

Pursuant to Article 197, paragraph (3) of the Credit Institutions Act (Official Gazette 117/2008) 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 the method of exercising supervision of credit institutions**  
**and imposing supervisory measures**

**I GENERAL PROVISIONS**

**Article 1**

(1) This Decision prescribes in detail the conditions and methods of exercising supervision of credit institutions and imposing supervisory measures, aimed at taking actions to improve the safety and stability of credit institutions' operation and eliminating illegalities, deficiencies or weaknesses in their operation.

(2) This Decision shall prescribe in detail the activities of persons authorised by the Croatian National Bank to exercise supervision and impose supervisory measures, as well as obligations of credit institution's bodies in the course of supervision performed by the Croatian National Bank.

(3) The provisions of this Decision shall apply to all credit institutions with registered offices in the Republic of Croatia, authorised by the Croatian National Bank.

(4) The provisions of this Decision shall also apply, as appropriately, to:

- 1) branches of credit institutions with registered offices in a Member State, providing services through branches or directly providing services in the Republic of Croatia,
- 2) branches of credit institutions with registered offices in a third country, authorised by the Croatian National Bank to provide services.

(5) The provisions of this Decision shall apply, as appropriately, to the procedures of examination of application of other laws, carried out by the Croatian National Bank in credit institutions.

## **Article 2**

The Croatian National Bank shall exercise supervision pursuant to the Credit Institutions Act, regulations adopted under that Act, other laws and regulations adopted under those laws, cooperation agreements concluded with competent supervisory authorities of the Member States or competent supervisory authorities of the third countries or with other competent supervisory authorities in the Republic of Croatia.

## **II CONTENT AND SCOPE OF SUPERVISION**

### **Article 3**

(1) In the course of supervision, the Croatian National Bank shall assess the safety and stability of a credit institution's operation, by evaluating in particular:

- 1) the credit institution's risk profile, by assessing risks to which the credit institution is or might be exposed, including the appropriateness of the credit institution's risk management system for each risk and capital adequacy in view of its risk profile;
- 2) the organisational structure, corporate governance arrangements and internal control systems and their adequacy in view of the risks to which the credit institution is or might be exposed in its operation;
- 3) the adequacy of the processes in place for assessing and maintaining the credit institution's internal capital;
- 4) the accuracy of publicly disclosed information by the credit institution; and
- 5) the credit institution's compliance with the Credit Institutions Act, regulations adopted under that Act, other laws and regulations adopted under those laws and with their own rules, professional standards and rules.

2) In addition to credit, market and operational risks, the risk assessment referred to in paragraph (1), item (1) of this Article, shall include the following:

- 1) the exposure to and management of concentration risk as well as compliance with prescribed exposure limits;
- 2) the management of the residual risk associated with the use of recognized credit risk mitigation techniques;
- 3) the exposure to and management of interest rate risk in the non-trading book;
- 4) the exposure to and management of liquidity risk;
- 5) the adequacy of capital requirements for exposures securitised by the credit institution, having regard to:
  - 1) the economic substance of the transaction;
  - 2) the degree of risk transfer achieved, including monitoring whether a credit institution has provided implicit support to a securitisation, with a view to reducing potential or actual losses to investors;

- 6) the adequacy of value adjustments for less liquid positions in the trading book;
- 7) the results of stress testing carried out by the credit institution;
- 8) the impact of diversification effects and how such effects are factored in the risk measurement system; and
- 9) the management of other risks referred to in Article 124 of the Credit Institutions Act.

(3) If illegalities, deficiencies or weaknesses in the credit institution's operation are identified in the course of supervision, the Croatian National Bank shall impose appropriate supervisory measures prescribed in the Credit Institutions Act.

(4) The Croatian National Bank shall exercise the supervision referred to in paragraph (1) of this Article at least on an annual basis. The frequency and intensity of supervision of a credit institution shall depend on its size and systematic importance for the banking system in the Republic of Croatia, the nature, scale and complexity of its activities and the assessed risk profile.

(5) The supervision of credit institutions' operation shall be exercised by authorised persons, persons authorised by virtue of their employment status or other professionally qualified persons authorised by the Governor of the Croatian National Bank to exercise supervision of credit institutions, who shall exercise supervision to the extent necessary for the assessment referred to in paragraph (1) of this Article by applying the procedures, policies, methods and techniques of supervision prescribed in internal bylaws of the Croatian National Bank.

(6) For the purposes of this Decision, persons authorised by virtue of their employment status shall be employees of the Croatian National Bank who are in the course of performing their tasks responsible for receiving, reviewing and analysing reports, notifications and other information which credit institutions and other persons are obliged to deliver to the Croatian National Bank under the Credit Institutions Act, regulations adopted under that Act, and other laws and regulations adopted under those laws.

### **III METHOD OF EXERCISING SUPERVISION**

#### **Article 4**

(1) The Croatian National Bank shall exercise supervision of credit institutions by:

- 1) collecting and analysing reports and notifications, ongoing monitoring of the operation of credit institutions and other persons required to report to the Croatian National Bank pursuant to the Credit Institutions Act or other laws (hereinafter: off-site examination);
- 2) carrying out on-site examinations of credit institution's operations; and

3) imposing supervisory measures.

(2) Within the framework of ongoing monitoring of the operation of credit institutions, the Croatian National Bank shall regularly meet with their management board and/or senior management, internal and external auditors and, where appropriate, with their supervisory board.

## **IV ON-SITE EXAMINATION**

### **Article 5**

(1) An on-site examination of a credit institution's operation shall be carried out on the premises of the credit institution:

- 1) by reviewing bookkeeping documents, business books, ancillary and other records and accounts, reports which the credit institution is required to produce, internal decisions, ordinances and bylaws relating to business policy and other documentation relating to the credit institution's operation, in original, in a paper form and/or in the form of an electronic record in the medium and format required by the authorised person; and
- 2) by verifying the personnel, organisational and technical structure of the credit institution.

(2) An on-site examination of a credit institution's operation shall be carried out to the extent necessary for the assessment referred to in Article 3, paragraph (1) of this Decision.

(3) If a credit institution outsources certain activities, the credit institution shall enable authorised persons of the Croatian National Bank to carry out on-site examinations of such activities on the business premises of the service provider.

(4) If authorised persons of the Croatian National Bank carry out an on-site examination of the operation of a person having close links with the credit institution pursuant to Article 200, paragraph (3) of the Credit Institutions Act, the on-site examination shall be carried out on the premises of the person in question.

(5) An on-site examination may cover the entire operation of the credit institution or a part of it.

### **Article 6**

(1) On-site examinations of credit institutions' operation shall be carried out by employees of the Croatian National Bank authorised by the Governor of the Croatian National Bank (hereinafter: authorised persons).

(2) The authorisation referred in paragraph (1) of this Article shall lay down the scope of the examination and the period covered by the examination. If authorised persons establish a need to expand the scope of the examination beyond the framework laid down in the relevant authorisation, they shall request additional authorisation from the Governor.

(3) In exceptional cases, the Governor of the Croatian National Bank may authorise a certified auditor, an audit company or other professionally qualified persons to carry out the tasks related to the on-site examination of a credit institution's operation.

### **Notification of an on-site examination**

#### **Article 7**

(1) The Croatian National Bank shall deliver a notification of an on-site examination to a credit institution before the beginning of the on-site examination.

(2) In addition to the subject of supervision, the notification of an on-site examination shall include information on the planned beginning and duration of the examination, name of the person in charge and the number of authorised persons carrying out the examination, a list of documents and information that need to be made available at a minimum in order to prepare and carry out the on-site examination, as well as other necessary information. If computer programmes are used during the period of preparation and carrying out of the on-site examination (including computer-aided supervisory techniques) which require direct access to the credit institution's IT system, the notification of an on-site examination shall contain the list of authorised persons who will prepare and carry out the examination, the period in which the credit institution is to provide access to its IT system, resources it needs to provide at a minimum to ensure access to its IT system and other information relevant for the preparation and carrying out of computer-aided on-site examination.

(3) Members of the supervisory and management board, procurators, other managers and employees of a credit institution shall provide the authorised persons, at their request, with written answers to questions relevant for the assessment referred to in Article 3, paragraph (1) of this Decision supported by relevant documentation.

## **V OFF-SITE EXAMINATION**

#### **Article 8**

(1) An off-site examination is a system of processes and procedures based on ongoing monitoring of the operation of credit institutions and identifying changes in the operation

of credit institutions and other persons that the Croatian National Bank is authorised to supervise pursuant to the Credit Institutions Act, which includes the following:

- 1) collecting and analysing reports, notifications and other information which credit institutions and other persons are required to deliver to the Croatian National Bank in accordance with the provisions of the Credit Institutions Act, regulations adopted under that Act, and other laws and regulations adopted under those laws; and
- 2) regular meetings with a credit institution's management board and/or senior management and internal and external auditors, aimed at obtaining the information required for the assessment referred to in Article 3, paragraph (1) of this Decision.

(2) Reports and notifications collected and analysed by persons authorised by virtue of their employment status include the prescribed (annual, semi-annual, quarterly, etc.) reports delivered by a credit institution to the Croatian National Bank, reports of external and internal auditors, correspondence with the credit institution, information, reports and statements delivered by the credit institution at the request of persons authorised by virtue of their employment status and other available information, reports and notifications relating to the credit institution.

(3) Based on the analysis of information and reports referred to in paragraphs (1) and (2) of this Article, persons authorised by virtue of their employment status shall carry out a partial or a complete review and evaluation referred to in Article 3, paragraph (1) of this Decision, laying emphasis on the assessment of a credit institution's risk profile and capital adequacy in view of the risks to which the credit institution is or might be exposed, its compliance with the prescribed legal requirements and timeliness and accuracy of reporting.

(4) If, in the course of an off-site examination, persons authorised by virtue of their employment status find illegalities, deficiencies or weaknesses in a credit institution's operation, they may recommend that an on-site examination be carried out and/or certain supervisory measures be taken with the aim to improve the safety and stability of the credit institution's operation and eliminate illegalities, weaknesses and deficiencies identified.

(5) If the illegalities or weaknesses and deficiencies identified require the imposition of certain supervisory measures, persons authorised by virtue of their employment status shall draw up a report listing the illegalities, weaknesses and/or deficiencies identified. The report referred in this Article need not be preceded by a draft report. The procedure for issuing the report and imposing supervisory measures shall be carried out in the same way as following an on-site examination.

## **VI EXAMINATION FINDINGS**

### **Examination findings**

#### **Article 9**

(1) Following an on-site examination, authorised persons shall present their findings in the form of a report, regardless whether any illegalities or deficiencies and weaknesses in the credit institution's operation have been found in the course of the examination.

(2) Following an off-site examination, persons authorised by virtue of their employment status shall prepare a report only if the examination of a credit institution's operation established:

1) illegalities in the credit institution's operation, including failure to provide the prescribed reports in a timely and accurate fashion; or

2) existence of grounds for implementing supervisory measures prescribed in the Credit Institutions Act.

(3) The report referred to in paragraphs (1) and (2) of this Article is an official document which shall be prepared by authorised persons or persons authorised by virtue of their employment status.

### **Draft report on on-site examination findings**

#### **Article 10**

(1) Before preparing a report on on-site examination findings, authorised persons shall, within 15 working days of the official completion of the examination, prepare and deliver to the credit institution a draft report on on-site examination findings. The date of the official end of an on-site examination shall be the last day of the examination on the credit institution's premises. Exceptionally, when additional data verification relating to the subject of the examination needs to be carried out at the Croatian National Bank, an on-site examination shall be considered completed as at the date of the data verification. Data verification shall be carried out within 15 working days of the end of on-site examination on the credit institution's premises.

(2) The draft report on on-site examination findings shall be delivered to the chairperson of a credit institution's management board. The credit institution may raise objections as regards the findings in the draft report within a time limit laid down by the Croatian National Bank, which may not be shorter than 8 working days or longer than 15 working days of receipt of the draft report.

**Report on on-site examination findings**  
**Article 11**

(1) Authorised persons shall, within 10 working days of receipt of a credit institution's objections as regards a draft report, or of expiry of the time limit for raising objections, if the credit institution failed to raise objections as regards the draft report, prepare a report and delivery it to:

- 1) the chairperson of the credit institution's management board; and
- 2) the chairperson of the credit institution's supervisory board.

(2) The chairperson of the credit institution's management board shall, before the expiry of the time limit for issuing a statement as regards the findings in the report, review the findings in the report with other management board members. In addition, the chairperson of the credit institution's management board shall, without delay, deliver a copy of the report to the credit institution's internal audit.

(3) The chairperson of the credit institution's supervisory board shall notify the supervisory board members of the findings in the report at the next meeting following the receipt of the report.

(4) The credit institution may raise objections as regards the findings in the report within a time limit laid down by the Croatian National Bank, which may not be shorter than 8 working days or longer than 15 working days of receipt of the draft report.

**Appendix to the report on on-site examination findings**  
**Article 12**

(1) If authorised persons find that the objections raised by a credit institution are justified, they shall prepare an appendix to the report, amending the findings in the report. If authorised persons find that the objections raised by the credit institution as regards the report are unjustified and that there is insufficient evidence to amend the findings of the on-site examination, they shall, within 8 working days of receipt of the objections, notify the chairperson of the credit institution's management board in writing that the objections are not accepted.

(2) An appendix to the report shall be prepared within 8 working days of receipt of the objections that have been accepted and shall be delivered to the persons referred to in Article 11, paragraph (1) of this Decision. Article 11, paragraphs (2) and (3) of this Decision shall apply *mutatis mutandis* to the appendix to the report. A credit institution shall not be allowed to raise objections to the appendix to the report.

**Illegality established in the course of on-site examination**  
**Article 13**

(1) Where illegality has been found in the course of an on-site examination of a credit institution's operation, authorised persons shall specify the facts and describe the actions by which the credit institution, or a responsible person of the credit institution, acted contrary to law and regulations in the report and collect evidence thereof.

(2) Authorised persons shall identify the persons responsible for illegality established by the report pursuant to a credit institution's Articles of Association or other internal bylaws.

**Persons authorised to prepare a report on examination findings**  
**Article 14**

A report on on-site examination findings shall be signed by an authorised person, while a report on off-site examination findings shall be signed by a person authorised by virtue of his/her employment status.

**VII SUPERVISORY MEASURES**

**Supervisory measures**  
**Article 15**

(1) The Croatian National Bank shall impose supervisory measures pursuant to the Credit Institutions Act by means of a decision and/or a memorandum of understanding.

(2) The supervisory measures referred to in paragraph (1) of this Article shall be imposed on and delivered to a credit institution within 30 days of expiry of the time limit for the credit institution's objections to a report on examination findings or of the delivery of an appendix to the report to the credit institution.

(3) By way of derogation from paragraph (2) of this Article a decision in the course of an on-site examination shall be issued immediately upon the establishment of the grounds for adopting the decision.

**Memorandum of understanding**  
**Article 16**

(1) A memorandum of understanding (hereinafter: memorandum) shall be concluded with a credit institution in the cases laid down in Article 230 of the Credit Institutions Act. The draft memorandum shall be prepared by an authorised person or a person authorised by virtue of his/her employment status. The draft memorandum shall be delivered to the chairperson of the credit institution's management board at the same time when the report on examination findings is delivered.

(2) The chairperson of the credit institution's management board shall notify other management board members of the draft memorandum.

(3) The credit institution may raise objections as regards the draft memorandum within a time limit laid down for issuing a statement as regards the findings in the report pursuant to Article 11, paragraph (4) of this Decision.

(4) If the credit institution has no objections to the draft memorandum, it shall be deemed final and then signed and certified by the stamp of the credit institution. The memorandum shall be considered accepted by the credit institution only if it has been signed by all members of the credit institution's management board. The credit institution shall deliver a certified and signed memorandum to the Croatian National Bank within the time limit referred to in paragraph (3) of this Article.

(5) If the Croatian National Bank assesses that the objections to the draft memorandum are justified, it shall amend the wording of the memorandum and deliver it to the credit institution within 8 working days of receipt of the objections. The credit institution shall deliver a certified and signed memorandum within 5 working days of the receipt of the final wording of the memorandum.

(6) When a certified and signed memorandum is received by the credit institution, it shall be signed by the Vicegovernor of the Croatian National Bank responsible for supervision of credit institutions and the executive director of the organisational unit of the Croatian National Bank responsible for supervision of credit institutions.

(7) The memorandum signed by the persons referred to in paragraph 6 of this Article, shall be delivered by the Croatian National Bank to the credit institution within 5 working days of receipt of the memorandum.

(8) The chairperson of a credit institution's management board shall notify the chairperson of the credit institution's supervisory board of the content of a memorandum immediately

upon its conclusion and he/she shall deliver a copy of the memorandum to the credit institution's internal audit.

(9) Following the receipt of the notification from the chairperson of the credit institution's management board, the chairperson of the credit institution's supervisory board shall notify other supervisory board members of the content of the memorandum at the next meeting of the supervisory board.

(10) If a credit institution fails to deliver a certified memorandum signed by all members of the credit institution's management board, it shall be deemed that the memorandum was not accepted and the Croatian National Bank shall issue a decision imposing measures referred to in the draft memorandum. In such a case, the decision shall be issued immediately upon the expiry of time limits for delivery of the certified and signed memorandum, within the time limit referred to in Article 15, paragraph (2) of this Decision at the latest.

### **Decision Article 17**

(1) A decision to eliminate illegalities, weaknesses or deficiencies in a credit institution's operation and undertake activities to improve the safety and stability of the credit institution's operation shall be adopted by the Governor of the Croatian National Bank.

(2) The chairperson of a credit institution's management board shall notify other members of the credit institution's management board of the content of the decision at the next meeting of the credit institution's management board. In addition, the chairperson of the credit institution's management board shall notify the chairperson of the credit institution's supervisory board of the content of the decision immediately upon receipt and deliver a copy of the decision to the credit institution's internal audit.

(3) Following the receipt of the decision, the chairperson of the credit institution's supervisory board shall notify other supervisory board members of the measures imposed by the Croatian National Bank at the next meeting of the supervisory board.

## **VIII TRANSITIONAL AND FINAL PROVISIONS**

### **Article 18**

(1) On the date of entry into force of this Decision, the Decision on performing bank supervision (Official Gazette 17/2003 and 115/2003) shall cease to have effect. All

supervisory procedures initiated prior to the entry into force of this Decision shall be completed in accordance with the provisions of that Decision.

(2) This Decision shall be published in the Official Gazette and shall enter into force on 1 July 2009, with the exception of Article 1, paragraph (4), item (1) of this Decision, which shall enter into force on the day of accession of the Republic of Croatia to the European Union.

No.: 10-020/01-09/ŽR  
Zagreb, 2 January 2009

**Croatian National Bank**  
**Council Chairman**  
**Governor**  
**Željko Rohatinski, m.p.**