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CREDIT UNIONS ACT

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I GENERAL PROVISIONS

General provision

Article 1

This Act governs the conditions for the establishment, operation and dissolution of credit unions and the oversight of the operation of credit unions.

Credit unions

Article 2

(1) Credit unions are financial institutions with registered offices in the Republic of Croatia authorised by the Croatian National Bank.

(2) Credit unions may not be entered in the register of companies prior to obtaining the authorisation referred to in paragraph (1) of this Article.

(3) A credit union's firm name and abbreviated firm name must contain the term 'credit union'.

(4) The words 'credit union' or their derivatives in the firm name or abbreviated firm name may be entered in the register of companies and used in legal transactions only by legal persons referred to in paragraph (1) of this Article.

Activities of credit unions

Article 3

(1) Credit unions may carry out activities including only the following:

1) accept cash deposits from credit union members in domestic currency;

2) grant loans to credit union members in domestic currency;

3) accept cash deposits from trade unions and chambers of trades and crafts and accept non-repayable funds from international institutions;

4) provide payment services for their members;

5) conduct currency exchange transactions for credit union members;

6) grant financial aid to credit union members;

7) provide guarantees for liabilities of credit union members in domestic currency.

(2) Credit unions shall carry out currency exchange transactions referred to in paragraph (1), item (5) of this Article in accordance with the terms and conditions laid down in regulations governing the operation of authorised currency exchange offices.

(3) Credit unions may provide the payment services referred to in paragraph (1), item (4) of this Article only where authorised by the Croatian National Bank in accordance with regulations governing payment operations.

Connected persons
Article 4

- (1) For the purposes of this Act, connected persons means persons linked in one of the following ways:
- one person has indirect or direct influence over the other or others, or is under the influence of one or more persons;
 - one person has the possibility of indirectly or directly directing the other or others or significantly influencing it or them when reaching finance or business decisions;
 - the operation of one person or its operating results may significantly impact the operation or operating results of the other or others.
- (2) For the purpose of this Act, close family members shall be considered connected persons.
- (3) For the purposes of this Act, close family members shall be:
- a spouse or the person with whom one lives for a longer period of time in a joint household, which, in accordance with regulations governing marital and family relations, has the status equivalent to that in a marriage;
 - parents and children or adopted children;
 - other persons under the guardianship of that person.

II STATUS PROVISIONS

Establishment
Article 5

- (1) A credit union may be established by 30 or more persons meeting the requirements referred to in Article 9 of this Act.
- (2) A credit union may be established on one of the following principles:
- 1) the employment principle, or
 - 2) the occupation or profession principle or
 - 3) the territorial principle.
- (3) By way of derogation from paragraph (2) of this Article, a credit union may also be established on another principle that ensures the achievement of a common bond and financial mutuality of credit union members.
- (4) The Articles of Association of a credit union shall lay down the principle referred to in paragraph (2) or paragraph (3) of this Article.
- (5) The credit union shall be established at the founding meeting by adopting the credit union's Articles of Association.
- (6) The Articles of Association of a credit union shall be adopted by the founders of the credit union by a statement of adoption of Articles of Association in the form of a notarial document.

(7) The document referred to in paragraph (6) of this of this Article shall list names, personal identification numbers and domicile of the founders and the amounts of paid-up membership share.

(8) The founding meeting of the credit union shall also lay down the list of persons proposed for members of the management board and adopt a decision to appoint the members of the supervisory board of the credit union, its business plan for the first three years of business and the decision on the submission of the application for authorisation of the credit union.

(9) The founding meeting of the credit union shall adopt the decisions referred to in paragraph (8) of this Article by majority of votes of all founders.

(10) Each credit union founder shall have the right to one vote.

(11) The credit union founders shall become credit union members upon payment of their membership share.

Articles of Association

Article 6

(1) The Articles of Association of a credit union shall contain provisions regarding:

- 1) the firm name and head office of the credit union;
- 2) the scope of activities;
- 3) the amount of initial capital;
- 4) the amount of membership share;
- 5) the conditions and the manner for additional payments of membership shares;
- 6) the manner and form of notifying credit union's members;
- 7) the requirements for and the manner of becoming or ceasing to be a credit union member;
- 8) the number of management board and supervisory board members;
- 9) the conditions for and the manner of appropriation of profits or coverage of losses;
- 10) the manner of convening the general meeting;
- 11) the decision-making procedure in the general meeting of credit union members;
- 12) the rights and obligations of members towards credit unions and the rights and obligations of credit unions towards their members;
- 13) the dissolution of credit unions.

(2) The Articles of Association may, in addition to the provisions stipulated in paragraph (1) of this Article, also contain the provisions regarding other issues relevant for carrying out the activities of a credit union.

(3) The Articles of Association of a credit union must be prepared in the form of a notarial deed.

Initial capital
Article 7

- (1) The initial capital of a credit union shall equal the total amount of membership shares.
- (2) The initial capital of a credit union shall not be less than HRK 500,000.00.
- (3) Prior to the entry of a credit union in the register of companies the initial capital shall be fully paid up in cash.
- (4) Exceptionally, the provision of paragraph (3) of this Article shall not be applied in case of a merger or merger by acquisition of a credit union, or in the case of a division of a credit union.
- (5) The maximum amount of membership shares of an individual credit union member and connected persons shall not exceed 5% of the total amount of membership shares.
- (6) Membership shares shall be equal and shall be paid up in cash.

Entry in the register of companies
Article 8

- (1) The application for entry of the credit union in the register of companies shall be submitted by all members of the management board and the supervisory board of the credit union.
- (2) The application for entry in the register of companies shall contain the following:
 - 1) the firm name, head office and scope of activities of the credit union;
 - 2) the authorisation of the credit union;
 - 3) the amount of initial capital;
 - 4) the names of the members of the management and supervisory board, their domicile and personal identification numbers.
- (3) The application referred to in paragraph (2) of this Article shall be accompanied by:
 - 1) the Articles of Association of the credit union and the statement on the adoption of Articles of Association;
 - 2) a certificate by an authorised financial institution showing that initial capital or membership shares have been paid up in cash;
 - 3) the decision to appoint members of the management board and supervisory board.
- (4) The following shall be entered in the register of companies:
 - 1) the firm name, head office and scope of activities of the credit union;
 - 2) the total amount of initial capital;
 - 3) the date of adoption of Articles of Association;
 - 4) the names of the members of the management board, of the chairperson and members of the supervisory board, their domicile and personal identification numbers.
 - 5) the authorisation to represent the credit union.

Credit union members

Article 9

(1) Only persons who share a common bond and act jointly with an aim to promote and protect mutual interests on the principle of financial mutuality may be credit union members.

(2) Credit union members may only be:

- 1) sole traders and craftsmen with a head office in the Republic of Croatia and
- 2) natural persons with a domicile in the Republic of Croatia.

(3) The persons referred to in paragraph (2) of this Article may be credit union members if they meet one of the following requirements in accordance with the principle referred to in Article 5, paragraph (2) or paragraph (3) of this Act and Articles of Association of the credit union.

- 1) they are employed with the same employer or in the same industry, or
- 2) they are members of a particular occupation or profession, or
- 3) they reside in the same area, or
- 4) they are interconnected in any other way that ensures the achievement of the common bond on the principle of financial mutuality.

(4) Residing in the same area as referred to in paragraph (3), item (3) of this Article shall be considered residing in the area of the same local (regional) self-government.

Joining the credit union

Article 10

(1) Person intending to become credit union member shall submit a written application to join the credit union.

(2) The application referred to in paragraph (1) of this Article shall contain the following:

- 1) personal data,
- 2) evidence of compliance with the requirements set out in Article 9 of this Act.

(3) The approval for joining the credit union shall be adopted by the supervisory board of the credit union by a unanimous decision of all members.

(4) Persons who were granted the approval referred to in paragraph (3) of this Article, gave a statement on acceptance of the Articles of Association authenticated by a public notary and paid up their membership share shall become credit union members.

Withdrawal from the credit union
Article 11

- (1) Credit union members may withdraw from the credit union at their own written request and in accordance with the requirements set out in the credit union's Articles of Association.
- (2) Credit union members may be expelled from a credit union by a unanimous decision of the supervisory board where they cease to meet the requirements referred to in Article 9 of this Act, or for other reasons set out in the credit union's Articles of Association.
- (3) In case of withdrawal or expulsion from the credit union, the credit union shall pay out his/her/its membership share and the corresponding share of profit, if any, to the person in question.
- (4) The rights referred to in paragraph (3) of this Article shall also be granted to heirs or legal successors of credit union members.

Register of credit union members
Article 12

- (1) Credit unions shall keep a register of credit union members.
- (2) The register referred to in paragraph (1) of this Article shall contain:
 - 1) the ordinal number of the entry;
 - 2) the date of entry and the date of commencement of the membership;
 - 3) name, surname or firm name;
 - 4) domicile or head office and address;
 - 5) the number and the amount of membership shares;
 - 6) other data specified in the credit union's Articles of Association.
- (3) In case of termination of membership in a credit union, in addition to the data referred to in paragraph (2) of this Article, the register shall contain the date of termination of the membership in the credit union.
- (4) The Croatian National Bank shall prescribe the form and the manner of keeping the register.

Rights and obligations of the credit union and credit union members
Article 13

- (1) All rights and obligations of credit union members, as well as obligations of credit unions to their members must be determined by applying equal requirements and criteria.
- (2) Credit unions shall determine and disclose effective lending rates on loans granted.
- (3) The Croatian National Bank shall prescribe the elements for determining the effective lending rate referred to in paragraph (2) of this Article.
- (4) The notifications and information published by the credit union shall contain an indication that these are addressed exclusively at the credit union's members.

Bodies of the credit union

Article 14

The bodies of the credit union shall be the management board, the supervisory board and the general meeting.

Management board

Article 15

(1) The management board shall direct the business of the credit union, represent it and carry out other activities in accordance with this Act, the Articles of Association and other acts of the credit union.

(2) The provisions of the Companies Act governing the management board of limited liability companies shall apply *mutatis mutandis* to the management board of the credit union, unless otherwise provided for in this Act.

Members of the management board

Article 16

(1) The management board of the credit union shall have one or more members.

(2) Where the management board has several members, the credit union shall be represented jointly by all members together.

(3) The management board of the credit union may not authorise a procurator to represent the credit union individually.

(4) The management board must direct the business of the credit union in the head office of the credit union.

Criteria for appointment of management board members

Article 17

(1) The members of the credit union's management board must meet the following criteria:

- 1) have at least secondary school qualifications;
- 2) possess professional qualifications, abilities and experience appropriate and adequate to direct the business of a credit union;
- 3) they have not been convicted by a final judgement of a crime against the values protected by international law or of one of the following crimes:
 - a) against the payment system and the security of its operations;
 - b) relating to the authenticity of documents;
 - c) relating to breaches of official duties;
 - d) relating to disclosure of a state secret;
 - e) relating to concealing illegally obtained funds;

f) relating to money laundering;

g) relating to terrorist financing;

4) they were not members of the management board or supervisory board of a credit union, or member of the board of an undertaking undergoing bankruptcy proceedings or a credit union whose authorisation has been revoked;

5) meet the criteria for membership in the management board referred to in the Companies Act;

6) are not members of the management board, supervisory board or a procurator of another credit union or undertaking.

(2) The professional qualifications and experience referred to in paragraph (1), subparagraph (2) of this Article shall mean at least three years of experience in managerial positions in a credit union or in directing the business of an undertaking or a financial institution.

Approval for management board members

Article 18

(1) Only a person who obtained approval for membership in the management board from the Croatian National Bank may be appointed as a member of the credit union's management board.

(2) The application for the approval referred to in paragraph (1) of this Article shall be submitted by the credit union's supervisory board for a term of office not exceeding four years.

(3) The application referred to in paragraph (2) of this Article shall include evidence that the criteria referred to in Article 17 of this Act have been met, not older than three months, except for the evidence referred to in Article 17, paragraph (1), subparagraphs (1) and (2) of this Act and the work programme for the period for to which the management board member is to be appointed.

(4) The Croatian National Bank shall, based on a reasoned request, obtain from the criminal history records the evidence referred to in Article 17, paragraph (1), item (3) of this Act.

(5) At the request of the Croatian National Bank, other documents shall also be submitted with the application referred to in paragraph (2) of this Article.

(6) The Croatian National Bank may require candidates for management board members to personally present the work programme for the period to which the management board member is to be appointed.

(7) The Croatian National Bank shall grant the approval referred to in paragraph (1) of this Article where it is evident from the application and the accompanying documentation that the candidate meets the criteria for a member of the management board.

(8) The Croatian National Bank shall refuse an application for approval if:

– it establishes that the person does not meet the criteria referred to in Article 17 of this Act;

– based on the data available to it, due to activities and jobs carried out by the person or its actions, operation of the credit union would be jeopardised;

– based on the programme referred to in paragraph (3) of this Article, it assesses that the candidate shall not direct the business of the credit union in accordance with this Act and other regulations;

– it establishes that in the documentation accompanying the application for approval the person provided false or inaccurate data.

(9) The person who obtained approval for a management board member of the credit union shall, before being appointed to the same function with another credit union, obtain the approval referred to in paragraph (1) of this Article.

(10) A management board member may be reappointed to the management board in accordance with the procedure set out in the provisions of this Article.

(11) The supervisory board of a credit union shall submit the application referred to in paragraph (2) or paragraph (9) of this Article at least three months prior to the expiry of the term of office of an individual management board member.

(12) Where the founders of the credit union submitted the application for authorisation, the decision making procedure regarding the approval referred to in paragraph (1) of this Article shall be combined with the authorisation procedure.

Expiry of approval for management board members

Article 19

The approval referred to in Article 18, paragraph (1) of this Act shall expire:

- where the designated person is not appointed to office or does not assume office within 6 months of receipt of the approval for a credit union's management board member, in case the procedure for granting approval was combined with the authorisation procedure;
- where the designated person is not appointed to office or does not assume office of the credit union's management board member within three months of receipt of the approval for the credit union's management board member to which the approval relates;
- where the term of office the credit union's management board member expires, on the date of the expiry of the term of office in the credit union to which the approval relates;
- on the date of expiry of the employment contract with the credit union to which the approval relates.

Revocation of approval for management board members

Article 20

(1) The Croatian National Bank shall revoke the authorisation for the credit union's management board member where:

- 1) the approval was granted on the basis of false or inaccurate data;
- 2) the management board member materially breaches the obligations referred to in Articles 22 and 23 of this Act,
- 3) the requirements for management board members prescribed in the provisions of the Companies Act ceased to exist;

(2) The Croatian National Bank shall combine the revocation of approval for management board members with the procedure for revocation of authorisation if the latter has been initiated.

(3) Where the approval for a management board member was revoked or expired, the credit union's supervisory board shall without delay initiate the procedure for appointment of a new management board member in accordance with the provisions of this Act.

Employment status of management board members

Article 21

The credit union's management board members shall be employed with the credit union full time.

Obligations of management board members

Article 22

(1) The credit union's management board members shall direct the business of a credit union in accordance with the provisions of this Act and other regulations governing the operation of credit unions.

(2) The credit union's management board members shall ensure the monitoring of the risks to which the credit union is exposed in its operation and adopt appropriate risk management rules.

(3) The credit union's management board members shall ensure the keeping of business and other books and business documentation, prepare bookkeeping documents, financial statements and other reports prescribed by the Croatian National Bank, and shall report to the Croatian National Bank thereon in accordance with this Act and regulations adopted under this Act.

(4) The credit union's management board members shall notify the Croatian National Bank in writing of each appointment to or removal from the supervisory or management board of other legal persons within eight days of the date of appointment or removal.

Notifying the supervisory board

Article 23

(1) The credit union's management board shall without delay notify the credit union's supervisory board in writing where:

- 1) the liquidity or solvency of the credit union is jeopardised;
- 2) reasons for lapsing or revocation of the credit union's authorisation arise;
- 3) the credit union's financial position changes to the extent that it no longer meets the conditions referred to in Article 36, paragraph (2) and Article 38, paragraph (2) of this Act.

(2) The credit union's management board members shall without delay notify the credit union's supervisory board in writing of:

- 1) their appointment to and removal from the management board or supervisory bodies of other legal persons;
- 2) revocation of approval for management board members.

Supervisory board
Article 24

- (1) The credit union's supervisory board shall have at least three members.
- (2) The credit union's Articles of Association may lay down a greater number of supervisory board members. However, this must be an odd number, not exceeding nine members.
- (3) Supervisory board members shall be appointed to a maximum term of four years and may be re-elected or reappointed.
- (4) The provisions of the Companies Act governing the supervisory board of limited liability companies shall apply *mutatis mutandis* to the supervisory board of credit unions, unless otherwise provided for in this Act.

Criteria for performing the function of a supervisory board member
Article 25

- (1) Credit union members may be appointed supervisory board members where:
 - 1) they meet the requirements for supervisory board members under the provisions of the Companies Act;
 - 2) they are not members of the supervisory board or management board of another credit union;
 - 3) they have never been management board members of a credit union undergoing bankruptcy or compulsory winding-up proceedings.
- (2) The Croatian National Bank may request from the management board of a credit union to convene the general meeting and propose a removal of a supervisory board member where the supervisory board member:
 - 1) fails to meet the criteria referred to in paragraph (1) of this Article,
 - 2) breaches the obligations specified in Article 27 of this Act or in the credit union's Articles of Association.

Competences of the supervisory board

Article 26

The credit union's supervisory board shall have the following competences:

- 1) it shall oversee the credit union's business operations;
- 2) it shall appoint and remove management board members to and from office;
- 3) it shall decide on joining and being excluded from the credit union;
- 4) it shall grant approval to the management board for the proposed accounting policy and governance rules;
- 5) it shall grant approval to the management board for the credit union's financial plan;

6) it shall decide on other matters laid down in this Act, regulations adopted under this Act or the credit union's Articles of Association.

Obligations of supervisory board members

Article 27

(1) The credit union's supervisory board members shall:

- 1) discuss the findings of competent authorities;
- 2) check the credit union's annual financial statements and prepare a written report thereon and submit it to the general meeting;
- 3) explain their opinion on the financial statements to the credit union's general meeting.

(2) The credit union's supervisory board members shall be jointly liable to the credit union for damage arising as a consequence of neglecting their obligations referred to in paragraph (1) of this Article.

General meeting

Article 28

(1) Credit union members shall exercise their rights at the general meeting, unless otherwise provided for in this Act.

(2) Each credit union member shall have the right to one vote at the general meeting. The credit union members may also exercise their right at the general meeting through a proxy who shall have a written authorisation authenticated by a public notary.

(3) The Articles of Association of a credit union counting more than 200 members may lay down that the general meeting may be organised as a meeting of all members or as a meeting of representatives of members, of which there cannot be less than 50 and they must all be members of that credit union.

(4) The procedure for appointment of representatives referred to in paragraph (3) of this Article shall be defined by the credit union's Articles of Association.

(5) The provisions of the Companies Act governing the general meeting of limited liability companies shall apply *mutatis mutandis* to the general meeting of credit unions, unless otherwise provided for in this Act.

Competences of the general meeting

Article 29

The credit union's general meeting shall decide on issues laid down in this Act and the credit union's Articles of Association, in particular:

- 1) amendments to the credit union's Articles of Association;
- 2) appointment to and removal from office of supervisory board members;
- 3) credit union's financial statements;
- 4) appropriation of realised profit and coverage of losses;

- 5) merger or merger by acquisition of a credit union;
- 6) dissolution of credit unions.

Decisions of the general meeting
Article 30

- (1) The credit union's general meeting may take valid decisions if more than a half of all members of the general meeting are present.
- (2) The credit union's general meeting shall adopt decisions by the majority of votes of members present at the general meeting, unless otherwise provided for in this Act.
- (3) By way of derogation from paragraph (2) of this Article, decisions on amendments to the credit union's Articles of Association shall be adopted by a three-quarter majority of votes of members present at the general meeting.
- (4) The decisions of the general meeting shall be adopted in the form of a notarial deed or notarial minutes.

III OPERATION OF CREDIT UNIONS

Authorisation
Article 31

- (1) The credit union's authorisation shall be granted by the Croatian National Bank.
- (2) The following shall be enclosed with the application for authorisation referred to in paragraph (1) of this Article:
 - 1) the credit union's Articles of Association in the form of a notarial deed;
 - 2) evidence of payment of the membership share;
 - 3) business plan for the first three years of business, including an explanation of reasons for and purposes of establishment, projections of the balance sheet and profit and loss account, description of organisational and personnel structure, technical infrastructure and accounting policy of the credit union;
 - 4) list of founders as credit union members, including their personal details and evidence of compliance with the requirements referred to in Article 9 of this Act.
 - 5) candidates proposed to the management board;
 - 6) a list of supervisory board members.

Time limit for deciding on the application for authorisation
Article 32

- (1) The Croatian National Bank shall within three months of receipt of the complete application referred to in Article 31, paragraph (2) of this Act, decide on the application and adopt an appropriate decision.

(2) Where the application referred to in Article 31, paragraph (2) of this Act is incomplete, the Croatian National Bank shall set a time limit for the credit union to supplement the application. The final deadline for adoption of the decision referred to in paragraph (1) of this Article shall not be longer than six months from the date of receipt of the application.

Refusing applications for authorisation **Article 33**

The Croatian National Bank shall refuse an application for authorisation if:

- 1) the proposed management board member does not meet the criteria referred to in Article 17 of this Act;
- 2) it is evident from the credit union's Articles of Association and other documents that the credit union is not organised in accordance with this Act or if the conditions for the operation of credit union laid down in this Act or regulations adopted under this Act have not been met;
- 3) it is evident from the documentation and from other available information that the credit union does not meet the personnel, organisational and technical requirements to operate in accordance with this Act and regulations adopted under this Act;
- 4) the provisions of the credit union's Articles of Association are contrary to the provisions of this Act or regulations adopted under this Act.

Lapsing of authorisation **Article 34**

(1) Authorisation shall lapse:

- 1) where the credit union does not commence its activities within six months of the issue of authorisation;
- 2) where the credit union does not perform its activities for more than three months;
- 3) on the date of opening bankruptcy or initiating compulsory winding-up proceedings;
- 4) on the date of the entry of a new credit union in the register of companies, in case of merger of credit unions;
- 5) upon removal from the register of companies of the credit union merged with another credit union.

(2) Should the reason referred to in paragraph (1) of this Article arise, the Croatian National Bank shall adopt a decision establishing that the authorisation lapsed.

Revocation of authorisation **Article 35**

(1) The Croatian National Bank shall revoke the credit union's authorisation by adopting a decision if:

- 1) the authorisation was granted on the basis of false or inaccurate data;

2) the supervisory board fails to remove a management board member from office and to appoint a new management board member of the credit union in accordance with imposed measure referred to in Article 61, paragraph (3) of this Act, or where the newly appointed management board member fails to ensure the elimination of illegalities and irregularities within two months of appointment;

3) it carries out activities contrary to Article 3 of this Act.

(2) In addition to the reasons referred to in paragraph (1) of this Article the Croatian National Bank shall revoke the credit union's authorisation by adopting a decision if:

1) it fails to meet the solvency ratio and other operating requirements in accordance with rules for risk management;

2) in any manner whatsoever it prevents the oversight of its operation;

3) it fails to meet the technical, organisational, personnel and other requirements for performing its activities.

4) it fails to act in accordance with the decision referred to in Article 58, paragraph (1) of this Act.

IV RISK MANAGEMENT

Risk management

Article 36

(1) A credit union shall maintain the total amount of membership shares and reserves proportionate to the scope and activities carried out by the credit union, taking into account the risks to which the credit union is exposed (solvency ratio).

(2) A credit union shall operate in such a manner as to be able to meet its liabilities as they fall due (liquidity principle) and to be able to meet all of its liabilities on an ongoing basis (solvency principle).

Credit union's reserves

Article 37

(1) A credit union shall allocate its total profit to reserves of the credit union until the level of its reserves reaches 20% of total amount of membership shares.

(2) After the credit union's reserves reach the level referred to in paragraph (1) of this Article, the credit union shall allocate at least 50% of its realised profit to its reserves, while the remaining amount may be paid out to credit union's members in proportion to the level of their membership shares.

Credit union's solvency ratio

Article 38

(1) The credit union's solvency ratio means the ratio between the sum of the total amount of membership shares and the formed reserves and the credit union's assets multiplied by a 100.

(2) The solvency ratio shall at all times equal to at least 9% of the amount referred to in paragraph (1) of this Article.

Credit union's risks

Article 39

(1) The risks to which the credit union is exposed to in its operations are:

- 1) liquidity risk
- 2) credit risk;
- 3) operational risk;
- 4) interest rate risk;
- 5) foreign-exchange risk;
- 6) risk of exposure to one person;
- 7) other risks.

(2) The Croatian National Bank shall prescribe the procedures for, the manner of measurement, assessment and management of the risks referred to in paragraph (1) of this Article.

Reports

Article 40

The Croatian National Bank shall prescribe the content, form, the manner and time limits for submitting reports on the solvency ratio referred to in Article 38 and the risks referred to in Article 39 of this Act.

Liquidity management

Article 41

(1) For the purpose of addressing liquidity risk, credit unions shall adopt and pursue regular liquidity management policy, which shall cover:

- 1) the planning of expected known and potential liquidity outflows and sufficient liquidity inflows for coverage of outflows;
- 2) regular liquidity monitoring;
- 3) the adoption of appropriate measures to prevent or eliminate the reasons for illiquidity.

(2) Credit unions shall make daily calculations of the amount of liquid assets and maintain the minimum liquidity level.

Exposure to credit risk

Article 42

(1) Credit risk means the risk of loss arising from the failure of a credit union member as debtor to meet its obligations to a credit union.

(2) The exposure of a credit union to one person and the persons connected with that person is the sum of all receivables arising from credits or on other basis and the assumed liabilities of a credit union to a one person.

(3) The exposure referred to in paragraph (2) of this Article shall not exceed 15% of the total amount of membership shares and formed reserves.

(4) The sum of exposures referred to in paragraph (2) of this Article equalling or exceeding 10% of the sum of all membership shares and formed reserves shall not exceed six times the sum of all membership shares and formed reserves.

Credit risk management

Article 43

(1) Before concluding a contract or another legal arrangement which constitutes the basis for exposure of a credit union to credit risk, credit unions shall assess the credit risk.

(2) Credit unions shall assess the credit risk on the basis of:

- 1) debtors' creditworthiness;
- 2) debtors' timeliness in settling obligations arising from loans and other monetary obligations;
- 3) quality and value of collateral received.

Assessment of placements

Article 44

(1) A credit union shall continuously monitor and assess the recoverability of the placements it granted.

(2) A credit union shall, for certain placements for which it determines that will be recovered in the amount lower than the amount of the current value of the amount of the claim, make a value adjustment in the amount of the established loss, which constitutes the difference between the current value of the amount of claim and the amount expected to be recovered.

Limits on investments

Article 45

Investments of credit unions in plots, buildings, equipment and refurbishing of business premises shall cumulatively not exceed 30% of the amount of total membership shares and formed reserves.

V BUSINESS BOOKS AND BUSINESS STATEMENTS

General provision

Article 46

Credit unions shall prepare bookkeeping documents, keep business books, maintain lists of assets, rights and obligations, prepare and publish financial statements in accordance with the Accounting Act and other regulations, complying with accounting and financial standards and principles.

Keeping business books, records and documents

Article 47

(1) Credit unions shall organise their operations and keep business books, business documents and other records in such a manner which enables verification whether the credit union operates in accordance with regulations and professional standards.

(2) The Croatian National Bank shall prescribe:

- 1) the credit union's chart of accounts;
- 2) the types and form of financial statements;
- 3) the manner and time limits for delivery of financial statements referred to in item (2) of this paragraph.

(3) The credit union's annual financial statements shall be audited for each business year.

(4) The audit referred to in paragraph (3) of this Article shall be carried out in accordance with the laws governing accounting and auditing, unless otherwise provided for in this Act and regulations adopted under this Act.

(5) The credit union shall, within 15 days of receipt of the audit report and at the latest within four months of expiry of the business year to which the annual financial statements relate, submit to the Croatian National Bank the report on the audit of annual financial statements.

VI CONFIDENTIAL INFORMATION

General provision

Article 48

Credit unions shall keep the confidentiality of all data on deposit and loan balances and other information, facts and circumstances of which they became aware in the course of operations with individual credit union members.

Duty to protect the confidentiality of information

Article 49

(1) Members of the credit union's bodies, employees of the credit union, or other persons who due to their work in the credit union or provision of services for the credit union have access to the information referred to in Article 48 of this Act, may not divulge such information to third parties or use it against the interests of the credit union and its members, or enable third parties to make use of it.

(2) Duty to protect the confidentiality of information shall cease in the following cases:

- 1) where the credit union member provides express written consent to disclose individual confidential information;
- 2) where the information is necessary to establish facts in court proceedings and the disclosure of the information is requested or ordered in writing by the competent court;
- 3) in cases provided for by regulations governing the prevention of money laundering;
- 4) where the information is necessary to determine the legal relationship between the credit union and the credit union member in court proceedings and the disclosure of such information is requested or ordered in writing by the competent court;
- 5) where the information is necessary for the purpose of legacy proceedings or other property-rights proceedings, and such disclosure is requested or ordered in writing by the competent court or the competent public notary;
- 6) where the disclosure of confidential information is necessary to carry out foreclosure proceedings over the property of a credit union member and such disclosure is requested or ordered in writing by the competent court;
- 7) where confidential information is required by the Croatian National Bank or other competent authority for the purpose of oversight performed within their competence under law, and is disclosed at their written request.

(3) The persons referred to in paragraph (1) of this Article shall be bound by the duty to protect the confidentiality of information even after the termination of their employment with the credit union or after the termination of their status of a credit union member or participation in credit union's bodies.

(4) The Croatian National Bank or other authorities and courts may use the information collected pursuant to paragraph (2) of this Article solely for the purpose for which it has been collected.

VII OVERSIGHT AND REPORTING

Oversight of credit unions

Article 50

The Croatian National Bank shall exercise oversight over the operation of credit unions to verify whether a credit union operates in accordance with the provisions of this Act, other laws and regulations adopted under these laws.

Manner of exercising oversight

Article 51

The Croatian National Bank shall exercise oversight over the operation of credit unions in the following manner:

- 1) by monitoring, collecting and analysing credit union's financial statements and notifications of the credit union (off-site examination);
- 2) through on-site oversight of the credit union (on-site examination).

Off-site examination

Article 52

Off-site examination of financial statements shall be carried out by the employees of the Croatian National Bank (persons authorised by virtue of their employment status) by monitoring, collecting and checking financial statements, reports and notifications which credit unions are obligated to submit to the Croatian National Bank in accordance with the provisions of this Act, within the time limits and in the manner provided for in the regulations adopted pursuant to this Act.

Persons authorised for on-site examination

Article 53

- (1) On-site examination of credit unions shall be carried out by persons authorised by the Governor of the Croatian National Bank.
- (2) The Governor of the Croatian National Bank may authorise a certified auditor or other professionally qualified persons to carry out the tasks related to on-site examinations of a credit union's operation.
- (3) The authorised persons referred to in paragraph (2) of this Article shall have the same competences when carrying out on-site examination of a credit union's operations as authorised persons of the Croatian National Bank.

On-site examination

Article 54

- (1) A credit union shall enable authorised persons, at their request, to examine business books, business documentation and other records and documentation.
- (2) A credit union shall deliver, at the request of the Croatian National Bank, computer print-outs, copies of records, other business books and documentation.
- (3) A credit union shall provide authorised persons of the Croatian National Bank with adequate premises in which they can carry out an on-site examination without disturbance and without the presence of other persons.
- (4) The Croatian National Bank may request from the credit union or responsible person to provide information on all activities that are in view of the objective of the individual examination relevant for assessment of compliance with the provisions of this Act or regulations adopted under this Act.

(5) Members of credit union's bodies and credit union's employees shall, at the request of the authorised person, provide reports and information on all activities relevant for oversight.

(6) The Croatian National Bank may invite members of credit union's bodies and credit union's employees to prepare a written report on the activities referred to in paragraph (4) of this Article, within the time limit which may not be shorter than three days or invite them to submit an oral statement.

Notification of an on-site examination

Article 55

(1) The notification of an on-site-examination shall be delivered to the credit union at least eight days before the beginning of the on-site examination.

(2) By way of derogation from paragraph (1) of this Article, authorised persons may deliver the notification of an on-site examination at the beginning of the on-site examination where the objective of an individual on-site examination would otherwise not be achieved.

(3) The notification of an on-site examination shall include the subject of the on-site examination.

Report on examination findings

Article 56

(1) Following an off-site or on-site examination of the operations of a credit union, authorised persons shall prepare a report on examination findings.

(2) The Croatian National Bank shall lay down the procedure and the manner of exercising oversight and of preparing and delivering reports on examination findings.

Oversight measures

Article 57

The measures that the Croatian National Bank may impose within the scope of oversight of the work and operations of a credit union shall be as follows:

- 1) ordering for illegalities and irregularities to be eliminated;
- 2) determining measures for identified breaches of risk management rules;
- 3) revoking authorisation;
- 4) initiating compulsory winding-up proceedings against the credit union;
- 5) submitting a request to open bankruptcy proceedings against the credit union.

Decision to eliminate illegalities and irregularities

Article 58

(1) The measures referred to in Article 57, item (1) of this Act shall be imposed by a decision if:

- 1) the management board member does not have the approval referred to in Article 18 of this Act;
- 2) the credit union fails to meet the requirements for carrying out its activities;
- 3) the credit union carries out activities contrary to this Act;
- 4) the credit union breaches risk management rules;
- 5) the credit union breaches the rules on keeping business books and preparing financial statements;
- 6) the credit union breaches reporting and notification requirements;
- 7) the credit union breaches other provisions of this Act, regulations adopted under this Act or the provisions of other laws.

(2) The decision referred to in paragraph (1) of this Article shall be final and administrative proceedings may be initiated against it.

Contents of the decision to eliminate illegalities and irregularities

Article 59

The decision referred to in Article 58, paragraph (1) of this Act shall contain:

- 1) an accurate description of non-compliance with the provisions of this Act ordered to be eliminated;
- 2) the time limit within which the credit union must eliminate illegalities and irregularities;
- 3) the time limit within which the credit union must deliver to the Croatian National Bank the report on the elimination of illegalities and irregularities;
- 4) the manner of elimination of illegalities and irregularities.

Report on the elimination of illegalities and irregularities

Article 60

(1) Credit unions shall within the time limit referred to in Article 59, item (2) of this Act eliminate established illegalities and irregularities and within the time limit referred to in Article 59, item (3) of this Act deliver to the Croatian National Bank the report on measures undertaken to eliminate illegalities and irregularities. Documents and other evidence of eliminated illegalities and irregularities must be enclosed with the report.

(2) Where the report referred to in paragraph (1) of this Article is incomplete, the Croatian National Bank may request that the report be supplemented within the time limit laid down by it.

Measures in relation to established breaches of risk management rules

Article 61

(1) Where in the course of oversight the Croatian National Bank establishes that the credit union breaches risk management rules, it may by virtue of the decision to eliminate illegalities and irregularities also impose the following measures:

- 1) order the credit union's management board to adopt a plan to ensure the credit union's solvency ratio;
- 2) order the credit union's management and supervisory board to convene the credit union's general meeting and propose a decision to increase the initial capital referred to in Article 7, paragraph (2) of this Act by payment of additional membership shares;
- 3) prohibit the credit union from concluding new deposit contracts, or loan and guarantee agreements;
- 4) prohibit the credit union from executing certain types of payments or payments to specific persons;
- 5) prohibit the credit union from concluding arrangements with individual credit union members;
- 6) order the credit union's management board to adopt or implement measures to:
 - improve risk management procedures;
 - limit the granting of loans;
 - improve collection procedures concerning past due exposures;
 - correctly evaluate on- and off-balance sheet items;
 - improve the information system;
 - maintain the solvency ratio laid down in Article 38, paragraph (2) of this Act.
- 7) prohibit or limit the credit union's disposal of assets.

(2) The credit union shall breach risk management rules where it:

- 1) fails to attain the solvency ratio referred to in Article 38, paragraph (2) of this Act or fails to comply with the minimum liquidity rule;
- 2) fails to organise its operations or fails to keep business books, financial statements and other reports in the manner which renders it possible to verify at all times whether it operates in accordance with the provisions of this Act and regulations adopted under this Act, or other laws and regulations.
- 3) fails to adopt measures or set rules on evaluation of on- and off-balance sheet items, or if it evaluates these items contrary to the Accounting Act;
- 4) carries out activities contrary to this Act;
- 5) does not comply with its obligation of timely, complete and accurate reporting in accordance with the provisions of this Act or regulations adopted under this Act;
- 6) enters into fictitious transactions in an attempt to misstate the credit union's financial position.

(3) The Croatian National Bank shall order the credit union's supervisory board to remove the management board members from office and initiate the procedure to appoint new management board members where:

- 1) the credit union fails to act in accordance with the decision to eliminate illegalities and irregularities;
- 2) the credit union's management board fails to implement the measures referred to in paragraph (1) of this Article;

3) the credit union, two times in succession, breaches the obligation of timely, complete and accurate reporting or notification to the Croatian National Bank or obstructs oversight by an authorised person of the Croatian National Bank.

Regular reporting

Article 62

(1) Credit unions shall notify the Croatian National Bank of the following facts and circumstances:

- 1) entries and data changes in the register of companies;
- 2) convening of the general meeting and all decisions adopted at the general meeting;
- 3) termination of performance of certain activities of credit unions.

(2) Credit unions shall submit to the Croatian National Bank a list of credit union members once a year within 30 days of the end of the business year.

(3) The credit union's management board shall notify the Croatian National Bank without delay if:

- 1) the liquidity or solvency of the credit union is jeopardised;
- 2) reasons for lapsing or revocation of authorisation arise;
- 3) the credit union's financial position changes to the extent that it fails to attain the solvency ratio referred to in Article 38, paragraph (2) of this Act.

Reporting on request

Article 63

At the request of the Croatian National Bank credit union shall deliver reports and information on all matters the Croatian National Bank deems relevant for the exercise of oversight.

VII COOPERATION OF COMPETENT AUTHORITIES

Cooperation of competent authorities

Article 64

(1) The Croatian National Bank shall be competent for collecting and processing data on facts and circumstances relevant for carrying out activities and exercising competences as laid down in this Act.

(2) The data referred to in paragraph (1) of this Article relevant for carrying out activities and exercising competences of the Croatian National Bank as laid down in this Act, shall be in particular the data on:

- 1) authorisations of credit unions and other authorisations granted by the Croatian National Bank pursuant to this Act;
- 2) the credit union's management board members and supervisory board members;
- 3) information collected by the Croatian National Bank within the framework of the exchange of information with other competent supervisory authorities.

(3) The Croatian National Bank may deliver the data referred to in paragraph (2) of this Article to:

- competent oversight authorities, where such data is necessary for the purpose of exercising oversight of a credit union and where such authorities are subject to the duty to protect the confidentiality of information in the scope laid down in Article 49, paragraph (4) of this Act;
- the courts, where such data are required in bankruptcy proceedings against a credit union;
- the Ministry of Finance of the Republic of Croatia for the purpose of preparing regulations, producing statistics or implementing strategies in the field of the financial or taxation system.

(4) By way of derogation from the provisions of paragraph (3) of this Article, the Croatian National Bank may deliver the data referred to in paragraph (2), item (3) of this Article to other competent authorities only with the express agreement of the competent authority that has disclosed the data to it.

IX ASSOCIATION OF CREDIT UNIONS

Association of credit unions

Article 65

(1) Credit unions may join an association of credit unions established as an economic interest group or other form of association of economic entities.

(2) Credit unions shall not enter into any written or oral arrangement with other credit unions or associations of credit unions that might restrict free market competition or that may jeopardise the interests of credit union members.

(3) For the purposes of implementing paragraph (2) of this Article, the association of credit unions shall deliver to the Croatian National Bank its Articles of Association, as well as all agreements to which the association of credit unions is a party to.

X CHANGES IN STATUS

Mergers by acquisition and mergers by formation

Article 66

(1) One or more credit unions may merge by acquisition with another credit union (acquiring credit union) without liquidation proceedings, by transferring all assets of one or more credit unions (acquired credit union) in exchange for membership shares in the acquiring credit union.

(2) Two or more credit unions may merge by formation without liquidation proceedings, by establishing a new credit union to which the total assets of the merging credit union are transferred in exchange for membership shares in the new credit union.

(3) The decision on merger by acquisition or merger by formation of a credit union shall require the decisions of the general meetings of credit unions being merged by acquisition or merged by formation.

(4) The decisions referred to in paragraph (3) of this Article shall be adopted by a three-quarter majority of votes of all members of the general meeting of each credit union.

Authorisation for merger by acquisition or merger by formation

Article 67

- (1) Before merging by acquisition or merging by formation with another credit union, a credit union shall obtain the authorisation from the Croatian National Bank. The provisions of Article 31 to 34 of this Act shall apply *mutatis mutandis* to the decision on merger by acquisition or merger by formation.
- (2) The Croatian National Bank shall refuse an application for authorisation for merger by acquisition or merger by formation where the authority competent for the protection of market competition deems the concentration arising from the merger by acquisition or merger by formation as impermissible.
- (3) The credit union resulting from the merger must obtain the authorisation from the Croatian National Bank prior to the entry in the register of companies.
- (4) In the case referred to in paragraph (3) of this Article, the Croatian National Bank shall combine the decision making procedure regarding the authorisation for merger by formation with the authorisation procedure.
- (5) The provisions of this Article shall apply *mutatis mutandis* to the division of credit unions.

XI WINDING-UP AND BANKRUPTCY OF CREDIT UNIONS

Regular winding-up of credit union

Article 68

- (1) The credit union's general meeting may adopt a decision on the dissolution of the credit union.
- (2) During the winding-up proceedings the credit union shall be subject to the same regulations as prior to the start of winding-up, unless otherwise provided for in the provisions of this Act or from the purposes of winding up.
- (3) During the winding-up proceedings the credit union shall not conclude new or increase the scope of or renew the existing deposit contracts or loan agreements.
- (4) The assets remaining after liabilities have been paid shall be distributed among the credit union members proportionate to the size of their membership shares.
- (5) The provisions of regulations governing the winding-up of banks shall apply to regular winding-up of credit unions unless otherwise provided for in this Act.

Restrictions on activities

Article 69

- (1) The credit union's management board shall notify the Croatian National Bank of the decision referred to in Article 68, paragraph (1) of this Act without delay, at the latest on the first working day following the adoption of the decision.
- (2) During the winding-up proceedings, credit unions may only carry out activities related to winding-up proceedings and notify the Croatian National Bank thereof, at least once a year.

Compulsory winding-up of credit union

Article 70

(1) The Croatian National Bank shall adopt a decision to initiate compulsory winding-up where:

- 1) the credit union's authorisation has been revoked;
- 2) the credit union's authorisation lapsed and the general meeting failed to adopt the decision on the winding-up of the credit union within three months of receipt of the decision referred to in Article 34, paragraph (2) of this Act.

(2) The Croatian National Bank shall adopt the decision referred to in paragraph (1) of this Article within eight days of the date when one of the reasons referred to in paragraph (1) of this Article arose.

Liquidator

Article 71

The Croatian National Bank shall appoint a liquidator by adopting a decision to initiate compulsory winding-up proceedings and shall lay down the type and the scope of activities carried out by the liquidator.

Grounds for bankruptcy

Article 72

Where the liquidators establish that the credit union's assets are insufficient to settle the claims of all credit union's creditors, they shall without delay notify the Croatian National Bank thereof and submit a request to open bankruptcy proceedings.

Application for the provisions on bankruptcy proceedings

Article 73

The provisions of the regulation governing the bankruptcy of banks shall apply *mutatis mutandis* to bankruptcy proceedings of credit unions, unless otherwise provided for in this Act.

Request to open bankruptcy proceedings

Article 74

The request to open bankruptcy proceedings of a credit union may be submitted by its creditors, the credit union or the Croatian National Bank.

XII PENALTY PROVISIONS
Misdemeanours of credit unions
Article 75

(1) A credit union shall be fined between HRK 20,000 and HRK 150,000 for misdemeanour:

- 1) if it fails to carry out its activities contrary to the provisions of Article 3 of this Act;
- 2) if it adopts the approval for joining the credit union contrary to the provisions of Article 10 of this Act;
- 3) if it fails to keep a record of credit union members contrary to the provisions of Article 12 of this Act;
- 4) if it fails to apply equal requirements and criteria for all credit union members in accordance with the provisions of Article 13, paragraph (1) of this Act;
- 5) if it fails to lay down or disclose the effective lending rate in accordance with the provisions of Article 13, paragraph (2) of this Act or lays it down or discloses it contrary to the regulation adopted pursuant to Article 13, paragraph (3) of this Act;
- 6) publishes information contrary to the provision of Article 13, paragraph (4) of this Act;
- 7) fails to meet the requirement referred to in Article 16, paragraph (1) of this Act;
- 8) breaches the provisions on the employment status of management board members referred to in Article 21 of this Act;
- 9) if its supervisory board is composed contrary to provisions of Article 24, paragraphs (1), (2) and (3) of this Act;
- 10) if it acts contrary to the provisions of Article 37 of this Act;
- 11) if it acts contrary to the provision on the solvency ratio referred to in Article 38, paragraph (2) of this Act;
- 12) if it fails to act in accordance with the provisions of Article 39, paragraph (2) of this Act;
- 13) if it fails to submit reports in accordance with regulations adopted under Article 40 of this Act;
- 14) if it does not manage its liquidity in accordance with Article 41 of this Act;
- 15) if it concludes a legal arrangement that would cause or increase the credit union's exposure referred to in Article 42, paragraphs (3) and (4) of this Act;
- 16) if it fails to assess credit risk contrary to the provisions of Article 43 of this Act;
- 17) if it acts contrary to the provisions of Article 44 of this Act;
- 18) if it acts contrary to the provisions on limits on investments referred to in Article 45 of this Act;
- 19) if it keeps business books, prepares bookkeeping reports evaluates bookkeeping entries, follows the chart of accounts or prepares financial statements contrary to the provisions of Article 46 of this Act or contrary to the regulations adopted under Article 47, paragraph (2) of this Act;
- 20) fails to enable authorised persons to carry out oversight in the manner laid down in the provisions of Article 54 of this Act;

21) fails to report to the Croatian National Bank on facts and circumstances referred to in article 62, paragraph (1) and (2) and Article 63 of this Act;

22) enters into an arrangement contrary to Article 65, paragraph (2) of this Act;

23) fails to submit the decision to the Ministry of Finance and the Croatian National Bank in accordance with the provisions of Article 78, paragraph (2) of this Act;

24) fails to submit to the Ministry of Finance and the Croatian National Bank the reports referred to in Article 79 of this Act.

(2) A responsible person of the credit union shall be fined between HRK 5,000.00 and HRK 25,000.00 for the misdemeanour referred to in paragraph (1) of this Article.

Article 75a

(1) A savings and loan cooperative shall be fined between HRK 10,000.00 and HRK 200,000.00 for a misdemeanour:

1) if during the winding-up proceedings it enters into transactions contrary to the provisions of this Act;

2) it fails to enable oversight to authorised officers of the Ministry of Finance in accordance with the provisions of this Act and subordinate legislation to be adopted pursuant to this Act;

3) if during the winding-up proceedings it fails to notify the Ministry of Finance of the activities referred to in Article 85b, paragraph (3) of this Act;

4) if during the winding-up proceedings it fails to notify the Croatian National Bank in accordance with Article 85b, paragraph (4) of this Act.

(2) A liquidator of a savings and loan cooperative undergoing winding-up proceedings shall be fined between HRK 5,000.00 and HRK 30,000.00 for the misdemeanour referred to in paragraph (1) of this Article.

Misdemeanours of management board members

Article 76

A credit union's management board member shall be fined between HRK 5,000.00 and HRK HRK 25,000.00 for misdemeanour:

1) if he/she acts contrary to the provisions of Article 16 of this Act;

2) if he/she acts contrary to the provisions of Article 22 of this Act;

3) if he/she fails to notify the credit union's supervisory board in accordance with the provisions of Article 23 of this Act;

4) if he/she fails to notify the Croatian National Bank in accordance with the provisions of Article 62 of this Act.

Misdemeanours by other persons

Article 77

(1) An association of credit unions shall be fined between HRK 20,000.00 and HRK 50,000.00 for misdemeanour if it fails to act in accordance with the provisions of Article 65, paragraph (3) of this Act.

(2) A responsible person of the association of credit unions shall be fined between HRK 5,000.00 and HRK 25,000.00 and for the misdemeanour referred to in paragraph (1) of this Article.

Limitation period

Article 77a

(1) Misdemeanour proceedings provided for in this Act may not be initiated after the expiry of three years from the date on which the misdemeanour was committed.

(2) Any action taken by the Croatian National Bank for the purpose of proceedings relating to the person who committed the misdemeanour shall interrupt the limitation period. The limitation period shall restart after each interruption, but the misdemeanour proceedings may in no case be initiated following the expiry of twice the limitation period laid down in paragraph (1) of this Article.

XII TRANSITIONAL AND FINAL PROVISIONS

Deciding on transformation

Article 78

(1) The general meeting of the savings and loan cooperative authorised and entered in the register of companies on the date of entry into force of this Act shall by 30 April 2007 adopt a decision to:

- continue operating as a credit union and harmonise its bylaws, business and operation with the provisions of this Act within the prescribed time limit; or
- be transformed to a savings bank and harmonise its bylaws, business and operation with the provisions of this Act; or
- dissolve the savings and loan cooperative and initiate winding-up proceedings.

(2) The decision referred to in paragraph (1) of this Article shall be adopted by a three-quarters majority of votes of members present at the general meeting and submitted to the Ministry of Finance and the Croatian National Bank by 15 May 2007 at the latest.

Reporting

Article 79

(1) The savings and loan cooperative referred to in Article 78, paragraph (1) of this Act shall pending the authorisation to operate as a credit union or savings bank, submit to the Ministry of Finance and the Croatian National Bank quarterly financial statements.

(2) The Croatian National Bank shall lay down the form and content of the financial statements referred to in paragraph (1) of this Article and the time limits for their submission.

Harmonisation **Article 80**

(1) In the case referred to in Article 78, paragraph (1), sub-paragraph (1) of this Act, savings and loan cooperatives shall harmonise the following by 31 December 2007:

- 1) their firm name in accordance with the provisions of Article 2, paragraph (3) of this Act;
- 2) their activities with the provisions of Article 3 of this Act;
- 3) their Articles of Association with the provisions of Article 6 of this Act;
- 4) their initial capital with the provisions of Article 7 of this Act;
- 5) the credit union members in accordance with Article 9 of this Act;
- 6) the register of credit union members in accordance with the provisions of Article 12 of this Act;
- 7) the management board in accordance with the provisions of Article 18 of this Act;
- 8) the supervisory board in accordance with the provisions of Article 25, paragraph (1) of this Act;
- 9) their operation with other provisions of this Act.

(2) The member of a savings and loan cooperative who do not meet the criteria for credit union members shall have the right to be paid out their share in the savings and loan cooperative.

(3) The savings and loan cooperative shall pay out the amount of the share in the savings and loan cooperative to members referred to in paragraph (2) of this Article by the date of submission of the application for decision on authorisation in accordance with the Articles of Association and the conditions for the operation of the savings and loan cooperative.

(4) The savings and loan cooperative referred to in paragraph (1) of this Article shall prior to the expiry of the time limit referred to in paragraph (1) of this Article submit to the Croatian National Bank the application for decision on authorisation to which it shall enclose:

- 1) the credit union's Articles of Association in the form of a notarial deed;
- 2) the business plan for the first three years of business, including an explanation of the reasons and objectives for the continuation of operations, projections of the balance sheet and profit and loss account, description of organisational and personnel structure, technical infrastructure and the accounting policy of the credit union;
- 3) a list of credit union members including their personal details and data on the amount of membership share of individual credit union members;
- 4) candidates proposed to the management board and a list of supervisory board members;
- 5) a certified auditor's report on the examination of the financial statements for 2006 and on their opinion as to whether the disclosures therein are true and objective;
- 6) the last two quarterly reports referred to in Article 79 of this Act;
- 7) the report on harmonisation in accordance with the provisions of paragraph (1) of this Article.

(5) Where it arises from the report referred to in paragraph (4), item (7) of this Article and enclosed documents that the savings and loan cooperative complies with the provisions of this Act, the Croatian National Bank shall grant the authorisation in accordance with the provisions of Article 31 of this Act.

(6) Where the Croatian National Bank refuses the savings and loan cooperative's application for authorisation, the Croatian National Bank shall adopt a decision to initiate compulsory winding-up proceedings.

(7) The Croatian National Bank shall within six months of receipt of the complete application referred to in paragraph (4) of this Article decide on the application and adopt an appropriate decision.

(8) Where the application referred to in paragraph (4) of this Act incomplete, the Croatian National Bank shall set a time limit for the savings and loan cooperative to supplement the application. The final deadline for adoption of the decision referred to in paragraph (7) of this Article shall not be longer than nine months from the date of receipt of the application.

(9) When the savings and loan cooperative's application for authorisation as a savings bank has been refused in accordance with the provisions of this Act and the Banking Act, the savings and loan cooperative may within 60 days of the date of refusal of the application adopt a decision to operate as a credit union and submit a report and the application in accordance with the provisions of paragraph (4) of this Article or adopt a decision on winding-up.

(10) The provisions of Article 78 of paragraph (2) of this Act shall apply *mutatis mutandis* to the adoption of the decision referred to in paragraph (9) of this Article.

(11) The savings and loan cooperative authorised as a credit union shall apply for the entry of the change in the register of companies in accordance with Article 8 of this Act and shall continue operating as the same legal person.

Transformation to a savings bank

Article 81

(1) The savings and loan cooperative referred to in Article 78, paragraph (1) of this Act which adopted a decision on transformation to a savings bank shall submit to the Croatian National Bank an application for authorisation as a savings bank in accordance with the provisions of this Act and the Banking Act.

(2) The savings and loan cooperative shall submit the application referred to in paragraph (1) of this Article by 1 March 2008 at the latest.

(3) The provisions of Article 33, Article 34, paragraphs (1) and (2) and Articles 35 to 37 of the Banking Act shall apply to the authorisation procedure.

(4) The savings and loan cooperative shall enclose to the application referred to in paragraph (1) of this Article a certified auditor's report on the examination of the reality and objectiveness of financial statements for 2006.

(5) After it obtains the authorisation as a savings bank, the savings and loan cooperative shall submit an application for entry of the transformation in the register of companies.

(6) The application for entry of the transformation in the register of companies shall be accompanied by:

- 1) the decision on transformation;

- 2) the names, personal identification numbers and domicile of management and supervisory board members of the savings bank.
- (7) The decision on transformation shall contain:
- 1) the firm name of the savings and loan cooperative and the firm name of the savings bank's joint stock company;
 - 2) the amount of the initial capital and the nominal amount of shares;
 - 3) the Articles of Association of the savings bank's joint stock company;
 - 4) the names and surnames of management and supervisory board members of the savings bank,
 - 5) the names of cooperative members who voted for the transformation.
- (8) The decision on transformation shall specify the persons laying claim to the subscription of shares.
- (9) The shares shall be paid up in cash, in the legal tender, to the account of the savings banks with the authorised financial institution in the Republic of Croatia, except for shares related to the replacement of the shares in the savings and loan cooperative.
- (10) The shares in the savings and loan cooperative of cooperative members who are entitled to savings bank's shares shall be replaced by the shares in the value equal to their respective shares in the savings and loan cooperative.
- (11) The nominal amount of shares must be fully paid-up before the entry of the transformation in the register of companies.
- (12) Upon the entry of the transformation in the register of companies the savings and loan cooperative shall continue to operate as a joint stock company, a savings bank, and the function of the manager of the savings and loan cooperative and members of the supervisory board shall expire, unless otherwise provided for in the decision on transformation.
- (13) A savings and loan cooperative undergoing winding-up or bankruptcy proceedings cannot be transformed to a savings bank.

Rights and obligations of members in the process of transformation to a savings bank

Article 82

- (1) The members of a savings and loan cooperative which adopted a decision to transform to a savings bank shall act freely when deciding whether to become shareholders of the savings bank.
- (2) The cooperative members of the savings and loan cooperative who wish to become shareholders of the savings bank shall provide a statement to that effect, authenticated by a public notary by 1 May 2007.
- (3) The members of the savings and loan cooperative who do not wish to become shareholders of the savings bank or fail to provide a statement within the time limit referred to in paragraph (2) of this Article shall not be entitled to shares of the savings bank.
- (4) The savings and loan cooperative shall, in accordance with the Articles of Association and terms and conditions of the savings and loan cooperative, pay out the amount of the share in the savings and loan cooperative to the members referred to in paragraph (3) of this Article within 60 days of the expiry of the time limit referred to in paragraph (2) of this Article.

Lapsing of authorisation granted by the Ministry of Finance
Article 83

(1) Where the savings and loan cooperative fails to adopt the decision referred to in Article 78, paragraph (1) of this Act or fails to deliver the decision to the Ministry of Finance and the Croatian National Bank in accordance with the provisions of Article 78, paragraph (2) of this Act, or where it fails to submit the report on harmonisation in accordance with the provisions of Article 80 of this Act or fails to submit an application for authorisation as a savings banks in accordance with the provisions of Article 81 of this Act, the authorisation granted by the Ministry of Finance pursuant to the Savings and Loan Cooperatives Act (Official Gazette 84/2002) shall lapse.

(2) In the case referred to in paragraph (1) of this Article, the Ministry of Finance shall adopt a decision to initiate compulsory winding-up proceedings.

(3) The Ministry of Finance shall adopt a decision referred to in paragraph (2) of this Article within 30 days of the date of occurrence of the reason referred to in paragraph (1) of this Article arose.

(4) The winding-up of the savings and loan cooperative initiated on the basis of the decision referred to in paragraph (2) of this Article shall be carried out in accordance with the provisions of the Savings and Loan Cooperatives Act (Official Gazette 84/2002).

Procedures regarding the arrangements in force
Article 84

Loan agreements, deposit contracts and other legal transactions related to any form of financing of persons not members of a credit union or not meeting the criteria for credit union members in accordance with the terms and requirements laid down in the credit union's Articles of Association and the provisions of Article 9 of this Act and entered into prior the entry into force of this Act shall remain in force until the expiry of the rights and obligations arising from these arrangements and shall not be renewed.

Procedures
Article 85

(1) All procedures for authorisation initiated prior to the entry into force of this Act shall be completed in accordance with the provisions of this Act.

(2) The Ministry of Finance shall deliver all received applications for authorisation to the Croatian National Bank within 15 days of the entry into force of this Act.

(3) The bankruptcy and winding-up proceedings against savings and loan cooperative initiated in accordance with the provisions of the Savings and Loan Cooperatives Act (Official Gazette 84/2002) shall be completed in accordance with the provisions of that Act.

(4) The Ministry of Finance is authorised for the oversight of operations of the savings and loan cooperative authorisation as a credit union in accordance with the provisions of this Act or transformation to a savings bank pursuant to the authorisation for a savings bank in accordance with the provisions of this Act and the laws governing the operation of banks.

(5) The provisions of this Act governing the oversight of credit unions shall apply *mutatis mutandis* to the oversight exercised by the Ministry of Finance of the operation of savings and loan cooperatives.

Oversight of savings and loan cooperatives in winding-up proceedings

Article 85a

(1) The Ministry of Finance is authorised for the oversight savings and loan cooperatives in winding-up proceedings in accordance with the provisions of this Act, other laws and regulations adopted under this Act until the completion of winding-up proceedings.

(2) The oversight of the operation of savings and loan cooperatives undergoing winding-up proceedings shall be exercised by the officers of the Ministry of Finance pursuant to the authorisation of the Minister of Finance.

(3) The Minister of Finance shall adopt an ordinance laying down the oversight of savings and loan cooperatives undergoing winding up within 30 days of the day of entry into force of this Act.

(4) By way of derogation from the provisions of this Article, the oversight of savings and loan cooperatives undergoing winding-up proceedings initiated by the decision of the Croatian National Bank in accordance with the provisions of Article 80, paragraph (6) of this Act shall be exercised by the Croatian National Bank.

Article 85b

(1) The savings and loan cooperative undergoing winding-up proceedings shall not accept new savings deposits, renew time deposits that are due and payable, grant new loans, renew loans that are due and payable, conduct currency exchange transactions or enter into other transactions, except those required for converting the liquidation estate into cash for the purpose of settling the liabilities of the savings and loan cooperative undergoing winding-up proceedings.

(2) During the winding-up proceedings the savings and loan cooperative undergoing winding-up proceedings shall report to the Ministry of Finance on the progress of winding-up proceedings at least once a year.

Article 85c

(1) Where the liquidator establishes that the assets of the savings and loan cooperative are insufficient to settle the claims of all its creditors, the liquidator shall without delay notify the Ministry of Finance thereof and submit a request to open bankruptcy proceedings.

(2) The provisions of the regulation governing bankruptcy shall apply to bankruptcy proceedings of savings and loan cooperatives.

Adopting regulations

Article 86

(1) The Croatian National Bank shall adopt regulations pursuant to the powers under this Act within six months of the entry into force of this Act, and the regulation referred to in Article 79, paragraph (2) of this Act by 31 December 2007.

(2) The regulations adopted pursuant to the Savings and Loan Cooperatives Act (Official Gazette 84/2002) shall apply until the entry into force of the regulations referred to in paragraph (1) of this Article if not contrary to this Act.

Regulations that shall cease to have effect

Article 87

The Savings and Loan Cooperatives Act (Official Gazette 84/2002) shall cease to have effect on the date of entry into force of this Act.

Entry into force

Article 88

This Act shall be published in the Official Gazette and shall enter into force on 1 January 2007.

PUBLICATION NOTE:

(1) The Credit Unions Act (Official Gazette 141-3187/2006) published on 27 December 2006, in force since 1 January 2007.

PUBLICATION NOTE:

(2) The Act on Amendments to the Credit Unions Act (Official Gazette 25-538/2009) published on 25 February 2009, in force since 5 March 2009.

PUBLICATION NOTE:

(3) The Act on Amendments to the Credit Unions Act (Official Gazette 90-1928/2011) published on 2 August 2011, in force since 10 August 2011.