



HNB

EUROSUSTAV

GOVERNOR

Pursuant to Article 50, paragraph (4), Article 101, paragraph (2), items (1) and (2), Article 102, paragraph (3) and Article 105, paragraph (3) of the Credit Institutions Act (Official Gazette 159/2013, 19/2015, 102/2015, 15/2018, 70/2019, 47/2020, 146/2020 and 151/2022) and Article 43, paragraph (2), item (10) of the Act on the Croatian National Bank (Official Gazette 75/2008, 54/2013 and 47/2020), the Governor of the Croatian National Bank hereby issues the

Decision on amendments to the Decision on governance arrangements

Article 1

In the Decision on governance arrangements (Official Gazette 96/2018, 67/2019, 145/2020 and 145/2021), after Article 1a, Article 1b is inserted which reads:

"Article 1b

The provisions of this Decision comply with the following Guidelines of the European Banking Authority:

- 1) Guidelines on internal governance (EBA/GL/2021/05);
- 2) Guidelines issued on the basis of Article 84(6) of Directive 2013/36/EU specifying criteria for the identification, evaluation, management and mitigation of the risks arising from potential changes in interest rates and of the assessment and monitoring of credit spread risk, of institutions' non-trading book activities (EBA/GL/2022/14);
- 3) Guidelines on limits to exposures to shadow banking entities which carry out banking activities outside a regulated framework under Article 395(2) of Regulation (EU) No 575/2013 (EBA/GL/2015/20)."

Article 2

In Article 2, paragraph (1) is amended to read:

"(1) The provisions of this Decision shall apply to credit institutions with head offices in the Republic of Croatia that have been authorised in accordance with the Credit Institutions Act."

Article 3

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

"4. 'the non-trading book' comprises all on-balance sheet and off-balance sheet items of a credit institution other than those considered to be trading book positions within the meaning of Article 4, paragraph (1), item (86) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013), as last amended by Regulation (EU) 2022/2036 of the European Parliament and of the Council of 19 October 2022 amending Regulation

(EU) No 575/2013 and Directive 2014/59/EU as regards the prudential treatment of global systemically important institutions with a multiple-point-of-entry resolution strategy and methods for the indirect subscription of instruments eligible for meeting the minimum requirement for own funds and eligible liabilities (OJ L 275, 25.10.2022); hereinafter referred to as 'Regulation (EU) No 575/2013)';".

Item (6) is amended to read:

"6. 'credit exposure' means exposure subject to credit risk as provided for in the Decision on the classification of exposures into risk categories and the method of determining credit losses (Official Gazette 114/2017, 110/2018 and 139/2022; hereinafter referred to as 'Decision on the classification of exposures into risk categories and the method of determining credit losses)';".

Item (11) is amended to read:

"11. 'securitisation' and the terms related to 'securitisation' shall have the meaning as defined in Regulation (EU) No 2017/2401 of the European Parliament and of the Council of 12 December 2017 amending Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (OJ L 347, 28.12.2017) and Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012 (OJ L 347, 28.12.2017), as last amended by Regulation (EU) 2021/557 of the European Parliament and of the Council of 31 March 2021 amending Regulation (EU) 2017/2402 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation to help the recovery from the COVID-19 crisis (OJ L 116, 6.4.2021)";".

Items (21) and (22) are deleted.

The former items (23), (24) and (25) become items (21), (22) and (23).

Article 4

In paragraph (4), item (1) the Croatian words translated as "including gap risk" are replaced by other Croatian words, with no relevance to the English translation.

In item (33) the Croatian words "gap risk" are replaced by other Croatian words, with no relevance to the English translation.

After item (36), items (37) and (38) are added which read:

"37. 'restitution risk' means the risk of restitution of assets or their value to those who have been unlawfully deprived of it (e.g. by theft, violence, illegitimate decisions) or the payment of compensation for personal harm and damage to the assets. The basic liability of the parties in the case of nullity shall be restitution (lat. *restitutio in integrum*), in such a manner that either party shall be liable to return to the other party all that the party has received on the basis of such a contract;

38. 'step-in risk' means the risk that a credit institution decides to provide financial support to an unconsolidated entity, that is not a fully or proportionately consolidated entity, that is facing stress, in the absence of, or in excess of, any contractual obligations to provide such support."

Article 5

In Article (10), paragraph (3) is inserted which reads:

"(3) By way of derogation from paragraph (1) of this Article, the provisions of this Decision shall not apply to the audit committee whose functioning and composition are defined by the Audit Act (Official Gazette 127/2017).".

Article 6

In Article 47, paragraph (7) is deleted.

Article 7

In Article 48, paragraph (6) is deleted.

Article 8

In Article 54, paragraph (1), the word "and" is added at the end of item (12).

Item (13) is deleted.

The former item (14) becomes item (13).

Article 9

In Article 60, paragraph (4) is deleted.

The former paragraphs (5) to (7) become paragraphs (4) to (6).

Article 10

In Article 63b, item (2) is amended to read:

"2) 'net interest income measures' means the measures of changes in expected future profitability within a given time horizon resulting from interest rate movements, in case of IRRBB; or from credit spread changes, in case of CRSBB. Net interest income measures encompass interest income and interest expenses;"

After item (9), items (10) to (15) are added which read:

"10) credit spread sensitive instruments encompass assets, liabilities and off-balance-sheet items in the non-trading book, which are sensitive to credit spread changes (excluding assets deducted from common equity tier1 capital (CET1), e.g. real estate or intangible assets or equity exposures in the non-trading book);

11) 'net interest income measures after the market value changes' means net interest income measures after the market value changes of instruments have been accounted for/taken into account depending on accounting treatment either through fair value measures or nGAAP;

12) 'retail' means a natural person or a small and medium-sized enterprise (SME), where the SME would qualify for the retail exposure class under the Standardised or IRB approaches for credit risk, or a company which is eligible for the treatment set out in Article 153, paragraph (4) of Regulation (EU) No 575/2013 and where the aggregate deposits by that SME or company on a group basis do not exceed EUR 1 million;

13) 'transactional deposits and accounts' means retail non-maturity deposits where regular transactions are carried out (e.g. where salaries are regularly credited) or those retail non-maturity deposits which are non-interest bearing even in a high interest rate environment. Other retail deposits shall be considered as held in a non-transactional account;

14) 'IRRBB measures' means economic value measures and net interest income measures after market value changes, applied in the context of the sensitivity to changes in interest rates;

15) 'CSRBB measures' means economic value measures and net interest income measures after market value changes, applied in the context of the sensitivity to changes in market credit/liquidity spreads."

Article 11

In Article 63c, paragraph (4) is amended to read:

"(4) A credit institution shall determine net interest income based on which the effect of the interest rate movements or credit spread is calculated, based on interest income and expenses. For this purpose, a credit institution shall also consider market value changes of instruments, depending on the accounting treatment either shown in the profit and loss account or directly in equity (e.g. through other comprehensive income). A credit institution shall take into account the increase or reduction in the amount of profit and loss and capital over short- and medium-term horizons resulting from interest rate or credit spread movements."

Paragraph (5) is amended to read:

"(5) The change in the net interest income shall be the difference between expected net interest income under a shock or stress scenario from a going-concern perspective and expected net interest income under a base scenario. The market value change of instruments shall be the difference between expected market value under a shock or stress scenario from a going-concern perspective and expected market value under a base scenario at the end of the assessed horizon."

Article 12

In Article 63d, paragraph (2) is amended to read:

"(2) 'Non-performing exposures' means exposures defined in Article 47a, paragraph (3) of Regulation (EU) No 575/2013."

Article 13

In Article 63m, paragraph (2), at the end of item (3) the word 'and' is replaced by a semi-colon.

Item (4) is amended to read:

"4) thorough assessment of any expert opinions and judgements used in internal models; and"

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

"5) validation of diversification assumptions."

Article 14

In Article 63p, paragraph (4), item (3) is amended to read:

“3) the prescribed interest rate-shock scenarios as referred to in Article 181, paragraph (5), item (1) of the Credit Institutions Act;”.

Item (4) is amended to read:

“4) any additional interest rate shock scenarios required by the Croatian National Bank; and”.

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

“5) that the validity of diversification assumptions is appropriately stressed.”.

Article 15

In Article 63r, after paragraph (4), paragraph (5) is inserted which reads:

“(5) In cases where balance sheet instruments have significant repricing restrictions (e.g. caps and floors) a credit institution should prudently consider, if material, the effect that the renewal of said instruments would have when replaced with others with comparable features, regardless of the run-off assumption. This must be done for a prudent time horizon and considering its business model.”.

Article 16

In Article 63s, paragraph (2), at the end of item (5) the word 'and' is replaced by a semi-colon.

Item (6) is amended to read:

“6) the implications of accounting practices for the measurement of IRRBB, and in particular hedge-accounting effectiveness; and”.

After item (6), item (7) is added which reads:

“7) validation of diversification assumptions.”.

Article 17

Article 63v is deleted.

Article 18

In Article 70, paragraph (2) is amended to read:

“(2) The recovery plan referred to in paragraph (1), item (2) of this Article may be part of a general recovery plan in accordance with the Decision on recovery plans of credit institutions (Official Gazette 110/2022; hereinafter referred to as 'Decision on recovery plans').”.

Article 19

In Article 72, paragraph (3) is amended to read:

“(3) A credit institution operating with foreign currencies shall conduct an analysis of liquidity in foreign currencies and an analysis of mutual convertibility of foreign currencies.”.

For the purposes of this Title, 'convertible currencies' means the currencies of the G-10 countries, the European Economic Area (EEA), Australia and New Zealand."

Article 20

In Article 79, item (4), sub-item (3), letters h) to r) are amended to read:

“h) in the RC, insurance holding companies, insurance undertakings and reinsurance undertakings in accordance with the Insurance Act (Official Gazette 30/2015, 112/2018, 63/2020, 133/2020 and 151/2022), and in other Member States, in accordance with the regulations of those Member States governing the operation of such entities, and third-country insurance undertakings and third-country reinsurance undertakings where the supervisory regime of the third country concerned is deemed equivalent;

i) in the RC, the undertakings covered by Article 6 of the Insurance Act, and in other Member States, the undertakings excluded from the scope of Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II, OJ L 335, 17.12.2009), as last amended by Directive (EU) 2019/2177 of the European Parliament and of the Council of 18 December 2019 amending Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), Directive 2014/65/EU on markets in financial instruments and Directive (EU) 2015/849 on the prevention of the use of the financial system for the purpose of money-laundering or terrorist financing (OJ L 334, 27.12.2019) in accordance with Article 4 of that Directive, as transposed into regulations of those Member States;

j) in the RC, pension companies as defined in Article 3, item (1) of the Act on Voluntary Pension Funds (Official Gazette 19/2014, 29/2018 and 115/2018) and Article 2, item (1) of the Act on Mandatory Pension Funds (Official Gazette 19/2014, 93/2015, 64/2018, 115/2018 and 58/2020), pension insurance companies as defined in Article 3, item (1) of the Act on Pension Insurance Companies (Official Gazette 22/2014, 29/2018 and 115/2018), and in other Member States, institutions for occupational retirement provision within the meaning of Article 6, item (1) of Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs) (OJ L 354, 23.12.2016), as corrected by Corrigendum to Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs) (OJ L 247, 3.10.2018) – hereinafter referred to as 'Directive (EU) 2016/2341', as transposed into regulations of those Member States, and institutions for occupational retirement provision subject to prudential and supervisory requirements comparable to those applied to institutions within the meaning of Article 6, item (1) of Directive (EU) 2016/2341;

k) undertakings for collective investment referred to in items (i) to (vi) of this letter, except entities that invest in financial assets with a residual maturity not exceeding two years (short-term assets) and have as distinct or cumulative objectives offering returns in line with money market rates or preserving the value of the investment (money market funds):

- (i) in the RC, UCITS funds as defined in Article 4, paragraph (1), item (2) of the Act on Open-End Investment Funds with a Public Offering (Official Gazette 44/2016, 126/2019,

110/2021 and 76/2022), and in other Member States, undertakings for collective investment within the meaning of Article 1 of Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (OJ L 302, 17.11.2009), as last amended by Directive (EU) 2021/2261 of the European Parliament and of the Council of 15 December 2021 amending Directive 2009/65/EC as regards the use of key information documents by management companies of undertakings for collective investment in transferable securities (UCITS) (OJ L 455, 20.12.2021; hereinafter referred to as 'Directive 2009/65/EC'), as transposed into regulations of those Member States;

- (ii) undertakings for collective investment established in third countries where they are authorised under laws which provide that they are subject to supervision considered to be equivalent to that laid down in Directive 2009/65/EC;
- (iii) in the RC, alternative investment funds as defined in Article 4, item (3) of the Act on Alternative Investment Funds (Official Gazette 21/2018, 126/2019 and 110/2021), and in other Member States, undertakings for collective investment within the meaning of Article 4, paragraph (1), item (a) of Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 (OJ L 174, 1.7.2011), as last amended by Directive (EU) 2019/2034 of the European Parliament and of the Council of 27 November 2019 on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU (OJ L 314, 5.12.2019), as transposed into regulations of those Member States with the exception of:
 - undertakings employing leverage on a substantial basis according to Article 111, paragraph (1) of Commission Delegated Regulation (EU) 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision (OJ L 83, 22.3.2013), as last amended by Commission Delegated Regulation (EU) 2021/1255 of 21 April 2021 amending Delegated Regulation (EU) No 231/2013 as regards the sustainability risks and sustainability factors to be taken into account by Alternative Investment Fund Managers (OJ L 277, 2.8.2021); and
 - undertakings which are allowed to originate loans or purchase third-party lending exposures onto their balance-sheet pursuant to the relevant fund investment rules or instruments of incorporation;
- (iv) which are authorised as 'European long-term investment funds' in accordance with Regulation (EU) 2015/760 of the European Parliament and of the Council of 29 April 2015 on European long-term investment funds (OJ L 123, 19.5.2015);
- (v) 'qualifying social entrepreneurship fund' within the meaning of Article 3, paragraph (1), item (b) of Regulation (EU) 346/2013 of the European Parliament and of the Council of 17 April 2013 on European social entrepreneurship funds (OJ L 115, 25.4.2013), as last amended by Regulation (EU) 2019/1156 of the European Parliament and of the Council of 20 June 2019 on facilitating cross-border distribution of collective investment undertakings and amending Regulations (EU) No 345/2013, (EU) No 346/2013 and (EU) No 1286/2014 (OJ L 188, 12.7.2019); and
- (vi) 'qualifying venture capital fund' in terms of Article 3, paragraph (b) of Regulation (EU) 345/2013 of the European Parliament and of the Council of 17 April 2013 on European venture capital funds (OJ L 115, 25.4.2013), as last amended by Regulation (EU)

2019/1156 of the European Parliament and of the Council of 20 June 2019 on facilitating cross-border distribution of collective investment undertakings and amending Regulations (EU) No 345/2013, (EU) No 346/2013 and (EU) No 1286/2014 (OJ L 188, 12.7.2019);

l) central counterparties (CCPs) as defined in Article 2, item (1) of Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (OJ L 201, 27.7.2012), as last amended by Regulation (EU) 2021/168 of the European Parliament and of the Council of 10 February 2021 amending Regulation (EU) 2016/1011 as regards the exemption of certain third-country spot foreign exchange benchmarks and the designation of replacements for certain benchmarks in cessation, and amending Regulation (EU) No 648/2012 (OJ L 49, 12.2.2021), established in the European Union and third-country CCPs recognised by the European Securities and Markets Authority (ESMA) pursuant to Article 25 of that Regulation;

m) in the RC, electronic money issuers as defined in Article 5 of the Electronic Money Act (Official Gazette 64/2018 and 114/2022), and in other Member States, electronic money issuers referred to in Article 2, item (3) of Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions amending Directives 2005/60/EC and 2006/48/EC and repealing Directive 2000/46/EC (OJ L 267, 10.10.2009), as last amended by Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010 and repealing Directive 2007/64/EC (OJ L 337, 23.12.2015), as transposed into regulations of those Member States;

n) in the RC, payment institutions as defined in the Payment System Act (Official Gazette 66/2018 and 114/2022), and in other Member States, payment institutions referred to in Article 4, item (4) of Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010 and repealing Directive 2007/64/EC (OJ L 337, 23.12.2015), as last corrected by Corrigendum to Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC (OJ L 102, 23.4.2018), as transposed into regulations of those Member States;

o) entities the principal activity of which is to carry out credit intermediation activities for their parent undertakings, for their subsidiaries or for other subsidiaries of their parent undertakings;

p) in the RC, resolution authorities in accordance with Article 8 of the Act on the Resolution of Credit Institutions and Investment Firms (Official Gazette 146/2020 and 21/2022), and in other Member States, resolution authorities in accordance with Article 2, paragraph (1), item (18) of Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and

Regulations (EU) No 1093/2010 and (EU) No 648/2012 of the European Parliament and of the Council (OJ L 173, 12.6.2014), as last amended by Regulation (EU) 2022/2036 of the European Parliament and of the Council of 19 October 2022 amending Regulation (EU) No 575/2013 and Directive 2014/59/EU as regards the prudential treatment of global systemically important institutions with a multiple-point-of-entry resolution strategy and methods for the indirect subscription of instruments eligible for meeting the minimum requirement for own funds and eligible liabilities (OJ L 275, 25.10.2022; hereinafter referred to as 'Directive 2014/59/EU'), as transposed into regulations of those Member States;

r) in the RC, asset management vehicles and bridge institutions as defined in the Act on the Resolution of Credit Institutions and Investment Firms (Official Gazette 146/2020 and 21/2022), and in other Member States, asset management vehicles and bridge institutions as defined in items (56) and (59) of Article 2, paragraph (1) of Directive 2014/59/EU, as transposed into regulations of those Member States; and".

Article 21

This Decision shall enter into force on the eighth day after the day of its publication in the Official Gazette, with the exception of the provisions of Articles 10 to 17 of this Decision, which shall enter into force on 30 June 2023.

No.: 173-091/05-23/BV

Zagreb, 4 May 2023

Governor
Boris Vujčić