COMMITTEE OF EXPERTS ON THE EVALUATION
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THE FINANCING OF TERRORISM (MONEYVAL)

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Anti-money laundering and counter-terrorist financing measures

Croatia

2nd Enhanced Follow-up Report & Technical Compliance Re-Rating

October 2024

Follow-up report

The Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism - MONEYVAL is a permanent monitoring body of the Council of Europe entrusted with the task of assessing compliance with the principal international standards to counter money laundering and the financing of terrorism and the effectiveness of their implementation, as well as with the task of making recommendations to national authorities in respect of necessary improvements to their systems. Through a dynamic process of mutual evaluations, peer review and regular follow-up of its reports, MONEYVAL aims to improve the capacities of national authorities to fight money laundering and the financing of terrorism more effectively.

The 2nd Enhanced Follow-up Report and Technical Compliance Re-Rating on Croatia was adopted by the MONEYVAL Committee through written procedure 28 October 2024.

Croatia: 2nd Enhanced Follow-up Report

I. INTRODUCTION

1. The mutual evaluation report (MER) of Croatia was adopted in December 2021. Given the results of the MER, Croatia was placed in enhanced follow-up.[1] First Enhanced Follow-up Report (FUR) of Croatia was adopted in December 2023. The report analyses the progress of Croatia in addressing the technical compliance (TC) deficiencies identified in its MER or subsequent FURs. Re-ratings are given where sufficient progress has been made. Overall, the expectation is that countries will have addressed most if not all TC deficiencies by the end of the third year from the adoption of their MER.

2. The assessment of Croatia request for technical compliance re-ratings and the preparation of this report were undertaken by the following Rapporteur teams (together with the MONEYVAL Secretariat):

- British Overseas Territory of Gibraltar
- Lithuania
- Hungary

3. Section II of this report summarises Croatia's progress made in improving technical compliance. Section III sets out the conclusion and a table showing which recommendations have been re-rated.

II. OVERVIEW OF PROGRESS TO IMPROVE TECHNICAL COMPLIANCE

4. This section summarises the progress made by Croatia to improve its technical compliance by addressing its deficiencies identified in the MER[2] and applicable subsequent FUR[3] for which the authorities have requested a re-rating (Recommendation (R.)1, R.2, R.6, R.7, R.15, R.18, R.33, R.35, R.36).

5. For the rest of the recommendations rated as partially compliant (PC), (R.8, R.24, R.38) the authorities did not request a re-rating.

6. This report takes into consideration only relevant laws, regulations or other anti-money laundering and combating the financing of terrorism (AML/CFT) measures that are in force and effect at the time that Croatia submitted its country reporting template – at least six months before the FUR is due to be considered by MONEYVAL.[4]

II.1 Progress to address technical compliance deficiencies identified in the MER and applicable subsequent FURs

7. Croatia has made progress to address the technical compliance deficiencies identified in the MER and applicable subsequent FURs. As a result of this progress, Croatia has been re-rated on R.1, R.2, R.6, R.7, R.15, R.33, R.35 and R.36. The country asked also for re-rating for R.18 which is also analysed but no re-rating has been provided.

1. Regular follow-up is the default monitoring mechanism for all countries. Enhanced follow-up involves a more intensive process of follow-up.
2. Mutual evaluation report, available at https://rm.coe.int/moneyval-2021-24-mer-hr-en/1680a56562.
3. First Enhanced Follow-up Report, available at https://rm.coe.int/moneyval-2023-16-hr-5thround 1stenhfur/1680ae8297.
4. This rule may be relaxed in the exceptional case where legislation is not yet in force at the six-month deadline, but the text will not change and will be in force by the time that written comments are due. In other words, the legislation has been enacted, but it is awaiting the expiry of an implementation or transitional period before it is enforceable. In all other cases the procedural deadlines should be strictly followed to ensure that experts have sufficient time to do their analysis.

8. Annex A provides the description of country's compliance with each recommendation that is reassessed, set out by criterion, with all criteria covered. Annex B provides the consolidated list of remaining deficiencies of the re-assessed recommendations.

III. CONCLUSION

9. Overall, in light of the progress made by Croatia since its MER or 1st enhanced FUR was adopted, its technical compliance with the Financial Action Task Force (FATF) recommendations has been re-rated as follows.

Table 1. Technical compliance with re-ratings, October 2024[5]

R.1	R.2	R.3	R.4	R.5
LC (FUR2 2024) ~~PC (FUR1 2023) PC (MER)~~	**LC (FUR2 2024)** ~~PC (FUR1 2023) PC (MER)~~	LC	LC	LC
R.6	R.7	R.8	R.9	R.10
C (FUR2 2024) ~~PC (MER)~~	**C (FUR2 2024)** ~~PC (MER)~~	PC	C	LC (FUR1 2023) ~~PC (MER)~~
R.11	R.12	R.13	R.14	R.15
LC	LC	C (FUR1 2023) ~~PC~~	LC	**LC (FUR2 2024)** ~~PC (FUR 2023) PC (MER)~~
R.16	R.17	R.18	R.19	R.20
LC	LC (FUR1 2023) ~~PC~~	PC (FUR2 2024) ~~PC (MER)~~	LC	LC
R.21	R.22	R.23	R.24	R.25
LC	LC (FUR1 2023) ~~PC~~	LC (FUR1 2023) ~~PC~~	PC (FUR1 2023) ~~PC (MER)~~	LC
R.26	R.27	R.28	R.29	R.30
LC	LC	LC	C	C
R.31	R.32	R.33	R.34	R.35
LC	LC (FUR1 2023) ~~PC (MER)~~	**LC (FUR2 2024)** ~~PC (MER)~~	C	**LC (FUR2 2024)** ~~PC (MER)~~
R.36	R.37	R.38	R.39	R.40
LC (FUR2 2024) ~~PC (MER)~~	LC	PC	LC	LC (FUR1 2023) ~~PC~~

Note: There are four possible levels of technical compliance: compliant (C), largely compliant (LC), partially compliant (PC), and non-compliant (NC).

10. Croatia will remain in enhanced follow-up and will continue to report back to MONEYVAL on progress to strengthen its implementation of AML/CFT measures. Croatia is expected to report back within one year's time.[6]

5. Recommendations with an asterisk (*) are those where the country has been assessed against the new requirements following the adoption of its MER or FUR.
6. Rule 23, paragraph 1 of the Rules of Procedure for the 5th round of mutual evaluations.

Annex A: Reassessed Recommendations

Recommendation 1 - Assessing risks and applying a risk-based approach

	Year	Rating
MER	2021	PC
FUR1	2023	PC (upgrade requested, maintained at PC)
FUR2	2024	↑ LC (upgrade requested)

1. The requirements on assessment of risk and application of the risk-based approach were added to the FATF Standards with the last revision and so were not assessed in the previous mutual evaluation of Croatia.

2. **Criterion 1.1** – Croatia completed the first National Risk Assessment (NRA) of money laundering (ML) and terrorist financing (TF) in 2016. In 2018 Croatia initiated update of the NRA using the same methodology. The Government adopted the updated report in June 2020. When conducting the NRA, Croatia took into account the outcomes of the EU Supra-national risk assessment. NRAs benefited from the input from all key AML/CFT authorities in the country. Nevertheless, the Corruption Prevention Sector of the Ministry of Justice and Administration, was not involved in the assessment, and the NRAs did not benefit from their input when considering the level of corruption risk. The private sector participation varied. Major market players took part in person, others through questionnaires, and some sectors were represented by their self-regulatory bodies.

3. Croatia relied on the World Bank tool when assessing the ML/TF risks. Inflexible and inadequate application of certain aspects of the methodology for the 2020 NRA affected findings of the vulnerabilities of the sectors. The assessment of the ML/TF risks in 2020 was impacted by lack of quantitative data and use of diverse information sources when assessing risks (e.g., the main ML threats were identified basing the conclusions on the empirical knowledge of authorities – general expertise and perception of the law enforcement agencies [LEAs]). Consequently, this affected the reasonableness of assessment of risks level of certain sectors. The NRA did not assess and did not consider a number of important vulnerabilities in the system, such as shortage of human resources, etc.

4. On 23 November 2023, the Government of the Republic of Croatia adopted the 2023 NRA. New NRA, amongst other areas, also assessed ML risks of organised criminal groups, legal entities and trade-based ML, use of cash in real estate sector, virtual currencies, cross border cash transfers, sectorial risks, and vulnerabilities – the areas that had shortcomings in previous assessment as per MER and FUR1 2023. In depth analysis of ML, corruption, terrorism related criminal cases was carried out. Whilst the assessment of TF threats is far broader than in 2020 NRA and extends to analysing the aspects such as organised criminal groups, migrant smuggling, remaining stockpiles of weapons and international terrorist fighters, it would further benefit from more emphasis on financing aspect (i.e., financial flows to heightened terrorism risk counties). The authorities inform that qualitative and quantitative data was used to come up with the risk results, i.e., the World Bank methodology was supplemented with additional data for topical risk assessments.

5. **Criterion 1.2** – Responsibility for assessment of national ML/TF risks falls with the Inter-Institutional Working Group (IIWG) for the Prevention of ML/TF, (Anti-Money Laundering and Terrorist Financing Law (AMLTFL), Article 5(3)). The IIWG activities and the membership are regulated by the AMLTFL and the Protocol on Co-operation and Establishment of IIWG.

6. **Criterion 1.3** – The AMLTFL sets out the legal requirement for Croatia to carry out the NRA every four years, or earlier if deemed necessary (Article 5(1)).

7. **Criterion 1.4** – The Anti-Money Laundering Office (AMLO) should make results of the NRA available to all reporting entities (REs) and competent authorities, without delay (AMLTFL, Article 6(3)). Both NRAs are published on the website of the Ministry of Finance (MoF).[7]

8. **Criterion 1.5** – The AMLTFL sets out the areas for use of the NRA outcomes, this, among others includes allocation of resources and improving the applied preventative measure (Article 6(2)).

9. On the basis of the three NRAs (from 2016, 2020 and 2023) Croatia developed the respective Action Plans which include measures aimed at mitigating the identified ML/TF risks. The Action Plans include the allocation of resources within relevant authorities and the implementation of other measures to prevent and mitigate ML/TF.

10. The 2016 Action Plan contained detailed and clear actions aimed at mitigating identified ML/TF risks. Many of the measures, especially in the supervisory field and the area of strengthening implementation of preventative measures were accomplished. Some actions, such as insufficient capacities of the State Attorney's Office (SAO) and financial investigators remained unachieved up to now, despite the steps been taken by the authorities. The tax administration (TA) of their own volition split their capacity into tax investigations and economic crime/AML investigations to improve their efficiency and performance.

11. The 2020 Action Plan, however, did not tackle the fundamental issues raised across the two risk assessments, such as lack of successful ML/TF prosecutions, lack of measures regarding detection and confiscation, the need for further training of the judiciary, law enforcement and investigators, inability to secure an adequate number of personnel in the financial inspectorate, addressing barriers to recruitment of financial investigators, etc.

12. The 2023 Action Plan addresses the need of different types of trainings for national authorities, strengthening the administrative and human capacities of national authorities, increasing the effectiveness of investigation and prosecution, as well as application of provisional measures in securing proceeds of crime.[8] However, the Action Plan would need to be further streamlined, for example, a number of Action Plan items suggest that continuous efforts will be made instead of setting key performance indicators for more measurable results (e.g., resourcing and staffing); some action items are more linked to declarative statements, e.g., submission of proposals for analytical intelligence processing shall be aligned with high ML treats without explicitly explaining how this will be accomplished.

13. **Criterion 1.6** –

(a) The AMLTFL provides for a limited exemption in relation to electronic money. REs are permitted not to apply certain customer due diligence (CDD) requirements based on an appropriate risk assessment indicating that the risk is low provided that certain mitigating conditions are met (e.g., limited reloadability and lack of anonymity), (Article 18). This exemption was directly transposed from the 5th AML Directive without conducting risk assessment.

At the time of the MER, there were two types of reporting entities that were not properly designated and hence the FATF recommendations did not apply to them: (i) external accountants for the situations covered under R.22 criterion 1(d); and (ii) certain types of virtual assets service

7. Available at https://mfin.gov.hr/istaknute-teme/ured-za-sprjecavanje-pranja-novca/akcijski-plan-za-smanjenje-identificiranih-rizika-od-pranja-novca-i-financiranja-terorizma-u-republici-hrvatskoj/2715.

8. The 2023 Action Plan includes number of measures regarding ML/TF investigations and prosecutions (Action plan Items 5, 9, 10, 11, 16, 25, 27, 29), detection and confiscation (Action plan Items 6, 7, 11, 12), trainings for competent authorities (Action plan Items 1, 2, 12, 15, 17, 22, 24, 26, 28), recruitment of new staff (Action plan Items 8, 18).

providers (VASPs). Amendments to the AMLTFL that came into force on 1 January 2023 include external accountants when providing the services under c.22.1(d), (Article 9.2.18(c)) as reporting entities and extend the scope of covered VASPs (Article 9.2.19). While the provision of "*transfer of virtual assets*" services itself is not exempted from the application of CDD, it is, however, absent from the VASP definition (see R.15, MER).

(b) The AMLTFL is not applicable to financial activities if they are conducted on an occasional or very limited basis (e.g., accounting for no more than 5% of the turnover in any accounting period, and with 1 000 euros (EUR) threshold for each individual transaction, etc.), (AMLTFL, Article 10). According to amendments to Article 10(3) of the AMLTFL, in force since January 2023, this exemption cannot be applied to any providers of money value services covered under Article 9 of the same law or to organisers of games of chance (Article 9.16), Trust and Company Services Providers (TCSPs), (Article 9.17(f)), real estate agents (Article 9.17(j)), auditors and auditing firms, external accountants, tax advisors and tax advisory companies, lawyers, law firms and notaries (Article 9.18) and covered VASPs (Article 9.19). Croatia advised that there were only 3 REs benefiting from this exception and that the Financial Inspectorate has individually assessed these 3 REs as being at a low level of risk. Croatia has presented statistical data on the turnover of these 3 entities for 2019-2020, which confirm the size of the business is in line with the AMLTFL, and for the period of 2021-2022 no new requests were received for this exemption to be applied. All these proves that the exemption is applied in limited instances.

14. **Criterion 1.7** – The findings of the NRA among others are used to determine the areas of higher ML/TF risks (AMLTFL, Article 6(2)). Croatia meets this criterion through the option (a).

(a) REs are obliged to conduct enhanced CDD measures to appropriately manage and mitigate ML/TF risks when "higher" ML/TF risk has been established by the NRA (AMLFT Act, Article 44(7)).

In 2018, in response to risks highlighted in the 2016 NRA, Croatia adopted specific measures to prevent misuse of cash, and mitigate ML threats, such as corruption. These measures are respectively: (i) reducing the CDD threshold for Authorised Exchange Offices and dealers in precious metal stones (DPMS) to EUR 2 000; (ii) requiring REs to collect information on the source of funds when conducting a cash transaction in the amount of EUR 27 000 and more; and (iii) expanding the definition of politically exposed persons (PEPs) to include municipality prefects, mayors, county prefects and their deputies elected on the basis of the Act regulating local elections in Croatia.[9] Whilst the 2020 NRA recommended to further reduce this threshold for authorised exchange offices, the risk and the context has significantly changed since the adoption of the euro in 2023, thus making this measure no longer applicable.[10] The 2023 NRA recommends applying enhanced CDD measures to relevant legal entities, VASP clients, which is included in the 2023 NRA Action Plan.

(b) REs are obliged to take into account in their risk assessment the outcomes of the NRA (AMLTFL, Article 12(5)).

15. **Criterion 1.8** – The findings of the NRA among others are used to determine the areas of lower ML/TF risks (AMLFT Law, Article 6(2)). REs may conduct simplified CDD if they have estimated that the customer represents a "low" rather than "lower" ML/TF risk which is a higher standard than required by the FATF. When deciding such, they must take into consideration the results of the NRA (AMLFTL, Article 14(6)). The AMLFT Law sets out measures that may be applied when simplified CDD

9. Reasoning for adoption of the AMLTFL, Ministry of Finance, 2017.
10. The authorities report that not only the number of exchange offices shrank from 1 065 in 2022 to 290 in 2023 but also the reported turnover decreased by nearly 93 percent.

is considered (Article 43(3)). The simplified CDD is not allowed when specific higher risk scenarios apply (AMLFT Law, Article 43(5)).

16. **Criterion 1.9** – The AMLTFL determines the supervisory authority for each category of financial institution (FI) and designated non-financial businesses and professions (DNFBP), (AMLTFL, Article 81(1)). Supervisory authorities are required to supervise the application of the AMLTFL (Article 82 (1-2), (5-6)). This includes implementing REs' obligations under R.1. Regarding deficiencies identified under R.26 and R.28, Croatia has increased its efforts in relation to onsite and off-site supervision, even if some minor concerns regarding the implementation of a risk-based approach remain. Since the MER, the Croatian Financial Services Supervisory Agency (CFSSA) conducted 15 onsite supervisions, targeting VASPs (6), insurance companies (3), investment companies (2) and asset management companies (4), as well as 192 off-site inspections of all REs (c.26.5(a)-(c)). TA conducted 16 on-site inspections and, as of March 2023, 3 more were ongoing, based on the entities' risk assessment informed by offsite supervision (c.28.5). Additionally, in relation to c.28.2, the Financial Inspectorate has the statutory powers to carry out the supervision of the United Nations targeted financial sanctions (UN TFS) as well, after amendments of the International Restrictive Measures Law (IRM Law) in June 2021. Deficiencies in relation to c.26.4(a) and group supervision still apply.

17. **Criterion 1.10** – REs are required to conduct an assessment of ML/TF risks related to customers, countries or geographic areas, products, services or transactions, and delivery channels (AMLTFL, Article 12(1)). The risk assessment should be proportionate to the size of RE, type, scope, and complexity of its business operations (AMLTFL, Article 12(3)).

(a) Document their risk assessments – REs are obliged to document their risk assessment (AMLTFL, Article 12(3)). Competent supervisory authorities may determine that individual documented risk assessments are not required for a specific sector of the RE if certain risks characteristic for that sector are clear and understood by that sector (AMLTFL, Article 12(4)).

(b) Consider all the relevant risk factors before determining what is the level of overall risk and the appropriate level and type of mitigation to be applied – REs are required to consider a broad scope of risk factors. This also includes assessment of the mitigation measures, actions and procedures undertaken by the RE (AMLTFL, Article 12(2)). Risk analysis should be aligned with Rulebooks, decisions, and guidelines of the competent supervisory authorities, and take into account the NRA and the Supranational Risk Assessment (AMLTFL, Article 12(5)).

(c) Keep assessments up to date – REs should regularly update their ML/TF risk analysis (AMLTFL, Article 12(3)).

(d) Have appropriate mechanisms to provide risk assessment information to competent authorities and SRBs – REs should submit ML/TF risk analysis to competent supervisory authorities, at their request (AMLTFL, Article 12(3)).

18. **Criterion 1.11** – The AMLTFL sets forth the following provisions regarding risk mitigation measures to be taken by FIs and DNFBPs.

(a) Have policies, controls and procedures – REs are required to have written policies, controls and procedures for the mitigation and effective management of ML/TF risks. These should be determined by the REs own risk analysis, including consideration of Rulebooks, decisions and guidelines issued by a competent authority, the NRA and the Supranational Risk Assessment (AMLTFL, Article 13(1)). Policies, controls and procedures should be adopted by the management of the respective RE (AMLTFL, Article 13(4)). These should be approved by the

managements of the reporting entity (AMLTFL, Article 67(1(1)). The standard nevertheless specifically required this to be done by the senior management which is deemed to be implied by the reference to the management board.

(b) Monitor implementation of controls – REs are required to regularly monitor and review the adequacy and efficiency of the policies, controls, and procedures implemented; and, if necessary, to enhance the measures undertaken by REs (AMLFT Law, Article 13(4)).

(c) Take enhanced measures – Enhanced measures are required to be taken as noted under c.1.7.

19. **Criterion 1.12** – Simplified CDD is permitted only where "low" rather than "lower" risk has been identified (AMLFT Act, Article 43 (1)), (see analysis of c.1.8). REs are prohibited to apply simplified CDD when there is suspicion of ML/TF (AMLTFL, Article 43(5)). Deficiencies identified in c.1.9 apply.

Weighting and conclusion

20. Croatia conducted three NRAs to identify its ML/TF risks and whilst the reasonableness of the first two assessments was questioned, the most current 2023 NRA seem to provide a comprehensive overview of the main risks. Broad range of factors have been analysed to come up with the TF risk level, however, the authorities would further benefit from exploring financing aspect in more detail (c.1.1). Latest 2023 Action Plan addresses identified vulnerabilities and risks to a large extent while it could be further streamlined (c.1.5). Limited exceptions stem from the AMLD rather than based on consideration of national risks (c.1.6). In addition, deficiencies, as identified under R.26 and R.28, apply (c.1.9 and c.1.12). Overall, Croatia meets or mostly meets all criteria. **R.1 is re-rated LC.**

Recommendation 2 – National co-operation and co-ordination

	Year	Rating
MER	2021	PC
FUR1	2023	PC (upgrade requested, maintained at PC)
FUR2	2024	↑ LC (upgrade requested)

1. In the 5th round mutual evaluation, Croatia was rated PC with R.2 due to concerns with respect to national AML/CFT policies/strategies, a designated body responsible for co–ordination of national AML/CFT policies and adequacy of mechanisms at policymaking and operational levels.

2. **Criterion 2.1** – Three strategic documents exist in Croatia aimed at setting policy objectives in the area of suppression of corruption and prevention of financing of terrorism. These are respectively the 2015-2020 Anti-Corruption Strategy, the 2015 National Strategy for the Prevention and Suppression of Terrorism and the 2017 National Security Strategy of the Republic of Croatia. Croatian authorities inform that the aforementioned documents do not represent AML/CFT policies.

3. Two Action Plans aimed at mitigating ML/TF risks that were developed on the basis of the 2016 and 2020 NRAs were criticised for lacking a strategic outlook and the 2022 Action Plan, whilst being comprehensive, was criticised for replicating a list of measures based on the MER's Recommended Actions, rather than presenting an updated strategy that highlights AML/CFT/CPF priorities of the country and the way forward to achieve the strategic goals.

4. In November 2023, the Government of the Republic of Croatia adopted the NRA with Action Plan on mitigating the risk of money laundering and terrorist financing. New Action plan comprises a total of 31 measures that broadly target risks and vulnerabilities identified in the NRA, however, minor shortcomings still remain (please see c.1.5 for more information).

5. **Criterion 2.2** – Amendments to Article 4.23 of the AMLTFL, in force since January 2023, entrust co-ordinating and implementing common policies and activities in achieving strategic and operational goals in the area of prevention and detection of money laundering and terrorist financing to the IIWG - an expert working group composed of 11 competent authorities[11] in the field of AML/CFT, co-ordinated by the AMLO (AMLTFL, Article 5(3), the Protocol on Co-operation and Establishment of Interinstitutional Working Group for Preventing ML and TF, Article 2). Lack of support for the effective fight against ML and TF at the policy-making level affected successful implementation of some measures set in the 2016 NRA Action Plan. Based on the Action Plan, adopted in May 2022 by the Croatian Government, additional high-level officials, alongside the representative of the SAO, were also appointed as members of the IIWG, including senior officials and policymakers, namely State Secretaries of the Ministries of Finance, Ministry of Justice and Administration, Ministry of Interior and Ministry of Foreign and European Affairs, Deputy Attorney General as a representative of the State Attorney's Office, Deputy Director as a representative of the Security Intelligence Agency, Executive Director of Expert Supervision and Oversight Area as a representative of the Croatian National Bank, Member of the Management Council as a representative of the Croatian Financial Services Supervisory Agency.

6. **Criterion 2.3** – The IIWG platform - an expert working group, serves for co-operation and co-ordination on AML/CFT matters (AMLTFL, Articles 1(23) and 5(5)). Two sub-groups of the IIWG are set to ensure operational co-operation and implementation of national policies in relation to

11. The IIWG is comprised of the following competent authorities: Ministry of Justice and Administration, Security Intelligence Agency, State Attorney's Office, Ministry of the Interior, Ministry of Finance (AMLO, Financial Inspectorate, Tax Administration, Customs Administration), Ministry of Foreign and European Affairs, Croatian National Bank, and Croatian Financial Service Supervisory Agency.

supervisory activities and law enforcement efforts. The AMLTFL (Article 120), provides for a wider range of authorities responsible for the co-operation in preventing and detecting ML/TF than that 11, which are not currently a member of the IIWG. The IIWG includes policymakers from the SAO, as well as additional high-level officials that were appointed as members of IIWG as of May 2022 (as described in c.2.2). Operational co-operation is also ensured on the basis of the AMLTFL (Articles 120(1-2), 121-125), Croatian Financial Services Supervisory Agency Law (CFSSA Law), (Article 15-17) and Memorandum of Understandings (MoUs) signed between the respective authorities (Croatian National Bank (CNB), Croatia Financial Services Supervisory Agency (CFSSA), MoF (including AMLO and Financial Inspectorate).

7. **Criterion 2.4** – Croatia established the Standing Group for the Introduction and Monitoring of the Implementation of International Restrictive Measures (Standing Group) to assist in the co-operation and co-ordination to combat the proliferation financing (PF), co-ordinated by the Ministry of Foreign and European Affairs (MFEA). In February 2022, a new Permanent Group for the Implementation and Monitoring of International Restrictive Measures is established through a Decision by the Government of Croatia, pursuant to Article 5 of the International Restrictive Measures Law (IRM Law) with the aim to co-ordinate the implementation of international restrictive measures and exchange and analyse information between the authorities composing it. The Permanent Group consists of representatives from the relevant Ministries, as well as the Security Intelligence Agency, Military Security Intelligence Agency, Office of the National Security Council, the CNB and the CFSSA.

8. Croatia has also mechanisms in place to co-ordinate national efforts in combatting the proliferation of weapons of mass destruction (WMD). The Government has set up a National Commission for the Suppression of WMD Proliferation to ensure implementation of its National Strategy for the Non-Proliferation of WMD adopted in 2013. Authorities also advised that the members of the Standing group are also the members of the Commission on the Prevention of WMD, alongside three other authorities with no AML/CFT responsibilities: Ministry of Health, the Croatian Academic and Research Network (CARNET) and the Information Systems Security Bureau (ISSB).

9. **Criterion 2.5** – Processing of personal data on the basis of and in line with the provisions of AMLTFL is considered as a matter of public interest in accordance with Regulation (EU) 2016/679 of the European Parliament and of the Council (GDPR), (AMLTFL, Article 73(2)). Croatia has co-operation and co-ordination mechanisms in place to ensure AML/CFT requirements comply with data protection and privacy rules. Before adoption, Croatian Agency for Personal Data Protection gives its opinion to draft AML/CFT legislation on data protection matters (Implementation of the General Regulation on Data Protection Law (NN 42/18) – Article 14).

Weighting and conclusion

10. Croatia has national AML/CFT co-ordination and co-operation mechanisms in place. The most current Action Plan is informed by the ML/TF risks identified in the 2023 NRA, albeit minor shortcomings remain (c.2.1). **R.2 is re-rated LC.**

Recommendation 6 – Targeted financial sanctions related to terrorism and terrorist financing

	Year	Rating
MER	2021	PC
FUR1	2023	PC (no upgrade requested)
FUR2	2024	↑ C (upgrade requested)

1. In the 2021 MER, Croatia was rated PC with R.6. Following deficiencies were identified: (i) there was no competent authority or mechanism identified for proposing persons and entities for designation to 1267/1989 and 1988 United Nation (UN) Committees; (ii) there was no formal procedure in place establishing the process for detection and identification of targets for designation based on the designation criteria set out in the United Nations Security Council Resolutions (UNSCRs); (iii) there were no specific evidentiary standards defined for deciding whether or not to make a proposal for designation to 1267/1989 and 1988 UN Committees; (iv) there were no procedures in place with respect to filing information with UN Sanctions Regimes in support of proposed designations; (v) there was no requirement on information to be provided in support of the proposed designation; (vii) no provision existed indicating whether Croatia may be made known to be the designating state; (viii) there was no explicit provision defining the competent authority of a mechanism for making a designation pursuant to UNSCR 1373 at a national level; (ix) there was no mechanism for identifying targets for designation based on the designation criteria set out in UNSCR 1373, at national level; (x) there was no formal procedure for prompt determination of designation requests received from non–EU member states pursuant to UNSCR 1373, at national level; (xi) there was no specific evidentiary standards defined for deciding whether or not to make a proposal for designation pursuant to UNSCR 1373, at national level; (xii) there was no formalised procedure under which Croatia could ask another country to give effect to undertaken freezing measures; (xiii) no information was provided on an empowered competent authority and procedures and mechanisms to follow for collection of information on persons that meet designation criteria, at national level; (xiv) there was no explicit provision for operation *ex parte* against a person or entity who has been identified and whose proposal for designation is being considered, at national level; (xv) TFS were not implemented "*without delay*"; (xvi) the requirement to freeze the funds and assets derived or generated from funds or other assets owned or controlled directly or indirectly by designated persons or entities and the funds or other assets of persons and entities acting on behalf of, or at the direction of designated persons or entities, was not covered under the IRM Law; (xvii) the prohibition from making the assets available wholly or jointly, for the benefit of designated persons, entities owned or controlled, directly or indirectly by designated persons, were not covered under the IRM Law; (xviii) there was no mechanism for active communication of designations to FIs and DNFBPs; (xix) no guidance was provided to REs on their obligation in taking actions under freezing mechanism; (xx) no requirements were in place on reporting attempted transactions; (xxi) there was no specific rule for the protection of *bona fide* third parties acting in good faith when implementing the obligation under UNSCRs; (xxii) there was no specific procedure for submitting de–listing requests to the relevant UN Sanctions Committee, at national level; (xxiii) there was no procedure or mechanism set at national level for de–listing and unfreezing the funds and other asset that no longer meet the designation criteria pursuant to UNSCR 1373; (xxiv) there was no publicly known procedure for revision of the designation decision taken pursuant to UNSCR 1373, at national level; (xxv) there was no publicly known procedure, *at national level,* to facilitate review by the *1988 Committee;* (xxvi) there was no publicly known procedure, *at national level,* for informing designated persons and entities of the availability of the *United Nations Office of the Ombudsperson*, pursuant to UNSCRs 1904, 1989, and 2083 to accept de–listing petitions; (xxvii) there was no publicly known procedure, *at national level,* to unfreeze the funds or other assets of persons or entities inadvertently affected by a freezing

mechanism; (xxviii) there was no information or guidance provided on ensuring timely communication of de–listings and unfreezing to FIs and DNFBP sectors and defining their obligations to respect a de–listing or unfreezing actions.

2. **Criterion 6.1** – In relation to designations pursuant to UNSCR 1267/1989 and 1988:

(a) The authority responsible for introduction, monitoring and co-ordination of the implementation of the restrictive measures in Croatia is the Standing Group. The LRM explicitly designates the Standing Group as the authority responsible for proposing persons or entities for designation to the 1267/1989 and 1988 UN Committees (Article 9(2)). The proposals of the Standing Group with the consent of the Government are submitted by the ministry in charge of foreign affairs to the sanction committees of the UNSC (Article 9(8)).

(b) The LRM makes clear that proposals should be made on the "*basis of collected information, knowledge and analyses*" from members (Article 9(2)). In addition, the Standing Group has adopted a procedure for detection and identification of targets by members of the Standing Group.

(c) According to the Article 9(4) of the LRM proposals are made when there is suspicion or reason for suspicion that the criteria for inclusion are met. Such proposals for designations are not conditional upon the existence of a criminal proceeding.

(d) Article 9(8) of the LRM stipulates that the ministry in charge of foreign affairs submits the proposals for inclusion to the Sanctions List to the Sanctions Committees of the UNSC using the form prescribed by the UNSC.

(e) Article 9(9) of the LRM requires the inclusion of a wide range of information on the targeted individual or entity as part of the proposal to allow for accurate and positive identification, as well as including a detailed statement of the case in support of the proposed listing. The proposals shall also contain the information, whether it may be announced that the Republic of Croatia submitted the proposal.

3. **Criterion 6.2** – In relation to designations pursuant to UNSCR 1373:

(a) *At the EU level*, the EU Council is the competent authority for making designations according to EU Regulation 2580/2001 and EU Council Common Position 2001/931/CFSP. Based on the Government decision (Article 10(1)) the ministry in charge of foreign affairs is authorised to propose to the EU Council such a designation as it is laid down by the Article 10(5) of the LRM. This mechanism does not include persons, groups and entities having their roots, main activities and objectives with the EU (EU internals). Domestic legislation deals with EU internals.

At the national level and upon request from another country, pursuant to the Article 10(1) of the LRM the Government shall pass the decision on restrictive measures concerning specific natural or legal persons and other entities, in accordance with UNSCR 1373. The Standing Group is authorised to prepare the draft decision for the Government upon its members own initiative, or at the proposal of a third country.

(b) *At the EU level,* the Common Position 2001/931/CFSP on the application of specific measures to combat terrorism Group ("COMET Working Party") of the EU Council applies designation criteria consistent with the ones in UNSCR 1373.

At the national level, the Standing Group prepares the draft decision for the Government on the basis of the collected information, knowledge and analysis of competent authorities, and applying the designation criteria set out in UNSCR 1373. The Procedure to identify potential

targets for inclusion in restrictive measures (hereinafter referred as Procedure) determines procedure for the detection and identification of targets by the members of the Standing Group.

(c) *At the EU level,* requests for designations are received and examined by the COMET Working Party, which evaluates and verifies the information, including the reasonable basis for request, to determine whether it meets the criteria set forth in UNSCR 1373.

At the national level, the Procedure ensures the verification for prompt determination of designation requests received from non-EU member states.

(d) *At the EU level*, the COMET Working Party assesses whether the request is substantiated enough and meets the designation criteria stipulated under Common Position 2001/931/CFSP. It further makes a decision on recommendation to be adopted by the EU Council, based on reliable and credible evidence, without it being conditional on the existence of an investigation or conviction. No clear time limit has been set for the Working Party's review.

At the national level, according to the Procedure Croatia must apply an evidentiary standard of proof of "reasonable grounds" when deciding whether or not to make a proposal for designation under UNSCR 1373.

(e) *At EU the level,* there is no specific mechanism that would allow for requesting non-EU member states to implement the EU restrictive measures.

At the national level, the LRM [Article 10(5)] and the Procedure determine formalised procedure under which Croatia could ask a third country to give effect to freezing measures undertaken by Croatian authorities.

4. **Criterion 6.3** –

(a) *At the EU* level, all EU member states are required to provide each other with the widest possible range of police and judicial assistance on TFS matters, inform each other of any actions taken, co-operate and supply information to the relevant UNSCs [EU Regulation 881/2002 (Article 8); EU Regulation 2580/2001(Article 8); CP 2001/931/CFSP (Article 4)].

At the national level, the Articles 9-10 of the LRM describe how the Standing Group can use collected information, knowledge and analyses. In addition, the Procedure sets out mechanisms on how competent authorities collect or solicit information to identify persons and entities that meet the criteria for designation.

(b) *At the EU level*, as for the UNSCRs 1267/1989 and 1988 regime, EU Regulation 1286/2009 provides for *ex parte* proceedings against a person or entity whose designation is considered. The Court of Justice of the EU makes an exception to the general rule that notice must be given before the decision is taken in order not to compromise the effect of the designation.

At the national level, the Article 10(8) of the LRM determines explicit provision for operation *ex parte* against a person or entity who has been identified and whose proposal for designation is being considered.

5. **Criterion 6.4** – Article 7(1) of the LRM requires that restrictive measures introduced through the relevant UNSCR resolutions apply immediately to Croatia, thereby implementing targeted financial sanctions "without delay". The Article 7(2) of the LRM states that restrictive measures introduced by the UNSC resolutions are directly binding in Croatia until the EU adopts or update its corresponding legal act.

6. **Criterion 6.5** – The Article 5 of the LRM establishes the Standing Group co-ordinated by the ministry in charge of foreign affairs. The Standing Group is responsible for harmonising positions, co-ordinating and monitoring common policies and activities to reach strategic and operational goals in the area of the implementation of restrictive measures, adopting procedures and general guidelines and, when necessary, making recommendations concerning the application of restrictive measures, and for other affairs expressly entrusted to it in the LRM.

(a) In Croatia all natural and legal persons within the country are required to freeze, without delay and without prior notice, the funds or other assets of designated persons and entities (LRM, Articles 4(4), 7 and 8(1)).

(b) The obligation to freeze extends to: (i) all funds and other assets that are owned or controlled by the designated person or entity, and not just those that can be tied to a particular terrorist act, plot or threat; (ii) those funds or other assets that are wholly or jointly owned or controlled, directly or indirectly, by designated persons or entities; and (iii) the funds or other assets derived or generated from funds or other assets owned or controlled directly or indirectly by designated persons or entities, as well as (iv) funds or other assets of persons and entities acting on behalf of, or at the direction of, designate persons or entities (LRM, Article 4(3), (4) and (9); the General Guidelines (to the REs) on the application of the LRM).

(c) Croatian nationals or any persons or entities in Croatia are prohibited from making any funds or other assets, economic sources, or financial or other relevant services, available, directly or indirectly, wholly or jointly, for the benefit of designated persons and entities; entities owned or controlled, directly or indirectly, by designated persons or entities; and persons and entities acting on behalf of, or at the direction of, designated persons or entities, unless licensed, authorised or otherwise notified in accordance with the relevant UNSCRs (LRM, Article 4(2) points 1 and 4,(3) and (4) points 1 and 2; the General Guidelines (to the REs) on the application of the LRM).

(d) *At EU level,* EU Regulations including designations decided at the European level are published in the *Official Journal* of the EU and website and included in a consolidated financial sanctions database maintained by the European Commission, with an RSS feed. The EU Council provides guidance by means of the EU Best Practices for the effective implementation of restrictive measures.

At national level, the Article 7(3)-(8) of the LRM sets out requirements for the dissemination of information on sanction regimes and designations. The ministry in charge of foreign affairs is responsible for publishing on its website the information about changes of sanctions lists. In order to ensure effective implementation of restrictive measures, competent authorities will also publish the information on their website. The head of each competent authority also must receive this information directly from the ministry and authorities in charge of implementation and application of restrictions measures and monitoring authorities must publish the link to the website of the ministry in charge of foreign affairs on their websites. The General Guidelines on the Application of the Law on Restrictive Measures provide further guidance and information to all persons including FIs and DNFBPs on their obligations in taking action under freezing mechanisms.

(e) *At EU level,* natural and legal persons (including FIs/DNFBPs) are required to provide immediately any information about accounts and amounts frozen under EU legislation according to EU Regulation 881/2002 (Article 5.1), EU Regulation 2580/2001 (Article 4), and EU Regulation 753/2011 (Article 8).

At national level, financial institutions and DNFBPs are required to report to competent authorities any assets frozen or actions taken in compliance with the prohibition requirements of the relevant UNSCRs, including attempted transaction (LRM, Articles 8(24) and (25), 16(1) and 24; AMLTF, Article 56). New requirements on data collection on restrictive measures and reporting of any assets frozen or actions taken, have been introduced with the Government Decision *On The Establishment, Content And Use Of Data Collection About Restrictive Measures Against Natural Persons And Legal Entities And Other Subjects Affected By Restrictive Measures* (adopted on 31 January 2024).

(f) *At EU level,* EU Regulations protect third parties acting in good faith (EU Regulations 881/2002 (Article 6); and 753/2011(Article 7)).

At national level, there are specific rules for the protection of *bona fide* third parties acting in good faith when implementing the obligation under UNSCRs according to Article 18(2) of the LRM.

7. **Criterion 6.6** – Croatia has publicly known procedures for de-listing. General regulatory framework on un-freezing of assets is set in the IRM Law.

(a) *At EU level*, there are procedures to seek de-listing through EU Regulations (EU Regulation 753/2011 (Article 11(4)) for designations under UNSCR 1988, and EU Regulation 881/2002 (Article 7a and 7(b(1)) for UNSCR 1267/1989).

At national level, Article 11 of the LRM lays down the procedure to submit de-listing requests to the relevant UN Sanctions Committee, if it finds that the reasons for inclusion in the sanctions list have ceased. The General Guidelines on the Application of the LRM describes how individuals or entities can submit de-listing requests to the Standing Group or directly to the UNSC.

(b) *At EU level*, for 1373 designations, the EU has de-listing procedures under EU Regulation 2580/2001. De-listing is immediately effective and may occur ad hoc or after mandatory 6-monthly reviews.

At national level, there are procedures for cancelling (to de-list and unfreeze) the decision on restrictive measures under USNCR 1373 in accordance with the Article 10(6)-(7) of the LRM. The General Guidelines on the Application of the LRM set out publicly known procedures on how persons or entities can submit a de-listing request to Standing Group.

(c) *At EU level*, designated persons or entities affected may write to the Council to have the designation reviewed or institute proceedings according to Treaty on the Functioning of the European Union (Article 263(4) and 275(2)) before the EU Court of Justice in order to challenge the relevant EU measures (decisions and regulations), whether they are autonomously adopted by the EU or adopted by the EU in line with UNSCR 1373.

At national level, a request for deletion can be sent to the Standing Group [Article 10(6) of the LRM]. Based on a request for deletion, the Standing Group can propose through the ministry in charge of foreign affairs for the Government to cancel the decision [Article 10(7)].

(d) and (e) *At EU level,* there are procedures that provide for de-listing names, unfreezing funds and reviews of designation decisions by the EU Council (EU Regulation 753/2011, Article 11; EU Regulation 881/2002, Article 7(a)(e)).

At national level, by virtue of the Article 11(3) of the LRM the ministry in charge of foreign affairs notifies persons or entities included in the sanctions list of the United Nations Security Council on the basis of resolutions 1267 (1999) and 1989 (2011), about such person's or entity's right to

apply for deletion from the sanctions list to the Office of the Ombudsperson of the United Nations, or pursuant to resolution 1988 (2011) to the Central Point set up through resolution 1730 (2006).

(f) *At EU level*, upon verification that the person/entity involved is not designated, the funds/assets must be unfrozen (EU Regulations 881/2002, 753/2011 and 2580/2001). The paragraphs 8-17 of the EU Best Practices on the implementation of restrictive measures provide guidance on the procedure for cases of mistaken identity. *At national level*, the Article 17 of the LRM established a procedure for identifying and addressing false positives, upon verification that the person or entity involved is not a designated person or entity. The General Guidelines on the Application of the Law on Restrictive Measures under section 5.5 prescribes in detail procedures related to mistaken identity, i.e. false positives.

(g) *At EU level*, legal acts on delisting are published in the EU *Official Journal* and information on the de-listings is included in the Financial Sanctions Database maintained by the European Commission (EU Regulation 881/2002, Article 13; 753/2011, Article 15; 2580/2011, Article 11).

At national level, the Article 7(3)-(8) of the LRM sets out requirements for the dissemination of information on sanction regimes and designations. The ministry in charge of foreign affairs is responsible for publishing on its website the information about changes of sanctions lists. In order to ensure effective implementation of restrictive measures, competent authorities will also publish the information on their website. The head of each competent authority also must receive this information directly from the ministry and authorities in charge of implementation and application of restrictions measures and monitoring authorities must publish the link to the website of the ministry in charge of foreign affairs on their websites.

8. **Criterion 6.7** – *At EU level*, there are procedures in place to authorise access to frozen funds or other assets which have been determined to be necessary for basic expenses, for the payment of certain types of expenses, or for extraordinary expenses: EU Regulation 881/2001, Article 2(a); EU Regulation 753/2011, Article 5; and EU Regulation 2580/2001, Articles 5-6.

9. *At national level*, Article 12 of the LRM regulates the process by defining the list of competent bodies and authorising them to allow the frozen assets and other property to be released after consulting with relevant state administrative bodies and requesting the opinion of the Standing Group.

Weighting and Conclusion

10. All criteria are met. **R.6 is re-rated C.**

Recommendation 7 – Targeted financial sanctions related to proliferation

	Year	Rating
MER	2021	PC
FUR1	2023	PC (no upgrade requested)
FUR2	2024	↑ C (upgrade requested)

1. In the 2021 MER, Croatia was rated PC with the R.7. Following deficiencies were identified: (i) TFS were not implemented "*without delay*"; (ii) the requirement to freeze the funds and assets derived or generated from funds or other assets owned or controlled directly or indirectly by designated persons or entities and the funds or other assets of persons and entities acting on behalf of, or at the direction of designated persons or entities, was not covered under the IRM Law; (iii) there was no mechanism for active communication of designations to FIs and DNFBPs; (iv) no guidance was provided to REs on their obligation in taking actions under freezing mechanism; (iiv) no requirements are in place on reporting attempted transactions; (v) there was no specific rule for the protection of *bona fide* third parties acting in good faith when implementing the obligation under UNSCRs; (v) there was no power provided to supervisory authorities for monitoring compliance and applying sanction for implementation of UN PF–related TFS; (vi) there was no specific procedure to petition a request for de–listing at the Focal Point or informing the designated person to petition to Focal point; (vii) there was no publicly known procedure, *at national level,* to unfreeze the funds or other assets of persons or entities inadvertently affected by a freezing mechanism; (viii) there was no information or guidance provided on ensuring timely communication of de–listings and unfreezing to FIs and DNFBP sectors and defining their obligations to respect a de–listing or unfreezing actions; (ix) when permitting additions to the accounts, there was no provision specifying the payments due under contracts, agreements or obligations should have been raised prior to the date on which the property became subject to freezing, at a national level; (iix) there was no regulation on authorising making payments under a contract entered into prior to designation.

2. **Criterion 7.1** – The UNSCRs related to the prevention, suppression and disruption of PF and its financing are implemented in the EU Regulations 2017/1509 (Democratic People's Republic of Korea [DPRK]) and 267/2012 (Iran), as amended.[12] In the EU legal framework, EU Regulations are directly applicable in EU member states. The existing EU implementation process does not meet the essential requirement to implement UNSCRs without delay in relation to DPRK, however Croatia's requirements at the national level ensure that relevant UNSCRs are implemented without delay in Croatia.

3. *At the national level*, Article 7(1) of the LRM requires that restrictive measures introduced through the relevant UNSCR resolutions apply immediately to Croatia. The Article 7(2) clarifies that restrictive measures introduced by the UNSC resolutions are directly binding in Croatia until the EU adopts or update its corresponding legal act.

4. **Criterion 7.2** – The Article 5 of the LRM establishes the Standing Group co-ordinated by the ministry in charge of foreign affairs. The Standing Group is responsible for harmonising positions, co-ordinating and monitoring common policies and activities to reach strategic and operational goals in the area of the implementation of restrictive measures, adopting procedures and general guidelines

12. As regards the DPRK, UNSCRs 1718 (2006), 1874 (2009), 2087 (2013), 2094 (2013), 2270 and 2321 (2016) have been transposed by Council Decision 2016/849/CFSP and Council Regulation 2017/1509, both as amended. As regards Iran, TFS imposed by the UN are mainly established by Council Decision 2012/35 and Regulation 267/2012. With the adoption of UNSCR 2231 (2015), which terminated UNSCR 1737 and its successor resolutions, a number of targeted restrictive measures contained in EU Regulation 267/2012 have been lifted.

and, when necessary, making recommendations concerning the application of restrictive measures, and for other affairs expressly entrusted to it in the LRM.

(a) *At the EU level,* the relevant EU Regulations require all natural and legal persons within the EU to freeze the funds or other assets of designated persons and entities. This obligation is triggered as soon as the regulation is approved, and the designations are published in the EU *Official Journal*.

At the national level, Article 7(1) of the LRM requires that restrictive measures introduced through the relevant UNSCR resolutions apply immediately to Croatia. The Article 7(2) clarifies that restrictive measures introduced by the UNSC resolutions are directly binding in Croatia until the EU adopts or update its corresponding legal act. Accordingly, in Croatia all natural and legal persons are required to freeze, without delay and without prior notice, the funds or other assets of designated persons and entities.

(b) *At the EU level,* under the EU framework the obligation to freeze funds extends to all types of funds or other assets as stipulated under the FATF Standards.

At national level, the obligation to freeze extends to: (i) all funds and other assets that are owned or controlled by the designated person or entity, and not just those that can be tied to a particular terrorist act, plot or threat; (ii) those funds or other assets that are wholly or jointly owned or controlled, directly or indirectly, by designated persons or entities; and (iii) the funds or other assets derived or generated from funds or other assets owned or controlled directly or indirectly by designated persons or entities, as well as (iv) funds or other assets of persons and entities acting on behalf of, or at the direction of, designate persons or entities (LRM, Article 4(3), (4) and (9); the General Guidelines (to the REs) on the application of the LRM).

(c) *At the EU level,* EU nationals and persons within the EU are prohibited from making funds and other assets available to designated persons and entities unless otherwise authorised or notified in compliance with the relevant UNSCRs (EU Regulations 329/2007 (Article 6(4)) and 267/2012 (Article 23(3)).

At the national level, Article 4(4) point 1 of the LRM prohibits access to funds and other economic resources and prohibiting making available funds and economic resources, directly or indirectly, to the affected entity, or through related persons acting in the name or for the account of the entity. The General Guidelines on the Application of the Law on Restrictive Measures contain provisions clarifying that the benefit of designated person is included. Regarding authorisation/licensing, the relevant authorities are enabled to issue necessary approvals in relation to restrictive measures as laid down by the Articles 4(10)-(11) and 12 of the LRM.

(d) The mechanisms described in c.6.5 (d) apply for communicating designations to FIs and DNFBPs and providing guidance.

(e) *At the EU level*, FIs and DNFBPs must immediately provide to the competent authorities all information that will facilitate observance of the EU Regulations, including information about the frozen accounts and amounts (EU Regulation 2017/1509, Article 50 and EU Regulation 267/2012, Article 40).

At national level, financial institutions and DNFBPs are required to report to competent authorities any assets frozen or actions taken in compliance with the prohibition requirements of the relevant UNSCRs, including attempted transaction (LRM, Articles 8(24) and (25), 16(1) and 24; AMLTF, Article 56). New requirements on data collection on restrictive measures and reporting of any assets frozen or actions taken, have been introduced with the Government

Decision on the establishment, content and use of data collection about restrictive measures against natural persons and legal entities and other subjects affected by restrictive measures.

(f) The rights of bona fide third parties are protected at European level (EU Regulation 2017/1509, Article 54 and EU Regulation 267/2012, Article 42).

At national levels, there are specific rules for the protection of *bona fide* third parties acting in good faith when implementing the obligation under UNSCRs according to Article 18(2) of the LRM.

5. **Criterion 7.3** – *At the EU level*, member states are required to take all necessary measures to ensure that the EU Regulations on this matter are implemented and to determine a system of effective, proportionate and dissuasive sanctions in line with EU Regulations 329/2007 (Article 14) and 267/2012 (Article 47).

6. *At the national level,* financial institutions and DNFBPs are required to implement measures to implement the restrictive measures by virtue of the Article 15 of the LRM. Penalties for non-compliance include criminal offenses with fines or imprisonment of up to five years and misdemeanour fines ranging from EUR 300 to EUR 130 000 as laid down by the Articles 21-22 of the LRM.

7. **Criterion 7.4** – Croatia has publicly known procedures for de-listing.

(a) The EU Regulations contain procedures for submitting de-listing requests to the UN Security Council for designated persons or entities that, in the view of the EU, no longer meet the criteria for designation. Where the UN de-lists a person/entity, the EU amends the relevant EU Regulations accordingly.

At national level, the Article 11 of the LRM lays down the procedure to submit de-listing requests to the relevant TF-related UN Sanctions Committee, if it finds that the reasons for inclusion in the sanctions list have ceased. The Section 5.3 of the General Guidelines on the Application of the LRM covers the PF TFS lists.

(b) Publicly known procedures to unfreeze the funds or other assets of persons or entities with the same or similar name as designated persons or entities are provided for at EU level. *At national level*, the Article 17 of the LRM established a procedure for identifying and addressing false positives, upon verification that the person or entity involved is not a designated person or entity. The General Guidelines on the Application of the Law on Restrictive Measures under section 5.5 prescribes in detail procedures related to mistaken identity, i.e. false positives.

(c) *At the EU level*, there are procedures for authorising access to funds or other assets if member states' competent authorities have determined that the exemption conditions of UNSCRs 1718 and 1737 are met (EU Regulation 329/2007, Article 7; EU Regulation 267/2012, Articles 26-28). *At national level*, the Article 12 of the LRM regulates the process by defining the list of competent bodies and authorising them to allow the frozen assets and other property to be released after consulting with relevant state administrative bodies and requesting the opinion of the Standing Group.

(d) The Article 7(3)-(8) of the LRM sets out requirements for the dissemination of information on sanction regimes and designations. The ministry in charge of foreign affairs is responsible for publishing on its website the information about changes of sanctions lists. In order to ensure effective implementation of restrictive measures, competent authorities will also publish the information on their website. The head of each competent authority also must receive this information directly from the ministry and authorities in charge of implementation and

application of restrictions measures and monitoring authorities must publish the link to the website of the ministry in charge of foreign affairs on their websites.

8. **Criterion 7.5** –

(a) *At the EU level*, the addition of interests or other earnings to frozen accounts is permitted pursuant to EU Regulation 2017/1509, Article 36 and EU Regulation 267/2012, Article 29). *At the national level*, the Article 4(7) of the LRM allows the inflow of interest accrual or other receipts to such accounts, under the condition that any such payments are also subject to the LRM and are frozen.

(b) *At the EU level*, the targeted financial sanctions set out in UNSCR 2231 related to Iran have ceased to apply. Therefore, the requirements set out in c.7.5(b), which solely relate to UNSCR 2231, are no longer under assessment.

Weighting and Conclusion

9. All criteria are met. **R.7 is re-rated C.**

Recommendation 15 – New technologies

	Year	Rating
MER	2021	PC
FUR1	2023	PC (upgrade requested, maintained at PC)
FUR2	2024	↑ LC (upgrade requested)

1. In the 2021 MER, Croatia was rated PC with R.15. Following deficiencies were identified: (i) there was no legal obligation for assessment of ML/FT risks associated with new products or services (c.15.1); (ii) the analysis of ML/TF risk emerging from virtual asset activities and the activities or operations of VASPS could benefit from further elaboration and granularity (details on the types of products/services, ML typologies, specific consideration of TF risks, etc.), (c.15.3(a)); (iii) there were no licensing or registration requirements for VASPs (c.15.4); (iv) only some VASP activities were subject to AML/CFT supervision and sanctioning; (v) the scope of a VASP in Croatia did not fully comply with the FATF's definition of a VASP; (vi) there was no explicit requirement for the CFSSA, or other authority, to identify natural or legal persons carrying on VASP activities; (vii) limited guidelines or feedback has been issued to the new VASP sector; (viii) the occasional transactions designated threshold above which VASPs were required to conduct CDD was not determined to be USD/EUR 1 000; (ix) there were no legal requirements obliging originating and beneficiary VASPs to obtain and hold information in respect to virtual asset transactions; (x) the CFSSA, as competent authority for VASPs, was only able to co–operate and exchange information in relation to the supervision of VASPs with non–EU counterparts.

2. First enhanced follow-up report (FUR1) of Croatia adopted in 2023, analysed and maintained the PC rating for R.15 due to the following remaining deficiencies: Whilst the CFSSA carried out several risk assessment exercises in relation to the VASP sector, they could benefit from further elaboration and granularity. The VASP sector was regulated and subject to AML/CFT obligations and registration requirements, but shortcomings remained with regard to sanctions, guidance and VA transfers requirements.

3. **Criterion 15.1** – As for the country, the 2023 NRA includes Chapter 4 which is dedicated to the assessment of ML risk associated with virtual currencies but does not extend to the analysis of new products and new business practices, including new delivery mechanisms, and the use of new developing technologies for both new and pre-existing products.

4. In the scope of its yearly individual and sectorial risk assessments the CFSSA assesses changing business practices and their ML/TF risk impact but there is no documentation of this other than through supervisory practices and an obligation under the CFSSA Rulebook to keep it informed of changing business practices which can be generally interpreted as including ML/TF risks. Whilst the CFSSA conducted sectorial risk assessments for VASP sector for 2022 and 2023, as outlined below, there is little detail provided on the methodology or analysis of data used in these to enable a view to be taken.

5. Financial institutions are required to carry out risk assessments to determine and assess the effect that: important changes in business processes and practices, the introduction of new products, externalised activities (i.e., outsourcing of AML/CFT obligations) or delivery channels, and the introduction of new technologies for new and existing products, will have on the ML/TF risk exposure of the RE (AMLTFL, Article 12(6)).

6. **Criterion 15.2** –

(a) and (b) – Before any important changes in business processes and business practice that may have an impact on the measures to be undertaken for the purpose of preventing ML/TF, and when introducing a new product, an externalised activity or a delivery channel, as well as when introducing new technologies for new and existing products, REs shall carry out a risk assessment for the purpose of determining and assessing the way these changes can affect the ML/TF risk exposure, and to apply appropriate measures for the mitigation and efficient management of these risks (AMLTFL, Article 12(6)).

7. **Criterion 15.3** –

(a) Identify and assess the ML/FT risks emerging from virtual asset activities and VASPs.

The CFSSA conducted its first assessment of the VASPs sector's ML/TF vulnerabilities which was adopted in May 2021. Assessment was based on 15 VASPs which notified the CFFSA that they were carrying out exchange services between virtual and fiat currencies or providing custodian wallet services. This was a basic analysis of the market's economic metrics and an observation of the legislation, without developing broader appreciation of the risks in the sector. This assessment concluded that ML/TF vulnerabilities are primarily related to lack of regulatory framework for a range of VASP services.

Further actions to enhance understanding of the risks were conducted during 2022, including inquiring and collecting information from VASPs, specially in relation to the volume of transactions and the customer base profile, and further analysis of the sector's risk profile using risk assessment matrix, based on the information gathered through the questionnaires. The risk profile matrix reached an assessment of "*medium-high*" risk, attributed mainly to the geographic exposure concerning inherent risk, and unsatisfactory education concerning the vulnerabilities of the control mechanisms. This analysis was however lacking granularity (details on the types of products/services, ML typologies, specific consideration of TF risks, etc.).

Croatia made further steps to identify and assess ML emerging from VA activities and the activities or operations of the VASPs with 2023 NRA, which includes a Chapter on Virtual Currency ML risks where analysis also considered the data from suspicious transaction reports (STRs) and the tax administration. It demonstrates a deepening in the risk understanding of ML/TF risks related to virtual assets (VAs) and VASPs, although the granularity and the consideration of the context could be still further enhanced in areas noted above.

(b) Application of risk-based approach in ensuring that ML/FT preventive measures are commensurate to risks identified.

The sector started to be regulated in January 2020, with the VASPs definition of Article 9 of the AMLTFL being amended in January 2023 to widen the scope of covered VASP activities, although the service of virtual asset transfers is omitted from this definition (see c.15.4(a)). VASPs designated as REs are entitled to adhere the AML/CFT regulatory framework. Within the CFSSA a separate unit is setup specialised on engagement with the VASP sector. The CFSSA actively communicates with the VASP sector, detecting new market participants and engaging with them describing their AML/CFT obligations as a new type of designated RE. Supervisory activity was carried out in 2022 based on the identified sectorial risks mentioned in c.15.3(a) above and the individual risk profiles of the operators. However, Croatia has not been able to effectively demonstrate a linkage between the risks of the sector, the firms that make up this sector, and its risk based supervisory approach and outreach programmes.

(c) VASPs' adherence to criteria 1.10 and 1.11.

VASPs that are designated as REs are subject to the AML/CFT obligations. Therefore, the analysis of c. 1.10 and 1.11 also applies to them.

8. **Criteria 15.4** –

(a) Licensing or Registration Requirements for VASPs.

The Croatian AML law outlines activities related to virtual assets that qualify entities as reporting entities, similar to VASPs (AMLTFL, Article 9).

The Croatian AML law covers most of the activities outlined by FATF. It includes the exchange, transfer, and safekeeping of virtual assets. Additionally, it also incorporates consulting services related to virtual assets, which is not explicitly mentioned in FATF's core definition but is related to the broader context of financial services involving virtual assets.

While the Croatian AML law includes "*execution of orders for virtual assets*" which may imply the transfer, it does not explicitly state "*transfer of virtual assets*" as a standalone category.

Article 9(2) point 19 of the AMLTFL establishes VASPs as reporting entities. This definition does not necessarily include the provision of virtual asset transfer services as required by the FATF definition, although VASPs are obliged to apply CDD measures to "occasional transactions that represent the transfer of virtual assets in the amount of EUR 1 000 or higher" (Article 16(2) of the AMLTFL). There is therefore an important hypothetical gap as the requirement may not apply to those VA transfer services, establishing a business relationship but under the threshold. The scope and impact of this gap has not been identified by Croatian authorities. Article 9.a of the AMLTFL establishes that VASPs based in Croatia must register with the CFSSA before commencing the activity.[13] Being registered in the Registry of VASPs is a pre-requisite to register the activity in the Trade Register (AMLTFL, Article 9a(5)-(6)).

The deficiency of not addressing the full FATF range VASP activities affects also other relevant criteria under R.15.

(b) Prevent criminals or associates from being involved in VASPs.

Article 9.a(2) point 4 of the AMLTFL mandates a fit-and-proper examinations to those requesting to register as VAPSs and all related natural persons (which would include members of the management board, board of directors and supervisory board). Article 9.e of the same law establishes the meaning of "good reputation" in this regard, which mostly refers to a lack of criminal proceedings, no violation of the provision of the AMLTFL and not being associated with a person convicted of a ML/TF offence.

9. **Criteria 15.5** – For VASPs that are required to register with the CFSSA before commencing to provide such services, the CFSSA has the authority, under Article 9.c of the AMLTFL, to delete them from the VASP Registry (thus withdrawing its ability to carry out such business) based on certain circumstances, including failure to fulfil the conditions and declarations made for the purpose of registration, or if the VASP has been sanctioned for a serious offense prescribed by Article 150 of the AMLTFL. Furthermore, the provision of VA-related activities without registration approval or after deletion from the registry can also be sanctioned with fines ranging from EUR 4 640 to 132 720 in the

13. Additionally, a bylaw "On keeping the Registry of VASPs and assessment of good reputation of natural persons in VASPs" was adopted on June 28th, 2023, (outside the scope of the present FUR) further detailing the information to be contained in the application to the Registry and that to be registered, the conditions for the enrolment and deletion from the Registry and the assessment of the good reputation of natural persons.

case of legal persons (Article 150(1) of the AMLTFL), EUR 1 990 to 59 720 for natural persons (Article 150(3)) and, additionally, from EUR 790 to 9 950 to members of the management board of legal persons.

10. Croatian authorities have asserted that they continue to monitor the market and to order unregistered companies to cease their operations in Croatia and have provided examples of this practice.

11. **Criterion 15.6** –

(a) *VASPs being subject to adequate and risk-based AML/CFT supervision.*

VASPs defined as REs under Article 9.2(19) of the AMLTFL are subject to AML/CFT obligations and thus to AML/CFT supervision in Croatia. The CFSSA conducted 10 direct and 55 indirect supervisions of VASPs, following the adoption of the MER (from June 2023-2024). However, not all VASPs envisaged under the FATF Standards are subject to AML/CFT obligations and thus to AML/CFT supervision in Croatia (see c.15.4(a)).

(b) *Adequate powers to supervise and monitor VASPs for AML/CFT purposes.*

Article 82(5) of the AMLTFL stipulates that for the AML/CFT supervision of VASPs, the laws governing the capital market (i.e., Capital Market Law) and the CFSSA Agency Law also apply. In terms of the Capital Market Law the CFSSA is empowered to carry out direct (on-site) and indirect supervision (off-site) of supervised entities and give recommendations and opinions to supervised entities in order to improve and harmonise their operations and procedures (Article 685(1) and (2)). For the purpose of exercising its supervisory powers the CFSSA may (i) request the submission of data from supervised entities, employees and other relevant persons (Article 684(1) of the Capital Market Law), (ii) access any document and data in any form, (iii) order the delivery of written statements or take oral written statements and (iv) in case of reasonable suspicion of violations of relevant regulations or upon request of the supervised entity obtain existing records of telephone conversations, electronic communications and other available data traffic records (Capital Market Law Article 684(2)).

The CFSSA may in terms of Article 83(1) of the AMLTFL take a number of measures or actions to ensure compliance by VASPs including: (i) give written warning and order the removal of irregularities, (ii) file misdemeanour indictments, and (iii) pending the misdemeanour decision temporarily forbid the carrying out of certain business activities or temporarily forbid members of the management board or other responsible persons from exercising managerial duties. Misdemeanour proceedings leading to the imposition of pecuniary fines on VASPs and/or management may be imposed (see c.35.1).

As stated in c.15.5, the CFSSA can remove VASPs from the Registry, thus depriving them from the capacity to undertake such activities. The CFSSA can also temporarily suspend the activities of VASPs or their management in cases of AML/CFT infringements, in application of the powers under Article 83(1)(3) of the AMLTFL.

Relevant deficiencies under R.26 are also applicable which relate to the non-applicability of supervision in a group context and have not been addressed since the last follow-up report.

12. **Criterion 15.7** – The CFSSA stated that since 2019 seven meetings were held with representatives of VASPs to discuss the existing and potential ML/TF risks pertaining to these activities, and a training event was also held in December 2019, during which a particular session was dedicated to VASPs. The CFSSA has met with representatives of VASPs, and the Association for Blockchain and Cryptocurrencies; and provided guidance on the practical application of AML/CFT

obligations.

13. In addition to that, the CFSSA also issued various kinds of guidelines (opinions, instructions, education materials and narratives around misdemeanour sanctions) which take into consideration risks associated with VASPs and virtual assets, aiming to raise awareness on AML/CFT matters. However, guidance specifically targeting VASPs regarding the application of national AML/CFT measures, in particular on the subject of detecting and reporting suspicious transactions, has not been yet issued by the Croatian supervisors. In addition, not all VASPs activities are covered (see 15.4(a) which impacts this criterion.

14. **Criterion 15.8** –

(a) *Proportionate and dissuasive sanctions for AML/CFT breaches by VASPs.*

The AMLTFL does not make a distinction between types of REs, therefore all sanctions available under Chapter VII also apply to VASPs (see c.35.1). Article 150(1) of the AMLTFL lists types of misdemeanours for which a financial penalty of EUR 4 700 to EUR 134 000 may be imposed. Article 150(6) allow for the financial penalty to be imposed on double the amount of the pecuniary gain or be increased to EUR 1 million, in respect of the most severe misdemeanours.

(b) *Sanction applicable on directors and senior management*.

Article 150 and 151 of the AMLTFL enable the imposition of sanctions on members of the management board or another responsible person of legal persons.

15. **Criterion 15.9** – The preventative measures as set under AMLTFL are equally applicable to VASPs defined as REs. Therefore, relevant deficiencies of R.10-21 previously had an impact and there are no provisions regulating relationships analogous to corresponding banking that would be applicable to VASPs (R.13) or regulating agents of VASPs (R.14). R.18 (see below), is the only remaining recommendation of these and remains as PC in this FUR and this therefore impacts this criterion.

(a) CDD threshold for occasional transactions – VASPs.

The occasional transactions designated threshold above which CDD is applicable for VASPs is EUR 1 000 – Article 16(2) of the AMLTFL.

(b) Requirements for virtual asset transfers.

The Croatian AML/FT Law (AMLTFL) includes several provisions to comply with the "*travel rule*" requirements. Below are key aspects of the Croatian compliance with Criterion 15.9 as per the AML/FT Law:

Obligation to Conduct Customer Due Diligence:

Article 15(1): Reporting entities are required to identify and verify the customer's identity and that of the beneficial owner, collect data on the purpose and nature of the business relationship, and conduct ongoing monitoring of the business relationship, including scrutinising transactions to ensure they are consistent with the reporting entity's knowledge of the customer, the business, and the risk profile.

Article 16(1): CDD must be conducted when establishing a business relationship, carrying out occasional transactions of EUR 10 000 or more, or when there is suspicion of money laundering or terrorist financing, regardless of transaction value.

Transfer of Funds Regulations:

Article 16(1)(3): Specifically requires the application of CDD for occasional transactions constituting a transfer of funds exceeding EUR 1 000 in accordance with Regulation (EU) 2015/847, which is directly related to the "*travel rule*."

Information Accompanying Transfers:

Article 2(2)(1): Transposes Regulation (EU) 2015/847 on information accompanying transfers of funds into Croatian legislation, ensuring that all transfers of funds include accurate and meaningful information on the payer and the payee, allowing the traceability of funds.

Record Keeping and Reporting Requirements:

Article 11: Outlines the duties of reporting entities, including the obligation to establish policies, controls, and procedures to ensure compliance with AML/FT regulations, and to report suspicious transactions to the Financial Intelligence Unit (FIU).

Registry of Virtual Asset Service Providers:

Articles 9.a and 9.b: Establish a registry for virtual asset service providers, which includes entities involved in the transfer of virtual assets. These providers are required to adhere to similar CDD and information sharing requirements as traditional financial institutions.

16. In summary, Croatia's legislation aligns with the FATF's Criterion 15.9 by ensuring that financial institutions conduct appropriate CDD, include necessary information with transfers of funds, and maintain comprehensive records to support the traceability of financial transactions. The only caveat to this is the exclusion of those engaged in the transfer of VAs from the actual definition of RE.

17. **Criterion 15.10** – In accordance with IRM Law (Article (10(1)), all natural and legal persons and other entities shall be obliged to act in line with the said Law and to apply the restrictive measures envisaged within it, which would include all VASPs, both those covered under the AMLTFL, as well as others that are envisaged under the FATF Standards but not captured under the AMLTFL.

18. Moreover, the definition of "assets and other funds" under IRM Law (Article 3) explicitly includes virtual assets as these are defined under the AMLTFL.

19. **Criterion 15.11** – The AMLTFL (Article 92) provides the CFSSA the power to co-operate and exchange information with third country (i.e., non-EU) counterpart competent authorities. Article 91.a of the AMLTFL Law, in force since January 2023, provides a legal basis for co-operation and information exchange between CFSSA and EU authorities in relation to the supervision of VASPs.

20. FIU-FIU co-operation is regulated by the AMLTFL (Article 127-137). In particular AMLTFL (Article 129(1) and 130(1)) expressly enable the AMLO to deliver to foreign FIUs (upon request or spontaneously) data, information and documentation on transactions, funds or persons when there are suspicions of ML/FT. Funds are in terms of AMLTFL (Article 4(40)) defined in a manner which expressly include virtual assets. Deficiencies identified under R.37 to R.40 apply.

Weighting and conclusion

21. Croatia has deepened its understanding of ML risks emerging from VA activities and the activities and operations of the VASPs. Most of the VASP sector is regulated and subject to AML/CFT obligations and registration requirements, but minor shortcomings remain with regard to the definition of VASPs, which impact also other criteria. Lack of assessment of new products and new business practices (c.15.1) and specific guidance (c.15.7) are concern. However, in overall, Croatia has either no or minor shortcomings for other criteria under R.15 (detailed list of deficiencies is under Annex B). **R.15 is re-rated LC.**

Recommendation 18 – Internal controls and foreign branches and subsidiaries

	Year	Rating
MER	2021	PC
FUR1	2023	PC (no upgrade requested)
FUR2	2024	PC (upgrade requested, maintained at PC)

1. In the 2021 MER, Croatia was rated PC on R.18. The main deficiencies were related to: (i) appointment of an independent a compliance officer at management level was not dependent on a defined size and nature of business operations; (ii) appointment of an independent audit function to certain FIs (iii) there were no requirements for financial groups to implement group–wide programs against ML/TF; (iv) having no specific requirements for exchanges of CDD and customer, account and transaction information for ML/TF risk management purposes within the group; (v) having no specific provision to safeguard information to prevent tipping off; (vi) having no requirement to check branches subsidiaries in EU member states apply AML/CFT measures equivalent to Croatia and, if appropriate, apply additional ML/TF measures.

2. Croatia amended the AMLTFL, to address some of the deficiencies identified in the 2021 MER.

3. **Criterion 18.1** – FIs are required to implement programmes against ML/TF, which have regard to the ML/TF risks and the size of the business (AMLTFL, Article 11(2(2)), 13(1-2)). These should include implementation of internal policies, procedures and controls that contain:

(a) Provisions on position, powers and obligations of the compliance officer within the organisational structure (AMLTFL, Article 13 (3(3-4)). However, only banks are required to appoint at a compliance officer at high-ranking position (AMLTFL, Article 67(3)), while appointment of a compliance officer at the management level for all other FIs is dependent on an undefined size and nature of business operations of the FI (AMLTFL, Article 68(1)).

(b) Provisions on screening of the FIs' employees "if it is appropriate considering the size, scope and nature of business operations and ML/TF risks reporting entity is exposed to" (AMLTFL, Article 13(3(13)). In addition, there are screening requirements set out for the compliance officers, which are not made dependent on any other similar conditions (AMLTFL, Article 70).

(c) Provisions on professional training and education for employees of FIs (AMLTFL, Article 13(3(11)). FIs shall conduct regular professional training and education of employees of FIs (AMLTFL, Article 11(2(6)).

(d) Provisions on internal audit of the AML/CFT system that require for a regular internal audit on the performance of the AML/CFT system, at least once per year should it be appropriate considering the size and nature of their business operations (AMLTFL, Article 13(3(12)), 66(2(7)), 67(1(10)), 72). On 1 January 2023, amendments of the AMLTFL came into force, specifying that such audit of the AML/CFT system shall be independent (AMLTFL, Article 13(3(12)), Article 67(1(10)), however the requirements for FIs to have policies, procedures and controls on independent audit remain reliant on the condition that it is appropriate in relation to the undefined size and nature of their business operations.

4. **Criterion 18.2** – The requirements on group-wide measures do not extend to a model where the FI group is set up and operates within Croatia, with no foreign link. There are no requirements for financial groups to implement group-wide programs against ML/TF. This includes measures set out in c.18.1. Nevertheless, the legislation requires FIs that are part of a group, to implement the AML/CFT policies and procedures of the group. However, there is no requirement for the FIs to implement group-wide controls.

(a) FIs that belong to a group shall implement the information exchange policy and procedures established within the group for the purposes of ML/TF prevention (AMLTFL, Article 62(1)). This, however, does not specify whether these requirements would target specifically information exchange for the CDD and ML/TF risk management purposes.

(b) FIs are allowed to share the following information with an FI from EU member state which is a part of the same group, or its majority-owned subsidiary or branch from non-EU member state, provided that policies and procedures within the group meet the requirements of the AMLTFL: information about analysis of a transaction or a customer in relation to which/who there is a suspicion of ML/TF; that data, information or documentation on a customer or a third person or a transaction was or will be submitted to AMLO; and information collected based on the Article 20 of the AMLTFL, i.e. CDD information (AMLTFL, Article 74-75). There is no requirement on the provision of group-level compliance, audit, and/or AML/CFT functions, of customer, account, and transaction information from branches, when necessary for AML/CFT purposes. Similarly, there is no requirement about receiving such information from group-level functions when relevant and appropriate to risk management.

(c) While there are no specific provisions in respect to safeguards on the confidentiality and use of the information exchange, in particular to prevent tipping off, AMLTFL, Articles 62(1) and 76 require equivalent data protection measures.

5. **Criterion 18.3** – Should the minimum standards for the implementation of AML/CFT measures in non-EU-member state be less strict than the measures prescribed by the national legislation, FIs should ensure that their branches and subsidiaries adopt and implement appropriate measures that are equal to national legislation, to the extent allowed by the third country (AMLTFL, Article 64(2)). No equivalent regulation is in place for branches and subsidiaries when situated in the EU member states.

6. Should the non-EU-member state not allow implementation of AML/CFT measures consistent with the home country requirements, FIs should ensure that branches and subsidiaries adopt and implement appropriate additional measures to ensure efficient management of ML/TF risks and should report on that to their respective supervisory authority (AMLTFL, Article 64(1-3)).

Weighting and Conclusion

7. Croatia has a general regulatory framework on internal controls and group-wide requirements with moderate deficiencies. Deficiencies relate to: (i) appointment of a compliance officer at the management level for FIs, except banks, is dependent on an undefined size and nature of business operations of the FI (c.18.1(a)); (ii) the requirements for FIs to appoint an independent audit function to test the system remain reliant on the condition that it is appropriate in relation to the undefined size and nature of their business operations (18.1(d)); (iii) the requirement for FIs that belong to a group on implementing the information exchange policy and procedures established within the group for the purposes of ML/TF prevention does not specify whether these requirements would target specifically information exchange for the CDD and ML/TF risk management purposes (c.18.2(a); (iv) there is no requirement on the provision of group-level compliance, audit, and/or AML/CFT functions, of customer, account, and transaction information from branches, when necessary for AML/CFT purposes. Similarly, there is no requirement about receiving such information from group-level functions when relevant and appropriate to risk management (c.18.2(b)); (v) No equivalent regulation is in place for branches and subsidiaries when situated in the EU member states on ensuring AML/CFT measures application consistent with the home country requirements, where minimum AML/CFT requirements of the host country are less strict than those of the home country, to the extent that host country laws and regulations permit (c.18.3). **R.18 remains PC.**

Recommendation 33 – Statistics

	Year	Rating
MER	2021	PC
FUR1	2023	PC (no upgrade requested)
FUR2	2024	↑ LC (upgrade requested**)**

1. In the 4th round MER of 2013, Croatia was rated PC on R.32. The main deficiency was the lack of comprehensive statistics on matters relevant to the effectiveness and efficiency of systems for combating ML/TF relating to mutual legal assistance (MLA) and other forms of international co-operation, including the co-operation of LEA and supervisory authorities. In the 5th round of evaluations, Croatia was rated PC on R.33 due to the lack of comprehensive statistics on investigations, prosecutions and convictions of a number of criminal offences, as well as seizure and confiscation. In addition, there was no legislative requirement for maintaining statistics on co-operation carried out by the police, customs authority (CA), TA, and supervisory authorities.

2. **Criterion 33.1** – The AMLTFL provides for maintaining of comprehensive AML/CFT-related statistics, as follows:

(a) *STRs, received and disseminated* - The AMLO is obliged to maintain detailed statistics on received and disseminated STRs (AMLTFL, Article 147(1) and (7)). The statistics provided to the assessment team contain information on the STRs received and disseminated to specific authority on large transactions submitted via specific reporting entity, on the numbers of FIU cases in judicial proceedings (including data on prosecutions and convictions) and on cross boarder transportation of currency and BNIs (covering declarations, disclosures and suspicious incidents), all divided into type of offence.

(b-c) *ML/TF investigations, prosecutions and convictions; property frozen, seized and confiscated* - In Croatia, the AMLO is the designated authority for collecting and maintaining statistics on ML/TF and predicate offences, in a centralised manner. According to the Instruction on handling ML/TF cases and conducting property inquiries, comprehensive statistics on ML and associated predicate offences are maintained and submitted to the AMLO at least once a year. The Police, State Attorney, CA, the competent courts, and the supervisory authorities – the CNB, CFSSA, the Financial Inspectorate and the TA are obliged to submit the respective statistics regularly (on a semi-annual and annual basis), (AMLTFL, Article 148). These statistics, among others includes information on ML/TF investigations, prosecutions, and convictions; and, property frozen, seized and confiscated.

(d) *MLA and other forms of international co-operation* - In cases in which the criminal proceeding is conducted for the ML/TF and the associated predicate offences the SAO and the competent court are obliged to deliver the data to the AMLO, twice a year on realised international co-operation, including the MLA (AMLTFL, Article 148(1(5-6) and 3(4)). Croatia keeps statistics on MLA for the designated categories of the offences. In respect to other form of international co-operation, police maintain statistics (PDPL Article 4(1). However, there is no clear distinction between incoming and outgoing requests. CA keeps statistics based on the EU Regulation 2018/1672 and CNB based on the internal act "*Procedure for carrying out tasks in AMLTFL Supervision Department*". Financial inspectorate also has internal procedure enabling them to maintain statistics including international co-operation. The CFSSA maintains statistics on international co-operation according to the Procedure for Supplying Information upon Request Supervisory Bodies and Other Institutions of Other Countries Adopted by the Administrative Council. Tax authorities do not keep statistics relevant for international co-operation. Some statistics on International Police, TA and CA co-operation is collected as a result of membership in the relevant organisations: Interpol, Europol, Egmont, EU Regulation 515/97, Napel II, on co-operation performed within the relevant instruments.

Weighting and Conclusion

3. Croatian authorities maintain statistics on STRs, ML/TF investigations, prosecutions and convictions, seizure ad confiscation, as well as on international co-operation carried out by supervisory, customs and police authorities. Croatian authorities, however, do not maintain statistics on international co-operation conducted by TA. **R.33 is re-rated LC.**

Recommendation 35 – Sanctions

	Year	Rating
MER	2021	PC
FUR1	2023	PC (no upgrade requested)
FUR2	2024	↑ LC (upgrade requested)

1. In the 2021 MER, Croatia was rated PC with R.35. Following deficiencies were identified: (i) there were limited sanctions in respect to non-profit organisations (NPOs), and not fully compliant with the FATF recommendations (c.35.1); (ii) reference to "severe" misdemeanours was not defined and therefore it was unclear what this comprises (c.35.2); (iii) definition of "Senior management of the RE" clarifies that "it does not have to be, in all cases, a member of the management board or another managerial body" (c.35.1); (iv) the sanctions available cannot be considered as dissuasive.

2. **Criterion 35.1** –

Implementation of Recommendation 6 on TFS

3. Implementation of TFS measures is ensured on the basis of the LRM, which provides with a range of sanctions applicable to natural and legal persons for violation of requirements of LRM and regulations enacted on its basis, including the TFS reporting obligation. These include fines and imprisonment from six months to five years (LRM, Article 21). The range of fines varies depends on the nature of a party violating the requirements of the LRM (i.e., a fine of EUR 4 500 to EUR 90 000 to legal persons; a fine of EUR 300 to EUR 1500 to natural person; and a fine of EUR 1 500 to EUR 45 000 to attorney, notary public, independent auditor, external accountant, tax consultant, tradesman and a person engaging in other independent activity; a fine of up to EUR 130 000 to credit or financial institutions). These sanctions are considered to be proportionate and dissuasive.

Implementation of Recommendation 8 on NPOs

4. Associations Act and Foundations Act prescribe sanctions for breaches of legislative requirements (e.g. requirements in AMLTFL), namely for: failing to remedy compliance failings, continuing operations after deletion from the register and failing to submit changes. These range from EUR 300 – 1 990 at the lowest level to EUR 3 000 – 5 000 (Associations Act, Article 54a). Similar sanctions exist for foundations acting as NPOs (Foundations Act, Article 46a).

5. In addition, Article 45 of the Financial Operations and Accounting of NPOs Law (FOA NPO Law) sets out a list of sanctions applicable for non-compliance with the Law. These include a financial penalty of EUR 670 – 27 000 for non-compliance with 1) the book-keeping requirements, 2) requirements to register with the NPO Registrar, 3) enable the financial supervisor to perform its supervisory duties, or 4) non-compliance with the decision by the financial supervisor to remediate irregularities or deficiencies. These sanctions are low and thus the range is not proportionate.

Preventative measures R. 9-23

6. Chapter VII of the AMLTFL provides a wide range of sanctions that can be imposed by competent supervisory authorities in case of violation of the obligations set in AMLTFL and by-laws. These are: written warning; fine; temporary prohibition of certain business activities by the REs or their management; prohibition of carrying out certain duties, activities or tasks by the REs; revocation of licence (AMLTFL, Article 83).

7. As for the fines, these can be imposed on the legal person in the amount of EUR 4 640 to EUR 132 720 depending on the violation of requirements of R.9 – R.23 (AMLTFL, Articles 150 - 153). In severe cases, the fine can be imposed on double the amount of the pecuniary gain or be increased

to EUR 1 million (AMLTFL, Article 150(6)), as well as, for a credit or financial institution, the financial penalty may be further increased to EUR 5 million or 10% of the total annual income according to the latest available financial statements (AMLTFL, Article 150(6). For the same violations, the fine in the amount of EUR 1 990 – 59 720 can be imposed to lawyer, notary public, independent auditor, external, accountant, tax advisor, craftsman, independent trader and natural person performing another independent profession. Financial penalty provisions in respect to payment institution transactions range from EUR 6 700 to EUR 134 000.

8. In overall, range of sanctions available to competent supervisory authorities can be considered as proportionate.

9. **Criterion 35.2** –

Implementation of Recommendation 6 on TFS

10. Fines provided under the LRM can be applied to legal persons, member of the management board or another responsible person in the legal person, natural person or self-employed natural person (IRM Law, Article 16).

Preventative measures R.9-R.23

11. Fines provided under the AMLTFL can be applied to legal person, member of the management board or another responsible person (AMLTFL, Article 150-153).

Weighting and Conclusion

12. Croatia has a wide range of sanctions, depending on the seriousness of the breach, the type of RE, and in respect to natural and legal persons. These sanctions for NPOs are low and thus the range is not proportionate (c.35.1). **R.35 is rated LC.**

Recommendation 36 – International instruments

	Year	Rating
MER	2021	PC
FUR1	2023	PC (no upgrade requested)
FUR2	2024	↑ LC (upgrade requested)

1. In the 4th round MER of 2013, Croatia was rated PC on both R.35 and SRI. The Croatian authorities were criticised for failing to comply with the requirements to implement the Vienna, the Palermo and the UN conventions. In the 5th round MER Croatia was rated PC on R.36 due to moderate gaps in the implementation of the Merida and TF Conventions. Also, Croatia did not ratify two instruments listed in the annex of the TF Convention.

2. **Criterion 36.1** – Croatia is party to all four conventions listed in the Standards. Croatia notified succession to the Vienna Convention, as former Yugoslavia ratified this in 1991, ratified the Palermo Convention in 2002, United Nations Convention against Corruption (Merida Convention) in 2005, and the Terrorist Financing Convention in 2003. As concerns the Conventions listed in the Annex of the TF Convention, Croatia did not yet ratify the 2005 Protocol to the Convention for the Suppression of Unlawful Acts against the Safety of Maritime Navigation, as well as the 2010 Convention on the Suppression of Unlawful Acts Relating to International Civil Aviation.

3. It should be noted that in 2008 Croatia has become a party to, *inter alia*, the 2005 Warsaw Convention of the Council of Europe.

4. **Criterion 36.2** – Croatia has broadly implemented the provisions of the Vienna Convention, the Palermo Convention, the United Nations Convention against Corruption and the International Convention for the Suppression of the Financing of Terrorism. However, deficiencies are identified with regard to the implementation of provisions of: (i) the Palermo Convention - namely Article 6 is not fully implemented since criminalisation of ML offence does not cover all elements of self-laundering; (ii) the Merida Convention – namely Article 14 is not fully implemented as requires comprehensive implementation of preventive measures, Article 23 is not fully implemented due to the deficiencies same as to Palermo Convention, and Article 31 is not fully implemented since management of seized legal persons is not envisaged in Croatian legislation; (iii) the TF Convention – namely Article 2 is not fully implemented since the acts of placing and discharging an explosive or other lethal device which constitute an offence as defined in the 1997 International Convention for the Suppression of Terrorist Bombings are not criminalised under the Croatian CC. Furthermore, no definition of other assets is provided in the criminal legislation, and financing of travel for the purpose of preparation of a terrorist act is not considered as a criminal offence.

Weighting and Conclusion

5. Croatia ratified all four conventions and has broadly implemented the provisions of the Vienna Convention, the Palermo Convention, the Merida Convention and the International Convention for the Suppression of the Financing of Terrorism, but minor gaps remain. **R.36 is re-rated LC.**

Annex B: Summary of Technical Compliance – Deficiencies underlying the ratings

Recommendations	Rating	Factor(s) underlying the rating[14]
1. Assessing risks & applying a risk-based approach	PC (MER 2021) PC (FUR1 2023) **LC (FUR2 2024)**	• Croatia needs to explore the financing of terrorism aspect in more depth (c.1.1), (*as per FUR 2024*). • The 2023 Action Plan largely addresses the risks, however, it needs to be further streamlined. For example, a number of Action Plan items suggest that continuous efforts will be made instead of setting key performance indicators and/or some action items are more linked to declarative statements without explicit mention of the mitigation techniques (c.1.5), (*as per FUR 2024*). • Limited exceptions stem from the AMLD rather than based on consideration of national risks (c.1.6), (*MER).* • Deficiencies, as identified under R.26 and R.28, apply (see below). (c.1.9, c.1.12), *(as per the 1st FUR, December 2023)* ○ c.26.4(a). Authorities have provided the assessment of the IOSCO Principles 2 and 3 and an assessment against IAIS Principles 4–5 and 7–8. These assessments partially cover the principles indicated in the FATF Standards. ○ c.26.4(a)-(b). When dealing with the FI group supervision on AML/CFT matters, powers of the CNB and CFSSA granted by Article 85 of the AMLTFL are limited to instances where the financial group is a part of a foreign FI. This notwithstanding, the requirement to implement group AML/CFT policies and procedures of Article 62 of the AMLTFL refers to branches and subsidiaries in EU member states (thus, also including Croatia) or third countries, and supervisory authorities shall supervise the implementation of all provisions of the AMLTL and associated regulations (AMLTFL, Article 81(1)). • c.26.6. The requirements in Article 84 of the AMLTFL Law refer to the RE and not to group, as required by the FATF Standards.
2. National co-operation and co-ordination	PC (MER 2021) PC (FUR1 2023) **LC (FUR2 2024)**	• The 2023 Action Plan largely addresses the risks, however, needs to be further streamlined, for example, a number of Action plan items suggest that continuous efforts will be made instead of setting key performance indicators and/or some action items are more linked to declarative statements without explicit mention of the mitigation techniques (c.1.5), (*as per FUR 2024*).

14. Deficiencies listed are those identified in the MER unless marked as having been identified in a subsequent FUR.

Recommendations	Rating	Factor(s) underlying the rating[14]
6. Targeted financial sanctions related to terrorism & TF	PC (MER 2021) **C (FUR2 2024)**	• All criteria are met.
7. Targeted financial sanctions related to proliferation	PC (MER 2021) **C (FUR2 2024)**	• All criteria are met.
15. New technologies	PC (MER 2021) PC (FUR1 2023) **LC (FUR2 2024)**	• There is no analysis of new products and new business practices, including new delivery mechanisms and the use of new developing technologies for both new and pre-existing products. (c.15.1). • The assessment of the ML/TF risks emerging from virtual asset activities and the activities or operations of VASP's could benefit from further elaboration and granularity (c.15.3(a)). • Croatia has not been able to effectively demonstrate a linkage between the risks of the sector, the firms that make up this sector, and its risk based supervisory approach and outreach programmes (c.15.3 (b)) • VASPs are required to be registered in Croatia, however VASP definition is limited as it does not explicitly state "transfer of virtual assets" as a standalone category (c.15.4(a)). • The deficiency of not addressing the full FATF range VASP activities (see c.15.4(a)) also affects c.15.5, 15.6(a), c.15.7 and 15.9. • Deficiencies under R.26 are also applicable to c.15.6(b). • Guidance specifically targeting VASPs regarding the application of national AML/CFT measures, in particular on the subject of detecting and reporting suspicious transactions, has not been yet issued (c.15.7). • Deficiencies identified under R.10 to 21 also apply to c.15.9. • Deficiencies identified under R.37 to 40 also apply to c.15.11.
18. Internal controls and foreign branches and subsidiaries	PC (MER 2021) **PC (FUR2 2024)**	• Appointment of a compliance officer at the management level for FIs, except banks, is dependent on an undefined size and nature of business operations of the FI (c.18.1(a)). • The requirements for FIs to appoint an independent audit function to test the system remain reliant on the condition that it is appropriate in relation to the undefined size and nature of their business operations (18.1(d)). • The requirement for FIs that belong to a group on implementing the information exchange policy and procedures established within the group for the purposes of ML/TF prevention does not specify whether these requirements would target

Recommendations	Rating	Factor(s) underlying the rating[14]
		specifically information exchange for the CDD and ML/TF risk management purposes (c.18.2(a). • There is no requirement on the provision of group-level compliance, audit, and/or AML/CFT functions, of customer, account, and transaction information from branches, when necessary for AML/CFT purposes. Similarly, there is no requirement about receiving such information from group-level functions when relevant and appropriate to risk management (c.18.2(b)). • No equivalent regulation is in place for branches and subsidiaries when situated in the EU member states on ensuring AML/CFT measures application consistent with the home country requirements, where minimum AML/CFT requirements of the host country are less strict than those of the home country, to the extent that host country laws and regulations permit (c.18.3).
33. Statistics	PC (MER 2021) **LC (FUR2 2024)**	• The TA do not maintain statistics on international co-operation in the area of AML/CFT (c.33.1(d)).
35. Sanctions	PC (MER 2021) **LC (FUR2 2024)**	• These sanctions for NPOs are low and thus the range is not proportionate (c.35.1).
36. International instruments	PC (MER 2021) **LC (FUR2 2024)**	• Croatia did not ratify the 2005 Protocol to the Convention for the Suppression of Unlawful Acts against the Safety of Maritime Navigation (c.36.1). • Croatia did not ratify the 2010 Convention on the Suppression of Unlawful Acts Relating to International Civil Aviation (c.36.1). • Article 6, 14 and 23 of the Palermo Convention, as well as Article 2 of the TF Convention are not fully implemented (c.36.2).

GLOSSARY OF ACRONYMS

AML	Anti-money laundering
AMLTFL	Anti-money laundering and terrorist financing law
AMLO	Anti-Money Laundering Office
BNI	Bearer negotiable instruments
C	Compliant
CA	Customs authority
CC	Criminal Code
CDD	Customer due diligence
CFT	Combating the financing of terrorism
CFSSA	Croatian Financial Services Supervisory Agency
CFSSA Law	Croatian Financial Services Supervisory Agency Law
CNB	Croatian National Bank
DNFBP	Designated non-financial businesses and professions
DPMS	Dealer in precious metal stones
DPRK	Democratic People's Republic of Korea
EU	European Union
EUR	Euro
FATF	Financial Action Task Force
FI	Financial institution
FIU	Financial Intelligence Unit
FUR	Follow-up report
IIWG	Inter-Institutional Working Group
IRM Law	International Restrictive Measures Law
LC	Largely compliant
LEAs	Law enforcement authorities
LRM	Law on restrictive measures
MER	Mutual evaluation report
MFEA	Ministry of Foreign and European Affairs
ML	Money laundering
MLA	Mutual legal assistance
MoF	Ministry of Finance
LRM Law	Law on restrictive measures
MoJA	Ministry of Justice and Administration
MoI	Ministry of Interior
MoU	Memorandum of Understanding
NC	Non-compliant
NPO	Non-profit organisation
NRA	National risk assessment
PC	Partially compliant
PEP	Politically exposed person
PF	Proliferation financing
PDPL	Police Duties and Powers Law
R.	Recommendation
RE	Reporting entity

SAO	State Attorney's Office
Standing Group	Standing Group for the Introduction and Monitoring of the Implementation of International Restrictive Measures
STR	Suspicious transaction report
TA	Tax administration
TC	Technical compliance
TF	Terrorist financing
TFS	Targeted financial sanctions
UN	United Nations
UNSCR	United Nations Security Council Resolution
VAs	Virtual asset
VASPs	Virtual assets service providers
WMD	Weapons of mass destruction

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October 2024

Follow-up report

Anti-money laundering and counter-terrorist financing measures -

Croatia

2nd Enhanced Follow-up Report &

Technical Compliance Re-Rating

This report analyses Croatia's progress in addressing the technical compliance deficiencies identified in the December 2021 assessment of their measures to combat money laundering and terrorist financing and in subsequent follow-up reports.