

Reg. No: 643-01-020/29-07-19/MD  
Zagreb, 29 July 2019

**TO ALL CREDIT INSTITUTIONS**  
**Attention of: Management Board**

**Subject: Application of the Guidelines for the estimation of LGD appropriate for an economic downturn ('Downturn LGD estimation') (EBA/GL/2019/03)**

Dear Sir/Madam,

We hereby draw your attention to the fact that the European Banking Authority (hereinafter: the EBA) issued the

**Guidelines for the estimation of LGD appropriate for an economic downturn ('Downturn LGD estimation') (EBA/GL/2019/03)** (hereinafter: the Guidelines).

In accordance with Article 4, paragraph (1), item (3) of the Credit Institutions Act (Official Gazette 159/2013, 19/2015, 102/2015 and 15/2018), the Croatian National Bank (hereinafter: the CNB) shall make every effort to comply with those guidelines and recommendations issued by the European Banking Authority in accordance with Article 16 of Regulation (EU) No 1093/2010 (OJ L 24.11.2010).

The Guidelines apply to credit institutions applying the IRB approach in accordance with Part Three, Title II, Chapter 3 of Regulation (EU) No 575/2013 for all methods based on own estimates of LGD. The Guidelines should be considered as a supplement to the EBA Guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures (EBA/GL/2017/16), issued on 20 November 2017.

In conclusion, the Guidelines specified in this circular also represent the expectations which the CNB will take into account in the validation of the relevant models.

**The Guidelines are available on the EBA's website at the following link:**

<https://www.eba.europa.eu/sites/default/documents/files/documents/10180/2551996/f892da33-5cb2-44f8-ae5d-68251b9bab8f/Final%20Report%20on%20Guidelines%20on%20LGD%20estimates%20under%20downturn%20conditions.pdf>

Kind regards,

**Martina Drvar**

Vicegovernor