



YEARS OF
THE CROATIAN
NATIONAL
BANK

Basics and objectives

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This page contains information about the principles of supervision of credit institutions and credit unions and the purpose of supervision. Also, this text describes the regulatory framework in accordance with which credit institutions and credit unions operate in Croatia and the manner in which the CNB exercises supervision.

The banking system plays a key role in financial intermediation, in particular in the processes of savings mobilisation and redistribution, as well as in payment systems. The banking system has a great impact on the economy. The negative effect which weaknesses in this system may have on the health and efficiency of the real sector is particularly expressed. For this reason, the stability of the banking system is of particular public interest.

In addition, only banks are authorised to take deposits and other forms of repayable funds from the public. For depositors' protection, a certain amount of these deposits is legally insured and is paid from the funds of the State Agency for Deposit Insurance and Bank Resolution in the event of deposit institution bankruptcy. This payment, unless reimbursed from the bankruptcy estate of the bankrupt institution, is a considerable burden for the public debt. For this reason, it is important to ensure that the institution stops operating before it accumulates losses that are significantly higher than its capital.

Both mentioned objectives – maintaining the stability of the system as a whole and removing non-solid institutions from the market at an early stage – are achieved by prescribing special rules which must be complied by all banking institutions, i.e. all institutions that receive deposits from the public and grant loans from these funds. These rules cover all key segments of operation: authorisation, ownership, structure and organisation, institution's governance arrangements, reporting to supervisory authorities, risk management and a sufficient quantity and quality of capital to cover these risks.

Supervision means verification of whether a bank operates in accordance with these rules. Therefore, the main objective of supervision is to maintain confidence in the banking system, promote and safeguard its safety and stability and remove institutions that operate contrary to these principles from the market. This reduces the risk from loss for depositors and other creditors of a bank and the society as a whole.

Organisation of supervision in Croatia

The supervision of [credit institutions](#) and [credit unions](#) in Croatia is exercised by the CNB. The function of supervision and oversight of credit institutions and credit unions is organised within the Prudential Regulation and Methodology Area, the Prudential Supervision Area, the Expert Supervision and Oversight Area and the Office for Coordination of Prudential Supervision, Oversight and Risk Management Activities.

The CNB's supervision is organised in accordance with requirements which arise from Croatia's joining the ERM II and the banking union through close cooperation within the Single Supervisory Mechanism (SSM), challenges in the macroeconomic environment, changes in bank business models and need to optimise decision-making processes by establishing organisational units with higher-level responsibility.

Its main activities include:

- issuing and withdrawing of [authorisations and approvals](#) in accordance with laws governing the operation of credit institutions and credit unions,
- monitoring and preparing of legislation related to the operation of credit institutions, and
- performance of activities of supervision and oversight of credit institutions and credit unions.

In Croatia, credit institutions may be established as banks, savings banks and housing savings banks. Credit institution is a common name for companies whose activity is the taking of deposits or other repayable funds from the public and the granting of credits for own account.

The CNB exercises supervision of the following entities:

- credit institutions (banks, savings banks and housing savings banks) which have obtained the authorisation from the CNB and their branches outside the Republic of Croatia,
- branches of credit institutions from another Member State (a 'Member State' means a Member State of the European Union and the state signatory to the Agreement on the European Economic Area),
- credit institutions of the Member States in respect of their direct provision of services within the territory of the Republic of Croatia,
- branches of credit institutions from third countries ('third country' means a foreign country that is not a Member State) which have obtained the authorisation from the CNB, and
- credit unions which have obtained the authorisation from the CNB.

Regulatory framework and exercising supervision

With regard to the specificity of their operation and the interest of the government that they operate in a stable manner and not take too much risk because they operate with a large amount of the funds of others, credit institutions are subject to a special and complex [regulatory framework](#), stricter than for the other segments of the economy.

The majority of the quantitative requirements that are set before credit institutions is determined in the Regulation (EU) No 575/2013 (Capital Requirements Regulation), including the basic supervisory rule, the rule on capital adequacy, which prescribes the minimum of own funds that must be readily available to credit institutions in relation to risks they take in their operation. Other quantitative and qualitative requirements are governed by the Credit Institutions Act (by which Directive 2013/36/EU, the Capital Requirements Directive is transposed). Therefore, the CNB verifies whether credit institutions operate in accordance with the set rules and standards by:

- exercising supervision by collecting and analysing reports and information, ongoing monitoring of operation of credit institutions,
- carrying out on-site examinations of credit institutions' operation,
- imposing supervisory measures, and
- issuing opinions, authorisations and approvals and assessing credit institutions.

In the course of supervision, the CNB verifies the legality of the credit institution's operation and evaluates risks in the operation of credit institutions. On the basis of the exercised supervision the CNB determines whether the organisational structure, strategies, policies, processes and procedures implemented by the credit institution and the own funds and liquidity held by it ensure an adequate management and coverage of its risks. If illegalities, weaknesses or deficiencies in operation are identified, the CNB orders credit institutions to implement supervisory measures, with the aim to eliminate those illegalities or deficiencies.

In accordance with its competence under law, the CNB cooperates and exchanges information with other supervisors and competent authorities, both home and foreign, and enters into [cooperation agreements](#).

The regulatory framework for credit unions is determined by the Credit Unions Act, which lays down conditions for the establishment and operation of credit unions (to a much lesser extent than for credit

institutions), and oversight over credit unions is exercised in a similar manner as it is exercised over credit institutions.

Supervisory priorities in 2019/2020

The EDINA supervisory priorities of the CNB in 2019 include:

E – convergence to the euro area: the adjustment of the regulatory framework to establish a close cooperation between the CNB and the ECB, the adjustment of the organisation of the CNB's supervisory function for entry into the mechanism of close cooperation and the provision of support to the comprehensive assessment (CA) of credit institutions by the ECB;

D – digitalisation of credit institution operations: the overview of initiatives to digitalise operations, the assessment of their impact on business models and risk profile and the assessment of the preparedness of internal management and risk management for changes brought about by digitalisation;

I – interest rate risk in the banking book (IRRBB): the assessment of models used by credit institutions to manage the IRRBB and monitoring of its level due to the transformation of maturities in credit institution balance sheets;

N – non-performing exposures: the credit institutions' compliance with new regulatory requirements on management of non-performing exposures and monitoring of their levels, especially in the context of a rise in unsecured general-purpose cash loans to households;

A – anti-money laundering and countering the financing of terrorism, (AML/CFT): the improvement of supervisory mechanisms in order to prevent the misuse of the financial system for money laundering and financing of terrorism and the continued awareness raising in the system on risks of money laundering and financing of terrorism.