit risk to that protection seller, and provided the credit derivative bought is eligible as an instrument of credit protection in accordance with the provisions of Part 4 of Title II of this Decision neither the internal hedge nor the purchased credit derivative shall be included in the trading book, provided that the credit institution has not applied the provisions of Article 411, paragraph (4) of this Decision."

Article 106

In Article 526, the words "specified in Article 522 of this Decision" are deleted.

Article 107

In Article 531, Table 27, the Croatian word translated as "guaranteed" is replaced by another Croatian word, with no relevance to the English translation.

Article 108

In Article 535, the number "539" is replaced by the number "538".

Article 109

In Article 539, the number "539" is replaced by the number "538".

Article 110

In Article 547, paragraphs (1) and (2), the number "551" is replaced by the number "550".

Article 111

In Article 557, paragraph (1), the comma after the Croatian word translated as "signs" is deleted, with no relevance to the English translation, and the words "in accordance with Article 568, paragraph (3) of this Decision" are deleted.

Article 112

In Article 568, paragraph (7), the words "Title II of this Decision" are replaced by the words "this Title".

Article 113

In Article 577, item (2) is amended to read:

"2) the credit institution has a market risk control unit that is independent from the business trading units and reports to the credit institution's senior management. The unit shall be responsible for designing and implementing the credit institution's market risk management system. It shall produce and analyse daily reports on the output of the internal risk-measurement model and on the appropriate measures to be taken in terms of trading limits. The unit shall also be responsible for conducting the initial and on-going validation of the internal model;"

Article 114

In Article 585, paragraph (2), the words "and 151" are deleted.

Article 115

In Article 590, in Table 34, in the row "Commercial banking" the Croatian words translated as "Guarantees and commitments" are replaced by other Croatian words, with no relevance to the English translation.

In the row "Retail banking (Activities with individual natural persons or with small and medium sized entities)", in column 2, the words "Financial leasing" are transferred to a new row.

Article 116

In Article 609, paragraph (3), item (2) is amended to read:

"2) the insurance provider shall have a credit assessment by an eligible ECAI; the credit assessment shall be associated with credit quality step 3 or above under the rules for the risk weighting of exposures to institutions in a manner specified in Part 2.2 of Title II of this Decision; and".

Article 117

In Article 611, paragraph (2), the number "III" is replaced by the number "IV".

TRANSITIONAL AND FINAL PROVISIONS

Article 118

(1) Credit institutions shall apply Article 87 of this Decision on securitisation positions issued after 31 December 2010.

(2) Credit institutions shall apply Article 87 of this Decision on existing securitisation positions to which new underlying exposures are added or by which they are replaced after 31 December 2014.

Article 119

This Decision shall be published in the Official Gazette and shall enter into force on 31 March 2010, except for Article 1 of this Decision, which shall enter into force on 1 January 2011, Article 87 of this Decision, which shall enter into force on 31 December 2010, and Articles 9 and 114 of this Decision, which shall enter into force on the date of accession of the Republic of Croatia to the European Union.

No. 1-020/01-10/ŽR
Zagreb, 4 January 2010

Croatian National Bank
Governor
Željko Rohatinski