Pursuant to Article 101, paragraph (2), item (7) and Article 154, paragraph (9) of the Credit Institutions Act (Official Gazette 159/2013, 19/2015, 102/2015, 15/2018, 70/2019, 47/2020 and 146/2020) 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 recovery plans of credit institutions

I GENERAL PROVISIONS

Subject matter

Article 1

(1) This Decision prescribes in detail the manner and scope of application of the requirements related to the drawing up of recovery plans of credit institutions, the content of recovery plans and the manner of and time limits for their submission.

(2) This Decision shall apply to credit institutions referred to in Article 4 of this Decision.

(3) This Decision shall apply *mutatis mutandis* to branches of third-country credit institutions authorised by the Croatian National Bank to provide services.

Compliance with the legal acts of the European Union

Article 2

This Decision transposes into the legal system of the Republic of Croatia 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 (Text with EEA relevance) (OJ L 173, 12.6.2014).

Definitions

Article 3

(1) The terms "extraordinary public financial support", "key functions" and "core business lines" shall have the meaning as defined in the Act on the Resolution of Credit Institutions and Investment Firms (Official Gazette 146/2020 and 21/2022).

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

1) '*material change*' means each change which has the potential to affect the ability of a credit institution or a parent undertaking or one or more subsidiaries of that credit institution to implement the measures envisaged in the recovery plan

2) '*recovery measures*' means activities, agreements and measures of a credit institution or a group of credit institutions contained in the recovery plan which are aimed at restoring financial stability in situations of severe financial distress

3) '*recovery plan*' means the recovery plan referred to in Article 154, paragraph (1) of the Credit Institutions Act (Official Gazette 159/2013, 19/2015, 102/2015, 15/2018, 70/2019, 47/2020 and

146/2020, hereinafter referred to as 'Credit Institutions Act') in which the credit institution sets out measures to be taken to restore its financial position in situations of severe financial distress

4) '*early warning signals*' means thresholds which constitute a part of the internal risk management system of a credit institution or a group of credit institutions and which are used for monitoring the credit institution’s financial position

5) '*reverse stress test in the recovery plan*' means a form of stress testing that starts from the identification of the pre-defined outcome (e.g. points at which an institution business model becomes unviable, or at which the institution can be considered as failing or likely to fail) and then explores scenarios and circumstances that might cause this to occur

6) '*overall recovery capacity*' means the capability of restoring the financial position of a credit institution or a group of credit institutions in their entirety following a significant deterioration.

Scope of application of the Decision

Article 4

(1) A recovery plan that sets out measures to be taken to restore its financial position in situations of severe financial distress shall be drawn up and submitted to the Croatian National Bank by:

1) a credit institution that is not part of a group of credit institutions in the EU or a group of credit institutions in the RC, on an individual basis

2) an EU parent credit institution having its head office in the RC, for its group of credit institutions in the RC, on a consolidated basis

3) a credit institution which is a member of a group of credit institutions in the EU, on an individual or sub-consolidated basis, where so decided in accordance with Article 154c of the Credit Institutions Act and imposed by a decision of the Croatian National Bank and

4) a credit institution excluded from a group of credit institutions in the RC pursuant to Article 19 of Regulation (EU) 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, hereinafter referred to as 'Regulation (EU) No 575/2013'), as last amended by Regulation 2019/2160 of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) No 575/2013 as regards exposures in the form of covered bonds (OJ L 328, 18.12.2019), on an individual basis.

(2) A recovery plan drawn up by the credit institution referred to in items 2) and 3) of paragraph (1) of this Article for its group of credit institutions in the RC shall apply to all members of the group and shall contain preparatory and recovery measures the implementation of which is required at the level of the parent credit institution as well as at the level of each subsidiary individually (hereinafter referred to as 'group recovery plan').

II DRAWING UP AND ASSESSMENT OF RECOVERY PLANS

Process of drawing up recovery plans

Article 5

(1) A credit institution shall adopt and implement a policy specifying in detail the process of drawing up, implementing and updating recovery plans.

(2) The policy referred to in paragraph (1) of this Article shall also cover procedures in situations where the recovery plan needs to be amended due to material changes which affect the credit institution, its group or the environment in which it operates.

(3) A credit institution shall document and regularly review the process of drawing up, implementing and updating recovery plans.

(4) The recovery plan shall not assume availability of extraordinary public financial support or receipt thereof.

(5) A credit institution shall ensure the Croatian National Bank access to full and detailed information concerning the process of drawing up, implementing and updating recovery plans.

III CONTENT OF RECOVERY PLANS

Article 6

(1) A recovery plan shall include the following items:

1) a summary of the key elements of the plan and a summary of overall recovery capacity

2) a summary of the material changes to the credit institution since the submission of the most recent recovery plan

3) a communication and disclosure plan outlining how the credit institution intends to manage any potentially negative market reactions

4) a list of recovery plan indicators

5) a list of capital and liquidity recovery measures required to maintain or restore the credit institution's financial position, as well as other measures and strategies and the expected financial impact of those measures or strategies; the credit institution shall include an analysis of the possibility of using central bank instruments under the conditions set out in the recovery plan, specifying the assets that might be used as collateral

6) an estimation of the timeframe for executing each material aspect of the recovery plan

7) a detailed description of any material impediments to the effective and timely implementation of the recovery plan, including the impact on other group members, clients and counterparties

8) identification of key functions

9) a detailed description of the processes for determining the value and marketability of the core business lines, activities and assets of the credit institution

10) a detailed description of how recovery planning is integrated into the credit institution's corporate governance structure, the policies and procedures governing the approval of the recovery plan and identification of the persons in the organisation responsible for preparing and implementing the recovery plan

11) arrangements and measures:

a) to conserve or restore the own funds of the credit institution

b) to ensure that the credit institution has adequate access to contingency funding sources, including potential liquidity sources, an assessment of available collateral and an assessment of the possibility to transfer resources of liquidity across group entities and business lines, to ensure the continuation of operations and the meeting of obligations as they fall due

c) to reduce risks and leverage

d) to restructure liabilities

e) to restructure business lines

f) to maintain continuous access to financial market infrastructures

g) to maintain the continuous functioning of the institution's operational processes, including infrastructure and IT services

h) preparatory measures to facilitate the sale of assets or business lines in a timeframe appropriate for the restoration of the financial position, as well as preparatory measures that the credit institution has taken or plans to take in order to facilitate the implementation of the recovery plan, including those necessary to enable the timely recapitalisation of the credit institution

i) other recovery arrangements and measures.

(2) The group recovery plan shall further include:

1) arrangements to ensure the coordination and consistent implementation of recovery measures at the level of the parent undertaking, at the level of the subsidiary and, where relevant, at the level of significant branches

2) where applicable, intra-group financial support arrangements adopted on the basis of an intra-group financial support agreement reached pursuant to Title XVII.a of the Credit Institutions Act and

3) for each of the scenarios referred to in Article 15 of this Decision, a description of the impediments to the implementation of recovery measures within the group, including impediments at the level of individual entities covered by the plan, and of material practical and legal impediments to the prompt transfer of own funds or repayment of liabilities or assets within the group.

(3) Key functions and core business lines must be sufficiently granular (e.g. retail deposit segment, retail lending segment, corporate deposit segment, corporate lending segment, etc.). When identifying key functions, credit institutions shall analyse at least the following:

1) the impact of disruption in the provision of that service on third parties and the financial system as a whole

2) the market for the service in question at least from the viewpoint of concentration of that marketand

3) the possibility that another service provider can provide the service in question in a comparable scope and quality, at an acceptable cost for the client and within a reasonable timeframe.

(4) The recovery plan shall also include measures that a credit institution could take if the Croatian National Bank has determined in a decision that the conditions for early intervention referred to in the Credit Institutions Act have been met.

IV RECOVERY PLAN INDICATORS

List of recovery plan indicators

Article 7

(1) A credit institution shall lay down a list of recovery plan indicators that identify the circumstances under which the envisaged recovery measures may be implemented.

(2) The list of recovery plan indicators shall:

1) reflect the credit institution's business model, strategy and risk profile, and set indicator thresholds in such a way as to warn of situations of severe financial distress

2) be adequate to the legal structure, size and complexity of the credit institution; the number and type of indicators that the credit institution will be able to manage should be sufficient to alert the credit institution of deteriorating conditions in a variety of areas of operation

3) be aligned with the overall risk management framework and with the existing liquidity and capital contingency plan indicators, and business continuity plan indicators;

4) allow for regular monitoring and be integrated into the institution's governance and within the

escalation and decision-making procedures.

(3) Recovery plan indicators must be easily monitored and they can be qualitative and quantitative.

(4) A credit institution shall identify in the recovery plan the indicators that reveal possible vulnerabilities and weaknesses or threats to different areas of operation, in particular as regards:

1) capital

2) liquidity

3) profitability and

4) risk profile, particularly asset quality.

(5) In addition to the indicators referred to in paragraph (4) of this Article, a credit institution shall include in the recovery plan:

1) market-based indicators (e.g. exchange rate changes, share prices, credit default swap spreads, rating under negative review or rating downgrade) and

2) macroeconomic indicators (e.g. changes in gross domestic product, sovereign credit rating, exchange rates and interest rates).

(6) By way of derogation from paragraph (5) of this Article, a credit institution shall not be obligated to include in the recovery plan market-based indicators or macroeconomic indicators if, in the recovery plan, it explains in detail and in a satisfactory manner why those indicators are not appropriate for the credit institution given its legal structure, size, business model, complexity of its activities and risk profile, or where they cannot be applied in view of the characteristics of the market in which the credit institution operates.

(7) A credit institution shall include in the recovery plan at least one indicator from each of the areas of operation referred to in paragraph (4) of this Article.

(8) The indicators referred to in paragraphs (4) and (5) of this Article shall refer to the financial position of the credit institution in the case of a recovery plan on an individual basis or to the financial position of a group of credit institutions in the case of a recovery plan for a group of credit institutions.

Selection and thresholds**of recovery plan indicators**

Article 8

(1) The recovery plan shall contain a precise definition of the selected indicator. If the calculation of an individual indicator is prescribed, a credit institution shall explain in the recovery plan each departure from the prescribed manner of calculation of the selected indicator.

(2) The recovery plan shall contain an explanation for the selection of an individual indicator and the selected thresholds of that indicator from which the implementation of the measures envisaged in the recovery plan is considered.

(3) The selected thresholds of the individual indicator from which the implementation of the measures envisaged in the recovery plan is considered shall ensure the timely implementation of these recovery measures, where the credit institution shall take into account:

1) the overall recovery capacity based on envisaged recovery measures; the more limited the overall recovery capacity of the credit institution, the more conservative thresholds of recovery plan indicators should be

2) the timeframe and complexity of the implementation of envisaged recovery measures, in particular, considering governance arrangements, regulatory approvals required in all relevant jurisdictions and potential operational impediments to the implementation of recovery measures; the more complex and

lengthy the implementation of a recovery measure, the more conservative the calibration of indicators should be

3) at which stage of the crisis the recovery measure can be effectively implemented (e.g. the feasibility of the recovery measure of raising external capital becomes more difficult the closer the credit institution comes to breaching its capital requirements)

4) the pace of deterioration in a crisis, which, in addition to the specific circumstances of the crisis, may depend on the specific characteristics of the credit institution's business model and risk profile

5) consistency of the calibration of recovery plan indicators with the credit institution's risk management (including the internal capital adequacy assessment process, ICAAP) and risk appetite framework (e.g. early warning systems, contingency plans and business continuity plans).

(4) For the purpose of informing the credit institution's management in a timely manner about the potential exceeding of the thresholds of the quantitative recovery plan indicators, the thresholds of the quantitative recovery plan indicators shall be based on progressive metrics ("traffic light approach").

Capital indicators

Article 9

(1) The capital indicators referred to in Article 7, paragraph (4), item 1) of this Decision shall include at least the following indicators:

1) the common equity tier 1 capital ratio

2) the total capital ratio

3) the leverage ratio and

4) MREL and TLAC (if applicable).

(2) The selected capital indicators shall warn of any significant actual or likely future deterioration in the quantity and quality of capital, including increasing level of leverage.

(3) By way of derogation from paragraph (1) of this Article, a credit institution may omit some of the above capital indicators if, in the recovery plan, it explains in detail and in a satisfactory manner why these indicators are not appropriate for the credit institution given its legal structure, size, business model, complexity of its activities and risk profile, or if the indicators cannot be applied in view of the characteristics of the market in which the credit institution operates (a rebuttable presumption). Where possible, the credit institution should replace the omitted indicator with a more relevant capital indicator.

(4) The thresholds of indicators based on regulatory capital requirements shall be set by a credit institution at a level above the combined capital buffer requirement.

(5) At a level above the combined capital buffer requirement, a credit institution shall also set the thresholds for:

1) MREL, i.e. the final MREL or the binding intermediate target levels of MREL (if different) expressed as percentages of the total risk exposure amount (hereinafter referred to as 'TREA')

2) TLAC, where applicable, expressed as percentages of TREA.

(6) When setting the thresholds of the indicators referred to in paragraph (5) of this Article, a credit institution shall take into account the maturity of eligible liabilities and its ability to roll them over, as well as additional elements, including the requirement of subordination, where applicable.

(7) For groups with a multiple-point-of-entry (MPE) resolution strategy, where the prudential and resolution scopes may differ, a credit institution shall set the indicator thresholds on a consolidated basis for each resolution entity/group.

(8) By way of derogation from paragraphs (4) and (5) of this Article, where a credit institution sets thresholds of capital indicators within the buffers, it shall clearly demonstrate in the recovery plan that the envisaged recovery measures can be implemented in a situation where the capital buffers have been totally or partially used.

Liquidity indicators

Article 10

(1) The liquidity indicators referred to in Article 7, paragraph (4), item 2) of this Decision shall include at least the following indicators:

1) the liquidity coverage ratio – LCR, in all currencies combined

2) the net stable funding ratio — NSFR, in all currencies combined

3) if imposed, the specific liquidity requirements referred to in Article 225 of the Credit Institutions Act

4) available central-bank eligible unencumbered assets and

5) the liquidity position.

(2) Selected liquidity indicators shall warn of the actual or potential decrease in the credit institution's ability to meet its current and foreseen short-term and long-term liquidity needs in different currencies and funding needs, and indicate the credit institution's dependence on interbank markets and retail deposits, intra-group funding exposures and those arising from off-balance sheet structures.

(3) By way of derogation from paragraph (1) of this Article, a credit institution may omit some of the above liquidity indicators if, in the recovery plan, it explains in detail and in a satisfactory manner why these indicators are not appropriate for the credit institution given its legal structure, size, business model, complexity of its activities and risk profile, or if the indicators cannot be applied in view of the characteristics of the market in which the credit institution operates. Where possible, the credit institution should replace the omitted indicator with a more relevant liquidity indicator.

(4) A credit institution shall set the thresholds of indicators based on regulatory liquidity requirements (LCR and NSFR) at a level above 100 %.

(5) When calibrating the liquidity position, a credit institution shall take into account internal liquidity metrics that reflect assumptions on the liquidity that could realistically be derived from sources not taken into account in the regulatory requirements. For this, the credit institution could consider the amounts of the counterbalancing capacity (CBC), and other liquidity sources (e.g. deposits with other credit institutions). When establishing forward-looking indicators, the credit institution should assess, in accordance with its risk profile, which maturities to consider and then take into account the estimated inflows and outflows.

Profitability indicators

Article 11

(1) The profitability indicators referred to in Article 7, paragraph (4), item 3) of this Decision shall include at least the following indicators:

1) return on assets (ROA)

2) return on equity (ROE) and

3) significant operational risk losses.

(2) By way of derogation from paragraph (1) of this Article, a credit institution may omit some of the above profitability indicators if, in the recovery plan, it explains in detail and in a satisfactory manner why these

indicators are not appropriate for the credit institution given its legal structure, size, business model, complexity of its activities and risk profile, or if the indicators cannot be applied in view of the characteristics of the market in which the credit institution operates. Where possible, the credit institution should replace the omitted indicator with a more relevant profitability indicator.

Asset quality indicators

Article 12

(1) The asset quality indicators referred to in Article 7, paragraph (4), item 4) of this Decision shall include at least the following indicators:

1) the annual growth rate of gross non-performing loans and

2) the coverage ratio, which is equal to the ratio of impairment to total non-performing loans.

(2) The asset quality indicators shall also reflect the quality of off-balance sheet exposures.

(3) By way of derogation from paragraph (1) of this Article, a credit institution may omit some of the above asset quality indicators if, in the recovery plan, it explains in detail and in a satisfactory manner why those indicators are not appropriate for the credit institution given its legal structure, size, business model, complexity of its activities and risk profile, or if the indicators cannot be applied in view of the characteristics of the market in which the credit institution operates. Where possible, the credit institution should replace the omitted indicator with a more relevant asset quality indicator.

Monitoring and updating of thresholds of recovery plan indicators

Article 13

(1) A credit institution shall establish an adequate system for regular monitoring of selected recovery plan indicators at appropriate intervals and specify by internal bylaws at least the dynamics and manner of monitoring and reporting procedures.

(2) A credit institution shall ensure that, at the request of the Croatian National Bank, it is able to submit the values of recovery plan indicators, at least on a monthly basis, even in the absence of a change in the value of the indicators.

(3) By way of derogation from paragraph (2) of this Article, in the event of crisis situations or where the thresholds of one or more recovery plan indicators is exceeded, the Croatian National Bank may consider reporting more frequently.

(4) A credit institution shall regularly monitor and update at least annually the appropriateness of indicator thresholds. As a result of a change in the financial or business situation, a credit institution may update indicator thresholds more frequently and notify the Croatian National Bank of recovery plan indicators and provide adequate explanation for the update within five working days from the moment the management board of the credit institution approved the updated indicator thresholds.

(5) If, in the case of a systemic crisis, the Croatian National Bank allows credit institutions a temporary relief from regulatory requirements that could adversely impact the ability of credit institutions to continue supporting the real economy, this may not result in an automatic change to the thresholds of recovery plan indicators.

(6) A credit institution may carry out the update only in duly justified cases such as the following:

1) the recalibrated indicators meet the requirements for recovery plan indicators as referred to in Article 8, paragraph (3) of this Decision

2) the update reflects changes in the credit institution's business and financial profile and is aligned with the credit institution's internal risk management and risk appetite framework

3) the recalibration is not contrary to the objectives of temporary relief measures

4) the thresholds of capital indicators are at all times calibrated at levels exceeding the own funds requirements set out in Parts Three, Four and Seven of Regulation (EU) No 575/2013, Chapter 2 of 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*)* and Article 228 of the Credit Institutions Act.

Actions upon breaching an indicator thresholds

Article 14

(1) In the recovery plan, a credit institution shall describe in detail the decision-making procedure where the values of recovery plan indicators reach the level set for taking the measures envisaged in the recovery plan. This does not imply the automatic implementation of the envisaged recovery measure, but points to the need to initiate escalation procedures in order to decide to implement or refrain from implementing the measure envisaged in the recovery plan.

(2) In the event that the values of recovery plan indicators have reached the levels referred to in paragraph (1) of this Article, the management board of a credit institution shall, in accordance with the internal decision-making procedure, be notified thereof within one working day (internal escalation).

(3) A credit institution shall notify the Croatian National Bank at the latest on the next working day following the internal escalation referred to in paragraph (2) of this Article in case the values of recovery plan indicators have reached the levels referred to in paragraph (1) of this Article.

(4) The management board of a credit institution shall within maximum five working days adopt a decision to implement or refrain from implementing the measures envisaged in the recovery plan and notify the Croatian National Bank thereof without delay.

(5) Where a credit institution adopts a decision to implement the measure envisaged in the recovery plan and/or additional recovery measures not envisaged in the recovery plan, it shall submit, together with the notification, an action plan based on potential, credible and feasible recovery measures in situations of severe financial distress and a time plan to restore indicator levels.

(6) Where a credit institution adopts a decision to refrain from implementing a recovery measure, it shall explain in detail the reasons for such decision.

(7) The management board of a credit institution may decide to implement the measures envisaged in the recovery plan, although the relevant indicators have not reached the level envisaged for the implementation of recovery measures and notify the Croatian National Bank thereof without delay.

V RECOVERY PLAN STRESS SCENARIOS

Stress scenarios

Article 15

(1) A credit institution shall, taking into account the nature, scale and complexity of its activities, prepare a range of stress scenarios of severe financial distress based on exceptional events with negative effects, to test the appropriateness of the types and levels of indicators and the effectiveness of recovery measures.

(2) A credit institution shall prepare at least one scenario that will include each of the following types of events:

1) systemic events on overall system level which might have serious negative consequences for the financial system or the real economy

2) events specific to a credit institution or group which might have serious negative consequences for one credit institution, one group or a credit institution within the group and

3) a simultaneous and interactive combination of the events referred to in items 1) and 2) of this paragraph.

(3) By way of derogation from paragraph (2) of this Article, a credit institution eligible for simplified obligations may carry out stress tests using one scenario comprising several systemic events referred to in Article 18 of this Decision and several events referred to in Article 19 of this Decision that are specific to the credit institution or the group for which a recovery plan is drawn up.

(4) A credit institution shall carry out, at least annually, a stress test of the recovery plan.

(5) By way of derogation from paragraph (4) of this Article, a credit institution eligible for simplified obligations may carry out a stress test at least once every two years.

Stress scenario requirements

Article 16

(1) When preparing each of the stress scenarios referred to in Article 15 of this Decision, a credit institution shall ensure that it meets the following requirements:

1) the scenario is based on the events that are the most relevant to the credit institution or group and corresponds to the business and funding model, the activities, structure and size of the credit institution or interconnectedness with other financial system entities or the financial system as a whole, and particularly the identified weaknesses of the credit institution or group

2) the events foreseenin the scenario would lead to a failure of the credit institution or group i recovery measures were not applied in a timely manner and

3) the scenario is based on exceptional but plausible events.

(2) When preparing each of the stress scenarios referred to in Article 15 of this Decision, a credit institution shall apply events of sufficient intensity to meet the requirements referred to in paragraph (1), item 2) of this Article.

(3) Where possible, a credit institution shall include in each stress scenario an assessment of the impact of the events on each of the following aspects of the credit institution's or group's business:

1) available capital

2) available liquidity

3) risk profile

4) profitability

5) operations, including payment and settlement operations and

6) reputation.

(4) When developing stress scenarios which would threaten the failure of a credit institution or group without implementation of recovery measures in a timely manner, a credit institution shall consider the possibility of applying a reverse stress test.

Number of stress scenarios

Article 17

(1) A credit institution shall adjust the number of stress scenarios to the nature, scale and complexity of its activities, the funding models and its interconnectedness with other institutions and the financial system.

(2) Systemically important credit institutions as defined in Articles 135 and 137 of the Credit Institutions Act shall apply more than three scenarios.

(3) The stress scenarios of credit institutions that are not eligible for simplified obligations should include both slow-moving and fast-moving events.

Scenario covering systemic events on overall system level

Article 18

(1) When preparing a stress scenario for systemic events on overall system level, a credit institution that is not eligible for simplified obligations shall take into account the impact of at least the following events:

1) the failure of significant counterparties affecting the financial stability of the system as a whole

2) a decrease in liquidity available in the interbank market

3) increased sovereign risk and capital outflows from significant countries in which the credit institution or group operates

4) adverse movements in the prices of real estate and other forms of assets in one or several relevant markets and

5) a macroeconomic crisis.

(2) By way of derogation from paragraph (1) of this Article, a credit institution may, after having made an appropriate analysis, omit an event referred to in paragraph (1) of this Article and provide a detailed explanation thereof in the recovery plan.

Credit institution-specific scenario

Article 19

(1) When preparing a stress scenario based on events specific to a credit institution or group, a credit institution that is not eligible for simplified obligations shall take into account the impact of at least the following events:

1) the failure of significant counterparties

2) damage to the credit institution’s or group’s reputation

3) significant liquidity outflows

4) adverse movements in the prices of real estate and other forms of assets to which the credit institution or group is predominantly exposed in one or more relevant markets

5) significant loan losses and

6) significant operational risk losses.

(2) By way of derogation from paragraph (1) of this Article, a credit institution may, after having made an appropriate analysis, omit an event referred to in paragraph (1) of this Article and provide a detailed explanation thereof in the recovery plan.

VI SCOPE OF APPLICATION

Recovery plan scope

Article 20

(1) A credit institution that is not eligible for simplified obligations shall apply all the provisions of this Decision in their entirety.

(2) For the purposes of this Decision, a credit institution eligible for simplified obligations shall be any credit institution whose average assets reported in audited financial statements as at the end of the preceding three business years do not exceed the kuna equivalent of EUR 1 billion.

(3) The Croatian National Bank may adopt a decision requiring a credit institution eligible for simplified obligations to apply the provisions of this Decision in an extended or full scope.

VII DRAWING UP THE RECOVERY PLAN

Drawing up, adopting and updating the recovery plan

Article 21

(1) The risk control function of a credit institution shall:

1) coordinate the drawing up of the recovery plan

2) monitor and report to the management board on the values of the selected indicators

3) prepare scenarios and carry out stress tests of recovery plans and

4) report to the management board on the process of drawing up, the need to update and implement the recovery plan and on the results of the stress tests of recovery plans.

(2) A credit institution that is not eligible for simplified obligations shall ensure that the persons responsible for drawing up the recovery plan are not the persons responsible for carrying out stress tests of recovery plans.

(3) A credit institution may not fully outsource the drawing up of recovery plans.

(4) A recovery plan shall be assessed and adopted by a credit institution's management board subject to prior approval of the supervisory board.

(5) The internal audit of a credit institution shall assess the recovery plan, the application and effectiveness of the processes for drawing up, adopting and monitoring the implementation of the recovery plan.

(6) A credit institution shall implement the adopted recovery plan.

VIII REPORTING TO THE CROATIAN NATIONAL BANK

Article 22

(1) A credit institution shall draw up a recovery plan in accordance with the provisions of this Decision, update it annually and submit it to the Croatian National Bank by 31 December of the current year at the latest.

(2) By way of derogation from paragraph (1) of this Article, a credit institution eligible for simplified obligations shall update and submit to the Croatian National Bank a recovery plan every two years and the updated thresholds of recovery plan indicators referred to in Article 13 of this Decision on an annual basis.

(3) If a credit institution carries out an extraordinary update of the recovery plan following a material change, it shall submit that plan to the Croatian National Bank without delay.

(4) The recovery plan submitted to the Croatian National Bank should be accompanied by a decision of the management board on the adoption or update of the recovery plan and a decision of the supervisory board on the approval to adopt or update the recovery plan.

IX TRANSITIONAL AND FINAL PROVISIONS

Entry into force

Article 23

(1) This Decision shall enter into force on the eighth day after the day of its publication in the Official Gazette.

(2) In Article 20, paragraph (2) of this Decision, the words "the kuna equivalent of" are deleted on the date of introduction of the euro as the official currency of the Republic of Croatia.

(3) A credit institution eligible for simplified obligations shall for the first time submit the updated thresholds of recovery plan indicators referred to in Article 13 of this Decision to the Croatian National Bank by 31 December 2022 at the latest and the first recovery plan drawn up in accordance with this Decision by 31 December 2023 at the latest.

(4) On the date of the entry into force of this Decision, the Decision on recovery plans of credit institutions (Official Gazette 78/2014 and 67/2015) shall cease to have effect.

No.: 324-091/09-22/BV
Zagreb, 9 September 2022

Boris Vujčić

Governor