

Pursuant to Article 90, paragraph (2) and Article 174 paragraph (3) of the Credit Institutions Act (Official Gazette 117/2008), and Article 43, paragraph (2), item (9) of the Croatian National Bank Act (Official Gazette 75/2008), the Governor of the Croatian National Bank hereby issues the

Decision
on detailed conditions for the establishment, operation and dissolution of
branches of third-country credit institutions in the Republic of Croatia

General provisions

Article 1

(1) This Decision governs in detail the conditions for the establishment, operation and dissolution of a branch of a third-country credit institution in the Republic of Croatia (hereinafter: branch), and the manner of application of the provisions of Article 90, paragraph (1) of the Credit Institutions Act to the branch.

(2) A third-country credit institution (hereinafter: founder) intending to establish a branch within the territory of the Republic of Croatia shall obtain authorisation from the Croatian National Bank to establish a branch.

(3) A founder may only establish one branch within the territory of the Republic of Croatia. If the founder wishes to operate in more than one location within the territory of the Republic of Croatia, it may open one or more organisational units.

(4) Prior to adopting a decision on an application for authorisation to establish a branch, the Croatian National Bank shall take all actions necessary to conclude a cooperation agreement regarding supervision with the authority competent for the supervision of the founder in the country where the founder has its registered office.

Directing the business and representation of a branch

Article 2

(1) A branch's business shall be directed and the branch shall be represented by at least two persons appointed by the founder (hereinafter: branch management). One of the members of the branch management shall be appointed as manager. The branch management shall direct the branch's business on its own responsibility.

(2) The branch management shall direct the business of the branch from the territory of the Republic of Croatia.

(3) The founder may authorise a procurator to represent the branch, conclude contracts and perform legal acts in the name and for the account of the branch, which arise from the services for which the branch obtained authorisation from the Croatian National Bank, but he may only do so jointly with at least one member of the branch management.

(4) At least one member of the branch management shall have command of the Croatian language sufficient for performing this function. At least one member of the branch management shall have his/her domicile or normal place of residence in the Republic of Croatia.

(5) Members of the branch management shall direct the business of the branch on a full-time basis and shall be employed with the founder.

Branch management

Article 3

(1) Only a person who has obtained prior approval from the Croatian National Bank to perform the function of a member of the branch management may be appointed as member of the branch management.

(2) An application for prior approval referred to in paragraph (1) of this Article shall be submitted by the founder.

(3) Where the founder wishes to reappoint a person who has already obtained approval to perform the function of a member of the management, he/she shall once again undergo the procedure laid down by the Credit Institutions Act and regulations adopted thereunder.

(4) Members of the branch management shall meet all the requirements for members of a credit institution's management board laid down by the Credit Institutions Act and regulations adopted thereunder.

(5) The provisions of the Credit Institutions Act and regulations adopted thereunder, relating to the granting of prior approval for a member of a credit institution's management board shall apply *mutatis mutandis* to the members of the branch management. The provisions of the Credit Institutions Act relating to the granting of approval for the chairperson of a credit institution's management board shall apply *mutatis mutandis* to the manager of a branch.

(6) Branch management shall be appointed for a period not exceeding five years, but the founder may remove from office a member of the branch management before the expiry of the specified period.

(7) The founder shall submit the application for prior approval referred to in paragraph (2) of this Article at least three months before the expiry of the term of office of an individual member of the management.

(8) In the cases where seats on the branch management are vacated, or where members of the branch management are incapable of performing their functions, the founder shall, within eight days of the date of establishing such a fact, without the approval of the Croatian National Bank, appoint an interim member of the branch management for a period not longer than three months, and shall without delay notify the Croatian National Bank thereof.

(9) Within thirty days of the appointment of the interim member of the branch management referred to in paragraph (8) of this Article, the founder shall submit an application to the Croatian National Bank for prior approval referred to in paragraph (2) of this Article for the appointment of a new member of the branch management.

Duties and responsibilities of branch management

Article 4

(1) Branch management shall ensure that the branch operates in compliance with:

- 1) professional rules and standards;
- 2) the Credit institutions Act and regulations adopted thereunder; and
- 3) other regulations governing the operations of credit institutions.

(2) The branch management shall ensure the implementation of supervisory measures imposed by the Croatian National Bank and other supervisory authorities.

Notification to the founder and the Croatian National Bank

Article 5

(1) Branch management shall, without delay and in writing, notify the founder's management board and the Croatian National Bank where:

- 1) reasons arise for expiry or withdrawal of authorisation to establish a branch or for withdrawal of authorisation to provide a particular financial service;
- 2) the financial position of the branch changes to the extent that the branch's capital adequacy ratio falls below the rate prescribed by Article 8 of this Decision; or
- 3) the branch exceeds the limit on exposure to a single person due to the reduction in its own funds or due to circumstances beyond its control;

(2) The branch management shall, without delay and in writing, notify the founder's management board of any measures imposed by the Croatian National Bank and other supervisory authorities within the scope of supervision or oversight of the branch.

Risk management

Article 6

The provisions of the Credit Institutions Act and regulations adopted thereunder relating to risk management shall apply *mutatis mutandis* to branches.

Capital of a branch

Article 7

(1) The founder shall provide funds for the establishment of a branch to a minimum amount of HRK 40 million.

(2) The funds referred to in paragraph (1) of this Article shall be deemed to be own funds of the branch within the implementation of the Credit Institutions Act and regulations adopted thereunder.

(3) The founder shall notify the Croatian National Bank in advance of any intended decrease in own funds, provided that the own funds in no case fall below HRK 40 million.

Capital Adequacy

Article 8

(1) In order to ensure safe and stable operations, a branch shall maintain an adequate capital adequacy ratio.

(2) The capital adequacy ratio shall amount to at least 12 percent.

(3) The capital adequacy ratio shall be calculated in the manner laid down in the Decision on the Capital Adequacy of Credit Institutions.

(4) By way of derogation from paragraph (3) of this Article, a branch shall not be required to calculate the capital requirements for its claims against or contingent liabilities to the founder.

Large exposures

Article 9

(1) The provisions on maximum permitted exposure limits, provisions on total exposure limits and provisions on required approval of the supervisory board before concluding a legal arrangement due to which the total exposure of a branch could result in a large exposure, in accordance with the Credit Institutions Act, shall not apply to the exposures of a branch to the founder and persons connected therewith.

(2) The total exposure of a branch to the founder and persons connected therewith may not exceed the total liabilities of the branch to the founder and persons connected therewith, including the funds referred to in Article 7 paragraph (1) of this Decision.

(3) Approval of the founder shall be required before concluding a legal arrangement that could result in the large exposure of a branch to a single person or group of connected persons. Approval of the founder shall also be required before concluding a legal arrangement as a result of which the large exposure of a branch to a single person or group of connected persons would increase so as to become equal to the branch's own funds or to exceed 15 percent or 20 percent of the branch's own funds.

Outsourcing and banking secrecy

Article 10

The provisions of the Credit Institutions Act and regulations adopted thereunder relating to outsourcing and the obligation of banking secrecy shall apply to branches.

Business books and financial statements

Article 11

(1) A branch shall keep business books, other business documentation and records, evaluate assets and liabilities and prepare, check and store bookkeeping documents in accordance with the regulations of the Republic of Croatia and professional standards.

(2) A branch shall prepare and disclose annual financial statements and annual business reports in the Croatian language, in accordance with the regulations of the Republic of Croatia.

(3) By way of derogation from paragraph (2) of this Article, a branch may prepare annual financial statements and annual business reports in accordance with the applicable regulations of the country where the founder of the branch has its registered office, unless they deviate significantly from the regulations of the Republic of Croatia.

Public disclosure

Article 12

The provisions of the Credit Institutions Act and regulations adopted thereunder relating to public disclosure shall apply *mutatis mutandis* to branches.

Audit of annual financial statements

Article 13

(1) An audit of the annual financial statements referred to in Article 11, paragraph (2) of this Decision shall be carried out by a certified auditor in accordance with the provisions of the Credit Institutions Act and regulations adopted thereunder, and in accordance with regulations governing accounting and auditing in the Republic of Croatia.

(2) A branch shall, within 15 days of receipt of an audit report and at the latest within four months following the expiry of the business year to which the annual financial statements relate, deliver to the Croatian National Bank the audit report including the financial statements subject to audit and shall disclose them on its web site.

(3) In addition to the assessment of financial statements for the purposes of the Croatian National Bank, a branch shall obtain an audit firm's assessment of:

- 1) compliance with risk management rules;
- 2) the operations of the risk control function, the compliance function and the internal audit function;
- 3) the state of the information system and the adequacy of information system management; and
- 4) the regularity, accuracy and completeness of the reports delivered to the Croatian National Bank.

(4) The branch shall deliver the assessment referred to in paragraph (3) of this Article to the Croatian National Bank at the latest within four months following the expiry of a business year.

Internal audit

Article 14

(1) The founder shall ensure the carrying out of the internal audit function within a branch, whose activities shall be carried out in accordance with the regulations of the Republic of Croatia, as well as with the professional rules, principles and standards.

(2) In order to meet the obligation referred to in paragraph (1) of this Article, the founder shall appoint a person who is employed with it on a full-time basis and who has attained the title of auditor or internal auditor in accordance with the regulations governing audits or in accordance with the rules and programme of a professional organisation competent for professional education of internal auditors.

(3) A branch shall without delay notify the Croatian National Bank of the person appointed to carry out internal audits of the branch's operations, enclosing evidence that the requirement referred to in paragraph (2) of this Article has been met.

(4) The appointed person may not carry out any other activities except internal audit.

(5) The internal audit function shall prepare a report on internal audits which shall be delivered to the branch management and the founder on a quarterly basis, and to the Croatian National Bank on an annual basis.

Supervision of branches and supervisory measures

Article 15

(1) The Croatian National Bank shall exercise supervision of a branch in accordance with the provisions of the Credit Institutions Act, regulations adopted thereunder, other regulations and an agreement concluded with the competent authority of the country where the founder has its registered office.

(2) Where illegalities or irregularities have been identified in the course of the supervision of a branch's operation, the Croatian National Bank shall impose supervisory measures in accordance with the Credit Institutions Act.

(3) The Croatian National Bank shall notify the founder and the authority competent for the supervision of the founder's operation of the findings and measures referred to in paragraph (2) of this Article.

(4) The manager of the branch or the founder shall without delay notify the Croatian National Bank where the competent authority has taken measures against the founder or any of its branches, which could influence the operation of the branch in the Republic of Croatia.

Consumer protection

Article 16

The provisions of the Credit Institutions Act and regulations adopted thereunder relating to consumer protection shall also apply to branches.

Dissolution and reorganisation of branches

Article 17

(1) The provisions of the Credit Institutions Act and regulations adopted thereunder relating to the dissolution and reorganisation of credit institutions shall apply *mutatis mutandis* to branches.

(2) Branch management shall, within fifteen days following the day on which any of the reasons arose for the dissolution of a branch in accordance with Article 89, paragraph (1) of the Credit Institutions Act, or the day when the Croatian National Bank withdrew the authorisation to establish the branch, publish a decision on the dissolution of the branch in the Official Gazette and at least two daily newspapers sold in the entire territory of the Republic of Croatia and shall invite all creditors to lodge their claims.

(3) Where the management of a branch fails to publish the decision on the dissolution of the branch in the manner and within the time limits referred to in paragraph (2) of this Article, the decision on the dissolution of the branch and the invitation to the creditors shall be published by the Croatian National Bank within eight days following the expiry of the period referred to in paragraph (2) of this Article.

(4) The notification of the dissolution of a branch shall be displayed conspicuously at the entrance to the premises of the registered office and on other business premises of the branch.

Transitional and final provisions

Article 18

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

(2) As of the day of entering into force of this Decision, the Decision Concerning the Terms and Conditions for Establishment and Operation of Branch of Foreign Bank in the Republic of Croatia (Official Gazette 61/2004) shall cease to have effect.

No.: 15-020/01-09/ŽR
Zagreb, 2 January 2009

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