

Pursuant to Article 50, paragraph (4), Article 101, paragraph (2), items (1) and (2), Article 102, paragraph (3) and Article 105, paragraph (3) of the Credit Institutions Act (Official Gazette 159/2013, 19/2015, 102/2015, 15/2018, 70/2019, 47/2020 and 146/2020) and Article 43, paragraph (2), item (10) of the Act on the Croatian National Bank (Official Gazette 75/2008, 54/2013 and 47/2020), the Governor of the Croatian National Bank hereby issues the

## **Decision on amendments to the Decision on governance arrangements**

### **Article 1**

In the Decision on governance arrangements (Official Gazette 96/2018, 67/2019 and 145/2020), in Article 1, paragraph (2) is deleted. After Article 1, a new Article 1a is inserted which reads:

*"Compliance with the legal acts of the European Union*

#### *Article 1a*

This Decision transposes into the legal system of the Republic of Croatia Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (Text with EEA relevance) (OJ L 176, 27.6.2013), as last amended by Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures (Text with EEA relevance.) (OJ L 150, 7.6.2019)".

### **Article 2**

In Article 2, paragraph (3) is amended to read:

"(3) A credit institution shall apply the provisions of this Decision on an individual basis and on a consolidated basis in accordance with Articles 97 and 277 of the Credit Institutions Act."

### **Article 3**

In Article 3, item (20) is amended to read:

"20. 'significant credit institution' means any credit institution designated as global systemically important institution (G-SII) or other systemically important institution (O-SII) and any credit institution whose four-year average assets reported in audited financial statements as at the last day of the preceding four business years on an individual basis exceed an amount equivalent to EUR 1 billion;"

After item (22), new items (23), (24) and (25) are added which read:

"23. 'group' shall have the meaning as defined in Article 4, paragraph (1), item (138) of Regulation (EU) No 575/2013;

24. 'gender neutral remuneration policy' shall have the meaning as defined in Article 3, paragraph (1), item (62a) of the Credit Institutions Act;

25. 'managerial responsibility' shall have the meaning as defined in Article 1, paragraph (1) of Commission Delegated Regulation (EU) 2021/923 of 25 March 2021 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards setting out the criteria to define managerial responsibility, control functions, material business units and a significant impact on a material business unit's risk profile, and setting out criteria for identifying staff members or categories of staff whose professional activities have an impact on the institution's risk profile that is comparably as material as that of staff members or categories of staff referred to in Article 92(3) of that Directive."

#### **Article 4**

In Article 4, item (16) is amended to read:

"16. 'information system risk' ('ICT risk') means the risk of loss due to breach of confidentiality, failure of integrity of systems and data, inappropriateness or unavailability of systems and data, or inability to change information technology within a reasonable time and with reasonable costs when the environment or business requirements change (i.e. agility). ICT risk includes security risks resulting from inadequate or failed internal processes or external events including cyber-attacks or inadequate physical security;"

In Article 4, item (30) is amended to read:

"30. 'market risk' shall have the meaning as defined in Article 4, paragraph (1), item (141) of Regulation (EU) No 575/2013;"

After item (30), items (30.a) and (30.b) are inserted which read:

"30.a 'foreign-exchange risk' shall have the meaning as defined in Article 4, paragraph (1), item (142) of Regulation (EU) No 575/2013;

30.b 'commodities risk' shall have the meaning as defined in Article 4, paragraph (1), item (143) of Regulation (EU) No 575/2013;"

#### **Article 5**

In Article 5, paragraph (2) is amended to read:

"(2) Management and supervisory boards shall, in line with their competences:

1) ensure and document a suitable and transparent organisational and operational structure for the credit institution and they shall ensure that it is in line with the approved business strategy, the risk management strategy and the risk appetite; and

2) ensure compliance with applicable regulatory requirements on the prevention of money laundering and terrorist financing."

In Article 5, after paragraph (7), a new paragraph (8) is added which reads:

"8. When setting, approving and overseeing the implementation of the governance arrangements referred to in paragraph (1) of this Article, a credit institution shall, in accordance with the nature, scale and complexity of its activities and the risks inherent in its business model, ensure that governance arrangements, including a risk management system, take into account all risks to which a credit institution is or might be exposed in its operation, as well as all relevant risk factors, including environmental, social and governance risk factors."

#### **Article 6**

In Article 10, paragraph (1) is deleted.



The former paragraph (2) becomes paragraph (1) and is amended to read:

"(1) If a credit institution also establishes other supervisory board committees (e.g. committee for the prevention of money laundering and terrorist financing, ethics, conduct and compliance committees), it shall comply with the provisions on the functioning and composition of supervisory board committees referred to in the Credit Institutions Act and this Decision."

The former paragraph (3) becomes paragraph (2).

#### **Article 7**

In Article 12, paragraph (4), item (1) is amended to read:

"1) have adequate access to all information and data necessary to perform their tasks, including information and data from relevant corporate functions (e.g. legal, finance, human resources, ICT, etc.) and control functions, as well as information on AML/CTF compliance and aggregated information on suspicious transaction reports, and money laundering and terrorist financing risk factors;"

#### **Article 8**

Article 16 is amended to read:

"(1) A credit institution shall adopt, promote and adhere to high ethical and professional standards and ensure the implementation of such standards through a code of conduct.

(2) The standards referred to in paragraph (1) of this Article shall be subject to the principles of equal opportunities and equal treatment of men and women in matters of employment and occupation as well as no discrimination of employees based on gender, race, colour, ethnic or social origin, genetic features, language, religion or belief, political or any other opinion, membership of a national minority, property, birth, disability, age or sexual orientation.

(3) A credit institution shall ensure the oversight of adherence to the standards referred to in paragraph (1) of this Article.

(4) A credit institution shall prescribe the standards referred to in paragraph (1) of this Article in policies which shall include the following:

1) the obligation that all the credit institution's activities are conducted in compliance with the applicable law and with the credit institution's corporate values;

2) expectations that the credit institution's activities will not go beyond the defined risk appetite and internal limits and the respective responsibilities of employees;

3) examples of acceptable and unacceptable behaviours linked in particular to financial misreporting and misconduct, economic and financial crime (e.g. fraud, money laundering and terrorist financing, anti-trust practices, financial sanctions, bribery and corruption, market manipulation, mis-selling and other violations of consumer protection laws, tax offences, whether committed directly or indirectly, etc.);

4) expectations that employees conduct themselves with honesty and integrity and perform their duties with due skill, care and diligence; and

5) expectations that employees are aware of the potential internal and external disciplinary actions, legal actions and sanctions that may follow misconduct and unacceptable behaviours.

(5) A credit institution shall adequately:



- 1) ensure equal opportunities for all employees independent of their genders, including with regard to career perspectives;
  - 2) aim to improve the representation of the underrepresented gender in positions within the management and supervisory boards as well as in the group of employees that have managerial responsibilities; and
  - 3) implement gender neutral remuneration policies, recruitment policies, career development and succession plans, access to training and ability to apply for internal vacancies.
- (6) The compliance function or another function defined by a credit institution shall monitor and review compliance with the standards referred to in paragraph (1) of this Article and establish a process for dealing with issues of non-compliance. The results of the review shall be regularly reported to a credit institution's management board.
- (7) A credit institution shall ensure that all employees are made adequately aware of the standards referred to in paragraph (1) of this Article."

#### **Article 9**

In Article 17, paragraph (3), item (3) is amended to read:

"3) establishing adequate procedures for identifying and managing conflicts of interest that may arise from the conclusion of a legal arrangement as a result of which a credit institution would incur or increase its exposure to persons in a special relationship with the credit institution in accordance with Articles 146, 146a and 146b of the Credit Institutions Act."

#### **Article 10**

After Article 18, a new Article 18a is inserted which reads:

*"Documentation of exposures to persons in a special relationship with a credit institution"*

#### Article 18a

(1) A credit institution shall keep records of exposures to persons in a special relationship with the credit institution referred to in Article 146 of the Credit Institutions Act, including the following information:

- 1) the name of the person and their status;
  - 2) the type/nature of the exposure and the amount;
  - 3) the terms and conditions applicable to the exposure;
  - 4) the date of approval of the exposure;
  - 5) the name of the individual or body and its composition taking the decision to approve the exposure;
  - 6) the fact (yes/no) as to whether or not the exposure has been granted at market conditions; and
  - 7) the fact (yes/no) as to whether or not the exposure has been granted at conditions available to all employees.
- (2) For exposures exceeding an amount equivalent to EUR 200 000, in addition to the information referred to in paragraph (1) of this Article, the records shall include the following additional information:



1) the percentage of the exposure and the percentage of the sum of all outstanding amounts of exposures towards the same person compared to:

- the sum of its tier 1 capital and tier 2 capital and
- common equity tier 1 capital of the credit institution;

2) whether the loan is part of a large exposure; and

3) the relative weight of the aggregated sum of all outstanding amounts of exposures towards the same person, calculated as a percentage by dividing the total outstanding amount by the total amount of all outstanding exposures to persons in a special relationship with the credit institution.

(3) A credit institution shall ensure that the documentation of exposures to persons in a special relationship with the credit institution is complete and updated.

(4) At the request of the Croatian National Bank or another competent authority, a credit institution shall submit the information referred to in paragraphs (1) and (2) of this Article."

#### **Article 11**

In Article 20, after paragraph (3), new paragraphs (4) to (7) are added which read:

"(4) A credit institution shall ensure the exchange of necessary information in a manner that ensures that the management board, the supervisory board, each business line and organisational unit, including each control function, is able to adequately carry out its duties.

(5) Where a credit institution is a member of a group, it shall ensure the necessary exchange of adequate information between:

1) the business lines and the compliance function, including the AML/CTF compliance function where it is a separate control function, at the group level; and

2) the persons responsible for the operation of control functions at the group level and the management board and the supervisory board of the credit institution.

(6) A credit institution shall implement appropriate procedures that ensure that it complies with its obligations on the prevention of money laundering and terrorist financing.

(7) For the purposes of the procedures referred to in paragraph (6) of this Article, a credit institution shall:

1) assess its exposure to the risk that it may be used for the purpose of money laundering and terrorist financing and, where necessary, take mitigating measures to reduce those risks as well as its operational and reputation risks linked to them; and

2) take measures to ensure that its employees are aware of money laundering and terrorist financing risks and the impact that money laundering and terrorist financing have on the credit institution and the financial system."

#### **Article 12**

In Article 21, after paragraph (1), a new paragraph (2) is inserted which reads:

"(2) Control functions, in accordance with the authorities and responsibilities of each control function, shall ensure the credit institution's compliance with regulations on the prevention of money laundering and terrorist financing."



The former paragraphs (2) to (6) become paragraphs (3) to (7).

#### **Article 13**

In Article 26, after paragraph (3), a new paragraph (4) is added which reads:

"(4) A credit institution shall take appropriate action against internal or external behaviour that could facilitate or enable fraud, money laundering or terrorist financing or other financial crime and breaches of discipline (e.g. breaches of internal procedures, breaches of limits, etc.)."

#### **Article 14**

Article 41 is amended to read:

"A credit institution shall adopt and implement sound policies and procedures for managing strategic risk, reputation risk, country risk, environmental, social and governance risks, compliance with AML/CTF and other financial crime risks and other risks to which it is or might be exposed in its operation."

#### **Article 15**

In Article 43, after paragraph (5), a new paragraph (6) is added which reads:

"(6) A credit institution shall identify and assess the money laundering and terrorist financing risks associated with the new product or business practice, and set out the measures that may be taken to mitigate those risks."

#### **Article 16**

In Article 66, paragraph (1), item (2), the word "ICT" and the brackets are deleted.

#### **Article 17**

In Article 69, after paragraph (2), a new paragraph (3) is added which reads:

"(3) For the purpose of carrying out the activities referred to in paragraph (1) of this Article, a credit institution shall:

- 1) analyse risk factors for and its exposure to severe business disruptions or discontinuation and assess their potential impact using internal and/or external data and scenario analysis; and
- 2) cover in analysis all business lines and organisational units, including the risk management, and take into account their interdependency."

#### **Article 18**

In Article 39 and Article 73 of the Decision, the words "in kuna" are replaced by the words "in the domestic currency".

In Articles 82 to 84 of the Decision, the words "eligible capital" are replaced by the words "tier 1 capital".

#### **Article 19**

(1) In Article 3 of this Decision, in the part amending Article 3, item (20) of the Decision, the words "an amount equivalent to" are deleted.

(2) In Article 10 of this Decision, in the part of the introductory sentence of Article 18a, paragraph (2) of the Decision, the words "an amount equivalent to" are deleted.

## Article 20

(1) This Decision shall be published in the Official Gazette and shall enter into force on the eighth day after the day of its publication, with the exception of the provisions of Article 19 of this Decision, which shall enter into force on the date of introduction of the euro as the official currency of the Republic of Croatia.

(2) A credit institution shall harmonise its policies with this Decision by 30 April 2022 at the latest.

No.: 371-091/12-21/BV

Zagreb, 27 December 2021

**Boris Vujčić**

**Governor**