

UNOFFICIAL TRANSLATION

**THE ACT ON THE CROATIAN
NATIONAL BANK**

June 2008

I GENERAL PROVISIONS

Subject matter of the Act

Article 1

(1) This Act governs:

the status, objective, tasks and organisation of the Croatian National Bank and other matters relevant for the functioning and operation of the Croatian National Bank;

the relationship of the Croatian National Bank with the Republic of Croatia, credit institutions, international institutions and organisations, as well as the bodies and institutions of the European Union;

the tasks and competences of the Croatian National Bank as from the date of accession of the Republic of Croatia to the European Union; and

the tasks and competences of the Croatian National Bank after the introduction of the euro as the official currency of the Republic of Croatia.

(2) The liabilities of the Croatian National Bank shall be guaranteed by the Republic of Croatia.

Status of the Croatian National Bank

Article 2

(1) The Croatian National Bank shall be the central bank of the Republic of Croatia.

(2) The Croatian National Bank shall be autonomous and independent in achieving its objective and carrying out its tasks.

(3) The Croatian National Bank shall have legal personality.

(4) The Croatian National Bank shall have its seat in Zagreb.

(5) The Croatian National Bank shall not be entered in the register of companies.

(6) The Croatian National Bank shall have its Statute.

(7) The Croatian National Bank shall have a seal consisting of the image of the coat of arms of the Republic of Croatia and the name of the Croatian National Bank.

(8) The Croatian National Bank shall be represented by the Governor of the Croatian National Bank.

(9) The Croatian National Bank shall be in the exclusive ownership of the Republic of Croatia.

(10) In achieving its objective and carrying out its tasks, the Croatian National Bank and the members of its decision-making bodies shall independently adopt and enforce their decisions pursuant to this Act. The Croatian National Bank and the members of its decision-making bodies shall neither seek nor take instructions from the Republic of Croatia, its institutions or bodies, the members of these bodies or other persons.

(11) The Republic of Croatia, its institutions or bodies, the members of these bodies or other persons may not influence the independence of the Croatian National Bank, the adoption and enforcement of the decisions of the Croatian National Bank and its decision-making bodies, nor may they approve, revoke, postpone, cancel, or influence in any other form any decision taken by the Croatian National Bank within its competence.

Objective of the Croatian National Bank

Article 3

(1) The objective of the Croatian National Bank shall be to maintain price stability.

(2) Without prejudice to the achievement of its objective, the Croatian National Bank shall support the economic policy of the Republic of Croatia, while acting in accordance with the principle of an open market economy with free competition.

Tasks of the Croatian National Bank

Article 4

The Croatian National Bank shall be autonomous and independent within the Constitution and law in performing the entire operations within its competence, particularly:

- the definition and implementation of the monetary and foreign exchange policies;
- the holding and management of the foreign reserves of the Republic of Croatia;
- the issuance of banknotes and coins;
- the issuance and withdrawal of authorisations and approvals in accordance with the laws governing the operation of credit institutions, credit unions, payment institutions, payment transaction settlement systems, foreign exchange operations and the operation of authorised foreign exchange offices;
- the exercise of supervision and oversight in accordance with the laws governing the operation of credit institutions, credit unions, payment institutions and payment transaction settlement systems;
- the keeping of credit institutions' accounts and execution of payment transactions across these accounts, granting of loans to credit institutions and accepting deposits from credit institutions;
- the regulation and improvement of the payment system;
- the performance of operations on behalf of the Republic of Croatia, as provided by law;

– the adoption of subordinate legislation on the operations within its competence; and – the performance of other activities, as provided by law.

Definition of a credit institution

Article 5

(1) For the purposes of this Act, 'credit institution' means: 1) a credit institution which has its registered office in the Republic of Croatia and is authorised by the Croatian National Bank, in accordance with the law governing the operation of credit institutions; and 2) a branch of a credit institution which has its registered office outside the Republic of Croatia and which provides services within the territory of the Republic of Croatia in accordance with the law governing the operation of credit institutions.

(2) The term 'credit institution having its registered office in the Republic of Croatia' shall include: banks, savings banks, housing savings banks and electronic money institutions.

(3) In carrying out its individual tasks referred to in this Act, the Croatian National Bank may include all or certain types of credit institutions referred to in paragraphs (1) and (2) of this Article in the subordinate legislation adopted pursuant to this Act.

Cooperation with government bodies

Article 6

(1) In achieving its legally prescribed objective and carrying out its tasks, the Croatian National Bank may, without prejudice to the achievement of its objective, its autonomy and independence, cooperate with the Government of the Republic of Croatia and other government bodies, and take actions, within its competence, to promote such cooperation.

(2) The Government of the Republic of Croatia shall submit to the Croatian National Bank all proposals and reports relating to the objective, operations and tasks of the Croatian National Bank, including the proposals of decisions and regulations of the Government of the Republic of Croatia, as well as the proposals of laws prior to their submission to the Croatian Parliament, on which the Croatian National Bank may express its opinion.

International cooperation

Article 7

(1) The Croatian National Bank may be a member of international institutions and organisations competent for monetary policy, foreign exchange policy, payment operations, the supervision of credit institutions and other areas within its competence, and may participate in their work.

(2) The Croatian National Bank may represent the Republic of Croatia in the international institutions and organisations referred to in paragraph (1) of this Article.

Disclaimer

Article 8

(1) The Croatian National Bank shall not be held responsible for other persons' obligations.

(2) The Croatian National Bank, the members of the Council and employees of the Croatian National Bank shall not be liable for any damage that may arise in the course of exercising supervision and oversight unless the damage has been caused intentionally or by gross negligence.

(3) The Croatian National Bank, the members of the Council and employees of the Croatian National Bank shall not be liable for any damage that may arise from the activities related to issuing instructions to the special administration for directing the business of a credit institution, unless the damage has been caused intentionally or by gross negligence.

II CROATIAN NATIONAL BANK OPERATION

1 MONETARY AND FOREIGN EXCHANGE POLICIES

Competence and powers to implement the monetary and foreign exchange policies

Article 9

(1) The Croatian National Bank shall define and implement the monetary and foreign exchange policies in the Republic of Croatia.

(2) Pursuant to the powers referred to in paragraph (1) of this Article, the Croatian National Bank may, for the purpose of implementing the defined monetary and foreign exchange policies, lay down measures and instruments necessary to regulate credit institutions' credit activities and liquidity, as well as money supply, and take measures regarding interest rates and the domestic currency exchange rate.

(3) The Croatian National Bank shall be authorised to adopt subordinate legislation and other enactments regulating the foreign exchange operations of legal and natural persons.

(4) The Croatian National Bank shall exercise control over foreign exchange operations in the Republic of Croatia in accordance with law.

(5) The Croatian National Bank shall be authorised to establish a method for setting the value of the kuna against other currencies.

Open market operations

Article 10

(1) For the purpose of implementing the defined monetary and foreign exchange policies, the Croatian National Bank may issue securities in its name, denominated in domestic or foreign currencies, and enter into agreements in the financial markets on purchasing, selling and swapping securities, other easily marketable financial instruments, as well as on the rights and obligations related thereto.

(2) The agreements referred to in paragraph (1) of this Article shall include spot and forward purchase and sale agreements, swap agreements, clearing agreements and repurchase agreements (repo operations), as well as other types of agreements related to securities.

Granting loans to credit institutions

Article 11

(1) In order to satisfy the regular liquidity needs of credit institutions, the Croatian National Bank may grant loans to the credit institutions against adequate instruments of collateral.

(2) In cases of urgent and unforeseen liquidity needs of credit institutions, the Croatian National Bank may grant short-term loans to the credit institutions, provided that these loans are based on adequate collateral.

(3) The Croatian National Bank may lay down the terms and conditions of granting loans referred to in paragraphs (1) and (2) of this Article in subordinate legislation.

Discount operations

Article 12

(1) The Croatian National Bank may discount the following securities based on an offer by a solvent credit institution: 1) debt securities issued or irrevocably guaranteed by a person whose short-term liabilities have been established by two internationally recognised credit rating agencies and that has been assigned one of the two highest ratings, and endorsed to a credit institution, with a remaining maturity up to three months starting from the date of their discount by the Croatian National Bank; and 2) debt securities issued or guaranteed by the Republic of Croatia or the Croatian National Bank, payable in the Republic of Croatia that form a part of a public issue and fall due within a period up to three months from the date of their discount by the Croatian National Bank.

(2) The terms and conditions of discount operations referred to in paragraph (1) of this Article and the discount rate shall be laid down in subordinate legislation.

Interest rates on discounts and loans

Article 13

The Croatian National Bank shall set interest rates on loans and discounts of the Croatian National Bank in subordinate legislation.

Required reserves

Article 14

(1) The Croatian National Bank shall lay down in subordinate legislation the obligation of credit institutions to allocate and maintain required reserves in the settlement account and in the vault, or in a separate account with the Croatian National Bank.

(2) The required reserves referred to in paragraph (1) of this Article shall be defined as a percentage determined with regard to the type, maturity, size and increase in deposits and other liabilities of credit institutions. The subordinate legislation on required reserves shall prescribe the base and method of calculating required reserves.

(3) The Croatian National Bank may pay remuneration to credit institutions for allocated required reserves.

(4) The Croatian National Bank shall adopt subordinate legislation on the amount of remuneration referred to in paragraph (3) of this Article.

Failure to allocate required reserves

Article 15

(1) Credit institutions that incorrectly calculate the required reserves, or fail to allocate or maintain the required reserves within the prescribed period, shall be obliged to pay compensation to the Croatian National Bank for the insufficiently allocated or maintained amount of the required reserves.

(2) The Croatian National Bank shall adopt subordinate legislation on the amount of compensation referred to in paragraph (1) of this Article.

(3) The compensation referred to in paragraph (2) of this Article may not exceed the double interest rate on loans granted to credit institutions provided for in Article 11 paragraph (2) of this Act.

Other monetary and foreign exchange policy measures and instruments

Article 16

(1) For the purpose of implementing the defined monetary and foreign exchange policies, the Croatian National Bank may lay down other monetary and foreign exchange policy measures and instruments.

(2) The Croatian National Bank shall lay down the form and content of the measures and instruments referred to in paragraph (1) of this Article in its subordinate legislation.

(3) Where the content of the measures and instruments referred to in paragraph (1) of this Article includes the fulfilment of a monetary obligation of a credit institution to the Croatian National Bank, which the credit institution fails to meet on time and/or in full, the credit institution shall pay compensation to the Croatian National Bank to be determined by the Croatian National Bank in its subordinate legislation.

Trading in foreign currency and foreign cash

Article 17

(1) The Croatian National Bank shall trade in foreign currency and foreign cash on the spot and forward markets, in financial instruments or other assets which, pursuant to Article 18, paragraph (2) of this Act, constitute the foreign reserves of the Republic of Croatia. The Croatian National Bank shall also perform other operations relating to foreign exchange policy implementation, as provided by law.

(2) The Croatian National Bank shall agree on or determine the exchange rates at which it buys and sells foreign currency and foreign cash on the foreign exchange market.

Foreign reserves of the Republic of Croatia

Article 18

(1) The Croatian National Bank shall manage the foreign reserves of the Republic of Croatia. The foreign reserves of the Republic of Croatia shall constitute a part of the Croatian National Bank balance sheet.

(2) The foreign reserves of the Republic of Croatia shall comprise: 1) gold, other precious metals and precious stones held by the Croatian National Bank or by a third person for the account of the Croatian National Bank; 2) banknotes and coins in a convertible foreign currency held by the Croatian National Bank or by a third person for the account of the Croatian National Bank; 3) credit balances payable in a convertible foreign currency that are held in the Croatian National Bank accounts with foreign central banks, international financial institutions or credit institutions, whose short-term liabilities have been assigned one of the two highest ratings by two internationally recognised credit rating agencies; 4) the total amount of SDRs held by the Croatian National Bank with the International Monetary Fund; 5) bills of exchange, certificates of deposit, bonds and other debt securities held by the Croatian National Bank or by a third person for the account of the Croatian National Bank, that are payable in convertible currencies of obligors whose short-term liabilities have been assigned one of the two highest ratings by two internationally recognised credit rating agencies; 6) forward purchase or repurchase agreements entered into by the Croatian National Bank with or guaranteed by other central banks, credit or financial institutions with registered offices outside the Republic of Croatia or international financial institutions, and forward and options agreements entered into by the Croatian National Bank with parties whose short-term liabilities have been assigned one of the two highest ratings by two internationally recognised credit rating agencies, providing for payment in a convertible foreign currency; and 7) other assets that may, by nature of their contents and significance, be seen as equivalent to the assets listed under items 1) to 6) of this paragraph.

Foreign reserves management

Article 19

(1) In selecting assets for investment referred to in Article 18, paragraph (2) of this Act, the Croatian National Bank shall be primarily governed by the principles of liquidity and safety of investment.

(2) The Croatian National Bank shall manage the foreign reserves in the manner best suited to the monetary and foreign exchange policies and which ensures the smooth settlement of the international obligations of the Republic of Croatia.

Opening accounts abroad, and international transactions and payments

Article 20

- (1) In order to carry out its tasks set forth in this Act and other regulations, the Croatian National Bank may open accounts abroad.
- (2) The Croatian National Bank may buy and sell the currency of the Republic of Croatia abroad.
- (3) The Croatian National Bank may carry out all types of banking and financial transactions with other central banks, credit and financial institutions with registered offices outside the Republic of Croatia, international institutions and organisations, including lending and borrowing.
- (4) The Croatian National Bank may enter into payment and clearing agreements with foreign clearing institutions.
- (5) The Croatian National Bank may enter into the agreements referred to in the previous paragraph in its own name and for its own account or for the account of the Republic of Croatia.

2 MONETARY UNIT, BANKNOTES AND COINS

Monetary unit

Article 21

- (1) The monetary unit of the Republic of Croatia shall be the kuna, divided into one hundred lipa.
- (2) The kuna shall be legal tender in the Republic of Croatia.
- (3) The use of other currencies may be allowed for domestic payments by law.
- (4) The Croatian National Bank may determine the lowest denomination in circulation to which the amounts in cash and cashless payments and in business books are to be rounded.

Banknote and coin issuance

Article 22

The Croatian National Bank shall have the exclusive right to issue banknotes and coins, including numismatic coins.

Defining the design of banknotes and coins

Article 23

(1) The Croatian National Bank shall regulate in subordinate legislation the face value, measures, weights, designs, and other features of the banknotes and coins that it issues.

(2) The Croatian National Bank shall be responsible for the printing of banknotes and minting of coins, for the security and safekeeping of unissued banknotes and coins, and for the custody and destruction of banknotes and coins withdrawn from circulation and materials used in the manufacture of banknotes and coins.

Copyright

Article 24

The Croatian National Bank shall be the holder of all proprietary rights and copyrights on kuna banknotes and kuna and lipa coins in circulation. The reproduction of kuna banknotes and kuna and lipa coins in circulation shall be subject to prior approval of the Croatian National Bank.

Issue plan, currency inventory and supply of banknotes and coins

Article 25

(1) The Croatian National Bank shall make banknote and coin issue plans and shall administer the currency reserve inventory.

(2) The Croatian National Bank shall organise and ensure a regular supply of banknotes and coins in circulation in the territory of the Republic of Croatia.

Replacement of banknotes and coins unfit for circulation

Article 26

The Croatian National Bank shall replace banknotes and coins unfit for circulation. Worn-out banknotes shall be replaced in their full value, and damaged banknotes and coins shall be replaced under the terms and conditions set forth by the Croatian National Bank.

Power to regulate other matters

Article 27

The Croatian National Bank may, in subordinate legislation, regulate all other matters related to the issuance, printing and minting, as well as the handling, processing, supply and replacement of banknotes and coins.

Protection of banknotes and coins against counterfeiting

Article 28

(1) The Croatian National Bank shall be competent for the technical analysis of suspect samples of banknotes and coins and for taking and implementing measures to prevent the counterfeiting of banknotes and coins. To this effect, it shall cooperate with the competent national authorities and institutions in the country and abroad.

(2) For the purpose of exercising the competences referred to in paragraph (1) of this Article, the Croatian National Bank shall regulate, in the subordinate legislation, the handling of suspect samples of banknotes and coins used as the monetary unit in the Republic of Croatia and foreign banknotes and coins.

3 RELATIONS WITH CREDIT INSTITUTIONS

Power over credit institutions

Article 29

The Croatian National Bank shall, pursuant to a special law, issue and withdraw authorisations of credit institutions, exercise supervision and oversight of credit institutions' operations, perform other activities within its legal competence, and adopt subordinate legislation regulating banking operations and establishing standards for sound and safe operation of credit institutions.

Submission of information to the Croatian National Bank

Article 30

(1) The Croatian National Bank shall, in subordinate legislation, determine the data and reports to be submitted by credit institutions to the Croatian National Bank and the time limits for their submission. Credit institutions must provide the Croatian National Bank with the information and data on their operation and financial position, as specified in the subordinate legislation, as well as with any other data that the Croatian National Bank may require for carrying out its tasks.

(2) The Croatian National Bank may publicly disclose the submitted information and data for all credit institutions individually, in an aggregated form or classified by type of

credit institution or by nature of activities carried out by individual credit institution, except from the data considered as banking secret pursuant to law.

Cooperation with international institutions authorised for the supervision and oversight of credit institutions' operation

Article 31

(1) In order to improve the supervision and oversight of credit institutions' operation, the Croatian National Bank shall cooperate and share experiences with international institutions authorised for the supervision and oversight of credit institutions' operation.

(2) The Croatian National Bank and other organisations authorised for the supervision and oversight of credit institutions may exchange all the data and assessments on credit institutions obtained in the course of the supervision and oversight. The exchanged data referred to in this paragraph may not be made available to unauthorised persons by any of the authorised organisations.

(3) The exchange of information set forth in paragraph (2) of this Article shall not be considered as disclosure of banking secret.

Information network for credit institutions

Article 32

The Croatian National Bank may set up and maintain an information network for the entire banking system of the Republic of Croatia.

4 PAYMENT SYSTEM

Powers within the payment system

Article 33

The Croatian National Bank shall, pursuant to a special law, issue and withdraw authorisations for providing payment services, grant and withdraw approvals with respect to the provision of payment services, adopt subordinate legislation governing the provision and performance of payment services, establish standards for the smooth and safe performance of payment services, and perform other activities within its legal competence.

Maintaining credit institutions' accounts with the Croatian National Bank

Article 34

The Croatian National Bank shall keep the accounts of credit institutions and execute payment transactions across these accounts. Credit institutions with registered offices in the Republic of Croatia shall open accounts with the Croatian National Bank.

Payment transaction settlement systems

Article 35

- (1) The Croatian National Bank shall, pursuant to a special law, issue and withdraw authorisations of the payment transaction settlement systems and ensure conditions for their smooth operation.
- (2) The Croatian National Bank shall supervise the operation of the systems to which it has issued the authorisations in accordance with paragraph (1) of this Article.
- (3) The Croatian National Bank may participate in and/or manage the payment transaction settlement systems, and may act as a settlement agent for other payment transaction settlement systems.

III RELATIONS WITH GOVERNMENT BODIES OF THE REPUBLIC OF CROATIA

Depository

Article 36

- (1) The Croatian National Bank shall keep the accounts of the Republic of Croatia and execute payment transactions across these accounts.
- (2) The Croatian National Bank shall make payments from an account by order of the depositor referred to in paragraph (1) of this Article, up to the amount of available funds in the account.
- (3) The Croatian National Bank shall determine and pay interest on the funds deposited in the account to the depositor referred to in paragraph (1) of this Article.
- (4) The Croatian National Bank shall calculate and charge fees for the execution of transactions and provision of services to the depositor referred to in paragraph (1) of this Article.
- (5) The interest rate and fees referred to in paragraphs (3) and (4) of this Article shall be agreed between the Croatian National Bank and the Ministry of Finance, subject to market terms.

(6) The Croatian National Bank may authorise another legal person to execute payment transactions across the accounts referred to in paragraph (1) of this Article, in accordance with the terms and conditions laid down by the Croatian National Bank, subject to approval of the Ministry of Finance.

Fiscal agency function

Article 37

The Croatian National Bank may, on such terms and conditions as it shall agree with the Ministry of Finance, act as fiscal agent for the Republic of Croatia, in regard to the following: 1) issuance of debt securities of the Republic of Croatia, acting as registrar or transfer agent therefor; 2) payment of the principal of, interest on and other charges related to such securities; and 3) other matters relating to the transactions referred to in this Article, provided they are consistent with the objective of the Croatian National Bank.

Consultations with the Ministry of Finance and reporting on the borrowing of the Republic of Croatia

Article 38

At least once in a semi-annual period, the Ministry of Finance shall consult with the Croatian National Bank on its plans for domestic and foreign borrowing of the Republic of Croatia during the next semi-annual period, including the amounts to be contracted and disbursed under such borrowing, as well as the expected effects of such borrowing. The Ministry of Finance shall report to the Croatian National Bank on all domestic and foreign borrowing transactions of the Republic of Croatia, in such detail as shall be mutually agreed upon by the Croatian National Bank and Ministry of Finance.

Participation in legislative procedure

Article 39

(1) The Croatian National Bank may require from the Government of the Republic of Croatia to propose to the Croatian Parliament the enactment of laws concerning the achievement of the objective and carrying out of the tasks of the Croatian National Bank, or otherwise relating to its field of activity, including monetary policy and operations, extension of credits, balance of payments, payment operations, foreign exchange policy and banking matters.

(2) The Governor of the Croatian National Bank or Deputy Governor shall have the right to comment on and explain the proposals of laws referred to in paragraph (1) of this Article before the Croatian Parliament or its relevant committee.

Prohibition of lending to the public sector

Article 40

(1) The Croatian National Bank may not extend credit to the Republic of Croatia, extra-budgetary funds of the Republic of Croatia, units of local and regional self-government and other public authorities in the Republic of Croatia, as well as public undertakings over which the Republic of Croatia and units of local and regional self-government exercise a dominant influence, nor may it purchase their debt instruments directly from them.

(2) No legal arrangement concluded by the Croatian National Bank with the Republic of Croatia, extra-budgetary funds of the Republic of Croatia, units of local and regional self-government and other public authorities in the Republic of Croatia, as well as public undertakings over which the Republic of Croatia and units of local and regional self-government exercise a dominant influence, may have credit features or be used for extending credit to the Republic of Croatia, extra-budgetary funds of the Republic of Croatia, units of local and regional self-government and other public authorities in the Republic of Croatia, as well as public undertakings over which the Republic of Croatia and units of local and regional self-government exercise a dominant influence, or to third parties acting as intermediaries through which the Republic of Croatia would become the final beneficiary of such credit.

(3) The purchase by the Croatian National Bank of debt securities issued by the Republic of Croatia, extra-budgetary funds of the Republic of Croatia, units of local and regional self-government or other public authorities in the Republic of Croatia, as well as by public undertakings over which the Republic of Croatia and units of local and regional self-government exercise a dominant influence, shall not be considered as credit referred to in paragraph (1) of this Article, if such purchase has been made in the secondary market in accordance with the monetary policy objectives of the Croatian National Bank.

(4) By way of exception, the prohibitions referred to in paragraphs (1) and (2) of this Article shall not apply to intra-day loans granted to the Republic of Croatia. The intra-day loans referred to in this paragraph must be repaid by the end of the day and may not be extended to the next day.

(5) The prohibitions referred to in paragraphs (1) and (2) of this Article shall not apply to publicly owned credit institutions which, in the context of the supply of reserves by central banks, shall be given the same treatment as private credit institutions.

(6) The prohibition referred to in paragraph (1) of this Article shall not apply to the settlement of obligations of the Republic of Croatia arising from its membership in the International Monetary Fund.

IV ORGANISATION AND MANAGEMENT OF THE CROATIAN NATIONAL BANK

Croatian National Bank decision-making bodies

Article 41

The Croatian National Bank decision-making bodies shall be the Council of the Croatian National Bank and the Governor of the Croatian National Bank.

Tasks and powers of the Council of the Croatian National Bank

Article 42

(1) The Council of the Croatian National Bank shall comprise the Governor, Deputy Governor and Vicegovernors of the Croatian National Bank by virtue of their office, and eight external members at the most.

(2) The Council of the Croatian National Bank shall be competent and responsible for the achievement of the objective and the carrying out of the tasks of the Croatian National Bank. The Council of the Croatian National Bank shall define policies with respect to the activities of the Croatian National Bank.

(3) Within the general competence referred to in paragraph (2) of this Article, the Council of the Croatian National Bank shall in particular: 1) define the monetary and foreign exchange policies; 2) adopt the financial plan of the Croatian National Bank; 3) adopt the reports referred to in Article 62 of this Act; 4) adopt the Statute of the Croatian National Bank; 5) define terms and conditions for granting loans to credit institutions; 6) establish interest rates of the Croatian National Bank and fees for the services rendered by the Croatian National Bank; 7) establish the calculation base and the rate of the required reserves, as well as the method, conditions and time limits for the allocation and maintenance of required reserves, and conditions for the use of required reserves; 8) issue and withdraw authorisations of credit institutions with registered offices in the Republic of Croatia and branches of credit institutions with registered offices outside the Republic of Croatia, and authorisations for performing specific operations; 9) establish the insolvency of credit institutions and decide on submitting proposals for the initiation of bankruptcy proceedings against credit institutions or on the withdrawal of authorisations of credit institutions;

10) approve mergers of credit institutions and acquisition of shares in credit institutions in accordance with the law governing the operation of credit institutions; 11) approve the appointments of chairpersons and members of credit institutions' management boards; 12) adopt subordinate legislation regulating the foreign exchange operations of legal and natural persons and the operation of authorised foreign exchange offices; 13) issue and withdraw authorisations of the payment transaction settlement systems and adopt subordinate legislation regulating their operation; 14) decide on the denominations and features of banknotes and coins and their putting into and withdrawal from circulation; 15) formulate strategy and policies for foreign reserves management; 16) decide on the Croatian National Bank's membership in international institutions and organisations; and 17) decide on the establishing and closing of the branches and representative offices of the Croatian National Bank.

(4) The Council of the Croatian National Bank shall take decisions on matters within its field of activity at its meetings.

(5) The Statute of the Croatian National Bank shall specify the matters within the competence of the Council of the Croatian National Bank which the Council of the Croatian National Bank may delegate to the Governor of the Croatian National Bank.

Powers of the Governor of the Croatian National Bank

Article 43

(1) The Governor of the Croatian National Bank shall be responsible for the implementation of the decisions of the Council of the Croatian National Bank.

(2) The Governor of the Croatian National Bank shall: 1) manage and govern the operation of the Croatian National Bank; 2) organise the functioning of the Croatian National Bank; 3) represent and act for the Croatian National Bank; 4) regulate detailed conditions for and methods of exercising the supervision and oversight, the types, time limits, order of and procedure for taking measures with respect to credit institutions; 5) adopt decisions in the process of supervision and oversight of credit institutions; 6) adopt internal bylaws on the functioning and development of the Croatian National Bank information system; 7) appoint and remove from office persons vested with special powers and responsibilities in the Croatian National Bank; 8) adopt internal bylaws on the internal organisation and job classification in the Croatian National Bank and internal bylaws on the rights, duties and responsibilities of the Croatian National Bank employees;

9) adopt subordinate legislation, decisions and internal bylaws on matters within the field of activity of the Croatian National Bank which, pursuant to law, are outside the competence of the Council of the Croatian National Bank; and 10) decide on other issues falling within the competence of the Governor of the Croatian National Bank pursuant to this Act and other laws and regulations, as well as on other issues when authorised by the Council of the Croatian National Bank.

(3) The Governor of the Croatian National Bank shall be authorised to issue instructions for the uniform implementation of the subordinate legislation and decisions of the Council of the Croatian National Bank.

(4) Should the Council of the Croatian National Bank, in its decision-making process, not reach the necessary agreement, or should it be impossible to hold the meeting of the Council owing to exceptional circumstances which result in a failure to meet the conditions referred to in Article 47, paragraph (4) of this Act, and should the Governor of the Croatian National Bank assess that, owing to the failure to reach the agreement, the carrying out of the tasks or regular operations of the Croatian National Bank cannot be guaranteed, the Governor of the Croatian National Bank shall take the decision.

(5) The Statute of the Croatian National Bank shall specify the matters within the competence of the Governor of the Croatian National Bank which he may delegate to the Deputy Governor and Vicegovernors.

Appointment of the members of the Council

Article 44

(1) The Governor of the Croatian National Bank shall be appointed by the Croatian Parliament on the proposal of the Elections, Appointments and Administration Committee, taking into account the opinion of the Finance and Central Budget Committee.

(2) The Croatian National Bank shall have a Deputy Governor and four Vicegovernors at the most.

(3) The Deputy Governor and Vicegovernors shall be appointed by the Croatian Parliament on the proposal of the Governor of the Croatian National Bank.

(4) The external members of the Council of the Croatian National Bank shall be appointed by the Croatian Parliament on the proposal of the Elections, Appointments and Administration Committee, taking into account the opinion of the Finance and Central Budget Committee.

(5) The members of the Council of the Croatian National Bank must be citizens of the Republic of Croatia of high personal reputation and professional experience in monetary, financial, banking and/or legal matters.

(6) The members of the Council of the Croatian National Bank shall be appointed for a term of six years.

Persons not allowed to be members of the Council and other restrictions

Article 45

(1) A member of the Council of the Croatian National Bank may not be a representative in the Croatian Parliament, or a person performing a duty to which he/she has been appointed by the Croatian Parliament or by the Government of the Republic of Croatia; a member of the Council may not be a member of the Government of the Republic of Croatia or a person performing a duty in the local and regional self-government bodies, political parties and trade unions.

(2) A member of the Council of the Croatian National Bank, his/her spouse and children who are members of his/her household or with whom he/she conducts business, may not own shares or holdings in the legal persons which are authorised by or whose operation is supervised by the Croatian National Bank, nor may they own shares or holdings in other legal persons connected with the said persons by ownership, management or function, or shares or holdings in audit firms and persons connected therewith.

(3) A member of the Council of the Croatian National Bank may not be a member of bodies, an employee or an external associate of the legal persons which are authorised by or whose operation is supervised by the Croatian National Bank, audit firms or other legal persons connected with these legal persons by ownership and management, or persons who derive or might derive benefit from such a Council member's access to the business secret or information not intended for the public. A member of the Council of the Croatian National Bank may neither be a person whose spouse or child, who is a member of his/her household or with whom he/she conducts business, is a member of the supervisory board, management board or board of directors of legal persons which are authorised or whose operation is supervised by the Croatian National Bank, or an owner of shares or holdings in other legal persons connected with the said persons by ownership, management or function, or a member of the supervisory board, management board or board of directors of audit firms and persons connected therewith.

(4) A member of the Council of the Croatian National Bank may not be a proxy, procurator or person with special powers in the persons referred to in paragraphs (2) and (3) of this Article.

Removal from office

Article 46

(1) The Croatian Parliament shall remove from office the Governor, Deputy Governor, Vicegovernors of the Croatian National Bank and external members of the Council of the Croatian National Bank before the expiry of the term referred to in Article 44, paragraph (6) of this Act in the following cases: 1) if any of the circumstances referred to in Article 45 of this Act arises after the appointment to the office; 2) if they have been sentenced to prison by final judgement in criminal proceedings; 3) if the Council of the Croatian National Bank establishes serious misconducts in the performance of their duties, or acts indicating their low moral and professional integrity; 4) if they are permanently unable to perform their duties owing to illness; 5) if they themselves demand to be removed from office; and 6) if they fail to submit, or submit a false statement of information referred to in Article 48 of this Act.

(2) Should the Council of the Croatian National Bank establish that any of the circumstances referred to in paragraph (1) of this Article has arisen, it shall immediately notify the Croatian Parliament thereof and propose that the concerned member of the Council of the Croatian National Bank be removed from office.

(3) Should the Croatian Parliament not remove from office a member of the Council of the Croatian National Bank within 30 days after any of the circumstances referred to in paragraph (1) of this Article has arisen, the Council of the Croatian National Bank may decide to preclude this member from participating in the meetings of the Council of the Croatian National Bank pending a final decision by the Croatian Parliament.

(4) No member of the Council of the Croatian National Bank may be removed from office for any cause not set out in paragraph (1) of this Article.

(5) The decision on the removal from office shall be final. The unsatisfied party may appeal to the Administrative Court of the Republic of Croatia.

Meetings of the Council of the Croatian National Bank

Article 47

(1) The Governor of the Croatian National Bank shall be the Chairperson of the Council of the Croatian National Bank.

(2) Meetings of the Council of the Croatian National Bank shall be convened and chaired by the Governor of the Croatian National Bank.

(3) In his/her absence, the Chairperson of the Council of the Croatian National Bank shall be replaced by the Deputy Governor of the Croatian National Bank.

(4) Meetings of the Council of the Croatian National Bank shall be valid provided a two-thirds majority of all the members of the Council of the Croatian National Bank are present at the meetings.

(5) The Council of the Croatian National Bank shall take decisions with a two-thirds majority of the members present at the meeting.

(6) The Council of the Croatian National Bank shall hold its meetings at least ten times in a calendar year.

(7) The Council of the Croatian National Bank shall establish its Rules of Procedure.

Statements of the members of the Council

Article 48

Upon assuming office and after the end of each year, each member of the Council of the Croatian National Bank shall submit a written statement to the Council of the Croatian National Bank containing information on the matters referred to in Article 45 of this Act.

Compensation

Article 49

The members of the Council of the Croatian National Bank shall receive compensation for their work.

Rights and obligations upon termination of office

Article 50

(1) During one year after termination of office, the Governor, Deputy Governor and Vicegovernors of the Croatian National Bank may not become employees of credit or financial institutions in the Republic of Croatia without the prior approval of the Council of the Croatian National Bank.

(2) The Governor, Deputy Governor and Vicegovernors of the Croatian National Bank shall be entitled to a compensation equivalent to their last salary received in the month prior to termination of office until their new employment, but for no longer than one year following termination of office.

Internal audit

Article 51

(1) The Croatian National Bank shall, for the purpose of an ongoing and comprehensive supervision of its operation, have an internal audit as an independent organisational unit, directly accountable to the Governor.

(2) The internal audit shall: 1) evaluate and improve the efficiency of risk management, internal control systems and management procedures of the Croatian National Bank; 2) periodically audit the performance of persons vested with special powers and responsibilities and of all organisational units of the Croatian National Bank in order to ensure strict compliance with laws and other regulations applying to the Croatian National Bank; 3) perform audits and give recommendations to the Governor of the Croatian National Bank on the accounts and books as well as on the accounting procedures and controls of the Croatian National Bank; and 4) audit financial statements.

(3) The internal audit shall carry out its tasks in accordance with an internal bylaw setting out the type, scope and time limits of audits and the reporting method, which is adopted by the Governor of the Croatian National Bank.

(4) The internal audit shall submit a report on its work to the Governor of the Croatian National Bank.

(5) The internal audit shall at least once a year submit a report to the Council of the Croatian National Bank.

Employees

Article 52

(1) While employed by the Croatian National Bank, an employee of the Croatian National Bank may not work for another employer without the prior approval of the Governor of the Croatian National Bank.

(2) Executive directors and advisers to the Governor of the Croatian National Bank, and their spouses and children who are members of their households or with whom they conduct business, may not own shares or holdings in the legal persons which are authorised by or whose operation is supervised by the Croatian National Bank, or shares and holdings in other legal persons connected with the said persons by ownership, management or function, nor may they own shares or holdings in audit firms and persons connected therewith.

(3) The Governor of the Croatian National Bank shall adopt the internal bylaws of the Croatian National Bank stipulating the terms and conditions of employment and work of the employees in accordance with the Labour Act and other regulations.

(4) Rights and obligations of the Governor, Deputy Governor and Vicegovernors of the Croatian National Bank arising from their employment shall be governed by a contract of employment, this Act and the Statute of the Croatian National Bank.

Business secrecy

Article 53

(1) The members of the Council of the Croatian National Bank and employees of the Croatian National bank shall be obliged to keep as a business secret any documents and data of which they become aware in the course of carrying out their duties and tasks, and whose disclosure to an unauthorised person would harm the reputation and interests of the Croatian National Bank, credit institutions and other legal persons which are authorised by or whose operation is supervised by the Croatian National Bank. The obligation of business secrecy shall continue after the termination of membership in the Council of the Croatian National Bank or employment in the Croatian National Bank.

(2) By way of exception, the members of the Council of the Croatian National Bank and employees of the Croatian National Bank may disclose the documents and data referred to in paragraph (1) of this Article to third parties outside the Croatian National Bank in the cases and in accordance with the procedure stipulated by an internal bylaw of the Governor of the Croatian National Bank and subsequently endorsed by the Council of the Croatian National Bank, provided that the disclosure of such documents and data is made: 1) with the express consent of the person to whom such information relates; 2) in performance of a public duty, including providing aid to law enforcement bodies and by an order of a court or another person of competent authority; 3) to external auditors of the Croatian National Bank in the performance of their duties; 4) to supervisory authorities of foreign financial institutions and representatives of international financial institutions in the performance of their official duties; or 5) where the interest of the Croatian National bank in court proceedings requires the disclosure of such data.

V CAPITAL OF THE CROATIAN NATIONAL BANK

Capital of the Croatian National Bank

Article 54

(1) The capital of the Croatian National Bank shall amount to HRK 2,500,000,000.00.

(2) The capital of the Croatian National Bank may not be transferred or pledged.

Reserves of the Croatian National Bank

Article 55

(1) The reserves of the Croatian National Bank shall comprise general and specific reserves.

(2) The Croatian National Bank shall establish general reserves to cover general operational risks. The amount of the general reserves of the Croatian National Bank shall not be limited.

(3) The Croatian National Bank shall establish specific reserves to cover identified losses pursuant to a decision of the Council of the Croatian National Bank.

Calculation of the surplus of income over expenditures or shortfall between income and expenditures of the Croatian National Bank

Article 56

The surplus of income over expenditures or shortfall between income and expenditures of the Croatian National Bank shall be calculated for each financial year as a sum of net operating income (realised income) and net profit (or loss) from the value adjustment of balance sheet items to changes in the exchange rate or market prices (unrealised income), decreased by general administrative expenses and depreciation as well as assets allocated to specific reserves.

Allocation of the surplus of income over expenditures and coverage of the shortfall between income and expenditures

Article 57

(1) The surplus of income over expenditures shall be allocated to general reserves and to the state budget.

(2) The Council of the Croatian National Bank shall determine the amount of the surplus of income over expenditures to be allocated to general reserves. General reserves for the current financial year may neither be lower than net profit from the value adjustment of balance sheet items to changes in the exchange rate or market prices, nor higher than 20% of the accumulated surplus of income over expenditures. By way of exception, if the surplus of income over expenditures is lower than net profit from the value adjustment of balance sheet items to changes in the exchange rate or market

prices, the total surplus of income over expenditures shall be allocated to general reserves.

(3) The surplus of income over expenditures remaining after the allocation to general reserves shall constitute extraordinary revenue to the state budget.

(4) The Croatian National Bank shall cover any shortfall between income and expenditures from general reserves.

(5) Any shortfall between income and expenditures that cannot be covered from general reserves shall be covered from the state budget.

VI FINANCIAL AND OTHER STATEMENTS

Financial year

Article 58

The financial year of the Croatian National Bank shall correspond to the calendar year.

Financial plan

Article 59

The Croatian National Bank shall forecast its income and expenditures in the financial plan that shall be adopted by 31 December of the current year for the next year.

Financial statements

Article 60

The Croatian National Bank shall prepare financial statements for each financial year in accordance with accounting regulations and the International Accounting Standards.

Auditing

Article 61

(1) The prepared financial statements and the overall operation of the Croatian National Bank shall be audited by independent external auditors in accordance with audit regulations and the International Auditing Standards.

(2) The decision on the auditor to audit the financial statements of the Croatian National Bank shall be made by the Finance and Central Budget Committee of the Croatian Parliament on the proposal of the Council of the Croatian National Bank.

Submission and publication of financial statements

Article 62

- (1) The Croatian National Bank shall, on a semi-annual basis, inform the Croatian Parliament about its financial condition, the level of price stability achieved and monetary policy implementation.
- (2) The Croatian National Bank shall, on a monthly basis and at the latest within ten working days from the end of the previous month, prepare, draw up and submit to the Ministry of Finance its summary balance sheet as at the last day of the month concerned.
- (3) The Croatian National Bank may publish the said financial and other statements, and it may also publish such other reports and studies on financial and economic issues as it deems appropriate.

Transparency of operation and informing the public

Article 63

The Croatian National Bank shall provide regular and timely information to the public on its analyses of the macroeconomic situation, financial and monetary system conditions, monetary and lending developments, balance of payments, exchange rates and price stability, and shall publish statistical information within its competence.

VII OTHER PROVISIONS

Accounts

Article 64

- (1) The Croatian National Bank may open accounts for the Republic of Croatia, credit institutions with registered offices in the Republic of Croatia, credit and financial institutions with registered offices abroad, international institutions and organisations and the bodies and institutions of the European Union.
- (2) The Croatian National Bank may, as necessary for carrying out its tasks, open accounts for other market participants.

Collection of claims

Article 65

(1) The Croatian National Bank shall have the right to collect, without initiating judicial or notarial proceedings, its overdue claims from:
debtors' cash balances deposited with the Croatian National Bank; and
the collateral, if it is movable property or a right which is not considered as immovable property.

Collection of statistical data

Article 66

(1) In order to achieve the objective and carry out the tasks set forth by this Act, the Croatian National Bank shall collect and process statistical data received from the Republic of Croatia, other government bodies, credit institutions and other legal and natural persons.

(2) In order to carry out the tasks referred to in paragraph (1) of this Article, the Croatian National Bank shall cooperate with competent bodies from outside the Republic of Croatia, international institutions and organisations and the bodies and institutions of the European Union.

(3) By prescribing the uniform forms and by other methods and measures, the Croatian National Bank shall, within its competence, contribute to the harmonisation of practices related to the collection, processing and distribution of the processed statistical data.

(4) The Croatian National Bank shall in subordinate legislation define the list of statistical data required and the form in which such data shall be provided to the Croatian National Bank, the persons that shall provide such data to the Croatian National Bank and the confidentiality regime that shall apply to statistical data provided to the Croatian National Bank.

Status of the Governor, Deputy Governor and Vicegovernors of the Croatian National Bank

Article 67

(1) During their term of office, the Governor, Deputy Governor and Vicegovernors of the Croatian National Bank shall be entitled to a salary and to material and other rights arising from their employment pursuant to internal bylaws of the Croatian National Bank.

(2) The Act on the Prevention of Conflict of Interest in the Exercise of Public Office shall apply to the rights and obligations of the Governor, Deputy Governor and Vicegovernors of the Croatian National Bank which are not set forth by this Act or the Statute of the Croatian National Bank.

Regulations of the Croatian National Bank

Article 68

(1) The regulations and other enactments adopted by the Croatian National Bank pursuant to this Act, applicable to credit institutions and other legal persons, shall be published in the Official Gazette.

(2) The Croatian National Bank shall keep records of the subordinate legislation, decisions, instructions and other enactments it has adopted and published in the Official Gazette.

Decisions taken by the Croatian National Bank

Article 69

(1) Decisions taken by the Croatian National Bank on matters within its competence may not be appealed, but an administrative dispute may be brought against such decisions.

(2) The provisions governing the revocation, cancellation, extraordinary cancellation and annulment of decisions pursuant to the right of supervision of the General Administrative Procedures Act shall not apply to the decisions referred to in paragraph (1) of this Article.

VIII MEMBERSHIP OF THE REPUBLIC OF CROATIA IN THE EUROPEAN UNION

General provisions

Article 70

(1) The Croatian National Bank shall be an integral part of the European System of Central Banks (hereinafter: ESCB).

(2) In accordance with the provisions of the Treaty establishing the European Community, the Statute of the ESCB and the European Central Bank (hereinafter: ECB), the directly applicable regulations of the European Union and the provisions of this Act, the Croatian National Bank shall be obliged to work on achieving the objectives and carrying out the tasks of the ESCB.

Status of the Croatian National Bank

Article 71

(1) In order to achieve its objective and carry out its tasks, the Croatian National Bank, and the members of its decision-making bodies, shall be independent in adopting and enforcing their decisions which are based on this Act. The Croatian National Bank and the members of its decision-making bodies shall neither seek nor take instructions from the institutions and bodies of the European Union, from any government of a Member State or from any other body.

(2) The institutions and bodies of the European Union and the governments of the Member States may not influence the independence of the Croatian National Bank, the adoption and implementation of decisions of the Croatian National Bank and of its decision-making bodies, nor may they approve, revoke, postpone, cancel, or influence in any other form any decision of the Croatian National Bank falling within its competence.

(3) The provisions referred to in paragraphs (1) and (2) of this Article shall be without prejudice to the powers of the ECB pursuant to the Statute of the ESCB and the ECB in relation to the Croatian National Bank.

Objective of the Croatian National Bank

Article 72

Without prejudice to the achievement of its objective referred to in Article 3, paragraph (1) of this Act, the Croatian National Bank shall support the general economic policies in the European Community with a view to contributing to the achievement of the objectives of the European Community as laid down in Article 2 of the Treaty establishing the European Community. The Croatian National Bank shall act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources in compliance with the principles set out in Article 4 of the Treaty establishing the European Community.

Subscription of the capital of the ECB

Article 73

The Croatian National Bank shall subscribe and pay up the capital of the ECB in accordance with Articles 28 and 29 of the Statute of the ESCB and the ECB.

Competences and powers to implement the foreign exchange (exchange rate) policy

Article 74

(1) The Croatian National Bank shall, in adopting measures related to the exchange rate of the domestic currency, take into account the common interest of the Member States of the European Union.

(2) The Council of the European Union shall have all the competences referred to in Article 111 of the Treaty establishing the European Community concerning the implementation of the foreign exchange (exchange rate) policy.

Advisory function of the ECB

Article 75

(1) The ECB shall be consulted on any proposals of laws and other regulations within its competence, but within the limits and under the conditions set forth by the regulations of the Council of the European Union.

(2) The Government of the Republic of Croatia may, for information purposes, submit to the Croatian National Bank the proposals of laws and other regulations referred to in paragraph 1 of this Article.

(3) In the areas outside the competence of the ECB, the Government of the Republic of Croatia shall submit to the Croatian National Bank all proposals and reports concerning the objective, operations and tasks of the Croatian National Bank, including the proposals of the decisions and regulations of the Government of the Republic of Croatia and the proposals of laws prior to their submission to the Croatian Parliament, on which the Croatian National Bank may express its opinion.

Protection of banknotes and coins against counterfeiting

Article 76

(1) While performing the activities related to the protection of banknotes and coins against counterfeiting, the Croatian National Bank shall entirely act in accordance with the rules of the European Union.

(2) For the purpose of efficient performance of the activities related to the protection of banknotes and coins against counterfeiting, the Croatian National Bank may adopt implementation measures providing for the direct application of the rules referred to in paragraph (1) of this Article.

(3) The relevant rules of the Croatian National Bank referred to in paragraph (2) of this Article must be fully in line with the regulations of the European Union.

Power over credit institutions

Article 77

The Croatian National Bank shall, in accordance with the regulations of the European Union and pursuant to the provisions of a special law, issue and withdraw

authorisations of credit institutions, exercise supervision and oversight of credit institutions' operations, perform other activities within its legal competence, and adopt subordinate legislation regulating banking operations and establishing standards for sound and safe operation of credit institutions.

Prohibition of lending to the bodies of the European Union and Member States

Article 78

(1) The Croatian National Bank may not extend overdrafts or any other type of credit facility to the institutions and bodies of the European Union, central governments of Member States, regional and local authorities, other public authorities, other bodies governed by public law, or public undertakings over which Member States, regional and local authorities exercise a dominant influence as set out in Article 101 of the Treaty establishing the European Community and Regulation No 3603/93.

(2) The Croatian National Bank may not purchase debt securities directly from the persons and bodies referred to in paragraph (1) of this Article.

(3) The prohibition referred to in paragraph (1) of this Article shall not apply to publicly owned credit institutions which, in the context of the supply of reserves by central banks, shall be given the same treatment as private credit institutions.

(4) By way of exception, the prohibition of lending referred to in paragraph (1) of this Article shall not apply to intra-day loans granted to a Member State. The intra-day loans referred to in this paragraph must be repaid by the end of the day and may not be extended to the next day.

Council of the Croatian National Bank

Article 79

The Council of the Croatian National Bank shall consist of eight members, including the Governor, Deputy Governor and six Vicegovernors of the Croatian National Bank.

Appointment of the members of the Council of the Croatian National Bank

Article 80

(1) The Governor of the Croatian National bank shall be appointed by the Croatian Parliament on the proposal of the Elections, Appointments and Administration Committee, taking into account the opinion of the Finance and Central Budget Committee.

(2) The Deputy Governor and Vicegovernors of the Croatian National Bank shall be appointed by the Croatian Parliament on the proposal of the Elections, Appointments and Administration Committee, taking into account the opinion of the Finance and Central Budget Committee.

(3) The members of the Council of the Croatian National Bank must be citizens of the Republic of Croatia of high personal reputation and professional experience in monetary, financial, banking and/or legal matters.

(4) The members of the Council of the Croatian National Bank shall be appointed for a term of six years.

Removal from office

Article 81

(1) The Croatian Parliament shall remove from office a member of the Council of the Croatian National Bank before the expiry of the term referred to in Article 80, paragraph (4) of this Act only in the following cases:

where circumstances arise referred to in Article 14, paragraph (2) of the Statute of the ESCB and the ECB; and

where a member of the Council of the Croatian National Bank himself/herself demands to be removed from office.

(2) The Council of the Croatian National Bank shall establish whether there are grounds for the removal from office of a member of the Council of the Croatian National Bank as referred to in paragraph (1), indent (1) of this Article in the course of the procedure provided for by the Statute of the Croatian National Bank.

(3) Should the Council of the Croatian National Bank establish that there are grounds for the removal from office pursuant to paragraph (2) of this Article, it shall propose to the Croatian Parliament that the concerned member of the Council of the Croatian National Bank be removed from office.

(4) Should the Croatian Parliament not remove from office a member of the Council of the Croatian National Bank within 30 days from the receipt of the proposal for such removal, the Council of the Croatian National Bank may decide to preclude this member of the Council of the Croatian National Bank from participating in the meetings of the Council of the Croatian National Bank.

(5) The Governor of the Croatian National Bank shall have the right to appeal before the European Court of Justice against the decision on the removal from office taken by the Croatian Parliament. Other members of the Council may bring an administrative dispute against the decision on the removal from office taken by the Croatian Parliament before the Administrative Court of the Republic of Croatia.

Employment of the members of the Council

Article 82

- (1) The members of the Council of the Croatian National Bank must be full-time employees of the Croatian National Bank.
- (2) Rights and obligations of the members of the Council of the Croatian National Bank arising from their employment shall be governed by a contract of employment, this Act and the Statute of the Croatian National Bank.

Membership in ECB bodies

Article 83

The Governor of the Croatian National Bank shall be a member of the General Council of the ECB.

Rights and obligations of the members of the Council of the Croatian National Bank upon termination of office

Article 84

Upon termination of office, the members of the Council of the Croatian National Bank may continue to work with the Croatian National Bank in accordance with the Statute and internal bylaws of the Croatian National Bank. Should a member of the Council of the Croatian National Bank not continue to work with the Croatian National Bank, he/she shall be entitled to a compensation equivalent to his/her last salary received in the month prior to termination of office until his/her new employment, but for no longer than one year following termination of office.

Data confidentiality

Article 85

- (1) The submission of data to the ECB as required to fulfil the obligations set out in the Statute of the ESCB and the ECB shall not be considered as disclosure of confidential data.

- (2) The confidential data of the Croatian National Bank shall not be disclosed to third parties even when the conditions referred to in Article 53, paragraph (2) of this Act are met, if such disclosure would be contrary to the duties and tasks of the Croatian National Bank set out in the provisions of the Treaty establishing the European Community and the Statute of the ESCB and the ECB.

Collection of statistical data

Article 86

(1) In order to achieve the objective and carry out the tasks set forth by this Act, the Croatian National Bank shall participate in the collection, processing and reporting of statistical data at least within the scope set out by the Statute of the ESCB and ECB.

(2) In order to carry out the tasks referred to in paragraph (1) of this Article, the Croatian National Bank shall, to an appropriate extent, cooperate with the institutions and bodies of the European Union and with the competent bodies of the Member States and third countries and with international organisations.

(3) The Croatian National bank may, if appropriate, set forth the following in the subordinate legislation:

- the list of statistical data deemed necessary but not referred to in paragraph (1) of this Article;

- the form in which such data shall be submitted to the Croatian National Bank and uniform forms that shall provide for the harmonisation of the collection, processing and distribution of the processed statistical data;

- the persons that shall submit such data to the Croatian National Bank; and

- the confidentiality regime that shall apply to statistical data submitted to the Croatian National Bank.

Measures to prevent excess liquidity in the market

Article 87

(1) In order to prevent an uncontrollable increase in liquidity in the market which might occur after the introduction of the euro as the official currency of the Republic of Croatia, and with regard to the obligation of credit institutions to adjust the amount of required reserves stipulated by the Croatian National Bank to the amount of required reserves stipulated by the ECB, the Croatian National Bank may define the appropriate measures in its subordinate legislation.

(2) The measures referred in paragraph (1) of this Article may include:

- issuing long-term debt securities of the Croatian National Bank;

- concluding an agreement on a long-term deposit with successive repayments;

and

- other appropriate measures.

IX INTRODUCTION OF THE EURO AS THE OFFICIAL CURRENCY OF THE REPUBLIC OF CROATIA

Tasks of the Croatian National Bank as part of the ESCB

Article 88

In accordance with the Treaty establishing the European Community and the Statute of the ESCB and the ECB, the Croatian National Bank shall carry out the following tasks:

1. participate in the implementation of monetary policy of the European Community;
2. conduct foreign exchange operations as set out in Article 111 of the Treaty establishing the European Community;
3. hold and manage the foreign reserves of the Republic of Croatia that have not been transferred to the ECB; and
4. ensure the smooth operation of payment systems.

Tasks of the Croatian National Bank

Article 89

Without prejudice either to its tasks referred to in Article 88 of this Act or to its independence, the Croatian National Bank shall carry out the following tasks:

1. issue and withdraw authorisations and approvals in accordance with the laws governing the operation of credit institutions, credit unions, payment institutions, payment transaction settlement systems, as well as foreign exchange operations and the operation of authorised foreign exchange offices;
2. exercise supervision and oversight over legal persons whose operation is regulated by the laws governing the operation of credit institutions, credit unions, payment institutions and payment transaction settlement systems;
3. open accounts for and accept deposits from credit institutions, execute payment transactions across these accounts and grant loans to credit institutions;
4. collect and process statistical data;
5. regulate and improve the payment system;
6. act as fiscal agent for the Republic of Croatia and perform other operations on behalf of the Republic of Croatia, as provided by law;
7. adopt subordinate legislation on the operations within its competence; and
8. perform other operations as provided by other regulations;

if not contrary to the tasks set out in Article 3 of the Statute of the ESCB and the ECB.

Participation in international monetary institutions

Article 90

The Croatian National Bank may participate in the work of international monetary institutions only subject to approval of the ECB.

Participation of the Croatian National Bank in the implementation of monetary policy

Article 91

As an integral part of the ESCB, the Croatian National Bank shall participate in the implementation of monetary policy and exercise monetary control.

Opening of accounts

Article 92

In order to carry out its tasks, the Croatian National Bank may open accounts for credit institutions, public entities and other market participants and accept assets, including book entry securities, as collateral.

Open market and credit operations

Article 93

(1) In order to achieve the objectives and to carry out the tasks of the ESCB, and in accordance with general principles established by the ECB, the Croatian National Bank may:

- 1) operate in the financial markets by buying and selling outright (spot and forward) or under repurchase agreement and by lending or borrowing claims, marketable instruments (whether in Community or in non-Community currencies) and precious metals; and
- 2) conduct credit operations with credit institutions and other market participants, with lending being based on adequate collateral.

(2) In cases of urgent and unforeseen liquidity needs of credit institutions, the Croatian National Bank may grant short-term loans to the credit institutions, provided that these loans are based on adequate collateral.

Minimum required reserves

Article 94

(1) The ECB may require credit institutions to hold minimum required reserves on accounts with the ECB and/or the Croatian National Bank in pursuance of monetary policy objectives.

(2) If credit institutions fail to comply with the ECB requirement referred to in paragraph (1) of this Article, the ECB shall be entitled to levy penalty interest and/or to impose other sanctions with comparable effect.

(3) The Council of the European Union shall define the basis for minimum required reserves and the maximum permissible ratios between those reserves and their basis, as well as the appropriate sanctions in cases of non-compliance.

Other instruments of monetary control

Article 95

(1) The Croatian National Bank shall be authorised to use other methods of monetary control subject to the conditions and limits defined by the Governing Council of the ECB in accordance with the provisions of Article 20 of the Statute of the ESCB and the ECB.

(2) For the purpose of paragraph (1) of this Article, the Croatian National Bank shall adhere to the definitions formulated by the Council of the European Union in accordance with the provisions of Article 20, paragraph (2) of the Statute of the ESCB and the ECB.

Regulations for implementation of monetary policy of the ECB

Article 96

(1) While participating in the implementation of monetary policy, the Croatian National Bank shall act in accordance with the legal provisions of the ECB and of other competent bodies of the European Union.

(2) In order to ensure the smooth application of monetary policy regulations, the Croatian National Bank may, subject to prior opinion of the ECB, adopt implementation regulations providing for the application of the regulations referred to in paragraph (1) of this Article.

(3) All implementation regulations of the Croatian National Bank referred to in paragraph (2) of this Article must be fully in line with the legal acts of the ECB.

Foreign exchange operations

Article 97

(1) In accordance with the provisions of the Treaty on establishing the European Community and the Statute of the ESCB and the ECB, the Croatian National Bank may:

1) establish relations with central banks and financial institutions in other countries and, where appropriate, with international organisations; 2) buy and sell (spot and forward) or otherwise acquire, all types of foreign exchange assets and precious metals; 3) hold and manage the assets referred to in the previous item of this paragraph; and 4) conduct all types of banking transactions in relations with third countries and international organisations, including borrowing and lending operations.

(2) The term 'foreign exchange assets' referred to in paragraph (1), item (2) of this Article shall include securities and all other assets in any foreign currency or unit of account in whatever form held.

Foreign reserves

Article 98

The assets referred to in Article 97, paragraph (1), item (2) of this Act shall constitute the foreign reserves of the Republic of Croatia.

Transfer of the foreign reserves to the ECB

Article 99

(1) The Croatian National Bank shall transfer a portion of the foreign reserves referred to in Article 98 of this Act to the ECB in accordance with Article 30 of the Statue of the ESCB and the ECB.

(2) The Croatian National Bank may, if so entrusted by the ECB, manage the transferred portion of foreign reserves referred to in paragraph (1) of this Article in the name and for the account of the ECB, as set out in the guidelines of the ECB.

Non-transferred foreign reserves of the Republic of Croatia

Article 100

(1) The portion of the foreign reserves referred to in Article 98 of this Act that has not been transferred to the ECB in accordance with Article 99 of this Act shall constitute the foreign reserves of the Republic of Croatia, which shall be held and managed by the Croatian National Bank.

(2) The foreign reserves of the Republic of Croatia referred to in paragraph (1) of this Article shall constitute a part of the balance sheet of the Croatian National Bank.

(3) The Croatian National Bank shall manage the foreign reserves referred to in paragraph (1) of this Article in accordance its own rules and the principles of liquidity and safety of investment.

(4) If in the management of the non-transferred portion of foreign reserves an individual transaction is above a certain limit set out in the guidelines of the Governing Council or an individual transaction from the foreign exchange working balances is above a certain limit set out in the guidelines of the Governing Council, such a transaction shall be subject to approval of the ECB.

(5) By way of exception from paragraph (4) of this Article, the performance of transactions in fulfilment of obligations towards international organisations referred to in Article 97 of this Act shall not be subject to approval of the ECB.

Issuance of banknotes and coins

Article 101

(1) The Croatian National Bank may issue banknotes denominated in euro within the limits approved by the ECB and in accordance with the provisions of the Statute of the ESCB and the ECB and the provisions of the Treaty establishing the European Community.

(2) The Croatian National Bank may issue coins denominated in euro subject to approval by the ECB of the volume of the issue. The Croatian National Bank shall apply the rules on denominations and technical specifications in accordance with the relevant rules of the European Union.

Design of coins

Article 102

The Croatian National Bank shall define the design of the coins that it issues in accordance with the relevant rules of the European Union.

Payment transaction settlement systems

Article 103

(1) The Croatian National Bank shall ensure the conditions for the smooth and efficient operation of payment transaction settlement systems within and outside the European Union applying the regulations of the ECB and of other competent bodies of the European Union.

(2) In order to ensure the smooth application of the regulations referred to in paragraph (1) of this Article, the Croatian National Bank may adopt implementation regulations providing for the application of these regulations, subject to approval of the ECB.

(3) All implementation regulations of the Croatian National Bank referred to in paragraph (2) of this Article must be fully in line with the regulations of the ECB and of other competent bodies of the European Union.

Tasks and powers of the Council of the Croatian National Bank

Article 104

(1) The Council of the Croatian National Bank shall in particular be competent to: 1) adopt the financial plan of the Croatian National Bank; 2) adopt the reports referred to in Article 62 of this Act; 3) adopt the Statute of the Croatian National Bank; 4) issue and withdraw authorisations of credit institutions with registered offices in the Republic of Croatia and branches of credit institutions with registered offices outside the Republic of Croatia, and authorisations for performing specific operations in accordance with the regulations governing the operation of credit institutions; 5) establish the insolvency of credit institutions and decide on submitting proposals for the initiation of bankruptcy proceedings against credit institutions or on the withdrawal of authorisations of credit institutions; 6) approve mergers of credit institutions and acquisition of shares in credit institutions in accordance with the law governing the operation of credit institutions, unless this approval falls under the competence of the European Commission; 7) approve the appointments of chairpersons and members of credit institutions' management boards; 8) issue and withdraw authorisations of payment systems and adopt subordinate legislation regulating their operation, if authorised pursuant to this Act and the Statute of the ESCB and the ECB; 9) adopt subordinate legislation regulating the issuance of coins if authorised pursuant to this Act, the Statute of the ESCB and the ECB and the relevant rules of the European Union; 10) formulate strategy and policies for managing the non-transferred portion of foreign reserves; 11) decide on the Croatian National Bank's membership in international institutions and organisations; 12) decide on the membership of the Croatian National Bank in international monetary institutions, subject to approval of the ECB; and 13) decide on the establishing and closing of the branches and representative offices of the Croatian National Bank.

Membership in ECB bodies

Article 105

The Governor of the Croatian National Bank shall be a member of the Governing Council of the ECB.

Capital of the Croatian National Bank

Article 106

On the date of introduction of the euro as the official currency of the Republic of Croatia, the capital of the Croatian National Bank in the amount of HRK 2,500,000,000.00 shall be converted into euro according to the fixed conversion rate (HRK/EUR).

Financial statements of the Croatian National Bank

Article 107

(1) The Croatian National Bank shall prepare financial statements in accordance with the accounting rules and instructions of the ECB.

(2) The annual financial statements of the Croatian National Bank shall include the portion of monetary income of the ESCB and ECB allocated to the Croatian National Bank by the ECB in accordance with the Statute of the ESCB and the ECB and accrued in the implementation of the common monetary policy.

Appointment of auditor

Article 108

The decision on the appointment of an independent external auditor to audit the financial statements of the Croatian National Bank shall be made in accordance with the Statute of the ESCB and the ECB.

Implementation regulations of the Croatian National Bank

Article 109

In the areas of competence of the ECB regulated by the guidelines of the ECB, the Croatian National Bank may adopt implementation regulations providing for the application of the provisions of the guidelines of the ECB, subject to approval of the ECB.

ECB sanctions

Article 110

(1) The Croatian National Bank shall apply the system of ECB sanctions in the areas which are governed by the regulations of the ECB.

(2) The Croatian National Bank shall participate in the procedure for imposing ECB sanctions in accordance with the regulations of the ECB and other regulations of the bodies of the European Union.

(3) The provisions of Articles 111 and 112 of this Act shall not apply to the acts and omissions subject to ECB sanctions.

X PENAL PROVISIONS

Violations

Article 111

(1) A credit institution shall commit a violation:

1) if it fails to comply with the subordinate legislation of the Croatian National Bank governing the obligation to allocate and maintain required reserves (Article 14), or if it incorrectly calculates the required reserves (Article 15); 2) if it fails to comply with the subordinate legislation of the Croatian National Bank laying down other monetary and foreign exchange policy measures and instruments (Article 16); 3) if it, contrary to Article 24 of this Act, reproduces kuna banknotes or kuna and lipa coins in circulation without a prior approval of the Croatian National Bank, or in any other way violates the copyrights of the Croatian National Bank on kuna banknotes and kuna and lipa coins in circulation; 4) if it fails to comply with the subordinate legislation and decisions of the Croatian National Bank regulating banking operations and establishing standards for sound and safe operation of credit institutions (Article 29); 5) if it fails to submit to the Croatian National Bank the data and reports, or other information necessary for performing the functions of the Croatian National Bank, within the time limits defined in the subordinate legislation of the Croatian National Bank (Article 30); 6) if it fails to comply with the subordinate legislation governing the provision and performance of payment services, or fails to comply with the established standards for the smooth and safe performance of payment services (Article 33); 7) if it fails to open an account with the Croatian National Bank (Article 34); or 8) if it fails to submit to the Croatian National Bank the statistical data for processing, as defined in the subordinate legislation of the Croatian National Bank, on the prescribed forms (Article 66).

(2) A violation shall be committed: 1) if a legal or natural person, contrary to Article 24 of this Act, reproduces kuna banknotes or kuna and lipa coins in circulation without a prior approval of the Croatian National Bank, or in any other way violates the copyrights of the Croatian National Bank on kuna banknotes and kuna and lipa coins in circulation; or 2) if a legal or natural person fails to submit to the Croatian National Bank the statistical data for processing, as defined in the subordinate legislation of the Croatian National Bank, on the prescribed forms (Article 66).

Liability for violations after the accession of the Republic of Croatia to the European Union

Article 112

(1) A credit institutions shall commit a violation:

1) if it fails to comply with the subordinate legislation and decisions of the Croatian National Bank regulating banking operations and establishing standards for sound and safe operation of credit institutions (Article 77); 2) if it fails to submit to the Croatian National Bank the statistical data for processing, in accordance with Article 86 of this Act; or 3) if it fails to comply with the subordinate legislation of the Croatian National Bank governing the measures aimed at preventing an uncontrollable increase in liquidity in the market (Article 87).

(2) A violation shall be committed:

if a legal or natural person fails to submit to the Croatian National Bank the statistical data for processing, in accordance with Article 86 of this Act.

Sanctions for violations, limitation for violation proceedings and amounts of fines after the introduction of the euro as the official currency of the Republic of Croatia

Article 113

(1) A credit institution shall be fined between HRK 50,000.00 and HRK 500,000.00 for any of the violations referred to in Article 111, paragraph (1) and Article 112, paragraph (1) of this Act.

(2) A responsible person of the credit institution's management board, or a responsible person of the management of a credit institution's branch shall be fined between HRK 5,000.00 and 50,000.00 for any of the violations referred to in Article 111, paragraph (1) and Article 112, paragraph (1) of this Act.

(3) In addition to a fine, a protective measure of the prohibition of performing the relevant duties within the credit institution for a period of two years may be imposed on any of the persons referred to in paragraph (2) of this Article.

(4) Violation proceedings against a credit institution and the responsible persons of a credit institution referred to in paragraph (2) of this Article, for alleged violations determined by this Act may not be initiated following the expiry of three years from the date of preparing the report of the Croatian National Bank on established irregularities or illegalities in the credit institution's operation.

(5) Any action taken by the competent authority for the purpose of proceedings relating to the person who committed the violation shall interrupt the limitation period. The limitation period shall restart after each interruption, but the violation proceedings may in no case be initiated following the expiry of twice the limitation period laid down in paragraph (4) of this Article.

(6) A legal person shall be fined between HRK 50,000.00 and HRK 500,000.00 for any of the violations referred to in Article 111, paragraph (2) and Article 112, paragraph (2) of this Act.

(7) A natural person or a responsible person of a legal person shall be fined between HRK 5,000.00 and HRK 50,000.00 for any of the violations referred to in Article 111, paragraph (2) and Article 112, paragraph (2) of this Act.

(8) On the date of introduction of the euro as the official currency of the Republic of Croatia, the amounts of the fines referred to in paragraphs (1), (2), (6) and (7) of this Act shall be converted into euro according to the fixed conversion rate (HRK/EUR).

XI TRANSITIONAL AND FINAL PROVISIONS

Status of the members of the Council of the Croatian National Bank as of the date of accession of the Republic of Croatia to the European Union

Article 114

(1) The term of office of the external members of the Council of the Croatian National Bank, appointed pursuant to the provisions of the Act on the Croatian National Bank (Official Gazette 36/2001) or this Act, shall terminate as of the date of accession of the Republic of Croatia to the European Union.

(2) The Croatian Parliament shall, no later than 30 days after the date of accession of the Republic of Croatia to the European Union, appoint the remaining two Vicegovernors.

(3) The Governor, Deputy Governor and Vicegovernors of the Croatian National Bank, appointed pursuant to the provisions of the Act on the Croatian National Bank (Official Gazette 36/2001) or this Act, shall continue to perform their duties until the expiry of their terms of office.

(4) Upon his/her assumption of office, a member of the Council of the Croatian National Bank shall, without delay, and within a month at the latest, bring his/her employment status and other matters in line with the provisions of this Act.

Act that shall cease to have effect on the date of the entry into force of this Act

Article 115

On the date of the entry into force of this Act, the Act on the Croatian National Bank (Official Gazette 36/2001 and 135/2006) shall cease to have effect.

Subordinate legislation that shall cease to have effect

Article 116

The subordinate legislation and implementation regulations adopted pursuant to the Act on the Croatian National Bank (Official Gazette 36/2001 and 135/2006), in the part not contrary to the provisions of this Act, shall remain in effect and shall be applied pending the adoption of relevant legislation pursuant to this Act.

Individual provisions of this Act that shall cease to have effect on the date of accession of the Republic of Croatia to the European Union

Article 117

On the date of accession of the Republic of Croatia to the European Union, the following provisions shall cease to have effect:

- ☐ Article 2, paragraphs (10) and (11),
- ☐ Article 3, paragraph (2),
- ☐ Articles 28 through 29,
- ☐ Article 40,
- ☐ Article 42, paragraph (1),
- ☐ Article 44,
- ☐ Article 46,
- ☐ Article 49,
- ☐ Article 50, paragraph (2),
- ☐ Article 66,
- ☐ Article 111, paragraph (1), items (4) and (8), and
- ☐ Article 111, paragraph 2, item (2).

**Individual provisions of this Act that shall cease to have effect on the date of
introduction of the euro as the official currency of the Republic of Croatia**

Article 118

On the date of introduction of the euro as the official currency of the Republic of Croatia, the following provisions shall cease to have effect:

- . Article 4,
- . Article 6, paragraph (2),
- . Article 7,
- . Articles 9 through 20,
- . Articles 21 through 27,
- . Articles 33 through 35,
- . Articles 38 and 39,
- . Article 42, paragraph (3),
- . Article 54, paragraph (1),
- . Articles 60 through 61,
- . Article 74,
- . Article 111, paragraph (1), items (1), (2), (3), (6) and (7),
- . Article 111, paragraph (2), item (1), and
- . Article 112, paragraph (1), item (3).

Entering into force

Article 119

This Act shall enter into force on the eighth day after the date of its publication in the Official Gazette, with the exception of the provisions referred to in Articles 70 through 87 and Article 112, which shall enter into force on the date of accession of the Republic of Croatia to the European Union, and the provisions referred to in Articles 88 through 110 and Article 113, paragraph 8, which shall enter into force on the date of introduction of the euro as the official currency of the Republic of Croatia.

Class: 540-02/08-01/01

Zagreb, 19 June 2008

CROATIAN PARLIAMENT
President of the Croatian Parliament
Luka Bebić, m.p.