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Decision on large exposures of credit institutions

(Official Gazette 111/2018, 120/2018, 92/2020, 139/2022 and 107/2024 – unofficial consolidated version)

Zagreb, October 2024

Decision on large exposures of credit institution

I GENERAL PROVISIONS

Subject matter and terms and definitions

Article 1

(1) This Decision prescribes:

- 1) a lower limit for the purposes of Article 395, paragraph (1) 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) 2024/1623 of the European Parliament and of the Council of 31 May 2024 amending Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor (Text with EEA relevance) (OJ L 2024/1623, 19.6.2024, hereinafter referred to as 'Regulation (EU) No 575/2013'),
- 2) provisions for managing the internal process of identifying a group of connected clients referred to in Article 3, item (18) of the Credit Institutions Act and provisions for the determination of the connection criteria for exposures to the central government, and
- 3) the application of Article 500a, paragraph (2) of Regulation (EU) No 575/2013.

(2) The terms used in this Decision shall have the same meaning as in the Credit Institutions Act and Regulation (EU) No 575/2013.

(3) The provisions of this Decision comply with the Guidelines on connected clients under Article 4(1)(39) of Regulation (EU) No 575/2013 (EBA/GL/2017/15) of 23 February 2018 of the European Banking Authority.

Under Article 1 of the Decision on amendments to the Decision on large exposures of credit institutions, Official Gazette 92/2020, which entered into force on 22 August 2020, item (4) has been added in paragraph (1).

Under Article 1 of the Decision on amendments to the Decision on large exposures of credit institutions, Official Gazette 139/2022, which entered into force on 1 January 2023, paragraph (4) has been added.

Under Article 1 of the Decision on amendments to the Decision on large exposures of credit institutions, Official Gazette 107/2024, which entered into force on 21 September 2024, paragraph (1) has been amended, paragraph (3) has been deleted and former paragraph (4) became paragraph (3).

II LIMIT FOR THE PURPOSE OF ARTICLE 395 OF REGULATION (EU) NO 575/2013

Limit threshold

Article 2

Credit institutions shall apply Article 395, paragraph (1), subparagraphs (1) and (2) of Regulation (EU) No 575/2013 so that the words 'EUR 150 million' are replaced by the words 'EUR 400 thousand'.

Under Article 2 of the Decision on amendments to the Decision on large exposures of credit institutions, Official Gazette 139/2022, which entered into force on 1 January 2023, the words "HRK 3 million" are replaced by the words "EUR 400 thousand".

III TRANSITIONAL PERIOD FOR CERTAIN EXPOSURES TO PUBLIC SECTOR ENTITIES

Article 3

Under Article 2 of the Decision on amendments to the Decision on large exposures of credit institutions, Official Gazette 107/2024, which entered into force on 21 September 2024, Article 3 has been deleted and the title above Article 3 became the title above Article 3a.

Limits applicable during the transitional period

Article 3a

(1) By way of derogation from Article 395, paragraph (1) and Article 493, paragraph (4) of Regulation (EU) No 575/2013, credit institutions shall be allowed to incur exposures referred to in Article 500a, paragraph (1) of Regulation (EU) No 575/2013, up to the following limits:

- 1) 100% of the institution's Tier 1 capital until 31 December 2023;
- 2) 75% of the institution's Tier 1 capital between 1 January and 31 December 2024; and
- 3) 50% of the institution's Tier 1 capital between 1 January and 31 December 2025.

(2) The limits referred to in paragraph (1) of this Article shall apply to exposure values after taking into account the effect of the credit risk mitigation in accordance with Articles 399 to 403 of Regulation (EU) No 575/2013.

Under Article 2 of the Decision on amendments to the Decision on large exposures of credit institutions, Official Gazette 92/2020, which entered into force on 22 August 2020, Article 3a has been added.

IV GROUP OF CONNECTED CLIENTS

Article 4

Under Article 3 of the Decision on amendments to the Decision on large exposures of credit institutions, Official Gazette 107/2024, which entered into force on 21 September 2024, Article 4 and the title above Article 4 have been deleted.

Provisions for managing the internal process of identifying a group of connected clients

Article 5

(1) Credit institutions shall investigate and appropriately document the identified connections among their clients for the purpose of grouping clients into a group of connected clients as specified in Article 4, paragraph (1), item (39) of Regulation (EU) No 575/2013 and Commission Delegated Regulation (EU) No 2024/1728 of 6 December 2023 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards specifying in which circumstances the conditions for identifying groups of connected clients are met. In doing so, credit institutions shall take all reasonable steps and take into account all available information, including the data that another institution formed a group of connected clients for certain clients as well as data on connected clients that a client is required to publish in accordance with relevant standards of financial reporting. Identification of possible connections should be an integral part of the credit institution's exposure granting and monitoring process.

(2) Credit institutions shall regularly monitor changes to interconnections among clients in the context of the procedure of exposure monitoring and when a substantial increase to an exposure is planned.

(3) Credit institutions shall make the investigation of possible economic dependency among their clients proportionate to the size of the exposures.

(4) For the purposes of paragraph (3) of this Article, credit institutions shall carry out detailed investigations of economic dependency in all cases where the sum of all exposures of a credit institution to one person exceeds 5% of tier 1 capital of the credit institution or of a group of credit institutions in the RC if the investigation is carried out on a subconsolidated or consolidated basis.

(5) When identifying a group of connected clients based on a combination of control and economic dependency indicators, credit institutions shall collect information on all entities forming a chain of financial contagion, taking into account the information on connections that stem from persons that are not clients of the credit institution, if the credit institution has such information available.

Under Article 4 of the Decision on amendments to the Decision on large exposures of credit institutions, Official Gazette 107/2024, which entered into force on 21 September 2024, the title above Article 5 and paragraph (1) have been amended, in paragraphs (3) and (5) the words "and financial interconnectedness" have been replaced by the word "dependency", and in paragraph (4) the word "interconnectedness" has been replaced by the words "economic dependency".

Duties of the management board and senior management

Article 6

(1) The management board of a credit institution shall adopt and implement the policy for the identification of connections among clients for the purpose of grouping clients into a group of connected clients as specified in Article 4, paragraph (1), item (39) of Regulation (EU) No 575/2013, Commission Delegated Regulation (EU) No 2024/1728 of 6 December 2023 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards specifying in which circumstances the conditions for identifying groups of connected clients are met and this Decision.

(2) The management board and senior management of a credit institution shall:

- 1) ensure the implementation of adequate processes for the identification of connections among clients,
- 2) ensure that the processes referred in item (1) of this paragraph are documented and
- 3) periodically review the processes referred to in item (1) of this paragraph.

Under Article 5 of the Decision on amendments to the Decision on large exposures of credit institutions, Official Gazette 107/2024, which entered into force on 21 September 2024, paragraph (1) has been amended.

Article 7

Paragraphs (4) and (5) have been corrected pursuant to the Corrigendum to the Decision on large exposures of credit institutions, Official Gazette 120/2018 of 19 December 2018.

Under Article 3 of the Decision on amendments to the Decision on large exposures of credit institutions, Official Gazette 92/2020, which entered into force on 22 August 2020, items (1) and (2) in paragraph (3) have been amended

Under Article 6 of the Decision on amendments to the Decision on large exposures of credit institutions, Official Gazette 107/2024, which entered into force on 21 September 2024, Article 7 and the title above Article 7 have been deleted.

Article 8

Under Article 6 of the Decision on amendments to the Decision on large exposures of credit institutions, Official Gazette 107/2024, which entered into force on 21 September 2024, Article 8 and the title above Article 8 have been deleted.

Article 9

Under Article 6 of the Decision on amendments to the Decision on large exposures of credit institutions, Official Gazette 107/2024, which entered into force on 21 September 2024, Article 9 and the title above Article 9 have been deleted.

Application of the alternative approach in identifying groups of connected clients for exposures to the central government

Article 10

(1) In line with the definition of a group of connected clients, and particularly pursuant to the provisions of the second subparagraph of Article 4, paragraph (1), item (39) of Regulation (EU) No 575/2013, credit institutions may assess the existence of a group of connected clients:

- 1) separately for each of the persons directly controlled by or directly economically interconnected with the central government ("Alternative approach – application to all directly dependent persons" or
- 2) separately only for a particular person directly controlled by or directly economically interconnected with the central government ("Alternative approach – partial application").

(2) In cases referred to in paragraph (1) of this Article a credit institution shall:

- 1) include the exposure to the central government in each of the groups of connected clients identified separately for each natural or legal person directly controlled by or directly economically interconnected with the central government and
- 2) include persons controlled by or economically interconnected with the person directly controlled by or directly economically interconnected with the central government into each group of connected clients.

(3) In cases referred to in paragraph (1) of this Article, where persons directly controlled by or directly interconnected with the central government are economically dependent on each other, a credit institution shall form a separate group of connected clients for these persons, excluding the exposure to the central government.

Under Article 7 of the Decision on amendments to the Decision on large exposures of credit institutions, Official Gazette 107/2024, which entered into force on 21 September 2024, Article 10 and the title above Article 10 have been amended.

Article 11

Under Article 8 of the Decision on amendments to the Decision on large exposures of credit institutions, Official Gazette 107/2024, which entered into force on 21 September 2024, Article 11 and the title above Article 11 have been deleted.

V TRANSITIONAL AND FINAL PROVISIONS

Cessation of effect of the previous Decision

Article 12

On the date of entry into force of this Decision, the Decision on large exposures of credit institutions (Official Gazette 2/2010, 160/2013 and 12/2018) shall cease to have effect.

Entry into force
Article 13

This Decision shall be published in the Official Gazette and shall enter into force on 1 January 2019.

Decision of amendments to the Decision on large exposures of credit institutions

(Official Gazette 92/2020)

Article 4

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

Decision of amendments to the Decision on large exposures of credit institutions

(Official Gazette 139/2022)

Article 3

This Decision shall be published in the Official Gazette and enter into force on the day the euro is introduced as the official currency in the Republic of Croatia.

Decision of amendments to the Decision on large exposures of credit institutions

(Official Gazette 107/2024)

Article 10

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

ANNEX

Under Article 9 of the Decision on amendments to the Decision on large exposures of credit institutions, Official Gazette 107/2024, which entered into force on 21 September 2024, the annex entitled The examples of connecting persons in a group of connected clients has been deleted.