

Banking Law

I GENERAL PROVISIONS

General Provision

Article 1

This Law shall regulate the conditions for the establishment and operations of a bank, as well as for the discontinuation and supervision of bank operation.

Banks

Article 2

(1) A bank is a financial institution which has obtained an operating license from the Croatian National Bank and which has been founded as a joint stock company with a head office in the Republic of Croatia.

(2) A bank may not be enrolled in the Register of Companies prior to obtaining an operating license from the Croatian National Bank.

(3) The word "bank" or "a derivative from this word, if it is contained in the name of a company, may be entered in the Register of Companies and used in legal transactions only by a company that has obtained a bank operating license from the Croatian National Bank.

(4) Notwithstanding the provision referred to in paragraph 3 of this Article, the word "bank" or a derivative from this word, if it is contained in the name of a company, may be entered in the Register of Companies and used in legal transactions by another company if permitted by another law.

(5) Under the present Law, an operating license shall be the license referred to in Article 33 of this Law.

Banking Services

Article 3

Banking services are accepting monetary deposits and extending loans and other placements from these resources by a bank, in its own name and for its own account, as well as issuing means of payment in the form of electronic money.

Provision of Banking Services

Article 4

(1) Banking services may be provided by:

- 1) a bank that obtains an authorization from the Croatian National Bank for the provision of such services;
- 2) a bank of a Member State of the European Union referred to in paragraph 1, Article 13 of present Law that in accordance with this Law establishes a branch within the Republic of Croatia or is authorized in accordance with this Law to directly provide banking services within the Republic of Croatia;
- 3) a branch of a foreign bank referred to in paragraph 2, Article 13 of this Law that obtains an authorization from the Croatian National Bank for the provision of such services within the Republic of Croatia.

Ban on Providing Banking Services

Article 5

No person other than the person referred to in Article 4 of this Law may provide banking services, unless otherwise stipulated by another law.

Other Financial Services

Article 6

(1) In addition to banking services, a bank or a branch of a foreign bank may provide other financial services referred to in paragraph 2 of this Article, if it obtains an authorization from the Croatian National Bank for the provision of such services.

(2) Under this Law, other financial services are:

- 1) issuing guarantees or other commitments;
- 2) factoring;
- 3) financial leasing;
- 4) lending, including consumer credits, mortgage credits and financing of commercial transactions (including forfaiting);
- 5) trading in its name and for its account or in its name and for the account of a client:
 - a) in money market instruments and other transferable securities;
 - b) in foreign means of payment, including exchange office operations;
 - c) in financial futures and options;
 - d) in currency and interest rate instruments;
- 6) performing domestic and foreign payment transactions pursuant to special laws;
- 7) collection, analysis and provision of information on the creditworthiness of juridical and natural persons that run a private business;
- 8) intermediation and brokerage in sales of insurance policies, in accordance with the law governing insurance and insurance intermediation and brokerage;
- 9) issuing and administering means of payment;
- 10) safe custody service;
- 11) mediation in the conclusion of loan transactions;

- 12) services in connection with securities, in accordance with the law governing the issuance and trading in securities;
- 13) administering pension or investment funds, in accordance with the law governing pension and investment funds
- 14) advising on capital structure, corporate strategy and the similar matters, as well as the provision of services that relate to the acquisition of shares, equity participation in other companies and other substantial investments;
- 15) other similar services stated in an operating license of a bank.

Ban on Providing Services

Article 7

A bank may not provide any services other than banking services referred to in Article 3 of this Law, other financial services referred to in Article 6 of this Law and ancillary banking services referred to in paragraph 2, Article 91 of this Law.

Participation and Qualifying Holding

Article 8

(1) Under this Law, a person shall be considered to be participating in another juridical person if it owns, on the basis of a direct or indirect investment, 20 percent or more of the capital or voting rights of another juridical person.

(2) Under this Law, a qualifying holding is a direct or indirect investment on the basis of which an investor acquires 10 percent or more of the capital or voting rights of another juridical person or an investment of less than 10 percent if such an investment would allow the investor to exercise the influence on the management of the juridical person in which an investment is made.

Indirect Investment

Article 9

(1) Under this Law, an indirect investment is an investment in the capital of the juridical person or the acquisition of voting rights of the juridical person through a third person.

(2) Under this Law, an indirect owner of shares, equity participation and other rights that assure the participation in the capital or voting rights of the juridical person is:

1. a person for whose account other person (direct owner) has acquired such shares, equity participation or other rights in the juridical person, and/or
2. a person connected with the direct owner of shares, equity participation and other rights in the juridical person.

Dependent and Controlling Company

Article 10

(1) In terms of this Law, a dependent company shall be a juridical person that is controlled by another juridical person – a controlling company.

(2) In terms of this Law, a controlling company shall be a juridical person that owns one or more dependent companies.

(3) Every juridical person that is a dependent company of a dependent company shall be considered to be a dependent company of a controlling company.

(4) In terms of this Law, a controlling company and all of its dependent companies shall constitute a group of connected companies.

(5) Juridical persons between whom there is relationship of control in which it is not possible to establish unambiguously which is a dependent and which a controlling company shall also be considered to be a group of connected companies.

Control

Article 11

(1) In terms of this Law, control shall mean the relationship between a controlling company and a dependent company or the relationship between one natural or juridical person and the other natural or juridical person that results in the same or similar influence that exists in the relationship between a controlling company and a dependent company.

(2) It shall be considered that a controlling company controls a dependent company if it fulfils at least one of the following conditions:

- 1) it has direct or indirect majority participation in its capital or direct or indirect majority of its voting rights;
- 2) it has the right to appoint or remove from office the majority of members of the management or supervisory board;
- 3) it has the right to exercise or exercises a dominant influence;
- 4) it has the right to manage the business and financial policies of the company pursuant to the powers granted by the Articles of Association or an agreement;
- 5) it controls more than 50 percent of voting rights on the basis of an agreement with other owners of voting rights; or
- 6) it has the possibility of directing the majority of votes at the meetings of the management board, supervisory board or the corresponding management body of the company.

Connected Persons

Article 12

(1) Connected persons shall be the persons fulfilling at least one of the following conditions:

- 1) two or more natural or juridical persons that constitute a single risk for the bank because one of them, directly or indirectly, has control over the other or others;
- 2) two or more natural or juridical persons that constitute a single risk for the bank because one of them exercises, directly or indirectly, a significant influence on the other or others;
- 3) two or more natural or juridical persons between whom there is no relationship of control referred to in item 1 of this paragraph or a significant influence referred to in item 2 of this paragraph but who are to be regarded as constituting a single risk for the bank because they are so interconnected that there is a large probability that if one of them were to impair or improve its economic and financial position, the other or all of the others would be likely to encounter the same because the loss, profit or creditworthiness is transferred or may be transferred between them; or
- 4) a commissioner or the person for whose account it acts.

(2) Under paragraph 1 of this Article, connected persons shall also be presumed to be the persons mutually connected as:

- 1) close relatives;
- 2) members of the management or supervisory board and close relatives of such persons; or
- 3) persons employed on the basis of work contracts under special terms with the company in which they are employed, as well as close relatives of such persons.

(3) In terms of this Law, close relatives of a specific person shall be:

- 1) the person's spouse or a person with whom he/she cohabits in a long-term domestic community that under the law governing marital union and family relations is equivalent in status to marital union;
- 2) children or adopted children of the person;
- 3) other persons under the guardianship of that person.

(4) All persons connected in at least one way listed in paragraphs 1 and 2 of this Article shall constitute a group of connected persons.

(5) Under this Law, one person shall also be considered to be a group of connected persons referred to in paragraph 4 of this Article.

(6) Under this Law, connected persons, in addition to persons referred to in this Article, shall be considered to be other types of connected companies in accordance with the provisions of the Company Law.

Person of a Member State of the European Union and Foreign Person

Article 13

(1) A person of a Member State of the European Union is a natural person with residence within a Member State of the European Union or a juridical person with a head office within a Member State of the European Union (hereinafter: Member State).

(2) In terms of this Law, a foreign person is a person that has a residence or head office outside the Republic of Croatia or outside a Member State.

II STATUS PROVISIONS

II.1 APPLICATION OF THE PROVISIONS OF THE COMPANY LAW

Application of the Provisions of the Company Law

Article 14

The provisions of the Company Law shall apply to banks, unless stipulated otherwise by this Law.

II.2 SHARE CAPITAL AND THE SHARES OF A BANK

Share Capital of a Bank

Article 15

The minimum amount of share capital required for the establishment of a bank shall be 40 million kuna.

Shares of a Bank

Article 16

(1) The shares of a bank may only be of the nominative type.

(2) The shares shall be fully paid-up in money and before the enrollment in the Register of Companies of the establishment or of an increase in the share capital.

(3) The shares of a bank shall be issued in a non-material form.

Loans and Guarantees for the Acquisition of Shares or Equity Participation

Article 17

(1) A bank may not directly or indirectly extend loans or issue guarantees to juridical persons for the acquisition of its own shares or of shares and equity participation in companies in whose capital it owns 20 percent or more, unless such acquisition of shares or equity participation is to result in the termination of all types of capital linkage between a bank and a pertinent company.

(2) Any other legal arrangements that in their economic purpose are equivalent to a loan shall be considered to be the extension of loan referred to in paragraph 1 of this Article.

(3) By means of an exemption to the provisions referred to in paragraph 1 of this Article, a bank may extend loans or issue loan guarantees to its employees and employees of its dependent companies for the acquisition of its own shares. Total amount of these loans and guarantees may not exceed 10 percent of the share capital of a bank.

Preference Shares of a Bank

Article 18

In its share capital, a bank may not have preference shares exceeding one-fourth of all issued shares.

II.3 SHAREHOLDERS OF A BANK

Ban on the Acquisition of the Shares of a Bank

Article 19

A bank or other financial institution in which another bank owns more than 10 percent of the capital or voting rights may not acquire shares in the latter on the basis of which it would own more than 10 percent of its capital or voting rights.

Approval for the Acquisition of a Qualifying Holding

Article 20

(1) In order to acquire shares of a bank on the basis of which a person directly or indirectly acquires a qualifying holding in a bank (hereinafter: qualified owner), it shall be necessary to obtain a prior approval from the Croatian National Bank (hereinafter: approval for the acquisition of a qualifying holding).

(2) A qualified owner shall obtain a prior approval from the Croatian National Bank for each further acquisition of the shares of a bank on the basis of which it acquires the participation of 20 percent, 33 percent, 50 percent or 75 percent in the voting rights or capital of the bank, or on the basis of which it controls a bank.

(3) The Croatian National Bank may, in the approval referred to in paragraphs 1 and 2 of this Article, determine conditions and set time limits in which they have to be

fulfilled by a qualified owner in order for the approval referred to paragraphs 1 and 2 of this Article to be valid.

(4) If the person that has obtained the approval referred to in paragraphs 1 and 2 of this Article intends to sell or dispose of its shares so that its participation would be reduced below the limit for which it obtained the approval, it shall notify in advance the Croatian National Bank of such.

(5) Before deciding to issue an approval for the acquisition of a qualifying holding or participation referred to in paragraph 2 of this Article, the Croatian National Bank shall notify the competent supervisory authority of the individual Member State if the request for issuing the approval for the acquisition of a qualifying holding has been submitted by any of the following persons:

- 1) a bank entitled to provide banking services in that Member State;
- 2) a controlling or dependent company of the bank referred to in item 1 of this paragraph;
- 3) a person controlled by the same person or persons that control(s) the bank referred to in item 1 of this paragraph.

(6) If the request for issuing the approval for the acquisition of a qualified holding has been filed by a bank of a Member State or a foreign bank, an approval or opinion from the competent supervisory authority of that Member State or the competent supervisory body of the foreign bank shall be enclosed with the request for issuing the approval for the acquisition of a qualifying holding.

Adopting a Decision on the Approval for the Acquisition of a Qualifying Holding Article 21

(1) It shall be necessary to enclose the documents referred to in items 4 and 5, paragraph 1, Article 35 and other documentation as stipulated by the Croatian National Bank with the request for issuing the approval for the acquisition of a qualifying holding.

(2) The Croatian National Bank shall refuse the request for issuing the approval for the acquisition of a qualifying holding, if the information available to it indicate that:

- 1) because of the activities or operations performed by the qualified owner or by person connected thereto, or because of actions taken by the qualified owner or persons connected thereto, the operations of the bank could be endangered due to noncompliance with the rules on risk management;
- 2) because of the activities or operations performed by the qualified owner or persons connected thereto, or because of the manner of connection between such persons, the supervision of the bank could be hindered or substantially more difficult; or
- 3) it would result in a large concentration in the banking system that might limit the freedom of market competition;
- 4) it could adversely influence the implementation of monetary and foreign exchange policy in the Republic of Croatia.

(3) The Croatian National Bank shall also refuse the request for the acquisition of a qualifying holding by a foreign person if, in consideration of the regulations in the

person's country or practice in the person's country, it is likely that exercising supervision in accordance with the provisions of this Law will be hindered or substantially more difficult.

Legal Effects of the Acquisition without Approval

Article 22

(1) If a person acquires shares in contravention of Article 19 and Article 20 of this Law or if it fails to fulfill the conditions referred to in paragraph 3, Article 20 of this Law, it shall have no voting rights deriving from the shares so acquired.

(2) The Croatian National Bank shall adopt a decision on the cancellation of the qualified owner's voting rights, if the qualified owner violates the obligations of a superordinate bank in a banking group referred to in Article 92 of this Law or of a superordinate financial holding in a banking group referred to in paragraph 3, Article 97 of this Law, or if a person referred to in paragraphs 1 and 2, Article 95 of this Law violates the obligations referred to in paragraph 3, Article 95 of this Law, or if the circumstances referred to in paragraphs 2 and 3, Article 21 of this Law arise.

II.4 BANK MANAGEMENT AND SUPERVISORY BOARD

Bank Management Board

Article 23

(1) A bank management board shall comprise at least two members who shall act for and represent the bank. One of the members of the management board shall be appointed chairperson of the management board.

(2) Unless provided otherwise by the Articles of Association, members of the bank management board shall jointly act for and represent the bank.

(3) The bank management board may not authorize a procurator (one or more of them) to act independently for the bank or to independently conclude all contracts and take all legal actions in the name and for the account of the bank that derive from the entire extent of banking and other financial services for which the bank obtained an authorization from the Croatian National Bank and that are enrolled in the Register of Companies or other register.

(4) The conditions to be fulfilled by a person to whom a power of procuration is to be granted, the type of procuration and the manner in which the procuration is to be granted, the extent of powers to be received by the procurator, including limitations with respect to specific actions to be taken by a procurator, shall be defined by the Articles of Association of a bank.

(5) At least one member of the bank management board shall have command of the Croatian language. At least one member of the bank management board shall have the residence within the Republic of Croatia.

Employment Status of the Members of the Management Board

Article 24

(1) The members of the bank management board shall be in an employment relationship with the bank on a permanent and full-time basis.

(2) All special benefits enjoyed by members of the bank management board and other employees of the bank on the basis of an employment contract or other contract with the bank which do not derive from the collective agreement and the law governing the employment status in the Republic of Croatia shall cease to apply on the day a decision on the appointment of the special administration in the bank is adopted.

(3) Any provision in the employment contract or other contract that contravenes paragraph 2 of this Article shall be null and void.

Conditions for Membership in the Bank Management Board

Article 25

(1) A member of the bank management board may be a person who:

- 1) possesses university qualifications;
- 2) has appropriate professional qualifications and possesses the characteristics and experience necessary for managing the operations of a bank;
- 3) has never managed the operations of a company or bank against which the bankruptcy proceedings have been initiated or whose operating license has been revoked;
- 4) is not a member of the bank supervisory board or the supervisory board of any bank enrolled in the Register of Companies in the Republic of Croatia;
- 5) a person against whose property the bankruptcy proceedings have not been initiated;
- 6) fulfills the conditions for membership in the bank management board stipulated by the Company Law.
- 7) is not a member of the management board or a procurator of another company.

(2) Professional qualifications and experience referred to in item 2, paragraph 1 of this Article shall be deemed to have been fulfilled if the person has at least three years of experience in managing the operations of a bank or six years of experience in managing the operations comparable to bank activities, or any other comparable operations.

(3) By means of an exemption to the provisions referred to in item 3, paragraph 1 of this Article, a person who has managed the operations of a company or bank against which the bankruptcy proceedings have been initiated or whose operating license has been revoked may be appointed a member of the bank management board, if the Croatian National Bank establishes that he/she has not been responsible for actions referred to in item 3, paragraph 1 of this Article.

Approval for Performing the Function of a Member of the Bank Management Board
Article 26

(1) Only a person who has obtained a prior approval from the Croatian National Bank for performing the function of a member of the bank management board may be appointed a member of the bank management board.

(2) A bank supervisory board shall file a request for issuing the approval referred to in paragraph 1 of this Article for the term of office not exceeding five years.

(3) The evidence of the fulfillment of the conditions referred to in Article 25 shall be enclosed with the request referred to in paragraph 2 of this Article.

(4) The Croatian National Bank may adopt a decision that a candidate for membership in the bank management board must make a presentation on the management of operations of a bank within the procedure of deciding on the approval.

(5) The Croatian National Bank shall issue the approval referred to in paragraph 1 of this Article if on the basis of documents referred to in paragraph 3 of this Article, the presentation referred to in paragraph 4 of this Article and other information available to it concludes that the candidate fulfills the conditions for membership in the bank management board.

(6) The Croatian National Bank shall refuse a request for issuing the approval for performing the function of a member of the bank management board, if information available to it indicate that, because of activities and operations which the person performs, or because of actions taken by the person, the operations of the bank in accordance with the rules on risk management could be endangered.

(7) A person who has obtained the approval for performing the function of a member of the bank management board shall be required, before being appointed to perform such a function in another bank, to obtain an approval from the Croatian National Bank for such an appointment. The provisions of paragraphs 2, 3, 4, 5, and 6 of this Article shall apply, as appropriate, to the approval referred to in this paragraph.

(8) If the supervisory board intends to reappoint a person who has already obtained the approval for performing the function of a member of the bank management board, it shall be required to repeat the procedure stipulated by this Law.

(9) In the event that a seat on the bank management board is left vacant or a member of the bank management board is incapable of performing his/her function, the bank supervisory board may appoint its members as deputy management board members, on a one-time basis and for no longer than three months, without the approval of the Croatian National Bank.

Duties and Responsibilities of the Members of the Management Board

Article 27

In addition to the duties stipulated by the Company Law, members of the bank management board shall provide for that:

- 1) the bank operates in accordance with the rules on risk management as stipulated by this Law and other laws that govern the operations of a bank and the provision of other financial services, and in accordance with other regulations enacted on the basis of this Law and other laws;
- 2) the risks to which the bank is exposed in its operations are monitored and that the appropriate procedure for managing the risks by a bank are adopted;
- 3) the adequate level of capital with respect to the risks to which the bank is exposed in its operations is maintained and attained on the basis of systemic monitoring, assessment and strategy;
- 4) the system of internal controls in all areas of the bank's operations functions;
- 5) the internal audit is smoothly conducted;
- 6) the bank keeps business books and other books and business documentation, prepares bookkeeping documents, evaluates assets and liabilities in real terms, prepares financial and other statements in accordance with accounting regulations and standards, as well as with this Law and regulations enacted on the basis of this Law;
- 7) the bank reports to and notifies the Croatian National Bank in accordance with this Law and regulations enacted on the basis of this Law;
- 8) the measures instructed by the Croatian National Bank are implemented.

Notification of the Supervisory Board

Article 28

(1) The bank management board shall immediately notify in writing the bank supervisory board:

- 1) if bank's liquidity or solvency is threatened;
- 2) if grounds occur for expiry or revocation of the authorization for the provision of banking services, or grounds for a ban on providing particular banking services or other financial services;
- 3) if the financial position of the bank changes in such a way that the regulatory capital of the bank falls below the minimum capital amount referred to in Article 64 of this Law, or the minimum capital adequacy ratio referred to in paragraphs 2 and 3; Article 65 of this Law;
- 4) if the bank exceeds the large exposure to one person due to a fall in the regulatory capital.

(2) A member of the bank management board shall immediately notify in writing the bank supervisory board concerning:

- 1) the member's appointment to the supervisory bodies of other juridical persons, or the cessation of the member's function therein;
- 2) legal arrangements on the basis of which the member of the management board or a close relative thereof has directly or indirectly acquired shares or equity participation in a juridical person based on which the member of the management board, together with the close relative thereof, has acquired a

qualifying holding in the juridical person, or their equity participation has fallen below the limit for the qualifying holding.

Revocation of the Approval for Performing the Function of a Member of the Management Board

Article 29

(1) The Croatian National Bank shall revoke the approval for performing the function of a member of the management board:

- 1) if the approval has been obtained by providing false data;
- 2) if the member of the management board has seriously violated the obligations of a member of the management board referred to in Article 27 and Article 28 of this Law and the provisions on duties stipulated by the Company Law that may result in his/her removal from office.

(2) If a procedure for the revocation of the approval for performing the function of a member of the management board has been initiated against a member of the management board owing to the violation of regulations and rules on risk management because of which a procedure has been initiated against the bank for the revocation of the authorization for the provision of banking services, the Croatian National Bank may combine the two procedures.

Members of the Bank Supervisory Board

Article 30

(1) The following persons may not be appointed as members of the bank supervisory board:

- 1) a person connected with juridical persons in which the bank owns more than 5 percent of voting rights or share capital;
- 2) a person who is a member of the supervisory or management board of another bank, another financial holding or of a stock exchange company;
- 3) a person whose liabilities to the bank exceed the person's claims and investments in the bank, or that is connected with juridical persons whose liabilities to the bank exceed their claims and investments in the bank, where the difference between the total liabilities to the bank and the total claims and investments in the bank of that person and the persons connected with that person exceeds 1 percent of the bank's share capital;

(2) Employees of a bank may not be members of its supervisory board.

(3) The ban referred to in item 2, paragraph 1 of this Article shall not apply to persons who are members of the supervisory or management board of a superordinate bank or a superordinate financial holding in a banking group.

Competence of the Bank Supervisory Board

Article 31

In addition to the competence of the supervisory board stipulated by the Company Law, the bank supervisory board shall also have the following competence:

- 1) it shall give its approval to the management board in deciding the bank's business policy;
- 2) it shall give its approval to the management board in setting out the bank's financial plan;
- 3) it shall give its approval to the management board in setting out the annual work program of the internal audit;
- 4) it shall make decisions concerning other matters stipulated by this Law.

Duties and Responsibilities of the Members of the Bank Supervisory Board

Article 32

In addition to the duties and responsibilities stipulated by the Company Law, members of the bank supervisory board:

- 1) shall give opinion on the findings of the Croatian National Bank and other supervisory authorities in their procedure of supervising the bank;
- 2) shall be jointly responsible to the bank for damages arising as a consequence of dereliction of their duties;
- 3) shall immediately notify the Croatian National Bank concerning:
 - a) the member's appointment to the management or supervisory bodies of other juridical persons, or the cessation of the member's function therein;
 - b) legal arrangements on the basis of which the member of the supervisory board or a close relative thereof has directly or indirectly acquired shares or equity participation in a juridical person based on which the member of the supervisory board, together with the close relative thereof, has acquired a qualifying holding in the juridical person, or their equity participation has fallen below the limit for the qualifying holding.

III PROVISION OF BANKING AND OTHER FINANCIAL SERVICES

III.1 AUTHORIZATION FOR THE PROVISION OF BANKING AND OTHER FINANCIAL SERVICES

Operating License

Article 33

(1) The Croatian National Bank shall grant an operating license to a bank and a branch of a foreign bank.

(2) The operating license referred to in paragraph 1 of this Article shall include an authorization for the provision of banking services.

(3) The operating license referred to in paragraph 1 of this Article may also include an authorization for the provision of other financial services.

Authorizations and Approvals

Article 34

(1) Prior to the enrollment of its establishment in the Register of Companies, a bank shall be obliged to obtain an authorization from the Croatian National Bank for the provision of banking services (hereinafter: authorization for the provision of banking services).

(2) If a bank intends to provide other financial services in addition to banking services, it shall be obliged to obtain an authorization from the Croatian National Bank prior to the enrollment of the relevant activity in the Register of Companies (hereinafter: authorization for the provision of other financial services).

(3) If a bank takes over other bank or other juridical person, it shall be obliged to obtain an approval from the Croatian National Bank prior to the enrollment of the decision on take over in the Register of Companies (hereinafter: approval for take over).

(4) If two banks merge, they shall be obliged to obtain an approval from the Croatian National Bank for merger (hereinafter: approval for merger) and an operating license for the new bank prior to the enrollment of the new bank in the Register of Companies. On the day of enrollment of the new bank in the Register of Companies banks that merged cease to exist and their operating licenses cease to be valid.

(5) A bank shall be obliged to obtain an authorization from the Croatian National Bank prior to the establishment of a branch abroad (hereinafter: authorization for the establishment of a branch abroad).

(6) The Croatian National Bank shall adopt a decision on the authorization referred to in paragraph 2 of this Article at the same time as on the authorization for the provision of banking services, unless the request for issuing the authorization referred to in paragraph 2 of this Article is filed after the bank has obtained the authorization for the provision of banking services.

(7) The Croatian National Bank shall not issue the approval referred to in paragraphs 3 and 4 of this Article if:

- (1) it would result in a large concentration in the banking system that might limit the freedom of market competition;
- (2) it could adversely influence the implementation of monetary and foreign exchange policy in the Republic of Croatia.

Request for Issuing the Authorization for the Provision of Banking and Other Financial Services

Article 35

(1) The following shall be enclosed with a request for issuing the authorization for the provision of banking and/or other financial services:

- 1) the Articles of Association in the form of a verified copy of a notary public record;

- 2) the operating plan for the first three years of operation that includes the income statement, the type of services planned, the appropriate organizational and personnel structure of the bank, the accounting policy and the organization of the internal audit;
- 3) a list of shareholders, giving full name and address, and other identification data and/or name of the firm and address of its head office, the total nominal value of the shares and the percentage participation in the bank's share capital;
- 4) for shareholders – juridical persons who are owners of qualifying holdings:
 - a certificate from the Register of Companies or any other appropriate public register in the form of an original or verified copy;
 - a print-out of shareholders from the Register of Shareholders (the book of shares) or the book of participation, in the form of an original or verified copy;
 - financial statements for the last two years of operation;
- 5) a list of persons connected with the owners of qualifying holdings with a description of the manner of connection;
- 6) the names of candidates proposed for membership in the bank management or supervisory board, in the case of establishment of a bank;
- 7) an opinion or approval of the supervisory authority of a bank of a Member State or the supervisory authority of a foreign bank on a bank that intends to establish a bank in the Republic of Croatia;
- 8) the appropriate enactment of the competent supervisory authority if it is stipulated by the regulations on the provision of other specific financial services set out in the bank's operating plan;
- 9) documentation stipulated by the Croatian National Bank from which it is possible to determine whether in terms of personnel, technical and organizational conditions a bank will be capable of providing services referred to in the request for issuing the authorization.

(2) If a bank intends to provide other financial services in addition to banking services, it shall specify types of other financial services that it intends to provide in the request for issuing the authorization.

(3) If a bank that has obtained the authorization for the provision of banking and other financial services intends to provide other financial services not listed in the authorization, it shall enclose the documentation referred to in items 8 and 9, paragraph 1 of this Article with the request for issuing the authorization for the provision of other financial services.

(4) In addition to documentation referred to in paragraph 3 of this Article, the Croatian National Bank may request a bank to submit the operating plan in accordance with item 2, paragraph 1 of this Article, in which it shall describe the manner in which new services will influence its balance sheet, income statement, organizational and personnel structure, accounting policy and other policies.

Adopting Decision on Issuing the Authorization for the Provision of Banking and Other Financial Services

Article 36

(1) The Croatian National Bank shall issue an authorization for the provision of banking services if it establishes that the bank fulfills the conditions for providing such services.

(2) If a bank files the request for issuing an authorization for the provision of other financial services, the Croatian National Bank shall expressly state in its decision other financial services to which the authorization applies.

(3) Not later than within six months from receiving the valid request for issuing an authorization for the provision of banking services and/or other financial services, the Croatian National Bank shall be obliged to adopt the decision on the request, to issue the appropriate decision and to notify the applicant thereof. If the request is incomplete, the bank may complete the request with necessary documentation or additional information within the time limit set by the Croatian National Bank, whereas the final time limit for the adoption and notification on the decision shall not exceed twelve months following the day on which the request is filed.

Refusal of the Request for Issuing the Authorization for the Provision of Services

Article 37

The Croatian National Bank shall refuse the request for issuing the authorization for the provision of banking and/or other financial services:

- 1) if the shareholders who own qualifying holdings do not have the approval referred to in paragraphs 1 and 2, Article 20 of this Law;
- 2) if the members of the bank management board do not have an approval of the Croatian National Bank for performing the function of a member of the management board;
- 3) if it proceeds from the bank's Articles of Association and other documentation that the bank is not organized in accordance with this Law and that the conditions for the operation of the bank stipulated by this Law or regulations issued on the basis thereof are not ensured;
- 4) if the provisions of the Articles of Association contravene the provisions of the present Law or the provisions of regulations issued on the basis thereof;
- 5) if it proceeds from the documentation and other known facts that the bank is not capable, in terms of personnel, technical and organization conditions of providing banking and/or other financial services in the manner and to the extent set out in its operating plan;
- 6) if any other regulation on the provision of other financial services envisaged by the bank's operating plan stipulates specific conditions for the provision of such services, and the bank does not fulfill the said conditions; or
- 7) if it proceeds from the request and enclosed documentation that the bank does not fulfill other conditions for the provision of other financial services to which the request for the issue of the authorization refers.

Expiry of the Authorization for the Provision of Banking Services

Article 38

(1) The authorization for the provision of banking services shall expire:

- 1) on the day bankruptcy proceedings are initiated;
- 2) on the day voluntary liquidation proceedings against a bank are initiated;
- 3) upon delivery of the decision on the revocation of the authorization for the provision of banking services;
- 4) on the day the new bank is enrolled in the Register of Companies in case of a bank merger; and
- 5) upon removal of the bank which has been merged from the Register of Companies.

(2) The authorization for the provision of other financial services shall expire on the same day when the authorization for the provision of banking services expires.

Grounds for the Revocation of Operating License

Article 39

(1) The Croatian National Bank shall adopt a decision on the revocation of operating license:

- 1) if the bank does not begin operating within $3 \frac{1}{2}$ months of the issue of operating license;
- 2) if the bank on its own initiative ceases to provide banking services for more than six months;
- 3) if the bank no longer fulfills the conditions on the basis of which it has been issued the authorization for the provision of banking services;
- 4) if the bank has obtained the authorization for the provision of banking services by providing false documentation and information; or
- 5) if the Croatian National Bank established that there are grounds for taking a special measure of revocation of the authorization for the provision of banking services referred to in Article 129 of this Law.

(2) A bank may not engage in, begin to perform or perform any new business related to the provision of banking services from the day on which the decision referred to in paragraph 1 of this Article becomes enforceable, except those businesses that are aimed at and ensure the dissolution of a bank as a joint stock company as provided by law.

Freedom of Market Competition

Article 40

(1) The Croatian National Bank shall be authorized to monitor the operations of banks and banking groups, which might result in preventing or restraining competition in the provision of banking services.

(2) While monitoring the freedom of market competition and establishing whether it has been limited, the Croatian National Bank may request the body authorized for the protection of market competition to express its views.

(3) In the event that it establishes that the freedom of market competition has been limited during the provision of banking services, the Croatian National Bank shall be obliged to implement measures to secure the freedom of market competition.

(4) The Croatian National Bank shall stipulate the method and criteria for establishing whether the freedom of market competition in the banking market in the Republic of Croatia has been limited, as well as the measures to secure the freedom of market competition.

III.2 PROVISION OF BANKING AND OTHER FINANCIAL SERVICES OUTSIDE THE REPUBLIC OF CROATIA

III.2.1 Provision of Services in a Member State

Provision of Services in a Member State

Article 41

(1) A bank may provide banking and other financial services within a Member State, either through a branch or directly, in accordance with a prior authorization obtained from the Croatian National Bank, if it fulfils the conditions prescribed by that Member State.

(2) A branch referred to in paragraph 1 of this Article shall mean a branch under the provisions of the Company Law.

Provision of Services in a Member State through a Branch

Article 42

(1) A bank, which intends to establish a branch in a Member State, shall notify in advance the Croatian National Bank thereof and shall name the Member State in which it intends to open a branch. The following shall be enclosed with the notification:

- 1) a description of the activities to be performed by the branch and its operating plan for the first three years of operation;
- 2) the names of the persons authorized to conduct the operations of the branch;
- 3) the name of the branch and its address in the Member State, at which documentation on the branch can be obtained.

(2) Within three months of receiving the notification referred to in paragraph 1 of this Article, the Croatian National Bank shall send that notification, inclusive of accompanying enclosures, to the competent supervisory authority of the Member State and shall notify the bank thereof.

(3) Parallel with sending the notification referred to in paragraph 2 of this Article, the Croatian National Bank shall also send the following to the competent supervisory authority of the Member State:

- 1) data on the amount of the regulatory capital of the bank and its capital adequacy;

2) a description of the deposit insurance scheme adopted in the Republic of Croatia.

(4) By means of an exemption to the provisions of paragraph 2 of this Article, the Croatian National Bank is not obliged to send the notification to the competent supervisory authority of the Member State if, on the basis of information available to it and documentation referred to in paragraph 1 of this Article and in consideration of the planned extent of operations, it concludes that there is a reasonable doubt regarding the suitability of the organization and management of the branch or the bank's financial position.

(5) The bank shall notify the Croatian National Bank of any change in the information referred to in paragraph 1 of this Article at least one month prior to the intended change. Within three months of receiving the notification the Croatian National Bank shall notify the competent supervisory authority of the Member State of that change.

Direct Provision of Services in a Member State

Article 43

(1) A bank which intends to begin direct provision of banking and/or other financial services within a Member State shall notify the Croatian National Bank thereof and shall name the Member State in which it intends to begin direct provision of services. A description of the activities that the bank is to perform in the Member State and the operating plan related to these activities shall be enclosed with the notification.

(2) Within a month from receiving the notification referred to in paragraph 1 of this Article the Croatian National Bank shall send that notification, inclusive of accompanying enclosures, to the competent supervisory authority of the Member State and shall notify the bank thereof.

Supervision of the Provision of Services in a Member State

Article 44

(1) The Croatian National Bank shall supervise a branch of a bank in a Member State.

(2) The Croatian National Bank may request the competent supervisory authority of the Member State in which a bank provides banking services to conduct an examination of the operations of a branch of a bank in that Member State, if the supervisory procedure is thus accelerated or facilitated or if this is in the interest of efficiency, simplicity, speed or lower costs of the procedure. Under identical conditions, authorized persons of the Croatian National Bank may participate in the supervision exercised by the competent authority of the Member State.

(3) If a bank, which provides banking services in a Member State, despite a warning by the competent supervisory authority of the Member State, violates the regulations of that Member State, the Croatian National Bank shall take supervisory measures in accordance with this Law. The Croatian National Bank shall immediately notify the competent supervisory authority of the Member State of the measures it has taken.

(4) If the Croatian National Bank revokes a bank's authorization for the provision of banking services or prohibits it from providing other specific financial services, it shall

immediately notify thereof the competent supervisory authority of the Member State in which the bank provides banking services.

III.2.2 Provision of Services Abroad

Provision of Services Abroad

Article 45

- (1) A bank shall provide banking and/or other financial services abroad only through a branch.
- (2) In order to establish a branch abroad a bank shall obtain an authorization from the Croatian National Bank.
- (3) The provisions referred to in paragraphs 1, 4 and 5, Article 42 of this Law shall apply, as appropriate, in enacting a decision on issuing an operating license for a branch abroad.
- (4) The cooperation and the exchange of information between the Croatian National Bank and the supervisory authority of a foreign country may be provided for by specific regulations or agreements.
- (5) The Croatian National Bank may refuse a request to issue an operating license for a branch abroad if, in consideration of the regulations of the country in which the bank intends to establish a branch, or the practice in the implementation of these regulations, it is likely that exercising supervision in accordance with the provisions of this Law will be hindered.

III.2.3 Representative Office of a Bank

Representative Office of a Bank

Article 46

- (1) A representative office of a bank abroad may only conduct market research and represent the bank which has established it.
- (2) A bank, which intends to establish a representative office, shall notify the Croatian National Bank thereof and shall name the country in which it intends to establish a representative office.
- (3) A representative office shall not constitute a juridical person.

III.3 BRANCHES AND FREEDOM OF PROVIDING BANKING AND OTHER FINANCIAL SERVICES BY BANKS OF MEMBER STATES

Banks of Member States

Article 47

(1) A bank which is authorized to provide banking and other financial services in a Member State may also provide these services, through a branch or directly, within the Republic of Croatia.

(2) The provisions referred to in paragraph 3, Article 112 of this Law shall apply to a bank referred to in paragraph 1 of this Article, which provides banking services through a branch.

(3) A branch of a bank referred to in paragraph 1 of this Article shall provide the Croatian National Bank with the reports and information required for exercising its powers and performing its duties in the field of monetary policy, foreign exchange policy and statistics.

Beginning of Operations

Article 48

(1) A bank of a Member State referred to in paragraph 1, Article 47 of this Law, may begin operations through a branch upon the expiry of the two-month period beginning on the day when the Croatian National Bank receives notification from the competent supervisory authority of the Member State with the content prescribed in paragraphs 1 and 3, Article 42 of this Law.

(2) A bank of a Member State referred to in paragraph 1, Article 47 of this Law, may begin direct provision of banking and other financial services within the Republic of Croatia on the day when the Croatian National Bank receives notification from the competent supervisory authority of the Member State with the content prescribed in paragraphs 1 and 3, Article 42 of this Law.

(3) A bank of a Member State referred to in paragraph 1 of this Article shall notify the Croatian National Bank of any intended change related to the information referred to in items 1 to 3, paragraph 1, Article 42 of this Law, at least one month prior to the change.

(4) The provision of paragraph 3 of this Article shall also apply, as appropriate, when a bank of a Member State intends to open a representative office within the Republic of Croatia.

Supervision of a Branch of a Bank of a Member State

Article 49

(1) The competent supervisory authority of a Member State, or persons authorized by it, may conduct an examination of the operations of a branch of a bank of that Member State within the Republic of Croatia upon sending notification to the Croatian National Bank.

(2) In the case referred to in paragraph 1 of this Article, the competent supervisory authority, or persons authorized by it, shall have powers and responsibilities identical to those of the Croatian National Bank pursuant to the provisions of Articles 118 through 122 of this Law.

(3) Upon request by the competent supervisory authority of a Member State, the Croatian National Bank may conduct an examination of the operations of a branch of a bank of that Member State within the Republic of Croatia.

(4) By means of an exemption to the provisions of paragraphs 1 to 3 of this Article, the Croatian National Bank shall be authorized to conduct an examination of the operations of a branch of a bank of a Member State within the Republic of Croatia in accordance with the provisions of Articles 118 to 122 of this Law in order to establish whether the branch operates in accordance with the provisions of paragraph 3, Article 47 of this Law.

Supervisory Measures against a Bank or a Branch of a Bank of a Member State

Article 50

(1) If a bank of a Member State within the Republic of Croatia violates the provisions of paragraph 2, Article 47 of this Law, or if a branch of a bank of a Member State within the Republic of Croatia violates the provisions of paragraph 3, Article 47 of this Law, the Croatian National Bank shall issue instructions for the elimination of irregularities.

(2) If a bank of a Member State or its branch fails to act upon the instruction of the Croatian National Bank, within the time limit set by the instruction referred to in paragraph 1 of this Article, the Croatian National Bank shall notify the competent supervisory authority of that Member State thereof.

III.4 PERFORMANCE OF ACTIVITIES BY FOREIGN BANKS

III.4.1 Branches of Foreign Banks

Provision of Services by Foreign Banks

Article 51

(1) A foreign bank may provide banking services and other financial services within the Republic of Croatia only through a branch.

(2) A branch referred to in paragraph 1 of this Article shall not constitute a juridical person, and in legal transactions with third parties it may conduct operations within the Republic of Croatia pursuant to the authorization of the founder bank and with the implicit responsibility of the founder bank for all obligations undertaken in the Republic of Croatia in relation to the operations of the branch.

Establishment and Dissolution of a Branch of a Foreign Bank

Article 52

(1) A foreign bank may establish a branch within the Republic of Croatia if it obtains an operating license for a branch of a foreign bank from the Croatian National Bank.

(2) The following shall be enclosed with a request for issuing an operating license of a branch of a foreign bank:

- 1) a certificate from the Register of Companies or any other appropriate public register of the country in which the head office of the parent bank is located, issued at most 30 days prior to the request;
- 2) the Articles of Association or other appropriate rules of the parent bank;
- 3) the information on the members of management and supervisory bodies of the parent bank ;
- 4) audited business reports of the parent bank for the last three years of operation;
- 5) a document which reliably identifies the owners and their participation in the management of the parent bank;
- 6) a certificate from the Register of Companies or other appropriate public register of the country in which the head office of juridical persons that participate in the management of the parent bank with a holding of more than 10 percent is located, issued at most 30 days prior to the request;
- 7) a description of banking services and other financial services the branch is to provide and the operating plan for the first three years of operation;
- 8) the authorization from the supervisory authority of the foreign bank for the establishment of a branch or a statement by that authority that no such authorization is required under the regulations of the country of the foreign bank;
- 9) a statement by the foreign bank that the branch will administer all the documentation relating to its operations in the Croatian language and will store it at the head office of the branch, as well as that it will compile financial statements in accordance with this Law or regulations issued on the basis thereof;
- 10) a detailed description of the deposit insurance scheme valid in the country in which the head office of the parent bank is located;
- 11) other documentation specified by the Croatian National Bank, on the basis of which it is possible to establish whether the branch, in terms of its personnel, technical equipment and organization, is capable of providing services to which the request for issuing an authorization refers.

(3) The Croatian National Bank may, as a condition for issuing an operating license of a branch of a foreign bank, require that the foreign bank deposits a specific monetary amount within the Republic of Croatia, or offers another appropriate collateral for the settlement of liabilities arising from arrangements concluded within the Republic of Croatia.

(4) The Croatian National Bank shall issue an operating license of a branch of a foreign bank if, on the basis of information available to it and documentation enclosed with the request for issuing an operating license, it concludes that the branch is, in terms of its finances, management, organization, personnel and technical equipment, capable of operating in accordance with the provisions of this Law.

(5) The Croatian National Bank shall refuse the request for issuing an operating license of a branch of a foreign bank if, in consideration of the regulations of the country in which the head office of the bank is located or in consideration of the practice of that country in the application of these regulations, it is likely that exercising supervision in accordance with the provisions of this Law will be hindered.

(6) The Croatian National Bank shall revoke an operating license of a branch of a foreign bank:

- 1) if the supervisory authority of a foreign bank has revoked the bank's authorization for the provision of banking services;
- 2) if in the case referred to in paragraph 3, Article 54 of this Law, the branch fails to meet its obligations deriving from the insurance of deposits;
- 3) if the branch fails to begin its operations within six months from the issuing of an operating license of a branch of a foreign bank;
- 4) if the operations of the branch are discontinued for more than six months;
- 5) if the branch was issued an authorization for the provision of banking services the basis of false information or if it fails to conduct its operations in accordance with the regulations of the Republic of Croatia;
- 6) if the branch is incapable of meeting its obligations.

Application of Other Provisions of This Law

Article 53

(1) The provisions of this Law shall apply, as appropriate, to a branch of a bank referred to in paragraph 1 of Article 52, regarding:

- 1) the bank management board (Article 23 to 29);
- 2) risk management (chapter V);
- 3) the banking secret (chapter VII);
- 4) business books and business reports (chapter VIII);
- 5) internal audit (chapter IX);
- 6) audit (chapter X);
- 7) bank supervision (chapter XI);
- 8) consumer protection (chapter XVI).

(2) The Croatian National Bank may prescribe in more detail the manner in which the provisions of paragraph 1 of this Article shall be applied to a branch of a foreign bank.

Deposit Insurance Scheme of a Branch of a Foreign Bank

Article 54

(1) A branch of a foreign bank is included in the deposit insurance scheme in the country in which the head office of the foreign bank is located.

(2) The level and extent of deposit guarantees at a branch of a foreign bank shall not exceed the level and extent stipulated by the legislation of the Republic of Croatia related to the insurance of deposits.

(3) If a deposit insurance scheme does not exist in the country in which the head office of a foreign bank is located or if the extent of deposit guarantees is smaller

than in the Republic of Croatia, a branch of a foreign bank shall be included in the deposit insurance scheme in the Republic of Croatia.

(4) A branch of a foreign bank shall without delay notify the institution responsible for deposit insurance of the deposit insurance scheme.

III.4.2 Representative Office of a Foreign Bank

Representative Office of a Foreign Bank

Article 55

(1) A representative office of a foreign bank shall not provide banking or other financial services in the Republic of Croatia; it may only conduct market research and represent the bank which has established it.

(2) A representative office shall not constitute a juridical person.

Authorization for the Establishment of a Representative Office

Article 56

(1) In order to establish a representative office a foreign bank shall obtain a prior authorization from the Croatian National Bank.

(2) The following shall be enclosed with the request for issuing an authorization referred to in paragraph 1 of this Article:

- 1) a certificate from the Register of Companies or from any other appropriate public register of the country in which the head office of the parent bank is located;
- 2) the Articles of Association or other appropriate rules of the parent bank;
- 3) audited business reports of the parent bank for the last three years of operation;
- 4) a list of persons who will manage the representative office.

(3) If a representative office of a foreign bank contravenes the provisions of Article 55 of this Law, the Croatian National Bank shall revoke the authorization for the establishment of a representative office.

(4) The Croatian National Bank may prescribe more detailed conditions for the establishment and operation of a representative office of a foreign bank.

(5) The Croatian National Bank shall administer the register of representative offices of foreign banks.

IV COOPERATION WITH SUPERVISORY AUTHORITIES AND BODIES OF THE EUROPEAN UNION

Cooperation of Supervisory Authorities

Article 57

(1) The Croatian National Bank and authorities responsible for the supervision of other financial institutions in the Republic of Croatia shall, upon request by an individual supervisory authority, submit to that authority all the information on a bank or other financial institution required in the procedure of exercising supervision of a financial institution and in the procedure related to the issuing of an authorization.

(2) The supervisory authorities referred to in paragraph 1 of this Article shall notify one another of the irregularities established in the course of supervision, if such findings are important for the work of other supervisory authority.

(3) The principles of the cooperation of supervisory authorities shall be stipulated by the Minister of Finance and the Governor of the Croatian National Bank on the basis of prior opinions given by supervisory authorities.

(4) The Croatian National Bank shall cooperate and exchange information with the supervisory authorities of Member States or other foreign countries, regarding a bank or other financial institution, required in the procedure of exercising supervision of a bank or other financial institution and in the procedure related to the issuing of an authorization.

(5) The principles of cooperation and the scope of the exchange of information with the supervisory authorities referred to in paragraph 4 of this Article shall be stipulated by an agreement on cooperation concluded between the Croatian National Bank and one of the supervisory authorities referred to in paragraph 4 of this Article.

(6) Supervisory authorities shall protect the confidentiality of all information received pursuant to paragraphs 1 through 5 of this Article and use this information solely for the purpose for which it was given.

Data Processing and Communication of Information

Article 58

(1) The Croatian National Bank shall have the authority to collect and process information relevant to the execution of its tasks and responsibilities stipulated by this Law.

(2) The information referred to in paragraph 1 of this Article shall be the information on:

- 1) authorizations for the provision of banking services and other authorizations and approvals issued by the Croatian National Bank;
- 2) the members of the bank management and supervisory boards, their organization and the operation of internal audit;
- 3) branches and/or direct provision of banking services by banks in Member States and branches and/or direct provision of banking services by banks of Member States in the Republic of Croatia;

- 4) branches of banks abroad and branches of foreign banks in the Republic of Croatia;
- 5) compliance with the provisions on risk management referred to in chapters V and VI of this Law and the regulations issued on the basis thereof;
- 6) reports referred to in Article 87 of this Law;
- 7) owners of qualifying holdings referred to in Article 20 of this Law;
- 8) audited annual reports and consolidated annual reports referred to in Article 112 of this Law;
- 9) the implementation of supervisory measures referred to in this Law;
- 10) as well as the information obtained by the Croatian National Bank from the competent supervisory authorities of Member States and the competent supervisory authorities of foreign countries within the exchange of information.

(3) The Croatian National Bank may communicate information referred to in paragraph 2 of this Article to:

- 1) domestic supervisory authorities within the cooperation of domestic supervisory authorities pursuant to Article 57 of this Law;
- 2) the competent authorities of Member States, if they need it for carrying out their tasks of supervising the provision of banking and other financial services and if these authorities are subject to protecting the confidentiality of information in the extent stipulated in paragraph 6, Article 57 of this Law;
- 3) the competent supervisory authorities of foreign countries, if they need it for carrying out their tasks of supervising the provision of banking and other financial services under the condition of reciprocity and if these authorities are subject to protecting the confidentiality of information in the extent stipulated in paragraph 6, Article 57 of this Law.
- 4) a court, if it needs it in a bank's bankruptcy proceedings;
- 5) the authority issuing operating licenses to audit firms and certified auditors, if it needs it in a supervisory procedure within its authority.

(4) By means of an exemption to the provisions of paragraph 3 of this Article, the Croatian National Bank may communicate the information referred to in item 10, paragraph 2 of this Article, only with the express permission of the authority, which has communicated it to the Croatian National Bank.

Notification of the European Commission

Article 59

The Croatian National Bank shall notify the European Commission of the refusal to send the notification referred to in paragraph 4, Article 42 of this Law.

Notification of the Relations with Foreign Countries

Article 60

(1) The Croatian National Bank shall notify the European Commission of:

- 1) each approval given to a bank whose direct or indirect superordinate company is a juridical person with the head office in a foreign country;

- 2) each authorization for the acquisition of a qualifying holding issued to a bank, on the basis of which a foreign person becomes the bank's superordinate company.

(2) The Croatian National Bank shall notify the European Commission of all significant obstacles encountered by banks in the course of providing banking services in foreign countries.

(3) If the European Commission decides that the supervisory authorities of Member States must suspend or terminate the procedure of enacting decisions on requests by persons of a particular foreign country, the Croatian National Bank shall enact a decision on terminating, for no more than three months, its procedure of enacting a decision on:

- 1) requests for the issuing of an authorization and giving an approval to a bank whose direct or indirect controlling company is a juridical person with the head office in a foreign country to which the European Commission decision refers;
- 2) requests for granting an approval for the acquisition of a qualifying holding on the basis of which a foreign person with the head office in the foreign country to which the European Commission decision refers becomes the controlling company of the bank.

(4) The time in which the procedure referred to in paragraph 3 of this Article was terminated shall not be deducted from the period for enacting a decision referred to in paragraph 3, Article 36 of this Law.

(5) If the Council of the European Union decides that the suspension or termination of the procedure referred to in paragraph 3 of this Article is to be extended, the Croatian National Bank shall enact a decision on extending the termination of the procedure referred to in paragraph 3 of this Article for the period stipulated in the decision of the Council of the European Union.

(6) The measures referred to in paragraphs 3 and 5 of this Article shall not apply to:

- 1) the establishment of a bank as a dependent company of a bank which, at the moment of enacting the decision referred to in paragraphs 3 and 5 of this Article, is authorized to provide banking services in a Member State, or dependent companies of that bank;
- 2) the acquisition of a qualifying holding whose future owner is a bank which, at the moment of enacting the decision referred to in paragraphs 3 and 5 of this Article, is authorized to provide banking services in a Member State, or dependent companies of that bank.

(7) The Croatian National Bank shall notify the European Commission, upon its request, of all requests for the issuing of authorizations and giving approvals referred to in paragraph 1 of this Article and of all requests for the acquisition of a qualifying holding on the basis of which a foreign owner would become the controlling company of a bank, if the European Commission needs such information to establish facts important for enacting a decision referred to in paragraphs 3 and 5 of this Article.

V RISK MANAGEMENT

V.1 GENERAL PROVISIONS

Risk Management

Article 61

(1) A bank shall ensure an adequate level of capital, with respect to the extent and types of services it provides and risks to which it is exposed in providing these services (capital adequacy).

(2) A bank shall conduct its operations in such a manner that the risks to which it is exposed in individual or all types of operations it conducts do not exceed the limits stipulated by this Law and the regulations issued on the basis thereof.

(3) A bank shall conduct its operations in such a manner that it is capable of meeting its obligations as they fall due (the principle of liquidity) and that it is permanently capable of meeting all its obligations (the principle of solvency).

V.2 CAPITAL OF A BANK

Regulatory Capital of a Bank

Article 62

(1) In order to conduct its operations in a safe and stable manner and meet the obligations to its creditors a bank shall maintain the adequate level of regulatory capital.

(2) The regulatory capital of a bank shall consist of core (Tier 1) and supplementary capital (Tier 2), as well as of other forms of capital the Croatian National Bank may prescribe.

Regulations on Regulatory Capital

Article 63

The Croatian National Bank shall prescribe the manner of calculating regulatory capital, determining the following:

- 1) the method and extent of taking into account individual items for calculating regulatory capital and capital adequacy;
- 2) characteristics and types of items to be taken into account in calculating regulatory capital and capital adequacy;
- 3) the method of calculating risk-weighted assets employed for determining the weights for the weighting of credit and other risks and factors related to off-balance sheet items;
- 4) the method of calculating other components of regulatory capital.

V.3 CAPITAL ADEQUACY

Minimum Capital of a Bank

Article 64

The regulatory capital of a bank shall not be lower than the minimum amount of share capital referred to in Article 15 of this Law.

Capital Adequacy Ratio

Article 65

(1) Capital adequacy is the ratio between the regulatory capital of a bank and risk-weighted assets increased by other risk-weighted items.

(2) The capital adequacy ratio shall amount to at least 10 percent (hereinafter: minimum capital adequacy ratio).

(3) The Croatian National Bank may exceptionally determine a higher minimum capital adequacy ratio than the ratio referred to in paragraph 2 of this Article for a bank if it establishes that the bank has conducted risky business operations.

Risk-Weighted Assets

Article 66

(1) Risk-weighted assets consist of the sum of book values of relevant active on- and off-balance sheet items, weighted by the degrees of credit, market and other risks.

(2) The degrees for risk weighting referred to in paragraph 1 of this Article shall be stipulated by the Croatian National Bank taking into consideration the riskiness of items included into weighted assets.

(3) By means of an exemption to the provisions of paragraphs 1 and 2 of this Article a bank may, with the approval of the Croatian National Bank, apply other methods and models to the evaluation of credit, market and other risks.

V.4 OTHER MEASURES OF RISK MANAGEMENT

V.4.1 Common Provisions

Planning and Implementing Measures of Risk Management

Article 67

(1) A bank shall continuously measure, assess and manage all risks it is exposed to in its operations. The criteria, method and procedures for measuring, assessing and managing risks shall be prescribed by the bank's by-laws, which must be brought into line with professional regulations, standards and rules, in consideration of banking and other services provided by the bank.

(2) The bank's by-laws referred to in paragraph 1 of this Article shall encompass all types of risks the bank is exposed to in specific operations, as well as the risks it is exposed to in its overall operations.

(3) The risks a bank is exposed to in its operations, which require a minimum of methods of measuring, assessing and managing risks to be prescribed, shall be the following:

- 1) liquidity risk;
- 2) credit risk;
- 3) interest rate risk, foreign exchange risk and other market risks;
- 4) risks related to exposure to one person;
- 5) risks related to capital investments, investments into fixed assets and other tangible assets;
- 6) risks due to a failure to fulfill contractual obligations by a counterparty related to the counterparty's country of origin;
- 7) operational risk, including a risk of inadequate management of information technologies and other related technologies;
- 8) other risks.

(4) The bank's by-laws referred to in paragraph 1 of this Article shall encompass:

- 1) the bank's internal procedures for determining and measuring risks;
- 2) processes and other actions ensuring a consistent application of established procedures and methods of measuring risks;
- 3) internal procedures for supervising the implementation of prescribed procedures and processes for measuring risks.

Regulation on Measuring, Assessing and Managing Risks

Article 68

The Croatian National Bank may prescribe:

- 1) the method of assessing and including individual active on- and off-balance sheet items into the calculation of the bank's exposure;
- 2) procedures and principles to be applied to managing liquidity risk;
- 3) the method of calculating the balance of individual and all open items and the maximum permissible difference between these items, and the amount of individual unsettled items and total unsettled items;
- 4) the method of classifying and measuring risks due to a failure to fulfill contractual obligations by a counterparty, related to the counterparty's country of origin;
- 5) the method of assessing and including individual investments into the calculation of the limitations referred to in Articles 82 and 83 of this Law;
- 6) the method of notifying the Croatian National Bank of the bank's debtors whose debt exceeds the amount stipulated by the Croatian National Bank, for the purpose of notifying all banks of these debtors.

Reserves for the Coverage of Losses

Article 69

(1) A bank shall continuously assess credit risks and form reserves for the coverage of losses arising from loans and similar claims as well as from assumed off-balance sheet contingent liabilities (placements).

(2) Reserves for the coverage of individually identified losses, as well as those not identified individually, i.e. those which cannot be attributed to individual placements, but for which it can be presumed, on the basis of experience, that they exist in the credit portfolio or that they can be incurred as the result of assumed off-balance sheet contingent liabilities, shall be formed by debiting the bank's expenditures.

(3) The Croatian National Bank shall prescribe the method of calculating reserves referred to in this Article and the classification criteria according to the degrees of risk of loans and similar claims or assumed off-balance sheet contingent liabilities.

Reserves

Article 70

(1) In addition to the reserves a bank is required to form in accordance with the Company Law and its Articles of Association, it may allocate reserves for general banking risks, intended for the coverage of losses that might be incurred on account of risks deriving from the bank's overall operations.

(2) Reserves allocated for general banking risks shall be regarded as the distribution of after-tax profits. If a bank forms the reserves referred to in this Article, it shall separately report changes in these reserves in its financial statements during a reporting period.

(3) By means of an exemption to the provisions of paragraph 1 of this Article, the Croatian National Bank may stipulate obligatory allocation of reserves for general banking risks, for banks that conduct risky business operations or that show an unusually high increase in their exposure to various types of risks

V.4.2 Credit Risk

Credit Risk

Article 71

Credit risk is the risk of a loss due to the non-fulfillment of a debtor's obligations to a bank.

Assessment of Credit Risk

Article 72

(1) A bank shall, within the framework of prescribed and internal criteria, classify active on-and off-balance sheet items according to the degree of credit risk and assess the amount of losses deriving from credit risk.

(2) The classification of a bank's active on- and off-balance sheet risky items into risk groups shall be related to the following:

- 1) a debtor's creditworthiness;
- 2) the manner in which a debtor meets his/her obligations;
- 3) the quality of the collateral for the claims of the bank.

Monitoring of Credit Risk

Article 73

(1) Prior to concluding any contract on the basis of which a bank becomes exposed to credit risk, the bank shall assess the debtor's creditworthiness as well as the quality and value of the collateral for its claims.

(2) Throughout the duration of the legal relationship constituting the exposure, the bank shall monitor the debtor's operations and the value of the collateral for its claims.

V.4.3 Exposure

Definition of Exposure

Article 74

1) A bank's exposure to one person is the sum of all loan-related and other claims, the value of investments in securities and equity participation of that person, together with the value of the bank' assumed liabilities to one person.

(2) A bank's exposure to one person shall not comprise the claims referred to in paragraph 1 of this Article collateralized on a monetary deposit, up to the amount of such collateral, securities of the Republic of Croatia or the Croatian National Bank or an irrevocable guarantee of the Republic of Croatia or a competent government institution, or another collateral prescribed by the decision of the Croatian National Bank.

Maximum Permissible Exposure

Article 75

(1) A bank's exposure to one person shall not exceed 25 percent of the regulatory capital of the bank.

(2) By means of an exemption to the provisions of paragraph 1 of this Article, a bank's overall exposure to the persons directly or indirectly controlled by the bank or

to the persons directly or indirectly controlled by the person controlling the bank, shall not exceed 20 percent of the bank's regulatory capital.

(3) The limitations referred to in paragraphs 1 and 2 of this Article shall not be imposed on a bank's exposure to the persons who constitute a banking group in the Republic of Croatia and are subject to consolidated supervision by the Croatian National Bank.

(4) If a bank exceeds the maximum permissible exposure referred to in paragraphs 1 and 2 of this Article on account of a merger of two juridical persons or other reasons beyond its control, it shall immediately notify the Croatian National Bank thereof. With the notification, the bank shall enclose a list of measures it will implement in order to ensure the compliance with paragraphs 1 and 2 of this Article, stating time limits for the implementation of these measures. The Croatian National Bank may accept submitted measures and time limits or prescribe new measures and time limits by its decisions.

(5) The limitations referred to in paragraph 1 of this Article shall not refer to a bank's exposure to the Republic of Croatia and the Croatian National Bank.

(6) By means of an exemption to the provisions of paragraph 1 of this Article, the exposure to one person referred to in Article 78 of this Law may not exceed 10 percent of the bank's regulatory capital.

Large Exposure

Article 76

(1) Large exposure of a bank shall be exposure to one person, which equals or exceeds 10 percent of the bank's regulatory capital.

(2) The approval of a bank supervisory board shall be required for concluding an individual legal arrangement on the basis of which the overall exposure of the bank could result in the bank's large exposure to one person. The approval of the supervisory board shall also be required for concluding an individual legal arrangement on account of which the bank's large exposure to one person would rise to equal or exceed 15 or 20 percent of the bank's regulatory capital.

Limitations on Aggregate Large Exposure

Article 77

The sum of all large exposures shall not exceed 600 percent of the regulatory capital of a bank.

Exposure to Persons in a Special Relationship with a Bank

Article 78

(1) Persons in a special relationship with a bank to which the bank exposure would arise or increase are:

- 1) the shareholders of the bank owning 5 percent or more of voting shares at the general meeting of a bank;
- 2) the members of the bank management and supervisory board and the bank's procurators;
- 3) persons who have concluded work contracts with the bank under special terms;
- 4) close relatives of the persons referred to in items 1, 2, and 3 of this paragraph;
- 5) juridical persons in whose capital the persons referred to in items 1 to 4 of this paragraph own more than 20 percent of voting shares;
- 6) juridical persons in whose capital the bank owns more than 20 percent of voting shares or controls these juridical persons in a different way.

(2) A prior approval of the bank supervisory board shall be required for a legal arrangement as a result of which the bank exposure to persons referred to in paragraph 1 of this Article would arise or increase.

V.4.4 Liquidity Risks

Liquidity Management

Article 79

(1) A bank shall manage its assets and liabilities in such a manner that it is capable of meeting its obligations as they come due.

(2) In order to effectively manage liquidity risk a bank shall adopt and implement the liquidity management policy, which shall entail:

- 1) planning anticipated and contingent cash outflows and cash inflows sufficient for their coverage;
- 2) ongoing liquidity monitoring;
- 3) adopting appropriate measures for preventing or eliminating the causes of illiquidity.

V.4.5 Interest Rate, Foreign Exchange and Other Market Risks

Coordination of Assets and Liabilities

Article 80

A bank shall appropriately coordinate its assets with its liabilities on the basis of which it is exposed to risks of incurring losses owing to changes in interest rates, foreign currency exchange rates, prices of securities and other financial instruments or owing to other market risks.

Balance of Open Items

Article 81

(1) The balance of open items is the difference between active and passive on- and off balance sheet items whose amount depends on changes in interest rates, foreign currency exchange rates, prices of securities and other financial instruments, as well as on other market risks.

(2) A bank shall separately calculate the balance of individual open items whose amounts depend on specific changes referred to in paragraph 1 of this Article.

(3) The balance of individual open items and the total balance of all open items shall not exceed the extent stipulated by the regulations referred to in item 3, Article 68 of this Law.

V.4.6 Investments in Capital and Fixed Assets

Limitations on the Total Extent of Investments

Article 82

(1) Total investments of a bank in land, buildings, equipment and the furnishing of business premises shall not exceed 40 percent of the regulatory capital of the bank.

(2) Total investments of a bank in the capital of nonfinancial institutions shall not exceed 30 percent of the regulatory capital of the bank.

(3) The investments a bank acquired in exchange for its claims in the course of financial restructuring and in bankruptcy and seizure proceedings, as well as by activating the instruments of collateral for claims pursuant to the Law on Seizure, shall not be regarded as investments referred to in paragraphs 1 and 2 of this Article, during the first two years following the acquisition.

Limitations on Individual Investments

Article 83

(1) A bank's investments in the capital of a single nonfinancial institution shall not exceed 15 percent of the bank's regulatory capital.

(2) The provisions of paragraph 3, Article 82 of this Law shall also apply to the investments referred to in paragraph 1 of this Article.

Approval of the Croatian National Bank for Individual Investments

Article 84

(1) Prior to concluding a legal arrangement on the basis of which a bank acquires, gradually or at once, a participation in another financial institution or another company to the amount exceeding 10 percent of the bank's regulatory capital, the bank shall apply for a prior approval to the Croatian National Bank.

(2) Prior to concluding a legal arrangement, which enables it to acquire a majority participation or a majority of voting rights in another company, the bank shall obtain a prior approval therefor from the Croatian National Bank.

(3) A bank may neither be enrolled in the book of shares as a shareholder, nor exercise the right to vote at the general meeting or at the meeting of a company on the basis of a participation acquired contrary to paragraphs 1 and 2 of this Article, until it is granted an approval by the Croatian National Bank.

(4) In the case referred to in paragraphs 1 and 2 of this Article, a share acquirer is required to enclose the prior approval of the Croatian National Bank with the application for the subscription of shares.

(5) A bank is obliged to apply to the Croatian National Bank for an approval for the establishment of any juridical person.

(6) The enrollment of a juridical person referred to in paragraph 5 of this Article in an appropriate register without the approval of the Croatian National Bank shall be invalid.

V.4.7 Deposit Insurance

Deposit Insurance

Article 85

A bank shall be obliged to insure deposits received from households with a competent institution in accordance with a special law and regulations stipulated on the basis of that law.

V.5 MEASURES FOR MONITORING RISKS AND ENSURING CAPITAL ADEQUACY

V.5.1 Calculation and Reporting

Calculation

Article 86

A bank shall calculate and determine:

- 1) the amount of regulatory capital;
- 2) capital adequacy;
- 3) exposure;
- 4) credit risk;
- 5) the balance of individual open items and the total balance of open items;
- 6) the amount of investments in the capital of nonfinancial institutions and fixed assets.

Reporting on the Measurement of Risks

Article 87

(1) A bank shall report to the Croatian National Bank on:

- 1) regulatory capital;
- 2) capital adequacy;
- 3) exposure;
- 4) the assessment of credit risk referred to in Article 72 of this Law;
- 5) liquidity;
- 6) the balance of its open items;
- 7) the value of investments in the capital of nonfinancial institutions and fixed assets;
- 8) the bank's debtors whose debt exceeds the amount stipulated by the Croatian National Bank;
- 9) the bank's shareholders and the persons connected to them owning 3 percent or more of voting shares at the general meeting of a bank.

(2) The Croatian National Bank shall prescribe the content of the report referred to in paragraph 1 of this Article, as well as time limits and the manner of reporting.

V.5.2 Measures for Ensuring Capital Adequacy and Liquidity

Prohibition of the Payment of Profit

Article 88

(1) A bank may neither pay out profit or dividend nor make payments deriving from the participation of the management board, the supervisory board or the employees in a company's profit, in the following cases:

- 1) if the bank's regulatory capital is lower than the minimum capital stipulated in Article 64 of this Law or if the capital adequacy ratio is lower than the ratio referred to in paragraphs 2 and 3, Article 65 of this Law;
- 2) if the bank's regulatory capital would decrease owing to the payment of profit in such a way that the bank could no longer maintain the minimum capital prescribed in Article 64, or the minimum capital adequacy ratio referred to in paragraphs 2 and 3, Article 65 of this Law;
- 3) if the bank does not ensure the liquidity prescribed pursuant to item 2, Article 68 of this Law;
- 4) if, owing to the payment of profit, the bank would not be able to ensure the liquidity prescribed pursuant to item 2, Article 68 of this Law;
- 5) if the Croatian National Bank has ordered the bank to eliminate the deficiencies and omissions related to an incorrect presentation of active and passive items, whose correct presentation would have affected the bank's income statement; and if the bank had not acted upon the order to eliminate the violations and irregularities;
- 6) if the Croatian National Bank enacts such a decision due to the manner in which the bank manages its operating risks.

(2) A bank may neither make an advance payment of the profit nor of the dividend.

Measures of the Management Board for Ensuring Minimum Capital

Article 89

(1) If the regulatory capital of a bank fails to attain the minimum capital stipulated in Article 64 of this Law, or the bank's capital adequacy ratio is lower than the ratio referred to in paragraphs 2 and 3, Article 65 of this Law, the bank management board shall immediately adopt measures within its competence to ensure the minimum capital or make a proposal of the measures which come within the competence of other bodies of the bank.

(2) The management board shall, by means of a report referred to in Article 87 of this Law, notify the Croatian National Bank of adopted or proposed measures referred to in paragraph 1 of this Article, as well as of the time limits for their implementation.

VI CONSOLIDATED SUPERVISION OF BANKS

Banking Group

Article 90

(1) In addition to the supervision of individual banks, the Croatian National Bank shall conduct the supervision of banking groups on the basis of consolidated financial statements and supervisory reports.

(2) Under this Law, a banking group shall exist when a bank or financial holding with a head office in the Republic of Croatia is the superordinate company in relation to one or more banks or financial holdings, other financial institutions or companies for ancillary banking services with a head office inside or outside the Republic of Croatia (hereinafter: subordinate companies).

(3) A bank or financial holding shall be considered a superordinate company in terms of paragraph 2 of this Article if, in subordinate companies referred to in paragraph 2 of this Article:

- 1) it has control in accordance with the provisions of paragraph 2, Article 11 of this Law; or
- 2) it participates in accordance with the provisions of paragraph 1, Article 8 of this Law.

(4) A banking group shall also exist if at least one bank with a head office in the Republic of Croatia is subordinate to a financial holding with a head office in a Member State in one of the manners referred to in paragraph 3 of this Article, and if at the same time no bank that has the right to provide banking services in a Member State and whose head office is in the same state as the head office of the financial holding is subordinate to the financial holding.

(5) By means of an exemption to the provisions of paragraph 4 of this Article, it shall also be considered that a banking group exists if a financial holding with a head office in a Member State has a subordinate:

- 1) bank with a head office in the Republic of Croatia whose balance sheet total is higher than the balance sheet total of any other bank subordinate to the financial holding and which has the right to provide banking services in a Member State; or
- 2) bank with a head office in the Republic of Croatia that has previously obtained the authorization for the provision of banking services if that bank's balance sheet total is equal to the balance sheet total of any other bank subordinate to the financial holding.

(6) By means of an exemption to the provisions of paragraph 3 of this Article, the following shall not be considered a superordinate company in a banking group:

- 1) a bank with a head office in the Republic of Croatia that is at the same time subordinate to another bank with a head office in the Republic of Croatia;
- 2) a financial holding with a head office in the Republic of Croatia that is at the same time subordinate to a bank or another financial holding with a head office in the Republic of Croatia;
- 3) a financial holding with a head office in the Republic of Croatia that is at the same time subordinate to a bank that has the right to provide banking services in another Member State.

(7) By means of an exemption to the provisions of paragraphs 3 through 6 of this Article, a bank or financial holding shall also be considered a superordinate company in terms of paragraph 2 of this Article in other cases when the Croatian National Bank assesses that a superordinate company exercises a significant influence over a subordinate company on any other basis.

(8) The Croatian National Bank may reach an agreement with competent supervisory authorities of Member States responsible for the supervision of an individual subordinate bank in a banking group to share the tasks connected with the supervision of operations of the banking group.

Definitions Connected With a Banking Group

Article 91

(1) A financial holding shall be a juridical person:

- 1) that is not a bank;
- 2) whose principal activity is the acquisition or ownership of qualifying holdings or the provision of other financial services;
- 3) to which at least one bank or brokerage house is subordinate; and
- 4) to which banks or other financial institutions are subordinate, whereby in determining subordinate companies, the determinant shall not be their number but rather the balance sheet total, amount of capital, book value of shares and other economic criteria.

(2) A company for ancillary banking services shall be a juridical person:

- 1) whose activities are directly connected with the provision of banking services;
- 2) whose activities consist of managing fixed assets, managing and operating data processing systems or performing similar operations, and activities that have the nature of ancillary activities in relation to the principal activity of one or more banks.

(3) Other financial institutions shall be juridical persons whose only or principal activity is the provision of other financial services referred to in paragraph 2, Article 6 of this Law or the provision of financial services pursuant to the laws regulating insurance, issuance of securities and trade in such securities, investment funds and companies managing such funds, as well as juridical persons which perform financial services regulated by other laws.

Obligations of a Superordinate Bank in a Banking Group

Article 92

(1) A superordinate bank in a banking group shall be a bank with a head office in the Republic of Croatia that is not at the same time subordinate to another bank with a head office in the Republic of Croatia. If several banks in a banking group fulfill this condition, the superordinate bank among them shall be the bank with the highest balance sheet total.

(2) For the purposes of consolidated supervision in terms of this Law, the superordinate bank in a banking group shall be responsible for the fulfillment of the obligations of the banking group as a whole.

Risk Management in a Banking Group

Article 93

(1) A banking group as a whole shall act in accordance with the regulations on risk management stipulated in this Law.

(2) A banking group shall be organized in such a way that a superordinate bank in a banking group is able to monitor the risks to which the banking group is exposed and implement the measures for managing those risks.

(3) A banking group as a whole shall determine the consolidated position of:

- 1) regulatory capital;
- 2) capital adequacy;
- 3) exposure;
- 4) open items;
- 5) investments in the capital of nonfinancial institutions.

Consolidation of Financial Statements of a Banking Group

Article 94

(1) A superordinate bank in a banking group shall prepare and submit consolidated financial statements to the Croatian National Bank.

(2) Consolidated financial statements of a banking group shall be prepared on the basis of individual financial statements of the group members drawn up in accordance with the unified accounting policies.

(3) The Croatian National Bank shall prescribe the scope and frequency of consolidation, as well as the content of consolidated financial statements.

(4) The Croatian National Bank may instruct a bank in a banking group to carry out the consolidation of individual items or individual operations or groups of operations within the banking group, if such is necessary for the complete and objective presentation of the financial position and operating results of the banking group as a whole or an individual bank in the banking group.

Consolidation in Other Cases

Article 95

(1) When a banking group as specified in this Law is not involved, the Croatian National Bank may instruct a bank that is subordinate, in a manner referred to in paragraph 3, Article 90 of this Law, to a juridical person that is not a bank or financial holding, to carry out the consolidation of individual operations or groups of operations or the complete consolidation of the financial statements of all members of the group, regardless of their activity, if such is necessary for the complete and objective presentation of the financial position and operating results of the bank.

(2) The Croatian National Bank may instruct a bank that is superordinate, in a manner referred to in paragraph 3, Article 90 of this Law, to a juridical person that is not a bank or financial holding, to carry out the consolidation of individual operations or groups of operations or the complete consolidation of the financial statements of all members of the group regardless of their activity, if such is necessary for the complete and objective presentation of the financial position and operating results of the bank.

(3) Juridical persons referred to in paragraphs 1 and 2 of this Article shall submit to the bank all information required for the consolidation of operations or groups of operations or the complete consolidation of the financial statements of the group referred to in paragraphs 1 and 2 of this Article.

(4) The bank shall immediately notify the Croatian National Bank if the juridical persons referred to in paragraphs 1 and 2 of this Article fail to submit to it all information required for consolidation.

Notification of the Croatian National Bank and Disclosure of Data

Article 96

(1) A superordinate bank shall notify the Croatian National Bank without delay of all newly arisen facts and circumstances that are important to assess whether the banking group, as defined by this Law, exists.

(2) The bank shall notify the Croatian National Bank without delay of all subordinate and superordinate companies that constitute a group, regardless of their activity.

(3) Upon the expiry of a calendar year, a superordinate bank in a banking group shall submit to the Croatian National Bank current information on subordinate or superordinate companies in the banking group, as well as information on subordinate and superordinate companies that constitute a group, regardless of their activity.

(4) The Croatian National Bank may prescribe the content of the notification referred to in this Article, as well as the terms and time limits for its submission.

Submission of Data

Article 97

(1) Subordinate companies in a banking group shall submit to the superordinate company all data and information required by the superordinate company for consolidation, and ensure appropriate internal control procedures for verifying the correctness of such data and information.

(2) Juridical persons referred to in Article 90 of this Law shall submit to their superordinate bank information on their participation in other juridical persons that is important to establish whether the superordinate bank has the obligation to carry out consolidation.

(3) A superordinate bank in a banking group shall ensure that the subordinate companies in the banking group and superordinate financial holding submit to it the data required for consolidation. If the superordinate holding in the banking group fails to submit to the superordinate bank the data required for consolidation, the bank shall immediately notify the Croatian National Bank.

VII BANKING SECRET

Confidential Data

Article 98

A bank shall guard as confidential data on the balance in individual savings deposits and other cash deposits at the bank, and on the balances in, and transactions through current and giro accounts, as well as all data, facts and circumstances which

it has acquired on the basis of providing services to clients and in performing operations with individual clients.

Obligation to Guard Banking Secret

Article 99

(1) Members of the bank bodies, bank shareholders, bank employees and other persons who, owing to the nature of operations they perform with or for the bank, have access to confidential data referred to in Article 98 of this Law, may not disclose such data to third parties, make use of such data against the interest of the bank and its clients, or enable third parties to make use of such data.

(2) The obligation to guard banking secret shall not apply in the following circumstances:

- 1) if a client explicitly agrees in writing that certain confidential data may be disclosed;
- 2) if the disclosure of confidential data is necessary to collect and establish the facts in criminal proceedings and preliminary proceedings, and requested or ordered in writing by the competent court;
- 3) if confidential data are disclosed for the purposes of the Office for the Prevention of Money Laundering, and pursuant to laws and other regulations regulating the prevention of money laundering;
- 4) if the disclosure of confidential data is necessary to establish the legal relationship between a bank and its client in a court dispute, and requested or ordered in writing by the competent court;
- 5) if confidential data are disclosed for the purposes of the estate proceedings or other property proceedings on the basis of a request written by the competent court;
- 6) if the disclosure of confidential data is necessary for the execution against the property of a bank client, and requested or ordered in writing by the competent court;
- 7) if confidential data are disclosed to the Croatian National Bank, Foreign Exchange Inspectorate or other supervisory authority at their written request for the purpose of the supervision they exercise within their fields of activity and within their legally prescribed fields of competence;
- 8) if confidential data are disclosed to a juridical person, appropriately established, which may be established by banks for the purpose of collecting and providing data on the total amount, types and timeliness in meeting obligations of natural and juridical persons, arising under whatever basis;
- 9) if confidential data are necessary to tax authorities in a procedure they conduct within their legally prescribed fields of competence, and disclosed at their written request;
- 10) if confidential data are disclosed for the purposes of institutions for deposit insurance, and pursuant to the law that regulates deposit insurance.

(3) The obligation to guard banking secret shall not cease for persons referred to in paragraph 1 of this Article even after the termination of their employment in a bank, or after the termination of their status of bank shareholders or membership in the bank bodies.

Use and Protection of Confidential Data

Article 100

(1) The Croatian National Bank, courts and other competent authorities may use confidential data they have obtained pursuant to paragraph 2, Article 99 of this Law, exclusively for the purpose for which the data have been acquired, and may not disclose these data to third parties or enable third parties to learn and make use of such data, except in cases prescribed by law.

(2) The provision of paragraph 1 of this Article shall also apply to all natural persons that are employed in or work for, or that have been employed in or worked for the Croatian National Bank or competent authorities referred to in paragraph 1 of this Article.

VIII BUSINESS BOOKS AND BUSINESS REPORTS

General Provision

Article 101

A bank shall keep business books, compile bookkeeping documents, evaluate assets and liabilities and prepare financial statements in accordance with valid regulations and professional standards.

Keeping Business Books, Records and Documentation

Article 102

(1) A bank shall organize its operations and keep business books, business documentation and other records in such a way that it is possible to verify whether it operates in accordance with valid regulations and professional standards.

(2) A bank shall store bookkeeping and other documents, used as a basis for entries made in its business books, within the time limits and according to the method prescribed by the Accounting Law and/or another law.

(3) Notwithstanding the provision referred to in paragraph 2 of this Article, the bank shall store bookkeeping and other documents within the following time limits:

- 1) payment orders and other payment transaction documents used as a basis for recording changes in the accounts of the payment system participants, including documents related to the opening and closing of payment transaction accounts, shall be stored for five years;
- 2) contracts and other documents serving as a basis for changes in assets, liabilities, including contingent liabilities, and the bank capital, which are not referred to in item 1 of this paragraph, as well as bookkeeping documents used as a basis for entering data on these changes into the bank's business books, shall be stored for ten years.

(4) The time limits referred to in paragraph 3 of this Article shall mean the periods starting from the end of the year in which the change occurred, i.e. in which bookkeeping and other documents were drawn up.

Annual Report

Article 103

(1) A bank shall prepare and publish its annual report in accordance with the Accounting Law and International Accounting Standards.

(2) The annual report referred to in paragraph 1 of this Article shall also contain:

- 1) a list of shareholders whose participation in the bank capital exceeds 3%, as well as data on the amounts of their participation; and
- 2) a list of the members of the bank management board participating in the bank capital, as well as data on the amounts of their participation, regardless of how large these amounts are.

Chart of Accounts and Financial Statements

Article 104

(1) A bank shall keep business books in accordance with the chart of accounts for banks.

(2) For the purposes of the supervision of bank operations, a bank shall prepare financial statements in the form prescribed by the Croatian National Bank.

Regulation on Business Books and Business Reports

Article 105

(1) The Croatian National Bank shall prescribe:

- 1) the chart of accounts for banks;
- 2) the types and forms of financial statements of banks for the purposes of the Croatian National Bank;
- 3) the manner and time limits for the submission of the financial statements referred to in Articles 103 and 104 of this Law.

(2) For the purposes of publishing, the Croatian National Bank may prescribe the type, form and content of the financial statements, as well as the manner and time limits for their publishing.

IX INTERNAL AUDIT

Internal Audit

Article 106

A bank shall organize the internal audit that shall independently and objectively perform its operations, and contribute to the improvement of bank operations by giving advice and recommendations.

Tasks of the Internal Audit

Article 107

(1) The internal audit shall conduct ongoing supervision of the entire operations of the bank for the purpose of verifying whether the bank:

- 1) provides banking and other financial services correctly and in accordance with this Law, regulations enacted pursuant to this Law, and internal rules regulating bank operations;
- 2) keeps business books, records business events on the basis of authentic bookkeeping documents, evaluates bookkeeping entries and prepares financial and other reports in accordance with this Law, regulations enacted pursuant to this Law, and internal rules regulating bank operations;
- 3) systematically manages risks arising from business activities of the bank in accordance with the principles of stable operations, including the management of resources of the information technology and other related technologies.

(2) The internal audit shall conduct internal audits of operations in accordance with the professional principles and standards of internal auditing, the code of professional ethics of internal auditors and the rules of operation of the internal audit adopted by the supervisory board.

(3) The internal audit shall harmonize the methods of its work with the work of external auditors of the bank who audit annual financial statements or conduct a special audit at the request of the Croatian National Bank.

Persons Who Conduct Internal Audit

Article 108

(1) To conduct internal audits, a bank shall employ at least one person who has attained the title of auditor or internal auditor in accordance with the law regulating audit, or in accordance with the rules and program of a professional organization competent for vocational training of internal auditors.

(2) If several persons are entrusted with conducting internal audits, one of these persons, who fulfills the condition referred to in paragraph 1 of this Article, shall be charged with the operations of the internal audit as a whole.

(3) Prior to concluding a contract on work with the person referred to in paragraphs 1 and 2 of this Article, a bank shall be obliged to notify the Croatian National Bank of the intended appointment.

(4) By means of an exemption to the provisions of paragraph 1 of this Article, a bank with a narrower scope of operations may, with a prior approval of the Croatian National Bank, entrust the conducting of internal audits to one or several persons that are not employed in the bank, provided that at least one of these persons fulfills the condition referred to in paragraph 1 of this Article.

(5) A person who performs the tasks of internal audit may not perform other operations and tasks in the bank.

Annual Work Program of the Internal Audit

Article 109

(1) The supervisory board shall adopt the annual work program of the internal audit, taking into account the prior opinion of the bank management board.

(2) The annual work program of the internal audit shall contain:

- 1) the areas of operations where the internal audit shall conduct examination;
- 2) a description of the content of the audits planned in individual areas.

(3) The internal audit, on the basis of its annual work program, shall adopt detailed operational plans of work for the half year or shorter time periods.

Internal Audit Report

Article 110

(1) The internal audit shall prepare a report in accordance with the time limits set in the operational plan of work of the internal audit, but at least once in a half year. The internal audit report shall contain:

- 1) a description of conducted audits;
- 2) violations and irregularities, if they are established during audits;
- 3) an assessment of the appropriateness and effectiveness of the internal control systems;
- 4) proposals and recommendations for the elimination of the established violations and irregularities, and improvement and enhancement of the internal control systems;
- 5) findings connected with the elimination of the established violations and irregularities, and improvement and enhancement of the internal control systems.

(2) The internal audit shall submit reports on its work to the bank management and supervisory board.

Notification of the Bank Management and Supervisory Board

Article 111

If, in the course of examining individual segments of bank operations, the internal audit finds that unlawful operations have been performed, or that the bank has violated the rules on risk management and it is, because of that, threatened with illiquidity or insolvency, or that the safety of its operations is thereby endangered, it shall immediately notify the bank management and supervisory board.

X AUDIT

Audit of the Annual Financial Statements

Article 112

(1) The annual financial statements of a bank, consolidated annual financial statements of a banking group and the consolidated annual financial statements of the whole group, if nonfinancial institutions are also members, shall be audited by certified auditors.

(2) The audit of reports referred to in paragraph 1 of this Article shall be conducted by two or more natural persons authorized for conducting audits (hereinafter: certified auditors).

(3) A bank shall be obliged to submit to the Croatian National Bank the audited annual financial statements, audited consolidated financial statements of a banking group, and audited consolidated financial statements of the whole group within fifteen days following the date of publication of the auditor's report on the conducted audit, and at the latest within four months after the close of the business year for which the statements are prepared.

(4) An audit firm may not conduct or be entrusted by a bank with conducting an audit of the financial statements of a bank if in the previous year that audit firm derived more than a half of its total income from having audited the financial statements of that bank.

(5) An audit firm may conduct or be entrusted by a bank with conducting a maximum of four consecutive audits of the financial statements of the bank.

(6) An audit firm may not simultaneously or in the same year conduct an audit of the financial statements of a bank and provide consulting services to that bank.

(7) If an audit firm audits the financial statements of a bank contrary to any of the provisions referred to in paragraphs 4, 5 and 6 of this Article, the Croatian National Bank shall not accept the report on the audit of the financial statements of the bank for the year involved, conducted by that audit firm.

Obligations of Certified Auditors

Article 113

(1) Certified auditors shall be obliged to give opinions on whether the annual financial statements of a bank (unconsolidated and consolidated) have been prepared in accordance with regulations and professional standards.

(2) In the course of conducting an audit, certified auditors shall be obliged to immediately notify the Croatian National Bank of any noticed fact:

- 1) which is a serious violation of laws, regulations, or provisions pursuant to which the bank operating license has been issued;
- 2) which is a serious fraud or embezzlement;
- 3) which presents a significant change in the financial result reported in the unaudited annual financial statement;

- 4) which is a serious violation of the internal by-laws of a bank;
- 5) as well as of any other facts and circumstances that could endanger the continuation of the bank operation.

(3) Certified auditors shall also be obliged to notify the Croatian National Bank of any of the facts referred to in paragraph 2 of this Article of which they become aware in the course of conducting an audit of a dependent company controlled by the bank.

(4) Disclosure of any of the facts referred to in paragraphs 2 and 3 of this Article made by certified auditors shall not be considered a violation of regulations and provisions of a contract between the auditors and the bank which refer to the restriction on providing information, and the auditors shall not bear responsibility of any kind that would otherwise arise in such circumstances.

Content of Audit for the Purposes of the Croatian National Bank

Article 114

(1) In the course of conducting an audit certified auditors shall examine and give opinion primarily on:

- 1) the balance sheet;
- 2) the income statement;
- 3) changes in capital;
- 4) cash flow;
- 5) notes to the financial statements;
- 6) the amount and changes in specific reserves and written-off claims;
- 7) the amount of off-balance sheet liabilities;
- 8) adherence to the rules on risk management;
- 9) functioning of the internal audit;
- 10) the information system of the bank in accordance with the internationally accepted standards for the audit of information systems;
- 11) regularity, correctness and completeness of reports prepared for the purposes of the Croatian National Bank.

(2) The Croatian National Bank shall prescribe the form, minimum scope and content of the audit referred to in paragraph 1 of this Article.

(3) The Croatian National Bank may request the certified auditors to provide additional explanations concerning the conducted audit.

(4) If the audit has not been conducted, or if the audit report has not been prepared in accordance with paragraphs 1 and 2 of this Article, the Croatian National Bank may refuse the report and demand that the audit be performed by certified auditors employed in another audit firm at the bank's expense.

(5) If the Croatian National Bank rejects the report submitted by an audit firm, in the following five years the Croatian National Bank shall not accept bank audit reports prepared by that audit firm, of which it shall notify the audit firm in advance.

XI SUPERVISION OF BANKS

XI.1 GENERAL PROVISIONS

Supervision of Banks

Article 115

(1) The Croatian National Bank shall supervise bank operations in accordance with this Law, regulations enacted pursuant to this Law, other laws and international agreements.

(2) In discharging its supervisory functions the Croatian National Bank shall assess the lawfulness and regularity of bank operations, capability of a bank to manage operating risks, and order measures to eliminate the established violations and irregularities and to improve the bank condition.

(3) If another supervisory authority is competent for the supervision of persons connected with a bank, the Croatian National Bank may request the competent supervisory authority to provide information necessary for the purpose of bank supervision.

(4) If another supervisory authority is competent for the supervision of persons connected with a bank, the Croatian National Bank may also participate in the control of that person's business operations, together with the competent supervisory authority.

(5) Bank operations may also be supervised by other institutions, in accordance with their powers granted by law and within their field of activity.

(6) All provisions on bank supervision shall be applied, as appropriate, to the supervision of branches and representative offices of foreign banks.

Reports and Information

Article 116

(1) In the course of supervision, the Croatian National Bank may require from the bank reports and information on all matters which are, in view of the purpose of each examination, of importance for assessing whether the bank adheres to the provisions of law and regulations adopted pursuant to law, and whether it operates in accordance with its own rules.

(2) The Croatian National Bank may also request the reports and information referred to in paragraph 1 of this Article from the members of the bank management board and persons employed in the bank.

(3) The Croatian National Bank may request the persons referred to in paragraph 2 of this Article to prepare a written report or make a statement on the matters referred to in paragraph 1 of this Article. The time limit for the preparation of such reports may not be shorter than three days.

Method of Conducting Supervision

Article 117

(1) The supervision of banks shall be conducted by the analysis of financial statements and by on-site bank examination.

(2) Supervision by the analysis of financial statements shall be conducted by employees of the Croatian National Bank (persons authorized through employment) by analyzing reports and other data that banks are obliged to submit to the Croatian National Bank pursuant to the provisions of this Law within the time limits set by the regulations enacted pursuant to this Law.

(3) An on-site examination shall be conducted in the bank premises by the inspection of business books, documents and other documentation that refers to bank operations, and by verifying and examining whether the bank fulfills the technical, personnel and organizational conditions for operating in accordance with this Law.

Persons Authorized for On-Site Examination

Article 118

(1) An on-site examination of bank operations shall be conducted by a professional employee of the Croatian National Bank pursuant to the authorization of the Governor of the Croatian National Bank (hereinafter: authorized person).

(2) In addition to persons referred to in paragraph 1 of this Article, the Governor of the Croatian National Bank may authorize a certified auditor or another professionally qualified person to conduct individual tasks connected with the examination of bank operations.

On-Site Examination

Article 119

(1) A bank shall enable the authorized person, at his/her request, to conduct the examination of operations at the head office of the bank and in other localities in which the bank or another person with its authorization performs activities and operations subject to the supervision of the Croatian National Bank.

(2) A bank shall enable the authorized person, at his/her request, to conduct the control of the business books, business documentation, and administrative and business records, as well as the control of the information technology and other related technologies, to the extent necessary for conducting an individual examination or to the extent prescribed by the law regulating individual examination.

(3) A bank shall deliver to the authorized person, at his/her request, computer print outs, copies of business books, business documentation and administrative and business records in a paper form and/or in the form of an electronic record on the medium required by the authorized person. The bank shall also provide the authorized person with the standard interface providing access to the system for database management used by the bank, for the purpose of conducting an examination supported by computer programs.

(4) The examination of operations referred to in paragraphs 1 and 2 of this Article shall be conducted by the authorized person on working days. When necessary because of the extent or nature of the examination, the authorized person may also conduct the examination of operations during non-working time of the bank.

Notification of On-Site Examination

Article 120

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

(2) By means of an exemption to the provision referred to in paragraph 1 of this Article, the authorized person may deliver the notification of on-site examination as late as at the beginning of the on-site examination.

(3) The notification of on-site examination shall contain information on what, as the minimum, the bank should prepare for authorized persons for the purposes of conducting the on-site examination, except in the case referred to in paragraph 2 of this Article.

Conditions for Conducting On-Site Examination

Article 121

The bank shall provide the authorized persons with adequate premises, equipment and other conditions for conducting the on-site examination without disturbance, as well as persons who will provide access to documentation and its examination and cooperate with the authorized persons.

Examination of Computerized Business Books and Records

Article 122

(1) The bank which processes data by computer or keeps its business books and other records by computer shall, at the request of the authorized person, provide assistance for the examination of business books and records.

(2) The bank shall insure that the authorized person has at his/her disposal all that is necessary to gain an insight into:

- 1) all prescribed activities and procedures of the information system control at the levels of: (a) the bank, (b) management functions, (c) individual business processes and (d) transactions;
- 2) activities and procedures for the development, acquisition and maintenance of the information system;
- 3) policies and procedures for the safety of the information system and data protection.

(3) Any change in program solutions shall be documented in the time sequence of the creation of changes together with the day of the change. The documentation shall also show any change in the form of the database.

Examination Findings

Article 123

- (1) Following the conducted examination of bank operations, the authorized persons shall prepare findings on the conducted examination.
- (2) The procedures connected with findings on the conducted examination shall be prescribed by a decision of the Croatian National Bank.
- (3) Decisions enacted by the Croatian National Bank shall be final and an administrative lawsuit may be initiated against them.

XI.2 SUPERVISORY MEASURES

XI.2.1 General Provisions

Supervisory Measures

Article 124

- (1) The elimination of the established violations and irregularities and taking activities to improve the bank condition shall be ordered by supervisory measures. Within activities to improve the bank condition, specific conditions for bank operations may also be prescribed.
- (2) After the conducted examination, in cases when violations and irregularities have been established in the examination findings, supervisory measures shall be ordered in the form of a decision enacted by the Governor of the Croatian National Bank.
- (3) By means of an exemption to the provisions of paragraph 2 of this Article, in cases of serious violations of laws and regulations, and in cases in which it is impossible to continue the on-site examination of a bank, the Governor of the Croatian National Bank may in the course of the on-site examination instruct the bank to implement certain measures to eliminate specific violations and irregularities, which the bank shall be obliged to implement without delay.
- (4) In cases of violations of laws and regulations, and in situations when the financial position of the bank is such that its further operation is uncertain, the Croatian National Bank shall enact a decision on:
 - 1) banning the provision of specific banking services and other financial services;
 - 2) appointing special administration;
 - 3) revoking the operating license;
 - 4) initiating the compulsory liquidation of the bank; and
 - 5) submitting a proposal for the initiation of the bankruptcy proceedings to the competent court.
- (5) The Croatian National Bank shall prescribe the detailed conditions for and methods of conducting examination and adoption of supervisory measures.

XI.2.2 Elimination of Violations and Irregularities

Decision on the Elimination of Violations and Irregularities

Article 125

(1) The Governor of the Croatian National Bank shall enact a decision whereby a bank shall be instructed to eliminate the violations and irregularities if, in the course of conducting bank examination, it has been established that:

- 1) a member of the bank management board does not have the approval referred to in Article 26 of this Law;
- 2) the bank provides other financial services for which it has not obtained the approval of the Croatian National Bank, or performs activities which, in accordance with this Law, it may not perform;
- 3) the bank violates the rules on risk management;
- 4) the bank violates regulations on keeping business books and preparing reports, on internal audit or audit of annual reports;
- 5) the bank violates the obligations of reporting and notification;
- 6) the bank violates other provisions of this Law, regulations adopted pursuant to this Law, or provisions of other laws regulating bank operations.

(2) The decision referred to in paragraph 1 of this Article shall also set the time limit for the elimination of violations and irregularities.

Report on the Elimination of Violations and Irregularities

Article 126

(1) A bank shall, within the time limit referred to in paragraph 2, Article 125 of this Law, eliminate the established violations and irregularities and submit a report to the Croatian National Bank in which it shall describe the measures taken to eliminate the violations and irregularities. Documents and other evidence showing that the established violations and irregularities have been eliminated shall be attached to the report.

(2) Within 30 days after the receipt of the report referred to in paragraph 1 of this Article, the Croatian National Bank shall assess whether the violations and irregularities have been eliminated. If it establishes that the violations and irregularities have not been eliminated, the Croatian National Bank shall adopt a new measure by enacting a decision.

(3) Prior to the enactment of the decision referred to in paragraph 2 of this Article, the Croatian National Bank may conduct another examination of bank operations to the extent necessary.

(4) If the report is incomplete, the Croatian National Bank shall require from the bank to complete the report, and set the time limit for its completion.

Measures for the Implementation of Risk Management Policies

Article 127

(1) If the Croatian National Bank establishes in the course of supervision that a bank violates the regulations and rules on risk management it may:

- 1) issue a written warning to the bank;
- 2) demand that a meeting of the bank management and supervisory board be convened to consider and reach an agreement on measures to eliminate irregularities and improve the bank condition;
- 3) demand from the management and supervisory board to convene the bank general meeting.

(2) If the Croatian National Bank establishes in the course of supervision that a bank seriously violates the regulations and rules on risk management, it may enact a decision on the elimination of violations and irregularities ordering:

- 1) that measures be taken to ensure the minimum capital of the bank referred to in Article 64 of this Law, or the minimum capital adequacy ratio referred to in paragraphs 2 and 3, Article 65 of this Law;
- 2) that measures be taken to adhere to the provisions of this Law and the regulations enacted on the basis thereof, with a view to improving the bank condition or specifying conditions for bank operations;
- 3) that measures be taken to prescribe the bank operating conditions, which may include the lowest or highest interest rates, maturities of claims and liabilities and other conditions;
- 4) that measures be taken to demand a complete or partial suspension of the dividend payment or any other form of profit payment;
- 5) that measures be taken to reduce the bank operating expenses, including restriction on salaries and other income of responsible persons and other bank employees;
- 6) that measures be taken to restrict the increase in bank assets, including risky off-balance sheet items;
- 7) that measures be taken to demand from the bank or its dependent companies to change, reduce or stop performing an activity for which the Croatian National Bank has established that it had created considerable losses for the bank or which poses a significant risk for the bank;
- 8) that the bank adopt and implement measures to:
 - improve risk management,
 - improve the collection of overdue claims,
 - improve the accounting-informational system,
 - improve the functioning of the internal control systems and internal audit,
 - restrict the extension of loans and reduce or restrict bank exposure,
 - change the structure of bank services, as well as
 - other measures to enforce risk management rules;
- 9) the sale of shares and equity participation in other juridical persons, or the sale of other bank property;
- 10) that a ban be imposed on acquiring shares or equity participation in other juridical persons, establishing new branches or extending the business network in any other way, as well as on the beginning new operations;
- 11) that a ban be imposed on receiving new deposits;
- 12) that a ban be imposed on extending new loans or providing banking or other financial services to persons whose creditworthiness is inappropriate, specific bank shareholders, members of the bank management and supervisory board,

- connected companies or investment funds managed by the management company which is a connected person of the bank;
- 13) that the bank general meeting be convened;
 - 14) that one or more responsible persons be relieved of office;
 - 15) that the shareholders having qualified holdings in the bank decrease their holdings by the percentage stipulated by the Croatian National Bank; and
 - 16) that the approval for the appointment of a chairperson or member of the bank management board be revoked and a notification sent to the bank supervisory board, which shall be obliged to appoint a new chairperson or members of the bank management board within 30 days.

(3) It shall be considered that a bank seriously violates the regulations and rules on risk management if it:

- 1) fails to attain the minimum capital referred to in Article 64 or the minimum capital adequacy ratio referred to in paragraphs 2 and 3, Article 65 of this Law;
- 2) has not organized its operations or does not keep business books, business documentation and other business records in such a manner that it is at any time possible to ascertain whether the bank operates in accordance with the regulations and rules on risk management;
- 3) fails to adopt policies and procedures, adjusted to legal provisions and international standards, for an adequate evaluation of on-balance sheet and off-balance sheet items;
- 4) provides other financial services for which it has not obtained the authorization from the Croatian National Bank, or performs activities which it must not perform under this Law or any other law;
- 5) concludes legal arrangements, thereby creating its exposure to an individual person contrary to the provisions of this Law;
- 6) concludes fictitious arrangements with the intention of incorrectly presenting its financial position or exposure;
- 7) pays profit contrary to the provisions of Article 88 of this Law;
- 8) often violates the obligations concerning timely and correct reporting which are prescribed by this Law, or regulations enacted on the basis thereof;
- 9) performs operations which may jeopardize its liquidity or solvency;
- 10) does not fulfill the obligations related to the deposit insurance scheme.

Measures in Cases When the Capital Adequacy Ratio Falls Below the Minimum Article 128

(1) With respect to banks whose capital adequacy ratio is lower than the minimum ratio and higher than or equal to 3/4 of the ratio referred to in paragraphs 2 and 3, of Article 65 of this Law, the Croatian National Bank shall take one or several of the following measures:

- 1) ban any kind of profit payment;
- 2) order the reduction of bank expenses;
- 3) restrict the increase in bank assets, including risky off-balance sheet items;
- 4) ban the bank from acquiring shares and equity participation in other juridical persons, establishing new branches or extending the business network in any other way, and ban the beginning of new operations;
- 5) ban the increase in exposure to an individual person;

- 6) instruct the bank management board to propose at the general meeting the enactment of a decision to recapitalize the bank, and to implement such decision.

(2) With respect to banks whose capital adequacy ratio is lower than 3/4 and higher than or equal to 1/4 of the minimum ratio referred to in paragraphs 2 and 3, Article 65 of this Law, the Croatian National Bank shall, in addition to the measures referred to in paragraph 1 of this Article, take one or several of the following measures:

- 1) demand that the bank or its dependent companies change, reduce or stop performing a certain activity for which the Croatian National Bank has established that it had created considerable losses for the bank or which poses a significant risk for the bank;
- 2) order that the bank suspends one or more persons vested with special rights and duties;
- 3) demand that the interest rates on received deposits do not exceed the market interest rates for comparable amounts and maturities;
- 4) restrict salaries and other income of persons vested with special rights and duties and employees in the bank;
- 5) order the sale of shares or liquidation of the bank, or the sale of shares or equity participation in or liquidation of another juridical person in whose capital the bank participates if it establishes that there is a threat that the subordinate bank or other juridical person will become incapable of making payments and that it poses a significant risk for the bank;
- 6) order the sale of fixed assets of the bank.

3) If the capital adequacy ratio falls below the minimum ratio referred to in paragraphs 2 and 3, Article 65 of this Law, the Croatian National Bank may, in addition to the measures referred to in paragraphs 1 and 2 of this Article, take the measures referred to in Articles 124 and 127 of this Law.

XI.2.3 Revocation of the Authorization

Grounds for the Revocation of the Authorization for the Provision of Banking and Financial Services

Article 129

(1) In addition to the cases referred to in Article 39 of this Law, the Croatian National Bank may revoke a bank's authorization for the provision of banking and other financial services in the following cases:

- 1) if the bank does not fulfill the conditions concerning capital adequacy and other conditions for operating in accordance with the regulations on risk management;
- 2) if the bank in any way obstructs the supervision of its operations;
- 3) if the bank does not execute orders prescribed in the decision on the elimination of violations and irregularities or if it does not implement measures to improve its condition;
- 4) if the bank was instructed to implement the measure referred to in item 16 paragraph 2 Article 127 of this Law, and the supervisory board has not appointed new members of the management board within the stipulated time limit;

- 5) if there are grounds for the revocation of the approval for the acquisition of a qualifying holding referred to in Article 22 of this Law;
- 6) if the bank does not fulfill the obligations concerning deposit insurance;
- 7) if the bank does not satisfy the technical, organizational, personnel or other conditions for the provision of banking services.

(2) The Croatian National Bank shall be obliged to submit to the bank a decision on the revocation of the operating license within three days upon its enactment.

(3) The Croatian National Bank shall be obliged to publish the decision on the revocation of the operating license in the official gazette *Narodne novine*, submit it to the competent commercial court and issue a press release regarding the revocation.

Revocation of the Authorization for the Provision of Specific Financial Services

Article 130

(1) If a bank does not fulfill the technical, personnel, organizational or other conditions for the provision of specific types of financial services, the Croatian National Bank may, instead of revoking the authorization, by enacting a decision, revoke the authorization for the provision of services for which the bank does not fulfill conditions.

(2) The provisions of Article 129 of this Law shall be applied, as appropriate, on the ban on providing specific types of services.

Liability for Damage

Article 131

Employees of the Croatian National Bank, members of the Council of the Croatian National Bank or other persons authorized by the Croatian National Bank, shall not be liable for damage that may arise in the course of performing their duties within this Law, Law on the Croatian National Bank or regulations enacted pursuant to these laws, unless it is proven that they have acted or failed to act on purpose or due to gross negligence.

XII REPORTING

Regular Reporting

Article 132

(1) A bank shall submit reports to the Croatian National Bank on the following facts and circumstances immediately upon their occurrence:

- 1) data on changes in bank's head office and address;
- 2) convention of the general meeting of shareholders and all decisions adopted at the meeting;
- 3) removal from office or appointment of members of the management and supervisory boards;

- 4) intended opening, transfer, closing or temporary termination of operations of a branch or representative office, or changes in the types of services provided by the branch;
- 5) every planned change in bank capital amounting to or exceeding 10 percent;
- 6) cessation of providing certain banking and other financial services;
- 7) other facts and circumstances subject to reporting requirements under this Law.

(2) The management board of a bank shall immediately notify the Croatian National Bank:

- 1) if bank's liquidity or solvency is threatened;
- 2) if grounds occur for expiry or revocation of the authorization for the provision of banking services, or grounds for a ban on providing other specific financial services;
- 3) if financial position of a bank changes to such an extent that the bank no longer attains the minimum capital referred to in Article 64 of this Law or the minimum capital adequacy ratio referred to in paragraphs 2 and 3, Article 65 of this Law.

(3) A bank shall report to the Croatian National Bank without delay on all facts that are entered in the Register of Companies, i.e. on any submitted application to enter data in the Register of Companies, as well as on any change in the data entered in the Register of Companies.

Reporting at the Request of the Croatian National Bank

Article 133

A bank shall, at the request of the Croatian National Bank, submit reports and information on all matters relevant for conducting supervision or fulfilling other tasks within the competence of the Croatian National Bank.

Reporting Regulation

Article 134

The Croatian National Bank may prescribe the content, form and method of the reporting referred to in Article 132 of this Law.

XIII SPECIAL ADMINISTRATION

Decision on the Special Administration

Article 135

(1) The Croatian National Bank shall issue a decision on appointing the special administration in the bank in the following cases:

- 1) if it instructed a bank to take measures referred to in paragraphs 2 and 3, Article 128 of this Law and the bank did not implement or did not begin

- implementing these measures within the time limits set for their implementation;
- 2) if the capital adequacy ratio falls below 1/4 of the minimum ratio referred to in paragraphs 2 and 3, Article 65 of this Law.

(2) The Croatian National Bank may also appoint the special administration in a bank if the shareholder who was instructed to implement the measure referred to in Article 127 paragraph 2 item 15 of this Law does not act upon the decision of the Croatian National Bank. In such an event the Croatian National Bank may organize the sale of shares owned by shareholders with qualified holdings in the bank in the way regulated by Article 142 of this Law.

(3) By means of an exemption to the provisions of paragraph 1 of this Article, the Croatian National Bank may postpone the issuing of the decision on the appointment of the special administration, if it has established the facts that are very likely to improve the bank condition.

(4) By means of an exemption to the provisions of paragraph 1 of this Article, the Croatian National Bank shall submit the proposal for initiating bankruptcy proceedings, if it has assessed that the appointment of the special administration would not result in the improvement of the bank condition.

(5) The decision on the appointment of the special administration issued by the Croatian National Bank shall determine the grounds for appointing the special administration, number of its members, type and scope of activities performed and/or managed by an individual member of the special administration, as well as a maximum period of the special administration, which may not exceed one year, counting from the day on which the decision is delivered to the bank.

Members of the Special Administration

Article 136

- (1) The special administration shall have at least two members.
- (2) Members of the special administration shall be appointed and relieved of office by the Council of the Croatian National Bank in cooperation with the institution competent for deposit insurance.
- (3) If the institution competent for deposit insurance fails to propose the appointment and relief of office of the members of the special administration within the period specified in the request issued by the Croatian National Bank, the Council of the Croatian National Bank shall adopt a decision on the appointment and relief of office of the members of the special administration.

Enrollment in the Register of Companies

Article 137

- (1) The decision on the appointment of the special administration shall be enrolled in the Register of Companies. At the same time, the corresponding change of the persons authorized to act on behalf of a bank shall also be entered.

(2) The proposal for enrolling the data referred to in paragraph 1 of this Article shall be filed by the special administration within three working days after the decision has been issued. The decision on the appointment of the special administration must be enclosed with the proposal.

Legal Effects of the Special Administration

Article 138

(1) During the period of the special administration, the tasks within the competence of the supervisory board shall be performed by a separate body appointed by the Croatian National Bank.

(2) The Croatian National Bank shall have the right to give binding instructions to the special administration for managing bank operations.

(3) The provisions of this Law referring to a member of the management board shall apply to a member of the special administration as well, unless otherwise provided for by the Croatian National Bank in the instructions referred to in paragraph 2 of this Article.

(4) On the day the decision on the appointment of the special administration is delivered to the bank, all competencies and powers vested in the former members of the management and supervisory board shall cease to apply, including the competencies of the general meeting of bank shareholders, apart from the competencies referred to in Article 141 of this Law.

(5) The decisions within the competence of the general meeting of shareholders, excluding those referred to in Article 141 of this Law, shall be adopted by the Croatian National Bank.

Powers During the Period of the Special Administration

Article 139

(1) Former members of the bank management board, other authorized persons vested with special rights and duties, as well as other employees shall be obliged to immediately allow access to the special administration to all business and other documentation of the bank and prepare a report on the transfer of operations.

(2) Former members of the bank management board shall give to the special administration or individual member of the special administration all explanations or additional reports on the bank operations.

(3) A member of the special administration shall have the right to dismiss a person who hinders his/her work and, as circumstances may require, request the assistance of the Ministry of the Interior.

Reports of the Special Administration

Article 140

(1) At least once in a quarter, the special administration shall deliver to the Croatian National Bank a report on financial position and operating conditions of a bank under special administration.

(2) The special administration shall prepare and deliver to the Croatian National Bank, within six months following the appointment of the special administration, a report on financial position and operating conditions of a bank under special administration, along with the assessment of the bank's stability and possibility of its further operation, which shall include the following:

- 1) assessment of willingness of bank shareholders to provide the coverage of bank losses by additional funds;
- 2) possibility of covering the remaining losses of a bank (after the option referred to in item 1 of this paragraph has been exhausted);
- 3) unforeseen expenditures which can affect bank's obligations;
- 4) assessment of possible measures to eliminate financial difficulties of the bank together with an assessment of costs of implementing these measures;
- 5) assessment of conditions for initiating compulsory liquidation or bankruptcy of a bank.

(3) The time limit for the delivery of the reports referred to in paragraph 2 of this Article may be shorter, if provided so by the decision of the Croatian National Bank on the appointment of the special administration.

Increase in Share Capital of a Bank for the Purpose of Assuring Economic Stability of a Bank

Article 141

(1) Provided that the Croatian National Bank estimates, based on the report of the bank's special administration referred to in Article 140 of this Law, that the share capital of a bank must be increased through new financial investments, in order to assure the minimum capital of the bank referred to in Article 64 of this Law or the minimum capital adequacy ratio referred to in paragraphs 2 and 3, Article 65 of this Law; or to eliminate the causes of bank's illiquidity and/or insolvency, it shall instruct the special administration to convene the general meeting of bank shareholders and propose the adoption of the decision on the increase in share capital.

(2) The special administration shall announce the convention of the general meeting of shareholders for the purpose of deciding on the increase in share capital referred to in paragraph 1 of this Article, no later than eight days following the receipt of the Croatian National Bank's instruction referred to in paragraph 1 of this Article, and the general meeting of shareholders shall be convened no later than fifteen days following the announcement of the convention.

(3) When convening the general meeting of shareholders, the shareholders must be advised of the legal effects of Article 142 of this Law.

Right to Redeem the Shares of a Bank

Article 142

(1) If the general meeting of bank shareholders refuses the proposal referred to in paragraph 1, Article 141 of this Law, or if the issue of bank shares pursuant to a decision adopted by the general meeting of shareholders at the proposal referred to in paragraph 1, Article 141 of this Law is not successful, the Croatian National Bank may instruct the special administration to organize the sale of the existing shares of the bank to interested new investors for the purpose of changing the existing ownership structure.

(2) In the case referred to in paragraph 1 of this Article, the special administration shall be obliged to announce a public auction for the sale of the existing shares of the bank, within 60 days counting from the day of enactment of the decision by the Croatian National Bank.

(3) In announcing the public auction, the special administration shall set the opening price of shares which shall equal their book value determined on the basis of audited financial statements of the bank.

(4) At the public auction, the special administration of the bank shall sell the shares of the bank to the investors bidding the highest price above the opening price provided that they fulfill the conditions for the acquisition of a qualifying holding referred to in Articles 20 and 21 of this Law. If nobody bids the opening price at the public auction, the special administration of the bank shall offer the shares at the price which is 10 percent lower than the opening price and shall continue to lower the offered price by the same percentage of the opening price until one or more investors declare that they are prepared to redeem the offered shares.

(5) The special administration of the bank may impose additional conditions for new investors regarding the bank recapitalization, as a part of the offer for sale of the existing shares of the bank.

(6) Parallel to the auction announcement, the special administration of the bank shall issue an order to the Central Depository Agency to enter the ban on the use of the bank shares into the central register.

(7) The Central Depository Agency shall transfer the shares of the bank to the account of investors, when it receives the notification from the Croatian National Bank that the investors have fulfilled the assumed obligations to the former shareholders, including the assumed obligations regarding the bank recapitalization, if such an obligation was taken on by the investors.

Assessment of the Special Administration's Results

Article 143

(1) Provided that the Council of the Croatian National Bank assesses that financial position of a bank has improved during the period of special administration so that the bank has attained the minimum capital referred to in Article 64 and the minimum capital adequacy ratio referred to in paragraphs 2 and 3, Article 65 of this Law, and that it meets its due obligations in a timely manner, the Council of the Croatian National Bank shall instruct the special administration to convene the general meeting of shareholders.

(2) At the general meeting shareholders shall elect a new supervisory board, whereby the competencies of the separate body cease to apply. Under the approval

of the Croatian National Bank, the supervisory board shall appoint the bank management board. The competencies of the special administration shall cease to apply on the day of the appointment of the management board.

(3) Provided that the Council of the Croatian National Bank assesses that financial position of a bank has not improved during the period of special administration so that the bank has attained the minimum capital referred to in Article 64 and the minimum capital adequacy ratio referred to in paragraphs 2 and 3, Article 65 of this Law, or that it is not capable of meeting its due obligations in a timely manner, it shall issue a decision on initiating the compulsory liquidation or a decision on the establishment of the grounds for submitting the proposal for initiating bankruptcy proceedings against a bank.

(4) In the case referred to in paragraph 3 of this Article, the Council of the Croatian National Bank may also issue a decision on the extension of the special administration mandate to a maximum period of six months, if there are no grounds for initiating bankruptcy proceedings against the bank or if the Croatian National Bank assesses that within the following six months the bank will become capable of attaining the minimum capital referred to in Article 64 and the minimum capital adequacy ratio referred to in paragraphs 2 and 3, Article 65 of this Law, and that it will meet its due obligations in a timely manner.

XIV LIQUIDATION OF A BANK

XIV.1 VOLUNTARY LIQUIDATION OF A BANK

Initiating Voluntary Liquidation Proceedings

Article 144

(1) The general meeting of shareholders of a bank may adopt a decision on bank dissolution.

(2) Prior to enacting the decision referred to in paragraph 1 of this Article, the bank management and supervisory board shall consult with the Croatian National Bank.

(3) Bank liquidation trustees shall be obliged to notify the Croatian National Bank of the decision referred to in paragraph 1 of this Article on the first working day following its enactment.

(4) The bank shall be obliged to publish the decision referred to in paragraph 1 of this Article in the official gazette *Narodne novine* and in at least two daily newspapers in the Republic of Croatia.

Voluntary Liquidation Proceedings

Article 145

(1) The provisions of the Company Law related to the liquidation of a joint stock company shall apply to voluntary liquidation proceedings against a bank, unless otherwise provided for by this Law.

(2) A bank shall also undergo liquidation proceedings when the general meeting of the bank shareholders enacts a decision on modifying the activities of the bank as a joint stock company so that the company no longer provides banking services.

Bank Liquidation Trustees in Voluntary Liquidation Proceedings

Article 146

(1) The bank shall have at least two liquidation trustees.

(2) Only the person meeting the conditions for membership in the bank management board in accordance with Article 25 of this Law may be appointed bank liquidation trustee.

Application of the Provisions of This Law during Voluntary Liquidation Proceedings

Article 147

(1) A bank that is undergoing voluntary liquidation proceedings shall observe, as appropriate, the provisions of this Law.

(2) The Croatian National Bank may stipulate the manner of applying the provisions of this Law in cases referred to in paragraph 1 of this Article.

Notifying the Croatian National Bank

Article 148

If liquidation trustees establish that the assets of the bank in liquidation are insufficient for the settlement of all claims of its creditors, they shall immediately submit a proposal for the initiation of bankruptcy proceedings and notify the Croatian National bank thereof.

XIV.2 COMPULSORY LIQUIDATION OF A BANK

Grounds for the Initiation of Compulsory Liquidation

Article 149

(1) The Croatian National Bank shall issue a decision on the initiation of compulsory liquidation in the following cases:

- 1) if, on the basis of the report referred to in paragraph 2, Article 140 of this Law, the Croatian National Bank assesses that the financial position of a bank has not improved during the period of special administration to the extent allowing a bank to attain the minimum capital referred to in Article 64 and the minimum capital adequacy ratio referred to in paragraphs 2 and 3, Article 65 of this Law, and that there are no conditions for initiating bankruptcy proceedings;
- 2) if the general meeting of shareholders rejects the proposed decision referred to in paragraph 1, Article 141 of this Law, or if the first sale of shares, based on the decision adopted by the general meeting of shareholders at the proposal referred to in paragraph 1, Article 141 of this Law, is not successful, and there are no conditions neither for the realization of a redemption right

referred to in Article 142 of this Law nor for the initiation of bankruptcy proceedings;

- 3) if the bank's authorization for the provision of banking services has been revoked due to reasons referred to in items 2 through 5, paragraph 1, Article 39 of this Law;
- 4) if it concludes that voluntary liquidation proceedings could inflict damage on the bank creditors;
- 5) if the management board member's approval for performing the function of a member of the bank management board was revoked, if the member was dismissed, or if the member has not performed the function of a management board member for more than six months, and the supervisory board has failed to appoint a new member of the management board within the following three months in accordance with this Law, as a result of which the bank does not have the required minimum of two members of the management board.

(2) The Croatian National Bank shall issue a decision on the initiation of compulsory liquidation within the period of thirty days, starting:

- 1) in the case referred to in item 1, paragraph 1 of this Article, from the expiry of the time limit for the receipt of the final report of the special administration, referred to in paragraph 2, Article 140 of this Law;
- 2) in the case referred to in item 2, paragraph 1 of this Article, from the date on which the general meeting of shareholders rejected the proposal referred to in paragraph 1, Article 141 of this Law, or from the date of expiry of the time limit for subscription and payment of shares on the basis of the unsuccessful first sale;
- 3) in the case referred to in item 5, paragraph 1 of this Article, from the expiry of a three-month period for the appointment of a new member of the management board.

(3) When it establishes that there are grounds referred to in paragraph 1 of this Article, the Croatian National Bank shall, in parallel with enacting a decision on the initiation of compulsory liquidation, enact a decision on the revocation of the operating license.

Decision on Compulsory Liquidation

Article 150

(1) By the decision referred to in Article 149 of this Law, the Croatian National Bank shall appoint the institution competent for deposit insurance as liquidation trustee.

(2) The Croatian National Bank shall publish the decision on the initiation of compulsory liquidation proceedings in the official gazette *Narodne novine*, as well as in at least two daily newspapers in the Republic of Croatia, and submit it to the competent commercial court.

(3) The Croatian National Bank shall submit the decision on the compulsory liquidation of a bank to the institution competent for deposit insurance within three days from its enactment.

(4) As soon as it receives the decision referred to in paragraph 1 of this Article, the institution competent for deposit insurance shall undertake all actions necessary for protecting the rights of bank creditors.

Bank Liquidation Trustees in Compulsory Liquidation Proceedings

Article 151

(1) The institution competent for deposit insurance shall be obliged to appoint two or more liquidation trustees within eight days from the receipt of the decision referred to in Article 150 of this Law.

(2) Only the person meeting the conditions for membership in the bank management board in accordance with Article 25 of this Law may be appointed bank liquidation trustee.

Legal Effects of Compulsory Liquidation

Article 152

(1) As of the date of enacting the decision on compulsory liquidation, all competencies and powers of the members of the bank management and supervisory board shall be terminated, as well as the powers of the general meeting of shareholders.

(2) During the compulsory liquidation proceedings, the competencies of the bank supervisory board and general meeting of the shareholders shall be exercised by the institution competent for deposit insurance.

Compulsory Liquidation Proceedings

Article 153

The provisions of the Company Law related to the liquidation of a joint stock company shall apply to the compulsory liquidation proceedings of a bank, unless otherwise provided for by this Law.

Notification of the Croatian National Bank

Article 154

(1) If liquidation trustees establish that the assets of the bank in liquidation are insufficient for the settlement of all claims of its creditors, they shall immediately submit a proposal for the initiation of bankruptcy proceedings and notify the Croatian National bank thereof.

(2) At the request of the Croatian National Bank, the institution competent for deposit insurance shall submit a report on liquidation proceedings.

Application of the Provisions of This Law during Compulsory Liquidation

Article 155

(1) A bank that is undergoing compulsory liquidation proceedings shall observe, as appropriate, the provisions of this Law.

(2) The Croatian National Bank may stipulate the manner of applying the provisions of this Law in cases referred to in paragraph 1 of this Article.

XV BANKRUPTCY OF A BANK

Application of the Provisions on Bankruptcy Proceedings

Article 156

Unless otherwise regulated by this Law, the provisions of the Bankruptcy Law shall apply to the bankruptcy of a bank.

Grounds for Bankruptcy

Article 157

The Croatian National Bank shall issue a decision on the establishment of the grounds for submitting a proposal for the initiation of bankruptcy proceedings in the following cases:

- 1) provided that in conducting the bank examination it has established that a bank is insolvent;
- 2) provided that, based on the report referred to in paragraph 2, Article 140 of this Law, it has established that a bank is insolvent;
- 3) if the liquidation trustee has failed to act in accordance with the provisions of Article 148 or paragraph 1, Article 154 of this Law, although it was established in liquidation proceedings that the bank assets were insufficient for the settlement of all claims of its creditors.

Initiation of Bankruptcy Proceedings

Article 158

(1) The Croatian National Bank shall submit a written proposal for the initiation of bankruptcy proceedings to the competent court within three working days from the issue of the decision on the establishment of the grounds for initiating bankruptcy proceedings. The decision on the establishment of the grounds for initiating bankruptcy proceedings shall be enclosed with the proposal.

(2) The proposal for the initiation of bankruptcy proceedings against a bank may also be submitted by bank creditors and the bank itself.

(3) The court shall reach a decision on the proposal for the initiation of bankruptcy proceedings within 15 days from the receipt of the proposal referred to in paragraphs 1 and 2 of this Article, and shall notify the Croatian National Bank thereof.

Bankruptcy Trustees

Article 159

(1) Bankruptcy proceedings against a bank shall be conducted by at least two bankruptcy trustees. Bankruptcy trustees shall be appointed by the court upon recommendation by the institution competent for deposit insurance.

(2) The persons appointed bankruptcy trustees must fulfil the conditions for appointing a bankruptcy trustee pursuant to the Law on Bankruptcy.

(3) If there are grounds for dismissing a bankruptcy trustee, the court shall, prior to the decision to dismiss him/her, inform the institution competent for deposit insurance of his/her dismissal and call upon it to make a statement regarding these grounds within a period which shall neither be shorter than three nor longer than eight days.

Remuneration and Compensation for the Expenses of Bankruptcy Trustees

Article 160

(1) The provisions of the Law on Bankruptcy related to the list of bankruptcy trustees, remuneration for their work and compensation for their expenses shall not apply to bank bankruptcy trustees.

(2) Remuneration for work and compensation for the expenses of bankruptcy trustees shall be determined by the institution competent for deposit insurance and settled as bankruptcy costs.

Creditors' Meeting

Article 161

(1) The provisions of the Law on Bankruptcy related to the creditors' meeting shall not apply in bank bankruptcy proceedings.

(2) The creditors' committee shall have all the powers held by the creditors' meeting under the provisions of the Law on Bankruptcy.

Preliminary Proceedings

Article 162

(1) The following provisions of the Law on Bankruptcy shall not apply in cases when bankruptcy proceedings are initiated at the proposal of the Croatian National Bank: the provision on the initiation of preliminary proceedings, the provision on the obligation to present data during preliminary proceedings, the provision on the interim bankruptcy trustee, the provision on the hearing about giving statements on the proposal for the initiation of bankruptcy proceedings, the provision on the examination of the economic and financial position of the debtor and the provision on the cases when the examination of the economic and financial position of the debtor shall not be undertaken.

(2) The provision of the Law on Bankruptcy related to the assumption of debt shall be applied, as appropriate, for the whole duration of bankruptcy proceedings.

Time Limits for Reporting Claims and the Convening of the Examination Hearing

Article 163

(1) The time limit for reporting claims, set by the decision on the initiation of bankruptcy proceedings, may not exceed twenty days.

(2) By the decision on the initiation of bankruptcy proceedings, the bankruptcy council shall convene the creditors' meeting during which the reported claims shall be examined (examination hearing). The period between the last day of the time limit for reporting claims and the examination hearing shall be neither shorter than eight days nor longer than thirty days.

Subsequent Reporting

Article 164

At the proposal of bankruptcy trustees, claims reported after the expiry of the time limit for reporting may be examined at the examination hearing. Claims reported after the expiry of the time limit for reporting, which were not examined at the examination hearing, as well as claims reported within a month following the first examination hearing, but not after the announcement of the invitation for the final hearing, may be examined pursuant to the provisions of the Law on Bankruptcy related to subsequent reporting.

Household Claims against a Bank in Bankruptcy Based on Foreign Exchange Deposits

Article 165

As of the day bankruptcy proceedings are initiated, household claims against a bank in bankruptcy based on foreign exchange deposits, which were under special regulations converted into the public debt of the Republic of Croatia shall cease pursuant to these regulations, the bonds of the Republic of Croatia shall be issued in exchange for foreign exchange deposits.

Postponement of the Examination Hearing

Article 166

The examination hearing convened by the decision on the initiation of bankruptcy proceedings may not be postponed more than twice, while a new examination hearing must be held within thirty days following the decision on the postponement.

Examination of and Giving Statements on Reported Claims

Article 167

The bankruptcy trustees shall be obliged to examine all reported claims prior to the examination hearing and give their statements on those claims at that hearing.

Realization of Assets of the Bank in Bankruptcy

Article 168

(1) A bankruptcy trustee shall be obliged to perform the liquidation of assets of a bank in bankruptcy within five years, starting from the day of the initiation of bankruptcy proceedings. Assets of a bank in terms of this paragraph shall include all forms of property representing the assets of the bank in bankruptcy, with the exception of cash.

(2) Provided that all the assets of the bank in bankruptcy are not realized within the time limit referred to in paragraph 1 of this Article, the bankruptcy council shall, at the proposal of the bankruptcy trustee, within the following 30 days order the liquidation of the assets of the bank in bankruptcy as an entirety. A prior approval by bank creditors shall not be required for the adoption of the decision referred to in this paragraph.

(3) On the basis of the decision referred to in paragraph 2 of this Article, a bankruptcy trustee shall undertake the activities necessary for the realization of the assets of the bank in bankruptcy as an entirety at the public auction. When announcing the public auction, the bankruptcy trustee shall set the opening price of assets, which shall equal their book value. If nobody bids the opening price at the public auction, the opening price shall be reduced by 10 percent, and shall be further lowered by the same percentage of the opening price until one of the bidders accepts the offered price.

(4) Following the realization of the assets of the bank in bankruptcy, by applying the procedure referred to in paragraph 3 of this Article, or in case the realization of assets was unsuccessful, the bankruptcy council shall no later than 180 days from the day of the adoption of the decision referred to in paragraph 2 of this Article, enact a decision on the completion of bankruptcy proceedings on the basis of which the bank shall be deleted from the Register of Companies and shall cease to exist as of that day.

Notification of the Croatian National Bank

Article 169

The court shall also present a copy of the bankruptcy trustee's report on the course of bankruptcy proceedings to the Croatian National Bank.

Claims with a Higher Order of Priority

Article 170

(1) Claims with a higher order of priority shall include:

- 1) claims of employees of a debtor in bankruptcy, claims of the Croatian Institute for Health Insurance and Croatian Pension Insurance Institute, claims that are to be settled from these claims as provided by the law (e.g. wage contributions), apart from the claims for which it is legally provided that they will be settled as bankruptcy proceedings costs or as other liabilities of the bankruptcy estate;
- 2) claims of the Croatian National Bank, claims based on tax, other claims constituting the revenues of the central government budget, revenues of local government and self-government units;
- 3) the difference between the total amount of household claims based on deposits, current and giro accounts, deposits in foreign exchange accounts and the paid out amount based on deposit insurance with the State Agency for Deposit Insurance and Bank Rehabilitation;
- 4) claims of natural and juridical persons who are not shareholders of a bank in bankruptcy;
- 5) claims of the State Agency for Deposit Insurance and Bank Rehabilitation based on insured deposits, pursuant to a special law;

- 6) claims of holders of hybrid and subordinate debt instruments that were issued on condition that claims arising from them have a higher order of priority in case of bankruptcy than claims of shareholders and owners of other hybrid and subordinate debt instruments.

(2) Provided that after the completion of bankruptcy proceedings and settlement of all debts, there are assets remaining in the bankruptcy estate, these assets shall be distributed to bank shareholders pursuant to the bank's Articles of Association and other by-laws of the bank.

XIV CONSUMER PROTECTION

Definition of Term

Article 171

"Consumer" in terms of the provisions of this Law shall imply any natural person - citizen, who is a user of the banking services referred to in Article 3 of this Law, as well as of other financial services referred to in Article 6 of this Law, provided that these other financial services are rendered by a bank.

Contracting Services

Article 172

(1) A bank shall be obliged to conclude a contract with a consumer on providing a specific banking service.

(2) Prior to concluding the contract referred to in paragraph 1 of this Article, the bank shall be obliged to present to the consumer or put at his/her disposal, all the relevant terms of a contract which clearly indicate rights and obligations of the contracting parties.

(3) The contract referred to in paragraph 1 of this Article shall be concluded in a written form. Following its conclusion, the bank shall be obliged to deliver at least one copy to the consumer.

(4) The contract referred to in paragraph 1 of this Article may be concluded by means of an electronic signature, unless a special law or regulation based on a law explicitly requires that paper documents should bear personal signatures or that signatures should be authenticated.

Disclosure of General Operating Conditions

Article 173

(1) A bank shall be obliged to disclose information on the terms of providing services to consumers in an appropriate place within its business premises.

(2) In addition to the obligatory manner of providing information to consumers on the terms of providing services referred to in paragraph 1 of this Article, the bank may provide the same information in some other appropriate manner.

(3) Information referred to in paragraph 1 of this Article, related to the extension of loans, shall imply the following:

- 1) current annual nominal rates of regular and default interest;
- 2) method of calculating interests (application of simple or compound interest);
- 3) conditions under which regular and default interest rates may be changed during the period of utilization, i.e. loan repayment;
- 4) fees or compensations charged to a loan user by a bank (apart from declared nominal interest rate);
- 5) effective interest rates reflecting the overall loan price, calculated in accordance with the regulations of the Croatian National Bank;
- 6) amount of principal and interest repayment (including other expenses) for the respective amount of loan, repayment period, number and amount of installments;
- 7) terms of savings or depositing cash with a bank, if this is a prerequisite for loan extension;
- 8) possibilities and terms of offsetting loans against savings deposits or cash deposits, referred to in the previous item;
- 9) instruments of collateral and other terms as provided by a bank.

(4) Information, referred to in paragraph 1 of this Article, related to the receipt of deposits, shall imply the following:

- 1) current annual nominal interest rates;
- 2) method of calculating interests (application of simple or compound interest);
- 3) conditions under which interest rates may be changed ;
- 4) fees for maintaining the accounts and other similar fees or commissions, if they are charged against a depositor by a bank;
- 5) effective interest rates reflecting the overall return on deposit, calculated in accordance with the regulations of the Croatian National Bank;
- 6) basic information on deposit insurance.

Regulation of the Contract Content

Article 174

The Croatian National Bank may prescribe:

- 1) the uniform method of calculating and disclosing loan and deposit prices (effective rates referred to in item 5, paragraph 3 and item 5, paragraph 4 of Article 173 of this Law);
- 2) other mandatory elements of the loan contract and cash deposit contract, as well as attachments to these contracts.

Notification of Consumers

Article 175

(1) A bank shall be obliged to notify a consumer in an agreed upon manner, but not less than once a year, of the balance in his/her credit or deposit account, i.e. to disclose such information to consumers.

(2) Where variable interest rates have been contracted, a bank shall be obliged to notify the consumer, through the mass media or in some other appropriate manner, of the interest rate changes prior to their application.

Consumers' Complaints

Article 176

(1) In case a consumer considers that a bank is not compliant with the terms of the contract on the provision of banking and other financial services, he/she may file a complaint about bank actions with the following authorities:

- 1) competent organizational unit within the bank;
- 2) internal audit of the bank;
- 3) consumer protection association;
- 4) competent regional office of the State Inspector's Office;
- 5) other competent authorities.

(2) The Croatian National Bank, within its competence in the bank supervision area, shall be authorized to inspect whether a bank complies in general with good business practices, disclosed general operating conditions and contracts concluded with its clients. However, it shall not be obliged to respond to individual complaints of bank clients.

Application of the Separate Law

Article 177

Apart from the provisions of Articles 171 through 176 of this Law, the rights of bank clients (natural persons) shall be protected by a separate law regulating consumer protection, whereby the provisions of this Law related to the obligation of guarding the banking secret should be observed.

XVII BUILDING SOCIETIES

Building Societies

Article 178

The provisions of this Law shall apply to the building societies established in accordance with the provisions of the Act on Saving with a Building Society and Government Incentive to Saving with a Building Society, unless otherwise regulated by other laws.

Capital

Article 179

(1) The minimum share capital required for the establishment of a building society shall be 20 million kuna.

(2) The regulatory capital of a building society shall not be lower than the minimum amount of share capital referred to in paragraph 1 of this Article.

Name Protection

Article 180

(1) No one shall use the term "savings bank" or a derivative from this word to denote a business activity or a company, apart from a building society and bank referred to in paragraph 4, Article 190 of this Law, unless otherwise provided by another law.

XVIII ASSOCIATION OF BANKS

Association of Banks

Article 181

(1) Banks may join the association of banks established as a trade association or some other association of economic subjects pursuant to a special law.

(2) Apart from the tasks defined in its Statute, the association of banks may:

- organize a deposit insurance scheme, guaranteeing for the amounts above those defined by the Deposit Insurance Law;
- organize the exchange of information on creditworthiness for the purpose of protection against credit risk;
- provide advanced training for bank employees and issue certificates on the completed advanced training.

(3) Banks may not enter into any written or verbal agreements with other banks or banking associations, which may restrict free market competition in banking.

(4) For the purposes of implementing paragraph 3 of this Article, the association of banks shall provide the Croatian National Bank with its Statute, as well as with all agreements, understandings and other arrangements.

(5) For the purposes of implementing paragraph 3 of this Article, the bank shall provide the Croatian National Bank with all agreements, understandings and other arrangements concluded with other banks.

XIX PENAL PROVISIONS

Violations by Banks

Article 182

(1) A bank shall be fined from 500,000 to 1,000,000 kuna:

- 1) if it provides financial services other than those for which it received the authorization from the Croatian National Bank (paragraph 2, Article 6 of this Law);
- 2) if it performs activities that are not considered banking services, other financial services and ancillary banking services, and that are not within the field of activity of the bank pursuant to another law;
- 3) if it extends loans or issues guarantees contrary to the provisions of Article 17 of this Law;

- 4) if the preference shares of the bank exceed the limit referred to in Article 18 of this Law;
- 5) if it acquires shares or equity participation in another bank or in another financial institution contrary to the provisions of Article 19 of this Law;
- 6) if it allows a voting right to a shareholder contrary to the provisions of Article 22 of this Law;
- 7) if it violates the provisions on the management board and the employment status of the management board referred to in Articles 23 and 24 of this Law;
- 8) if it violates the provisions of Article 27 of this Law;
- 9) if its supervisory board is composed contrary to the provisions of paragraphs 1 and 2, Article 30 of this Law;
- 10) if it begins to provide banking services in a Member State contrary to the provisions of Articles 41 or Article 42 of this Law;
- 11) if it establishes a branch abroad without having obtained the authorization for the establishment of a branch from the Croatian National Bank;
- 12) if it calculates regulatory capital contrary to the regulations enacted on the basis of Article 63 of this Law;
- 13) if it contravenes the provision on the amount of regulatory capital referred to in Article 64 of this Law;
- 14) if it contravenes the provisions on the minimum capital adequacy ratio referred to in paragraphs 2 and 3, Article 65 of this Law;
- 15) if it calculates risk weighted assets contrary to the regulations enacted pursuant to Article 66 of this Law;
- 16) if it plans and implements risk management measures contrary to the provisions referred to in Article 67 of this Law;
- 17) if it measures, assesses and manages risks contrary to the regulations enacted pursuant to Article 68 of this Law;
- 18) if it fails to assess credit risk on a continuous basis and form reserves for the coverage of losses in accordance with the regulations enacted pursuant to Article 69 of this Law;
- 19) if it acts against the regulations enacted pursuant to Article 70 of this Law;
- 20) if it acts against the provisions of Articles 75, 76 and 77 of this Law, concerning permissible exposure;
- 21) if it enters into a legal arrangement as a result of which bank exposure to persons in a special relationship with the bank would arise or increase contrary to paragraph 2, Article 78 of this Law;
- 22) if it manages its assets and liabilities contrary to the provisions of Article 79 of this Law;
- 23) if it violates the provisions of paragraph 3, Article 81 of this Law;
- 24) if it contravenes the provisions on the limitation of investments referred to in Articles 82 and 83 of this Law;
- 25) if it makes investments without a prior approval of the Croatian National Bank, referred to in paragraphs 1 and 2, Article 84 of this Law;
- 26) if it violates the provisions of paragraph 5, Article 84 of this Law while establishing a juridical person;
- 27) if it fails to submit reports to the Croatian National Bank with the content, within the time limit and in the manner prescribed by the regulation adopted pursuant to Article 87 of this Law;
- 28) if it makes either a profit payment or an advance profit payment, contrary to the provisions of Article 88 of this Law;
- 29) if it does not immediately adopt measures for ensuring the minimum capital and the minimum capital adequacy ratio and notify the Croatian National Bank thereof, in accordance with Article 89 of this Law;

- 30) if, as a superordinate bank in a banking group, it fails to prepare and submit consolidated financial statements in the manner, extent and with the content prescribed by the regulation adopted pursuant to paragraph 3, Article 94 of this Law, or if, at the instruction of the Croatian National Bank referred to in paragraph 4, Article 94 or Article 95 of this Law, it fails to carry out the consolidation of individual items or individual operations or groups of operations, or the complete consolidation of the financial statements;
- 31) if it fails to submit notifications and information to the Croatian National Bank in accordance with the provisions of Article 96 of this Law;
- 32) if it fails to deliver to a superordinate bank in a banking group the information required for consolidation;
- 33) if it keeps business books, prepares bookkeeping statements, evaluates bookkeeping entries or prepares financial statements contrary to the provisions of Articles 101, 102, 103 or 104 of this Law or contrary to the regulations adopted pursuant to Article 105 of this Law;
- 34) if it fails to organize the internal audit in accordance with Articles 106, 107 or 108 of this Law;
- 35) if it fails to submit to the Croatian National Bank the audited annual report or the audited consolidated annual report within the period prescribed by paragraph 3, Article 112 of this Law;
- 36) if it fails to document changes in program solutions or changes in the form of the database in accordance with paragraph 3, Article 122 of this Law;
- 37) if it fails to notify the Croatian National Bank of the facts and circumstances referred to in paragraphs 1 and 3, Article 132 of this Law;
- 38) if it fails to submit the reports and information referred to in Article 133 of this Law to the Croatian National Bank;
- 39) if it contravenes the provisions on the contracting of services referred to in Article 172 of this Law;
- 40) if it contravenes the regulations adopted pursuant to Article 174 of this Law;
- 41) if it fails to notify a consumer in accordance with the provisions of Article 175 of this Law;
- 42) if it enters into an agreement contrary to paragraph 3, Article 181 of this Law;
- 43) if it fails to provide the Croatian National Bank with the documents referred to in paragraph 5, Article 181 of this Law;
- 44) if it fails to adjust its operations pursuant to the provisions of paragraphs 2 through 7, Article 190 of this Law.

(2) A responsible person from the management board of a bank shall be fined from 10,000 to 50,000 kuna for the violation referred to in paragraph 1 of this Article.

(3) A bank shall be fined from 50,000 to 100,000 kuna:

- 1) if it fails to report to the Croatian National Bank in accordance with paragraph 1, Article 132 or Article 133 of this Law, or in accordance with the regulation adopted pursuant to Article 134 of this Law;
- 2) if it fails to enable the authorized person to conduct bank examination in the manner prescribed in Articles 119 through 122 of this Law.

(4) A responsible person from the management board of a bank shall be fined from 1,000 to 5,000 kuna for the violation referred to in paragraph 3 of this Article.

Violations by the Supervisory Board Members and Other Violations by the Management Board Members

Article 183

(1) A fine of 1,000 to 5,000 kuna shall be imposed on a member of the management board of a bank for the following violations:

- 1) if he/she fails to immediately notify the bank supervisory board of the circumstances referred to in Article 28 of this Law;
- 2) if he/she enters into a legal arrangement as a result of which bank exposure to persons in a special relationship with a bank would arise or increase contrary to paragraph 2, Article 78 of this Law;
- 3) if he/she fails to immediately notify the Croatian National Bank of the circumstances referred to in paragraph 2, Article 132 of this Law.

(2) A fine of 5,000 to 25,000 kuna shall be imposed on a member of the supervisory board of a bank who fails to immediately notify the Croatian National Bank of the circumstances referred to in item 3, Article 32 of this Law.

Violations by Other Persons

Article 184

(1) A fine of 50,000 to 500,000 kuna shall be imposed on a juridical person using the word "bank" or a derivative from that word contrary to the ban referred to in paragraph 3, Article 2 of this Law;

(2) A fine of 5,000 to 25,000 kuna shall be imposed on a responsible person of a juridical person for the violation referred to in paragraph 1 of this Article;

(3) A fine of 50,000 to 500,000 kuna shall be imposed on a juridical person providing banking services contrary to the ban referred to in Article 5 of this Law.

(4) A responsible person of a juridical person shall be fined from 5,000 to 25,000 kuna for the violation referred to in paragraph 3 of this Article.

(5) A natural person providing banking services contrary to the ban referred to in Article 5 of this Law shall be fined from 4,000 to 40,000 kuna.

(6) A fine of 4,000 to 40,000 kuna shall be imposed on a person in a special relationship with a bank, who has entered into a legal arrangement as a result of which bank exposure would arise or increase contrary to paragraph 2, Article 78 of this Law.

(7) A fine of 50,000 to 500,000 kuna shall be imposed on a liquidation trustee who contravenes Articles 148 and 154 of this Law;

(8) A fine of 50,000 to 500,000 kuna shall be imposed on a legal person using the word "savings bank" or a derivative from that word contrary to the ban referred to in Article 180 of this Law.

(9) A fine of 5,000 to 25,000 kuna shall be imposed on a responsible person in a legal person who has committed a violation referred to in paragraph 8 of this Article. A fine of 50,000 to 500,000 shall be imposed on the association of banks if it fails to

submit the documents referred to in paragraph 4, Article 181 of this Law, to the Croatian National Bank.

Violations by a Subordinate Company

Article 185

(1) A fine of 50,000 to 500,000 kuna shall be imposed on a subordinate company in a banking group if it fails to submit to a superordinate bank in a banking group the information required for consolidation.

(2) A fine of 4,000 to 40,000 kuna shall be imposed on a responsible person of a juridical person for the violation referred to in paragraph 1 of this Article.

Violations by Auditors

Article 186

An auditor who fails to immediately notify the Croatian National Bank of the circumstances referred to in Article 113 of this Law shall be fined from 5,000 to 50,000 kuna.

Violations by Members of the Special Administration

Article 187

A fine of 5,000 to 25,000 kuna shall be imposed on a member of the special administration for the following violations:

- 1) if he/she fails to deliver to the Croatian National Bank a report on the financial position and operating conditions of the bank within three months from his/her appointment (paragraph 1, Article 140 of this Law);
- 2) if he/she fails to deliver to the Croatian National Bank the report referred to in paragraph 2, Article 140 of this Law within nine months of his/her appointment;
- 3) if, in the case referred to in paragraph 1, Article 141 of this Law, he/she fails to announce the convention of the general meeting of shareholders and its agenda within the time limit specified in paragraph 2, Article 141 of this Law.

Violations Regarding the Obligation to Guard Banking Secret

Article 188

(1) A bank that violated the obligation to guard banking secret shall be fined from 50,000 to 500,000 kuna.

(2) A fine of 5,000 to 25,000 kuna shall be imposed on a responsible person of a bank for the violation referred to in paragraph 1 of this Article.

(3) A fine of 5,000 to 25,000 kuna shall be imposed on a natural person referred to in paragraph 1, Article 99 of this Law for violating the obligation to guard banking secret.

Limitation

Article 189

(1) Legal proceedings against the bank, member of the management or supervisory board, subordinate bank in a banking group, auditors, special administration and other persons who have committed any of the violations referred to in this Law may not be initiated after the expiry of three years following the day on which a report was made by the Croatian National Bank stating irregularities or unlawfulness of business operations.

(2) The limitation period shall be interrupted by any action of the competent authority, aimed at initiating legal proceedings against the person who committed the violation. The limitation period shall restart after each interruption, and the legal proceedings may in no case be initiated after the expiry of twice the time-period set forth in paragraph 1 of this Article.

XX TRANSITIONAL AND FINAL PROVISIONS

Compliance of Banks

Article 190

(1) Banks enrolled in the Register of Companies as of the date of application of this Law and possessing the operating license, i.e. the authorization for the provision of banking and financial services, shall continue operating as banks pursuant to this Law, within the operational limits based on the existing authorization.

(2) Provided that the bank referred to in paragraph 1 of this Article intends to provide the financial services other than those entered in the Register of Companies as activities, it shall be obliged to implement the procedure prescribed by this Law.

(3) Banks shall adjust their operations to comply with the provisions of this Law, within a year from its entry into force, including:

- share capital pursuant to the provision referred to in Article 15 of this Law,
- shares to pursuant to the provisions referred to in Articles 16, 17, 18 and 19 of this Law,
- management board and procurators pursuant to the provisions of Articles 23, 24 and 25 of this Law;
- members of the supervisory board pursuant to the provisions referred to in Article 30 of this Law;
- regulatory capital pursuant to the provisions referred to in Article 64 of this Law;
- investment in the capital of nonfinancial institutions pursuant to the provisions referred to in paragraph 2, Article 82 of this Law;
- investment in the capital of a single nonfinancial institution pursuant to the provisions referred to in paragraph 1, Article 83 of this Law.

(4) By means of an exemption to the provisions referred to in subparagraph 1 paragraph 3 of this Article, a former savings bank which had increased its share capital by December 31, 2001 in accordance with Article 119 of the Banking Law (official gazette *Narodne novine*, No. 161/1998) and was granted an operating license as a bank, and whose share capital is lower than the amount stipulated by

Article 15 of this Law, shall be obliged to increase its share capital so that it does not fall below:

- 25 million kuna by December 31, 2003;
- 30 million kuna by December 31, 2004;
- 35 million kuna by December 31, 2005;
- 40 million kuna by December 31, 2006.

(5) Once the bank referred to in paragraph 4 of this Article increases its share capital so that it does not fall below the amount stipulated by Article 15 of this Law, it shall be obliged, in accordance with the provisions of this Law, to obtain an authorization from the Croatian National Bank for the provision of banking and/or other financial services.

(6) Until it is granted authorization for the provision of banking and/or other financial services, the bank referred to in paragraph 4 of this Article shall operate on the basis of the existing operating license.

(7) As from December 31, 2003, the regulatory capital of the bank referred to in paragraph 4 of this Article, may not fall below the minimum amount of share capital referred to in paragraph 4 of this Article.

(8) Banks shall be obliged to deliver to the Croatian National Bank the report on compliance with paragraph 3 of this Article, within a month from the expiry of the time limit referred to in paragraph 3 of this Article.

(9) Banks shall be obliged to adjust their by-laws to the provisions of this Law and the regulations of the Croatian National Bank enacted on the basis thereof, within six months from the date of entering into force of this Law.

10) If the bank referred to in paragraph 1 of this Article fails to comply with the provisions referred to in paragraphs 2 through 7 of this Article, the Croatian National Bank may revoke the bank's operating license.

Procedures

Article 191

(1) All procedures for obtaining the authorizations and approvals, which were initiated before entering into force of this Law, shall be completed in accordance with the provisions of the legislation valid until entering into force of this Law.

(2) Bankruptcy and liquidation proceedings in banks and savings banks that were initiated according to the provisions of the Bankruptcy Law or Company Law shall be completed in compliance with the aforementioned Laws, apart from the segment related to the realization of assets of a bank or savings bank undergoing bankruptcy, as regulated by Article 168 of this Law, within the period starting as of the date this Law enters into force.

Regulations that Cease to be Valid

Article 192

- (1) As of the date of entering into force of this Law the Banking Law (official gazette *Narodne novine*, No. 161/1998) shall cease to be valid.
- (2) The Croatian National Bank shall be obliged to enact the regulations based on this Law within six months from the date of entering into force of this Law.
- (3) Prior to the enactment of the regulations pursuant to this Law, the regulations enacted on the basis of the Banking Law (official gazette *Narodne novine*, No. 161/1998) shall be applied as appropriate.

Commencement of the Application of Individual Provisions

Article 193

- (1) The provisions of Article 13 paragraph 2, Article 20 paragraph 5, Articles 41 through 44, Articles 47 through 50, Article 58 paragraph 3 item 2, as well as the provisions of Articles 59 and 60 of this Law shall be applied as from the date of a full membership of the Republic of Croatia in the European Union.
- (2) Prior to the application of the provisions referred to in paragraph 1 of this Article, the following provisions shall apply:
 - 1) provisions of Article 21 of this Law shall apply to the decisions related to the approval given to a person from a Member State for the acquisition of a qualifying holding;
 - 2) provisions of Article 45 of this Law shall apply to the provision of banking services of the banks in the Member States;
 - 3) provisions of Articles 51 through 56 of this Law shall apply to the provision of banking services of banks from the Member States in the Republic of Croatia;
 - 4) provisions of item 3, paragraph 3 of Article 58 of this Law shall apply to the delivery of data to supervisory authorities of the Member States.
- (3) The provisions of Chapter VI, excluding the provisions referred to in Article 96 of this Law, shall apply as of January 1, 2003.

Entering into Force

Article 194

This Law shall enter into force on the eighth day from its publication in the official gazette *Narodne novine*, unless otherwise regulated by Article 193 of this Law.