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CROATIAN FINANCIAL SERVICES
SUPERVISORY AGENCY



HANFA

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Introduction

In 2014, activities of the Croatian Financial Services Supervisory Agency (Hanfa) were marked by profound changes in regulations falling within its scope of competence and by the reform of some parts of the financial system, which had a direct impact on the work of Hanfa. This relates, first of all, to the entry into force of a fully amended regulatory framework for the second and third pillar of the pension insurance system, which fall within the sphere of competence of Hanfa. The Factoring Act entered into force as well, providing a legal framework governing the factoring industry in the Republic of Croatia for the first time. The previous year also saw the adoption of amendments to the acts regulating investment funds and insurance. These amendments were followed by the intensive preparation and adoption of related subordinate regulations. In 2014, Hanfa took part both in the preparation of four new acts and four amendments to existing acts from its scope of competence, and in the preparation of acts falling within the competence of other institutions. Pursuant to regulations from its area of competence, Hanfa adopted 99 new ordinances and 25 amendments to existing ordinances, and it issued 25 opinions.

A significant part of Hanfa's activities is related to the membership of the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA)¹. Membership of these institutions and the observer status in the ESRB present a considerable HR-related, financial and operational challenge for Hanfa. Direct participation in the work of these authorities includes both lower operational levels (participation in various working groups and committees) and the strategic decision-making level in their Board of Supervisors. These complex, analytically and often interdisciplinary activities sometimes relate to entirely new products, services, supervisory practices and standards.

In 2014, Hanfa received a significant number of notifications from foreign supervisory authorities relating to the intention of entities registered in other Member States to provide financial services in the Republic of Croatia, in accordance with FOS (freedom to provide services) provisions and relevant EU legislation. This relates primarily to the insurance industry and to provision of investment services and performance of investment activities. Although this fact has not had an impact on market dynamics and developments yet, it is expected to assume greater importance in the upcoming period.

Off-site supervision involved the analysis of financial statements and supervisory reports submitted to Hanfa by supervised entities within prescribed deadlines, along with monitoring, collection and verification of documentation and data submitted at Hanfa's request, and monitoring, collection and verification of data and findings from other sources. All supervised entities are subject to on-going off-site supervision, while some of them may become the focus of intensified supervi-

The Croatian Financial Services Supervisory Agency (Hrvatska agencija za nadzor financijskih usluga; hereinafter: Hanfa) is a regulatory agency established under the Act on the Croatian Financial Services Supervisory Agency. Hanfa is an independent legal person with public authority within its area of competence defined by the said and other laws, and is accountable to the Croatian Parliament. Hanfa's objectives, specified by law, comprise fostering and safeguarding the stability of the financial system, and supervision of the lawfulness of business operations of supervised entities.

Hanfa's supervised entities are investment firms, investment fund management companies, pension companies, investment and pension funds, insurance companies, reinsurance companies, pension insurance companies, the Retired Persons' Fund, the Fund for the Croatian Homeland War Veterans and Members of their Families, leasing companies, factoring companies, the Zagreb Stock Exchange, the Central Depository and Clearing Company, securities issuers, brokers, investment advisors, tied agents, the Central Register of Insured Persons, certified actuaries, the Croatian Insurance Bureau, the Croatian Nuclear Insurance and Reinsurance Pool (EIG), and insurance agents and brokers (including banks, housing savings banks, the Financial Agency and HP - Hrvatska pošta d.d. with respect to activities related to insurance representation business).

¹ ESMA, EIOPA and EBA (European Banking Authority) along with European Systemic Risk Board (ESRB) comprise the European System of Financial Supervisors (ESFS).

sion, depending on data collected and risks noted. An on-site examination plan, involving supervisory activities carried out on the premises of supervised entities, is defined on an annual basis. Apart from regular examinations, Hanfa may also conduct extraordinary on-site examinations. In 2014, Hanfa carried out a total of 43 on-site examinations.

A major part of regulatory requirements arises from EU regulations, which leave some discretionary space for Member States with respect to the implementation of certain rules. Therefore, Hanfa intensively communicates with supervised entities and welcomes their suggestions and opinions while trying to lighten the administrative burden these entities are exposed to. Obviously, this process does not allow compromises which might jeopardise consumer protection or the stability of the financial system.

In spite of adverse economic developments, business results and performance indicators of certain segments of the financial industry and of certain supervised entities have improved. For example, the long-lasting downward trend in the value of investment funds' assets, seen since the beginning of the financial crisis, was halted. Mandatory pension funds' assets continued to grow, with the average rate of return for category B funds amounting to 11.4% and for category A and C funds (which started their activities in August 2014) 4.6% and 2.9% respectively. Membership of open-ended and closed-end voluntary pension funds also increased (7.8% and 5.5% respectively), with their assets rising by more than 20%. The insurance market continued to experience a slight upward trend in life insurance premiums (3.9%) and recorded a small increase in after-tax profit in life insurance (5.4%). Despite the unstable business environment of leasing companies caused by adverse economic circumstances, the value of newly concluded lease contracts has stabilised in the last five years at HRK 5bn per year.

Successful fulfilment of Hanfa's legally prescribed tasks is a prerequisite for the stability of the non-banking financial sector. I believe that, once again, in 2014 Hanfa discharged all of its obligations. A key role in this achievement was played by Hanfa staff, who in addition to conducting their regular supervisory activities, faced a challenging task related to the alignment with new regulations and adjustment to EU membership.

Petar-Pierre Matek
President of the Board



Summary



Summary

Capital market

In 2014, there were no significant changes on the Croatian capital market. The total trading volume on the Zagreb Stock Exchange amounted to HRK 3.9bn, increasing slightly (2.4%) compared to 2013, mostly due to the increase in trading in bonds within the order book and block trades in shares. The total market capitalisation of all financial instruments recorded a larger increase (by 10.0%, reaching HRK 202.1bn), primarily due to the increase in the market capitalisation of bonds. Trades in structured securities decreased significantly (43.6%), whereas their market capitalisation rose by 24.8%. Market indicators showed different trends. CROBEX declined by 2.7%, whereas CROBEX10 grew by 1.2%. The year 2014 saw the introduction of a new stock index, CROBEXtr, which includes in its calculation the information on dividend payment and which recorded a slight increase (0.6%) over the year.

Off-site supervision of the Zagreb Stock Exchange was carried out over the year on the basis of reports the Zagreb Stock Exchange was obliged to submit to Hanfa, and on the basis of information submitted at Hanfa's request. Hanfa also performed analyses containing a comparison between the activities of the Zagreb Stock Exchange and other EU stock exchanges and information on supervisory authorities' practices with respect to disclosure of regulated information of issuers whose securities are admitted to trading on the regulated market.

Hanfa carried out on-going analyses of trading in financial instruments on the regulated market and multilateral trading facility. Some of the analyses resulted in a suspicion of market abuse and were forwarded to other competent authorities.

The Zagreb Stock Exchange submitted to Hanfa a number of reports relating to suspicions of market manipulation and insider dealing. On the basis of the reports, Hanfa took further investigative actions and in some of the cases forwarded detailed analysis, description of facts and relevant documents to other competent authorities.

Hanfa continuously examined whether or not issuers disclosed regulated information and whether they disclosed it within the prescribed deadline, on the prescribed venues and in accordance with the prescribed content. In cases of irregularities established in the process of preparation and disclosure of information, Hanfa invited the issuers to eliminate them. A total of 6,848 documents containing regulated and other information were submitted by issuers to the officially appointed mechanism maintained by Hanfa. Hanfa carried out seven examinations of issuers related to management and disclosure of regulated information.

The total value of transactions settled within the clearing and settlement system managed by the Central Depository and Clearing Company amounted to HRK 288.3bn, rising by 28.2% relative to 2013. The number of securities transactions dropped by 11.0%, reaching 264.5 thousand.

In addition to carrying out off-site examinations of the Central Depository and Clearing Company, in 2014 Hanfa carried out two on-site examinations of its IT system related to the alignment with EMIR provisions².

Hanfa carried out supervision of non-financial counterparties on the basis of a sample comprising 44 companies grouped in three categories. The aim of the supervision was to determine the amount of transactions in derivatives executed by the non-financial counterparties and whether

² Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories, OJ L 201

the non-financial counterparties align with relevant obligations under EMIR. The data collected were analysed and provide a basis for further supervisory activities in this area.

Pursuant to the amendments to the Capital Market Act from 2013, in the previous year Hanfa adopted the prescribed ordinances and cooperated with the Ministry of Finance on the preparation of new amendments to the Capital Market Act for the purpose of aligning with Omnibus II Directive³. The market was also marked by the entry into force of EU regulations directly applicable in the Republic of Croatia: the Central Securities Depository Regulation (CSDR)⁴ and the Commission Delegated Regulation (EU) No 382/2014⁵. In addition, Hanfa participated in EU activities related to the entry into force of the MiFID II⁶ package and the MAR/CSMAD⁷ package, as well as in activities relating to the CRA III Regulation⁸ and the Transparency Directive⁹.

Investment firms

At end-2014, there were eight investment firms, 15 credit institutions and seven companies managing open-ended investment funds with private offering providing investment services and performing investment activities. Their total income amounted to HRK 226.7m, reaching about the same level as in the previous year. The total value of portfolio assets managed by investment firms, credit institutions and companies managing open-ended investment funds with private offering stood at HRK 1.4bn, rising by 21.3% compared to 2013. This was mostly due to the increase in the value of portfolio assets managed by companies managing open-ended investment funds with private offering (31.8%), which amounted to HRK 1.3bn at the end of the year. Total assets under custody reached HRK 62.3bn, recording a 12.0% increase compared with 2013, reported primarily by credit institutions and to a lesser extent by investment firms.

Investment firms recorded an 8.9% decrease in income relative to the previous year, with six investment firms reporting a profit totalling HRK 4.2m, and one investment firm reporting a loss reaching HRK 296.3 thousand. The income decrease happened in parallel with a significant decline in the value of capital and assets, resulting from the fact that one investment firm with a large share in total capital and assets ceased to perform investment activities and ancillary activities.

Normative activities with respect to investment firms related mostly to the full implementation of the CRD IV¹⁰ package into the Croatian legislation, following which Hanfa adopted four ordinances.

- 3 Directive 2014/51/EU of the European Parliament and of the Council of 16 April 2014 amending Directives 2003/71/EC and 2009/138/EC and Regulations (EC) No 1060/2009, (EU) No 1094/2010 and (EU) No 1095/2010 in respect of the powers of the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority), OJ L 153
- 4 Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012, OJ L 257
- 5 Commission Delegated Regulation (EU) No 382/2014 of 7 March 2014 supplementing Directive 2003/71/EC of the European Parliament and of the Council with regard to regulatory technical standards for publication of supplements to the prospectus, OJ L 111
- 6 Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU, OJ L 173 and Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 OJ L 173
- 7 Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC, OJ L 173 and Directive 2014/57/EU of the European Parliament and of the Council of 16 April 2014 on criminal sanctions for market abuse (market abuse directive), OJ L 173
- 8 Regulation (EU) No 462/2013 of the European Parliament and of the Council of 21 May 2013 amending Regulation (EC) No 1060/2009 on credit rating agencies OJ, L 146
- 9 Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC.
- 10 Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, OJ L 176 and Regulation (EU) no 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, OJ L 176

Hanfa initiated ten on-site examinations of investment firms, companies managing open-ended investment funds with public offering and credit institutions, which were followed by six decisions ordering measures aimed at improving business operations or eliminating illegalities and irregularities and by two warning for investment firms. Two decisions were issued in order to withdraw authorisations from investment firms (of which one firm submitted its own application for withdrawal of authorisation). Hanfa monitored the implementation of the measures, having established that all the investment firms complied with the decisions.

Off-site supervision of companies managing open-ended investment funds with public offering was related to the analysis of the structure of portfolio assets. Off-site supervision of investment firms was focused on reports on capital adequacy drawn up pursuant to provisions of the CRD IV package submitted to Hanfa by the firms. On the basis of the reports, a decision was issued with respect to exceeding of the maximum exposure permitted. This investment firm's authorisation was revoked at its own request.

Investment funds

At end-2014, there were 23 registered companies managing investment funds, two companies fewer than in 2013, due to a merger of two companies and revocation of an authorisation. Eleven companies managed open-ended investment funds with public offering and alternative investment funds, seven companies managed only open-ended investment funds with public offering and five companies managed only alternative investment funds. Management companies realised an after-tax profit totalling HRK 46.6m and falling by 6.4% compared to 2013.

At the end of the year, there were 82 registered open-ended investment funds with public offering (21 cash funds, 10 bond funds, 10 balanced funds, 28 equity funds and 13 other funds), their number continuing to drop. Net assets of the funds fell slightly relative to 2013, reaching HRK 13.0bn. Equity funds recorded returns ranging from -15.5% to 27.5%, with six equity funds reporting negative returns. Balanced funds recorded returns ranging between -6.0% and 18.4%. Positive returns were reported by cash and bond funds, and ranged from 0.7% to 2.7% and from 0.04% to 9.5% respectively. Returns of „other funds“ ranged between 6.1% and 12.9%.¹¹

2014 saw the establishment of two special types of alternative investment funds with private offering (hedge funds) and of the first open-ended alternative investment fund with public offering. At the end of the year, there were 28 registered alternative investment funds. Their net assets totalled HRK 2.6bn, rising by 24.2% relative to 2013. This was primarily due to a 107.3% increase in net assets of venture capital alternative investment funds with private offering – economic cooperation funds.¹²

Amendments to the Act on Open-Ended Investment Funds with Public Offering and Amendments to the Alternative Investment Funds Act, adopted in 2014, transposed Directive 2013/14/EU¹³ into the Croatian national law, bringing about changes in activities pursued by companies managing open-ended investment funds with public offering and alternative investment funds. The amendments also included provisions stipulating that these companies must avoid over-reliance on credit ratings and need to improve their risk management processes, in order to protect investors and improve the quality of their investments.

Pursuant to the Act on Open-Ended Investment Funds with Public Offering, Hanfa adopted one and pursuant to the Alternative Investment Funds Act six ordinances, along with a series of amendments to existing ordinances regulating business operations of open-ended investment funds with public offering and alternative investment funds.

11 Corrected data are available on p.192.

12 Corrected data are available on p.192.

13 Directive 2013/14/EU of the European Parliament and of the Council of 21 May 2013 amending Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision, Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) and Directive 2011/61/EU on Alternative Investment Funds Managers in respect of over-reliance on credit ratings, OJ L 145

In 2014, Hanfa continued participating in the working group in charge of drafting a new Act on the Fund of Croatian Homeland War Veterans and Members of their Families.

Hanfa's employees participated in the work of ESMA's committees by working on the advice to the European Commission, on technical standards and on guidelines and recommendations relating to the UCITS IV Directive¹⁴ and the AIFMD Directive¹⁵ and by preparing technical advice to the European Commission on delegated acts referred to in the UCITS V Directive¹⁶. They also took part in the work of the working group of the Council of the European Union in charge of the discussion on the Proposal for an ELTIF Regulation¹⁷ and in discussions related to the Proposal for a Regulation of the European Parliament and of the Council on Money Market Funds.¹⁸

2014 saw the expiration of the prescribed deadlines for investment fund management companies to align with the provisions of the Act on Open-ended Investment Funds with Public Offering, Alternative Investment Funds Act and a series of accompanying regulations that had entered into force in the preceding year. After that, Hanfa initiated 12 on-site examinations of management companies, of which nine were completed, resulting in the adoption of two decisions ordering the companies to eliminate illegalities and irregularities established. The companies complied with the decisions and eliminated the deficiencies identified during the examinations.

Following illegalities and irregularities established in off-site examinations, eight reports were prepared, based on which Hanfa adopted two decisions ordering the elimination of these illegalities and irregularities. Other illegalities and irregularities were found to have been eliminated by the companies upon the reception of the reports.

Pillar 2 and pillar 3 pensions and pension payments

In 2014, there were four mandatory pension companies operating in the Republic of Croatia, with every company managing mandatory pension funds belonging to new categories A, B and C each. The number of mandatory pension fund members continued to grow (by 0.2% relative to 2013), reaching 1,705,720 at the end of the year. Mandatory pension funds' total net assets amounted to HRK 66.3bn. At end-2014, the category B MIREX index stood at 11.4%, the category A MIREX index reached 4.6%, and the category C MIREX index totalled 2.9%.

There were also four voluntary pension companies on the market, managing a total of six open-ended voluntary pension funds and 16 closed-ended voluntary pension funds. The number of open-ended voluntary pension funds also continued its upward trend (it grew by 7.8% relative to 2013), totalling 220,527 at the end of the year. Gross contributions of their members also grew (by 22.4% compared to 2013, reaching HRK 357.3m), as did their net assets (by 20.1% compared to 2013, amounting to HRK 2.7bn). All open-ended voluntary pension funds recorded positive returns in 2014, ranging between 8.2% and 13.2%.

The number of members of closed-ended voluntary pension funds went up as well (by 5.5% compared to 2013, reaching 23,927), as did their net assets (by 20.5% compared to 2013, amounting to HRK 596.2m). Total gross contributions of closed-ended voluntary pension fund members increased by 4.7%^m, amounting to HRK 86.4m, while the funds recorded rates of return ranging from 7.4% to 12.9%.

14 Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), OJ L 176

15 Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010, OJ L 174

16 Directive 2014/91/EU of the European Parliament and of the Council of 23 July 2014 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards depositary functions, remuneration policies and sanctions, OJ L 257/186

17 Regulation of the European Parliament and of the Council on European Long-term Investment Funds, 2013/0214 (COD)

18 Regulation of the European Parliament and of the Council on Money Market Funds, 2013/0306 (COD)

There is only one pension insurance company operating in the Republic of Croatia. The value of its total assets stood at HRK 412.7m, increasing by HRK 80.6m or 24.3% compared to 2013. In the period from 1 January 2014 to 31 December 2014, the company recorded an after-tax profit totalling HRK 3.0m. The total number of beneficiaries stood at 14,801, of which there were 14,705 voluntary pension insurance beneficiaries and 96 mandatory pension insurance beneficiaries.

2014 saw the entry into force of new regulations forming two separate legislative frameworks (relating to mandatory and voluntary pension funds) and replacing the existing single legislative framework: Mandatory Pension Funds Act and Voluntary Pension Funds Act. They provided precise provisions on terms and conditions for the establishment and termination of operation of pension funds and pension companies, their organisational structure, initial capital and diversification of investments of members' assets. Special emphasis was placed on ensuring a continuous investment process and a comprehensive risk management system.

The existing mandatory pension insurance system based on individual capitalised savings witnessed the introduction of three new categories of pension funds (A, B and C), managed by the same pension company and differing, with respect to retirement period of their members, in asset investment restrictions and investment strategy. The new legislation also introduced significant changes to the institutional framework, in particular by allowing pension companies that had only been permitted, until then, to manage mandatory pension funds to carry out activities relating to the establishment and management of voluntary pension funds. In addition to establishing and managing voluntary pension funds, the provisions of the Voluntary Pension Funds Act allowed voluntary pension companies to establish and manage open-ended investment funds with public offering as well.

The Act on Pension Insurance Companies, that entered into force in 2014, regulates the establishment and activities of pension insurance companies and governs pension schemes of mandatory and voluntary pension insurance based on individual capitalised savings and pension schemes based on lump-sum payments to the pension insurance company. It also contains provisions on retirement benefits and their payment, and improves the existing legislation related to supervision. Pursuant to this act, in 2014 Hanfa adopted ordinances regulating this area in more detail.

Off-site supervision of pension funds and pension companies involved the analysis of daily and periodic reports on their operations and of annual financial statements audited by an independent certified auditor, as well as the analysis of other information collected from supervised entities. Supervision of the pension insurance company's operations was carried out on the basis of financial and supplementary reports, actuarial valuations, and reports submitted by the pension insurance company at Hanfa's request.

Insurance

As at 31 December 2014, there were 25 insurance companies and one reinsurance company with their registered offices and operating in the Republic of Croatia. Insurance market participants also included the Croatian Insurance Bureau, as an association of insurance companies with their registered offices in the Republic of Croatia, and the Croatian Nuclear Insurance and Reinsurance Pool (EIG). Insurance representation and insurance and reinsurance brokerage business was conducted by 241 insurance agencies, 42 insurance and reinsurance brokerage companies, 158 insurance representation crafts, 25 credit institutions and HP – Hrvatska pošta d.d.

The gross written premium amounted to HRK 8.6bn, decreasing by HRK 0.5bn or 5.7% compared to the 2013 premium. The gross written premium recorded on the reinsurance market amounted to HRK 335.7m, decreasing by HRK 61.7m or 15.5% relative to 2013.

In 2014, the insurance market generated a loss totalling HRK 136.1m, as opposed to 2013, when

it realised a net profit of HRK 465.7m. Net profit amounting to HRK 480.4m was reported by 18 insurance companies, while a HRK 616.5m loss was reported by seven insurance companies and one reinsurance company. The reported loss was mainly due to operating results recorded by non-life insurance, which recorded a HRK 283.3m loss. Of this amount, four insurance companies and one reinsurance company reported a loss totalling HRK 603.4m, and 14 insurance companies reported a profit in the amount of HRK 320.1m. The life insurance group recorded a HRK 147.2m profit, of which a HRK 171.0m profit was generated by ten insurance companies, while a HRK 23.8m loss was realised by five insurance companies. Total income from insurance representation services and insurance and reinsurance brokerage services provided in 2014 reached HRK 352.6m, declining by HRK 3.7m or 1.0% relative to the preceding year.¹⁹

As at 31 December 2014, the total assets of the Croatian Insurance Bureau amounted to HRK 10.2m, growing by 23.5% relative to 2013, while total assets of the Guarantee Fund amounted to HRK 18.1m, decreasing by 8.4% compared to the previous year. Total assets of the CN POOL reached HRK 86.5m, rising by 10.7% compared to 2013.

The Act on Amendments to the Insurance Act, that entered into force in 2014, introduced significant changes to the existing regulatory regime. Pursuant to this act and in accordance with the EU legal framework and the Solvency II Directive²⁰, Hanfa adopted new ordinances, amendments to existing ordinances, guidelines and amendments to statistical standards for the insurance industry. The previous year also saw the preparation of the new Insurance Act as well as the entry into force of the Act on Amendments to the Act on Compulsory Traffic Insurance.

A significant part of Hanfa's activities carried out in 2014 was related to EIOPA's preparatory guidelines for the new regulatory system under the Solvency II Directive. These activities included cooperation with insurance and reinsurance companies, aimed at ensuring adequate preparation for the new regulatory framework. Special emphasis was placed on further activities relating to the risk-based supervisory approach, which avoided a sharp and direct turn from the compliance method to the new supervisory approach, but involved the development of risk modules and qualitative assessment of insurance companies' risk profiles.

In the course of 2014, Hanfa conducted a total of 15 on-site examinations of entities operating on the insurance market, of which two were targeted, and 13 were full-scope examinations. Five examinations were initiated in 2013 and completed in 2014. Eight examinations were initiated and completed in 2014, while two examinations initiated in 2014 continued into 2015. Out of the 15 on-site examinations, 12 were carried out in insurance companies, two in insurance agencies and one in the Croatian Nuclear Insurance and Reinsurance Pool EIG. Off-site supervision involved on-going monitoring of insurance business conducted by insurance companies and of insurance companies' compliance with supervisory provisions.

Leasing

As in the previous year, leasing operations in the Republic of Croatia were carried out by 23 leasing companies. Leasing companies' total assets recorded a 9.3% decrease compared with the same day of the previous year, reaching HRK 17.9bn.

For the sixth consecutive year, the leasing market recorded a decrease in total assets and in the value of active contracts. The values of newly concluded contracts in the last three years have stabilised, ranging from HRK 4.8bn to HRK 5.6bn, and reaching HRK 5.2bn in 2014.

In 2014, leasing companies reported negative operating results, reflected in loss after profit, which totalled HRK 69.8m (in 2013, it reached HRK 247.8m).²¹

¹⁹ Corrected data are available on p.192.

²⁰ Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), OJ L 335

²¹ Corrected data are available on p.192.

Four regular on-site examinations were initiated in leasing companies, of which three were completed during the year. The focus of the examinations was on credit risk management and on leasing companies' activities upon the expiration or early termination of lease contracts.

Factoring

As at 31 December 2014, factoring companies' assets reached HRK 7.8bn, decreasing by HRK 277.9m or 3.4% in comparison with 2013. The decline was mostly caused by a decrease in factoring receivables totalling HRK 221.1m and by a rise in receivables for discounting of bills of exchange amounting to HRK 49.8m. Current assets made up as much as 98.0% of total assets, which is a common occurrence in the factoring industry. The most significant item in the current assets was discounting of bills of exchange (61.4% of the assets).

Factoring companies' net profit reached HRK 215.1m, increasing by 31.7% compared to 2013. Factoring companies' total income amounted to HRK 789.3m, decreasing by HRK 38.4m in comparison with 2013, while expenses reached HRK 519.6m, declining by HRK 101.4m relative to the previous reporting period. The increase in after-tax profit relative to 2013 was primarily due to a rise in net interest profit (recorded due to an increase in interest income), which rose by 10.3%, as well as by a decline in losses from other income and expenses (recorded primarily due to a decrease in other operating expenses). A total of 14 out of 16 factoring companies reported after-tax profit amounting to HRK 216.3m, whereas two factoring companies reported after-tax losses reaching HRK 1.2m.

The transaction volume reached HRK 18.8bn, rising by 11.0% in comparison with 2013. Factoring companies purchased invoices under factoring arrangements in the amount of HRK 3.7bn, at the same time purchasing bills of exchange in the amount of HRK 15.2bn.

In the first half of 2014, Hanfa's employees participated in the work of the Working Group for the Preparation of the Draft Factoring Act. The act entered into force in August 2014, regulating terms of the establishment, operations and termination of business operations of factoring companies, factoring contracts, rights and duties of entities engaged in factoring operations, reporting, supervision of factoring companies' business operations, risk management and the manner of and requirements for cross-border provision of factoring services. The day of entry into force of the act marked the beginning of the 12-month compliance period for legal persons providing factoring services entered in the register of companies and intending to continue operating as factoring companies in accordance with the provisions of the act. Pursuant to its provisions laying down the obligation of Hanfa to adopt ordinances prescribed by the act within six months of its entry into force, at end-2014 Hanfa adopted three ordinances.

The focus of Hanfa's supervisory activities was on research and the analysis of the factoring market in the Republic of Croatia with respect to risks related to the factoring industry and types and characteristics of certain products and services provided by factoring companies. The purpose of the research and the analysis was to gain a general picture of the market and prepare ordinances that need to be adopted under the Factoring Act.

Judicial proceedings

In 2014, Hanfa brought 17 indictments for initiating misdemeanour proceedings relating to violations of provisions regulating investment funds, capital market and insurance market. A final judgement has been pronounced in respect of one case, while proceedings relating to the remaining 16 cases have not finished yet. Twelve administrative disputes were initiated before administrative courts in the Republic of Croatia against Hanfa's decisions and resolutions. Nine cases related to the capital market, and three to the leasing industry, insurance industry and investment firms. Two disputes were dismissed as disallowed, one was discontinued, and the remaining nine cases are

still pending. Two criminal charges were filed against three natural persons for abuse of authority in economic transactions and for market abuse.

Participation in the work of EU institutions and domestic and international cooperation

In the previous year, Hanfa actively participated in the work of the European Securities and Markets Authority (ESMA) and European Insurance and Occupational Pensions Authority (EIOPA). ESMA's Board of Supervisors and EIOPA's Board of Supervisors organised eight and seven meetings respectively, having adopted decisions on guidelines and regulatory and implementing technical standards governing financial markets. Hanfa's employees also participated in the work of ESMA's and EIOPA's committees, preparing draft regulations and other documents adopted by their Board of Supervisors. ESMA's activities were focused on the convergence of regulatory practices, improvement of international financial reporting standards, enhanced cooperation with third countries, normative activities regarding packaged retail investment products and the analysis of systemic risks. EIOPA placed special emphasis on guidelines and technical standards based on the Solvency II Directive, conduct of stress tests and further activities relating to consumer protection. Hanfa's representatives also took part in the work of the ESRB, which focused on risks and vulnerabilities of the financial system and strengthening of the macro prudential policies framework.

Hanfa's participation in the work of the Council of the European Union involved the preparation of four legislative acts falling within its area of competence and regulating occupational retirement provision, long-term investment funds, money market funds and activities of insurance mediators.

Hanfa's employees took part in the work of the Croatian Financial Stability Council, which started its work in 2014, and in the preparation of acts within its area of competence and related acts such as the Misdemeanour Act, Accounting Act, etc.

Hanfa carries out on-going examinations of its supervised entities and cooperates with domestic and foreign authorities with respect to the prevention of money laundering and terrorist financing. Based on the findings from the examinations, it issued three decisions and one conclusion ordering measures aimed at eliminating irregularities and violations detected. All the supervised entities concerned aligned their operations with the said measures.

Activities related to consumer protection and provision of information to the public

In 2014, Hanfa received 147 complaints, which is a 26.9% decrease compared to 2013. The majority of the complaints received related to the insurance market (39.5%), capital market (21.1%) and leasing market (19.7%). Within the framework of its educational activities, Hanfa continued publishing educational texts and other information for financial services users on its website and it participated in the preparation of the Proposal for the National Strategic Framework for Financial Literacy. Hanfa's members of the Board and employees participated as lecturers in seminars and conferences organised by various educational, professional and state institutions in order to familiarise the public with Hanfa's work and activity of its supervised entities and to inform them of novelties introduced by new EU regulations in the area of financial services.

Hanfa's general business operations and meetings of the Board and of the Council

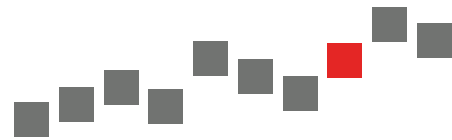
In 2014, Hanfa continued carrying out its IT projects. It implemented the document management system (DMS) and introduced the electronic filing and records office, which resulted in increased efficiency and transparency of business activities and processes. Reorganisation of master data created a basis for the introduction of a data warehouse (DWH). Hanfa's IT system was connected to ESMA's IT systems, and the preparatory work commenced for the connection and for the reception and submission of data to EIOPA in the new format.

Due to intense involvement of Hanfa's employees in the work of EIOPA and ESMA, other activities related to EU membership and new powers conferred upon Hanfa pursuant to the Factoring Act, in 2014 the volume of Hanfa's activities increased significantly, which led to a rise in the number of its employees, which reached 151, nine more relative to the preceding year. Hanfa continuously provided its staff with professional training through in-house workshops, seminars and expert educations organised by ESMA and EIOPA.

In 2014, Hanfa financed its activities from fees from assets and revenue of supervised entities and fees for services provided. Its total income reached HRK 53.4m, while its expenditure stood at HRK 45.6m. Income from total assets and revenue of supervised entities totalled HRK 45.2m, while income from the provision of services amounted to HRK 7.3m. The expenditure for employees reached HRK 31.0m, material expenditure totalled HRK 13.4m, while depreciation expenditure stood at HRK 1.1m. The increase in material expenditure was due to membership of European supervisory authorities totalling HRK 4.1m.

In 2014, Hanfa's Board held 80 meetings and issued decision adopting subordinate regulations and regulating business operations of supervised entities. Hanfa's Council held four meetings, discussing statutory and regulatory changes and current issues relating to the financial industry.





Capital Market



1 Capital Market

1.1 Market Overview

The second year of Croatia's EU membership did not bring about any significant changes on the capital market. The total trading volume on the Zagreb Stock Exchange (hereinafter: ZSE) in 2014 amounted to HRK 3.9bn, increasing slightly (2.4%) compared to 2013, mostly due to the increase in trading in bonds within the order book²² and block trades²³ in shares. The total market capitalisation recorded a larger increase (10.0%), primarily due to the increase in the market capitalisation of bonds. Trades in structured securities decreased significantly (43.6%), whereas their market capitalisation rose by 24.8%. Market indicators showed different trends. CROBEX, the most significant stock index, declined by 2.7%, whereas CROBEX10 (which consists of 10 stocks from the CROBEX index composition with the largest distribution to general public and total turnover) grew by 1.2%. In February 2014, the ZSE introduced a new stock index, CROBEXtr, which includes in its calculation the information on dividend payment as well. This index recorded a slight increase (0.6%) over the year, with dividend payments nullifying a decrease in stock market prices. The CROBIS bond index grew by 5.8%, while CROBIStr, which also includes interest accrued and interest paid, rose by 11.4%.

The market was also influenced by pre-bankruptcy settlement procedures, which imposed stricter obligations for issuers to publish regulated information occurred for the issuers. A delisting trend was still noticed on the regulated market.

In 2014, the Central Depository and Clearing Company (hereinafter: CDCC) was heavily involved in activities relating to the establishment of a new company, CDCC-Smart Clear (hereinafter: CDCC-CCP). Hanfa received an application from the CDCC to issue authorisation for this company to provide services of a central counterparty, in order to align with EMIR provisions²⁴. At the same time, the ZSE undertook certain activities as well, primarily relating to changes in the clearing and settlement system, which include amendments to the rules, internal documents and IT system of the ZSE. These changes need to be made within deadlines identical to those for the licensing of the CDCC-CCP.

Members of the ZSE and CDCC will also need to make certain adjustments. One of the novelties in the settlement system in the

Capital market is a financial market in which buyers and sellers trade in financial instruments, primarily shares and bonds, but also in other transferrable securities (e.g. structured securities) and derivatives (e.g. options, futures). The capital market in the Republic of Croatia comprises trading on the regulated market, multilateral trading facility (MTF) and over-the-counter (OTC) trading.

Capital market participants are issuers offering securities and/or whose securities are admitted to trading on a regulated market, capital market intermediaries (investment firms and credit institutions), investment and pension funds, and all natural and legal persons executing transactions on the capital market.

Participants that also form the market infrastructure are the following:

- Zagreb Stock Exchange (ZSE), as a market operator of the regulated market and MTF
- Central Depository and Clearing Company, as a central depository of dematerialised securities, operator of the clearing and settlement system and operator of the Investor Compensation Scheme
- Hanfa, as a supervisory and regulatory authority of the non-banking financial system.

Central counterparty (CCP) is a legal person that interposes itself between the counterparties to the contracts traded one or more financial markets, becoming the buyer to every seller and the seller to every buyer.

22 The order book is a segment of the trading system containing all offers used as a basis for concluding transactions.

23 A block trade is a transaction in a financial instrument listed on the regulated market or admitted to trading on the MTF, which includes a member or members of the ZSE, it is arranged privately and concluded via the trading system of the ZSE, in accordance with the Rules of the ZSE.

24 Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories OJ L 201

Republic of Croatia is the application of the new standard settlement deadline T+2, as opposed to the existing T+3 model, that started on 6 October 2014, simultaneously with the application of this deadline in 15 other European countries.

1.1.1 Capital Market Infrastructure

In 2014, the ZSE was the only market operator of the regulated market and multilateral trading facility (hereinafter: MTF)²⁵ in the Republic of Croatia. Market capitalisation of all financial instruments amounted to HRK 202.1bn, increasing by 10.0% compared to the previous year. Participants on the regulated market traded in shares, bonds, commercial papers, rights and structured products. MTF trading involved shares and rights, while all structured products admitted to trading on MTF-Alter became due over the year or price of the underlying instrument hit the knock-down barrier, due to which at the end of the year there were no structured products on MTF-Alter.

Table 1.1 Number of financial instruments on the regulated market and MTF as at 31 December 2013 and 2014

Market type	Number of financial instruments	31 Dec 2013	31 Dec 2014	Change (in %)
Regulated market	Shares	181	160	-11.6
	Official market	22	23	4.6
	Regular market	159	137	-13.8
	Bonds (government, corporate, municipal)	45	39	-13.3
	Official market	43	36	-16.3
	Regular market	2	3	50.0
	Commercial papers	6	3	-50.0
	Official market	4	2	-50.0
	Regular market	2	1	-50.0
	Structured products	7	43	514.3
MTF	Official market	0	0	-
	Regular market	7	43	514.3
	Shares	44	44	-
	MTF-Fortis	27	44	63.0
Structured securities	20	0	-	
MTF-Alter	20	0	-	

Source: ZSE

Regulated market is a multilateral system operated and/or managed by a market operator, which fulfils the following conditions:

- a) *brings together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments, in the system and in accordance with its non-discretionary rules and in a way that results in a contract, in respect of the financial instruments admitted to trading under its rules and/or systems*
- b) *it is authorised and functions regularly and in accordance with the provisions of the Second Part of the Capital Market Act.*

Multilateral trading facility is a multilateral system, operated by an investment firm or a market operator, which brings together multiple third-party buying and selling interests in financial instruments, in accordance with non-discretionary rules, in a way that results in a contract between the contracting parties, in accordance with the provisions of the Capital Market Act.

25 The difference between the regulated market and MTF lies in:

- the obligation to draw up a prospectus when securities are admitted to trading: when securities are admitted to trading on the regulated market issuers are obliged to draw up and publish a prospectus approved by Hanfa. The prospectus must contain all information necessary to make an assessment of assets and liabilities, financial position, profit and losses, prospects of the issuer and of any guarantor, and of the rights attaching to such securities, in order to enable investors to make an informed decision regarding the purchase of securities, while no such obligation is imposed on issuers whose securities are admitted to trading on the MTF, and in
- the level of issuer's transparency (obligation to disclose regulated information to the public): issuers whose securities are admitted to trading on the regulated market are obliged to disclose to the public all regulated information (including inside information) after the admission of the securities to the regulated market, while no such obligation is imposed on issuers whose securities are admitted to trading on the MTF.

The year 2014 saw 99 admissions of securities to trading on the ZSE regulated market. A total of 93 admissions referred to structured securities (93.9%), whereas six remaining admissions referred to debt and equity securities (6.1%).

A total of 97 financial instruments were delisted from the regulated market, namely 23 shares, seven bonds, six commercial papers and 61 structured products, for the following reasons:

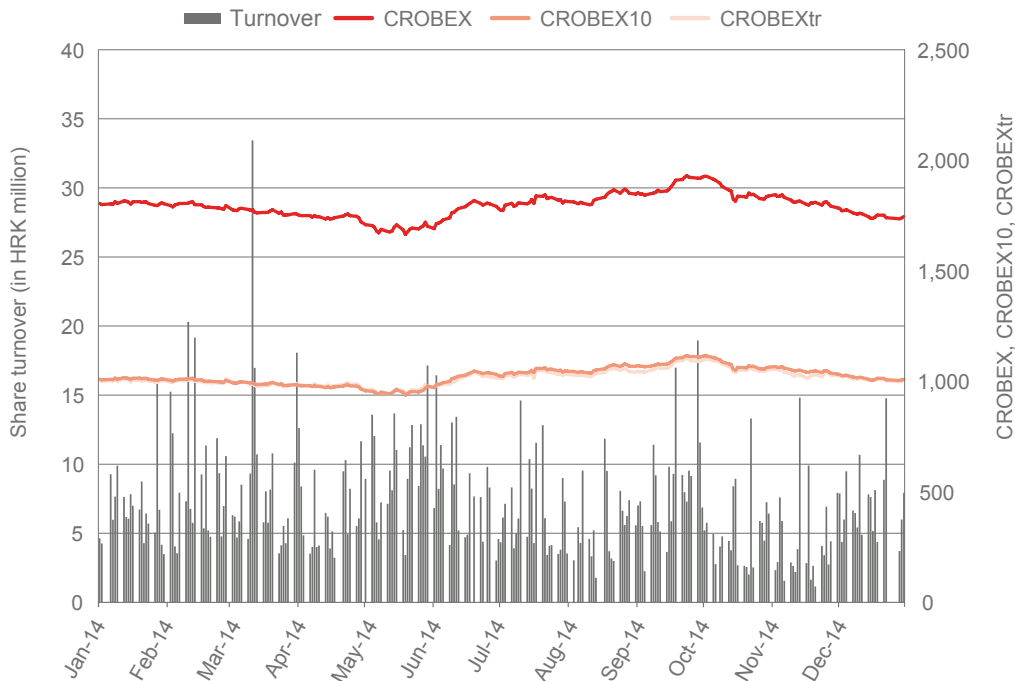
- decisions of the general assembly on delisting (seven issuers)
- squeeze-out of minority shareholders (five issuers)
- preference shares converted to ordinary shares (five issuers)
- bankruptcy (five issuers)
- mergers and acquisitions (two issuers).

All the bonds and commercial papers were delisted as they became due. Out of the 61 delisted structured products 13 became due, while the prices of underlyings for the remaining 48 products hit the knock-down barriers.

MTF-Fortis recorded 19 new admissions to trading (shares). At the same time, three removals from trading (shares) were reported by MTF-Fortis and 20 (structured products) by MTF-Alter.

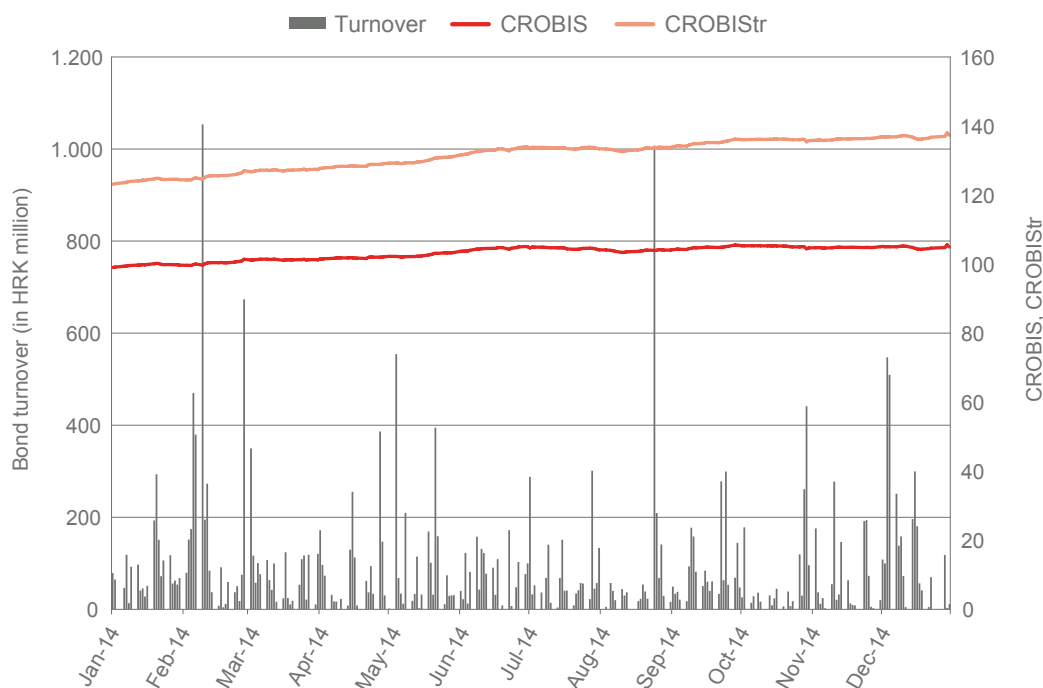
The following charts present changes in the values of certain stock and bond indices, as the most important ZSE trend indicators.

Chart 1.1 Changes in the values of the CROBEX, CROBEX10 and CROBEXtr indices and in the CROBEX share turnover on the ZSE in 2014



Source: ZSE

Chart 1.2 Changes in the values of the CROBIS and CROBIStr indices and in the CROBIS bond turnover on the ZSE in 2014



Source: ZSE

At the end of 2014, the ZSE had 20 members²⁶, one member fewer compared to the previous year, with one member being temporarily suspended since 17 July 2014.

In 2014, two ZSE members acquired market specialist status for two stocks, with one stock having received its first, and the other its second specialist. At the end of 2014, there were 13 concluded market specialist agreements, with four different members being specialists for eight stocks, of which five stocks had two specialists, and three stocks had one specialist. There were no changes as regards market makers: one ZSE member acted as a market maker for all structured securities admitted to trading on the regulated market of the ZSE.

In 2014, CDCC was the only entity in the Republic of Croatia authorised to manage the central depository of dematerialised securities, operate the clearing and settlement system for transactions in securities concluded on the regulated market and MTF or outside these markets and perform other activities pursuant to Article 506 paragraph 1 of the Capital Market Act. The operation of the CDCC is governed by the Capital Market Act and EU regulations, primarily EMIR and CSDR²⁷. The adoption of and subsequent amendments to CDCC's internal documents,

Specialist is a member of the Zagreb Stock Exchange, which, pursuant to the contract concluded with the Zagreb Stock Exchange, assumes special obligations related to the maintenance of liquidity of a particular stock, for a period of time in the course of the main trading session, by simultaneously quoting bid and ask prices.

Market maker is a member of the Zagreb Stock Exchange, which, pursuant to the contract concluded with the Zagreb Stock Exchange, assumes special obligations related to the maintenance of liquidity of a particular structured product, for a period of time in the course of the main trading session, by simultaneously quoting bid and ask prices.

26 A ZSE member is an investment firm or credit institution which fulfils the membership criteria in accordance with relevant provisions of the Capital Market Act and the ZSE Rules and which has concluded a membership agreement with the ZSE.

27 Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012, OJ L 257

Rules and Instructions, are subject to Hanfa's prior approval. These documents regulate CDCC's business operations and activities of CDCC members in more detail.

Table 1.2 Number of deposited securities

	31 Dec 2013	31 Dec 2014	Change (%)
Total	1,098	1,052	-4.2
Shares	936	904	-3.4
Bonds	61	60	-1.6
Other	101	88	-12.9

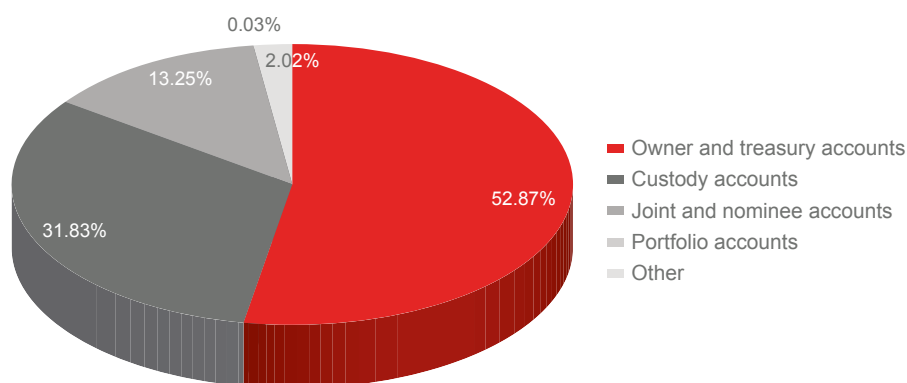
Source: CDCC

The total number of deposited securities fell by 46 or 4.2% compared to 31 December 2013, as a result of a decrease in the number of all types of deposited securities.

In 2014, there was a significant increase in the total value of transactions settled within the clearing and settlement system managed by CDCC relative to 2013. The total value of transactions amounted to HRK 288.3bn, rising by 28.2% compared to 2013 (when this value stood at HRK 224.9bn). Broken down by type of securities, bond transactions were dominant with a 58.1% share (similar to 2013, when this share amounted to 56.3%), followed by transactions in treasury bills and commercial papers (35.8% compared to 38.9% in 2013) and transactions in shares (7.7% compared to 4.6% in 2013).

On the other hand, share transactions made up 87.7% of the total number of transactions (86.5% in 2013), whereas bond transactions accounted for only 5.6% of the total number of transactions (5.2% in 2013), despite their large share in the total transaction value. The total number of securities transactions dropped by 11.0% (264.5 thousand compared to 297.1 thousand in 2013), in spite of the increase in their value.

Chart 1.3 Securities accounts structure in the CDCC depository



Source: CDCC

CDCC carried out a total of 1,814 corporate actions, which is a 9.8% rise compared to 1,652 corporate actions carried out in 2013. Most of the corporate actions were related to general assemblies (823), removal of securities (186), maturity of the principal (167), increase in the initial capital (111) and cash dividend (97).

1.1.2 Issuers

As at 31 December 2014, there were 168 issuers whose securities were admitted to trading on the ZSE regulated market. Three issuers of shares were issuers of corporate bonds at the same time.

The issuer is any legal entity, including a State, whose securities are admitted to trading on a regulated market, with the exception of money-market instruments having a maturity of less than 12 months.

Most of the issuers belonged to the economic sector (147), and were followed by banks (11), insurance companies (5) and closed-ended alternative investment funds (5). There was only one bank among corporate bond issuers, while the remaining 11 issuers came from the economic sector. All structured products were issued by one credit institution.

Four share issuers (including one bank) were undergoing bankruptcy proceedings, 13 share issuers were undergoing pre-bankruptcy proceedings and one closed-ended investment fund was undergoing winding-up proceedings.

Table 1.3 Number of issuers on the regulated market and MTF as at 31 December 2014

Number of issuers	31 Dec 2013	31 Dec 2014	Change (%)
Regulated market			
Shares	165	152	-7.9
Official market	21	22	4.8
Regular market	144	130	-9.7
Bonds (government, corporate, municipal)	21	18	-14.3
Official market	19	15	-21.1
Regular market	2	3	50.0
Commercial papers	3	2	-33.3
Official market	1	1	0.0
Regular market	2	1	-50.0
Structured products	1	1	0.0

Source: ZSE

* Three share issuers were also issuers of corporate bonds and are included in the table under both headings (bonds and shares) in order to calculate the number of bonds admitted on the regulated market. For this reason the number of issuers presented in the table (171) is by three higher than the number of issuers whose securities are admitted to the regulated market (168).

1.2 Hanfa's Regulatory Activities

1.2.1 Normative Activities

Amendments to the Capital Market Act

In 2014, Hanfa cooperated closely with the Ministry of Finance on the preparation of amendments to the Capital Market Act²⁸ for the purpose of aligning with Omnibus II Directive²⁹, which is to be adopted in 2015. This Directive amends the Prospectus Directive³⁰, with one amendment relating

28 Amendments to the Capital Market Act relating to investment firms are described in the chapter Investment Firms.

29 Directive 2014/51/EU of the European Parliament and of the Council of 16 April 2014 amending Directives 2003/71/EC and 2009/138/EC and Regulations (EC) No 1060/2009, (EU) No 1094/2010 and (EU) No 1095/2010 in respect of the powers of the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority), OJ L 153

30 Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC OJ L 345

to the obligation for the supervisory authority of the issuer's home Member State to submit final details of the offer, as submitted by issuers, to the supervisory authority³¹ of the host Member State and ESMA³². Pursuant to former regulations, issuers were obliged to submit final details of the offer to the supervisory authority of home and host Member States. Furthermore, the provisions of Omnibus II Directive provide ESMA with powers to draft regulatory technical standards for the purpose of defining information that needs to be included in the prospectus, detailing the procedure for the approval of prospectuses and terms for adjusting deadlines and detailing provisions related to the publication of prospectuses and distribution of advertisements expressing intention to offer securities or to list them on regulated market, especially prior to the publication of the prospectuses.

Regulations adopted under the amendments to the Capital Market Act

The amendments to the Capital Market Act from 2013 were followed by the adoption of the ordinance regulating information that needs to be submitted by issuers whose securities are admitted to trading on the regulated market in the Republic of Croatia, as well as the deadline for and manner of its submission. Hanfa also adopted ordinances regulating the content of the application for issuing authorisation to the stock exchange and central depository and clearing company, and the ordinance detailing the requirements and procedure for granting approval for management board members of the stock exchange and prior approval for management board members of the company related to the stock exchange³³ (also applicable to members of the management board of the central depository and clearing company).

EU Regulations directly applicable in the Republic of Croatia

The CSDR Regulation, which entered into force on 17 September 2014, regulates, for the first time at the EU level and among other things, the issuance, withdrawal and extension of authorisations, and supervision of central securities depositories, including the terms and conditions for these institutions to provide ancillary banking services i.e. to nominate credit institutions to provide these services. The CDCC, as the only central securities depository in the Republic of Croatia, is obliged to align its business activities with the provisions of the CSDR.

On 5 May 2014, the Commission Delegated Regulation (EU) No 382/2014³⁴ entered into force, defining regulatory technical standards for publication of supplements to the prospectus.

Participation in activities of EU institutions

July 2014 saw the entry into force of a new set of regulations governing capital markets, aimed at improving investor protection and significantly altering the existing regulatory framework for capital markets, thus presenting an additional challenge for Hanfa. The regulatory set includes MiFID II³⁵ and MAR/CSMAD³⁶.

MiFID II regulates business operations of investment firms, market operators, data reporting services providers and third-country firms providing investment services or performing investment activities with a branch in EU, disclosure of trade data, reporting of transactions to supervisory authorities,

31 Pursuant to Article 343, point 13 of the Capital Market Act, host Member State means the Member State where an offer to the public is made or admission to trading is sought, when different from the home Member State.

32 The European Securities and Markets Authority (ESMA) is described in more detail in Chapter 9.1.1 Participation in the Work of ESMA.

33 The list of ordinances adopted by Hanfa in 2014 is provided in the Appendix.

34 Commission Delegated Regulation (EU) No 382/2014 of 7 March 2014 supplementing Directive 2003/71/EC of the European Parliament and of the Council with regard to regulatory technical standards for publication of supplements to the prospectus, OJ L 111

35 Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU, OJ L 173 and Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 OJ L 173

36 Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC, OJ L 173 and Directive 2014/57/EU of the European Parliament and of the Council of 16 April 2014 on criminal sanctions for market abuse (market abuse directive), OJ L 173

trading in derivatives on organized venues, etc. Amendments to existing acts referred to stricter organisational requirements for investment firms and trading venues, introduction of new trading venues for non-equity financial instruments – organised trading facilities (hereinafter: OTF), introduction of monitoring of algorithmic trading, in particular for firms employing high-frequency algorithmic trading, additional pre- and post-trade transparency requirements for trading venues, more detailed reporting on transactions in financial instruments executed by investment firms, introduction of the obligation to trade on regulated markets, MTFs or OTFs for settlement-eligible liquid derivatives, etc. Hanfa's staff actively participated in the preparation of final technical advice and draft regulatory and implementing technical standards related to MiFID II.

In December 2014, ESMA published and launched public consultations for all regulatory and certain technical standards related to MiFID II, at the same time preparing 20 documents containing technical advice for the European Commission. This information, along with the information on all prior public consultations on MiFID II was published on Hanfa's website.

MAR/CSMAD regulate issues relating to market abuse, covering handling inside information (insider dealing and unlawful disclosure of inside information), market manipulation and measures to prevent market abuse aimed at preserving market integrity. The directive lays down minimum rules for criminal sanctions for insider dealing, for unlawful disclosure of inside information and for market manipulation. In this regard, 2014 saw intense preparation of final technical standards regulating, among other things, indicators for manipulative behaviour, manner of submitting notifications of the delay of disclosure of inside information, transactions that need to be reported by persons discharging managerial responsibilities in issuers (especially transaction types and trading during closed periods), etc.

In 2014, Hanfa participated in workshops for transposition of regulations organised by the European Commission. Further activities relating to the implementation of the new regulatory framework and to the preparation of regulatory and implementing acts to be adopted by European Commission are expected in 2015, while the regulations should become effective during 2016 and in early 2017. Hanfa's employees also took part, through their membership in ESMA committees, in drafting final versions of regulatory technical standards related to the CRA III Regulation³⁷, and to the set of guidelines for reducing over-reliance on credit ratings. In addition, Hanfa followed meetings of the Working Group of the Council of the European Union for Financial Services related to the Proposal for a Regulation of the European Parliament and of the Council on indices used as benchmarks in financial instruments and financial contracts.

Hanfa also contributed to ESMA's activities relating to the Transparency Directive³⁸. In addition, ESMA adopted guidelines on the enforcement of financial information and worked on the establishment of the European electronic access point, definition of a single electronic format for annual reporting and preparation of regulatory technical standards related to majority holdings. At the request of the Corporate Reporting Standing Committee, Hanfa submitted, along with other supervisory authorities, data needed for a cost-benefit analysis and contributed to consultations on the single electronic format and electronic access point.

As these guidelines regulate supervision of financial information of all issuers whose securities are admitted to trading on the regulated market and Hanfa is not authorised to supervise accounting activities of the majority of ZSE issuers, in accordance with the Accounting Act (Official Gazette 109/07, 54/13 and 121/14), Hanfa informed the Ministry of Finance (the institution responsible

37 Regulation (EU) No 462/2013 of the European Parliament and of the Council of 21 May 2013 amending Regulation (EC) No 1060/2009 on credit rating agencies OJ, L 146

38 Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC

for preparing regulations in the area of financial services and capital markets) of the necessity to amend and align relevant national regulations governing the supervision of financial information. Following consultations with the Ministry of Finance, Hanfa informed ESMA of its intention to comply with the relevant guidelines within the timeframe needed to amend and align the national regulatory framework.

Hanfa continued to follow crowdfunding activities, recognised by the European Commission as an alternative method for financing start-up companies and an example of promoting entrepreneurship.

Crowdfunding is an emerging source of financing a project whose initiators, directly or via a crowdfunding platform (generally via internet), provide a brief presentation of the project and invite all interested parties to finance it.

Through their membership of ESMA's Corporate Finance Standing Committee and of its sub-committee called the Takeover Bids Network, Hanfa's employees exchange information and opinions on issues related to prospectuses and takeover bids with other committee and sub-committee members. Membership in ESMA committees also implies submission, at the request of these committees, of various statistical data on approved prospectuses and takeover bids, information on Hanfa's practices when prospectuses are approved and on issues concerning takeover of joint-stock companies in the Republic of Croatia. This information was submitted by Hanfa on several occasions in 2014.

Opinions

Pursuant to the provisions of Article 15 point 9 of the Act on the Croatian Financial Services Supervisory Agency (Official Gazette 140/05 and 12/12) providing Hanfa with the authority to issue opinions on the implementation of regulations within its scope of competence, in 2014 Hanfa issued, at the request of parties to proceedings, three opinions related to the Capital Market Act and eight opinions related to the Act on the Takeover of Joint-Stock Companies (Official Gazette 109/07, 36/09, 108/12, 90/13 – Croatian Constitutional Court Decision U-I-4469/2008 etc., 99/13 – Croatian Constitutional Court Decision U-I-2470/2010 et., 148/13).

1.2.2 Licensing

In 2014, Hanfa approved Amendments to the Rules of the Zagreb Stock Exchange, primarily relating to changes in terms and conditions for admission of securities on the regulated market, additional terms and conditions for admission of securities to trading on MTF-Alter and amendments to the rules regulating volatility interruption in continuous trading. It also granted two approvals for the appointment of members of the ZSE Management Board. The CDCC, as the operator of the Investor Protection Scheme, was granted approval for the management fee for 2015.

In accordance with Article 380 of the Capital Market Act³⁹ laying down the notification process for cross-border offer and admission of securities, in the period between 1 July 2013 and 31 December 2014 Hanfa received 15 notifications relating to prospectuses and 56 notifications relating to supplements to the prospectus from competent authorities from other Member States (of which 12 notifications relating to prospectuses (for the issuance of structured securities), and 52 notifications relating to supplements to these prospectuses were received in 2014). Six prospectus notifications were received from the Austrian authority, whereas the authorities from Luxembourg and United Kingdom submitted three prospectus notifications each.

³⁹ According to Article 380, paragraph 1 of the Capital Market Act, the prospectus and supplements to the prospectus approved by the competent body of the home Member State, where the Republic of Croatia is a host Member State, have an effect equivalent to that of the prospectus and the supplement to the prospectus approved by Hanfa, subject to the procedure notification referred to in Article 381 of the Capital Market Act. Pursuant to Article 381 of the Capital Market Act, the prospectus and the supplement to the prospectus approved by Hanfa have the same effect in another Member State where the Republic of Croatia is a home Member State of the issuer and Hanfa has, at the request of the issuer or the person responsible for drawing up the prospectus, provided the competent authority of the host Member State with a notification relating to the approval of the prospectus and the supplement to the prospectus, accompanied by a certificate of approval of the prospectus, a copy of the prospectus approved and a translation of the summary, if needed.

1.2.2.1 Licensing Capital Market Infrastructure Institutions

On 7 March 2014, Hanfa approved ZSE's application for a waiver from pre-trade transparency requirements referred to in Article 333, paragraph 3 of Capital Market Act⁴⁰ for block transactions in shares and bonds on the regulated market.

On 23 May 2014, Hanfa granted prior approval to the ZSE for the acquisition of a holding exceeding 25% of voting rights or holdings in the initial capital in SEE LINK DOO, Skopje, Orce Nikolov 75, Skopje – Centar, Republic of Macedonia⁴¹. SEE LINK DOO was established by the ZSE, Macedonian Stock Exchange and Bulgarian Stock Exchange for the purpose of enhancing regional cooperation.

On 19 May 2014, the ZSE submitted an application for performing activities related to the allocation and administration of LEIs (Legal Entity Identifiers). The approval for the performance of these activities is granted by the Regulatory Oversight Committee (ROC), Basel. As a member of the ROC, Hanfa delivered a statement of ZSE sponsorship with respect to the said activities. In late 2014, the ZSE finished setting up the IT system needed to perform these activities, which led to the beginning of the approval process before the ROC (expected to be finished in 2015).

On 31 December 2013, the CDCC-CCP submitted an application for approval to provide central counterparty services in accordance with the provisions of EMIR. The founder and sole shareholder of the CDCC-CCP is the CDCC, which is going to delegate contractual settlement activities to the CDCC-CCP, subject to its reception of authorisation. If the CDCC-CCP fails to obtain the authorisation, the CDCC will have to cease providing contractual settlement services and will carry out only trade-for-trade settlement activities.

Due to the amount of work entailed in aligning with EMIR and in order to develop special functionalities, it was necessary to include the ZSE and CDCC at certain stages of the procedure, especially as these entities will have to establish technical and business relations with the CDCC-CCP. In addition, as Hanfa is not the only authority making the decision on the application of the CDCC-CCP, a regulatory college was established under EMIR provisions, comprising Hanfa, the Croatian National Bank and ESMA. In this respect Hanfa had intense cooperation with these two entities regarding all important issues in this procedure.

Notification is a procedure during which the competent authority of the home Member State of the issuer or offeror that has approved the prospectus informs the competent authority of the host Member State about the prospectus approved in order for the issuer or offeror to be able to use the prospectus when securities are offered to the public or admitted to trading on the regulated market in the host Member State. On its website, Hanfa keeps and regularly updates the list of approved prospectuses and supplements to prospectuses notified by other Member States. Where the Republic of Croatia is the host Member State, and Hanfa has established that an issuer whose prospectus has been notified to Hanfa for the purpose of offering or admission violates the provisions of the Capital Market Act on the prospectus, Hanfa will inform the competent authority of the home Member State of the issuer and ESMA of these violations. If the issuer continues to violate the provisions of the Capital Market Act on the prospectus despite the measures taken by the competent authority of the home Member State of the issuer, Hanfa is authorised, after it has informed again the competent authority of the home Member State of the issuer and ESMA, to take measures aimed at investor protection.

Legal Entity Identifiers (LEIs) help identify entities that engage in financial transactions on the global market in financial instruments. The most important feature of a LEI is his uniqueness, which guarantees that market participants can be unambiguously identified for different purposes: regulatory purposes (detection of illegal activities), financial stability analysis, monitoring of systemic risk, cross-border supervision etc.

40 Article 333 paragraph 3 of the Capital Market Act obliges the stock exchange to disclose current bid and ask prices and market depth for financial instruments admitted on the regulated market the ZSE manages, whereas Article 334 paragraph 2 lays down exemption possibilities.

41 The approval was granted pursuant to Article 290 of the Capital Market Act, obliging the ZSE to obtain Hanfa's prior approval for any proposed acquisition of a holding exceeding 25 % of voting rights or holdings in another legal entity.

1.2.2.2 Prospectuses and Takeover Bids

In 2014, Hanfa approved seven applications for approval of prospectuses (with two applications referring to share issue and five applications referring to share admission) and one application for publication of the supplement to the prospectus.⁴²

Hanfa received 40 notifications related to the use of exemption from the obligation to publish a prospectus, whereas in 2013 only nine such notifications were received, due to the fact that Article 354 of the Capital Market Act (laying down the obligation to inform Hanfa on the intent to use the exemption from the obligation to publish a prospectus) entered into force on the day of Croatia's EU accession. Since the entry into force of this provision, the obligation to inform Hanfa of the intent to use the exemption from the obligation to publish a prospectus has proved to be an effective tool for monitoring characteristics and legality of offers and admission of securities in the Republic of Croatia. Prior to this, the public had no access to the prospectus relating to these securities, which contains detailed information on the securities, issuers, offerors or submitters of the application for admission. According to information available to Hanfa, in 2014 a total of HRK 4bn (of which approximately HRK 3bn for share issues/offers) was collected through securities issues/offers in which the exemption from the obligation to publish a prospectus was used⁴³. On the other hand, HRK 151m was collected for securities issues/offers in which a prospectus was published. Almost all the notifications were related to the exemption from the obligation to publish a prospectus for securities offers, while one notification referred to the admission of securities on the regulated market. Most of the notifications related to the exemption from the obligation to publish a prospectus for share issues or offers, four notifications referred to the exemption from the obligation to publish a prospectus for bond offers and one notification referred to the offer of structured products. Out of the total number of received notifications on the exemption from the obligation to publish a prospectus for securities offers, 75% referred to exemptions related to the offering of securities to fewer than 150 natural or legal persons who were not qualified investors per Member State, to the offering of securities to investors who are to pay at least EUR 100 thousand for each single offer, and to exemptions related to offering of securities exclusively to qualified investors. The remaining 25% of the notifications referred mostly to exemptions related to offering of securities exclusively to qualified investors who participate in pre-bankruptcy proceedings according to the financial and operating restructuring plan.

Hanfa approved six applications to publish a takeover bid, which is a more than 50% decrease compared to 2013, when 13 applications to publish a takeover bid were approved. This was due to a fall in the number of companies subject to the provisions of the Act on the Takeover of Joint-Stock Companies. Pursuant to amendments to this Act, in force since 15 December 2013, offeree companies include only companies whose shares with voting rights are admitted on the regulated market, excluding joint stock companies with more than 100 shareholders and initial capital exceeding HRK 30m.

Takeover bid is a public offer, mandatory or voluntary, made to all shareholders of the offeree company to acquire all shares carrying voting rights.

Amendments to the Act on the Takeover of Joint-Stock Companies from 2013 introduced the obligation for offerors to draw up a feasibility study on the assessment of the fair value of the offeree company's shares for cases where the offer relates to shares traded during a period shorter than one-third of total trading days within the last three months prior to the occurrence of the obliga-

42 In accordance with provisions of Article 371 paragraph 6 of the Capital Market Act, Hanfa is obliged to inform ESMA of each approval of the prospectus or the supplement to the prospectus. Since the end of 2014, Hanfa has been providing ESMA with this information through ESMA's IT Prospectus Register (available at: <http://registers.esma.europa.eu/publication/searchProspectus>)

43 Offers for zero consideration (such as offers and assignments of shares to employees and management board members or assignment of shares to existing shareholders without a fee) are not included in this calculation. The calculation also excludes issues/offers of securities not subject to the provisions of Article 342 of the Capital Market Act (such as issues/offers of securities with the total value of EU offer fee below EUR 5 million in the 12-month period).

tion to publish a takeover bid. In 2014, three applications to publish a takeover bid involving this obligation were approved.

2014 was marked by the takeover of Croatia osiguranje d.d., Zagreb by Adris grupa d.d., Rovinj, due to the significant amount of assets available for the payment of shares during the takeover procedure (approximately HRK 401m). Following the takeover procedure, Adris grupa d.d. and persons that acted in concert with this company held 91.8% of all shares and had the same percentage of voting rights in the general assembly of Croatia osiguranje d.d.

On the basis of takeover bids published in 2014, shareholders who had deposited their shares properly during the takeover procedures were paid a total amount of HRK 301m, which is a decrease of about 35% compared to the previous year, when the shareholders were paid HRK 461m.

Pursuant to Article 14 paragraph 5 of the Act on the Takeover of Joint-Stock Companies, laying down the obligation to notify Hanfa of the use of exemption to publish the takeover bid, Hanfa received six such notifications. Article 14 paragraph 6 of this Act enables Hanfa to issue a decision determining that no exemption exists or that the exemption is being abused, but in 2014 Hanfa issued no such decisions, having previously determined that all the exemptions were justified. Three of the notifications received related to exemptions approved by offeree companies' general assemblies in accordance with Article 14 paragraph 1 point 3 of the Act on the Takeover of Joint-Stock Companies. Two notifications referred to exemptions where the transfer of shares did not result in any changes of persons exercising control in the offeree company in accordance with Article 14 paragraph 1 point 7 of the Act on the Takeover of Joint-Stock Companies and one notification referred to the exemption due to the acquisition of shares of the offeree company which was a debtor in the pre-bankruptcy procedure in accordance with Article 14 paragraph 1 point 6 of the Act on the Takeover of Joint-Stock Companies.

For the purpose of clarifying changes in the takeover procedure caused by the amendments to the Act on the Takeover of Joint-Stock Companies, Hanfa published a series of educational texts on its website. One of the texts was an opinion on the application of Article 13 paragraphs 4 and 5 and Article 40 paragraph 3 of the Act on the Takeover of Joint-Stock Companies, related to circumstances leading to the annulment of the exclusion of voting rights. With respect to information contained in a takeover bid, which must, pursuant to the amendments, also include data on main activities and basic information on business operations and financial position of the offeror if the offeror is a legal person, Hanfa also published guidelines for presenting this information.

For the purpose of educating market participants and promoting good practice and in order to reduce irregularities and illegalities related to opinions issued by the offeror company's management board, Hanfa published guidelines for the preparation of these opinions. It also issued one supervisory measure following the failure of an offeror company's management board to publish its opinion within the deadline and in the manner laid down in the Act on the Takeover of Joint-Stock Companies. Another supervisory measure was issued after a member of the offeror company's supervisory board communicated with the public as regards the proposed takeover bid, contrary to the provisions of the Act on the Takeover of Joint-Stock Companies. In 2013, Hanfa issued three supervisory measures in order to eliminate irregularities and illegalities during takeover procedures.

1.2.3 Supervision

1.2.3.1 Capital Market Infrastructure Supervision

Supervision of the Zagreb Stock Exchange and trading

Hanfa supervised business operations of the ZSE by monitoring, on an on-going basis, whether the ZSE operates in accordance with the regulatory framework, primarily with the Capital Market Act, regulations adopted under this act and its own acts.

Off-site supervision was carried out over the year through the collection of reports the ZSE is obliged to submit to Hanfa, relating to the functioning of the regulated market and operation of the MTF. In 2014, Hanfa verified the following reports submitted in accordance with the Capital Market Act:

- data on ownership structure of the ZSE (on a monthly basis)
- reports on acquisition or disposal of financial instruments by the management (on a monthly basis)
- notifications of the admission to/removal from trading on the regulated market and admission to/removal from trading on the MTF
- information on current business activities and changes in these activities (such as conclusion of new contracts, etc.)
- information on new market specialists and market makers
- changes in the membership and updated member lists
- annual financial statement for 2013 accompanied by relevant external auditor's report.

Apart from this, the ZSE also submitted additional information at Hanfa's request. All the information received was verified and used, where appropriate, in further analyses.

Hanfa performed analyses containing a comparison between the activities of the ZSE and other EU stock exchanges and information on supervisory authorities' practices with respect to disclosure of regulated information of issuers whose securities are admitted to trading on the regulated market, especially as regards disclosure of inside information and supervision of trading suspensions. The analyses led to conclusions and recommendations for the improvement of the supervisory practice as regards disclosure of inside information and suspensions of trading by the ZSE.

Hanfa carries out on-site supervision of trading in financial instruments on the regulated market and MTF by monitoring placing of orders and trading, changed and cancelled orders in real time, published information, volatility interruptions, observation segments etc., in order to detect activities by capital market participants which may constitute market abuse (insider dealing and market manipulation). This type of supervision enables recognition of transactions deviating from regular trade, and leads to further trade analyses for the purpose of establishing the identity of the participants in transactions that might constitute market abuse. In 2014, Hanfa made 34 trading analysis, with some of them having resulted in a suspicion of market abuse. In order to obtain additional findings, the analyses were forwarded to other competent authorities.

In accordance with the Ordinance on market manipulation and the obligation to report suspicions of market abuse (Official Gazette 05/09), the ZSE submitted to Hanfa a number of reports relating to suspicions of market manipulation and insider dealing. On the basis of the reports, Hanfa took further investigative actions and in some of the cases forwarded detailed analysis, description of facts and relevant documents to other competent authorities.

Reporting to ESMA and competent authorities of other Member States

In accordance with Hanfa's obligation to inform competent authorities of other Member States and ESMA of temporary suspension and/or removal of a financial instrument from trading without delay, irrespective of whether the suspension and/or removal was initiated by the operator of the regulated market or Hanfa, in 2014 Hanfa submitted 69 notifications to competent authorities of other Member States and ESMA, namely:

- information on the suspension and removal from trading of structured securities whose underlying price hit the knock-out barrier (38)
- information on the suspension of trading in shares (13)
- information on the removal of shares from trading (10)
- information on the suspension of trading in bonds (4)
- information on the suspension and removal from trading of shares (4).

Hanfa's employees participating in ESMA's Market Integrity Standing Committee (MISC) exchange experiences relating to market abuse with committee members from other Member States. For the purpose of monitoring trends in this area at the EU level, data on reported suspicious transactions are submitted through MISC to ESMA on an annual basis.

In addition, Hanfa and other Member States' competent authorities submit quarterly data to the Financial Innovation Standing Committee (FISC) on new issues of financial instruments and their distribution according to client category and on submitted and resolved complaints according to the type of the complainant, category of the complaint and type of financial instrument referred to in the complaint. The Secondary Markets Standing Committee (SMSC) received information from Hanfa on trading in bonds for the purpose of assessing liquidity thresholds related to the preparation of regulatory technical standards for transparency of non-equity financial instruments, in accordance with the provisions of MiFIR⁴⁴.

Submission of data to ESMA through the MiFID Database

In accordance with Article 33 paragraph 1 of Commission Regulation (EC) No 1278/2006⁴⁵, the relevant competent authority ensures, in respect of each share that is admitted to trading on the regulated market, that the following calculations are made in respect of that share promptly after the end of each calendar year:

- average daily turnover (for all shares)
- average daily number of transactions (for all shares)
- free-float (for liquid shares)
- daily value of executed orders (for liquid shares).

Considering the fact that the data need to be submitted by 1 March for the previous year, in 2014 Hanfa made calculations and assessments for shares admitted on the regulated market for the first time and published these calculations in the MiFID Database available on ESMA's website.

Market capitalisation of shares admitted to trading on the regulated market for the first time needs to be estimated at the beginning of the first trading day. Following the admission of new shares of an issuer to trading on the regulated market of ZSE in December 2014, Hanfa submitted data on estimated average daily turnover of these shares to the MiFID Database.

Supervision of the Central Depository and Clearing Company

Supervision of the CDCC's business operations was carried out through off-site and on-site examinations. Off-site examinations involved the collection of reports the CDCC is obliged to submit to Hanfa pursuant to the provisions of the Capital Market Act, namely:

- monthly report on its operation
- information on changes in the Management and Supervisory Board, and on holders of qualifying holdings in the CDCC
- annual financial statements, annual and audit reports
- report on the acquisition or disposal of financial instruments by members of the Management or Supervisory Board or employees of the CDCC
- rules and amendments to the Rules, Instructions and Price List of the CDCC
- changes in the membership, cessation of membership and an up-dated membership list
- notification of any failure on the part of participating members to fulfil the obligations with respect to clearing and settlement of transactions on the regulated market and/or MTF, and of any serious breaches of the rules of the CDCC on the part of participating members.

⁴⁴ Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012, OJ L 173

⁴⁵ Commission Regulation (EC) No 1287/2006 of 10 August 2006 implementing Directive 2004/39/EC of the European Parliament and of the Council as regards recordkeeping obligations for investment firms, transaction reporting, market transparency, admission of financial instruments to trading, and defined terms for the purposes of that Directive, OJ L 241

Hanfa analysed all the data collected and required, where appropriate, further explanations or additional data from the CDCC.

In 2014, Hanfa carried out an on-site examination of the CDCC's IT system. In late 2014, Hanfa initiated another on-site examination of the CDCC's IT system, related to the alignment with EMIR provisions.

1.2.3.2 Supervision of Issuers⁴⁶

In 2014, Hanfa carried out supervisory, educational and other regulatory activities related to issuers whose financial instruments are admitted to trading on the regulated market and their obligation to prepare and disclose regulated information. These activities were aimed at issuers whose home Member State is the Republic of Croatia, i.e. issuers of shares and corporate bonds admitted on the regulated market of the ZSE in 2014.

Within the framework of its supervisory activities, Hanfa continuously examined whether or not issuers disclosed regulated information and whether they disclosed it within the prescribed deadline, on the prescribed venues and in accordance with the prescribed content. In cases of irregularities established in the process of preparation and disclosure of information, Hanfa contacted the issuers (by letters, e-mail or phone) and notified them of the irregularities, invited them to eliminate the irregularities and provided guidelines on future proceedings in such or similar cases.

In 2014, a total of 6,848 documents containing regulated and other information, including data on acquisitions and disposals of shares, were submitted by issuers to the OAM⁴⁷, maintained by Hanfa.

A Home Member State is:

1. *in the case of an issuer of shares and debt securities the denomination per unit of which is less than EUR 1,000 in kuna equivalent or in another currency in the amount lower than EUR 1,000 in kuna equivalent at the date of the issue:*
 - *where the issuer is incorporated in the Community, the Member State in which the issuer has its registered office*
 - *where the issuer is incorporated in a third country, the Member State referred to in Article 343 point 12 subpoint c) of the Capital Market Act.*
2. *for any issuer not covered by point 1, the Member State chosen by the issuer from among the Member State in which the issuer has its registered office and those Member States which have admitted its securities to trading on a regulated market on their territory.*

Issuers are required to submit, simultaneously and within the prescribed deadlines, the same regulated information to the media, stock exchange, the Officially Appointed Mechanism (OAM) for the central storage of regulated information and Hanfa. They are also obliged to ensure that their annual, half-yearly and quarterly reports are available to the public for at least five years from the date of publication.

⁴⁶ This chapter relates to the supervision of issuers on the regulated market as regards their obligation to disclose information after the admission to trading pursuant to the relevant provisions of the Capital Market Act. This obligations does not relate to issuers whose financial instruments are admitted to trading on the MTF.

⁴⁷ Submission of regulated information to the OAM in the form of electronic documents signed with advanced electronic signature, in the form and manner laid down in the Decision on the form and manner of submitting regulated information to the Croatian Financial Services Supervisory Agency of 22 December 2011, constitutes the fulfilment of the obligation to submit information to Hanfa.

Table 1.4 Regulated and other information submitted to the OAM in 2014 from 1 January to 31 December 2014

Type of information	Number of reports
Annual reports	334
total audited	250
consolidated audited	89
unconsolidated audited	161
total unaudited	84
consolidated unaudited	31
unconsolidated unaudited	53
Quarterly report	918
consolidated	301
unconsolidated	617
Information on changes in the percentage of voting rights	54
Acquisition and/or disposal of own shares	161
Information submitted by persons discharging managerial responsibilities in issuers	200
Inside information	473
Inside information- change in disclosed inside information	8
Information on changes in number of shares and/or voting rights	6
Number of changes in rights arising from issued securities	3
Information on new issues of debt securities	6
General assembly - information on convocation, counterproposals and decisions	498
Annual document containing disclosed information	68
Other regulated information	624
Other information (non-regulated)	285
Insider list	57
Proof of announcements to the media	2756
Proposal of amendments to the statute/articles of association	6
Statements submitted to Hanfa	4
Other documents submitted to Hanfa	53

Source: Hanfa

In 2014, Hanfa carried out seven examinations of issuers related to management and disclosure of regulated information. Irregularities regarding the failure to disclose regulated information were established in three issuers, and were followed by Hanfa's decisions ordering the issuers to subsequently disclose this information in the manner regulated by the Capital Market Act. Irregularities regarding management of regulated information and maintenance of insider lists were established by four issuers. They were ordered by Hanfa to improve the internal regulated and inside information management system so as to ensure disclosure of regulated information within the prescribed deadlines in all cases and to maintain insider lists as laid down in the Capital Market Act.

Insider list is a list of persons working for the issuer on the basis of an employment contract or on another basis and having access to inside information directly or indirectly related to the issuer, whether on a regular or occasional basis. The issuers or persons acting on their behalf or for their account are obliged to draw up and regularly update insider lists.

Within the framework of their educational activities aimed at issuers, Hanfa, the ZSE and the CDCC organised the fifth educational one-day seminar. Issuers participating in the seminar were acquainted with the directive amending the Transparency Directive⁴⁸ and new Hanfa's website containing all information on issuers and their obligations. The issuers also had the opportunity to ask questions, provide comments and request clarifications related to disclosure of regulated information.

1.2.3.3 Other Examinations

Acting in its capacity as supervisory authority for non-financial counterparties in accordance with Article 4 paragraph 1 point 3 of the Act Implementing Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (Official Gazette 54/13), in 2014 Hanfa carried out sample-based supervision of non-financial counterparties. The aim of the supervision was to determine the amount of transactions in derivatives executed by non-financial counterparties and whether the non-financial counterparties align with relevant obligations under EMIR. The sample comprised 44 companies grouped in three categories: energy companies (11), leasing companies (21) and issuers whose securities are admitted to trading on the regulated market (12). A total of 28 companies notified Hanfa that they did not conclude transactions in derivatives whereas 16 companies reported concluding such transactions and submitted data on the transactions and information on the fulfilment of other obligations laid down in EMIR. The data collected were analysed and provide basis for further supervisory activities in this area, planned for 2015.

According to EMIR, all transactions in derivatives, irrespective of whether they are executed on or outside the regulated market, must be reported to a licensed trade repository (ESMA has licensed six repositories for the submission of information on derivative transactions so far). In 2014, Hanfa took measures related to gaining access to data in trade repositories by ensuring that an agreement is concluded with each of these repositories, thus enabling access to their databases. This is going to be an efficient tool for supervision of non-financial counterparties with their registered office in the Republic of Croatia and their fulfilment of obligations under EMIR. The data in trade repositories will be made available in 2015.

Trade repository means a legal entity that centrally collects and maintains records of transactions in derivatives.

In accordance with the provisions of Article 11 paragraph 1 of the Short Selling Regulation⁴⁹ and following notifications received from entities obliged to submit data and information received from the Croatian National Bank, Hanfa submitted to ESMA, on a quarterly basis, a summary of information on:

- net short positions in issued share capital
- net short positions in issued sovereign debt
- uncovered positions in sovereign credit default swaps.

Within the meaning of the Short Selling Regulation, short sale in relation to a share or debt instrument is any sale of the share or debt instrument which the seller does not own at the time of entering into the agreement to sell, including such a sale where at the time of entering into the agreement to sell the seller has borrowed or agreed to borrow the share or debt instrument for delivery at settlement.

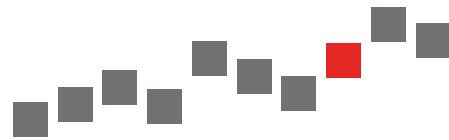
48 Directive 2013/50/EU of the European Parliament and of the Council of 22 October 2013 amending Directive 2004/109/EC of the European Parliament and of the Council on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market, Directive 2003/71/EC of the European Parliament and of the Council on the prospectus to be published when securities are offered to the public or admitted to trading and Commission Directive 2007/14/EC laying down detailed rules for the implementation of certain provisions of Directive 2004/109/EC, OJ L 294

49 Regulation (EU) No 236/2012 of the European Parliament and of the Council of 14 March 2012 on short selling and certain aspects of credit default swaps, OJ L 86

In accordance with Article 7 paragraph 2 of the Short Selling Regulation and provisions of Commission Delegated Regulation (EU) No 918/2012⁵⁰, and on the basis of data published on the website of the Ministry of Finance (overview of domestic and foreign bonds and statistics of treasury bill auctions), Hanfa fulfilled its obligation towards ESMA and submitted information on duration-adjusted amount of sovereign debt issued by the Republic of Croatia.

June 2014 saw the beginning of operation of the Osijek Commodity Exchange (hereinafter: OCC), engaged in, for the time being, the conclusion of contracts relating to commodities (cereals, precious metals). Taking account of characteristics of these activities and in accordance with relevant provisions of the Capital Market Act, these business operations fall outside the scope of Hanfa's competence, which released the OCC from the obligation to obtain Hanfa's prior approval for the beginning of operation. However, as these types of commodities may be used as underlyings of financial instruments defined by the Capital Market Act, Hanfa published information on its website to the effect that the OCC did not have Hanfa's approval for trading in derivatives or other financial instruments.

⁵⁰ Commission Delegated Regulation supplementing Regulation (EU) No 236/2012 of the European Parliament and of the Council on short selling and certain aspects of credit default swaps with regard to definitions, the calculation of net short positions, covered sovereign credit default swaps, notification thresholds, liquidity thresholds for suspending restrictions, significant falls in the value of financial instruments and adverse events, OJ L 274



Investment Firms



2 Investment Firms

2.1 Market Overview

In July 2014, Hanfa granted authorisation to a new investment firm to provide investment services and perform investment activities. In October, one UCITS⁵¹ management company was granted authorisation to provide services of portfolio management and investment advice.

Two investment firms ceased to provide investment services and perform investment activities and related ancillary services (one at its own request, while the authorisation of the other firm ceased to be valid following a supervisory examination). One credit institution lost its authorisation following the decision on the initiation of bankruptcy proceedings against this credit institution.

As at 31 December 2014, all the eight investment firms were directly owned by residents.

Table 2.1 Number of active investment firms, credit institutions providing investment services and performing investment activities and UCITS management companies with their registered office in the Republic of Croatia^{52,53}

Date	Investment firms	Credit institutions	UCITS management companies
31 Dec 2012	10	19	6
31 Dec 2013	9	16	6
31 Dec 2014	8	15	7

Source: Hanfa

Income from provision of investment services and performance of investment activities

Total income⁵⁴ of investment firms, credit institutions and UCITS management companies authorised to provide investment services and perform investment activities in accordance with the Capital Market Act (Official Gazette 88/08, 146/08, 74/09, 54/13 and 159/13) remained at around the same level as in 2013. As in the previous years, the largest part (82.9%) of the income was generated by credit institutions, whereas income generated by investment firms and UCITS management companies was significantly lower (10.7% and 6.4% respectively).

Income generated by credit institutions remained at the approximately same level as in the previous year, while income reported by investment firms decreased by 12.6%, primarily because one large investment firm ceased to provide investment services and perform investment activities and related ancillary services. Income generated by UCITS management companies increased by 46.7%, largely due to the increase in the value of assets relating to the portfolio management and associated fees.

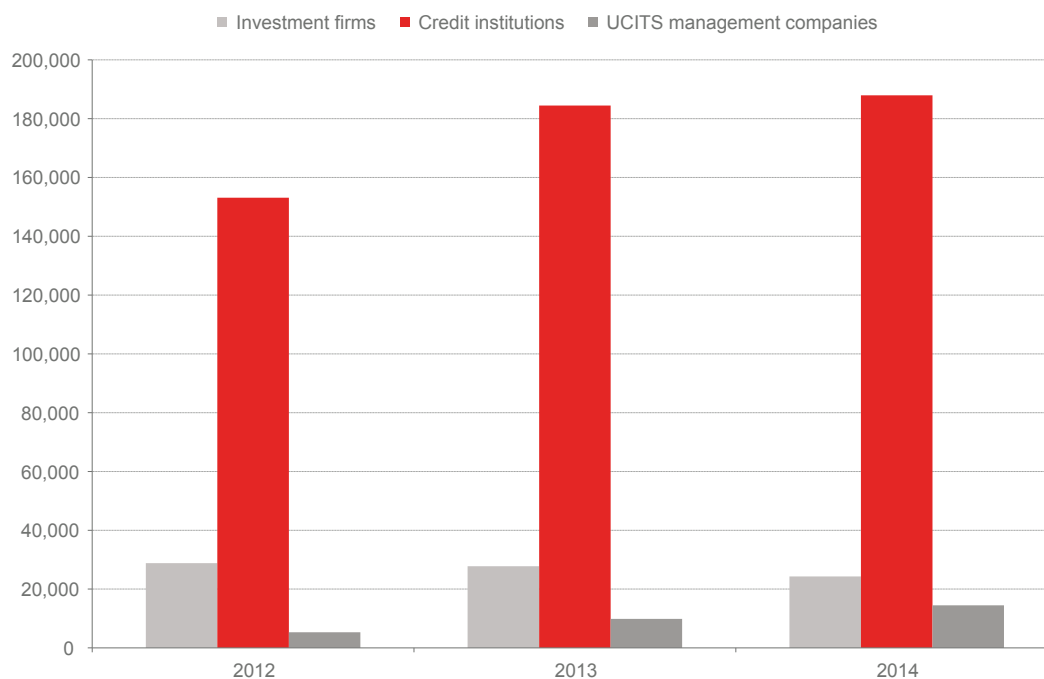
51 UCITS funds are open-ended investment funds with public offering.

52 This report includes data on investment firms with their registered office in the Republic in Croatia. Investment firms from other Member States which notified Hanfa of their intention to provide investment services and perform investment activities in the Republic of Croatia under the freedom-of-services provisions are not included in this report.

53 The list of Hanfa's supervised entities is available at www.hanfa.hr.

54 Total income from the provision of investment services and performance of investment activities is shown exclusive of income from dealing on own account.

Chart 2.1 Total income of legal persons authorised to provide investment services and perform investment activities from 2012 to 2014 (in HRK thousand)



Source: Hanfa

As in 2013, the major part of income generated by credit institutions was accounted for by income from provision of agency and underwriting services (44.4% of their total income) and custodianship (41.5% of their total income). Income from the reception and transmission of orders and execution of orders on behalf of clients was a minor part of income reported by credit institutions, but the most significant part of income generated by investment firms (84.5% of their total income).

Table 2.2 Total income from provision of investment services and performance of investment activities in 2013 and 2014 (in HRK thousand)

Investment service or activity	2013				2014			
	Investment firms	Credit institutions	UCITS management companies	Total	Investment firms	Credit institutions	UCITS management companies	Total
Income from reception and transmission of orders and income from execution of orders on behalf of clients	17,651	13,512	0	31,163	20,517	15,498	0	36,015
Income from portfolio management	1,801	478	9,754	12,033	542	434	14,366	15,342
Income from placing of financial instruments without a firm commitment basis	659	57,831	0	58,490	681	42,215	0	42,896

Investment service or activity	2013				2014			
	Investment firms	Credit institutions	UCITS management companies	Total	Investment firms	Credit institutions	UCITS management companies	Total
Income from underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis	0	31,262	0	31,262	0	41,164	0	41,164
Income from investment advice	98	0	120	218	14	7	114	136
Income from safekeeping and administration of financial instruments for the account of clients, including custodianship	590	75,231	0	75,820	889	77,985	0	78,874
Income from granting credits or loans to an investor to allow him to carry out a transaction	1,048	2,086	0	3,134	17	2,282	0	2,299
Income from advice to undertakings on capital structure, industrial strategy and related matters	5,932	4,057	0	9,989	1,623	8,359	0	9,983
Total income	27,779	184,456	9,874	222,110	24,284	187,944	14,481	226,709

Source: Hanfa

Assets under management and custody of financial instruments

The total value of assets managed by investment firms recorded a sharp decline compared to 31 December 2013, as two investment firms with a significant share in total assets ceased providing investment services and performing investment activities and ancillary activities. On the other hand, the total value of assets managed by UCITS management companies rose by 31.8%, resulting in increased income generated on the same basis.

As at 31 December 2014, total assets under custody reached HRK 62.3bn, recording a 12.0% increase compared with 31 December 2013, reported primarily by credit institutions (and to a lesser extent by investment firms).

Table 2.3 Assets under management and custody of financial instruments as at 31 December 2013 and 31 December 2014 (in HRK thousand)

	Portfolio management		Change in %	Custody of financial instruments		Change in %
	31 Dec 2013	31 Dec 2014		31 Dec 2013	31 Dec 2014	
Investment firms	90,877	21,274	-76.6	276,300	280,908	1.7
Credit institutions	42,035	36,851	-12.3	55,376,723	62,029,268	12.0
UCITS management companies	982,594	1,294,849	31.8	0	0	
Total	1,115,507	1,352,974	21.3	55,653,023	62,310,176	12.0

Source: Hanfa

Investment firms' annual financial statements

According to data from the aggregated statement of financial position, seven⁵⁵ investment firms reported a significant decrease in total assets compared to total assets of nine investment firms on the same day of the previous year, which is primarily due to the fact that investment firms with the largest share in total assets ceased to perform investment activities and ancillary activities.

Table 2.4 Statement of financial position of investment firms as at 31 December 2013 and 31 December 2014 (in HRK thousand)

Assets		31 Dec 2013	31 Dec 2014	Change in %
1	Tangible and intangible assets and long-term investments	44,025	8,896	-79.8
2	Cash and receivables	140,948	25,501	-81.9
3	Financial assets	81,362	71,430	-12.2
Total assets		266,334	105,827	-60.3
Liabilities				
1	Capital and reserves	111,337	30,109	-73.0
2	Payables	154,997	75,718	-51.1
Total liabilities		266,334	105,827	-60.3

Source: Hanfa

In 2014, investment firms' profit decreased by 20.7% compared to the previous year. However, taking into account that as at 31 December 2013 there were two active investment firms more than as at 31 December 2014 (of which one firm recorded a significant profit in comparison to the other firms), the decrease was to be expected. In 2014, six investment firms recorded a profit totaling HRK 3.4m, whereas one investment firm recorded a loss in amount of HRK 296.7 thousand.

Table 2.5 Statement of comprehensive income of investment firms for 2013 and 2014 (in HRK thousand)

	2013	2014	Change in %	
1	Net income/expenses on fees and commissions	17,299	15,958	-7.8
2	Net realised and unrealised income/expenses on financial assets	5,436	479	-91.2
3	Net interest income/expenses	1,475	1,975	33.8
4	Net exchange rate differences	822	559	-32.0
5	Total other income	2,884	685	-76.2
6	Total other expenses	23,579	15,839	-32.8
Total income		54,361	29,949	-44.9
Total expenses		50,023	26,133	-47.8
Pre-tax profit or loss		4,338	3,816	-12.0
Profit tax		395	690	74.7
Profit or loss		3,943	3,126	-20.7
Other comprehensive income		-11,976	4	
Total comprehensive income		-8,033	3,130	

Source: Hanfa

⁵⁵ The aggregated data does not include an investment firm which was granted Hanfa's authorisation on 4 July 2014, but did not start providing investment services and related activities in 2014.

Performance indicators for investment firms

As at 31 December 2014, the debt ratio for investment firms amounted to 0.7, indicating that 71.6% of investment firms' assets were not financed by own sources (but by loans and/or credits provided by credit institutions). As at 31 December 2013, this indicator amounted to 0.6. This significant change was mostly due to the fact that an investment firm with the largest share in total liabilities ceased to perform investment activities and ancillary activities.

The return on assets (ROA) for investment firms reached 3.0%, whereas as at 31 December 2013 it amounted to 1.5%. The return on equity (ROE) stood at 10.4%, whereas as at 31 December 2013 it totalled 3.5%. These indicators show the total efficiency of a company's business activities and it is desirable for them to be as high as possible. Investment firms' aggregated income in 2014 was slightly lower than that in 2013, but the aggregated value of capital and assets decreased significantly as one investment firm with a large share in total capital and assets ceased to perform investment activities and ancillary activities.

2.2 Hanfa's Regulatory Activities

2.2.1 Normative Activities

Amendments to the Capital Market Act and the Act on Recovery and Resolution of Credit Institutions and Investment Firms

In May 2014, the European Parliament and Council adopted a new directive relating to the recovery and resolution of credit institutions and investment firms (hereinafter: BRRD⁵⁶). Some of this Directive's provisions were implemented in the Amendments to the Capital Market Act (Official Gazette 18/15).

The BRRD provides supervisory authorities with a set of tools for early and quick intervention in situations when the continuity of services of credit institutions and investment firms is jeopardised (recovery) and with measures for minimising negative repercussions on the financial system caused by the downfall of systemically important institutions (resolution). In the Republic of Croatia, the BRRD is applicable only to those investment firms whose capital is not lower than HRK 6.0m at any time. At the end of 2014, two investment firms were fulfilling the said criteria.

In accordance with the BRRD, investment firms are obliged to prepare a recovery plan with measures for the restoration of their financial position following a significant deterioration. A recovery plan adopted by an investment firm is approved by Hanfa. In the case of a significant deterioration of an investment firm's, the BRRD provides Hanfa with tools to apply early intervention measures, including, among other things, the option to remove the senior management and management body and to nominate a special trustee.

In addition, Hanfa prepares a resolution plan for each investment firm subject to the provisions of the BRRD. The resolution plan lays down mechanisms and tools for the investment firm whose downfall would have negative repercussions on the Republic of Croatia's financial system. Resolution actions are carried out by the State Agency for Deposit Insurance and Bank Resolution (DAB).

As recovery and resolution plans may not assume access to extraordinary public financial support, the BRRD introduces a new, resolution fund. Credit institutions and investment firms subject to the provisions of the BRRD are obliged to contribute to the resolution fund, in the amount proportionate to the institution's/firms' size and importance. The fund's assets should ensure efficient application of resolution tools.

⁵⁶ Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council, OJ L 173

In 2014, Hanfa participated in the preparation of the Draft Act on Recovery and Resolution of Credit Institutions and Investment Firms, which makes Hanfa one of resolution authorities for investment firms.

Regulations adopted under the Capital Market Act

Normative activities carried out in 2014 related mostly to the full implementation of the CRD IV⁵⁷ package. Four ordinances⁵⁸ relating to this package were adopted for investment firms, containing provisions on remuneration policies and criteria relevant for significant investment firms, content of the policies for the selection and fulfilment of criteria for management board members, minimum requirements for risk management, technical criteria for internal approach to calculating capital requirements, certain conditions relating to the calculation of own funds and treatment of exposure of investment firms to certain categories of persons, as well as the form and manner of and deadlines for the submission of reports.

Taking into account the fact that the EU aims to enhance the convergence of regulations, it empowered the EBA⁵⁹ to regulate in more detail certain segments of the CRD IV package through regulatory and implementing technical standards binding for all EU Members States.

2014 saw the adoption of an ordinance enabling investment firms to extend, under certain circumstances, their regular business referred to in the Capital Market Act to education of capital market participants, insurance representation, marketing of units in investment funds, offering of pension schemes or other activities that would not have any adverse impact on the fulfilment of the investment firm's obligations.

2.2.2 Licensing

In 2014, Hanfa received two applications for issuing authorisation to new investment firms. One of the application was withdrawn, while the other one was approved and followed by a license issued to a new investment firm to provide investment advice and portfolio management services (the firm did not start to provide its services in 2014). Two credit institutions obtained prior approval for the provision of investment advice services and for dealing on own account, thus extending its business in the area of investment banking. Two UCITS management companies were granted approval to extend their business to the provision of investment advice and portfolio management services.

Two investment firms ceased to exist in 2014 (one at its own request and the other one due to Hanfa's decision adopted following the failure of the firm to comply with Hanfa's supervisory measures). One credit institution lost its authorisation (and ceased to be subject to Hanfa's supervision) due to bankruptcy proceedings initiated against it in December 2014.

Eight proceedings were carried out with respect to the granting of the approval to perform the function of the investment firm's management board member (seven approvals were granted). A total of 13 authorisations were granted to investment advisors and entered in the register, along with 10 authorisations granted to brokers and one authorization granted to a tied agent. Eleven authorisations previously granted to investment advisors, 15 authorisations granted to brokers and one authorisation granted to a tied agent ceased to be valid.

57 Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, OJ L 176 and Regulation (EU) no 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, OJ L 176

58 The list of ordinances adopted by Hanfa in 2014 is provided in the Appendix.

59 European Banking Authority. EBA, ESMA and EIOPA form the European Supervisory Authorities (ESAs). EIOPA and ESMA are described in more detail in Chapter 9.1.1 Participation in the Work of ESMA and Chapter 9.1.2 Participation in the Work of EIOPA.

In 2014, Hanfa received 204 notifications from firms intending to directly provide investment services in the Republic of Croatia. At the end of the year, there were a total of 259 investment firms with their registered offices in other Member States entered in the register of firms authorised to provide certain investment services directly in the Republic of Croatia.

Two official opinions issued pursuant to the Act on the Croatian Financial Services Supervisory Agency (Official Gazette 140/05 and 12/12) related to credit institutions and the manner they handle structure products.

2.2.3 Supervision

In 2014, Hanfa conducted the analysis of investment firms and credit institutions using the risk-based supervisory approach, which involved quantitative and qualitative data and impact indicators and resulted in the assessment of risk profiles of supervised entities. The comparison and monitoring of different assessments in a certain timeframe helps define priorities for enhanced on-site and off-site supervision. In this regard, Hanfa assessed risk profiles of supervised entities on the basis of quantitative data on a quarterly basis and updated qualitative risk indicators for supervised entities that underwent on-site examinations during 2014.

Following the changes in capital adequacy indicators laid down in the CRD IV package, Hanfa updated risk assessment models for credit institutions and investment firms with respect to capital adequacy.

In addition to the existing models for risk assessment of investment firms and credit institutions, in 2014 Hanfa also developed a risk assessment model for UCITS management companies with respect to the provision of investment services.

2.2.3.1 On-Site Supervision

In 2014, Hanfa initiated ten on-site examinations in investment firms (two full-scope and one targeted examination), UCITS management companies (three full-scope examinations) and credit institutions (three full-scope and one targeted examination).

Following the on-site examinations, Hanfa issued six decisions containing measures aimed either at improving business activities or at eliminating illegalities and irregularities. Measures aimed at eliminating illegalities and irregularities were issued mostly due to breaches of the provisions of the Capital Market Act and the Act on the Prevention of Money Laundering and Terrorist Financing (Official Gazette 87/08 and 252/12) and were related to:

- appointment of members of the management board of investment firms
- establishment of the internal audit function
- rebuilding of capital above the minimum level
- revision and updating of internal documents in accordance with the Capital Market Act and accompanying ordinances
- alignment of contracts on outsourcing with the Capital Market Act and accompanying ordinances
- submission of the application for prior approval confirming the fulfilment of the conditions for dealing on own account
- harmonization of the largest exposure permitted
- setting up of the register of trading orders and transactions

Notification is a procedure during which Hanfa receives information from the competent authority of another Member State (Member State of the European Union and signatory to the Agreement on the European Economic Area) about the intention of an investment firm with its registered office in the Member State to provide investment services and perform investment activities and related ancillary services referred to in Article 5 of the Capital Market Act directly or through a branch, where the firm is authorized to provide and perform these activities in the Member State. On its website, Hanfa publishes the list of the investment firms in respect of which it has received a notification of their intention to provide investment services and pursue investment activities in the Republic of Croatia, along with the list of branches, where they have been established, and the list of the investment services and activities and related ancillary services and financial instruments.

In addition to monitoring activities of its supervised entities, Hanfa also monitors activities of notified firms providing investment services to investors in the Republic of Croatia. Activities of these companies are monitored on the basis of data from publicly accessible sources, information from other supervisory authorities/market participants, customers' complaints, etc. Where Hanfa establishes that a notified firm violates provisions of the Capital Market Act and/or other regulations adopted under this act while providing investment services, it informs the competent authority of the firm in another Member State about the firm's activities. In the meantime, until the moment when the firm has aligned its business activities in the Republic of Croatia with the regulations, Hanfa issues a warning for the public relating to the activities of the firm and publishes it on its website.

- application of the provisions on the protection of clients' assets
- establishment of the rules on handling conflicts of interest while dealing on own account
- filing, preparation and keeping of back-up of documents outside the premises
- maintenance of the list and monitoring of personal transactions of relevant persons
- assessment of suitability and appropriateness in the provision of investment services.

In addition to issuing orders aimed at enhancing business activities and eliminating illegalities and irregularities, Hanfa also issued two warnings for investment firms. The warnings were issued due to breaches of the provisions of the Capital Market Act and accompanying ordinances, and were related to inadequate conduct of business in the process of establishing business relations with clients, inappropriate liquidity risk management and submission of incorrect statements of financial position and liquidity to Hanfa.

Hanfa issued two decisions revoking investment firms' authorisations. One of the decisions (issued following a supervisory procedure) ordered an investment firm to inform all its clients of the revocation of the authorisation without delay and to notify third parties used as depositories for clients' assets and financial instruments. This decision also included the instruction to the investment firm to initiate proceedings relating to the deletion of its activities from the register of companies.

For the purpose of protecting clients, Hanfa monitored whether the investment firms complied with measures referred to in the decisions. The investment firms were ordered to submit reports containing documents and other evidence testifying to their alignment with the measures, in order to ensure that clients receive assets held, administered or managed by investment firms.

2.2.3.2 Off-Site Supervision

Off-site supervision was conducted through the continuous analysis of reports submitted to Hanfa by supervised entities in accordance with the relevant regulatory framework. Hanfa collected and analysed investment firms' monthly reports on net liquid assets and quarterly reports submitted by investment firms, credit institutions and UCITS management companies on income and expenses arising from the provision of investment services and performance of investment activities, and on the management of clients' assets. The analysis also covered financial statements and reports on capital adequacy submitted on a quarterly basis.

Six out of seven UCITS management companies authorised for portfolio management provided this service in 2014. These entities submitted supervisory reports on portfolio management (hereinafter: UP Form) on a monthly basis and provided information on the structure of assets invested within the framework of portfolio management, the number of clients and fees charged.

With the aim of verifying the accuracy of data contained in the UP Form, and taking into account an on-going increase in assets within the portfolio, Hanfa conducted the off-site examination of all UCITS management companies, analysing the structure of the portfolio assets. According to the analysis, the largest asset share was invested in Croatian government bonds, units of UCITS and shares. A smaller asset share was invested in derivatives used mainly for hedging against currency risk.

By 11 November 2014, investment firms had submitted to Hanfa reports on capital adequacy (based on the CRD IV package). In order to facilitate the transition to new reports for investment firms, Hanfa organised workshops relating to this issue.

Within the framework of off-site supervision, investment firms submitted documents serving as the basis for the preparation of the reports. The comparison of the documents and the reports on capital adequacy showed whether the reports had been submitted within the prescribed deadline and in the prescribed form and whether supervised entities had aligned their business activities with the provisions on risk management and other regulations. The results of the compar-

ison confirmed that all the investment firms had submitted reports on capital adequacy within the prescribed deadline and in the prescribed form.

The CRD IV package significantly modified and simplified the capital structure. It introduced two main types of capital: Tier 1 capital (consisting of the Common Equity Tier 1 capital and the Additional Tier 1 capital) and Tier 2 capital. It also changed the treatment of deductions, significantly encumbering the Common Equity Tier 1 capital. The new regulations imposed stricter requirements for investment firms regarding the capital quality permanently available for coverage of possible losses, which led to problems in the fulfilment of minimum capital adequacy requirements for some investment firms. They also laid down different capital ratios:

- Common Equity Tier 1 capital (the ratio of the Common Equity Tier 1 capital to risk exposure, it may not be lower than 4.5%)
- Tier 1 capital ratio (the ratio of the Tier 1 capital to risk exposure, it may not be lower than 6.0%)
- total capital ratio (the ratio of the total capital to risk exposure, it may not be lower than 8.0%).

Certain investment firms are obliged to inform Hanfa of large exposures and the leverage ratio. The leverage ratio is a new requirement calculated as the ratio of the investment firm's Tier 1 capital to its total exposure. Some investment firms are now subject to less stringent requirements as they are not obliged to align with risk exposure limits or to report on those exposures. Changes in reporting requirements for all investment firms oblige them to submit reports on a quarterly, instead of a monthly basis.

As at 30 September 2014 and 31 December 2014 all investment firms' capital ratios were higher than the prescribed minimum level. Investment firms authorised for dealing on own account and underwriting and/or placing of financial instruments on a firm commitment basis are obliged to submit to Hanfa additional reports on large exposures and leverage.

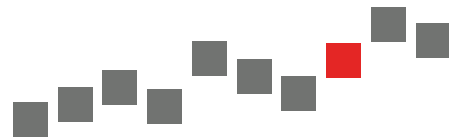
Following the off-site examinations, Hanfa issued a decision containing measures relating to capital adequacy of an investment firm, namely the exceeding of the maximum exposure permitted. Later on, this investment firm's authorization was revoked at its own request.

2.2.4 Examinations Taken by Candidates for Brokers and Investment Advisors

The first examination term of the examination cycle for brokers and investment advisors organized in 2013 was followed by the second examination term in 2014, which was attended only by candidates who had taken the examination in the first term and failed it. The examination of professional knowledge required to obtain broker's licence was taken by three candidates and passed by one candidate. The examination of professional knowledge required to obtain investment advisor's licence was taken and passed by one candidate.

In 2014 Hanfa also organised a new examination cycle for brokers and investment advisors, which consisted of two examination terms, with the second examination term being available only to those candidates who took the examination in the first term and failed it. Within a new examination cycle, the broker examination was taken by 33 and passed by 22 candidates, whereas the investment advisor examination was taken by 17 and passed by 16 candidates.

The educational programme for acquisition of professional knowledge required to obtain broker's and investment advisor's licence did not take place in 2014 due an insufficient number of candidates who had applied for the programme.



Investment Funds



3 Investment Funds

3.1 Market Overview

In 2014, the downward trend in the investment funds' asset value resulting from the economic crisis was halted. 2014 also saw the beginning of operation of special types of open-ended investment funds with public offering (hereinafter: UCITS) and alternative investment funds (hereinafter: AIFs). Their establishment and operation, as well as the operation of investment fund management companies and of investment funds in the Republic of Croatia, are regulated by a new regulatory framework which entered into effect in mid-2013.⁶⁰

3.1.1 Management Companies

As at 31 December 2014, there were 23 registered companies managing investment funds^{61,62}, or two companies fewer than in 2013, due to a merger and revocation of authorisation. Eleven companies managed UCITS and AIFs, seven companies managed only UCITS and five companies managed only AIFs.

As at 31 December 2014, 12 investment fund management companies were directly owned by residents, eight companies were indirectly owned by non-residents and three companies were directly owned by non-residents. Management companies making a part of a banking group managed 90.0% of UCITS assets, while four management companies making a part of a banking group managed 5.0% of AIF assets at the end of 2014.

In 2014, management companies realised an after-tax profit totalling HRK 46.6m and falling by 6.4% compared to 2013. Their income from investments in financial instruments rose by HRK 16.9m, while their overheads and administrative operating expenses increased by HRK 17.8m. The largest share in management companies' total assets was accounted for by financial assets (89.3%), whereas obligations amounted to 69.4% of liabilities⁶³.

There are two types of investment funds in the Republic of Croatia: UCITS and AIFs, managed by UCITS management companies and AIFMs respectively.

UCITS has no legal personality, and is established by a management company which manages the fund in its own name and for the account of holders of units in those assets, pursuant to provisions of the Act on Open-Ended Investment Funds with Public Offering, prospectus and fund rules. UCITS are established for the purpose of raising cash by offering units in the fund through a public offering to all interested investors. Funds collected from investors are invested in transferable securities or other types of liquid financial assets, while observing the principle of risk distribution. Depending on changes in the value of assets in the UCITS, investors earn a return and, in addition to the right to a proportional share in the fund's profit, may require the redemption of units and exit the fund.

AIF is an investment fund established for the purpose of raising capital through a public or private offering, and investing it in various types of assets in line with a defined investment policy and in order to generate returns for investors. In the Republic of Croatia, AIFs may be established as funds with public offering, of an open-ended or a closed-ended type, or as funds with private offering.

Each open-ended and closed-ended investment fund operating in the Republic of Croatia must have a depository, which carries on a series of activities for the fund, involving safekeeping of separate fund assets, keeping of separate accounts for the fund's assets, and other activities in accordance with provisions of the Act on Open-Ended Investment Funds with Public Offering and Alternative Investment Funds Act. Duties of depositories in the Republic of Croatia are carried out by credit institutions.

60 The constitution and functioning of UCITS and AIFs and the establishment and business activities of UCITS management companies and managers of alternative investment funds (AIFMs), issuance and redemption of units in the funds, marketing of units, delegation of tasks to third parties and supervision of the funds, fund management companies, depositories and persons offering units are regulated by the Act on Open-Ended Investment Funds With Public Offering (Official Gazette 16/13 and 143/14; hereinafter: AOEIF) and the Alternative Investment Funds Act, Official Gazette 16/13 and 143/14; hereinafter: AIFA). Hanfa also supervises the Fund for Croatian Homeland War Veterans and Members of their Families and the Retired Person's Funds, which were established under the Act on the Fund for Croatian Homeland War Veterans and Members of their Families (Official Gazette 163/03, 82/04 and 41/08) and the Act on Retired Persons' Funds (Official Gazette 93/05, 41/07 and 90/11).

61 This report includes data on management companies with their registered office in the Republic of Croatia. UCITS management companies and AIFMs from other Member States which notified Hanfa of their intention to conduct business in the Republic of Croatia under the freedom-of-services provisions are not included in this report.

62 The list of Hanfa's supervised entities is available at www.hanfa.hr.

63 The Statement of financial position and the Statement of comprehensive income of investment fund management companies are provided in the Appendix.

3.1.2 Open-Ended Investment Funds with Public Offering

In 2014, the number of UCITS continued to drop, in particular the number of equity funds. On the other hand, UCITS belonging to the „other funds“ category recorded an increase in their number. This is due to the fact that the new regulation governing the constitution and functioning of UCITS allowed management companies to market other types of UCITS as well. As a result, in 2014 Hanfa issued authorisations to UCITS with the protected principal, UCITS with defined maturity and one umbrella UCITS issuing units classes of its sub-funds.

Following the winding-up procedure, four UCITS and one AIF were deleted from the register of funds maintained by Hanfa, while two UCITS were merged.

Table 3.1 Comparison of the number of UCITS as at 31 December 2013 with that as at 31 December 2014

UCITS fund	31 Dec 2013	31 Dec 2014
Cash	23	21
Bond	8	10
Balanced	13	10
Equity	35	28
Other	7	13
Total	86	82

Source: Hanfa

Table 3.2 Net assets of UCITS as at 31 December 2013 and 31 December 2014 (in HRK thousand)

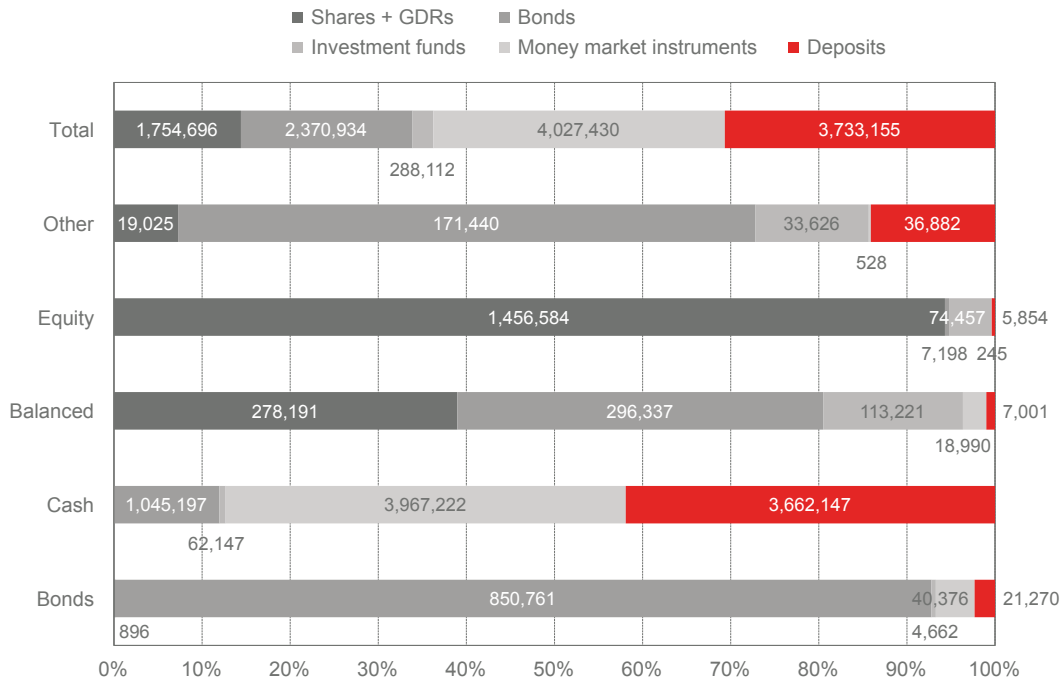
	31 Dec 2013	Share (%)	31 Dec 2014	Share (%)	Change (%)	Payments in 2014	Redemption/ payouts in 2014
UCITS	13,035,257		12,978,397		-0.4	24,643,307	24,872,529
Cash	9,797,924	75.2	9,180,308	70.7	-6.3	20,988,210	21,699,490
Bond	393,715	3.0	934,891	7.2	137.5	768,608	241,350
Balanced	748,981	5.7	749,768	5.8	0.1	287,621	352,843
Share	1,873,408	14.4	1,696,259	13.1	-9.5	2,409,317	2,543,906
Other	221,229	1.7	417,172	3.2	88.6	189,551	34,940

Source: Hanfa

UCITS' net assets slightly decreased compared to 2013, totalling HRK 13.0bn at the end of 2014. This was a result of a decrease in net assets of cash funds, although their share still dominated the structure of total assets of UCITS. The decrease in net assets of cash funds was caused primarily by the withdrawal of assets by institutional investors in December due to the announcement of a new issue of government bonds. Equity funds' assets fell by 9.5% compared to 2013, primarily as a result of the withdrawn assets. At the same time, net assets of bond funds rose by HRK 0.5bn. Furthermore, net assets of the UCITS belonging to the „other funds“ category also increased, as a result of the constitution of new funds and merger of two equity funds in this category of UCITS.

The performance of UCITS observed in the currency of their unit value UCITS shows that equity funds recorded returns ranging from -15.5% to 27.5%, with only six equity funds reporting negative returns. The positive returns were primarily the result of the growth of global equity markets, as domestic market did not record any rise. Balanced funds recorded returns ranging between -6.0% and 18.4%. Positive returns were reported by cash and bond funds, and ranged from 0.7% to 2.7% and from 0.04% to 9.5% respectively. Returns of „other funds“ ranged between -6.1% and 12.9%.

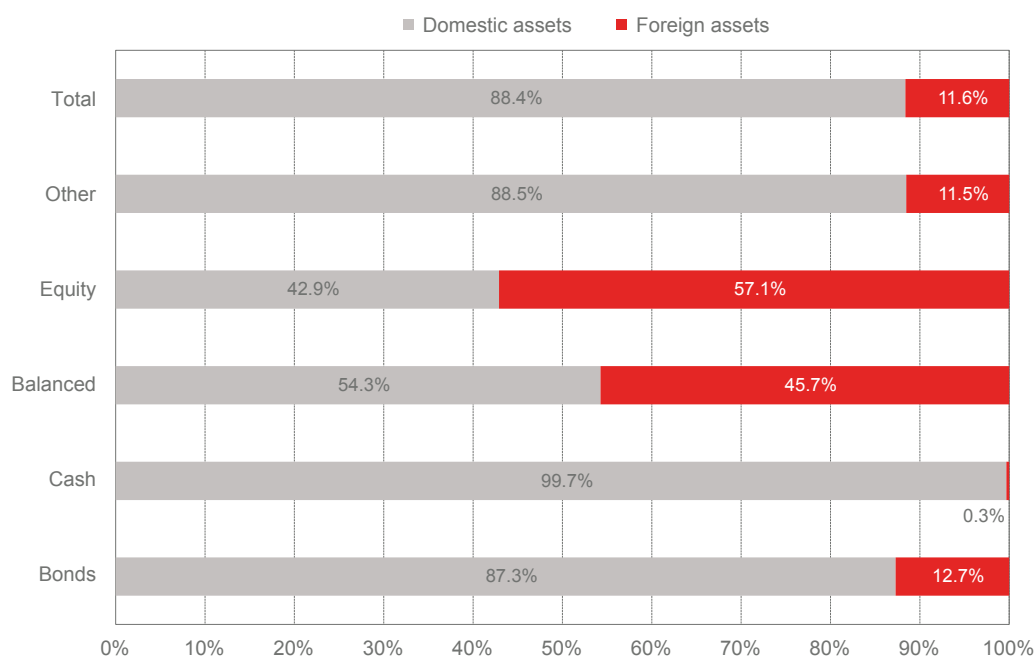
Chart 3.1 UCITS investment structure as at 31 December 2014 (in HRK thousand)



Source: Hanfa

As at 31 December 2014, the UCITS investment structure was dominated by investments in money market instruments totalling HRK 4.0bn, primarily as a result of investments of cash funds. UCITS investments in deposits amounted to HRK 3.7bn, also due to investments of cash funds. Cash funds were also the largest investors in bonds (HRK 1.1bn). Bond, balanced and „other funds“ invested in bonds to a lesser extent (with the portfolio of „other funds“ primarily being composed of bonds). Investments in shares were also a significant part of the total investment structure, accounting for HRK 1.8bn and primarily relating to investments of equity and balanced funds.

Chart 3.2 Share of domestic and foreign assets in UCITS net assets as at 31 December 2014



Source: Hanfa

At end-2014, the share of domestic assets in total net assets of UCITS reached 88.4%. Investments in foreign assets primarily related to investments in shares, bonds, equity and bond investment funds and in money market instruments. Equity funds' portfolios were dominated by investments in foreign assets (primarily by investments in shares and equity funds), namely in shares of issuers from Slovenia, USA, Serbia, Switzerland and France. Balanced funds invested heavily in foreign assets as well, primarily in shares, bonds and equity and bond funds, with the most significant investments being those in shares of issuers from USA, Serbia, Slovenia, Germany and Japan. Unlike equity and balanced funds, cash funds, bonds and UCITS classified as „other funds“ invested mostly in domestic assets. Cash funds invested significantly in money market instruments and deposits of Croatian credit institutions, whereas investments made by bond funds and “other funds” mostly related to government bonds.

3.1.3 Alternative Investment Funds

At end-2014, there were 28 registered AIFs in the Republic of Croatia, which is an increase compared to 2013. 2014 saw the establishment of two special types of AIFs with private offering (hedge funds) and of the first AIF with public offering. The number of venture capital AIFs with private offering remained the same as in 2013, as did the number of closed-ended AIFs with public offering.

Table 3.3 Comparison of the number of AIFs as at 31 December 2013 with that as at 31 December 2014

AIF	31 Dec 2013	31 Dec 2014
Private offering	22	23
basic	15	14
hedge (special types)	0	2
venture capital (special types)	2	2
venture capital - economic cooperation funds (special types)	5	5

AIF	31 Dec 2013	31 Dec 2014
Public offering	4	5
open-ended	0	1
closed-ended real estate	1	1
closed-ended	3	3
Total	26	28

Source: Hanfa

Table 3.4 Net assets of AIFs as at 31 December 2013 and 31 December 2014 (in HRK thousand)

AIF	31 Dec 2013	Share (%)	31 Dec 2014	Share (%)	Absolute change	Change (%)
Private offering	692,873	33.4	1,104,075	42.6	411,202	59.4
basic	221,821	10.7	236,761	9.1	14,939	6.7
hedge (special types)	-	-	8,400	0.3	-	-
venture capital (special types)	111,934	5.4	130,531	5.0	18,597	16.6
venture capital - economic cooperation funds (special types)	359,117	17.3	728,383	28.1	369,266	102.8
Public offering	1,382,933	66.6	1,490,679	57.5	107,747	7.8
open-ended	-	-	28,480	1.1	-	-
closed-ended real estate	1,254,868	60.5	1,343,368	51.8	88,499	7.1
closed-ended	128,064	6.2	118,831	4.6	-9,233	-7.2
Total	2,075,806	100.0	2,594,754	100.0	518,948	25.0

Source: Hanfa

The increase in net assets of AIFs was primarily a result of the increase in net assets of venture capital AIFs with private offering – economic cooperation funds.⁶⁴ Net assets of closed-ended AIFs with public offering also recorded a rise, which amounted to HRK 88.5bn. Net assets of basic AIFs with private offering rose by 6.7%, whereas net assets of closed-ended AIFs with public offering for real estate investments decreased, as did net assets of venture capital AIFs with private offering.^{65, 66}

3.1.4 Funds Established under Special Acts

In 2014, net assets of the Fund for Croatian Homeland War Veterans and Members of their Families recorded a HRK 222.1m decrease, primarily due to the impact of the market (HRK 176.1m) and, to a lesser extent, due to the redemption of units (HRK 46.0m).

In accordance with the Act on Open-Ended Investment Funds with Public Offering, public offering is a communication to persons in any form and by any means, presenting sufficient information on the terms of the offer and the securities to be offered, so as to enable an investor to decide to subscribe to these securities.

In accordance with the Alternative Investment Funds Act, private offering is a communication to persons in any form and by any means, presenting sufficient information on the terms of the offer and the securities to be offered, so as to enable an investor to decide to subscribe to these securities. Private offering is conditioned according to some of its characteristics, such as the minimum investment amount, target group of investors or the number of investors.

64 This data relates to unaudited data on net assets of venture capital alternative investment funds with private offering – economic cooperation funds.

65 This data relates to unaudited data on net assets of venture capital alternative investment funds with private offering.

66 Corrected data are available on p.192.

Table 3.5 Investment funds established under special acts as at 31 December 2013 and 31 December 2014 (net assets in HRK thousand)⁶⁷

Investment fund	Net assets 31 Dec 2013	Net assets 31 Dec 2014
Fund for Croatian Homeland War Veterans and Members of their Families	971,704	749,507
Retired Persons' Fund	193,393	190,673

Source: Hanfa

3.2 Hanfa's Regulatory Activities

3.2.1 Normative Activities

Amendments to the Act on Open-Ended Investment Funds with Public Offering and Amendments to the Alternative Investment Funds Act

Amendments to the Act on Open-Ended Investment Funds with Public Offering (Official Gazette 143/14) and Amendments to the Alternative Investment Funds Act (Official Gazette 143/14) transposed Directive 2013/14/EU⁶⁸ into the Croatian national law, bringing about changes in activities pursued by UCITS management companies: subject to the compliance with regulations governing these activities, the establishment and management of voluntary pension funds are now defined as the main business of UCITCS management companies, instead as their non-core activities. The definition of activities carried out by AIFMs also experienced certain changes: their non-core services now also include portfolio management and investment advice in relation to financial instruments under the provisions of the act governing the capital market, and safe-keeping and administration in relation to units of investment funds.

The global economic crisis has clearly shown that investors, but also UCITS management companies and AIFMs, were over-reliant on credit ratings issued by credit rating agencies. In their investment decision-making process, particularly in relation to debt financial instruments, a large number of fund management companies failed to make their own assessment of the creditworthiness of issuers, but based their investment decisions solely on credit ratings issued by credit rating agencies. Therefore, in order to align with the provisions of Directive 2013/14/EC, the said amendments included provisions stipulating that UCITS management companies and AIFMs must avoid over-reliance on credit ratings and need to establish, within the framework of their risk management process, a comprehensive and effective credit assessment procedure relating to issuers in which they intend to invest or already invest their assets or assets of the funds they manage, in order to protect investors and improve the quality of their investments.

Regulations adopted under the Act on Open-Ended Investment Funds with Public Offering and the Alternative Investment Funds Act

Pursuant to the AOEIF, in 2014 Hanfa adopted an ordinance prescribing the method for calculating the management company's own funds, characteristics of original own funds and additional own funds, features of items constituting own funds, deductible items and own funds limits, additional capital requirements for companies that, in addition to carrying out the activities of establishing and managing UCITS, also pursue the activities of establishing and managing AIFs and

⁶⁷ Net assets of the Retired Persons' Fund primarily consisted of the „other receivables“ item, i.e. assets not paid in, in respect of which the procedure relating to the confirmation of member status has not finished.

⁶⁸ Directive 2013/14/EU of the European Parliament and of the Council of 21 May 2013 amending Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision, Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) and Directive 2011/61/EU on Alternative Investment Funds Managers in respect of over-reliance on credit ratings, OJ L 145

voluntary pension funds and portfolio management activities, the company's preceding year's overheads taken into account in the calculation of capital adequacy, the content of the report on capital adequacy and the manner of and deadlines for its submission.⁶⁹

Pursuant to the AIFA, Hanfa adopted six ordinances prescribing in more detail:

- procedure, conditions and method relating to the delegation of AIF management activities
- procedure, conditions and method relating to the choice of the AIF's depositary and the documentation submitted along with the application for the issuance of approval for the choice of the depositary, the manner of and deadlines for the submission of information to Hanfa on irregularities in the AIFM's activities, the scope and content of the auditor's report relating to the depositary's duties, measures taken by the AIFM and depositary in cases where the depositary has lost its authorisation or where the AIFM has lost approval for the choice of the depositary
- conditions for and manner of receiving the application for the acquisition or redemption of units, including payment deadlines, duration of and conditions for the initial offer of units in open-ended AIFs, the process of and deadlines for the issuance and redemption of units in open-ended AIFs, suspension and continuation of the issuance and redemption of units in open-ended AIFs and conditions for the continuation of operation following the end of the suspension of the issuance and redemption, redemption "in specie", replacement of units in an open-ended AIF with public offering with units in another open-ended AIF with public offering managed by the same AIFM, conditions for payments in the AIF made in financial instruments, the establishment and management of open-ended AIFs, and publication of data from the register of units in open-ended AIFs
- conditions for and manner of establishing master and feeder AIFs, their investments and conduct of business
- procedure, costs and deadlines relating to the liquidation of the AIF, disclosures, notifications and reporting during the liquidation, manner of and conditions for the appointment of the liquidator, and conditions for and manner of termination, extension of duration and shortening of the duration of the AIF established for a defined period of time
- method for calculating the AIFM's own funds, characteristics of original own funds and additional own funds, features of items constituting own funds, deductible items and own funds limits, additional capital requirements for AIFMs that, in addition to carrying out the activities of establishing and managing AIFs, also pursue the activities of establishing and managing UCITS, the AIFM's preceding year's overheads taken into account in the calculation of its capital adequacy, the content of the report on capital adequacy and the manner of and deadlines for its submission.

In the previous year, Hanfa also adopted a series of amendments to existing ordinances regulating business activities of UCITS and AIFs.

Amendments to the ordinances governing organisational requirements for UCITS management companies oblige these companies to establish, where appropriate and proportionate to the nature, scale and complexity of their activities, the internal audit function, which must be independent of their other functions.

The obligation to assess risks relating to control activities carried out by the depositary and connected with the scope and complexity of the UCITS investment strategy was laid down in amendments to the ordinance regulating activities of the UCITS' depositary.

Amendments to the ordinance governing the activities of the UCITS' depositary and amendments to the ordinance governing the activities of the AIF's depositary provide more detailed provisions on the tasks of the depositary, including the audit of the depositary's obligations, and the content of and deadlines for the submission of audit reports to Hanfa.

⁶⁹ The list of ordinances adopted by Hanfa in 2014 is provided in the Appendix.

Amendments to the ordinance regulating the delegation of tasks of UCITS management companies oblige these companies to include a detailed description of their tasks delegated to a third party in the content of the contract on the delegation of tasks, define the content of internal acts of management companies in connection with the delegation of tasks, ensure the establishment of an appropriate risk management system relating to the delegation of tasks, oblige UCITS management companies to analyse risks and assess the impact of the delegation prior to making a decision on the delegation of tasks, and prescribe additional requirements for management companies when submitting the application to Hanfa for approval to delegate tasks to a third party.

Hanfa also amended the ordinances prescribing the structure and content of annual and half-yearly reports and other reports of UCITS and AIFs and the structure and content of annual and half-yearly financial statements and other reports of AIFMs, and providing more detailed provisions relating to the manner of access to the prescribed content of reports on realised profits (losses) from the sale of financial instruments of UCITS, unrealised profits (losses) and asset impairment and on holders of units in UCITS or AIFs, and to the content and form of reports on the structure of the AIFM's financial assets and liabilities.

The Act on the Fund of Croatian Homeland War Veterans and Members of their Families

During 2014, Hanfa participated in the working group in charge of drafting a new Act on the Fund of Croatian Homeland War Veterans and Members of their Families.

Participation in the work of EU institutions

During 2014, Hanfa actively participated in the activities of ESMA's⁷⁰ Investment Management Standing Committee by working on the advice to the European Commission, on technical standards and on guidelines and recommendations relating to the UCITS IV Directive⁷¹ and the AIFMD Directive⁷² and aiming to encourage supervisory convergence among national authorities in the field of investment management. Hanfa also participated in the preparation of ESMA's technical advice to the European Commission on delegated acts referred to in the UCITS V Directive⁷³.

In June 2013, the European Commission published a proposal for a new regulatory framework for investment funds intended for investors who wish to invest in long-term projects. The framework was published within the proposed ELTIF Regulation⁷⁴, expected to be adopted by the European Parliament in the first half of 2015. European Long-term Investment Funds (ELTIFs) are designed as long-term capital funds intended for financing industries such as energy, transport, communication infrastructure, industrial facilities, education, research and development, innovations in the field of ecology or welfare support. In the previous year, Hanfa actively participated in work of the working group of the Council of the European Union in charge of this issue.

In September 2013, the European Commission published a Proposal for a Regulation of the European Parliament and of the Council on Money Market Funds⁷⁵, which seeks to regulate business operations of the European UCITS and AIF money market funds. Hanfa representatives participated in the discussions on the proposal for the regulation through written comments on compromise proposals and other documents, and represented Croatian national interests at meetings

70 The European Securities and Markets Authority (ESMA) is described in more detail in Chapter 9.1.1 Participation in the Work of ESMA.

71 Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), OJ L 176

72 Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010, OJ L 174

73 Directive 2014/91/EU of the European Parliament and of the Council of 23 July 2014 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards depositary functions, remuneration policies and sanctions, OJ L 257/186

74 Regulation of the European Parliament and of the Council on European Long-term Investment Funds, 2013/0214 (COD)

75 Regulation of the European Parliament and of the Council on Money Market Funds, 2013/0306 (COD)

held at the Council of the European Union. A general approach on this regulation was not reached during the Italian presidency of the Council of the European Union, prolonging the discussions on this issue over the upcoming months.

Hanfa deems participation in these discussions extremely important, given the fact that as at 31 December 2014 (as shown in Table 3.2), the assets of UCITS money market funds amounted to HRK 9.18bn, accounting for more than 70% of the total net assets of UCITS in the Republic of Croatia.

3.2.2 Licensing

Management companies which, on the day of the entry into force of the AOEIF, had authorisation to manage investment funds and open-ended venture capital investment funds and managed open-ended investment funds with public offering, and whose authorisation had been entered in the register of companies and issued by Hanfa pursuant to the Investment Funds Act (Official Gazette 150/05), continued to operate as UCITS management companies on the basis of the existing authorisation. These companies were obliged to comply with the provisions the AOEIF relating to the initial capital, own funds, bodies and organisational requirements of UCITS management companies. They were also subject to the obligation to submit to Hanfa the Report on the compliance with the AOEIF, which they fulfilled within the prescribed deadline.

Management companies which, on the day of the entry into force of the AIFA, had authorisation to manage investment funds and open-ended venture capital investment funds and managed closed-ended investment funds with public offering and/or open-ended investment funds with private offering and/or open-ended venture capital investment funds with private offering, and whose approval had been entered in the register of companies and issued by Hanfa pursuant to the Investment Funds Act, continued to operate as AIFMs on the basis of the existing authorisation. These companies were obliged to align their operations with the provisions of the AOEIF and the relevant ordinances within 12 months after the entry into force of the AOEIF. They were also subject to the obligation to submit to Hanfa, within the same time period, the application for the issuance of authorisation of the AIFM and AIFs they manage and the application for the issuance of approval for the acquisition of a qualifying holding in the AIFM, for the AIFM's management board members, for the AIF's rules and for the selection of the AIF's depository, which they fulfilled within the prescribed deadline.

The entry into force of the AOEIF and of the AIFA was followed by intensive work related to the alignment of activities of UCITS management companies and AIFMs with the new legislation. This involved detailed study of the documentation relating to the approval for UCITS rules, authorisation of AIFMs, approval for the acquisition of a qualifying holding in the AIFM, authorisation of AIFs, approval for the selection of the AIF's depository and approval for the AIF's rules. A significant number of licensing procedures was also related to the issuance of approval for management board members of UCITS management companies and AIFMs.

Hanfa successfully cooperated with domestic and international institutions and with supervisory and regulatory authorities with respect to the development and implementation of new analytical and supervisory techniques, exchange of experiences and the improvement and harmonisation of regulations.

Table 3.6 Comparison of the number of cases relating to licensing procedures with respect to the operation of investment fund management companies in 2013 with that in 2014

Licensing procedures	2013	2014
Authorisation for operation of UAIF (compliance with the provisions of ZAIF)	0	12
The extension of the operating license for performing the activities of establishing and managing alternative investment funds	0	1
Withdrawn authorisations from management companies	1	1
Authorisation for establishment and operation of the fund 3 15	3	15
Authorisation for establishment and operation of AIF (compliance with the provisions of ZAIF)	0	11
Approval for selection of a depositary bank	5	27
Approval for change of the depositary bank	3	4
Approval of Agreement with the depositary bank	0	19
Liquidation of funds	4	5
Deletion of funds that have not started to work from the register of funds	0	7
Merger/acquisition of funds	8	2
Approval to carry out the functions of a management member	15	43
Approval of the prospectus and prospectus amendments	23	27
Approval of the rules of the fund	53	55
Approval of statutes and amendments to the statute	7	0
Advertising content	3	9
Approval of ordinances on conflict of interest	1	0
Approval for delegating tasks to a third party	3	15
Approval for the acquisition of a qualifying holding in the management company	1	15
Approval on the company's status change (merger)	0	2
Granting exemptions from the application of the provisions of Article 7 of the Ordinance on the organizational requirements for UCITS management companies	0	6
Approval for the retail offering of shares/units of AIFs	0	1
Approval for the transfer of operations of fund management	0	1

Source: Hanfa

In 2014, Hanfa received a total of 27 notifications from competent authorities of other Member States relating to the intention of their supervised entities to conduct cross-border marketing of units of investment funds or to carry out management activities, with 26 notifications relating to AIFs and one to UCITS. Hanfa published a list on its website of financial service providers from other Member States notified for provision of services in the Republic of Croatia in accordance with the procedure prescribed by law. In 2013 and 2014 Hanfa received a total of 30 notifications relating to cross-border marketing of units of investment funds or to investment fund management activities.

Over the previous year, Hanfa submitted to ESMA quarterly reports on AIFMs pursuing activities of AIFMs in the Republic of Croatia. It also provided information on the types of AIFs allowed to be marketed to retail investors in the Republic of Croatia and on additional requirements relating to the marketing units of AIFs

Notification is a procedure during which Hanfa receives information from the competent authority of another Member State of the European Union of the intention of a UCITS management company or AIFM from the other Member State to trade, in the Republic of Croatia, in units of UCITS or AIFs established in the Member State, or to provide services, directly or through a branch, referred to in Article 13 of the Act on Open-Ended Investment Funds with Public Offering or Article 13 of the Alternative Investment Funds Act in the Republic of Croatia. On its website, Hanfa publishes the list of the UCITS management companies and AIFMs from other Member States in respect of which it has received, in accordance with the prescribed

to retail investors, including the fact that the AIFs whose units are allowed to be marketed to retail investors are governed by the rules on key investor information referred to in Articles 78 to 81 of the UCITS IV Directive⁷⁶, and information on the value of assets of AIFs in the Republic of Croatia that may be marketed to retail investors as at 31 December 2013.

3.2.3 Supervision

3.2.3.1 On-Site Supervision

The entry into force, on 1 July 2013, of the AOEIF, AIFA and related new regulations regulating activities of UCITS management companies and AIFMs in much more detail, was followed by the expiration of the prescribed deadlines (1 July 2014) for these companies to align with the provisions of the said acts governing organisational requirements. After this date, Hanfa initiated 12 on-site examinations of management companies, which focused on their organisational requirements, namely investment processes and investments of fund assets, internal control mechanisms, including risk management function, compliance function and internal audit function, and handling of conflicts of interest and personal transactions. In line with the risk-based supervisory approach applied by Hanfa, the examinations included interviews with managers of UCITS management companies and AIFMs, which provided a clear insight into the business organisation and allocation of responsibilities in the companies, human and technical resources and the business environment. This fusion of quantitative and qualitative indicators helped improve the existing risk-based supervisory model, which is an important tool for timely recognition of critical segments of business operations of individual companies or systemically important events and for focusing supervisory activities on these elements in order to prevent the materialisation of identified risks or to reduce the impact of those risks.

Nine examinations of UCITS management companies and AIFMs were completed, resulting in the adoption of two decisions ordering the companies to eliminate illegalities and irregularities established. More precisely, the companies were ordered to establish risk management procedures in accordance with the AOEIF, to establish a compliance function pursuant to the Ordinance on organisational requirements for UCITS management companies (Official Gazette 85/13 and 31/14) and the AIFM Regulation⁷⁷, and to prepare, adopt and apply internal policies and procedures in accordance with the General Administrative Procedure Act (Official Gazette 47/09). The companies complied with the issued decisions and eliminated the deficiencies identified during the examinations.

3.2.3.2 Off-Site Supervision

Off-site supervision of investment funds and investment fund management companies involved the analysis of daily and periodic reports on business operations of investment funds and investment fund management companies, the analysis annual financial statements of investment fund management companies and investment funds audited by an independent certified auditor, and

a notification of their intention to provide services in the Republic of Croatia, the list of their branches established in the Republic of Croatia (where they have been established), the list of services they intend to provide in the Republic of Croatia and the list of UCITS and/or AIFs that they market.

Hanfa is responsible for the supervision of UCITS management companies and AIFMs from other Member States with respect to services and activities they directly provide and perform in the Republic of Croatia, of their branches established in the Republic of Croatia, and of trade in units of UCITS and AIFs from other Member States in the Republic of Croatia, in accordance with the Act on Open-Ended Investment Funds with Public Offering and Alternative Investment Funds Act.

76 Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), OJ L 176

77 Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision, OJ L 83

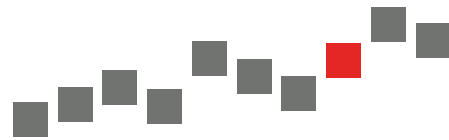
the analysis of other information collected from supervised entities. The objective of the analyses was to verify whether supervised entities aligned with the provisions of the AOEIF, AIFA, related subordinate regulations and their own internal documents, prospectuses and rules of certain investment funds.

In 2014, off-site examinations were primarily focused on the verification of the alignment of investments of investment fund assets with investment restrictions, on the valuation of assets in investment fund portfolios, on the disclosure of information to investors on web sites of investment fund management companies and in regular reports of investment funds, and on the capital adequacy of investment fund management companies. Hanfa's supervisory activities also related to the preparation of periodic and ad hoc reports on the current situation in the fund industry and on capital markets in general and qualitative and quantitative assessment of risks related to business operations of investment funds and investment fund management companies.

The off-site examinations also involved the assessment of the financial stability of supervised entities, verification of the appropriateness of accounting policies of investment fund management companies and investment funds and changes in prospectuses of investment funds, and the verification of the calculation of charges.

Following illegalities and irregularities established in the off-site examinations, eight reports were prepared, based on which Hanfa adopted two decisions ordering the elimination of these illegalities and irregularities. Other illegalities and irregularities were found to have been eliminated by the companies upon the reception of the reports.





Pillar 2 and Pillar 3 Pensions and Pension Payments



4 Pillar 2 and Pillar 3 Pensions and Pension Payments

4.1 Market Overview

The most significant event in the pension insurance system based on individual capitalised savings in 2014 was the entry into force of new regulations forming two separate legislative frameworks (relating to mandatory and voluntary pension funds) and replacing the existing single legislative framework governing this area.

The mandatory and voluntary pension insurance market has been rising since the beginning of the pension reform in the Republic Croatia in 1999. As at 31 December 2014, total net assets of mandatory and voluntary pension funds amounted to almost HRK 70bn.

4.1.1 Mandatory Pension Funds

There are four mandatory pension companies operating in the Republic of Croatia. Two of them are directly owned by non-residents, one is indirectly owned by non-residents, while one company is half directly owned by residents and half indirectly owned by non-residents^{78,79}. Each company manages mandatory pension funds belonging to the category A, B and C⁸⁰ each.

The Croatian pension insurance system based on individual capitalised savings, i.e. the establishment and management of mandatory and voluntary pension funds (known as pension insurance pillar 2 and 3) is regulated by the Mandatory Pension Funds Act and Voluntary Pension Funds Act, which entered into force in February 2014, repealing the Mandatory and Voluntary Pension Funds Act.

Mandatory pension fund is a fund established, on the basis of Hanfa's authorization, by the mandatory pension company and managed by it in the name of the company and for the joint account of the fund's members, in accordance with the Mandatory Pension Funds Act. A mandatory pension fund may belong to one of the categories A, B or C, which differ with respect to the duration of the fund membership until the retirement of the member, and consequently with respect to investment strategies regarding the risks taken, with the lowest risks pertaining to funds belonging to category C and the highest risks to funds belonging to category A.

Voluntary pension fund is a fund established, on the basis of Hanfa's authorisation, by the voluntary pension company, mandatory pension company or UCITS management company and managed by any of these companies in its own name and for the joint account of the fund's members. A voluntary pension fund may be of an open-ended type, with its membership being open to any natural person under the Voluntary Pension Funds Act, or of a closed-ended type consisting of natural persons employed with an employer, or members of trade unions, or members of associations of self-employed persons or self-employed persons.

78 All mandatory pension companies are registered and have their registered offices in the Republic of Croatia.

79 The list of Hanfa's supervised entities is available at www.hanfa.hr.

80 New pension fund categories (A, B and C) are described in more detail in Chapter 4.2.1 Normative Activities.

Table 4.1 Mandatory pension fund (OMF) membership

OMF membership	A	B	C	Total
Balance as at 31 Dec 2013	-	1,702,218	-	1,702,218
First registrations	124	1,075	58	1,257
Subsequently completed registrations	0	1,061	0	1,061
Allocation by REGOS	0	40,409	0	40,409
Total number of new members	124	42,545	58	42,727
Transfers to another OMF of the same category	27	11	2,106	2,144
Transfers from other OMF of the same category	11	2,133	0	2,144
Net change	-16	2,122	-2,106	0
Transfers to another OMF	2	733	0	735
Transfers from other OMFs	2	733	0	735
Total termination of membership	0	38,766	459	39,225
Balance as at 31 Dec 2014	4,827	1,685,594	15,299	1,705,720
Annual change (u %)	-	-1.0	-	0.2

Source: REGOS

The number of mandatory pension fund members continued to rise in 2014, at a 0.2% rate compared to 2013. Data from the Central Register of Insured Persons (REGOS) reveal that mandatory pension fund members were still quite reluctant to participate in the selection of a mandatory pension fund they entrust their assets: out of 42,727 new mandatory pension fund members recorded in 2014, only 2,318 selected their mandatory pension funds themselves. 2014 saw a total of 39,225 mandatory fund members terminate their membership, i.e. close their accounts in mandatory pension funds. Out of this number 30,304 closed accounts were accounts of members whose pension entitlements are regulated by a special regulation governing pension entitlements of active military personnel, police officers and authorised officials, or whose pension is defined by this regulation. In accordance with Article 100 paragraphs 4 and 5 of the Mandatory Pension Funds Act (Official Gazette 19/14), which entered into force on 20 February 2014, total capitalised assets from their personal pension fund accounts were transferred to the state budget. After they have acquired their pension rights, the Croatian Pension Insurance Institute will calculate their annuities as if they had been insured within the mandatory pension insurance scheme based on inter-generational solidarity system only.

Table 4.2 Net assets of mandatory pension funds as at 31 December 2013 and 31 December 2014 (in HRK thousand)

	31 Dec 2013	31 Dec 2014	Change (%)
OMF - Category A	-	353,517	-
OMF - Category B	58,237,703	64,351,054	10.5
OMF - Category C	-	1,576,982	-
Total	58,237,703	66,281,554	13.8

Source: Hanfa

As at 31 December 2014, mandatory pension funds' total net assets amounted to HRK 66.3bn, increasing by HRK 8.0bn compared to 2013, with the HRK 4.6bn increase (56.8%) being due to net payments of members, and the HRK 3.5 bn increase (43.2%) being the result of returns achieved by mandatory pension funds.⁸¹

Table 4.3 Payment of contributions to mandatory pension funds in 2014 (in HRK thousand)⁸²

OMF categories	A	B	C	Total
Net contributions	10,093	4,827,214	29,902	4,867,209
Payments from other OMFs	329,120	44,154	1,547,237	1,920,511
Disbursements to other OMFs	1,206	1,919,308	0	1,920,514
Disbursements of funds upon adjustments	7	3,502	11	3,521
Disbursements of funds upon the closure of personal accounts	0	3,324,876	39,416	3,364,292

Source: REGOS

A total of HRK 4.9bn was paid into personal accounts of mandatory pension fund members, while HRK 294.9m was paid out upon the closing of personal accounts of mandatory pension fund members.⁸³

Table 4.4 Values of accounting units and rates of return of mandatory pension funds

	Value of accounting units		Mandatory pension funds' rates of return	
	31 Dec 2013	31 Dec 2014	2014	Annualised rates of return since the beginning of operation
MIREX Category A *	-	104.6	4.6	-
MIREX Category B	184.7	205.7	11.4	5.9
MIREX Category C *	-	102.9	2.9	-

* The performance of category A MIREX and category C MIREX in 2014 is shown as of the start of business operations of mandatory pension funds belonging to categories A and C (21 August 2014).

Source: Hanfa

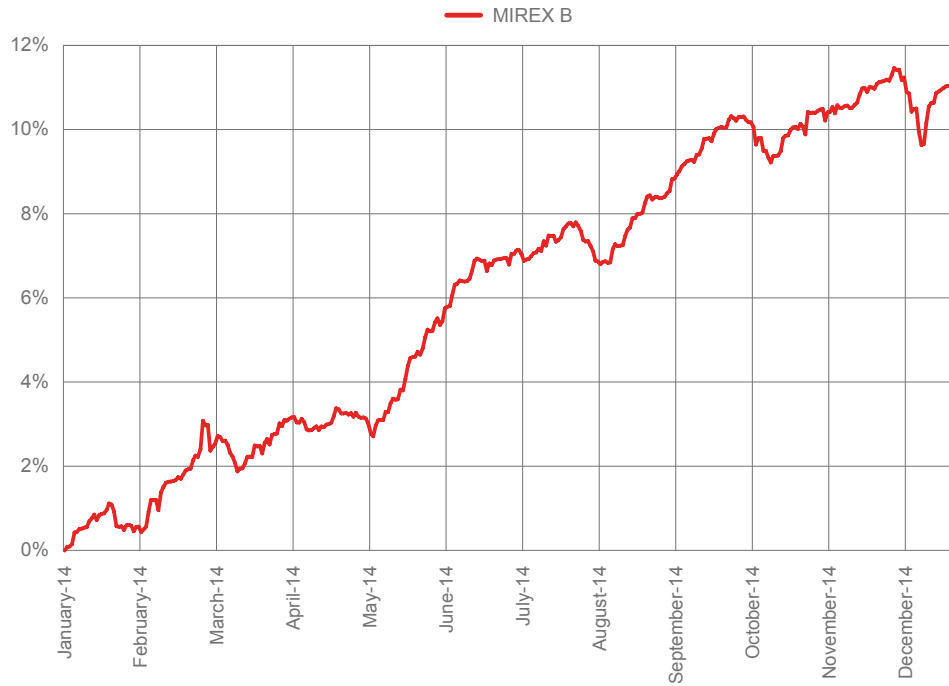
Unlike in 2013, when the average weighted value of accounting units (the MIREX index) was calculated on the basis of the value of accounting units of four mandatory pension funds, in 2014 the MIREX index was calculated for each of the category A, B and C of mandatory pension funds. Taking account of the fact that the existing mandatory pension funds, which began operating in 2002, became category B mandatory pension funds in August 2014, the category B MIREX index was calculated as of the beginning of the year, while category A and C MIREX indices were calculated as of the beginning of operation of mandatory pension funds belonging to these categories. At end-2014, the category B MIREX index stood at as much as 11.4%, with rates of return of category B mandatory pension funds ranging between 10.1% and 12.4%. The category A MIREX index reached 4.6%, and the category C MIREX index totalled 2.9%. Category A mandatory pension funds recorded rates of return ranging from 4.1% to 6.4%, while category C mandatory pension funds recorded rates of return ranging between 1.8% and 4.2%.

81 Corrected data are available on p.193.

82 Corrected data are available on p.193.

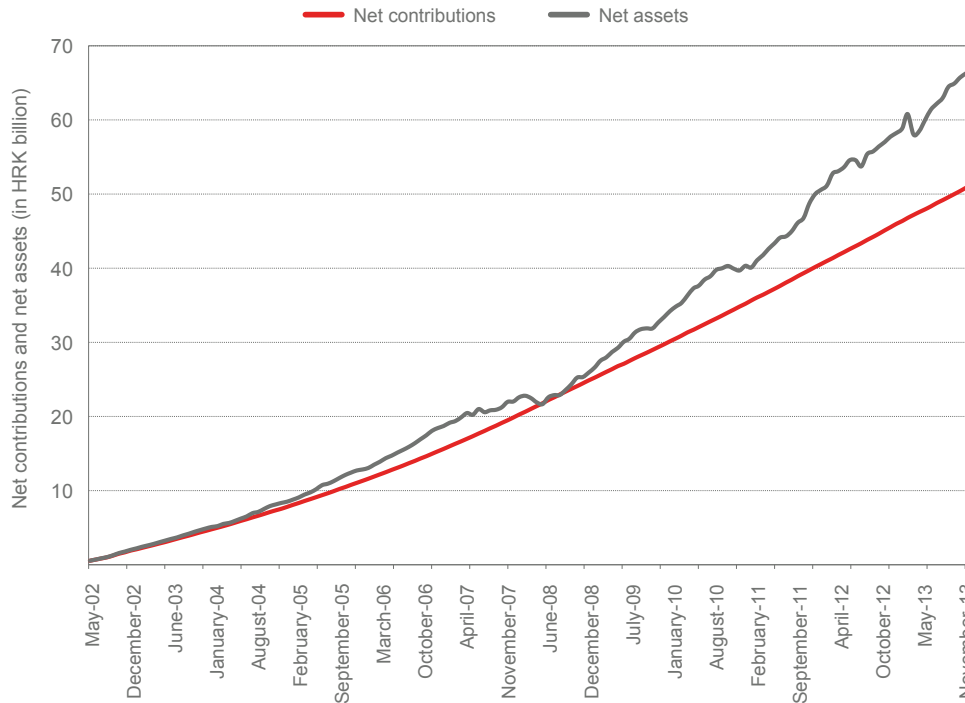
83 Corrected data are available on p.193.

Chart 4.1 Values of the MIREX B index in 2014⁸⁴



Source: Hanfa

Chart 4.2. Net contributions to mandatory pension funds and net assets of mandatory pension funds

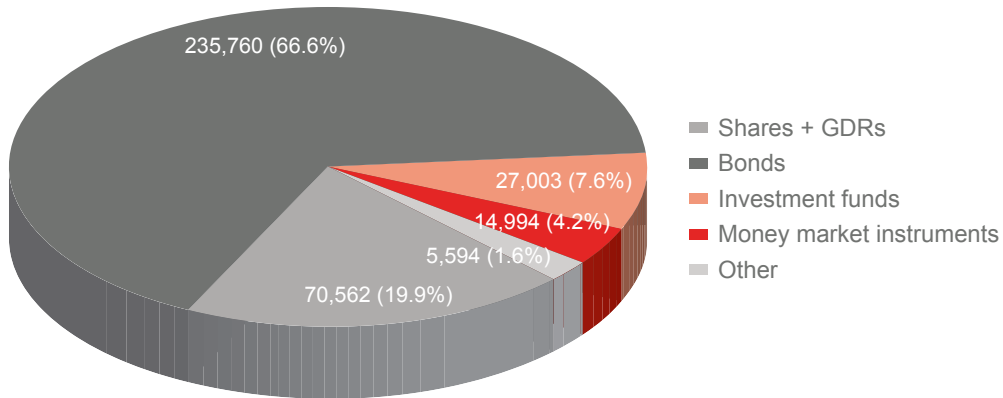


84 Changes in category A and C MIREX indices is not presented in the chart due to a short time period since the beginning of operation of category A and C mandatory pension funds (21 August 2014).

Source: Hanfa

Since the beginning of 2002, net assets of mandatory pension funds have been increasing steadily, due to continued payments of mandatory pension fund members and achieved returns.

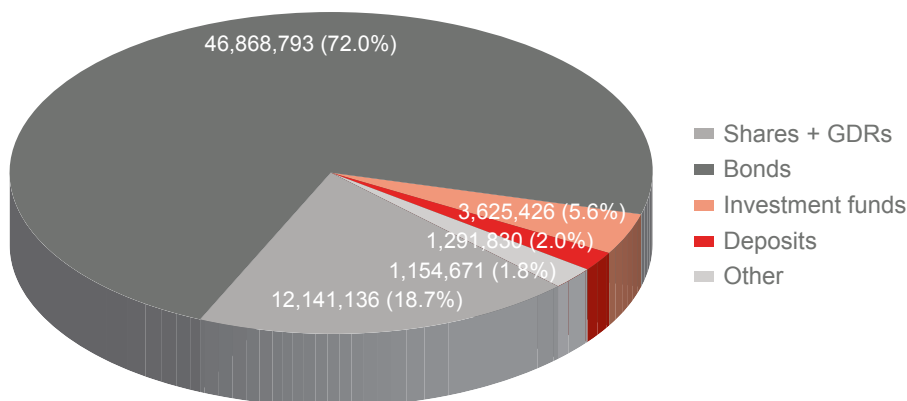
Chart 4.3 Investment structure of category A mandatory pension funds in 2014 (in HRK thousand)



Source: Hanfa

As at 31 December 2014, the largest part (96.2%) of total bond investments made by category A mandatory pension funds was related to investments in domestic government bonds. A significant part of their investments was also accounted for by investments in shares, with shares of issuers from the Republic of Croatia making up 53.0% of these investments, and the remaining shares being mostly those of issuers from the United States of America (20.0%) and Slovenia (13.0%). In addition to these investments, assets of category A mandatory pension funds were also invested in investment funds and money market instruments. The largest part of investments in investment funds was related to investments in foreign equity (95.0%) and to a lesser extent to domestic cash UCITS (5.0%), while investments in money market instruments were related solely to treasury bills of the Ministry of Finance.

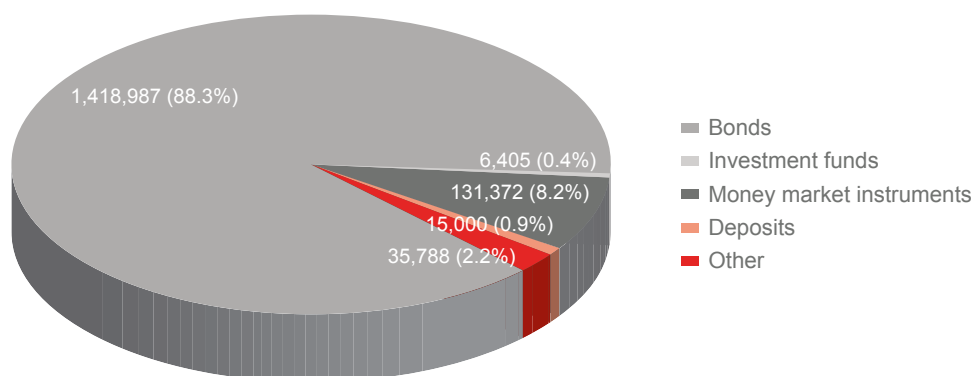
Chart 4.4 Investment structure of category B mandatory pension funds in 2014 (in HRK thousand)



Source: Hanfa

Total investments of category B mandatory pension funds were also primarily related to bond investments, first of all to domestic government bond investments (97.8%). In addition to this, a significant share of total assets of category B mandatory pension funds was invested in shares, with shares of issuers from the Republic of Croatia accounting for 56.0%, and the remaining shares being mostly those of issuers from Slovenia (14.0%) and the United States of America (11.0%). Apart from these investments, assets of category B mandatory pension funds were also invested in investment funds, primarily in foreign equity investment funds (78.0%), domestic equity and cash UCITS (17.0%) and to a lesser extent in domestic AIFs (5.0%).

Chart 4.5 Investment structure of category C mandatory pension funds in 2014 (in HRK thousand)



Source: Hanfa

Category C mandatory pension fund investments were mainly accounted for by bond investments, first of all by domestic government bond investments (96.8%). A small share of total bond investments (3.2%) was related to domestic municipal and corporate bonds and foreign bonds. Category C mandatory pension funds also invested their assets in treasury bills, deposits of credit institutions and domestic cash UCITS.

4.1.2 Voluntary Pension Funds

Voluntary pension companies manage a total of six open-ended voluntary pension funds and 16 closed-ended voluntary pension funds. There are four voluntary pension companies operating in the Republic of Croatia. Two of them are directly owned by non-residents, one is indirectly owned by non-residents, while one company is in direct resident ownership⁸⁵.

Voluntary pension fund members are given government incentives for their investments, amounting to 15% of the amount paid over one calendar year, up to a maximum of HRK 750 per fund member, irrespective of whether the person is a member of one or more voluntary pension funds.

The number of members of open-ended voluntary pension funds continued to rise in 2014. Gross contributions of their members also grew, by 22.4% compared to 2013, as did their net assets, by 20.1% compared to the previous year. All open-ended voluntary pension funds recorded positive returns in 2014, ranging between 8.2% and 13.2%.

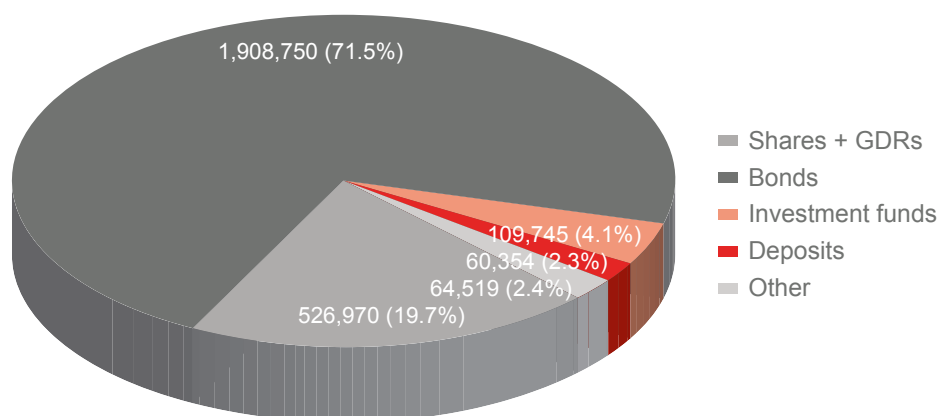
85 All voluntary pension companies are registered and have their registered offices in the Republic of Croatia.

Table 4.5 Key indicators for open-ended voluntary pension funds (ODMFs)

Data	31 Dec 2013	31 Dec 2014	Change (%)
Total membership of ODMFs	204,546	220,527	7.8
Total contributions to ODMFs (in HRK thousand)	292,058	357,339	22.4
Total assets of ODMFs (in HRK thousand)	2,208,117	2,651,987	20.1

Source: Hanfa

Chart 4.6 Investment structure of ODMFs in 2014 (in HRK thousand)



Source: Hanfa

At the end of 2014, total investments of open-ended voluntary pension funds mainly consisted of investments in bonds, primarily of investments in domestic government bonds (96.0%). Share investments also made up a significant part of investments of these funds and were mostly made in shares of issuers from the Republic of Croatia (59.0%) and in shares of issuers from Slovenia (14.0%), the United States of America (10.0%) and Israel (10.0%). Open-ended voluntary pension funds invested their assets also in investment funds and deposits of credit institutions. Investments in investment funds were mainly related to foreign equity investment funds (87.0%) and domestic equity and cash UCITS (13.0%). Domestic investments were related to investments in deposits of credit institutions.

Table 4.6 Key indicators for closed-ended voluntary pension funds (ZDMFs)

Data	31 Dec 2013	31 Dec 2014	Change (%)
Total membership of ZDMFs	22,685	23,927	5.5
Total contributions to ZDMFs (in HRK thousand)	82,535	86,400	4.7
Total assets of ZDMFs (in HRK thousand)	494,615	596,188	20.5

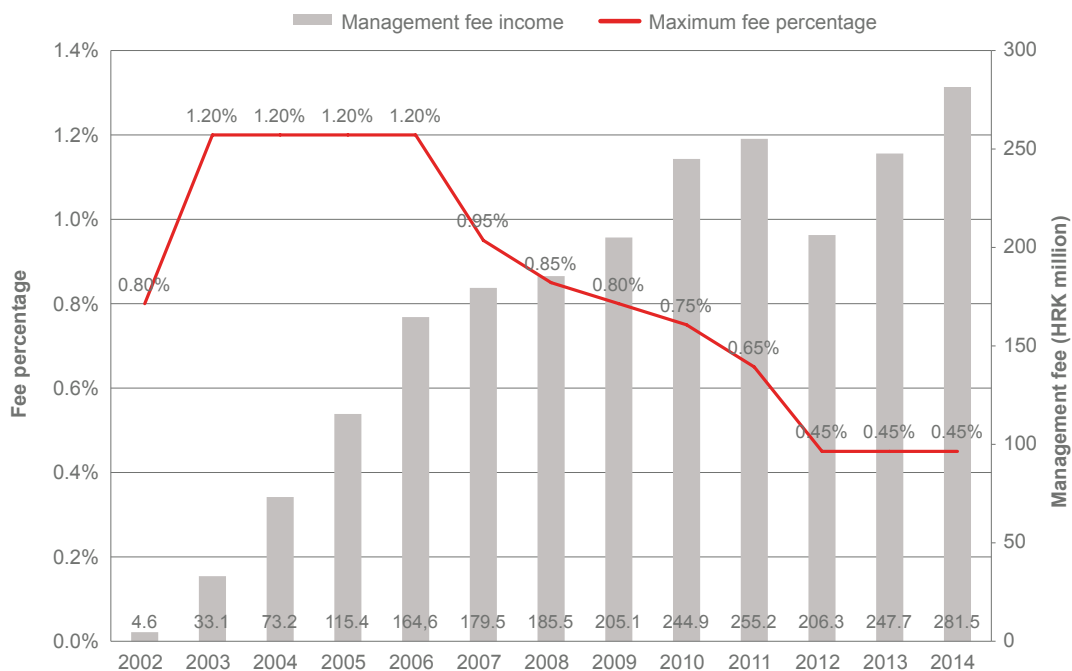
Source: Hanfa

In 2014, the number of members of closed-ended voluntary pension funds continued to rise (by 5.5% compared to 2013), as did their net assets (by 20.5% compared to 2013). Total gross contributions of closed-ended voluntary pension fund members increased by 3.9 m, while the funds recorded rates of return ranging from 7.4% to 12.9%.

4.1.3 Mandatory and Voluntary Pension Companies

In 2014, mandatory and voluntary pension companies achieved an after-tax profit in the amount of HRK 164.7m, up by 14.0% relative to 2013. Income from mandatory and voluntary pension fund management increased by 13.5%, while total assets of mandatory and voluntary pension funds grew by 14.4%. The largest share in total assets was accounted for by financial assets (86.0%), while the largest share in total liabilities was made up of capital and reserves (92.4%).⁸⁶

Chart 4.7 Mandatory pension fund management fee



Source: Hanfa

4.1.4 Pension Insurance Companies

There is one pension insurance company operating in the Republic of Croatia, established under the Act on Pension Insurance Companies and Payment of Pension Annuities Based on Individual Capitalised Savings (Official Gazette 106/99, 63/00, 107/07 and 114/11), which had been in force until 27 February 2014. The year 2014 saw the adoption of a new act, namely the Act on Pension Insurance Companies (Official Gazette 22/14), which obliged the pension insurance company to align its business operations with the provisions of that act within one year after its entry into force.

According to the Statement of financial position⁸⁷, as at 31 December 2014 the value of total assets of the pension insurance company reached HRK 412.7m, increasing by HRK 80.6m or 24.3% compared to 2013. This was primarily a result of increased investments, which accounted for 94.8% of total assets and grew by HRK 80.6m in comparison with the previous year, mainly due to an inflow of funds based on new retirement agreements concluded in 2014.

⁸⁶ The Statement of financial position and the Statement of comprehensive income of mandatory and voluntary pension companies are provided in the Appendix.

⁸⁷ Financial statements of the pension insurance company are provided in the Appendix (Tables A3 and A4).

As at 31 December 2014, technical provisions amounted to HRK 353.2m and accounted for 85.6% of the pension insurance company's liabilities. Technical reserves are formed separately for mandatory and voluntary pension insurance. Technical provisions of voluntary pension insurance totalled HRK 331.8m, while assets covering technical provisions of voluntary pension insurance amounted to HRK 351.8m, with the excess of assets over the provisions reaching HRK 20.0m. Technical provisions of mandatory pension insurance stood at HRK 21.4m, while assets covering technical provisions of mandatory pension insurance amounted to HRK 25.9m, with the excess of assets over the provisions totalling HRK 4.5m. Capital and reserves reached HRK 37.5m, increasing compared to 2013 due to an increase in the initial capital.

Technical provisions are formed from remittances and lump sum payments of persons made into the account of the pension insurance company. Considering that these assets are intended for covering current and future liabilities under pension contracts, the pension insurance company is obliged to invest them in the best interest of pension beneficiaries, taking into account statutory principles and investment restrictions.

In the period from 1 January 2014 to 31 December 2014, the pension insurance company recorded an after-tax profit totalling HRK 3.0m. Total income amounted to HRK 212.4m, growing by HRK 34.1m relative to in 2013, mainly due to a growth in income from investments of voluntary pension insurance assets and in income from payments of pension companies. The income structure was dominated by income from payments of pension companies and direct lump-sum payments from voluntary pension insurance (72.48%).

Total expenses amounted to HRK 208.7m, increasing by HRK 33.7m compared to 2013. The most significant part of the expenses (89.5%) was accounted for by expenses arising from voluntary pension insurance contracts, of which HRK 115.9m was made up of payments from voluntary pension insurance, and HRK 70.8m of changes in technical provisions. Total expenses recorded in 2014 were mostly caused by an increase in expenses arising from voluntary pension insurance contracts.

As at 31 December 2014, the total number of pension contracts reached 15,428, of which 15,333 contracts were related to voluntary pension insurance (pension pillar 3 and direct lump-sum payments), and 95 contracts to mandatory pension insurance (pension pillar 2). The number of contracts grew by 1,315 relative to 2013. At end-2014, the total number of beneficiaries stood at 14,801, of which there were 14,705 voluntary pension insurance beneficiaries and 96 mandatory pension insurance beneficiaries.

4.2 Hanfa's Regulatory Activities

4.2.1 Normative Activities

Mandatory Pension Funds Act and Voluntary Pension Funds Act

Years-long implementation of the Mandatory and Voluntary Pension Funds Act (Official Gazette 49/99, 63/00, 103/03, 177/04, 71/07, 124/10, 114/11 and 51/13), changes observed in the pension insurance system based on individual capitalised savings, and developments in the industry have pointed to the need to regulate the two existing individual capitalised savings systems (mandatory and voluntary) by two separate acts, in order to enable further development and improvement of the individual capitalised savings system, and consequently the future social security of insured persons.

The Mandatory Pension Funds Act and the Voluntary Pension Funds Act (Official Gazette 19/14) provided precise provisions on terms and conditions for the establishment and termination of operation of pension funds and pension companies, their organisational structure, initial capital and diversification of investments of members' assets. They also regulated in detail the manner of funding pension companies, audit of and reporting on their work, and the promotion of pension

funds and relations with their members, including the obligation to establish procedures regarding members' complaints.

Provisions of the new acts placed special emphasis on stringent organisational requirements of the pension company, to be met through decision-making processes, organisational structure and business organisation that ensure a continuous investment process and a comprehensive risk management system, internal control mechanisms, internal reporting procedures, records of business operations and internal organisation and all internal acts, policies and procedures aimed at continuous professional training of employees, administrative and accounting procedures and processes, measures and procedures for monitoring and protection of IT systems and electronic data processing, measures and procedures for the continuous preservation of security, integrity and confidentiality of data, as well as policies, measures and procedures ensuring business continuity. Pension companies are obliged to establish, within their organisational structure, at least a risk management function, compliance function and internal audit function, while pension companies that manage mandatory pension funds also need to establish organisational units for asset management and financial markets analysis, legal support and administrative and accounting support.

The existing mandatory pension insurance system based on individual capitalised savings witnessed the introduction of three new categories of pension funds (A, B and C), managed by the same pension company and differing, with respect to retirement period of their members, in asset investment restrictions and investment strategy.

The category A pension fund is more exposed to equity markets, investments in which are expected to generate higher returns on a long-term basis compared to returns achieved by investments in bonds, with higher risks pertaining to such investments. This type of investments is more appropriate for younger pension fund members, given the longer periods of time remaining until their retirement. The category B pension fund is intended for the widest group of the insured, with average risk appetite with respect to investment restrictions and investment strategy, and are expected achieve returns equal to those of the existing mandatory pension funds. Legal restrictions make the category C pension fund a conservative fund, with the risk profile lower than that of the category A and B funds, and with less risk-prone members or members having less than five years until their retirement.

The Mandatory Pension Funds Act brought about certain changes as regards restrictions on investments of pension funds, primarily by allowing specific investments in securities used for financing or securitization of infrastructure projects in the Republic of Croatia. The act contains more precise rules relating to financial derivatives that may be used by pension companies in their own name and on behalf of the pension fund for the purpose of hedging assets and managing assets and liabilities of the pension fund, including rules on exposure limitations and on the use of methods for valuating financial derivatives.

The new legislation also introduced significant changes to the institutional framework, in particular by allowing pension companies that had only been permitted, until then, to manage mandatory pension funds to carry out activities relating to the establishment and management of voluntary pension funds, provided they have met additional organisational and capital requirements. This enabled pension companies to perform certain activities at lower costs and reduced administrative burdens. In addition to establishing and managing voluntary pension funds, the provisions of the Voluntary Pension Funds Act allowed voluntary pension companies to establish and manage UCITS as well.

Regulations adopted under the Mandatory Pension Funds Act and Voluntary Pension Funds Act

The adoption and entry into force of the Mandatory Pension Funds Act and Voluntary Pension Funds Act was accompanied by the adoption of 38 ordinances⁸⁸ on the part of Hanfa, laying down in more detail:

- terms and conditions for the establishment and operation of pension funds and pension companies
- contents of the pension fund's statute and the pension fund's informative prospectus
- permitted investments and additional investment restrictions for pension funds
- marketing and information for pension fund members
- contents and method of keeping the register of pension companies and pension funds
- form and amount of capital of pension companies
- status changes of pension companies
- requirements for membership of management and supervisory boards of pension companies
- delegation of pension fund management tasks
- organisational requirements for pension companies
- manner of submission and the structure of financial statements and other reports of pension companies and pension funds
- method of determining net asset value and the value of the accounting unit, i.e. unit in the pension fund
- method and deadlines for calculating the guaranteed return of mandatory pension funds
- procedure for compensating pension fund members and/or pension funds
- business activities of the depositary, terms and conditions for and manner of the selection of the depositary and revocation of approval granted for the selection of the depositary
- terms and conditions for offering voluntary pension insurance schemes based on individual capitalised savings
- terms and conditions for acquiring rights to a pension on the basis of voluntary pension insurance, the establishment and maintenance of the register of members and the suspension of payments to and from a voluntary pension fund
- contents and duration of the educational programme, requirements for taking the examination and contents of the examination for the certified pension fund manager
- treatment of mandatory pension fund members by REGOS and pension companies.

Participation in the activities of EU institutions

As part of its regular activities, Hanfa continuously participated in EIOPA activities⁸⁹ and provided information on business operations of closed-ended voluntary pension funds in the Republic of Croatia. Hanfa's employees participated in the work of the Occupational Pensions Committee, responsible for the drafting of technical standards of certain parts of the IORP Directive⁹⁰ and for the preparation of guidelines and recommendations aimed at establishing consistent and efficient practices within the European System of Financial Supervision (ESFS). The committee also monitors and evaluates the development of markets as regards cross-border institutions for occupational retirement provisions. Hanfa's participation in the work of the committee involved the completion of questionnaires, such as the questionnaire on national rules and market practices in the transfer of acquired pension rights and a questionnaire on the review of the provisions on labour and social law of prudential nature. Hanfa also took part in the preparation of the report on the regulatory framework, practices and options available to IORP members during the pay-out phase, in the prepa-

88 The list of ordinances adopted by Hanfa in 2014 is provided in the Appendix.

89 The European Insurance and Occupational Pensions Authority (EIOPA) is described in more detail in Chapter 9.1.2 Participation in the Work of EIOPA.

90 Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision, OJ L 235. This directive has been implemented into the Voluntary Pension Funds Act and Act on Pension Insurance Companies (Official Gazette 22/14). Pursuant to the Croatian legislation, institutions for occupational retirement provision are pension insurance companies and closed-ended voluntary pension funds.

ration of the report on similarities and differences among Member States with respect to investment decision-making processes of members and to the manner in which IORPs offer different investment options, and in the development of the database for pension schemes and products.

Hanfa's participation in the work of EIOPA's Financial Stability Committee related to the completion of qualitative questionnaires, risk assessment through the completion of the risk dashboard, and reporting on changes compared to the previous period and on the impact of risk factors on closed-ended voluntary pension funds in the Republic of Croatia and expectations of risk materialisation in the future

Act on Pension Insurance Companies

2014 saw the entry into force of the Act on Pension Insurance Companies, aligned with the acquis communautaire, i.e. with directives governing this area. The act regulates the establishment and activities of pension insurance companies, which pay retirement benefits within the framework of mandatory and voluntary pension insurance based on individual capitalised savings and benefits based on lump-sum payments to the pension insurance company, and governs pension schemes of mandatory and voluntary pension insurance based on individual capitalised savings and pension schemes based on lump-sum payments to the pension insurance company. The act also regulates retirement benefits and their payment, and its adoption resulted in the improvement of the existing legislation related to supervision.

Regulations adopted under the Act on Pension Insurance Companies

The entry into force of the Act on Pension Insurance Companies was followed by the adoption of ordinances⁹¹ regulating the following issues with respect to the activities of the pension insurance company:

- asset valuation
- chart of accounts
- contents and duration of the educational programme, requirements for taking the examination and contents of the examination for the certified manager of the pension insurance company
- organisational requirements
- selection of the pension insurance company within the framework of compulsory pension insurance
- audit of reports
- minimum standards, the method of calculation and parameters for the calculation of technical provisions
- permitted investments and restrictions on investments of assets for covering technical provisions
- offering of pension schemes
- regular reports
- structure and contents of financial statements and additional reports
- capital adequacy
- marketing activities and website of the pension insurance company
- requirements for the authorisation and approval for the acquisition of a qualifying holding
- requirements for membership of management and supervisory boards
- requirements for the acquisition and examination of professional knowledge needed to perform duties of the certified actuary and contents and method of keeping the register.

Regulations adopted under the Act on Lifelong Severance Payment or Supplementary Pension Purchase

Two ordinances adopted under the Act on Lifelong Severance Payment or Supplementary Pension Purchase (Official Gazette 153/13) entered into force in 2014. They prescribed the content of the declaration of investment principles, additional requirements to be met by assets intended for the payment of purchased pensions and permitted to be invested in by the supplementary

91 The list of ordinances adopted by Hanfa in 2014 is provided in the Appendix.

pension purchase company, and additional restrictions on investments of assets intended for the payment of purchased pensions, including the method of exposure calculation. They also regulated accounting procedures and the content, form, disclosure, manner and deadlines for the preparation and submission of annual and quarterly reports submitted to Hanfa and other users by the supplementary pension purchase company, in order to provide information on its financial position, business performance, changes in equity and cash flows, and of other reports prepared for supervisory purposes.

4.2.2 Licensing

The entry into force of the Mandatory Pension Funds Act and Voluntary Pension Funds Act was followed by intensive work relating to the alignment of pension companies' and pension funds' business operations with the new legislation. This included the issuance of authorisations for the establishment and operation of category A and C mandatory pension funds, issuance of approval for the selection of the depositary and approval of the statute of category A and C pension funds, issuance of approval for amendments to the statute of the category B pension fund, and issuance of approval for the statute of voluntary pension funds. A series of procedures were carried out relating to the issuance of approval for the status change of the pension company (merger of the voluntary pension company with the mandatory pension company), issuance of the extension of authorisation to the pension company and issuance of approval for management board members of the pension company. In 2014, there were two mergers of voluntary pension companies with mandatory pension companies, for which Hanfa issued its approval.

Table 4.7 Number of cases related to business operations of pension companies and pension funds

Case type	2013	2014
Approval of the appointment of a management board member of a mandatory/voluntary pension company	2	2
Approval of the appointment of a supervisory board member of a mandatory pension company	6	4
Approval of the appointment of a supervisory board member of a voluntary pension company	4	1
Approval of the establishment and operation of a mandatory pension fund category A	0	4
Approval of the establishment and operation of a mandatory pension fund category C	0	4
Approval of the choice of depositary	4	8
Approval of the statute/amendments to the statute of a mandatory pension fund category A, B and C	0	12
Approval of the statute/amendments to the statute of a voluntary pension fund	4	6
Approval of the informative prospectus and amendments to the informative prospectus of a voluntary pension fund	5	0
Marketing of pension funds	30	4
Issuance/renewal of the licence to pension fund managers	6	1
Approval of the qualified share acquisition of a voluntary pension company	0	1
Approval of the pension company share capital increase	0	2
The extension of the operating licence of a pension company	0	2
Approval of the status change of the pension company (acquisition)	0	4

Source: Hanfa

In 2014, the pension insurance company submitted an application for authorisation in accordance with the provisions of the Act on Pension Insurance Companies (alignment procedure). During the procedure, the founder received approval for the acquisition of qualifying holdings in that company, and two management board members received their licences.

4.2.3 Supervision

Taking account of the deadlines for the compliance with the new legislative provisions, in 2014 Hanfa did not carry out on-site examinations in pension companies or in mandatory and voluntary pension funds. The adoption of the new legislative framework was accompanied by further development of risk-based supervisory model, with model parameters being accompanied by data from reports and notifications submitted to Hanfa by the companies in 2014. The model will be further complemented by findings from on-site examinations of pension companies and pension funds planned in 2015.

Off-site supervision of pension funds and pension companies involved the analysis of daily and periodic reports on their operations and of annual financial statements audited by an independent certified auditor, as well as the analysis of other information collected from supervised entities. The purpose of the analyses was to verify the alignment of supervised entities' activities with the provisions of the Mandatory Pension Funds Act and Voluntary Pension Funds Act, relevant subordinate regulations and internal documents of pension companies, informative prospectuses, prospectuses and statutes of pension funds.

In 2014, off-site supervision was primarily focused on ensuring and monitoring a smooth start of operation of A and C category mandatory pension funds and continuance of operation of the existing mandatory pension fund as category B funds, on the verification of the compliance of pension fund asset investments with permitted investments and investment limitations, on the verification of the accuracy of pension fund asset valuation and on the verification of disclosures to investors through the pension company's website and regular statements of pension funds. It also included the calculation of daily values of A, B and C MIREX indices, preparation of periodic and ad-hoc reports on the situation in the fund industry, quantitative and qualitative assessment of risks related to activities of pension funds and pension companies, verification of the adequacy of the guarantee deposit, monitoring of the number of pension fund members, calculation of the guaranteed return of mandatory pension funds, and verification of the calculation of charges.

Guaranteed rate of return of mandatory pension funds equals the reference rate of return, calculated as the weighted arithmetic mean of average annual rates of return of all pension funds belonging to the same category, for the period covering the preceding calendar year, reduced by twelve percentage points for category A funds, reduced by six percentage points for category B funds and reduced by three percentage points for category C funds.

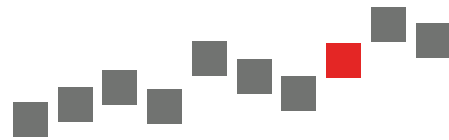
Status changes that had occurred in a pension company led to violation of legal provisions on investment limitations, which was recorded in the report on off-site supervision.

Hanfa carried out supervision of the pension insurance company's operations on the basis of financial and supplementary reports, actuarial valuations, and reports submitted by the pension insurance company at Hanfa's request and in accordance with the scope and deadlines laid down in the Act on Pension Insurance Companies and the Ordinance on regular reports of pension insurance companies (Official Gazette 86/14). The Act on Pension Insurance Companies entered into force in February 2014, obliging the pension insurance company to comply with its provisions within a year as of the day of its entry into force.

4.2.4 Examinations Taken by Candidates for Certified Pension Fund Managers and Certified Managers of Pension Insurance Companies

Hanfa organised an educational programme for acquisition of professional knowledge required to obtain the certified pension fund manager licence, which was attended by 15 candidates, and the first examination within the examination cycle for certified pension fund managers, which was taken by 22 and passed by 15 candidates. The first examination for certified pension insurance company managers was taken by four and passed by three candidates. In 2015, Hanfa will organise a second examination for candidates who failed the examination within the first examination term.

The educational programme for certified managers of pension insurance companies did not take place in 2014 due to an insufficient number of candidates who had applied for the programme.



Insurance



5 Insurance

5.1 Market Overview

In 2014, the insurance market⁹² was marked by the liberalisation of price lists of the compulsory insurance of owners or users of motor vehicles against liability for damage to third parties (hereinafter: motor vehicle liability insurance). After the Croatian accession to the European Union, insurance companies authorised to conduct compulsory traffic insurance business began to use their own motor vehicle liability insurance premium price lists.⁹³ The liberalisation led to a decrease in the average motor vehicle liability insurance premium, and was one of the main reasons for a decline in non-life insurance premiums and consequently for a fall in total gross written premiums recorded by insurance companies. On the other hand, life insurance premiums recorded a slight growth compared to the previous year.

As at 31 December 2014, there were 25 insurance companies and one reinsurance company with their registered offices and operating in the Republic of Croatia.^{94,95} Insurance market participants also included the Croatian Insurance Bureau, as an association of insurance companies with their registered offices in the Republic of Croatia, and the Croatian Nuclear Insurance and Reinsurance Pool (EIG). Insurance representation and insurance and reinsurance brokerage business⁹⁶ was conducted by 241 insurance agencies, 42 insurance and reinsurance brokerage companies, 158 insurance representation crafts, 25 credit institutions and HP – Hrvatska pošta d.d.

5.1.1 Insurance Companies and Reinsurance Companies

Out of 25 insurance companies with their registered offices in the Republic of Croatia operating as at 31 December 2014, seven companies conducted life insurance business only, ten insurance companies conducted non-life insurance business only, while life and non-life insurance business was conducted by eight insurance companies. The number of insurance companies fell by one compared to 31 December 2013, due to the acquisition of one insurance company by another. Reinsurance business was conducted one reinsurance company.

92 The 2014 insurance market overview was presented on the basis of the analysis of financial, statistical and supervisory reports submitted to Hanfa and following examinations of business operations of insurance companies and reinsurance companies, the Croatian Nuclear Insurance and Reinsurance Pool (EIG), the Croatian Insurance Bureau, insurance and reinsurance brokerage companies, insurance agencies, insurance representation crafts, HP – Hrvatska pošta d.d. and credit institutions authorised to conduct insurance representation business. The data for the previous years shown in Hanfa's 2014 Annual Report might differ from the data in Annual Reports 2012 and 2013 due to the application of the provisions of the Accounting Act (Official Gazette 109/07, 54/13 and 121/14), the Insurance Act (Official Gazette 151/05, 87/08, 82/09 and 94/14), and International Financial Reporting Standards (IFRS) adopted by the EU, as well as due to actions taken by insurance and reinsurance companies following Hanfa's instructions.

93 The liberalisation process on the insurance market was set off by the abolishment of the mandatory application of the common terms and conditions and the Basic Premium System for Compulsory Motor Vehicle Liability Insurance, resulting in the possibility offered to insurance companies conducting compulsory motor vehicle liability insurance business to apply their own terms and conditions and premium price lists for compulsory motor vehicle liability insurance as of 1 January 2008. However, terms and conditions applied by insurance companies after that date did not differ (except in terms of nomenclature) from the terms and conditions and premium price lists applied until end-2007. The actual liberalisation process began upon the creation of other prerequisites to liberalisation, such as adequate statistics, experience, etc. This occurred at the very moment of Croatia's EU accession, when the companies were not obliged any more to submit technical bases for premium systems, but only insurance terms and conditions 60 days prior to the beginning of their application.

94 This report includes data on insurance companies and reinsurance companies with their registered offices in the Republic of Croatia. Insurance companies from other Member States that have submitted to Hanfa a notification of their intention to conduct insurance business in the Republic of Croatia under the freedom to provide services are not covered by this report (in 2014 there were no insurance activities conducted under the freedom of establishment, i.e. through a branch in the Republic of Croatia).

95 The list of Hanfa's supervised entities is available at www.hanfa.hr.

96 This report includes data on companies and crafts with their registered offices in the Republic of Croatia that conducted insurance representation business and insurance and reinsurance brokerage business in 2014. Insurance agents and insurance and reinsurance brokers with their registered offices in other Member States that conducted insurance representation business and insurance and reinsurance brokerage business directly or through a branch are not covered by this report.

As at 31 December 2014, there were 11 insurance companies directly majority owned by residents, which accounted for 52.0% of the total gross written premium. The premium share of the remaining 14 insurance companies in direct majority non-resident ownership reached 48.0%. The only reinsurance company was directly majority owned by residents.

5.1.1.1 Gross Written Premium

In 2014, the gross written premium amounted to HRK 8.6bn, decreasing by HRK 0.5bn or 5.7% compared to the 2013 premium. The non-life insurance premium amounted to HRK 5.9bn, declining by HRK 0.6bn, or 9.4% in comparison with the previous year. The decrease in the non-life insurance premium was mostly due to falling premiums in class 10 – Motor vehicle liability insurance, which totalled HRK 543.9m or 18.3%.

Out of 18 insurance classes in the non-life insurance group, only six recorded a rise in the gross written premium, with the largest increase in the absolute amount of HRK 48.6m being recorded in class 14 – Credit insurance. It was followed by the premium recorded in class 02 – Health insurance (a HRK 28.9m) and class 16 – Insurance of miscellaneous financial losses (a HRK 22.4m increase).

Life insurance premium reached HRK 2.6bn, increasing by HRK 99.4m or 3.9% compared to 2013. Life insurance premium involving lump-sum premium payments accounted for HRK 738.8m, rising compared to 2013, when it totalled HRK 582.5m. This points to the fact that the growth of the life insurance market was due to insurance contracts involving lump-sum premium payments, while life insurance premium paid in instalments recorded a decrease.

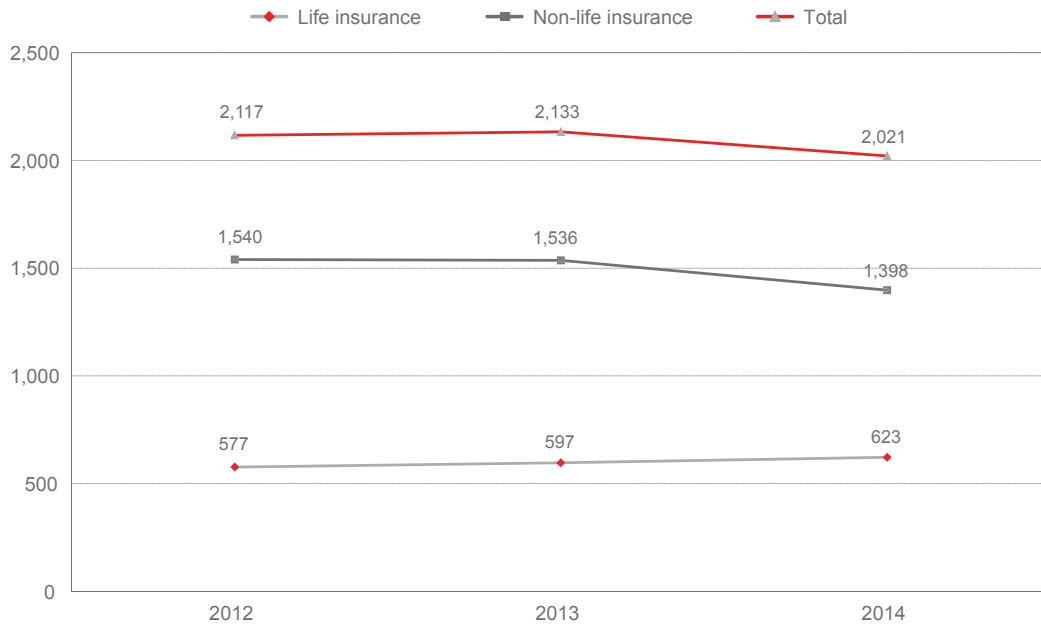
The gross written premium recorded on the reinsurance market amounted to HRK 335.7m, decreasing by HRK 61.7m or 15.5% relative to 2013.

The 2014 insurance density⁹⁷ amounted to HRK 2.021 or EUR 264⁹⁸ in both life and non-life insurance, reaching its lowest level in the last seven years. Insurance density in non-life insurance amounted to HRK 1,398 (EUR 182), decreasing compared to the previous year, whereas in life insurance it totalled HRK 623 (EUR 81), recording a value higher than HRK 600 for the first time.

97 The insurance density is calculated as the ratio of gross written premium to total population. The population data source is the web site of the Croatian Bureau of Statistics (www.dzs.hr, Monthly Statistical Report No 3, 2015).

98 Calculated according to the midpoint exchange rate of the Croatian National Bank as at 31 December 2014

Chart 5.1 Insurance density in the 2012-2014 period (in HRK)



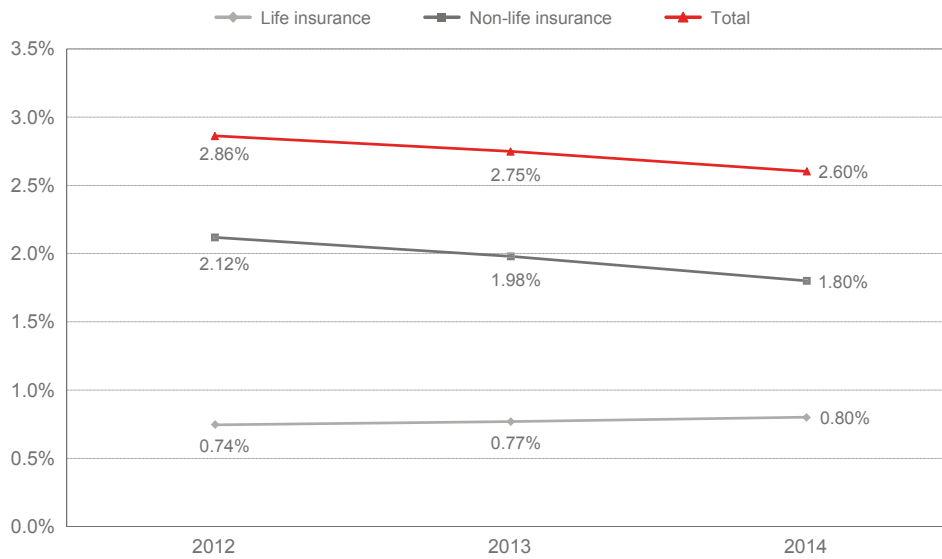
Source: Hanfa, Croatian Bureau of Statistics

As at 31 December 2014, the share of gross written premium in GDP⁹⁹ amounted to 2.6%, also recording a decrease compared to the previous year. In the life insurance group, this share rose from 0.77% in 2013 to 0.80% in 2014, while in the non-life insurance group it fell from 2.0% in 2013 to 1.8% in 2014. According to the available data relating to 2013, the average share of the insurance premium (total in life and non-life insurance) in GDP for all members of the Insurance Europe (a European insurance and reinsurance federation consisting of 32 countries) amounted to 7.7%¹⁰⁰ and was significantly lower than the average share of the insurance premium in GDP in the Republic of Croatia.

99 GDP data published in the Communication of the Croatian Bureau of Statistics, No 12.1.1/4 of 6 March 2015

100 Data published in *Statistics N°50: European Insurance in Figures dataset* (2013), of 6 January 2015, published on the website *Insurance Europe*

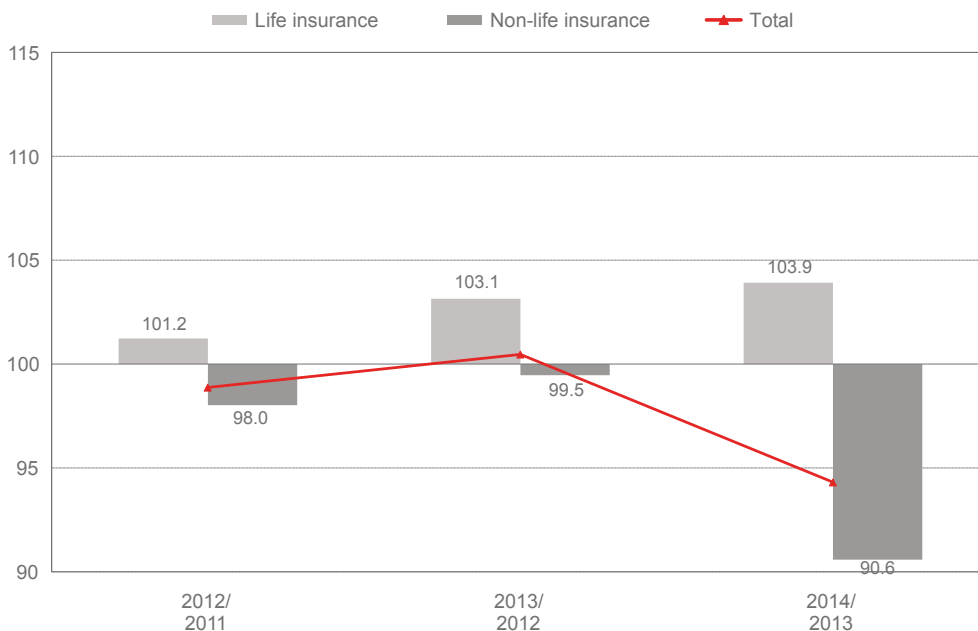
Chart 5.2 Shares of the gross written premiums in GDP in the 2012-2014 period



Source: Hanfa, Croatian Bureau of Statistics

The gross written premium concentration in the five largest insurance companies declined from 65.6% in 2013 to 65.2% in 2014. The non-life insurance group recorded a higher concentration than the life insurance group, with five insurance companies accounting for 73.4% of the total non-life insurance premium, while the life insurance group recorded 66.6% of the premium concentrated in five insurance companies.

Chart 5.3 Gross written premium indices in the insurance industry in the 2012-2014 period



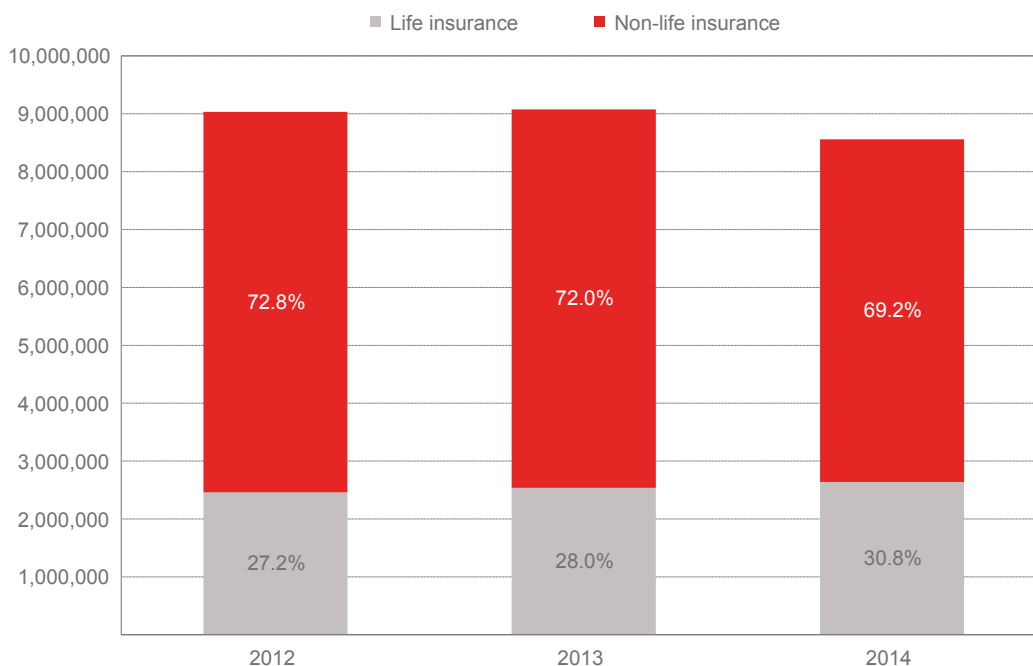
Source: Hanfa

In 2014, the non-life insurance gross written premium continued its downward trend, while the

life insurance group recorded a growth in the insurance premium for the third consecutive year.

The gross written premium structure of the Croatian insurance market was dominated by non-life insurance with a 69.2% share. 2014 saw the most significant decline in the share of non-life insurance in the total premium recorded in the last ten years, primarily due to a decrease in compulsory motor vehicle liability insurance premiums, but also to a slight increase in life insurance premiums.

Chart 5.4 Shares of life and non-life insurance in the total gross written premium in the 2012-2014 period (in HRK thousand)



Source: Hanfa

Uneven distribution of shares in the gross written premium structure is also reflected in relations among insurance classes. Out of a total of 25 insurance classes, two classes (class 10 – Motor vehicle liability insurance, and class 19 – Life insurance) accounted for more than a half of the total gross written premium. However, in comparison with 2013, when the share of these two insurance classes reached 57.4%, in 2014 it was reduced to 55.6%. In 2013, the share recorded by class 10 was significantly higher compared to the share recorded by class 19, while in 2014 they stood at an almost equal level.

Table 5.1 Gross written premium by insurance classes in 2013 and 2014 (in HRK thousand)

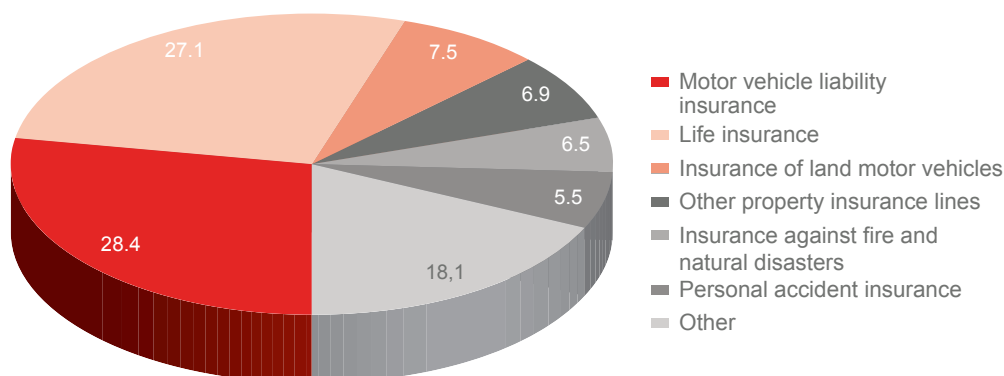
Code	Insurance class	2013	Share (%)	2014	Share (%)	Change (%)
01	Personal accident insurance	496,223	5.5	472,817	5.5	-4.7
02	Health insurance	249,438	2.7	278,338	3.3	11.6
03	Insurance of land motor vehicles	662,700	7.3	645,487	7.5	-2.6
04	Insurance of railway rolling stocks	6,705	0.1	7,097	0.1	5.9
05	Insurance of aircraft	8,947	0.1	8,322	0.1	-7.0

Code	Insurance class	2013	Share (%)	2014	Share (%)	Change (%)
06	Insurance of vessels	175,612	1.9	164,128	1.9	-6.5
07	Insurance of goods in transit	55,312	0.6	45,165	0.5	-18.3
08	Insurance against fire and natural disasters	582,913	6.4	554,784	6.5	-4.8
09	Other property insurance lines	669,423	7.4	587,744	6.9	-12.2
10	Motor vehicle liability insurance	2,978,145	32.8	2,434,236	28.4	-18.3
11	Aircraft liability insurance	5,825	0.1	5,743	0.1	-1.4
12	Insurance against liability arising out of the use of vessels	37,813	0.4	41,671	0.5	10.2
13	Other liability insurance lines	309,645	3.4	301,444	3.5	-2.6
14	Credit insurance	145,944	1.6	194,521	2.3	33.3
15	Suretyship insurance	6,245	0.1	6,171	0.1	-1.2
16	Insurance against miscellaneous financial losses	93,605	1.0	115,968	1.4	23.9
17	Legal expenses insurance	2,743	0.0	2,735	0.0	-0.3
18	Travel insurance	50,016	0.6	55,525	0.6	11.0
19	Life insurance	2,231,682	24.6	2,322,980	27.1	4.1
20	Annuity insurance	11,093	0.1	20,083	0.2	81.0
21	Supplementary insurance linked with life insurance	158,537	1.7	151,663	1.8	-4.3
22	Marriage and birth insurance	7,601	0.1	6,796	0.1	-10.6
23	Life or annuity insurance in which the investment risk is held by the policyholder	129,501	1.4	136,263	1.6	5.2
24	Tontines	0	0,0	0	0,0	-
25	Assurance with paid-up sum assured	0	0,0	0	0,0	-
Total non-life insurance (classes 01 - 18)		6,537,254	72,0	5,921.894	69.2	-9.4
Total life insurance (classes 19 - 25)		2,538,414	28,0	2,637.784	30.8	3.9
Total (classes 01 - 25)		9,075,668	100,0	8,559.679	100.0	-5.7

Source: Hanfa

Motor vehicle insurance, which includes motor vehicle liability insurance (class 10) and insurance of land motor vehicles (class 03) accounted for 35.9% of the total gross written premium recorded in 2014, declining significantly compared to 2013, when their share reached 40.1%. This was due to a HRK 543.9m (18.3%) fall in the premium reported by class 10, which has been the largest premium decrease reported by an insurance class in absolute terms.

Chart 5.5 Premium structure by insurance classes in 2014 (in %)



Source: Hanfa

The largest share of the gross written premium recorded in class 10 – insurance against liability arising out of the use of motor vehicles was accounted for by risk 10.01 – motor vehicle liability insurance. Motor vehicle liability insurance premium totalled HRK 2.4bn and accounted for 27.5% of the total gross written premium recorded in 2014, decreasing by HRK 592.8m (20.1%) relative to 2013, as a result of the liberalisation of motor vehicle liability insurance price lists. In addition to having led to a reduction in prices of motor vehicle liability insurance policies, the liberalisation brought a series of other benefits to policyholders, such as various possibilities to adjust the prices to individuals (for example, with respect to the age, driving frequency, or the region), the possibility of granting additional discounts (e.g. higher discounts for insured persons with clean insurance records, discounts on insurance packages and discounts on voluntary insurance) and a wide offer of supplementary insurances. On the other hand, market competition also led to a danger of inappropriate (too low) prices, which may have a negative impact on business performance and consequently on capital adequacy and a need for additional capital.

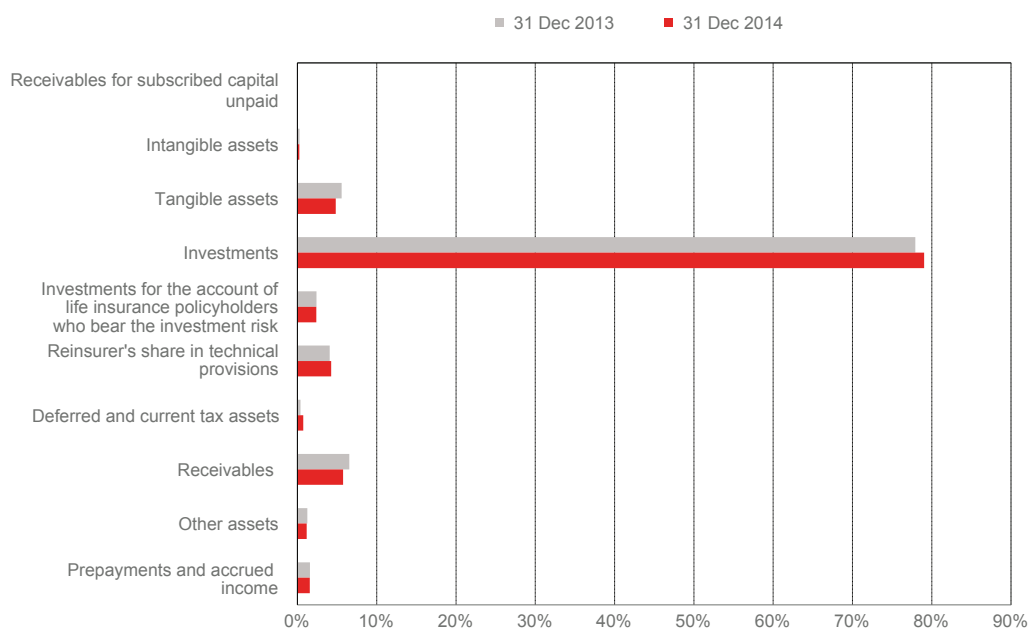
The main feature of the liberalisation is that insurance companies which conduct motor vehicle liability insurance business do not use a common premium system but provide their services based on their own conditions and premium price lists.

Most insurance companies recorded a decline in motor vehicle liability insurance premiums compared to 2013. Risk 10.01 recorded an after-tax profit in the amount of HRK 161.4m.

5.1.1.2 Asset Structure

As at 31 December 2014, total assets of insurance and reinsurance companies amounted to HRK 37.4bn, increasing by HRK 2.1bn or 6.0% compared to the previous year. This increase was mostly due to a rise in life insurance assets totalling HRK 1.6bn or 8.9%. Life insurance assets accounted for 52.9% of total assets of insurance and reinsurance companies. Non-life insurance assets rose by HRK 497.5m or 2.9%. Assets of reinsurance companies accounted for 4.5% of total non-life insurance assets.

Chart 5.6 Asset structure of insurance and reinsurance companies in 2013 and 2014 (in %)



Source: Hanfa

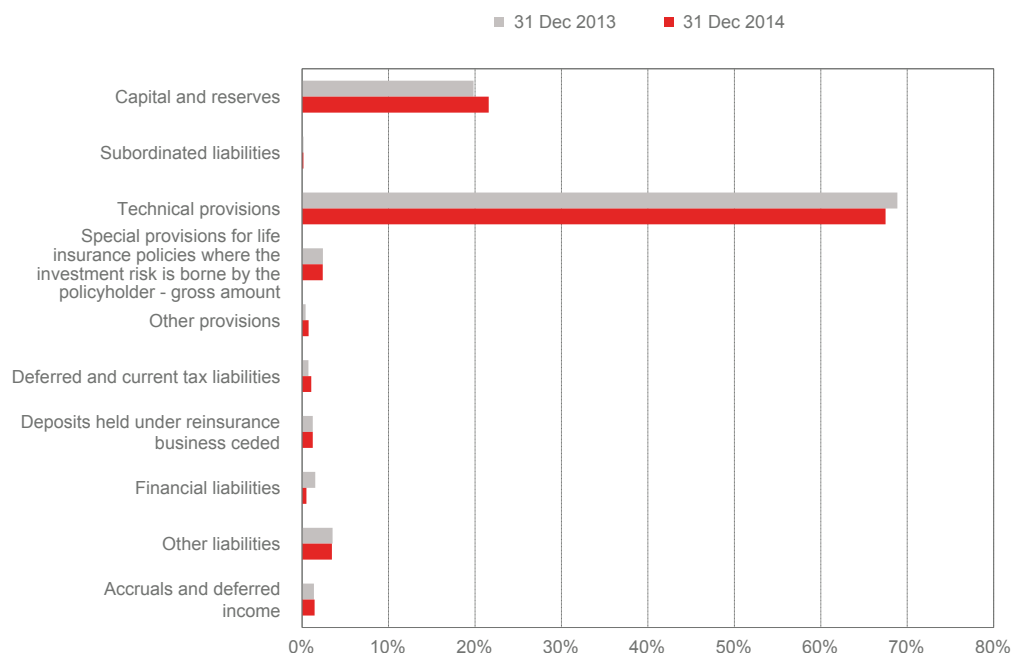
The most significant share (89.8%) in life insurance assets was accounted for by investments, while investments for the account of life insurance policyholders who bear the investment risk accounted for 4.5% of the assets. The major share in investments was accounted for by investments in debt securities and other securities with fixed income classified in the portfolio of investments available for sale (37.1% of life insurance assets) and investments in debt securities and other securities with fixed income classified in the portfolio of investments held-to-maturity (32.6% of life insurance assets). In the life insurance group, the top five companies (as regards the amount of assets) accounted for 67.4% of total life insurance assets.

The most significant share (67.0%) in non-life insurance assets (reinsurance excluded) was also accounted for by investments. As in life insurance investments, the major investment share was accounted for by investments in debt securities and other securities with fixed income classified in the portfolio of investments available for sale (17.3% of non-life insurance assets). In addition to investments, a significant asset share was related to receivables (11.6%) and the reinsurers' share of technical provisions (6.4%). In the non-life insurance group, the top five insurance companies (as regards the amount of assets) accounted for 77.3% of total non-life insurance assets.

5.1.1.3 Liability Structure

As at 31 December 2014, the largest share (67.5%) in total liabilities recorded by insurance and reinsurance companies was accounted for by technical provisions, while capital and reserves made up 21.6% of their liabilities.

Chart 5.7 Liability structure of insurance and reinsurance companies in 2013 and 2014 (in %)



Source: Hanfa

The life insurance liability structure was dominated by technical provisions (78.1%), with mathematical provisions reaching HRK 15.2bn (76.8% of life insurance liabilities) and accounting for the largest part. A significant share was also related to capital and reserves, which accounted for 13.2% of the life insurance liability structure, while special provisions for life insurance policies where the investment risk is borne by the policyholder (gross amount) made up 4.5% of life insurance liabilities.

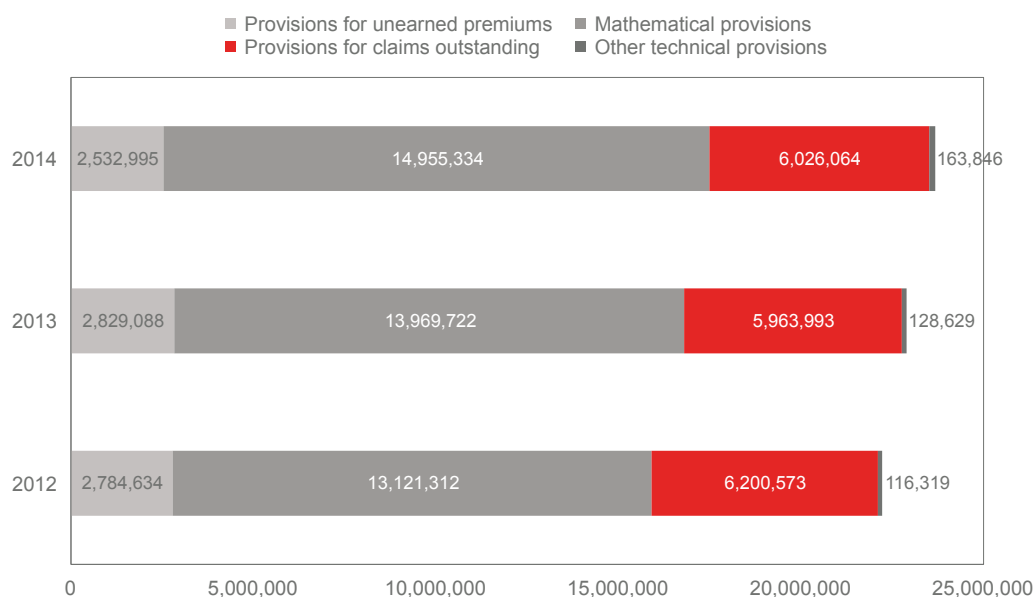
Technical provisions dominated the non-life insurance liability structure (reinsurance excluded) as well (a 55.4% share), and were mostly related to provisions for claims outstanding, which amounted to HRK 6.5bn (37.6% of total liabilities). Capital and reserves accounted for 30.9%, while the remaining liability items made up a 6.1% share in total liabilities.

5.1.1.4 Technical Provisions

As at 31 December 2014, net technical provisions of insurance and reinsurance companies, as presented in the statement of financial position, amounted to HRK 23.7bn, rising by HRK 786.8m or 3.4% compared to 2013. This increase was mainly due to a HRK 985.6m or 7.1% increase in mathematical provisions. Provisions for claims outstanding also recorded a rise, in the amount of HRK 62.1m or 1.0%, while provisions for unearned premiums fell by HRK 296.1m or 10.5% as a result of the decline in non-life insurance premiums.

Insurance companies need to establish technical provisions with respect to all insurance services they provide. The provisions are intended for covering future underwriting liabilities and any losses due to risks arising from the business written.

Chart 5.8 Net technical provisions in the 2012-2014 period (in HRK thousand)



Source: Hanfa

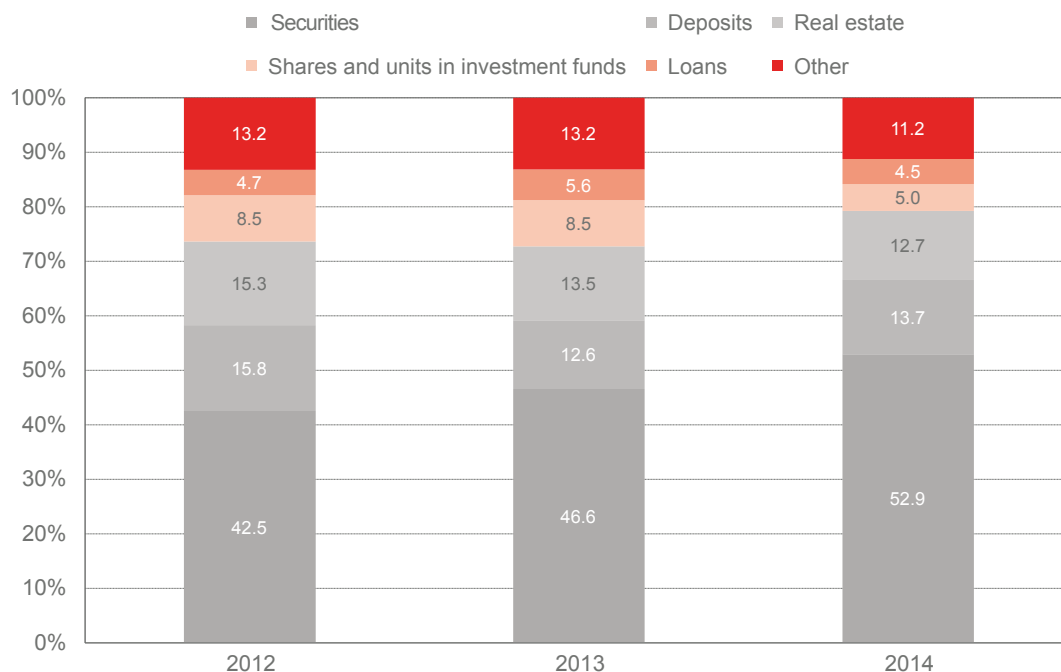
Mathematical provisions were also the largest item in the structure of net technical provisions, continuing its growing trend within total technical provisions, which ranged from 59.0% in 2012 to 63.2% in 2014, as a result of the increase in life insurance premiums. A significant part of net technical provisions was allocated by companies to claims for provisions outstanding. Unlike the share of mathematical provisions, the share of provisions for claims outstanding in total net technical provisions kept declining and ranged from 27.9% in 2012 to 25.4% in 2014. The share of provisions for unearned premiums also continued its decrease, ranging from 12.5% in 2012 to 10.7% in 2014.

5.1.1.5 Investments of Assets Covering Technical Provisions

Insurance and reinsurance companies are obliged to invest assets covering technical provisions in accordance with relevant provisions of the Insurance Act, laying down the types of and limitations on permitted investments of assets covering technical provisions and in accordance with the Ordinance on types and characteristics of assets covering technical provisions, rules on diversification and limitations on investments covering technical provisions, their valuation and compliance with the law, rules on the use of derivative financial instruments, and the manner of and time limits for reporting (Official Gazette 119/09, 155/09, 01/12, 39/12, 79/13 and 105/13; hereinafter: Ordinance on investments). As at 31 December 2014, the required coverage of technical provisions, other than mathematical provisions¹⁰¹, amounted to HRK 8.6bn. Insurance and reinsurance companies invested a total of HRK 9.7bn in assets covering technical provisions, which was HRK 1.1bn or 12.9% more than the required coverage.

¹⁰¹ The requested coverage of technical provisions, other than mathematical provisions, is comprised of provisions for unearned premiums, provisions for bonuses and rebates, provisions for claims outstanding, equalisation provisions and other technical provisions.

Chart 5.9 Technical provision investment structure in the 2012-2014 period (in %)



Source: Hanfa

The investment structure relating to assets covering technical provisions was dominated by investments in securities¹⁰², which accounted for 52.9% of total investments and increased compared to 2013, when their share totalled 46.6%. The investments primarily consisted of investments in securities issued by the Republic of Croatia, whose share in total investments amounted to 43.7%. The share of investments in deposits also rose, while all other types of investments recorded a decline in their shares in total investments compared to 2013.

5.1.1.6 Investments of Assets Covering Mathematical Provisions

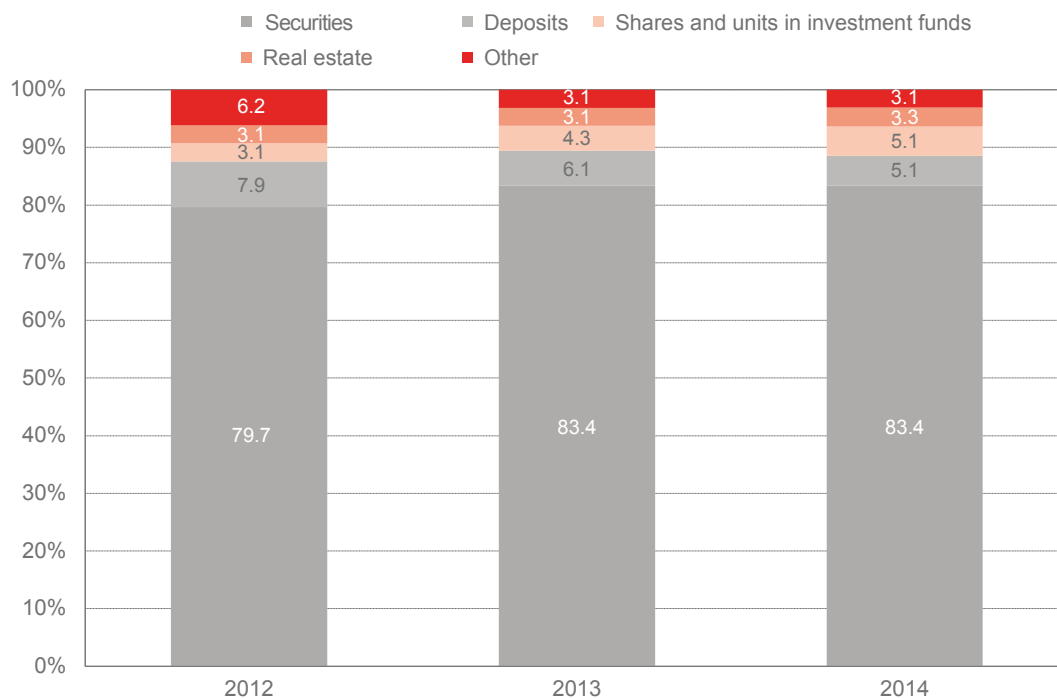
Insurance companies are obliged to invest assets covering mathematical provisions in accordance with relevant provisions of the Insurance Act, laying down the types of and limitations on permitted investments of assets covering mathematical provisions and in accordance with the Ordinance on investments, taking into account the type of insurance activities carried out and guaranteeing the safety, profitability and adequate diversity of investments. The value of assets covering mathematical provisions must at all times be at least equal to the amount of the required coverage including mathematical provisions.

As at 31 December 2014, insurance companies invested HRK 15.7bn in assets covering mathematical provisions, i.e. HRK 0.6bn or 4.1% more than the required coverage of mathematical provisions¹⁰³, which amounted to HRK 15.1bn.

¹⁰² These investments are laid down in Article 115 points 1 to 8 of the Insurance Act.

¹⁰³ The requested coverage of mathematical provisions is comprised of mathematical provisions, provisions for unearned premiums in risk types for which mathematical provisions must be formed, provisions for claims outstanding in risk types for which mathematical provisions must be formed, and provisions for bonuses and rebates in risk types for which mathematical provisions must be formed.

Chart 5.10 Mathematical provision investment structure in the 2012-2014 period (in %)



Source: Hanfa

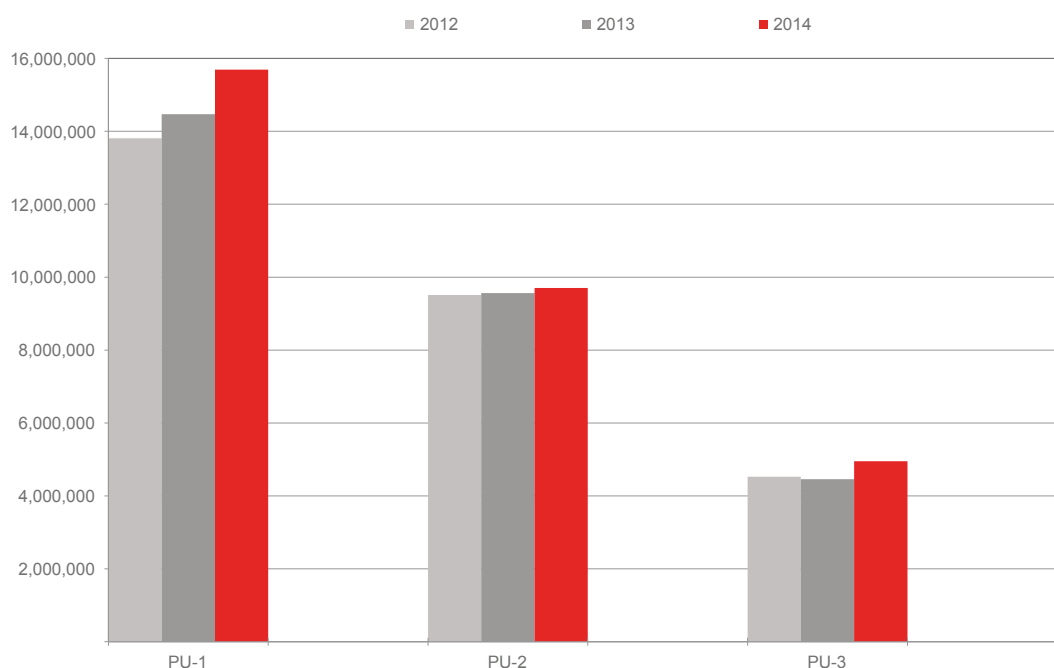
The largest share of assets covering mathematical provisions was invested in securities¹⁰⁴ (83.4%), with the largest part (72.0%) relating to securities issued by the Republic of Croatia.

5.1.1.7 Investments of Assets from Capital and other Funds (other than Assets Covering Mathematical and Technical Provisions)

As at 31 December 2014, insurance and reinsurance companies reported investments of assets from capital and other funds, other than assets covering mathematical provisions and assets covering technical provisions (hereinafter: investments of assets from capital) in the amount of HRK 4.9bn, of which HRK 1.5bn or 30.9% related to life insurance and HRK 3.4bn or 69.1% to non-life insurance. The majority share of total investments of assets from capital was accounted for by deposits, loans and receivables in the amount of HRK 1.8bn (37.1%) and investments available for sale in the amount of HRK 1.6bn (32.4%). Total of investments of assets from capital increased by HRK 489.4m or 11.0% relative to 2013.

¹⁰⁴ These investments are laid down in Article 115 points 1 to 8 of the Insurance Act.

Chart 5.11 Investments of mathematical provisions¹⁰⁵, investments of technical provisions other than mathematical provisions¹⁰⁶ and investments of capital¹⁰⁷ in the 2012-2014 period (in HRK thousand)



Source: Hanfa

5.1.1.8 Financial Operating Results

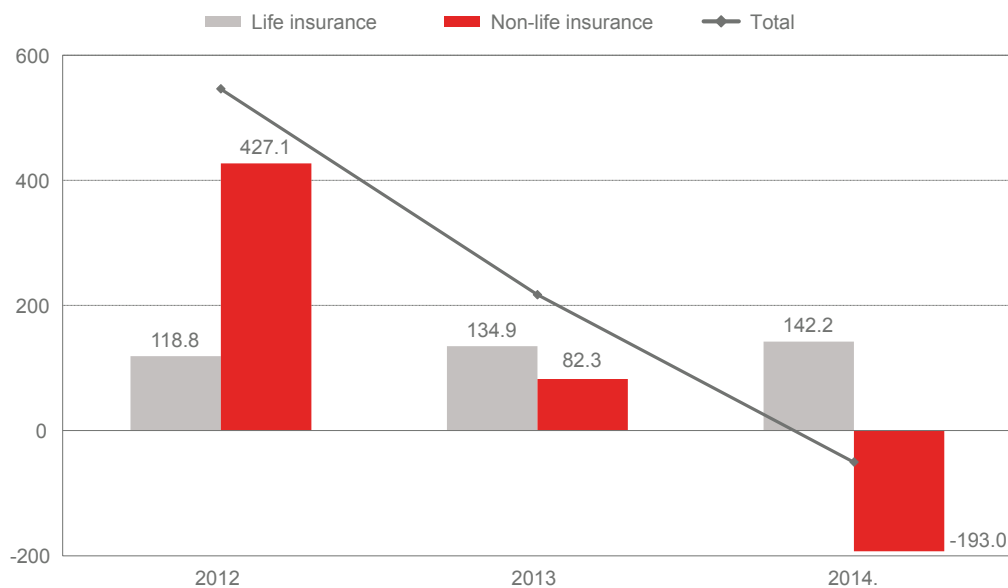
In 2014, the insurance market generated a loss totalling HRK 50.7m, as opposed to 2013, when it realized a net profit of HRK 217.2m. Net profit amounting to HRK 436.8m was reported by 18 insurance companies, while a HRK 487.6m loss was reported by seven insurance companies and one reinsurance company.

105 Data on investments of assets covering mathematical provisions have been taken from the form Overview of investments of assets covering mathematical provisions (form PU-1).

106 Data on investments of assets covering technical provisions other than mathematical provisions have been taken from the form Overview of investments of assets covering technical provisions other than mathematical provisions (form PU-2).

107 Data on investments of capital have been taken from the form Overview of investments of assets from capital and other funds (Form PU-3).

Chart 5.12 Operating results of insurance and reinsurance companies from 2012 to 2014 (in HRK million)



Source: Hanfa

The reported loss was mainly due to operating results recorded by non-life insurance, which recorded a HRK 193.0m loss. Of this amount, four insurance companies and one reinsurance company reported a loss totalling HRK 475.4m, and 14 insurance companies reported a profit in the amount of HRK 282.5m. The life insurance group recorded a HRK 142.2m profit, of which a HRK 165.0m profit was generated by ten insurance companies, while a HRK 22.8m loss was realised by five insurance companies.

5.1.1.9 Capital Adequacy

Insurance and reinsurance companies are obliged to maintain a capital level corresponding to the volume and types of insurance activities carried out and taking account of the risks they are exposed to. In order to meet the prescribed capital adequacy requirements, insurance and reinsurance companies must satisfy three conditions laid down in the Insurance Act: the capital level of the company must be at least equal to the solvency margin, the guarantee fund of the company must be at least equal to one third of the solvency margin and the guarantee fund of the company must be at least equal to the minimum initial capital.

As at 31 December 2014, all insurance and reinsurance companies were meeting the prescribed capital adequacy requirements.

In the life insurance group, the ratio of capital to the solvency margin of insurance companies ranged from 1.5 to 25.3, the ratio of guarantee fund to one third of the solvency margin ranged between 4.8 and 75.9, while the ratio of guarantee fund to minimum initial capital was between 1.0 and 10.5. In the non-life insurance group, the ratio of capital to the solvency margin of insurance and reinsurance companies ranged from 1.3 to 33.8, the ratio of guarantee fund to one third of the solvency margin ranged from 4.0 to 107.7, while the ratio of guarantee fund to minimum initial capital ranged between 1.1 and 53.3.

5.1.1.10 Insurance Industry Performance Indicators

The key performance indicators¹⁰⁸ for insurance and reinsurance companies are loss ratio, expense ratio and combined ratio.

In 2014, the loss ratio¹⁰⁹ reached 64.1% and was less favourable compared to 2013, when it stood at 58.7%. The loss ratio of the life insurance business amounted to 96.6%, falling slightly compared to 2013, when it stood at 96.7%. The loss ratio of the non-life insurance business was 51.0%, increasing in comparison with 2013, when it reached 45.3%.

The expense ratio¹¹⁰ amounted to 43.5%, an increase compared to 2013, when it stood at 41.5%. The expense ratio of the life insurance business totalled 31.3%, rising slightly in comparison to 2013, when it reached 32.0%. In the non-life insurance business, this ratio totalled 48.4%, rising relative to 2013, when its value reached 44.8%.

The combined ratio¹¹¹ totalled 107.6%, falling significantly compared to 2013, when it stood at 100.2%. The combined ratio of the life insurance business reached 127.8%, declining relative to 2013, when its value was 128.8%. In the non-life insurance business, this ratio amounted to 99.4%, declining compared to 2013, when it reached 90.1%. A combined ratio lower than 100.0% is considered desirable. This ratio is more significant as a non-life insurance business indicator, as in the life insurance business investment results must be taken into account as well, because the interest rate is implicitly included in the insurance premium and mathematical provisions.

Loss ratio is the ratio of the gross sum of claims settled and the gross amount of changes in provisions (provisions for claims outstanding, mathematical provisions, other technical provisions and life insurance technical provisions where the policyholder bears the investment risk), to the sum of gross written premium, co-insurance premium, value adjustment and charged adjustment of insurance/co-insurance premium value and changes in gross provisions for unearned premiums.

Expense ratio is the ratio of the sum of operating expenses (acquisition expenses and administrative expenses) and other technical expenses to the sum of gross written premium, co-insurance premium, value adjustment and charged adjustment of insurance/co-insurance premium value and changes of gross provisions for unearned premiums.

Combined ratio is calculated as the sum of the claims ratio and the expense ratio, and shows operating results prior to inclusion of income from investments.

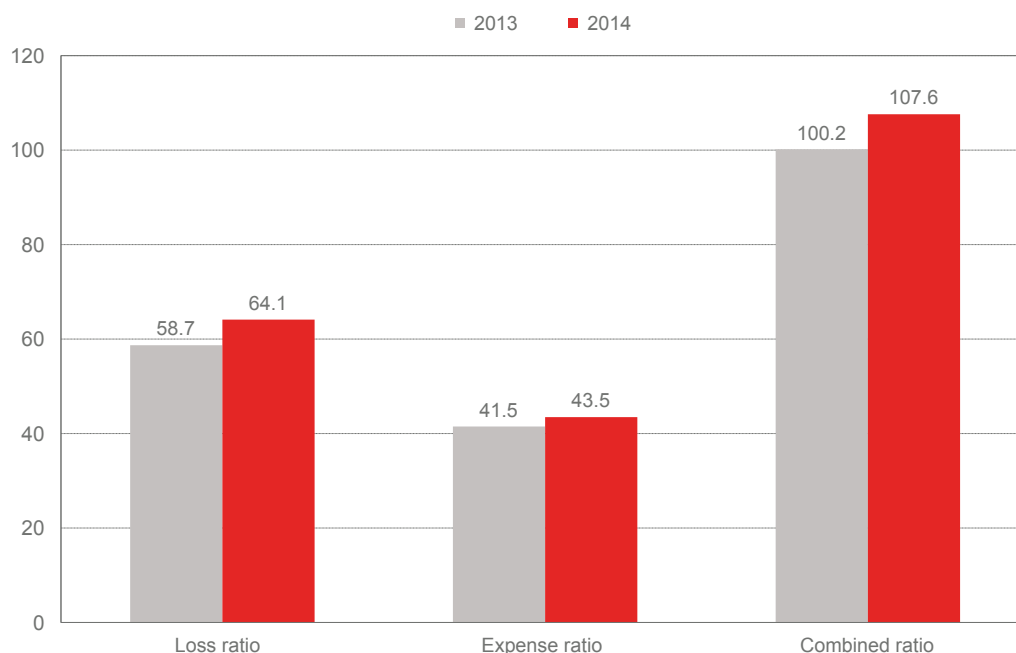
108 Data on 2013 and 2014 indicators calculated on the basis of data from the statement of comprehensive income, do not include data relating to insurance companies acquired by other companies during this period due to the accounting impact of the acquisition.

109 The calculation of this indicator has been changed in comparison to previous years, when the ratio equalled the sum of claims paid, changes in provisions for claims outstanding and changes in other technical provisions (including changes in life insurance technical provisions where the policyholder bears the investment risk) to insurance premiums earned, with the net value of reinsurance being included into the calculation. Had this calculation not been changed, the loss ratio for 2014 would amount to 97.4% for life insurance, 50.6% for non-life insurance and 65.7% as a total.

110 The calculation of this indicator has been changed in comparison to previous years, when the ratio equalled the sum of operating expenses (acquisition costs and administrative costs) and other technical expenses to gross written premium reduced by premiums ceded to reinsurance. Had this calculation not been changed, the expense ratio for 2014 would amount to 32.3% for life insurance, 60.3% for non-life insurance and 51.1% as a total.

111 Had there been no changes in the calculation of the loss ratio and expense ratio, in 2014 this indicator would amount to 129.7% for life insurance, 111.0% for non-life insurance and 116.9% as a total.

Chart 5.13 Insurance industry performance indicators for 2013 and 2014 (in %)



Source: Hanfa

Return on investment, return on assets (ROA) and return on equity (ROE) also represent important insurance industry performance indicators.

In 2014, return on investment totalled 3.2%, while in 2013 it stood at 2.6%. In the life insurance industry, return on investment amounted to 4.9%, falling compared to 2013, when it totalled 5.6%. In the non-life insurance industry, this ratio reached 0.5%, rising in comparison with 2013, when it amounted to -1.4%.

Return on assets in the insurance sector was negative in 2014, reaching -0.1% and falling from 0.6% in 2013. In the life insurance industry, this indicator stood at 0.7%, decreasing from 0.8% in 2013. In the non-life insurance industry, ROA reached -1.1%, falling compared to 2013, when it stood at 0.5%. The higher the ratio percentage, the better. A high ROA points to greater profitability of a company.

In 2014, the total return on equity amounted to -0.6%, decreasing significantly in comparison with 2013, when it reached 3.1%. In the life insurance industry, ROE stood at 5.7%, falling relative to 2013, when it reached 6.6%. In the non-life insurance industry, this ratio totalled -3.4%, falling considerably in comparison with 2013, when it amounted to 1.7%.

Return on investment was calculated as the ratio of income from investments reduced by investment costs for the period from 1 January 2014 to 31 December 2014 to the investment balance as at 31 December 2014.

Return on assets (ROA) is a ratio of after-tax profit or loss of the accounting period to total assets.

Return on equity (ROE) represents the relationship between after-tax profit or loss of the accounting period and equity (subscribed capital, premium on shares issued, revaluation reserves, reserves and accumulated profit or loss). It shows how much net profit or loss of the accounting period can be generated by HRK 100 of equity.

5.1.2 Croatian Insurance Bureau

Business operations of the Croatian Insurance Bureau (hereinafter: the Bureau) are financed by insurance companies that are members of the Bureau. Membership of the Bureau is mandatory for insurance companies conducting compulsory traffic insurance business, while other insurance or

reinsurance companies may join the Bureau voluntarily. Financial operations of the Bureau include Regular Business Operations and the Guarantee Fund.

5.1.2.1 Regular Business Operations

The balance sheet of the Regular Business Operations of the Bureau, which also include Taxable Activity¹¹², shows that as at 31 December 2014 the total assets of the Bureau amounted to HRK 10.2m, growing by 23.5% relative to 2013. The total liabilities of the Bureau at end-2014 stood at HRK 3.8m, declining by 4.4% in comparison with the preceding year. Sources of financing amounted to HRK 6.4m, and were comprised of own funds of the establisher in the amount of HRK 68.0 thousand and of the excess of income over expenses in the amount of HRK 6.4m. The excess of income is accounted for by all unspent funds since the beginning of the Bureau's business operations and by all acquisitions of long-term assets from funds obtained in line with the budget, and reduced by the long-term asset value impairment.

Table 5.2 Abbreviated balance sheet of the Regular Business Operations of the Bureau as at 31 December 2013 and 31 December 2014 (in HRK thousand)

Item	2013	2014	Change (%)
Assets			
Total assets	8,227	10,161	23.5
1 Non-financial assets	6,481	6,366	-1.8
2 Financial assets	1,746	3,795	117.4
Liabilities			
Total liabilities and own sources	8,227	10,161	23.5
1 Liabilities	3,640	3,801	4.4
2 Sources of financing	4,587	6,360	38.6

Source: Hanfa

In the period from 1 January 2014 to 31 December 2014, income from Regular Business Operations of the Bureau (excluding Taxable Activity) amounted to HRK 9.9m, with the largest part being accounted for by income from members (mandatory members, voluntary members, new members, additional projects). Expenses from the Regular Business Operations totalled HRK 9.1m and mainly related to salaries and fringe benefits and functional expenses (expenses linked to regular activities of the Bureau and additional projects). The excess of income in the Regular Business Operations of the Bureau amounted to HRK 2.1m.

Total income from the Taxable Activity of the Bureau reached HRK 1.1m, comprising income from the Insurance Education Centre (CEDOH), income from consulting services and income from services provided to leasing companies. Expenses of the Taxable Activity reached HRK 1.3m and comprised expenses relating to the organisation of expert consulting, expenses relating to the organisation of CEDOH seminars and other expenses. The Taxable Activity of the Bureau recorded a pre-tax loss reaching HRK 171.0 thousand.

¹¹² Taxable activity included education, consulting, services provided to leasing companies and other activities not financed from budgetary funds of the Bureau's members.

Table 5.3 Income and expenses from Regular Business Operations of the Bureau for 2013 and 2014 (in HRK thousand)

	Item	2013	2014	Change (%)
A	Income	8,529	11,024	29.2
1	Total income - Regular Business Operations	7,749	9,906	27.8
2	Total income - Taxable Activity	780	1,118	43.3
B	Expenses	8,537	9,115	6.8
1	Total expenses - Regular Business Operations	7,632	7,826	2.5
2	Total expenses - Taxable Activity	905	1,289	42.4

Source: Hanfa

5.1.2.2 Guarantee Fund

Pursuant to Article 45 paragraph 1 of the Act on Compulsory Traffic Insurance (Official Gazette 151/05, 36/09, 75/09, 76/13 and 152/14) insurance companies conducting compulsory insurance business¹¹³ are obliged to pay Guarantee Fund contributions to the Bureau, in proportion to the premium or number of risks recorded in a certain compulsory insurance class in the current year.

The Ordinance on the calculation method and time limits for paying contributions and on the manner of maintaining and using assets intended for meeting liabilities of the Guarantee Fund (Official Gazette 139/06 and 20/14) defines the method of calculating and time limits for paying contributions, the manner of maintaining and using assets intended for meeting liabilities of the Guarantee Fund, and time limits for the submission of reports on assets intended for meeting liabilities of the Guarantee Fund. The Bureau is obliged to separate assets of the Guarantee Fund from other assets of the Bureau and keep them in a special account.

As at 31 December 2014, total assets of the Guarantee Fund amounted to HRK 18.1m, decreasing by 8.4% compared to the previous year.

The Guarantee Fund consists of the Bureau's assets used for meeting liabilities arising from:

- claims resulting from accidents occurring outside the territory of the Republic of Croatia, in an EU Member State or a third country that is a member of the Green Card System, caused by insured and insured vehicles, whose settlement is guaranteed by the Bureau to foreign national bureaux
 - claims resulting from accidents occurring outside the territory of the Republic of Croatia, in an EU Member State, caused by vehicles bearing foreign registration plates and insured under Article 35 paragraph 1 of the Act on Compulsory Traffic Insurance
 - claims resulting from accidents occurring outside the territory of the Republic of Croatia, in an EU Member State or a third country that is a member of the Green Card System
 - claims resulting from accidents occurring in the territory of the Republic of Croatia, caused by uninsured vehicles
 - claims resulting from death, personal injury or impairment of health occurring in the Republic of Croatia, caused by unidentified vehicles
 - claims resulting from accidents occurring in the territory of the Republic of Croatia, caused by vehicles bearing foreign registration plates
 - claims resulting from destruction or damage of property occurring in territory of the Republic of Croatia, caused by unidentified vehicles
 - claims which could not be collected by injured parties as a result of dissolution or liquidation of the insurance company and insured amount if the owner of a vehicle serving for transportation of passengers contrary to Article 21 of the Act on Compulsory Traffic Insurance has not concluded a contract of insurance covering passengers in public transportation against personal accident or if the insured amount has not been paid due to dissolution or bankruptcy of the insurance company.
- The Guarantee Fund serves for the reimbursement of costs arising from claim processing, but it cannot serve for the compensation of damage caused by vehicles bearing foreign registration plates which circulate in the Republic of Croatia on the basis of specific agreements whose signatory is the Republic of Croatia, if these vehicles do not have an international certificate or proof of motor vehicle liability insurance.

¹¹³ Article 2 paragraph 1 of the Act on Compulsory Traffic Insurance defines the following classes of compulsory insurance: accident insurance of passengers in public transport, third party liability insurance of owners or users of motor vehicles, third-party liability insurance of air carriers and aircraft operators, third party liability insurance of owners or users of motor boats or yachts.

Table 5.4 Abbreviated balance sheet of the Guarantee Fund for 2013 and 2014 (in HRK thousand)

Item	2013	2014	Change (%)
Assets			
Total assets	19,799	18,132	-8.4
1 Non-financial assets	430	416	-3.3
2 Financial assets	19,369	17,716	-8.5
Liabilities			
Total liabilities and own sources	19,799	18,132	-8.4
1 Liabilities	1,446	1,307	-9.6
2 Sources of financing	18,353	16,825	-8.3

Source: Hanfa

5.1.3 Croatian Nuclear POOL Economic Interest Grouping¹¹⁴

Pursuant to Article 270, paragraph 1 of the Insurance Act, two or more insurance or reinsurance companies may establish an insurance or reinsurance pool, for the purpose of carrying on insurance or reinsurance business covering risks of liability claims for great damage arising from nuclear energy or for other great damage. The only association of such nature in the Republic of Croatia is the Croatian Nuclear Insurance and Reinsurance Pool EIG (hereinafter: CN POOL), consisting of five members as at 31 December 2014 (four insurance companies and one reinsurance company). Members of the CN POOL jointly accept extraordinary risks with respect to insurance, co-insurance and reinsurance of nuclear plants, i.e. risks related to the exploitation of nuclear power for peacetime purposes.

5.1.3.1 Financial Statements

As at 31 December 2014, the total assets of the CN POOL reached HRK 86.5m, rising by 10.7% compared to 2013. The asset structure was dominated by cash at bank and in hand (56.3% of the total assets) amounting to HRK 48.7m. The largest liability share (77.0%) was accounted for by technical provisions totalling HRK 66.6m.

In the period from 1 January 2014 to 31 December 2014, the CN POOL generated a profit totalling HRK 51.2 thousand and increasing by 8.0% compared to the preceding year. The total income amounted to HRK 25.5m, increasing by 62.5% compared with 2013, primarily due to a rise in the collection of receivables from court proceedings. The largest income share was accounted for by reinsurance premiums, which amounted to HRK 11.3m, rising by 22.0% relative to 2013. Insurance premium totalled HRK 6.5m, falling by 13.5% in comparison with the previous year. Investment income, amounting to HRK 3.0m, increased by 59.5% compared to the previous year.

Total expenses reached HRK 25.4m, rising by 62.7% relative to the previous year. The change in provisions, comprised of provisions for claims, provisions for bonuses and rebates, unearned insurance premiums, unearned reinsurance premiums and other technical provisions, amounted to HRK 6.7m. The total amount of settled claims reached HRK 3.4m, increasing by 9.7% relative to 2013.

Income intended to finance regular business operations of the CN POOL comprised a part of insurance and reinsurance premiums, and income from investments. In 2014, it amounted to HRK 9.3m. Material and non-material expenses amounted to HRK 3.2m.

¹¹⁴ Pursuant to Article 583 of the Companies Act (Official Gazette 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 152/11, 111/12 and 68/13), an economic interest grouping (EIG) is a legal person established by two or more natural or legal persons with the aim of facilitating and promoting economic activities which constitute the scope of their business operations, and of improving the effect of those operations, provided that these legal persons do not generate profits for themselves.

5.1.4 Insurance Representation Business and Insurance and Reinsurance Brokerage Business

Data on insurance representation business and insurance and reinsurance brokerage business in 2014 was collected from financial statements and statistical reports submitted to Hanfa by insurance agencies, insurance and reinsurance brokerage companies, insurance representation crafts, HP – Hrvatska pošta d.d., and credit institutions having their registered office in the Republic of Croatia in accordance with the scope, deadlines and manner defined by the Ordinance on the form and content of financial and statistical reports compiled by insurance agencies and insurance and reinsurance brokerage companies (Official Gazette 149/09, 42/10, 52/13 and 151/14). According to the data received, the total income from insurance representation services and insurance and reinsurance brokerage services provided in 2014 reached HRK 379.5m, rising by HRK 23.2m or 6.5% relative to the preceding year.

Insurance agencies generated income from insurance representation services totalling HRK 152.0m and accounting for a 40.1% share in the total income recorded in insurance representation and insurance and reinsurance brokerage business. Credit institutions reported income from insurance representation business in the amount of HRK 124.7m, which accounted for a 32.9% share in the total income structure. Income reported by insurance and reinsurance brokerage business totalled HRK 65.7m and made up a 17.3% share in the total income from insurance representation and insurance and reinsurance brokerage business.

5.2 Hanfa's Regulatory Activities

5.2.1 Normative Activities

Act on Amendments to the Insurance Act

The Act on Amendments to the Insurance Act (Official Gazette 94/14) entered into force on 8 August 2014, introducing significant changes to the existing regulatory regime, primarily for the purpose of aligning it with the EU regulatory framework. Some of the more considerable changes related to the decision-making in the qualifying holding acquisition process, merger, acquisition and division of insurance companies, terms and conditions for obtaining authorisation to perform the function of the management board member, systems of governance and key functions, and supervision and conduct of insurance representation business. This act also introduced provisions on violations committed by foreign insurance companies or reinsurance companies and by insurance agencies or insurance or reinsurance brokerage companies from another Member State.

The amended provisions regulating the decision-making in the qualifying holding acquisition process laid down very detailed rules with respect to the procedure and conditions for the approval or rejection of the application for acquisition of qualifying holdings. The existing rules on the merger, acquisition or division of companies were changed, due to the access of the Republic of Croatia to the European Union, the expansion of the market, and the possibility of merging companies operating in the Republic of Croatia with those operating in Member States. The new provisions also provided for more detailed rules on the submission of applications for the management board members, changed the requirements that candidates for management board membership need to meet in order to start the verification procedure prior to obtaining authorisation to perform the function of the management board member and provided for a possibility of joining procedures relating to the approval of the application for the management board member, issuance of authorisation and acquisition of qualifying holdings in insurance companies. Changes in the governance system introduced key functions (risk management function, internal audit function, actuarial function, and internal control and compliance function) that each insurance company needs to establish in order to comply with the existing regulations. The supervisory procedure underwent significant changes as well, one of them being a change in supervisory measures, that now include

recommendation, warning, elimination of illegalities and irregularities, additional supervisory measures, withdrawal of authorisation to conduct insurance business in respect of all or certain business lines a company is authorised to carry out, appointment of a trustee and appointment of a special management board. This allows the supervisory authority to take a wide range of supervisory measures, depending on the gravity of illegalities or irregularities established. As regards insurance representation business, insurance companies and insurance agencies are now allowed to employ insurance agent assistants or to include them in their sales networks.

Insurance agent assistant is a natural person assisting, on the basis of employment or any other legal relation, the insurance agent by linking the insurance agent with a potential policyholder for the purpose of concluding an insurance contract serving as the basis for his remuneration. Where the assistant does not have authorisation to conduct insurance representation business, he can carry out these tasks for no longer than two years.

Regulations adopted pursuant to the Act on Amendments to the Insurance Act

In 2014, Hanfa adopted new ordinances, amendments to existing ordinances, guidelines and amendments to statistical standards for the insurance industry pursuant to the amendments to the Insurance act and in accordance with the EU legal framework and the Solvency II Directive^{115,116}.

The new ordinances regulate:

- key function requirements in insurance companies
- risk management system
- audit content in insurance companies
- outsourcing of functions or activities
- requirements for issuing authorisation to pursue insurance or reinsurance business and authorisation to acquire a qualifying holding in insurance companies or reinsurance companies
- requirements for management board members in insurance companies or reinsurance companies
- requirements for professional training and examination of professional knowledge required to perform duties of a certified actuary.

The new ordinances amending the existing ordinances lay down:

- requirements for professional training and examination of professional knowledge required to pursue insurance representation or insurance and reinsurance brokerage business
- contents of regular reports and reports submitted at Hanfa's request
- the manner in which insurance companies handle complaints submitted by insured persons, policyholders and insurance beneficiaries, form and contents of financial statistical reports of insurance agencies and insurance and reinsurance brokerage companies
- manner of calculating capital, guarantee fund and capital adequacy of insurance companies and reinsurance companies
- manner of calculating solvency margins of insurance companies and reinsurance companies
- supplementary supervision of insurance companies and reinsurance companies in insurance groups
- statistical standards.

Two new guidelines laid down the adequate risk management process for supervised entities' IT systems and the manner in which audit of supervised entities' IT systems is carried out by audit firms.

115 Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), OJ L 335

116 The list of ordinances adopted by Hanfa in 2014 is provided in the Appendix.

New Insurance Act

In 2014, Hanfa worked on the preparation of the new Insurance Act as a result of the obligation of Member States to transpose the provisions of the Solvency II Directive as last amended by the Omnibus Directive¹¹⁷ into national law by 31 March 2015, with the application date being 1 January 2016.

The new legislative framework aims to establish new, more stringent rules and requirements with respect to capital adequacy, introduce changes to the risk management system, improve the asset and liability valuation rules, improve risk based supervision and provide for sanctions against inadequate risk management procedures, and introduce a new reporting and public disclosure system, which will result in adequate protection for policy holders and insured persons and prevent market disturbances.

Act on Amendments to the Act on Compulsory Traffic Insurance

The Act on Amendments to the Act on Compulsory Traffic Insurance (Official Gazette 152/14) entered into force on 30 December 2014, retroactively deleting the provision of Article 23 point 26 of the Act on Compulsory Traffic Insurance, according to which an injured party which is the owner or driver of an uninsured vehicle that participated in a traffic accident was not entitled to compensation under third party motor vehicle liability insurance. The purpose of the deletion is to provide insurance protection for the injured owner/driver even where they have used an uninsured vehicle and ensure that they are entitled to compensation from the insurer of the insured owner of the vehicle, at the same time providing insurance protection for the owner/driver of the insured vehicle that caused the accident. The said amendments define in more detail the right of recourse, which gives the insurance company the right to seek reimbursement from the person responsible for the damage where the damage has been caused by a criminal offence of wanton driving in respect of which a final judgement has been pronounced.

Participation in the Work of EU Institutions

Following the publication of EIOPA's¹¹⁸ Guidelines on the preparatory phase for the new regulatory system as prescribed by the Solvency II Directive (hereinafter: Preparatory Guidelines)¹¹⁹, Hanfa announced its general intention to comply with the Guidelines on system of governance (EIOPA-CP-13/08), Guidelines on forward looking assessment of own risks (based on the ORSA¹²⁰ principles) (EIOPA-CP-13/09) and Guidelines on submission of information to national competent authorities (EIOPA-CP-13/10). The guidelines entered into force on 1 January 2014 and are intended for national competent authorities for the purpose of their consequent and harmonised approach in preparation for the Solvency II regime. The key areas covered by the guidelines relate to the system of governance, including the risk management system and the forward looking assessment of own risks (based on the ORSA principles), and to the submission of information to national competent authorities. During the preparatory phase, that started in 2014, national competent authorities are expected to ensure that insurance companies and reinsurance companies take into account the prudent person principle, including during the preparatory period and in addition to the regulatory quantitative limits applicable in accordance with the existing supervisory system, make an improvement as regards the establishment of adequate management structures related to their overall business operations and adopt a forward looking approach to risks they are exposed to. They should

117 Directive 2014/51/EU of the European Parliament and of the Council of 16 April 2014 amending Directives 2003/71/EC and 2009/138/EC and Regulations (EC) No 1060/2009, (EU) No 1094/2010 and (EU) No 1095/2010 in respect of the powers of the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority), OJ L 153

118 For more details on the European Insurance and Occupational Pensions Authority (EIOPA), see Chapter 9.1.2 Participation in the Work of EIOPA.

119 The Preparatory Guidelines prescribe the procedure and manner in which local supervisory authorities should prepare for the up-coming Solvency II regime.

120 Own Risk And Solvency Assessment (ORSA) implies regular assessment of overall solvency needs taking into account the specific risk profile.

also ensure that insurance companies and reinsurance companies design and establish appropriate systems and structures that will enable adequate exchange of information with national competent authorities. For this reason, in 2014 Hanfa organised a meeting with all the insurance companies and the reinsurance company with respect to the implementation of the Preparatory Guidelines and the Stress Test 2014. The companies were invited to participate in a joint, harmonised two-year preparation for the new regulatory framework. The invitation was addressed to all the companies, irrespective of the insurance industry thresholds for the submission of information and forward looking assessment of own risks, as defined by the Preparatory Guidelines. The meeting was followed by further activities, such as participation of the companies in the HANFA_HUO_HAD Working Group¹²¹, which carried out a detailed analysis of the guidelines, forms for the submission of information and all the issues faced by the companies during the early preparatory phase. The year 2014 was a starting point for the preparation for Solvency II, at which all the parties expressed their readiness to participate. The preparatory activities will continue in order to ensure that the insurance companies, the reinsurance company and Hanfa are ready for the new regulatory regime. The Act on Amendments to the Insurance Act set a legislative framework enabling the implementation of the guidelines in the preparatory phase and defined the key functions within the company necessary for an efficient system of governance.

As regards other guidelines issued by EIOPA on supervisory practice in all Member States, Hanfa announced its intention to comply with the Guidelines on complaints-handling by insurance intermediaries (EIOPA –BoS-13/164). These guidelines also apply to national competent authorities with respect to the supervision of the complaints-handling procedure carried out by insurance agents and insurance and reinsurance brokers, and were designed in line with the Guidelines on complaints-handling by insurance undertakings, which Hanfa announced to comply with in 2013. In this respect, Hanfa ensured the proportionality principle, which takes account of the type and size of the insurance intermediary.

In 2014, EIOPA also issued the Guidelines on the use of the Legal Entity Identifier (LEI) (EIOPA-BoS-14-026), which Hanfa, at the end of the year, announced to comply with. The compliance relates to the use of LEIs as unique identification code for insurance and reinsurance companies and groups, as well as for institutions for occupational retirement provision. The purpose of these guidelines is to establish consequent and efficient supervisory practices by harmonising the identification of legal entities in order to ensure high-quality, reliable and comparable data.

5.2.2 Licensing

In 2014, Hanfa received and handled 16 applications for the position of member of the management board of the insurance company and an application for the acquisition of the insurance company.

Hanfa also received an application for issuance of the certificate on successful completion of the examination of professional knowledge required to perform duties of a certified actuary and an application for issuance of the authorisation to perform duties of a certified actuary.

Following the reception of applications, Hanfa issued authorisations to conduct insurance representation business and insurance and reinsurance brokerage business to 12 insurance agencies and 19 insurance representation crafts. It also issued authorisations to conduct insurance and reinsurance brokerage business to two insurance and reinsurance brokerage companies. Following the reception of applications for authorisations to conduct insurance representation business at the vehicle roadworthiness test garage, Hanfa granted the authorisations to five insurance agencies and two insurance representation crafts. After having received notifications relating to termination of oper-

¹²¹ Working group on capital adequacy and solvency – Solvency II consists of experts from Hanfa, the Bureau and the Croatian Actuarial Association. Its objective is the adoption of the provisions of the Solvency II Directive and the adjustment of the Croatian insurance companies and reinsurance companies to the new Solvency II regime.

ation, Hanfa adopted decisions establishing the termination of authorisation to conduct insurance representation business granted to 11 insurance agencies, 22 insurance representation crafts, and four insurance agencies and an insurance representation craft conducting insurance business at vehicle roadworthiness test garages.

A total of eight examinations¹²² were taken by 1,874 candidates, namely 1,825 candidates who took examination for insurance representation business and 49 candidates who took the examination for insurance and reinsurance brokerage business. A total of 1,597 or 85.2% candidates passed the examination (1,560 insurance agents and 37 insurance and reinsurance brokers), while 277 candidates or 14.8% failed.

In 2014, Hanfa received 356 notifications, of which 145 related to direct pursuit of insurance business by insurance companies, 209 related to direct pursuit of activities of insurance and reinsurance mediation and two related to pursuit of insurance representation business through a branch in the Republic of Croatia. Since the accession of the Republic of Croatia to the European Union, Hanfa has received 529 notifications, of which 175 related to direct pursuit of insurance business by insurance companies, 352 to direct pursuit of activities of insurance and reinsurance mediation and two to pursuit of insurance representation business through a branch in the Republic of Croatia. At the same time, three domestic insurance companies, six insurance and reinsurance brokerage companies, one insurance agency and two authorised insurance agents submitted notifications to Hanfa of their intention to directly provide services in the European Union, which Hanfa forwarded to competent supervisory authorities.

5.2.3 Supervision

Taking account of the fact that the Solvency II regulatory framework starts to apply fully on 1 January 2016, in 2014 Hanfa continued working on the risk-based supervisory approach and methodology, developed risk modules, and carried out the qualitative assessment of insurance companies' risk profile.

The supervisory process under the Solvency II regime will be based on risks. The purpose of such approach is to identify and manage insurance companies' risks, define priorities and frequency of the supervisory process (on-site and off-site), assess financial vulnerability to potentially negative experiences through stress tests, identify the existing and any future deficiencies in insurance companies' business operations, and promote and safeguard the stability of the financial system. However, risk-based supervision does not imply that Hanfa ceased to monitor the compliance of insurance companies with the law, i.e. with capital and licensing requirements. Instead, a risk-based approach only intensifies supervision of insurance companies and promotes the best supervisory practice.

A risk-based methodology includes supervision, a qualitative and quantitative assessment of insurance companies, a risk assessment system and an overall evaluation of insurance companies.

Notification is a procedure during which Hanfa receives information from the competent authority of another Member State of the European Union or the European Economic Area of the intention of the insurance company and persons (legal and natural) authorised to conduct insurance representation business and insurance and reinsurance brokerage business from that Member State to conduct insurance business, insurance representation business or insurance and reinsurance brokerage business directly or through a branch established in the Republic of Croatia. On its website, Hanfa publishes the list of entities from other Member States in respect of which, in accordance with the prescribed procedure, it has received a notification of their intention to provide services in the Republic of Croatia, and the list of services they intend to provide. Supervision of persons conducting insurance business, insurance representation business or insurance and reinsurance brokerage business in the Republic of Croatia is carried out by the competent authority from the Member State. Exceptionally, Hanfa may examine business activities of the branch of the insurance company from another Member State established in the Republic of Croatia at the request of the competent supervisory authority from that Member State or for the purpose of verifying the alignment of activities carried out by persons conducting insurance business, insurance representation business or insurance and reinsurance brokerage business directly or through a branch in the Republic of Croatia with relevant Croatian regulations.

¹²² Examinations for natural persons testing professional knowledge needed to obtain authorisation to conduct insurance representation business or insurance and reinsurance brokerage business

The legislative framework underlying the implementation of this approach to supervision covers the Insurance Act, Solvency II Directive, Commission Delegated Regulation 2015/35¹²³, Implementing Technical standards and EIOPA Guidelines.

Supervisory activities carried out in 2013 and 2014 included qualitative risk assessment for 28 insurance companies.

The year 2014 saw the commencement of the quantitative approach to the assessment of risks, which includes regular quarterly update of indicators based on supervisory reports, off-site and on-site examinations and other information, while focusing on major risks that companies are or could be exposed to, including the forward-looking approach (especially FLAOR / ORSA reports). This approach is supposed to be finalised in 2015, within the framework of the Solvency II Preparatory Phase, and includes the development of the early warning system and risk monitoring techniques, such as sensitivity analysis and stress testing (e.g. “what if” scenarios), taking into account various negative events and effects.

ORSA includes the assessment of the overall solvency needs (starting from 2014), verification of the continuous compliance regarding regulatory capital requirements and technical provisions and the assessment of deviations between insurance companies’ risk profile and the assumptions underlying the solvency capital requirement (starting from 2015).

Pursuant to guidelines adopted by EIOPA, which entered into force in 2014, in early 2015 insurance companies submitted to Hanfa their reports on the forward-looking assessment of own risk based on ORSA principles. The reports included the assessment of risks the insurance companies are exposed to, the calculation of solvency capital requirement (SCR) and the solvency ratio, projections of SCR and own funds for future periods, stress tests and sensitivity analyses. They also contained the main objectives of the insurance companies, their impact on significant risks and measures that insurance companies are planning to take in the future.

The risk-based approach to supervision was applied in 2014 and will continue to be applied in 2015 within the framework of insurance companies’ off-site supervision, primarily with respect to non-life insurance (motor vehicle third-party liability insurance and road vehicle insurance). This supervisory approach implies an understanding of insurance companies’ business models and usage of various risk monitoring techniques, e.g. sensitivity analysis and stress testing, taking account of different negative events and effects, such as:

- consideration of business plans and projection of business operations in expected circumstances (projected changes in premium, projected premium sufficiency for classes 03 and 10 and total non-life insurance classes and projected capital adequacy)
- monitoring of changes in premium sufficiency and technical provisions and of capital adequacy (movements in certain indicators and comparison between achieved and projected results, reasons for significant deviations from the projections, if any)
- premium sufficiency risk management (monitoring insurance premium sufficiency risk for classes 03 and 10.01 within the company, quantitative and qualitative performance indicators used by the company: acceptable and unacceptable indicator levels)
- identification of weaknesses for various levels of adverse deviations from projected operating conditions (how a market decrease in classes 10 and 03 premium is reflected on the premium sufficiency of these classes, on the premium sufficiency of total non-life insurance and on capital adequacy, capability of the company to cover losses resulting from unfavourable changes in classes 10 and 03)
- analysis and monitoring of measures intended to be taken by companies (cost control, changes in price lists, bonus restrictions), along with the business impact analysis and violations of regulations.

5.2.3.1 On-Site Supervision

In the course of 2014, Hanfa conducted a total of 15 on-site examinations of entities operating on the insurance market, of which two were targeted, and 13 were full-scope examinations. Five examinations were initiated in 2013 and completed in 2014. Eight examinations were initiated and

¹²³ Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) OJ L 12

completed in 2014, while two examinations initiated in 2014 continued into 2015. Out of the 15 on-site examinations, 12 were carried out in insurance companies, two in insurance agencies and one in the CN POOL.

Supervision of insurance companies' business operations covered the risk management system, conclusion of insurance agreements, investments, processing and settlement of claims, calculation and recording of commission and other acquisition costs, calculation and recording of technical and mathematical provisions, capital adequacy, risk management relating to security and adequacy of the IT system, cancelled life insurance policies, charging of premiums and payment of commission under insurance policies and implementation of the Act on the Prevention of Money Laundering and Terrorist Financing (Official Gazette 87/08 and 25/12) and relevant regulations. During the examination of business operations of insurance companies, certain violations and irregularities were established relating primarily to:

- inadequacy of the risk management system
- lack of, failure to comply with and inadequacy of internal acts and procedures
- failure to comply with subordinate regulations adopted by Hanfa
- failure to comply with the International Financial Reporting Standards
- irregularities relating to the calculation and recording of commission and other acquisition costs and to deferred acquisition costs
- maintenance of business books and records
- failure to comply with premium systems and related conditions by types of insurance covered by supervision
- insufficient insurance premium in road vehicles insurance
- inadequate claim processing and settlement and failure to obey deadlines regulating that process
- risk management with respect to the security and adequacy of the IT system
- outsourcing of claim settlement activities without Hanfa's approval
- failure to implement measures aimed at preventing money laundering and terrorist financing.

Supervision of insurance agencies' business operations covered the compliance of insurance representation business with the provisions of the Insurance Act and financial operations of insurance agencies. During the examinations, violations and irregularities were established relating to unauthorised conduct of insurance representation business, activities carried out contrary to internal acts, incomplete accounting documents and failure to comply with the principle of good faith while conducting insurance representation business.

Supervision of business operations of the CN POOL did not establish any significant violations or irregularities as regards insurance business.

All the above-mentioned violations and irregularities resulted from a failure to comply with the provisions of the Insurance Act, Act on Amendments to the Insurance Act, Accounting Act and International Financial Reporting Standards, Civil Obligations Act (Official Gazette 35/05, 41/08 and 125/11), Companies Act (Official Gazette 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11, 152/11, 111/12 and 68/13), Act on the Prevention of Money Laundering and Terrorist Financing and regulations adopted under these acts.

Hanfa adopted 14 decisions ordering elimination of the violations and irregularities and relating to on-site examinations completed in 2013 and 2014. The supervised entities acted in accordance with the decisions and within the deadlines defined.

5.2.3.2 Off-Site Supervision

Off-site supervision carried out by Hanfa in 2014 involved on-going monitoring of insurance business conducted by insurance companies and of insurance companies' compliance with supervisory provisions. It was based on reports submitted by insurance companies within prescribed deadlines, on documents, notifications and other data submitted to Hanfa at its request, on data and findings collected from other sources and on interviews conducted with management board members, supervisory board members and other responsible persons.

As a result of the analysis of annual and quarterly financial, supervisory and statistical reports (trends in performance indicators, financial position, capital adequacy), the analysis of business models and measures taken by the companies following negative deviations by key indicators, the assessment of total risk profile of individual insurance companies as regards motor vehicle insurance (class 03 and 10) with respect to the market, the decline in premium sufficiency in risk type 10.01 and the decline in premium sufficiency in class 03, examinations carried out in 11 insurance companies were focused on premium sufficiency by insurance classes, road vehicle insurance, third party motor vehicle liability and/or capital adequacy. In addition, as a result of the analysis of audited financial reports, auditor's review, stress test 2014 with respect to valuation of financial assets for the purpose of calculating solvency needs, and the application of IFRS 13 Fair Value Measurement, the examinations carried out in three insurance companies were focused on financial asset valuation.

In addition to the targeted off-site examinations aimed at stabilising the insurance market as regards insurance classes 03 and 10 and financial asset valuation, a significant part of supervisory activities were focused on the Solvency II Preparatory Phase and implied the reception, analysis and review of the FLAOR (ORSA) reports for 2014, on-going communication with the companies (including meetings with their representatives) and the preparation of their employees for the reception and analysis of annual and quarterly supervisory reports in accordance with the new regulatory framework.

Within the framework of off-site supervision of insurance companies, Hanfa also carried out the stress test launched by EIOPA on 30 April 2014, prescribing all the parameters needed. The purpose of the test was to assess the resilience of the insurance industry to adverse market developments and to evaluate the potential for systemic risk to increase in situations of stress. The test was carried out by 14 insurance companies in the Republic of Croatia, covering, as regards gross written premium, 69.8% of the life insurance market, 81.3% of the non-life insurance market and 80.6% of the total insurance market.

The stress test exercise is divided into the core module and the low-yield module. The core module includes two various market scenarios, covering financial asset stresses, shocks to real estate and tangible assets and interest rates stresses. These market scenarios are complemented by a set of independent insurance-specific shocks covering mortality, longevity, laps rate, insufficient reserves and catastrophe shocks. The low-yield module measured the impact of a prolonged low interest rate environment and was carried out by ten companies conducting life insurance business in the Republic of Croatia and accounting for 80.4% of total mathematical provisions.

By 11 July 2014, the insurance companies had submitted their test results, validated by Hanfa at individual level by the end of July. On 31 July 2014, the results were sent to EIOPA and validated centrally. The second national validation round was carried out at end-August, and the final results were published by EIOPA in November 2014.

Hanfa's employees participated in colleges of supervisors organised by group supervisors, for each individual company operating in the Republic of Croatia and being a member of the group with its registered office in another Member State. Apart from participation at meetings organised in the Member State in which a group has its registered office, membership of colleges of supervisors also implies Hanfa's on-going cooperation with group supervisors. This cooperation implies regular reporting on activities carried out by insurance companies operating in the Republic of Croatia, participating in bilateral and multilateral teleconferences and dealing with various issues relating to companies that are group members. In 2014, Hanfa's employees participated in ten meetings organised within the colleges of supervisors.

Pursuant to Regulation (EU) No 1094/2010¹²⁴, in 2014 Hanfa informed EIOPA of changes in the Register of Insurance and Reinsurance Companies, Pension Insurance Companies and Closed-Ended Pension Funds.

¹²⁴ Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC, OJ L 331/12



Leasing



6 Leasing

6.1 Market Overview

In 2014, the leasing market continued to reflect the general economic situation in the Republic of Croatia. The consequences of adverse developments in the real sector had a direct impact on trends in the leasing industry, with falling domestic demand resulting in a decline in leasing companies' business activities. For the sixth consecutive year, the leasing market recorded a decrease in total assets and in the value of active contracts¹²⁵. The value of newly concluded contracts in the last five years has stabilised, amounting to about HRK 5bn.

As in the previous year, leasing operations in the Republic of Croatia were carried out by 23 leasing companies.¹²⁶ The majority of them were a part of a group of financial institutions and owned by non-residents, while only five companies were resident-owned. Looking at ownership by actual owner (indirect and direct owner), only two companies were owned by residents. Leasing companies with access to higher quality sources of financing found it easier to adapt to the difficult business environment, whereas others will face serious difficulties in carrying out future business operations.

A lease is an arrangement where the lessor acquires an asset by purchasing it from a vendor, thus obtaining the ownership right, and allows the lessee to use the leased asset for a period of time in exchange for one or more payments. Exceptionally, the lessor may provide leasing services involving leased assets acquired in another manner prescribed by law. In this case, the lessor is at the same time the vendor of the leased asset.

Leases may be classified either as finance leases or operating leases. Under a finance lease, the lessee pays the lessor a defined fee during a period of time, that takes into account the overall value of the leased asset, bears the depreciation costs and has the option to purchase it and become its owner at the price that is lower than the fair value of the asset at the moment of exercise of the purchase option. The risks and benefit related to the ownership of the leased asset are mostly transferred to the lessee.

Under an operating lease, the lessee pays the lessor a defined fee during a period of time, that does not have to take into account the overall value of the leased asset, the lessor bears the depreciation costs and the lessee does not have a purchase option. The risks and benefits referring to the ownership of the leased assets remain mostly related to the lessor, i.e. they cannot be transferred to the lessee.

¹²⁵ The data used in the analysis of the leasing industry in the annual reports for 2013 and 2014 were taken from annual financial and additional reports for the period from 1 January to 31 December 2014 submitted to Hanfa by 23 leasing companies in accordance with the Ordinance on the structure and content of financial statements and additional reports of leasing companies and on the manner of and time limits for their submission (Official Gazette 60/14). For the sake of comparability, the data as at 31 December 2013 relate to the data submitted to Hanfa in reports as at 31 December 2014 (for the preceding year) by the 23 companies. The data for the year 2012 and earlier relate to data originally submitted by leasing companies by years. The data for earlier periods presented in Hanfa's Annual Report 2014 may differ from the data in earlier reports due to the application of the provisions of the Accounting Act (Official Gazette 109/07, 109/07, 54/13 and 121/14), Leasing Act (135/06 and 141/13), International Financial Reporting Standards adopted by the European Union, changes in reporting methodology, as well as due to actions taken by leasing companies in accordance with instructions contained in Hanfa's records prepared following examinations.

¹²⁶ The list of Hanfa's supervised entities is available at www.hanfa.hr.

Chart 6.1 Assets and the value of newly concluded contracts of leasing companies in the period from 2012 to 2014 (in HRK million)



Source: Hanfa

6.1.1 Asset Structure

As at 31 December 2014, leasing companies' total assets recorded a decrease compared with the same day of the previous year. This was a result of the depreciation (expiry) of the existing contracts in operating finance lease that was faster than the growth in the amount of newly concluded contracts, value adjustment for receivables and the repayment of loans used to finance lease operations.

Table 6.1 Leasing companies' asset structure as at 31 December 2013 and 31 December 2014 (in HRK thousand)

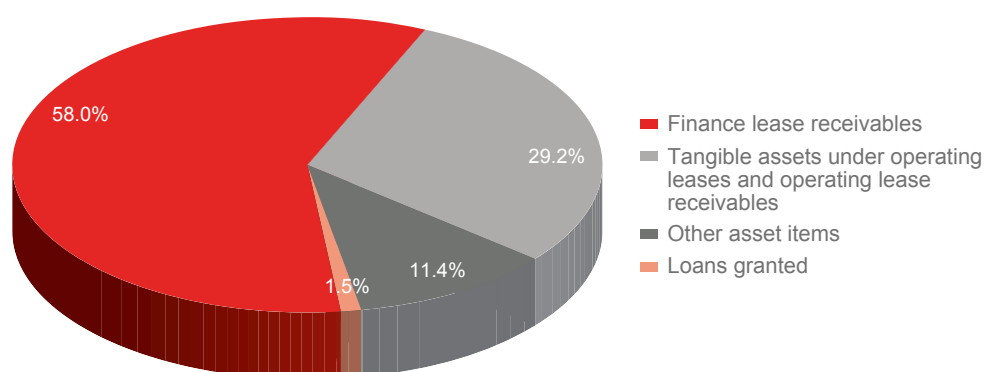
Item	31 Dec 2013	31 Dec 2014	Change (in %)
Tangible assets under operating leases	5,445,073	5,032,341	-7.6
Operating lease receivables	161,336	176,992	9.7
Finance lease receivables	10,855,008	10,359,497	-4.6
Loans granted	999,382	265,242	-73.5
Inventories	868,548	816,369	-6.0
Other assets	1,356,285	1,213,060	-10.6
Total assets	19,685,633	17,863,501	-9.3

Source: Hanfa

The largest asset item was accounted for by finance lease receivables, making up 58.0% of the assets, of which short-term receivables totalled HRK 2.9bn and long-term receivables HRK 7.4bn. Tangible assets under operating leases and operating lease receivables accounted for 29.2% of the total assets. A decline in these items recorded in comparison with the previous year was mostly

due to a business slowdown of leasing companies.

Chart 6.2 Leasing companies' asset structure as at 31 December 2014



Source: Hanfa

The share of the ten largest leasing companies in the total assets of leasing companies reached 77.5%, slightly declining compared with the previous year, when it stood at 78.8%. All the leasing companies from the top ten group are members of bank groups.

6.1.2 Liability Structure

The year 2014 saw a decrease in the scale of self-financing, reflected in a fall in capital and reserves in the liability structure of leasing companies. As at 31 December 2014, this item totalled HRK 352.0m, decreasing by HRK 940.9m relative to the previous year. This was mostly due to the loss recorded for the year and withdrawal of retained profit by owners, and to a simultaneous increase in the initial capital and capital reserves relative to 2013. Initial capital of all leasing companies amounted to HRK 1.2bn, rising by HRK 255.6m in comparison with the previous year.

Reduced business activity led to a fall in leasing companies' liabilities for loans from banks and financial institutions. As at 31 December 2014, this item reached HRK 15.8bn, decreasing by HRK 461.1m or 2.8% relative to the previous year. Liabilities for loans from foreign banks and financial institutions fell by HRK 1.2bn, while liabilities for loans from domestic banks and financial institutions rose by HRK 699.3m. Liabilities for deposits and guarantees relating to amounts guaranteed under operating lease contracts followed a decline in the value of active contracts and decreased by HRK 112.9m or 18.37%.

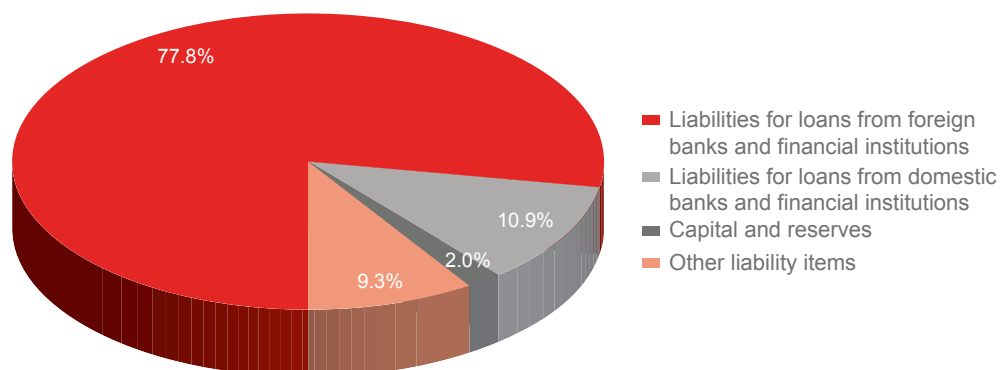
Table 6.2 Leasing companies' liability structure as at 31 December 2013 and 31 December 2014 (in HRK thousand)

Item	31 Dec 2013	31 Dec 2014	Change (in %)
Capital and reserves	1,292,931	351,991	-72.8
Liabilities for loans from foreign banks and credit institutions	15,060,842	13,900,409	-7.7
Liabilities for loans from domestic banks and credit institutions	1,244,621	1,943,929	56.2
Other liabilities	2,087,239	1,667,173	-20.1
Total assets	19,685,633	17,863,501	-9.3

Source: Hanfa

Although 2014 saw a decrease in the level of borrowing, leasing companies' liability structure shows that their assets were still primarily financed by loans from banks and financial institutions: as much as 88.7% of the total assets were accounted for by long-term and short-term liabilities for loans from domestic and foreign banks and financial institutions. These liabilities were dominated by loans from foreign banks and financial institutions (77.8% of leasing companies' total liabilities). This is a common way of financing in the leasing industry, since most leasing companies are majority-owned by foreign banks and their related financial institutions, which finance their business operations.

Chart 6.3 Leasing companies' liability structure as at 31 December 2014



Source: Hanfa

6.1.3 Financial Operating Results

In 2014, leasing companies reported negative operating results, reflected in loss after profit, which totalled HRK 1.4bn (in 2013, it reached HRK 247.8m). This was mostly due to the costs for value adjustments for impairment losses, which amounted to HRK 1.1bn and related to the impairment of finance and operating lease receivables, loans and other financial assets.

Costs for value adjustment for impairment losses rose by as much as HRK 590.6m or 111.6% relative to 2013, mainly due to new value adjustments for impairment losses reported by two leasing companies which also recorded the largest after-tax losses in 2014.

Table 6.3 Statement of comprehensive income of leasing companies in 2013 and 2014 (in HRK thousand)

Item	1 Jan-31 Dec 2013	1 Jan-31 Dec 2014	Change (in %)
Interest income	745,081	672,351	-9.8
Interest expenses	430,553	383,280	-11.0
Interest profit/loss	314,529	289,071	-8.1
Income from fees and commissions	52,182	40,177	-23.0
Expenses on fees and commissions	29,394	28,230	-4.0
Profit/loss on fees and commissions	22,788	11,946	-47.6
Other operating income	2,073,708	1,857,427	-10.4
Other operating expenses	2,071,430	2,316,092	11.8

Item	1 Jan-31 Dec 2013	1 Jan-31 Dec 2014	Change (in %)
Profit/loss on other income and expenses	2,278	-458,665	-
Profit/loss before expenses on value adjustment for impairment losses	339,594	-157,648	-
Expenses on value adjustment for impairment losses	529,093	1,119,664	111.6
Profit/loss before profit tax	-189,499	-1,277,312	574.0
Profit tax	58,347	51,807	-11.2
Profit/loss after profit tax	-247,846	-1,329,119	436.3

Source: Hanfa

After-tax profit totalling HRK 185.1m was reported by 14 leasing companies, whereas nine leasing companies recorded after-tax loss reaching HRK 1.5bn.

6.1.4 Leasing Companies' Portfolio Structure

In 2014, the number of newly concluded contracts in leasing companies' portfolio structure rose, while their total value fell. The number and value of active contracts declined compared to 2013. A reduction in the volume of business operations (value of newly concluded contracts) led to a decrease in the value of leasing companies' assets, since the value of newly concluded contracts did not suffice to compensate for the decline in the value of active contracts.

Table 6.4 Leasing companies' portfolio structure as at 31 December 2013 and 31 December 2014

Date/period from 1 Jan to	Newly concluded contracts in the period			Active contracts as at		
	Number of newly concluded contracts	Value of newly concluded contracts (in HRK thousand)	Average value of newly concluded contracts (in HRK thousand)	Number of active contracts	Value of active contracts (in HRK thousand)	Average value of active contracts (in HRK thousand)
31 Dec 2013	28,156	5,626,778	200	114,084	14,774,388	130
31 Dec 2014	34,809	5,243,429	151	110,651	14,298,426	129

Source: Hanfa

One of leasing companies' performance indicators is a share of the value of newly concluded contracts in that of active contracts, which stood at 36.7% in 2014 (38.1% in 2013), pointing to a slowdown in business activity.

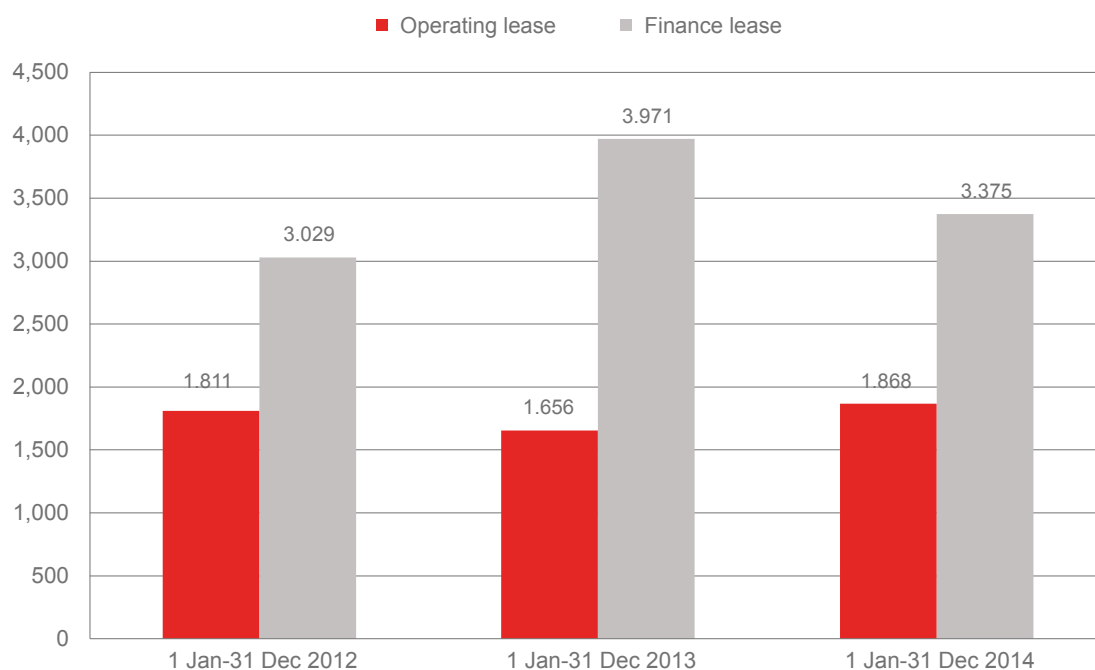
The share of operating leases in the structure of the value of newly concluded contracts rose, while the share of finance leases fell relative to the previous year. This was due to an increase in the level of financing passenger cars through operating leases (by HRK 262.9m) and a decrease in the level of financing plant, machinery, transport machines and equipment through finance leases (by HRK 792.7m).

Table 6.5 Number and value of newly concluded contracts of leasing companies in 2013 and 2014

Type of lease/period	Number of newly concluded contracts in the period			Value of newly concluded contracts in the period (in HRK thousand)		
	1 Jan-31 Dec 2013	1 Jan-31 Dec 2014	Change (in %)	1 Jan-31 Dec 2013	1 Jan-31 Dec 2014	Change (in %)
Operating lease	13,430	17,308	28.9	1,655,603	1,868,046	12.8
Finance lease	14,726	17,501	18.8	3,971,175	3,375,383	-15.0
Total	28,156	34,809	23.6	5,626,778	5,243,429	-6.8

Source: Hanfa

Chart 6.4 Leasing companies' portfolio structure – comparison of the values of newly concluded contracts in the period from 2012 to 2014 (in HRK million)



Source: Hanfa

The share of loans has been decreasing constantly in the structure of the value of active contracts, since the act regulating the leasing industry prohibits leasing companies from concluding new loan contracts, while the loan contracts that had been active until the day of the entry into force of that act (21 December 2006) are held until the expiration, with no possibility of their extension.

Table 6.6 Number and value of active contracts in the leasing industry in 2013 and 2014

Investment type/as at	Number of active contracts as at			Value of active contracts as at (in HRK thousand)		
	31 Dec 2013	31 Dec 2014	Change (in %)	31 Dec 2013	31 Dec 2014	Change (in %)
Operating lease	53,358	50,736	-4.9	3,961,519	3,757,482	-5.2
Finance lease	58,641	58,126	-0.9	10,457,374	10,419,586	-0.4
Loans	2,085	1,789	-14.2	355,495	121,359	-65.9
Total	114,084	110,651	-3.0	14,774,388	14,298,426	-3.2

Source: Hanfa

The slowdown in economic activity in the period from 2009 to 2014 led to a change in the structure of the leasing industry portfolio. Leasing operations in the several past years have been focused on the financing of passenger cars and commercial vehicles. At the same time, the value of newly concluded contracts for property continued to decrease. The largest number of newly concluded contracts by leased assets was related to passenger cars, followed by commercial vehicles. As a result, the portfolio structure recorded the largest increase in the value of newly concluded contracts in the categories of passenger cars and commercial vehicles. At the same time, the most significant decrease in the value of newly concluded contracts was recorded in the categories of plant, machinery, transport machines and equipment and property.

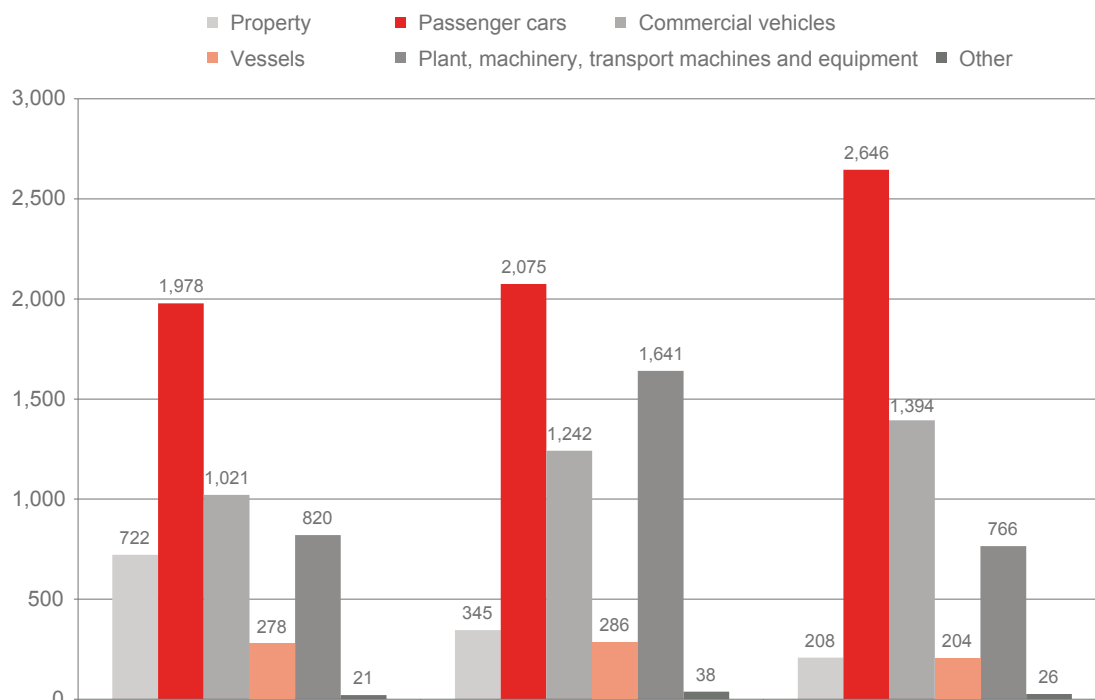
The analysis of the value of newly concluded contracts by sectors shows that the share of government units rose by 3.6% relative to 2013, when it reached 1.4%. This increase was a result of the car fleet renewal carried out by the government administration through operating leases in public procurement procedures, mostly completed in the first half of 2014.

Table 6.7 Value of newly concluded contracts of leasing companies by leased assets in 2013 and 2014 (in HRK thousand)

Leased asset	Value of newly concluded contracts in the period				
	1 Jan-31 Dec 2013	Share (in %)	1 Jan-31 Dec 2014	Share (in %)	Change (in %)
Property	345,436	6.1	208,135	4.0	-39.7
Passenger cars	2,074,887	36.9	2,645,634	50.5	27.5
Commercial vehicles	1,241,591	22.1	1,394,110	26.6	12.3
Vessels	286,221	5.1	203,605	3.9	-28.9
Aircraft	0	0.0	0	0.0	0.0
Plant, machinery, transport machines and equipment	1,640,859	29.2	765,539	14.6	-53.3
Other	37,785	0.7	26,408	0.5	-30.1
Total	5,626,778	100.0	5,243,429	100.0	-6.8

Source: Hanfa

Chart 6.5 Leasing companies' portfolio structure – value of newly concluded contracts by leased assets in the period from 2012 to 2014 (in HRK million)



Source: Hanfa

As at 31 December 2014, property recorded the highest value of active contracts by leased assets/ loans, reaching HRK 4.2bn or 29.0% of the total value of active contracts, whereas passenger cars recorded the value of active contracts amounting to HRK 3.9bn or 27.5% of the total value of active contracts.

Until the end of 2010, the largest share in the total value of active contracts had been accounted for by passenger cars, followed by property. In spite of a sharp turnover fall in the property market over the last six years, property has been the most significant single item in the value of active contracts since 2011, due to their higher value and longer repayment period compared to most other leased assets.

Table 6.8 Value of leasing companies' active contracts by leased assets/loans as at 31 December 2013 and 31 December 2014 (in HRK thousand)

Leased asset/loan	Value of active contracts as at				
	31 Dec 2013	Share (in %)	31 Dec 2014	Share (in %)	Change (in %)
Property	4,860,830	32.9	4,152,129	29.0	-14.6
Passenger cars	3,781,938	25.6	3,934,117	27.5	4.0
Commercial vehicles	2,470,585	16.7	2,739,685	19.2	10.9
Vessels	619,521	4.2	521,282	3.6	-15.9
Aircraft	3,227	0.0	482	0.0	-85.1
Plant, machinery, transport machines and equipment	2,956,627	20.0	2,879,924	20.1	-2.6
Other	81,660	0.6	70,809	0.5	-13.3
Total	14,774,388	100.0	14,298,426	100.0	-3.2

Source: Hanfa

6.1.5 Leasing Industry Performance Indicators

The debt ratio measures the share of leasing companies' assets financed by external funds (loans and credits from banks and financial institutions). As at 31 December 2014, this ratio totalled 0.98, meaning that 98.0% of the total assets of leasing companies were financed by external funds, which is in line with business practices of leasing companies. As at 31 December 2013, this ratio stood at 0.93.

Profitability ratios viewed together reflect the overall performance of a company. It is desirable for the profitability ratios to be as high as possible.

Return on assets (ROA) is a ratio that measures net profit against total assets of the leasing industry. As at 31 December 2014, the aggregate return on assets for leasing companies amounted to -1.3%. The negative value of the said ratio was due to the after-tax loss recorded in the leasing industry in the year 2014. As at 31 December 2013, this ratio stood at -1.3%.

6.2. Hanfa's Regulatory Activities

6.2.1 Normative Activities

Regulations adopted under the Leasing Act

Pursuant to the provisions of the new Leasing Act (Official Gazette 141/13), which entered into force on 5 December 2013, Hanfa adopted ordinances¹²⁷, within the prescribed six-month deadline, governing the following:

- manner of and rules for calculating capital, reporting and additional requirements for measures and procedures with respect to leasing companies' capital
- general organisational requirements and manner of conducting internal audit within the framework of internal control arrangements and the risk management system of leasing companies
- outsourcing requirements and criteria, rules for managing outsourcing risks, scope of internal acts relating to outsourcing, requirements related to the access to data and documentation and

¹²⁷ The list of ordinance adopted by Hanfa in 2014 can be found in the Appendix.

- to Hanfa's supervisory activities, minimum content of contracts concluded with service providers and the content of documentation accompanying notification on outsourcing submitted to Hanfa
- implementation of the provisions of the Leasing Act for leasing companies in liquidation and cross-border provision of services
- acquisition of qualifying holdings in leasing companies and by leasing companies in other legal persons
- requirements for management and supervisory board members of leasing companies
- content of regular reports and reports submitted at the request of Hanfa
- structure, content and manner of and deadlines for the submission of financial statements and additional reports of leasing companies
- chart of accounts for leasing companies
- register of leased assets
- Content and form of lease agreements and methodology for calculating effective interest rate
- audit of reports of leasing companies.

At the request of parties to proceedings or persons who have proved their legal interest, in 2014 Hanfa issued 11 opinions on statutory issues of leasing companies and on rights and duties of leasing companies arising under the Leasing Act.

6.2.2 Licensing

In 2014, the number of licensed leasing companies remained unchanged compared with 2013.

Leasing companies which, on the day of entry into force of the Leasing Act, had Hanfa's authorisation to carry out leasing operations (issued in accordance with the preceding Leasing Act) and were entered in the register of companies were obliged to align their business operations with the Leasing Act within six months after of its entry into force. Reports and documentation submitted by leasing companies showed that all leasing companies did as they were required.

In 2014, Hanfa issued 14 decisions approving the appointment of members of management boards of leasing companies.

Three decisions were adopted approving the acquisition of qualifying holdings in leasing companies, and they all related to intra-group acquisitions. One decision was issued approving direct acquisition of a qualifying holding and the other two decisions were issued approving indirect acquisition of a qualifying holding.

6.2.3 Supervision

6.2.3.1 On-Site Supervision

In 2014, four regular on-site examinations were initiated in leasing companies, of which three were completed during the year. The focus of the examinations was on credit risk management and on leasing companies' activities upon the expiration or early termination of lease contracts. In addition to the compliance with the Leasing Act, Hanfa verified the compliance of leasing companies with other regulations, e.g. the Act on the Prevention of Money Laundering and Terrorist Financing (Official Gazette 87/08 and 25/12), Consumer Credit Act (Official Gazette 75/09, 112/12, 143/13 and 147/13) and Consumer Protection Act (Official Gazette 41/14). An on-site examination initiated in 2013, focusing on the application of hedge accounting, was also completed in 2014.

On-site examinations of credit risk management established irregularities relating to the identification and measurement of concentration risk, system of internal controls with respect to the entry of data in the Register of Leased Assets (hereinafter: RLA), handover of leased assets and system

of internal controls with respect to the calculation of value adjustment. They also established lack of compliance of contract provisions and internal acts with the provisions of the Consumer Protection Act.

On-site examinations of leasing companies' activities upon the expiration or early termination of lease contracts established the divergence between the elements of the final calculation of lease contracts as defined in general terms and conditions of the contracts and the elements of the final calculation as defined in the internal act. They also established lack of clear and easily understandable contract provisions regulating information provided to lessees on the type and amount of costs that may be charged by leasing companies in the case of circumstances defined in the contract. Leasing companies were also found to have acted contrary to the contract provisions regulating the return of collateral to lessees.

Following the findings of the examinations carried out in leasing companies and the established violations of regulations, in 2014 Hanfa adopted four decisions ordering measures aimed at elimination of the violations and irregularities in the operation of supervised entities. Two of these decisions were adopted following on-site examinations initiated in 2103. Leasing companies complied with two of the decisions in 2014, whereas the other two decisions are to be complied with during 2015.

6.2.3.2 Off-Site Supervision

Off-site supervision of leasing companies involved verification and analysis of reports submitted to Hanfa by the companies within the prescribed deadlines. It also included monitoring, collection and verification of documentation, notification and data submitted, and monitoring, collection and verification of data and findings obtained from other sources.

During the supervision, Hanfa verified whether the reports and other data had been submitted within the prescribed deadlines, and whether they were true, accurate and complete. It also tried to establish whether leasing companies operated in accordance with risk management rules, other regulations adopted under the Leasing Act and other acts governing business operations of leasing companies, and regulations adopted under these acts. Financial stability and situations of leasing companies were also a focus of the supervision, including risks that leasing companies are or could be exposed to in their business operations.

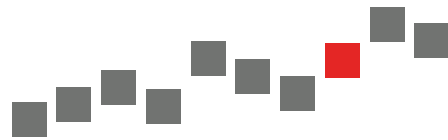
Special emphasis was placed on the content and form of lease contracts, accompanying general terms and conditions, fees that are charged or can be charged by leasing companies in accordance with lease contracts and information provided to lessees on these fees. Hanfa also continued checking the entry of leased assets in the RLA, whose maintenance is prescribed by the Leasing Act, for the purpose of preventing frauds in the leasing industry. The RLA must contain data on all financed leased assets, which enables leasing companies to verify, prior to the conclusion of a lease contract, whether a leased asset has already been entered in the RLA by another leasing company, i.e. whether it has already been financed by another leasing company.

Other supervisory activities related to the verification of leasing companies' capital adequacy as defined by the Leasing Act. They also included the analysis and verification of submitted audited reports for 2013, with a special emphasis on auditors' qualified opinions or unmodified opinions with emphasis of matter. The analysis and verifications of annual financial statements focused, among other things, on the valuation of financial assets, issues regarding business continuity, disclosure of transactions with related persons, prior period adjustment in financial statements and investments in deposits.

Following these supervisory activities and those relating to handling of complaints submitted by lessees, Hanfa initiated three administrative procedures. Two of them were initiated after irregularities were established as regards the entry of leased assets in the RLA, with one report having been prepared following the examination.

One of the administrative procedures was initiated after a complaint has been received by a lessee regarding activities of a leasing company related to the return of collateral upon the expiration of the operating lease contract. The procedure was followed by a report establishing irregularities in contract provisions regulating the return of collateral upon the expiration of a lease contract. As a result, Hanfa adopted a decision ordering the leasing company to stop applying these provisions and to amend the internal acts regulating the procedure for the return of collateral.

For the purpose of improving and developing its supervisory methodologies, in 2014 Hanfa continued developing the indicator-based risk assessment model for leasing companies, based on the combination of quantitative and qualitative indicators. Quantitative indicators were obtained based on financial performance indicators calculated on the basis of financial statements and other supervisory reports submitted to Hanfa. Qualitative indicators were obtained based on a qualitative assessment of leasing companies' business operations. The development of the indicator-based risk assessment model for leasing companies and risk assessment of individual leasing companies serve as an additional tool for planning and carrying out on-site and off-site examinations of leasing companies' business operations.



Factoring



7 Factoring

7.1 Market Overview

According to the data from statistical reports submitted by 16 companies^{128,129} providing factoring services known to Hanfa (hereinafter: factoring companies), as at 31 December 2014, the Croatian factoring market was dominated by discounting of bills of exchange. It was also dominated by domestic factoring (87.7% of total factoring receivables), with accounts receivable purchased being invoices of buyers from the Republic of Croatia, i.e. by recourse factoring (50.9% of total factoring receivables), with factors being entitled to the collection of payment from invoice sellers in the event that debtors become insolvent. As at 31 December 2014, factoring companies' assets recorded a 3.4% decrease relative to 2013.

Out of the 16 factoring companies, only one was in direct non-resident ownership, while four factoring companies were indirectly and directly owned by non-residents. However, the share of these four companies in the total assets of the factoring industry accounted for 72.8%, while in 2013 the share of five factoring companies in direct and indirect non-resident ownership accounted for 75.1% of total assets.

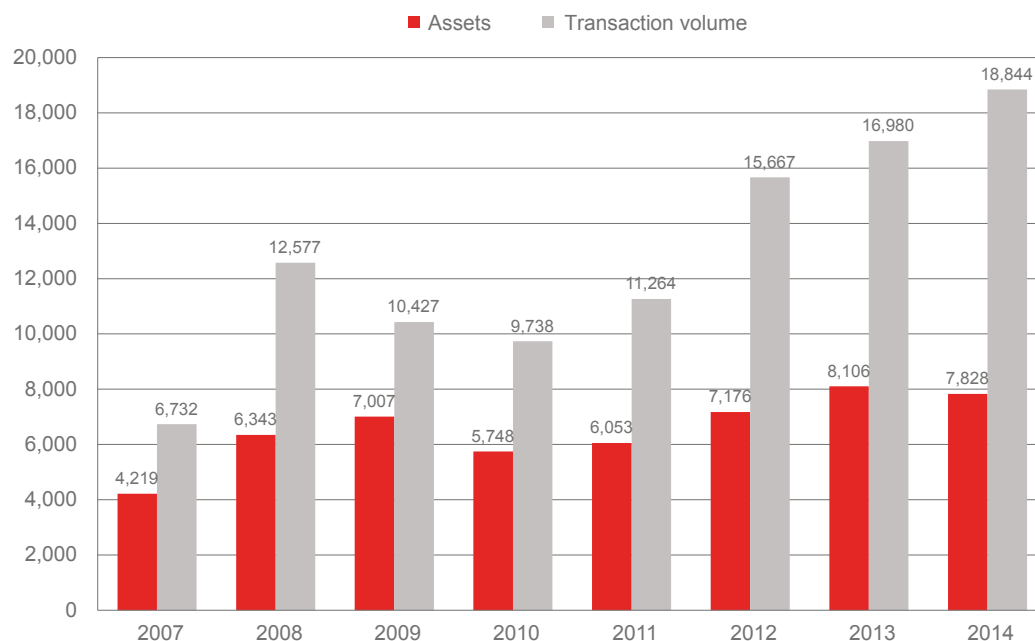
In the period from 2007 to 2009, factoring companies' assets recorded an upward trend. In 2010, the assets declined, after which they continued to rise from 2011 to 2013, and declined slightly again in 2014.

Under a factoring arrangement, the factor purchases accounts receivable with or without recourse from a business. Factoring operations can be classified as domestic or as foreign, and as those with or without recourse. Domestic factoring implies factoring operations involving resident entities according to the law regulating foreign exchange operations. Foreign factoring implies factoring operations involving at least one non-resident entity according to the law regulating foreign exchange operations. In recourse factoring, the factor has the right to collect the unpaid invoice amount from the transferor. In non-recourse factoring, the factor takes on the bad debt risk. Reverse factoring is a special type of factoring where the factor and the buyer enter into an agreement on the payment of the buyer's debts to suppliers, obliging the factor to pay the buyer's debts prior to their maturity or at maturity at the request of the supplier or on the instruction of the buyer. The factoring company may purchase only those bills of exchange issued for the purpose of settling claims arising from a delivery of goods and provision of services in the country or abroad.

¹²⁸ All the data and indicators relating to factoring companies refer only to companies known to Hanfa to be providing factoring services, which submit to Hanfa Statistical Reports of Factoring Companies. The data presented in Hanfa's Annual Report 2014 may differ from the data in Hanfa's annual reports for the period 2007-2013 due to differences in the reporting methodology.

¹²⁹ The list of Hanfa's supervised entities can be found on Hanfa's website www.hanfa.hr.

Chart 7.1 Aggregate assets and transaction volume of factoring companies in the 2007-2014 period (in HRK million)



Source: Hanfa

Factoring companies' market shares did not change significantly relative to 2013.

The market share of the three largest factoring companies declined over almost all 2012-2014 period, although still remaining at high levels. As at 31 December 2014, this share accounted for 75.3% of total assets, pointing to a high concentration level of the market. A factoring company with the largest share in total assets remained the same since 2012.

As at 31 December 2014, the market share of the remaining 13 factoring companies reached 24.7% of total assets.

7.1.1 Asset Structure

As at 31 December 2014, factoring companies' assets decreased by HRK 277.9m in comparison with 31 December 2013. Current assets made up as much as 98.0% of total assets, which is a common occurrence in the factoring industry. The most significant item in the current assets was discounting of bills of exchange (61.4% of the assets).

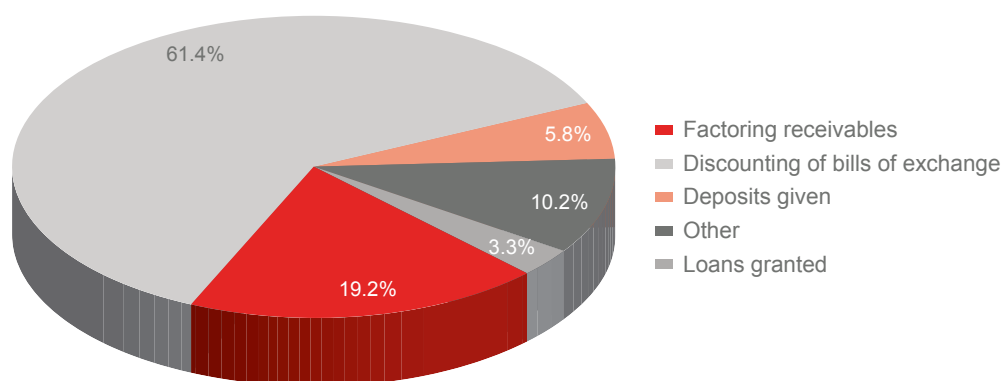
Table 7.1 Factoring companies' aggregate assets as at 31 December 2013 and 31 December 2014 (in HRK thousand)

Assets	31 Dec 2013	31 Dec 2014	Change (in %)
Receivables for subscribed capital unpaid	0	0	0.0
Fixed assets	85,679	142,768	66.6
Current assets	7,970,164	7,675,183	-3.7
Factoring receivables	1,724,317	1,503,175	-12.8
Domestic factoring	1,601,240	1,318,766	-17.6
Export factoring	45,365	56,300	24.1
Import factoring	77,713	128,109	64.8
Discounting of bills of exchange	4,759,365	4,809,197	1.0
Loans granted	256,206	256,565	0.1
Deposits given	682,531	457,543	-33.0
Cash at bank and in hand	368,453	516,016	40.0
Other current assets	179,292	132,686	-26.0
Prepayments and accrued income	49,885	9,911	-80.1
Total assets	8,105,728	7,827,862	-3.4

Source: Hanfa

The asset decline was mostly caused by a decrease in factoring receivables totalling HRK 221.1.m and by a rise in receivables for discounting of bills of exchange amounting to HRK 49.8m compared to 2013.

Chart 7.2 Factoring companies' asset structure as at 31 December 2014



Source: Hanfa

7.1.2 Liability Structure

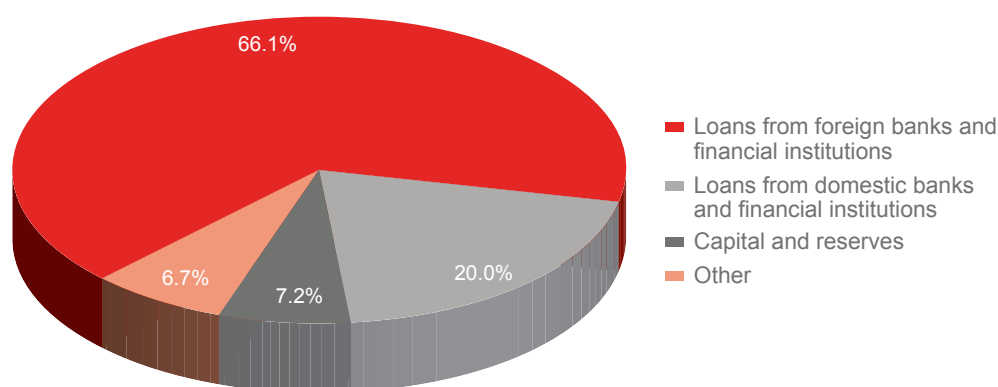
As at 31 December 2014, capital and reserves accounted for 7.2% of liabilities, increasing by 39.4% compared with the previous year, when they made up 5.0% of total liabilities. The increase was largely due to the profit registered by factoring companies in 2014.

Table 7.2 Factoring companies' aggregate liabilities as at 31 December 2013 and 31 December 2014 (in HRK thousand)

Item	31 Dec 2013	31 Dec 2014	Change (in %)
Capital and reserves	406,195	566,436	39.4
Long-term liabilities	82,695	754,087	811.9
Loans from domestic banks and financial institutions	1,054	7,780	638.4
Loans from foreign banks and financial institutions	63,887	689,532	979.3
Other long-term liabilities	17,754	56,775	219.8
Short-term liabilities	7,600,166	6,493,302	-14.6
Loans from domestic banks and financial institutions	1,571,257	1,555,775	-1.0
Loans from foreign banks and financial institutions	5,583,665	4,484,939	-19.7
Other short-term liabilities	445,245	452,588	1.6
Accruals and deferred income	16,671	14,036	-15.8
Total liabilities	8,105,728	7,827,862	-3.4

Source: Hanfa

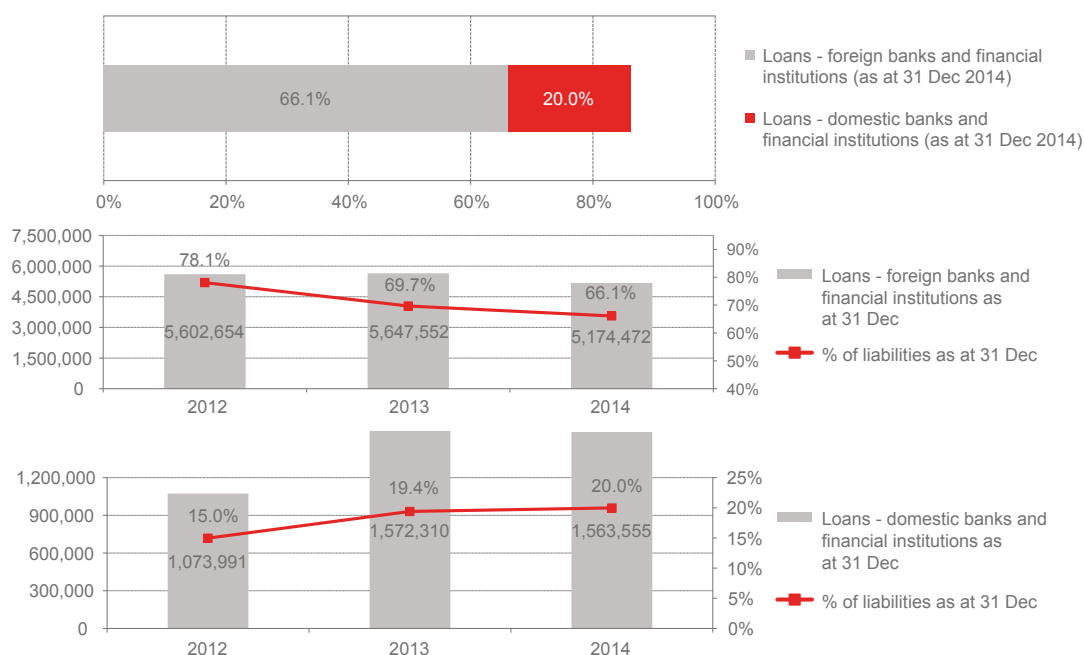
Chart 7.3 Factoring companies' liability structure as at 31 December 2014



Source: Hanfa

Factoring companies were mostly financed by foreign banks and financial institutions, whose liability share reached 66.1% at end-2014. The share of domestic banks and financial institutions accounted for 20.0% of liabilities, rising by 0.6% relative to 2013. The analysis of liabilities by maturity shows that a change occurred in their structure in comparison with the previous year, with long-term liabilities rising by 1.0% to 9.6%, which points to the fact that the share of long-term sources of finances in the factoring industry increased relative to 2013.

Chart 7.4 The largest liability items as at 31 December 2014 and their movements from 2012 to 2014 (in HRK million)



Source: Hanfa

7.1.3 Financial Operating Results

Factoring companies' net profit for 2014 reached HRK 215.1m, increasing by 31.7% compared to 2013.

Table 7.3 Factoring companies' aggregate profit and loss account in 2013 and 2014 (in HRK thousand)

Item	1 Jan-31 Dec 2013	1 Jan-31 Dec 2014	Change (in %)
Interest income	448,060	494,870	10.4
Interest expense	226,025	250,074	10.6
Interest profit/loss	222,035	244,797	10.3
Income from fees and commissions	107,131	88,273	-17.6
Expenses on fees and commissions	47,110	33,812	-28.2
Profit/loss on fees and commissions	60,021	54,461	-9.3
Other operating income	272,484	206,124	-24.4
Other operating expenses	347,862	235,722	-32.2
Profit/loss from other income and expenses	-75,377	-29,598	-60.7
Profit/loss before profit tax	206,678	269,660	30.5
Profit/loss after profit tax	163,407	215,131	31.7

Source: Hanfa

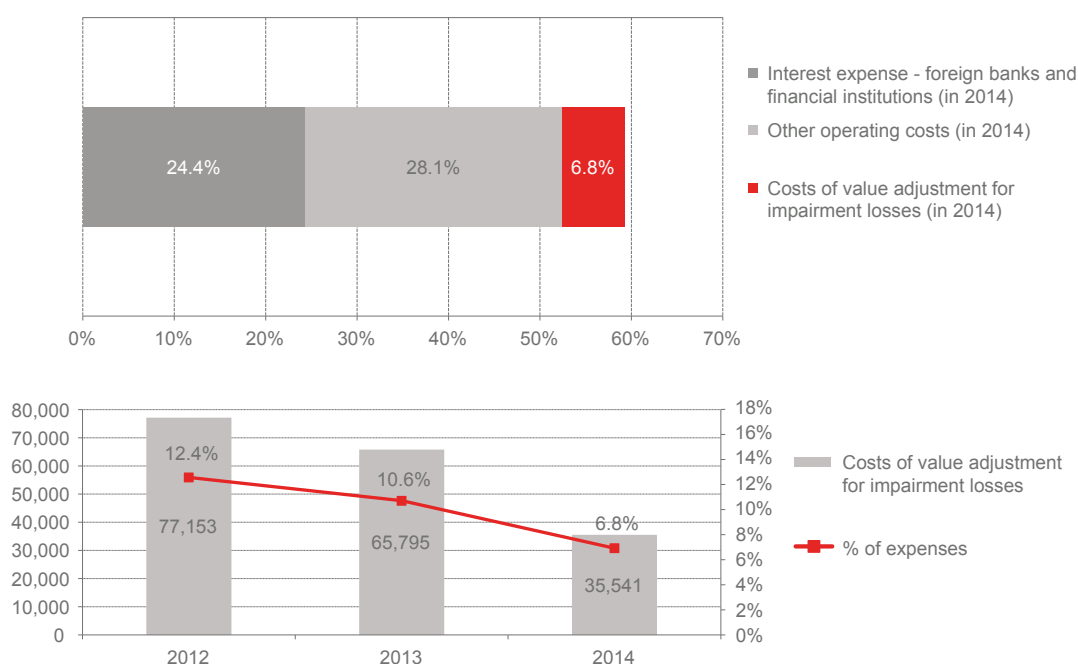
Factoring companies' total income amounted to HRK 789.3m, decreasing by HRK 38.4m in comparison with 2013, while expenses reached HRK 519.6m, declining by HRK 101.4m relative to the previous reporting period.

Interest income accounted for the largest share in the income structure, reaching 62.7% of total income in 2014. The major part of this income was made up of income interest from discounting of bills of exchange and factoring operations, which constitute key business activities of factoring companies.

The largest share (48.1%) in total expenses was accounted for by interest expense (of which interest expense with foreign banks and financial institutions were the largest single item amounting to 23.4% of total expenses). Other operating expenses made up 45.4% of total expenses with other operating costs being their most significant part (27.5% of total expenses) and relating primarily to negative exchange rate differences.

Costs of value adjustment for impairment losses relating to factoring companies' investments totalled HRK 35.5m and accounted for 6.8% of total expenses. The analysis of these costs for the 2012-2014 period shows that they peaked in 2012, after which they continued to decline.

Chart 7.5 The largest expense items in 2013 and costs of value adjustment for impairment losses from 2009 to 2013 (in HRK thousand)



Source: Hanfa

The increase in after-tax profit relative to 2013 was primarily due to a rise in net interest profit (recorded due to an increase in interest income), which rose by 10.3%, as well as by a decline in losses from other income and expenses (recorded primarily due to a decrease in other operating expenses).

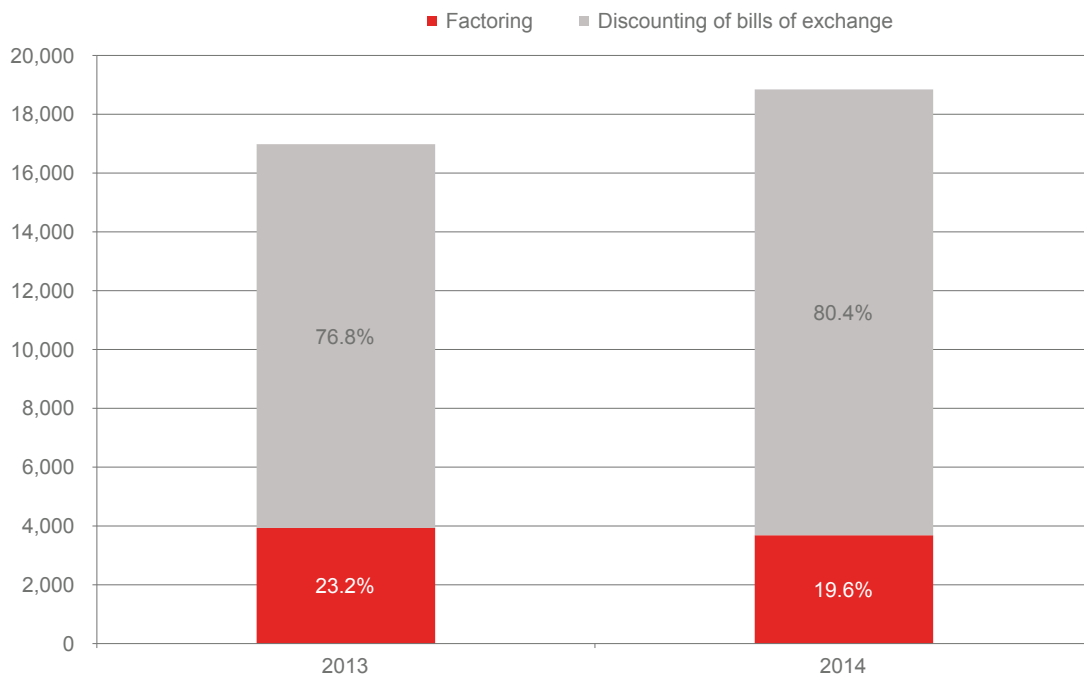
A total of 14 out of 16 factoring companies reported after-tax profit amounting to HRK 216.3m, whereas two factoring companies reported after-tax losses reaching HRK 1.2m.

7.1.4 Transaction Volume

Transaction volume represents the cumulative amount of invoices purchased under factoring arrangements and the cumulative amount of discounted bills of exchange. In 2014, the transaction volume reached HRK 18.8bn, rising by 11.0% in comparison with 2013.

In the period from 1 January 2014 to 31 December 2014, factoring companies purchased invoices under factoring arrangements in the amount of HRK 3.7bn, at the same time purchasing bills of exchange in the amount of HRK 15.2bn.

Chart 7.6 The structure of transaction volume by activity in 2013 and 2014



Source: Hanfa

7.1.5 Factoring Industry Performance Indicators

In 2014, the debt ratio for factoring companies amounted to 0.93, decreasing slightly in comparison with the previous year, when it stood at 0.95. This points to the fact that almost all assets of factoring companies are financed by borrowed funds, i.e. by loans from foreign and domestic banks.

Aggregate return on total assets (ROA) for factoring companies totalled 2.7%, rising relative to 2013, when it reached 2.0%.

Aggregate return on equity (ROE) for factoring companies stood at 38.0%, declining compared with the previous year, when it amounted to 40.2%.

7.2 Hanfa's Regulatory Activities

7.2.1 Normative Activities

Factoring Act

In the first half of 2014, Hanfa's employees participated in the work of the Working Group for the Preparation of the Draft Factoring Act (Official Gazette 94/14), which entered into force on 8 August 2014. This act regulates terms of the establishment, operations and termination of business operations of factoring companies, factoring contracts, rights and duties of entities engaged in factoring operations, reporting, supervision of factoring companies' business operations, risk management and the manner of and requirements for cross-border provision of factoring services. The day of entry into force of the act marked the beginning of the 12-month compliance period for legal persons providing factoring services entered in the register of companies and intending to continue operating as factoring companies in accordance with the provisions of the act. This implies the alignment with the provisions governing factoring operations, initial capital and management and supervisory boards of factoring companies and with other relevant provisions.

Regulations adopted under the Factoring Act

Pursuant to the provisions of the Factoring Act laying down the obligation of Hanfa to adopt ordinances prescribed by the act within six months of its entry into force, at end-2014 Hanfa adopted three ordinances¹³⁰: an ordinance laying down documentation accompanying the application for issuing approval to acquire a qualifying holding and criteria for assessing suitability and financial position of proposed acquirers in a factoring company and documentation accompanying the application for issuing approval to a factoring company to acquire a qualifying holding in another legal person; an ordinance specifying requirements for management and supervisory board membership in a factoring company and the procedure for issuing approval and documentation accompanying that application; and an ordinance specifying the content of regular reports and reports submitted at the request of Hanfa, and the manner of and deadlines for their submission.

In the period between the entry into force of the Factoring Act and the end of 2014, Hanfa issued one opinion with respect to the application of the provisions of this act and provided answers to inquiries mostly relating to the compliance with it, pursuit of factoring operations and licensing of factoring companies' management board members, factoring companies' registers and documentation needed for licensing procedures.

7.2.2 Licensing

Since the entry into force of the Factoring Act to the end of 2014, Hanfa received one application for issuing authorisation to provide factoring services from a company that provided factoring services even prior to the entry into force of the act and is obliged to obtain the authorisation through the compliance process. More compliance reports are expected to be received during 2015, along with new applications for issuing authorisation to provide factoring services from legal persons which were not providing factoring services at the moment of the entry into force of the act and were not entered in the register of companies as such.

7.2.3 Supervision

Hanfa's supervisory activities on the factoring market primarily involved off-site supervision and the analysis of financial statements and additional reports received from factoring companies. The focus of those activities was on research and the analysis of the factoring market in the Republic of Croatia with respect to risks related to the factoring industry and types and characteristics of

¹³⁰ The list of ordinances adopted by Hanfa in 2014 is provided in the Appendix.

certain products and services provided by factoring companies. The purpose of the research and the analysis was to gain a general picture of the market and prepare ordinances that need to be adopted under the Factoring Act.

Since the entry into force of the Factoring Act, Hanfa has been exercising supervision of factoring companies pursuant to the provisions of that act and relating regulations, including other acts, such as the Accounting Act (Official Gazette 109/07, 54/13 and 121/14) and the Act on the Prevention of Money Laundering and Terrorist Financing (Official Gazette 87/08 and 25/12), which also govern business operations of factoring companies.

In accordance with the provisions of the Factoring Act, in 2014 Hanfa exercised supervision with respect to regulations on risk management, with respect to factoring companies' own rules and standards and in the manner which enables orderly functioning of factoring companies and implementation of measures and activities aimed at eliminating violations and irregularities established in their business operations. The main objective of the supervision was to verify the legality and assess the safety and stability of factoring companies' business operations, in order to protect clients' and public interest, foster the stability of the financial system and promote and safeguard confidence in the factoring market.





Judicial Proceedings



8 Judicial Proceedings

In 2014, Hanfa continued participating in judicial proceedings both as an authorised plaintiff before misdemeanour courts and the Financial Inspectorate of the Republic of Croatia and as a defendant in administrative disputes initiated upon a lawsuit filed against any of its administrative acts. In accordance with its statutory powers laid down in the Misdemeanour Act (Official Gazette 107/07, 39/13 and 157/13), Hanfa, as a legal person with public authority, is an authorised plaintiff prosecuting misdemeanour offences falling within its area of competence. In the course of misdemeanour proceedings before misdemeanour courts and the Financial Inspectorate of the Republic of Croatia, in 2014 Hanfa took action, legally defined as part of its area of competence, through persons delegated as its representatives (by submitting documentation, participating in court hearings, replying to written statements of defendants).

Pursuant to Article 19 of the Act on the Croatian Financial Services Supervisory Agency (Official Gazette 140/05 and 12/12), acts issued by Hanfa are final and administrative disputes may be initiated against them. In 2015, Hanfa participated in administrative disputes regularly, by filing responses to lawsuits, submitting documentation to competent courts and participating in court hearings. The Administrative Disputes Act (Official Gazette 20/10 and 143/12) introduced obligatory oral hearings before courts of first instance. In 2014, Hanfa's employees participated in hearings before administrative courts in Split, Rijeka and Zagreb.

In two cases Hanfa established that there were grounds for suspicion that criminal offences, prosecuted by virtue of the office, had been committed, and it brought criminal charges to the competent state attorney's office.

On its website, under the Court Decisions section and following the principles of anonymisation, Hanfa published final court decisions relating to misdemeanour and administrative court proceedings that Hanfa is a party to. The purpose of the publication is to encourage measures for efficient functioning of the financial market and to provide information to the public. Regular disclosure of court decisions ensures the right of access to information to all natural and legal persons, at all times and under equal conditions.

Hanfa's employees participated in the Working Group of the Ministry of Justice of the Republic of Croatia for Amendments to the Misdemeanour Act. The objective of the amendments was, among other things, to allow supervisory authorities (legal persons with public authority) to publish non-final court decisions and to align the range of fines imposed for serious financial services offences with EU requirements.

8.1 Misdemeanour Proceedings

During examinations of the capital market, investment funds and the insurance market, Hanfa established violations referred to in the Capital Market Act (Official Gazette 88/08, 146/08, 74/09, 54/13 159/13 and 18/15), Investment Funds Act (Official Gazette 150/05), Act on Open-Ended Investment Funds with Public Offering (Official Gazette 16/13 and 143/14), Insurance Act (Official Gazette 151/05, 87/08, 82/09, 54/13 and 94/14) and Act on Compulsory Traffic Insurance (Official Gazette 151/05, 36/09, 75/09, 76/13 and 152/14). In accordance with its powers, it brought 17 indictments before the competent misdemeanour courts.

Table 8.1 Indictments brought in 2014

Area	Act	Number of indictments
Investment funds	Investment Funds Act and Act on Open-Ended Investment Funds with Public Offering	1
Capital markets	Capital Markets Act	5
Insurance	Act on Compulsory Traffic Insurance	1
	Insurance Act	10
	Total	11
Total indictments brought in 2013		17

Source: Hanfa

Since its establishment on 1 January 2006 until 31 December 2014 Hanfa brought a total of 420 indictments for initiating misdemeanour proceedings. In 2014, Hanfa actively participated as an authorised plaintiff in initiated misdemeanour proceedings in court hearings and through written responses to defendants' statements submitted to the court.

The amended definition of the misdemeanour provided in the Act on Amendments to the Misdemeanour Act (Official Gazette 39/13) requires a higher degree of violation of or menace to protected goods for the imposition of misdemeanour sanctions for perpetrators. In line with the new definition of the misdemeanour, Hanfa imposed supervisory measures for minor irregularities or violations.

The introduction of the principle of opportunity in misdemeanour proceedings enabled Hanfa as an authorised plaintiff to decide not to initiate the proceedings where there is a sufficient level of doubt that the offence was committed, as the proceedings would not achieve their objective in such a case, while supervisory measures may be imposed for illegal conduct.

Table 8.2 Indictments brought in the 2006-2014 period

Year	Number of indictments	Final judgment	Discontinuance*	Expiration of statute of limitations	Ongoing
2006	75	33	15	27	0
2007	72	15	14	40	3
2008	65	13	6	41	5
2009	49	12	1	32	4
2010	52	12	2	27	11
2011	33	9	1	4	19
2012	27	3	1	4	19
2013	30	4	0	0	26
2014	17	1	0	0	16
Total	420	102	40	175	103

* the cases without legal continuity between the indictment and a later amendment to the law, or where Hanfa withdrew the indictment or the court rejected the indictment.

Source: Hanfa

8.1.1 Capital Market

Within the framework of supervision of the capital market, following established misdemeanours committed in this area, Hanfa brought five indictments against misdemeanour perpetrators for indictments relating to violations of the provisions of the Capital Market Act. Two indictments were brought against two legal persons and responsible persons in these legal persons due to their failure to disclose to the public the annual report of the issuer and the audit report within the prescribed time frame or to ensure that the quarterly report is available to the public within the prescribed time frame; due to the failure of the legal person – the issuer and responsible persons in the issuer to publish the quarterly report of the issuer within the prescribed time frame and to make it publicly available; and due to the failure of the legal person – the issuer and responsible persons in the legal person to inform the public of inside information relating directly to the issuer in line with the prescribed manner and prescribed requirements, pursuant to the Capital Market Act. Two more indictments were brought against a legal person – the issuer and responsible persons in the legal person due to their failure to inform the public of inside information relating directly to the issuer in line with the prescribed manner and prescribed requirements, pursuant to the Capital market Act. An indictment was brought against a legal person – the issuer and responsible persons in the issuer due to their failure to disclose to the public the annual report of the issuer and the audit report within the prescribed time frame, and due to their failure to make the quarterly report available to the public within the prescribed time frame.

8.1.2 Investment Funds

Within the framework of supervision of insurance funds, following established misdemeanours committed in this area, Hanfa brought one indictment against perpetrators relating to the violation of the provisions of the Investment Funds Act and the Act on Open-Ended Investment Funds with Public Offering. The indictment was brought against a legal person and two responsible persons in this legal person due to the fact that the investment fund management company and its responsible persons failed to act in line with investment limitations relating to fund assets, and due to the fact that they failed to ensure the accuracy of the fund asset valuation and of the unit price determination pursuant to the Investment Funds Act and the Act on Open-Ended Investment Funds with Public Offering.

8.1.3 Insurance Market

Out of 11 indictments relating to insurance activities that were brought during 2014, one was related to violations referred to in the Act on Compulsory Traffic Insurance, namely to the failure of the insurance company and responsible persons in the company to deliver a reasoned offer of compensation or a reasoned reply to the injured party and due to their failure to pay the injured party the indisputable part of compensation, as advance payment, within the prescribed time frame. Ten indictments were brought due to the violation of the provisions of the Insurance Act, of which one related to misdemeanour proceedings initiated against an insurance company and its responsible persons due to the fact that they allowed insurance and reinsurance representation and brokerage business to be conducted by persons lacking adequate authorisation, and to misdemeanour proceedings initiated against insurance companies' management board members because they failed to perform their duties in line with the aforementioned act, i.e. due to their failure to ensure the compliance of the insurance company's operations with the provisions of that act. The remaining nine indictments were related to misdemeanour proceedings initiated against insurance companies' management board members due to their failure to perform their duties in line with the Insurance Act.

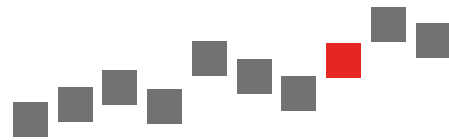
8.2 Administrative Disputes

In the course of 2014, a total of 12 administrative disputes were initiated against Hanfa's decisions and resolutions following complaints filed with administrative courts of the Republic of Croatia. Pursuant to the Administrative Disputes Act (Official Gazette 20/10, 143/12 and 152/14), Hanfa provided responses and submitted files requested based on the complaints filed. Hanfa's employees were present at court proceedings related to these files at administrative courts in Rijeka, Split and Zagreb. Out of the 12 administrative disputes, nine were related to administrative acts connected with the capital market, of which three disputes were initiated based on a decision concerning a takeover of a joint-stock company, two disputes were due to a renewal of the proceedings regarding the publication of a takeover bid with respect to a joint stock company, and four disputes were initiated due to the recognition of a party in a joint-stock company takeover procedure. Out of the four disputes relating to the recognition of a party in a joint-stock company takeover procedure, two were initiated due to the annulment of a Hanfa's resolution. As regards the leasing market, an administrative dispute was initiated due to the annulment of a decision rejecting the objection against a reply to a complaint. An administrative dispute was initiated due to the annulment of a resolution regarding the supervision of an investment firm. The last administrative dispute was initiated with respect to the elimination of illegalities and irregularities identified during the supervisory procedure in an insurance company. In 2014, no administrative disputes were initiated against Hanfa regarding the failure to adopt an appropriate administrative act upon the request of a party (the so-called administrative silence). Out of the 12 administrative disputes initiated, two were dismissed as disallowed, and one was discontinued. The remaining nine cases are still pending.

8.3 Criminal Charges

Within the framework of its regular business activities, Hanfa established that there were grounds for suspicion that a number of criminal offences had been committed and filed two criminal charges against three natural persons. The charges were filed against two natural persons for abuse of authority in economic transactions pursuant to Article 191 paragraph 2 of the Criminal Code (Official Gazette 110/97, 27/98, 50/00, 51/01, 105/04, 84/05, 71/06, 110/07 and 152/08). Hanfa also filed a criminal charge against a natural person due to market abuse defined in Article 260 paragraph 1 point 1 of the Criminal Code (Official Gazette 125/11 and 144/12), and punishable in line with its Article 26 paragraph 1.

Since its establishment on 1 January 2016 until 31 December 2014, Hanfa filed a total of 46 criminal charges to the State Attorney's Office.



Participation in the Work of EU Institutions and Domestic and International Cooperation



9 Participation in the Work of EU Institutions and Domestic and International Cooperation

9.1 Participation in the Work of the EU Institutions

9.1.1 Participation in the Work of ESMA

In 2014, the President of the Board of Hanfa or his alternate attended eight meetings of ESMA's Board of Supervisors.

In 2014, ESMA placed emphasis on the convergence of regulatory practices, cooperation with the International Accounting Standards Board (IASB) and improvement of international financial reporting standards. It also focused on the cooperation with third countries in the area of supervision of credit rating agencies and trade repositories, provision of opinions at the request of the European Commission, assessment of the compatibility of supervisory practices of third countries, normative activities regarding the packaged retail investment products, work on the analysis of systemic risks, supervision of financial markets, economic research and enhanced cooperation with EU institutions and other European Supervisory Authorities and the European Systemic Risk Board (ESRB).

Hanfa's representatives were involved in the work of the following standing committees and other operational bodies of ESMA:

- Committee for Economic and Markets Analysis
- Corporate Finance Standing Committee
- Corporate Reporting Standing Committee
- Credit Rating Agencies Technical Committee
- Market Integrity Standing Committee
- Financial Innovation Standing Committee
- Investment Management Standing Committee
- Investor Protection & Intermediaries Standing Committee
- IT Governance
- Post Trading Standing Committee
- Secondary Market Standing Committee
- Takeover Bids Network
- Legal Network
- European Enforcement Coordination Sessions
- Market Data Reporting Working Group
- Translation Network.

ESMA's committees consist of experts from competent authorities of the Member States. Members of the committees discuss issues relevant to ESMA's activities and prepare documents to be adopted by the ESMA's Board of Supervisors.

The European Securities and Markets Authority (ESMA) was established on 1 January 2011 under the ESMA Regulation¹²⁰ and is the legal successor of the Committee of European Securities Regulators (CESR). It is an independent supervisory authority of the European Union and is part of the European System of Financial Supervisors (ESFS). ESMA contributes to the stability of the EU financial system by ensuring the integrity, transparency, efficiency and orderly functioning of financial markets, and by enhancing investor protection.

The Board of Supervisors and Management Board are ESMA and EIOPA's main bodies. The Board of Supervisors is composed of representatives of national competent authorities and is responsible for decisions on operational and technical administrative issues. The Management Board consists of the President and six members, and is in charge of organisational issues such as annual budget, human resources policy and annual work programme.

¹²⁰ Regulation (EU) No 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC, OJ L 331/84

9.1.2 Participation in the Work of EIOPA

In 2014, the President of the Board of Hanfa or his alternate attended seven meetings of EIOPA's Board of Supervisors.

Strengthening consumer protection remained one of the main focuses of EIOPA's activities. The year 2014 was also marked by the intensive work on guidelines and technical standards based on the Solvency II Directive¹³³, identification of risk-free interest rates, work on the legislation concerning institutions for occupational retirement provision, conduct of stress tests, continuation of the cooperation with European and international accounting institutions regarding the application of international financial reporting standards, and strengthening of colleges of supervisors. The regular half-yearly report on the financial stability delivered to the European Parliament, Council and the ESRB, and the stress-test report for the insurance sector at the EU level published in November 2014 were among more important publications, having a significant impact on the wider public.

Hanfa's representatives were also involved in the work of following committees and operational bodies of EIOPA:

- IT and Data Committee
- Internal Governance, Supervisory Review and Reporting Committee
- Financial Requirements Committee
- Insurance Group Supervision Committee
- Equivalence Committee
- Financial Stability Committee
- Internal Models Committee
- Committee on Consumer Protection and Financial Innovation
- Occupational Pension Committee
- Network of Quality Checks for Translation.

The European Insurance and Occupational Pensions Authority (EIOPA) was established on 1 January 2011 under the EIOPA Regulation¹²¹ and is the legal successor of the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS). It is an independent supervisory authority of the European Union and is part of the European System of Financial Supervisors (ESFS). EIOPA's responsibilities are to support the stability of the European Union financial system by ensuring the integrity, transparency, efficiency and orderly functioning of financial markets, and by protecting policyholders, pension scheme members and beneficiaries. When carrying out its tasks, EIOPA acts independently, objectively and in the sole interest of the European Union.

EIOPA's standing committees function in the same way as ESMA's committees, preparing documents to be adopted by the EIOPA's Board of Supervisors.

Special attention in the work of the Joint Committee of European Supervisory Authorities (EBA, ESMA and EIOPA) was placed on financial conglomerates, prevention of money laundering and consumer protection.

9.1.3 Participation in the Work of the ESRB

In 2014, the President of the Board of Hanfa or his alternate attended five meetings of the General Committee, while a representative of Hanfa participated in four meetings of the Advisory Technical Committee of the ESRB.

The work of the ESRB focused on four areas, namely risks and vulnerabilities of the financial system, strengthening of the macro prudential policies framework, macro prudential analysis and

¹³² Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC, OJ L 331/12

¹³³ Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), OJ L 335/1

other issues (such as stress tests and similar activities). Systemic risks in relation to the EU insurance sector were also an area of special interest of the ESRB, which made a thorough analysis of their impact on the broader financial system. Two special bodies of the Advisory Technical Committee, Instruments Working Group, and Analysis Working Group, continued developing policies regarding macro prudential instruments and macro prudential analytical issues.

9.1.4 Participation in the Work of the Council and the European Commission

Hanfa's participation in the work of the Council of the European Union involved the preparation of four legislative acts falling within the area of competence of the working group on financial services, namely the new Directive on Institutions for Occupational Retirement Provision (IORP II), European Long-term Investment Fund Regulation (ELTIF), Money Market Fund Regulation (MMF) and the new Insurance Distribution Directive (IDD). Hanfa provided comments and suggestions on draft documents, taking into account the specificities of the Croatian market and the implications of the documents for business operations of Croatian companies.

Hanfa also participated in the work of the Expert Group of the European Securities Committee of the European Commission, which organised workshops for the transposition of new legislative acts relating to capital markets and investment firms (MiFID/MiFIR and CSMAD/MAR).

Hanfa's experts participated in offering technical assistance through the Technical Assistance and Information Exchange Instrument of the European Commission (TAIEX). Technical assistance was provided to the supervisory authorities of Macedonia and Montenegro in the area of UCITS, alternative investment funds and capital markets.

9.2 Cooperation with Domestic and International Institutions

Hanfa's representatives participated as members of working groups in the preparation of laws falling within the area of its competence, including the preparation of the Insolvency Act, Misdemeanour Act and Accounting Act, cooperating within the framework of these activities with the Ministry of Finance, Ministry of Labour and Pension System, Ministry of Veterans' Affairs and Ministry of Justice.

2014 saw the commencement of work of the Financial Stability Council, which, as an interinstitutional body, develops macro prudential policy of the Republic of Croatia. As a member of the Council (along with the Croatian National Bank, Ministry of Finance and State Agency for Deposit Insurance and Bank Resolution), Hanfa participated in two sessions held in 2014.

Hanfa took part in the work of the International Organisation of Securities Commissions (IOSCO), collecting information necessary for its supervisory activities related to capital markets and assisting other supervisory authorities in obtaining such information, in accordance with the Multilateral Memorandum of Understanding (MMoU), based on which its signatories exchange information from within their areas of competence.

In 2014, Hanfa held a regular annual meeting with the International Monetary Fund, as well as with the World Bank regarding projects which planned for 2015.

The European System Risk Board (ESRB) is an independent supervisory authority of the European Union, established under the ESRB Regulation¹²³. It is responsible for macro-prudential supervision of the financial system within the European Union and contributes to the prevention or mitigation of systemic risks to financial stability in the Union, taking into account macroeconomic developments, so as to avoid periods of widespread financial distress. It contributes to the smooth functioning of the internal market and thereby ensures a sustainable contribution of the financial sector to economic growth.

¹²³ Regulation (EU) No 1092/2010 of the European Parliament and of the Council of 24 November 2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board, OJ L 331/162

Hanfa also participated in the work of the delegation of the Republic of Croatia in charge of negotiations related to the signing of the Agreement between the Government of the Republic of Croatia and the Government of the United States of America to Improve International Tax Compliance and to Implement the Foreign Account Tax Compliance Act (FATCA).

Hanfa's representatives were also involved in early negotiations on the Transatlantic Trade and Investment Partnership (TTIP) between the European Union and the United States of America with respect to financial services, at the same time continuing activities related to the General Agreement on Trade in Services (GATTs), and reviewing agreements between the European Union and the Republic of Croatia as a Member State and third countries in the area of the non-banking financial sector.

9.3 Prevention of Money Laundering and Terrorist Financing and International Restrictive Measures

Pursuant to the Act on the Prevention of Money Laundering and Terrorist Financing (Official Gazette 87/08 and 25/12), in 2014 Hanfa continued its supervisory activities relating to monitoring the implementation of the provisions of the act by Hanfa's supervised entities. A total of 22 on-site examinations were carried out, covering the implementation of measures aimed at detecting and preventing money laundering and terrorist financing. The following illegalities and irregularities were determined during the examinations:

- inadequate internal acts which prescribe procedures regarding money laundering and terrorist financing
- reception of cash payments higher than HRK 105,000
- inadequate client due diligence and risk profile assessment measures
- failure to monitor business activities or to take all necessary measures for monitoring the business activities
- lack of regular professional training and education of employees in the area of money laundering and terrorist financing
- failure to carry out internal audit in accordance with the provisions of the Act on the Prevention of Money Laundering and Terrorist Financing
- lack of regular update of the indicator list for detecting suspicious transactions.

Following the examinations and based on the findings from the examinations Hanfa issued three decisions and one conclusion ordering measures aimed at eliminating irregularities and violations detected. All the supervised entities concerned aligned their operations with these measures.

In line with its statutory powers, Hanfa adopts guidelines on the implementation of the provisions of the Act on the Prevention of Money Laundering and Terrorist Financing, thus having adopted, on 31 October 2014, new Guidelines on the Implementation of the Act on the Prevention of Money Laundering and Terrorist Financing intended for its supervised entities subject to these provisions. The Guidelines are applicable as of 1 December 2014 and their aim is to set up clear standards and improve the implementation of legal and operational measures to combat money laundering and terrorist financing.

With the aim of establishing and improving the overall anti-money laundering and terrorist financing system, Hanfa cooperates with other domestic and international supervisory authorities. In 2014, Hanfa's representatives participated in the work of the Inter-Institutional Working Group on the Prevention of Money Laundering and Terrorist Financing. Continued cooperation with the Anti-Money Laundering Office focused on ensuring the uniform application of the provisions of the Act on the Prevention of Money Laundering and Terrorist Financing and on implementation of the Action Plan for the Prevention of Money Laundering and Terrorist Financing. Hanfa's representatives, in cooperation with other institutions, organised educational workshops for entities subject to the provisions of the aforementioned act.

Hanfa's cooperation with the Anti-Money Laundering Office also involved the preparation of opinions and comments in the process of the adoption of the new, fourth directive and regulation on the prevention of money laundering and terrorist financing.

Hanfa's representatives participated actively in the national risk assessment with the aim of identifying, assessing and understanding risks related to money laundering and terrorist financing present in certain segments of the Croatian economy. The national risk assessment project is aligned with the recommendations of the Financial Action Task Force (FATF) and provides a foundation for strengthening the anti-money laundering and terrorist financing system, focusing on the efficient use of resources, detection of perpetrators of money laundering crimes and related predicate criminal offences, and seizure of assets derived from criminal activity. Hanfa's representatives took part in the risk assessment and in the preparation of the report on vulnerabilities of the securities sector, insurance sector and other financial institutions with respect to money laundering and terrorist financing.

Pursuant to the Decision on the method of implementing international measures restricting asset disposal (Official Gazette 78/11) and in connection with the Act on International Restrictive Measures (Official Gazette 193/08 and 41/14), Hanfa supervised the implementation of international measures restricting asset disposal by its supervised entities and provided them with adequate information on relevant documents and regulations relating to entities subject to international restrictive measures. Hanfa's representative participated in the work of the Standing Coordination Group for monitoring the implementation of international restrictive measures.

Taking into account Russian activity in Ukraine, the Council of the European Union adopted the Regulation concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine¹³⁵. This regulation forbids the provision of financial services related to financial instruments issued after 1 August 2014 by certain credit institutions or other large institutions established in Russia, and by other legal persons, entities or bodies owned by these credit institutions and other large institutions which act on their instructions. As this regulation is applicable in the entire European Union, Hanfa paid special attention to its implementation during examinations of its supervised entities. Considering the fact that the regulation prohibits any direct or indirect purchase, sale or other transactions in transferable securities issued by the afore mentioned institutions, legal persons, entities or bodies, Hanfa carried out thorough examinations in order to detect any violations of its provisions connected with the approval of prospectuses relating to the issuance, offer or admission of securities on the regulated market of the Republic of Croatia. Verification of the compliance with the restrictive measures was also carried out with respect to companies managing investment and pension funds.

¹³⁵ Council Regulation (EU) No 833/2014 of 31 July 2014 concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine as last amended by Council Regulation (EU) No 1290/2014 of 4 December 2014, OJ L 229



Activities Related to Consumer Protection and Provision of Information to the Public



10 Activities Related to Consumer Protection and Provision of Information to the Public

10.1 Consumer Protection

Between 1 January 2014 and 31 December 2014, Hanfa received 147 complaints, which is a 26.9% decrease compared to 2013. This number includes complaints submitted following certain activities of Hanfa's supervised entities, complaints which do not fall within Hanfa's area of competence and other general inquiries and complaints. The majority of complaints were submitted by natural persons. The table below shows the number of complaints according to submitters.

Hanfa processes every complaint received, and following the reception of those falling within its area of competence, it requires documentation and statements from supervised entities referred to in the complaint. Where appropriate, Hanfa may initiate examinations in the form of administrative proceedings.

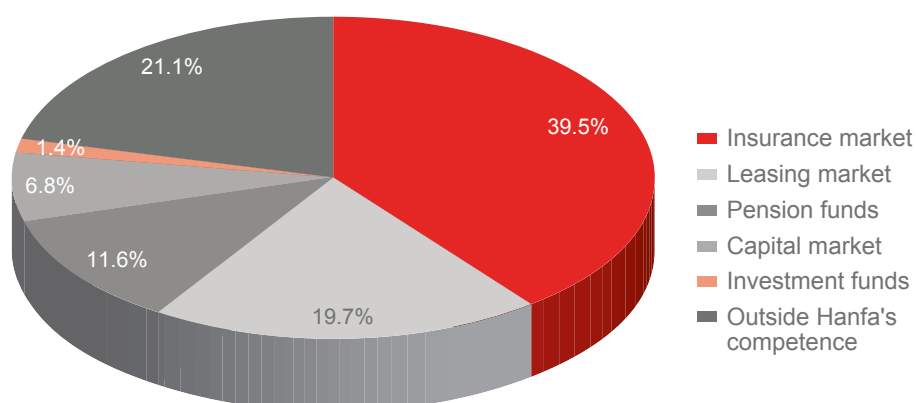
Table 10.1 Number of complaints received in 2013 and 2014 by submitters

Type of complaint	Number of complaints in 2013	Number of complaints in 2014
Natural persons	156	107
Legal persons	31	29
Anonymous	14	11
Total	201	147

Source: Hanfa

The majority of complaints received related to the insurance market, capital market and leasing market, while 21.1% of the complaints fell outside Hanfa's area of competence, as presented in the chart below. In 2014, Hanfa did not receive any complaints related to factoring services or investment companies

Chart 10.1 Structure of complaints by Hanfa's area of competence



Source: Hanfa

Out of 59 complaints related to insurance market, 30.5% referred to clients' discontent concerning the claims handling procedure, i.e. discontent with the insured amount paid and failure to pay the insured amount; 22.0% of the complaints related to conclusion of insurance agreements, i.e. too high insurance premiums, discounts approved, and incorrect application of the bonus/malus system; 16.9% of the complaints related to insurance agreement disputes, i.e. failures to fulfil obligations under the insurance agreement and insurance terms and conditions; 13.6% of the complaints related to activities of supervised entities, i.e. their financial conduct or other business activities carried out contrary to legal provisions; and 5.1% of the complaints were related to surrender values of the insurance policy. Other complaints referred to handling of clients by supervised entities, participation in profit, marketing activities, publication of information on the internet and capitalisation.

Out of 29 complaints related to capital market, the largest part (72.4%) referred to the joint-stock company takeover procedure, transparency and corporate governance of the issuers, while a smaller share (27.6%) referred to suspected market abuse, i.e. market manipulation and insider dealing, and to shareholders' rights with respect to the transfer of shares to the Central Depository and Clearing Company. The complaints received were followed by six administrative proceedings, three of them initiated in order to determine the existence of the obligation to publish a takeover bid and in order to determine whether there were any irregularities or violations in the takeover procedure. The three other proceedings were initiated in order to determine whether the provisions of the Capital Market Act (Official Gazette 88/08, 146/08, 74/09, 54/13 and 159/13) relating to transparency of issuers and prohibition of market abuse had been violated.

Out of 17 complaints related to the leasing market, 47.1% concerned leasing companies' activities with respect to debt collection after the expiration or termination of the lease agreement, and 29.4% complaints concerned disputes related to vehicles as lease assets. The remaining complaints were related to the alleged failure by the leasing company to form provisions for any losses of court cases and to suspected irregularities in the programme of the candidate for the management board of the leasing company. Hanfa initiated an off-site examination of a leasing company in relation to the complaint regarding the reimbursement of the deposit to the lessee after the expiration of the operating lease agreement.

Out of ten complains concerning the investment fund industry, 30.0% were in relation to discontent with the process of liquidation of investment funds, 30.0% were in relation to the work of supervised entities, i.e. their financial business conduct and to dissatisfaction with fund management, while 20.0% of the complaints related to discontent regarding the purchase or substitution of fund units. The remaining complaints were in relation to dividend payment, disclosure of information to fund members and compensation amounts.

Two complaints regarding pension funds concerned the procedure related to the closure of the personal account in the mandatory pension fund and to mandatory pension fund management.

Hanfa provided prompt replies to all the complaints falling within its area of competence within 30 days after the reception of the complaints at the latest. Depending on specificities of each case, the replies included information on the course of action taken or on the result of such action. Submitters of complaints falling outside Hanfa's area of competence were referred to relevant authorities.

In addition to handling complaints of financial services users, Hanfa continued with its efforts in the area of consumer protection, informing the public of the importance and the manner of functioning of the financial system. It also performed a series of activities aimed at providing timely information to financial services users and focusing on the prevention through on-site and off-site supervision, and on the development of awareness of risks related to investments in financial instruments and of rights and obligations of supervised entities and users of their services. These activities primarily involved various publications on Hanfa's web site, namely draft ordinances falling within the area of its competence, invitations to comment on the ordinances, laws and by-laws and their consolidated texts, public announcements regarding various risky investments and financial

business, warnings aimed at protecting investors, and warnings issued by ESMA¹³⁶ and IOSCO. Hanfa carries out ongoing educational activities intended for users of financial services by publishing educational texts, frequently asked questions and answers, various publications, manuals and data on the performance of supervised entities, and other relevant information.

Within the framework of consumer protection, Hanfa was also active in the work of ESMA's Financial Innovation Standing Committee, processing documents and providing information regarding financial innovations (analysis of products such as contingent convertible bonds (CoCos), virtual currencies or alternative indices), investors complaints on capital markets and crowdfunding. In addition, it provided ESMA with reports on complaints, including in the reports the number of complaints and data on services and entities referred to in the complaints.

Hanfa participated in the work of EIOPA's¹³⁷ Committee on Consumer Protection and Financial Innovation by analysing documents received and by providing comments on issues such as conflict of interest, on-line sale, service users behaviour trends, cross-border exchange of information and provision of information in non-life insurance.

Along with carrying out activities in the area of consumer protection, Hanfa initiated or participated in various educational activities presented in the next chapter.

10.2 Educational Activities

Having recognised the importance of increasing the level of financial literacy of its citizens, and encouraged by the European Union, Organisation of Economic Cooperation and Development (OECD) and the World Bank, the Government of the Republic of Croatia entrusted the Ministry of Finance with the preparation of the Proposal for the National Strategic Framework for Financial Literacy in cooperation with competent ministries, stakeholders from scientific and educational institutions, supervisory authorities, consumers and the financial industry. The goal of the framework and its accompanying Action Plan for the Improvement of Financial Literacy for 2015, which defines implementing activities, is to create a foundation for systematic and comprehensive integration of financial education into educational processes and to help avoid financial difficulties encountered by individuals when managing personal or family finances. One of the authorities participating in the preparation of this framework was Hanfa. Initial measures of the Action Plan include national research of the financial literacy in the Republic of Croatia, which will be partly financed by Hanfa. Preparatory work relating to the research started at end-2014.

With the aim of raising the level of financial literacy and consumer protection, Hanfa's members of the Board and employees participated as lecturers in seminars and conferences organised by various educational, professional and state institutions. Topics of their lectures covered the powers of Hanfa, implementation of EU regulations and amendments to regulations within Hanfa's area of competence, business operations of insurance companies, pension companies and leasing companies, pension funds, actuarial issues, risk based supervision, stress tests, reporting obligations of supervised entities etc.

Between 10 and 17 March 2014, Hanfa participated in the World Money Week programme, whose participant the Republic of Croatia was for the first time last year. Other participants included Ministry of Science, Education and Sports, Ministry of Finance, Ministry of Economy, Croatian National Bank, Croatian Insurance Bureau and Croatian Employers' Association. Hanfa's representative participated in a round-table discussion organised within this project called "Achieving financial literacy through financial education". During the World Money Week, Hanfa also organ-

136 The European Securities and Markets Authority (ESMA) is described in more detail in Chapter 9.1.1 Participation in the Work of ESMA.

137 The European Insurance and Occupational Pensions Authority (EIOPA) is described in more detail in Chapter 9.1.2 Participation in the Work of EIOPA.

ised visits of university and high school students and university student associations at its premises, having made them acquainted with its powers and work through interactive presentations.

University and high school students' visits to Hanfa were also organised throughout the remainder of the year. The purpose of the visits was to make students familiar with Hanfa's activities, membership of ESMA and EIOPA, international cooperation, etc. The year 2014 also saw the beginning of preparations for student debates planned to be held in 2015 at their universities. Under the mentorship of Hanfa's employees and in cooperation with representatives of pension companies, the students are going to debate issues relating to pension funds.

Pension funds were also the topic of a panel discussion organised by Hanfa and titled "The future of mandatory pension funds' investments", whose purpose was to familiarise the public with new developments following amendments to the legal framework for business operations of pension funds.

In order to familiarise the wider public with topics related to financial services and the functioning of financial markets, Hanfa initiated the preparation of educational brochures, which cover issues related to capital markets, insurance, investment funds, pension system and leasing industry. The aim of the brochures was to provide information to existing and potential users of financial services on their possibilities, rights and obligations, in a simple and visually effective manner.

10.3 Transparency

In accordance with its obligation to comply with the Act on Right of Access to Information (Official Gazette 25/13; hereinafter: ARAI), Hanfa published information on its website relating to the area of its competence on a regular basis, at the same time handling requests filed in line with the provisions of the ARAI within the prescribed deadlines. Pursuant to its obligation to disclose information laid down by the ARAI, Hanfa regularly published decisions adopted at the Board's meetings, income and expenditure plan, draft by-laws and other regulations governing Hanfa's activity, and regularly updated registers and data bases on its website. It also published monthly and annual reports and statistical data on supervised entities.

In 2014, three requests for information filed under the ARAI resulted in the provision of the information requested, while one request was not subject to the provisions of the ARAI, as these provisions are not applicable to parties to judicial, administrative or other legal proceedings. The requesting party concerned was already a party to a legal proceeding, and was able to exercise their rights within the framework of that proceeding. Hanfa submits reports on such requests to the Information Commissioner, no later than by the end of January of the current year.

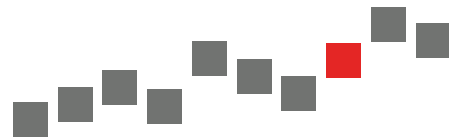
Within the process of adoption of subordinate regulations, Hanfa organised 104 public consultations, in accordance with its Annual Plan of Normative Activities and Public Consultation Plan for 2014. All stakeholders were invited to provide their written objections, suggestions and amendments to proposed regulations, usually within a deadline of 30 days. While preparing a final draft of each subordinate regulation, Hanfa took into consideration a large number of objections, suggestions and proposed amendments in order to improve the legal framework regulating business operations of its supervised entities.

As a public authority, Hanfa discharged other obligations arising from the ARAI continuously and in a timely manner, providing detailed information on public consultations to the Government Office for Cooperation with NGOs. The information was then consolidated in the Report on Public Consultations Held in the Process of Adoption of Laws and other Regulations, along with reports submitted by other public authorities.

Hanfa participated in a series of seminars, conferences and workshops related to the application of the ARAI organised by the Information Commissioner, Ministry of Public Administration and the Government Office for Cooperation with NGOs.

Hanfa also provided access to information on its activities to the public through the media, whose representatives sent their inquiries via e-mail address press@hanfa.hr. Hanfa's employees took into consideration the need for a prompt delivery of the information requested, with special effort devoted to providing full information. Hanfa received and answered 57 inquiries from journalists, at the same time communicating with the public through notices and interviews with the Board members published in the media.





Hanfa's General Business Operations and Meetings of the Board and of the Council



11 Hanfa's General Business Operations and Meetings of the Board and of the Council

11.1 Business Improvements and Human Resources

In 2014 Hanfa carried out a series of projects, continuing to improve its business operations. The IT section saw the implementation of the document management system (DMS) and the introduction of the electronic filing and records office. These projects resulted in increased efficiency and transparency of business activities and processes. Reorganisation of master data created a basis for the introduction of a data warehouse (DWH), which will lead to higher work efficiency and successful fulfilment of increasing obligations relating to the exchange of information with EU authorities.

Pursuant to powers of the European Supervisory Authorities (ESAs) stemming from their founding regulations, the Omnibus I Directive¹³⁸ and financial services legislation, in 2014 Hanfa had to respond to a series of reporting requirements defined by the ESAs and other requirements arising from the new legislation. The purpose of information exchange among the ESAs and Member States' supervisory authorities is to secure the correct application of EU regulations governing the financial sector, with the aim of preserving financial stability and fostering confidence in the entire financial system and adequate consumer protection.

Hanfa's IT system is connected to ESMA's¹³⁹ IT system in line with the connection plan adopted in 2013. The connection to ESMA systems and the exchange of information with ESMA enables detection and investigation of potential market abuse, thus ensuring more efficient supervision of the market. The year 2014 also saw the preparatory work for the connection and for the reception and submission of data to EIOPA¹⁴⁰ in the new XBRL format, in accordance with the reporting requirements referred to in the Solvency II Directive¹⁴¹.

In order to continue reaching its primary business goals, in 2014 Hanfa adopted internal acts identifying key and specific competences of its employees, including their influence on the activity of Hanfa and Hanfa's supervised entities. In line with this, and in order to ensure a high level of expertise and efficiency in completing their work tasks, Hanfa continuously provided its staff with professional training through in-house workshops, seminars and expert educations organised by ESMA and EIOPA. The topics covered included the detection and understanding of accounting manipulation, compliance, alignment with EU regulations, recovery plans – new regulatory requirements for investment firms, increasing the efficiency of team work, capital market supervision, consumer trends in the use of financial services, prevention of money laundering and terrorist financing, project management etc.

In 2014, the volume of Hanfa's activities related to the participation in the work of EIOPA and ESMA rose significantly, in particular with regard to the involvement of Hanfa's employees in standing

138 Directive 2010/78/EU of the European Parliament and of the Council of 24 November 2010 amending Directives 98/26/EC, 2002/87/EC, 2003/6/EC, 2003/41/EC, 2003/71/EC, 2004/39/EC, 2004/109/EC, 2005/60/EC, 2006/48/EC, 2006/49/EC and 2009/65/EC in respect of the powers of the European Supervisory Authority (European Banking Authority), the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority), OJ L 331

139 The European Securities and Markets Authority (ESMA) is described in more detail in Chapter 9.1.1 Participation in the Work of ESMA.

140 The European Insurance and Occupational Pensions Authority (EIOPA) is described in more detail in Chapter 9.1.2 Participation in the Work of EIOPA.

141 Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), OJ L 335/1

committees of these authorities. The participation in the work of the European Commission and of the Council of the European Union also increased, involving the work on regulations which govern financial services. A substantial number of new EU financial regulations led to a rise in the number of Hanfa's tasks involving the transposition and implementation of their provisions. EU membership resulted in a large number of companies from Member States notifying Hanfa of their intent to provide financial services in Croatia (in 2014 Hanfa received 651 such notifications). Finally, the entry into force of the Factoring Act (Official Gazette 94/14), requiring Hanfa to license and supervise factoring companies, also contributed to the increase in the volume of Hanfa's business activities. Due to that, it was necessary to raise the number of employees to the total of 151 persons, nine more when compared to the previous year.

11.2 Hanfa's Financial Operations

Hanfa's financial and accounting operations fall within the area of competence of its Office of the Secretary General and are conducted in accordance with regulations governing accounting for non-profit organisations.

The most important change in regulations governing finances and accounting of non-profit organisations involved the adoption of the new Act on Financial Operations and Accounting of Non-Profit Organizations (Official Gazette 121/14) in October 2014, and its entry into force on 1 January 2015. New provisions regulating this area will be fully applicable to business operations during 2015.

As at 31 December 2014, Hanfa's total assets amounted to HRK 32.4m, with 83.8% being accounted for by financial assets, and 16.2% by non-financial assets. Total payables reached HRK 4.5m, making up 14% of total liabilities, while own sources accounted for 86% of total liabilities.

Table 11.1 Hanfa's aggregate balance sheet as at 31 December 2014 (in HRK thousand)¹⁴²

Assets	32,402
Non-financial assets	5,255
Financial assets	27,147
Liabilities	32,402
Payables	4,549
Own sources	27,854

Source: Hanfa

During 2014, Hanfa financed all its activities from fees from assets and revenue of supervised entities and fees for services provided, in line with Article 20 of the Act on the Croatian Financial Services Supervisory Agency (Official Gazette 140/05 and 12/12).

The calculation and amount of fees and the manner of charging fees from assets and revenue of supervised entities charged by Hanfa in 2014 are defined by the Ordinance on the calculation, amount and charging of fees paid to the Croatian Financial Services Supervisory Agency in 2014 (Official Gazette 156/13 and 40/14)¹⁴³, while the type and amount of fees and administrative charges for the provision of services falling within Hanfa's area of competence in 2014 are defined by the Ordinance on the type and amount of fees and administrative charges paid to the Croatian Financial Services Supervisory Agency (Official Gazette 156/13, 40/14, 66/14 and 120/14).

In 2014, Hanfa recorded an income totalling HRK 53.4m and expenditure totalling HRK 45.6m.

¹⁴² A detailed balance sheet of Hanfa is provided in Table 3.2 in the Appendix.

¹⁴³ The list of ordinances adopted by Hanfa in 2014 is provided in the Appendix.

Table 11.2 Hanfa's aggregate income and expenditure account for 2014 (in HRK thousand)

Income	53,447
Income received under special regulations from other sources	52,722
Income received under the Ordinance on the calculation, amount and charging of fees paid to the Croatian Financial Services Supervisory Agency in 2014	45,229
Income received under the Ordinance on the type and amount of fees and administrative charges paid to the Croatian Financial Services Supervisory Agency	7,280
Other income received under special regulations	213
Income from assets	558
Other income	167
Expenditure	45,557
Expenditure on employees	31,016
Material expenditure	13,409
Costs for employees	2,108
Expenditure on services	6,102
Expenditure on materials and energy	790
Other material expenditure	4,408
Depreciation expenditure	1,062
Financial expenditure	55
Other expenditure	16

Source: Hanfa

11.2.1 Income

A total of 98.6% of the income generated in 2014 was accounted for by income received under special regulations from other sources, realised from fees from assets and income of supervised entities, fees for the provision of services within Hanfa's competence and other income under special regulations. The remaining 1.4% share was accounted for by income from assets and other income.

The largest part of income received under special regulations from other sources consisted of income received under the Ordinance on the calculation, amount and charging of fees paid to the Croatian Financial Services Supervisory Agency in 2014 and the Ordinance on the type and amount of fees and administrative charges paid to the Croatian Financial Services Supervisory Agency.

The following table presents income from assets and income of supervised entities received under the Ordinance on the calculation, amount and charging of fees paid to the Croatian Financial Services Supervisory Agency in 2014.

Table 11.3 Income from fees from assets and income of supervised entities in 2014 (in HRK thousand)

Income generated under the Ordinance on the calculation, amount and charging of fees paid to the Croatian Financial Services Supervisory Agency in 2014	Amount
Income from pension companies	22,470
Income from insurance companies	5,395
Income from credit institutions	4,627
Income from investment fund management companies	4,359
Income from leasing companies	3,984
Income from factoring companies	1,700
Income from the Central Depository and Clearing Company	1,362
Income from the Zagreb Stock Exchange	442
Income from insurance brokers and agents	328
Income from companies managing funds established under special regulations	287
Income from the maintenance of the register of leased assets	98
Income from pension insurance companies	95
Income from investment firms	82
Total	45,229

Source: Hanfa

Pursuant to the Ordinance on the calculation, amount and charging of fees paid to the Croatian Financial Services Supervisory Agency in 2014, Hanfa realised income from supervision, calculated from total assets and income of supervised entities. This income totalled HRK 45.2m, and was by 1.6% lower than in 2013, when it reached HRK 45.9m. The total fee charged pursuant to this ordinance made up 84.6% of total income generated in 2014.

Pursuant to the Ordinance on the type and amount of fees and administrative charges paid to the Croatian Financial Services Supervisory Agency, in 2014 Hanfa collected fees for services provided within its area of competence, as prescribed by the Act on the Croatian Financial Services Supervisory Agency, Capital Market Act (Official Gazette 88/08, 146/08, 74/09, 54/13 and 159/13), Act on the Takeover of Joint-Stock Companies (Official Gazette 109/07, 36/09, 108/12, 90/13, 99/13 and 148/13), Act on Open-Ended Investment Funds with Public Offering (Official Gazette 16/13), Alternative Investment Funds Act (Official Gazette 16/13), Insurance Act (Official Gazette 151/05, 87/08, 82/09 and 54/13), Act on Compulsory Traffic Insurance (Official Gazette 151/05, 36/09, 75/09 and 76/13), Mandatory and Voluntary Pension Funds Act (Official Gazette 49/99, 63/00, 103/03, 177/04, 140/05, 71/07, 124/10, 114/11 and 51/13), Mandatory Pension Funds Act (Official Gazette 19/14), Voluntary Pension Funds Act (Official Gazette 19/14), Act on Pension Insurance Companies and Payment of Pension Annuities Based on Individual Capitalised Savings (Official Gazette 106/99, 63/00, 107/07 and 114/11), Act on Pension Insurance Companies (Official Gazette 22/14), Act on Lifelong Severance Payment or Supplementary Pension Purchase (Official Gazette 153/13), Leasing Act (Official Gazette 141/13), Factoring Act and Act Implementing Regulation (EU) No 648/2012 of the European Parliament and of the Council of July 2012 on OTC Derivatives, Central Counterparties and Trade Repositories (Official Gazette 54/13). The fees constitute Hanfa's income, whereas administrative charges are paid into the state budget of the Republic of Croatia.

Hanfa imposes fees and administrative charges on its supervised entities and all other legal and natural persons and entities without legal personality addressing Hanfa with requests to take measures from its area of competence. Persons obliged to pay fees and charges are also all other

persons addressing Hanfa with information or requests to take actions within its area of competence or submitting information to Hanfa on the provision of services in the Republic of Croatia through competent supervisory authorities of Member States.

Income from fees which Hanfa received in 2014 pursuant to the aforementioned ordinance amounted to HRH 7.3m and was by 2% higher than in the previous year.

The following table shows income based on services provided by Hanfa under special acts in 2014, which makes up 13.6% of Hanfa's total income generated in 2014.

Table 11.4 Income from services provided by Hanfa under special acts in 2014 (in HRK thousand)

Income generated under the Ordinance on the type and amount of fees and administrative charges paid to the Croatian Financial Services Supervisory Agency	Amount
Income generated under the Insurance Act and Act on Compulsory Traffic Insurance	3,258
Income generated under the Capital Market Act	891
Income generated under the Act on the Takeover of Joint-Stock Companies	853
Income generated under the Act on Open-Ended Investment Funds with Public Offering	613
Income generated under the Mandatory and Voluntary Pension Funds Act	566
Income generated under the Alternative Investment Funds Act	559
Income from fees charged for educational programme and examinations for brokers, investment advisers, pension fund managers, pension insurance company managers	274
Income generated under the Leasing Act	152
Income generated under the Act on the Croatian Financial Services Supervisory Agency (provision of opinions and documentation)	116
Total	7,280

Source: Hanfa

In 2014, Hanfa charged the majority of its fees pursuant to the provisions of the Insurance Act and Act on Compulsory Traffic Insurance (6.1% of total income), Capital Market Act (1.7% of total income) and Act on the Takeover of Joint-Stock Companies (1.6% of total income).

11.2.2 Expenditure

In 2014, Hanfa's expenditure amounted to HRK 45.5m, with the largest shares being accounted for by the expenditure for employees (68.1%) and material expenditure (29.4%).

Total expenditure was by 8.2% higher in comparison to 2013. The expenditure for employees totalled HRK 31m, rising by 2.7% relative to 2013, primarily due to a higher health insurance contribution rate, and to increased costs related to severance packages for retiring employees.

Material expenditure made up the next most significant item in Hanfa's total expenditure, amounting to HRK 13.4m and rising in comparison to 2013, mainly due to the increase in costs arising from mandatory membership of ESMA and EIOPA and due to new tasks related to EU legislation.

Costs arising from mandatory membership of ESMA and EIOPA amounted to HRK 4.1m, growing by 56.3% relative to 2013, when they reached HRK 2.6m. This was due to the full membership annual fee paid by Hanfa to these two institutions in 2014. These costs, excluding other expenses

related to the participation of Hanfa in the work of these European supervisory authorities, made up 30.6% of material expenditure and had a significant impact on Hanfa's total expenditure.¹⁴⁴

In 2014, Hanfa recorded surplus income over expenditure in the amount of HRK 7.9m, which was paid into the state budget of the Republic of Croatia, in accordance with the provisions of the Act on the Croatian Financial Services Supervisory Agency.

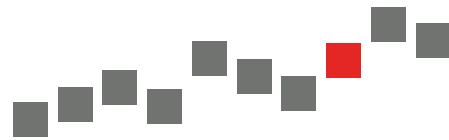
11.3 Meetings of Hanfa's Board and Council

In 2014, Hanfa's Board held 80 meetings (53 ordinary and 27 extraordinary) and adopted 1,311 decisions.

Pursuant to Article 11 of the Act on the Croatian Financial Services Supervisory Agency, Hanfa has a Council. The Council is Hanfa's advisory body and consists of nine members, three of them being appointed by the Government of the Republic of Croatia and five by representatives of associations of supervised entities at the Croatian Chamber of Economy. The President of Hanfa's Board is a member of the Council by virtue of his office.

In accordance with Article 12 of the Act on the Croatian Financial Services Supervisory Agency, the Council provides opinions and expert advice, for the purpose of improving the supervisory practice. In 2014, the Council held 4 meetings: on 9 April, 2 July, 23 September and 9 December.

¹⁴⁴ A detailed income and expenditure account is provided in Table 3.1. in the Appendix.



Appendices



12 Appendices

Appendix 1: Hanfa's Board, Council and internal organisation

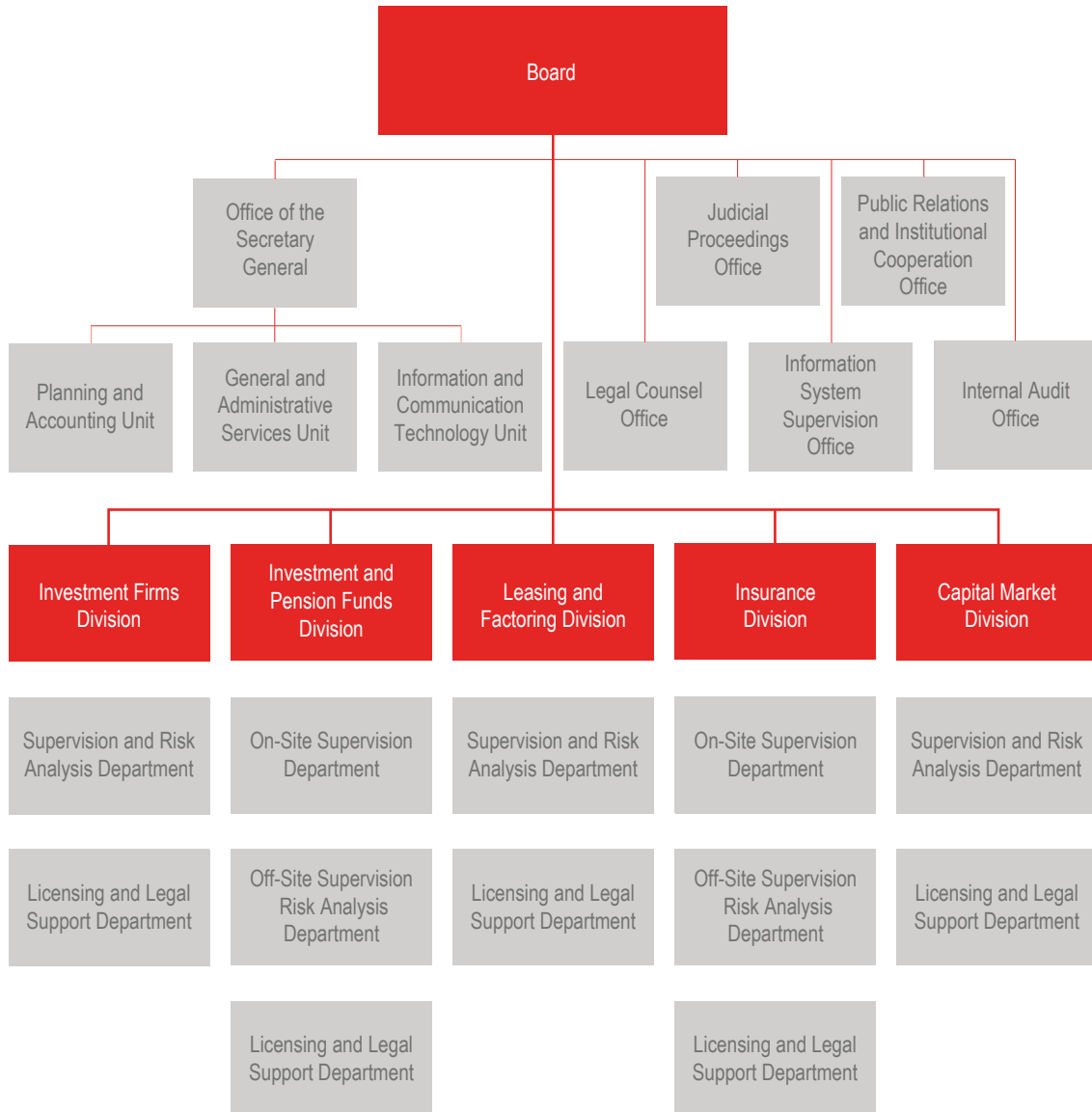
Members of Hanfa's Board as at 31 December 2014:

Petar-Pierre Matek (President)
Silvana Božić (Deputy President)
Branka Bjedov Kostelac
Gordana Letica
Mario Radaković

Members of Hanfa's Council as at 31 December 2014:

Boris Galić (President), President of the Management Board, Allianz Zagreb d.d
Petar-Pierre Matek, President of the Board, Croatian Financial Services Supervisory Agency
Nikolina Ptiček, Chief Advisor to the Minister, Ministry of Finance
Žana Pedić, Assistant Minister, Ministry of Finance
Ivana Matovina, Director, ANTARES REVIZIJA d.o.o.
Mirsad Latović, Member of the Management Board, HYPO ALPE-ADRIA-LEASING d.o.o.
Ivan Tadin, President of the Management Board, HITA VRIJEDNOSNICE d.d.
Josip Glavaš, President of the Management Board, Erste Asset Management d.o.o.
Damir Grbavac, President of the Management Board, Raiffeisen društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.

Hanfa's organisation chart:



Appendix 2: List of ordinances adopted in 2014¹⁴⁵

Capital market

1. Ordinance on the conditions for performing the function and on the procedure for granting approval for the position of a member of the management board of the stock exchange (Official Gazette 32/14)
2. Ordinance amending the Ordinance on the content of the application and accompanying documents for granting approval to the central clearing and depository company (Official Gazette 32/14)
3. Ordinance on information that needs to be submitted by issuers whose securities are admitted to trading on a regulated market in the Republic of Croatia to the Croatian Financial Services Supervisory Agency, and on the form, time limits and manner of its submission (Official Gazette 66/14)

Investment firms

1. Ordinance on investment firms' risk and capital adequacy management (Official Gazette 31/14)
2. Ordinance on the conditions for performing the function a member of the management board of an investment firm (Official Gazette 31/14)
3. Ordinance on organisational requirements for the provision of investment services and performance of investment activities and ancillary services, on remuneration policies and on criteria for significant investment firms (Official Gazette 31/14)
4. Ordinance on investment firms' liquidity risk management (Official Gazette 31/14)
5. Ordinance on additional activities of investment firms (Official Gazette 98/14)
6. Ordinance on the implementation of Commission Implementing Regulation (EU) No 680/2014

Investment funds

UCITS

1. Ordinance amending the Ordinance on organizational requirements for UCITS management companies (Official Gazette 31/14)
2. Ordinance amending the Ordinance on the structure and contents of annual and half-yearly reports and other reports of UCITS (Official Gazette 81/14)
3. Ordinance amending the Ordinance on delegating activities of UCITS management companies (Official Gazette 88/14)
4. Ordinance amending the Ordinance on carrying out tasks of the UCITS depository (Official Gazette 140/14)
5. Ordinance on the form and amount of capital of UCITS management companies (Official Gazette 151/14)

Alternative investment funds

1. Ordinance on the delegation of AIF management functions (Official Gazette 10/14)
2. Ordinance on exercising depository functions with respect to AIFs (Official Gazette 10/14)
3. Ordinance on units of AIFs (Official Gazette 16/14)
4. Ordinance on master and feeder alternative investment funds (Official Gazette 26/14)
5. Ordinance on liquidation and dissolution of AIFs (Official Gazette 32/14)
6. Ordinance on the form and amount of capital of alternative investment fund managers (Official Gazette 68/14)
7. Ordinance amending the Ordinance on the structure and contents of annual and semi-annual reports and other reports of AIF management companies (Official Gazette 81/14)
8. Ordinance amending the Ordinance on the structure and contents of annual and semi-annual reports and other reports of alternative investment fund (Official Gazette 81/14)
9. Ordinance amending the Ordinance on exercising depository functions with respect to AIFs (Official Gazette 140/14)

¹⁴⁵ Acts falling within Hanfa's area of competence, ordinances adopted by Hanfa and other related documents are available on Hanfa's website www.hanfa.hr.

Mandatory pension funds

1. Ordinance on the content and manner of keeping the register of mandatory pension companies and mandatory pension funds (Official Gazette 52/14)
2. Ordinance on the conditions for performing the function of a member of the management and supervisory board of a mandatory pension company (Official Gazette 52/14)
3. Ordinance on the procedure, conditions and manner of delegating mandatory pension fund management tasks (Official Gazette 52/14)
4. Ordinance on the approval of the establishment and statute of a mandatory pension fund and on the informative prospectus of a mandatory pension fund (Official Gazette 52/14))
5. Ordinance on issuing authorisation to and on acquisition of shares or holdings in a mandatory pension company (Official Gazette 52/14)
6. Ordinance on the capital of pension companies managing mandatory pension funds (Official Gazette 60/14)
7. Ordinance on the treatment of mandatory pension funds' members by the Central Register of Insured Persons and pension companies (Official Gazette 60/14)
8. Ordinance on the content of the notification relating to the acquisition of mandatory pension funds and on the manner of its submission (Official Gazette 60/14)
9. Ordinance on the status change of pension companies managing mandatory pension funds (Official Gazette 60/14)
10. Ordinance on the operation, conditions for and manner of selecting, and on withdrawal of issued authorisation to carry out activities of the depositary of a mandatory pension fund (Official Gazette 63/14)
11. Ordinance on the structure and content of financial statements and other reports of pension companies managing mandatory pension funds (Official Gazette 86/2014)
12. Ordinance amending the Ordinance on the status change of pension companies managing mandatory pension funds (Official Gazette 88/14)
13. Ordinance on marketing and other information for members of mandatory pension funds (Official Gazette 101/14)
14. Ordinance on compensating members of mandatory pension funds and/or mandatory pension funds (Official Gazette 101/14)
15. Ordinance on the content and duration of the educational programme, requirements for taking the examination and contents of the examination taken by candidates for certified pension fund managers (Official Gazette 101/14)
16. Ordinance on permitted investments and additional investment limitations relating to mandatory pension funds (Official Gazette 103/14)
17. Ordinance on organisational requirements for pension companies managing mandatory pension funds (Official Gazette 103/14)
18. Ordinance on annual, quarterly and other reports of mandatory pension funds (Official Gazette 103/14)
19. Ordinance on determining the net asset value and the value of accounting units of mandatory pension funds (Official Gazette 103/14)
20. Ordinance on the method and time limit for calculating the guaranteed rate of return of mandatory pension funds (Official Gazette 103/14)

Voluntary pension funds

1. Ordinance on the content and manner of keeping the register of pension companies and voluntary pension funds (Official Gazette 52/14)
2. Ordinance on the conditions for performing the function a member of the management and supervisory board of a voluntary pension company (Official Gazette 52/14)
3. Ordinance on the procedure, conditions and manner of delegating voluntary pension fund management tasks (Official Gazette 52/14)
4. Ordinance on the approval of the establishment, prospectus and statute of a voluntary pension fund (Official Gazette 52/14)

5. Ordinance on issuing authorisation to and on acquisition of a qualifying holding in a voluntary pension company (Official Gazette 52/14)
6. Ordinance on the operation, conditions for and manner of selecting, and on withdrawal of issued authorisation to carry out activities of the depositary of a voluntary pension fund (Official Gazette 63/14)
7. Ordinance on the capital and technical provisions of pension companies managing voluntary pension funds (Official Gazette 68/14)
8. Ordinance on status changes of voluntary pension funds (Official Gazette 72/14)
9. Ordinance on the structure and content of financial statements and other reports of pension companies managing voluntary pension funds (Official Gazette 86/14)
10. Ordinance on requirements to be met in order to be entitled to receive retirement benefits arising from voluntary pension insurance, on register of members, and on cancellation of payments into and out of voluntary pension funds (Official Gazette 98/14)
11. Ordinance on the content and duration of the educational programme, requirements for taking the examination and contents of the examination taken by candidates for certified pension fund managers (Official Gazette 101/14)
12. Ordinance on marketing and other information for members of voluntary pension funds (Official Gazette 101/14)
13. Ordinance on compensating members of voluntary pension funds and/or voluntary pension funds (Official Gazette 101/14)
14. Ordinance on requirements for offering pension schemes within the voluntary pension insurance based on individual capitalised savings (Official Gazette 101/14)
15. Ordinance on permitted investments and additional investment limitations relating to voluntary pension funds (Official Gazette 103/14)
16. Ordinance on organisational requirements for pension companies managing voluntary pension funds (Official Gazette 103/14)
17. Ordinance on annual, semi-annual and other reports of voluntary pension funds (Official Gazette 103/14)
18. Ordinance on determining the net asset value and the price of units of voluntary pension funds (Official Gazette 103/14)

Pension insurance companies

1. Ordinance on the requirements for professional training and examination of professional knowledge required to perform duties of the certified actuary (Official Gazette 60/14)
2. Ordinance on the content and manner of keeping the register of pension insurance companies (Official Gazette 60/14)
3. Ordinance on marketing activities and website of pension insurance companies (Official Gazette 72/14)
4. Ordinance on the requirements for membership in management and supervisory boards of pension insurance companies (Official Gazette 72/14)
5. Ordinance on the requirements for issuing authorisation and for acquisition of a qualifying holding (Official Gazette 72/14)
6. Ordinance on capital adequacy of pension insurance companies (Official Gazette 74/14)
7. Ordinance on the structure and contents of financial statements and additional reports of pension insurance companies (Official Gazette 86/14)
8. Ordinance on regular reports of pension insurance companies (Official Gazette 86/14)
9. Ordinance on the offering of pension schemes by pension insurance companies (Official Gazette 98/14)
10. Ordinance on the audit of reports of the pension insurance company (Official Gazette 98/14)
11. Ordinance on minimum standards, manner of calculating and criteria for calculating technical provisions of the pension insurance company (Official Gazette 98/14)
12. Ordinance on permitted investments and investment limits relating to assets covering technical provisions of the pension insurance company (Official Gazette 98/14)

13. Ordinance on the selection of the pension insurance company within mandatory pension insurance (Official Gazette, 99/14)
14. Ordinance on the contents and duration of the educational programme, requirements for taking the examination and contents of the examination taken by candidates for certified managers of pension insurance companies (Official Gazette 101/14)
15. Ordinance on organisational requirements for pension insurance companies (Official Gazette 101/14)
16. Ordinance on valuating assets of pension insurance companies (Official Gazette 103/14)
17. Ordinance on the chart of accounts of pension insurance companies (Official Gazette 103/14)

Supplementary pension purchase companies

1. Ordinance on investments of supplementary pension purchase companies (Official Gazette 72/14)
2. Ordinance on keeping accounts of supplementary pension purchase companies (Official Gazette 72/14)

Insurance

1. Ordinance amending the Ordinance on the method of calculating and time limits for paying contributions and on the manner of keeping and using assets intended for liabilities of the guarantee fund (Official Gazette 20/14)
2. Ordinance amending the Ordinance on the requirements for professional training and examination of professional knowledge required to obtain authorisation to carry out insurance representation or insurance/reinsurance brokerage business (Official Gazette 45/14)
3. Ordinance on the requirements for professional training and examination of professional knowledge required to perform duties of a certified actuary (Official Gazette 60/14)
4. Ordinance amending the Ordinance on the manner of calculating capital, guarantee fund and capital adequacy of insurance and reinsurance companies (Official Gazette 136/14)
5. Ordinance amending the Ordinance on the manner of calculating the required solvency margin (capital adequacy) of insurance and reinsurance companies (Official Gazette 136/14)
6. Ordinance amending the Statistical Standards for Insurance (Official Gazette 136/14)
7. Ordinance amending the Ordinance on the requirements for professional training and examination of professional knowledge required to obtain authorisation to carry out insurance representation or insurance/reinsurance brokerage business (Official Gazette 140/14)
8. Ordinance amending the Ordinance on the content of regular reports and reports submitted at the request of the Croatian Financial Services Supervisory Agency (Official Gazette 140/14)
9. Ordinance on the conditions for issuing authorisation to conduct insurance and reinsurance business and for obtaining approval for the acquisition of a qualifying holding in the insurance and reinsurance company (Official Gazette 140/14)
10. Ordinance on the conditions for performing the function of a member of the management board of an insurance or reinsurance company (Official Gazette 140/14)
11. Ordinance amending the Ordinance on handling complaints of insured persons, policyholders and beneficiaries under the insurance contract by insurance companies (Official Gazette 146/14)
12. Ordinance amending the Ordinance on other services provided by insurance agencies (Official Gazette 146/14)
13. Ordinance amending the Ordinance on other services provided by insurance agencies (Official Gazette 146/14)
14. Ordinance amending the Ordinance on the form and content of financial and statistical reports of insurance agencies and insurance and reinsurance brokerage companies (Official Gazette 151/14)
15. Ordinance on the requirements for key functions in the insurance company (Official Gazette 154/14)
16. Ordinance on risk management systems (Official Gazette 154/14)
17. Ordinance on the content of the audit in the insurance company (Official Gazette 154/14)
18. Ordinance on outsourcing of business activities and functions (Official Gazette 154/14)

19. Ordinance amending Ordinance on supplementary supervision of insurance companies and reinsurance companies in an insurance group (Official Gazette 154/14)
20. Ordinance on the own risk and solvency assessment (Official Gazette 1/15)
21. Ordinance on the content of the application and the documentation submitted along with the application for issuing authorisation to carry out statutory changes of the insurance and reinsurance company (Official Gazette 1/15)

Leasing

1. Ordinance on the requirements for membership in management and supervisory boards of leasing companies (Official Gazette 23/14)
2. Ordinance on the requirements for membership in management and supervisory boards of leasing companies (Official Gazette 23/14)
3. Ordinance on the content of leasing companies' regular reports and reports submitted at the request of the Croatian Financial Services Supervisory Agency and on the manner and time limits for their submission (Official Gazette 54/14)
4. Ordinance on the structure and content of financial statements and additional reports of leasing companies and on the manner of and time limits for their submission (Official Gazette 60/14)
5. Ordinance on the application of the provisions of the Leasing Act and other regulations to leasing companies in liquidation (Official Gazette 60/14)
6. Ordinance on the capital of leasing companies (Official Gazette 60/14)
7. Ordinance on the Chart of Accounts for leasing companies (Official Gazette 63/14)
8. Ordinance on the Register of Leased Assets (Official Gazette 63/14)
9. Ordinance on the content and form of lease agreements and on the methodology for the calculation of the effective interest rate (Official Gazette 66/14)
10. Ordinance on outsourcing business processes of leasing companies (Official Gazette 66/14)
11. Ordinance on the audit of leasing companies' reports (Official Gazette 68/14)
12. Ordinance on organisational requirements for leasing companies (Official Gazette 68/14)
13. Ordinance on leasing activities carried out in the territory of the Republic of Croatia by leasing companies from Member States or third countries (Official Gazette 68/14)

Factoring

1. Ordinance on issuing approval for the acquisition of a qualifying holding in a factoring company and another legal person (Official Gazette 129/14)
2. Ordinance on requirements for membership in management and supervisory boards of factoring companies (Official Gazette 129/14)
3. Ordinance on the content of factoring companies' regular reports and reports submitted at the request of the Croatian Financial Services Supervisory Agency and on the manner and time limits for their submission (Official Gazette 140/14)

Hanfa

1. Ordinance amending the Ordinance on the calculation, level and charging of fees paid to the Croatian Financial Services Supervisory Agency for the year 2014 (Official Gazette 40/14),
2. Ordinance on the type and amount of fees and administrative charges paid to the Croatian Financial Services Supervisory Agency (Official Gazette 40/14)
3. Corrigendum to the Ordinance on the type and amount of fees and administrative charges paid to the Croatian Financial Services Supervisory Agency (Official Gazette 66/14)
4. Ordinance amending the Ordinance on the type and amount of fees and administrative charges paid to the Croatian Financial Services Supervisory Agency (Official Gazette 120/14)
5. Ordinance on the calculation, level and charging of fees paid to the Croatian Financial Services Supervisory Agency for the year 2015 (Official Gazette 151/14)
6. Ordinance amending the Ordinance on the calculation, level and charging of fees paid to the Croatian Financial Services Supervisory Agency for the year 2014 (Official Gazette 151/14).

Appendix 3: Hanfa's financial statements

Table 3.1: Hanfa's income and expenses from 1 January to 31 December 2014 (in HRK)

Account from the Chart of Accounts	Item	Realised in 2013	Realised in 2014	Index (5/4)
1	2	4	5	6
Income				
3	Income	54,500,908	53,447,166	98.1
31	Income from the sale of goods and provision of services	0	0	-
32	Income from membership fees and membership contributions	0	0	-
33	Income under special regulations	53,120,891	52,722,288	99.2
3311	Income under special regulations from the state budget	0	0	-
3312	Income under special regulations from other sources	53,120,891	52,722,288	99.2
34	Income from assets	1,194,320	558,237	46.7
341	Income from financial assets	1,194,320	558,237	46.7
3411	Income from loan interest	0	0	-
3412	Income from securities interest	0	0	-
3413	Interest on time deposits and demand deposits	1,194,320	557,116	46.6
3414	Income from default interest	0	0	-
3415	Income from positive exchange rate differences	0	1,121	-
3416	Dividend income	0	0	-
3417	Income from profits of companies, banks and other financial institutions under special regulations	0	0	-
3418	Other income from financial assets	0	0	-
342	Income from non-financial assets	0	0	-
3421	Income from leases and rents	0	0	-
3422	Other income from non-financial assets	0	0	-
35	Income from donations	0	0	-
36	Other income	185,697	166,641	89.7
361	Income from damages and refunds	137,912	114,114	82.7
3611	Income from damages	0	0	-
3612	Income from refunds	137,912	114,114	82.7
362	Income from the sale of long-term assets	16,000	18,000	112.5
363	Other income	31,785	34,527	108.6
3631	Liability write off	0	0	-
3632	Receivables written off	0	0	-
3633	Other income	31,785	34,527	108.6
Expenses				
4	Expenses	42,119,569	45,556,754	108.2
41	Expenses for employees	30,194,574	31,015,718	102.7

Account from the Chart of Accounts	Item	Realised in 2013	Realised in 2014	Index (5/4)
1	2	4	5	6
411	Salaries	24,139,369	24,430,635	101.2
4111	Salaries for regular work	24,016,233	24,315,159	101.2
4112	Salaries in kind	123,136	115,476	93.8
412	Other expenses for salaries	2,376,829	2,262,053	95.2
413	Contributions on salaries	3,678,376	4,323,030	117.5
4131	Contributions for health insurance	3,247,623	3,864,023	119.0
4132	Employment contributions	430,753	408,006	94.7
42	Material expenses	10,983,398	13,408,747	122.1
421	Remuneration of employees' costs	1,564,919	2,108,046	134.7
4211	Business trips	665,436	852,229	128.1
4212	Remuneration of transport costs, field work and separate lives	678,841	675,515	99.5
4213	Employees' professional training	220,642	580,302	263.0
425	Expenses for services	5,739,951	6,101,873	106.3
4251	Telephone, postal and transport services	335,309	270,843	80.8
4252	Maintenance services	200,751	116,776	58.2
4253	Promotional and information services	30,362	45,316	149.3
4254	Public utility services	572,432	646,310	112.9
4255	Leases and rents	3,310,711	3,326,663	100.5
4256	Health care and veterinary services	38,915	71,270	183.1
4257	Intellectual and personal services	648,785	603,527	93.0
4258	IT services	95,200	247,000	259.5
4259	Other services	507,486	774,168	152.5
426	Expenses for material and energy	781,595	790,366	101.1
4261	Stationery and other material expenses	305,170	332,991	109.1
4263	Energy	460,996	419,513	91.0
4264	Small inventory and car tires	15,429	37,862	245.4
429	Other material expenses	2,896,933	4,408,462	152.2
4291	Insurance premiums	28,446	52,592	184.9
4292	Representation	96,676	101,671	105.2
4293	Membership fees	2,771,811	4,253,934	153.5
4295	Other material expenses	0	265	-
43	Depreciation expenses	782,148	1,061,605	135.7
44	Financial expenses	51,127	55,134	107.8
443	Other financial expenses	51,127	55,134	107.8
4431	Banking and payment system services	18,464	24,505	132.7
4432	Negative exchange rate differences and currency clause	32,438	29,992	92.5
4433	Default interest	225	0	0.0
4434	Other financial expenses	0	637	-

Account from the Chart of Accounts	Item	Realised in 2013	Realised in 2014	Index (5/4)
1	2	4	5	6
46	Other expenses	108,322	15,550	14.4
461	Fines, penalties and damages	0	0	-
462	Other expenses	108,322	15,550	14.4
4623	Expenses for other tax levies	1,700	2,450	144.1
4624	Other expenses	106,622	13,100	12.3
	Total expenses	42,119,569	45,556,754	108.2
	Excess of income over expenditure	12,381,339	7,890,412	63.7
5221	Excess of income – transferred	17,396,682	17,396,682	100.0
	Excess of income available in the next period	29,778,021	25,287,094	84.9

Additional data

11	Cash balance at the beginning of the year	2,712,215	5,707,642	210.4
11- debt	Total inflows of cash at bank and in hand	59,164,484	62,967,565	106.4
11 - receivable	Total outflows from cash at bank and in hand	56,169,056	62,032,410	110.4
11	Cash balance at the end of the year	5,707,643	6,642,797	116.4
	Average number of employees at the end of the reporting period	142	145	102.1
	Average number of employees based on the hours of work	130	132	101.5

Value of realised investments in long-term assets	Realised value		Index (5/4)	
	in the same period last year	in the reporting period		
052	Plant and equipment in preparation	1,168,833	499,263	42.7
053	Vehicles in preparation	217,811	157,158	72.2
055	Other non-material produced assets in preparation	17,353	509,659	2.937.0
056	Other non-financial assets in preparation	15,429	37,862	245.4

Source: Hanfa

Table 3.2: Hanfa's balance sheet as at 31 December 2014 (in HRK)

Account from the Chart of Accounts	Item	Balance as at 1 January 2014	Balance as at 31 December 2014	Index (5/4)
1	2	4	5	6
Assets				
	Assets	36,393,578	32,402,129	89.0
0	Non-financial assets	5,011,614	5,255,387	104.9
01	Non-produced fixed assets	2,763,564	2,922,029	105.7
011	Tangible assets - natural resources	0	0	-
0111	Land	0	0	-
0112	Mineral resources	0	0	-
0113	Other natural tangible assets	0	0	-
012	Intangible assets	2,865,841	3,069,631	107.1
0121	Patents	0	0	-
0122	Concessions	0	0	-
0123	Licences	2,648,084	2,851,874	107.7
0124	Other rights	159,691	159,691	100.0
0125	Goodwill	0	0	-
0126	Formation costs	0	0	-
0127	Development assets	0	0	-
0128	Other intangible assets	58,066	58,066	100.0
019	Value adjustment for non-produced fixed assets	102,277	147,602	144.3
02	Produced fixed assets	2,248,050	2,333,358	103.8
021	Buildings	3,564,810	3,564,810	100.0
0211	Residential buildings	0	0	-
0212	Commercial buildings	3,450,670	3,450,670	100.0
0213	Other buildings	114,140	114,140	100.0
022	Plant and equipment	6,870,268	6,808,182	99.1
0221	Office equipment and furniture	5,640,419	5,601,067	99.3
0222	Telecommunications equipment	485,865	425,156	87.5
0223	Maintenance and security equipment	669,146	669,146	100.0
0224	Medical and laboratory equipment	0	0	-
0225	Instruments and machines	0	0	-
0226	Sports and music equipment	0	0	-
0227	Machines and equipment for other purposes	74,838	112,813	150.7
023	Means of transportation	1,046,997	1,028,264	98.2
0231	Means of transportation in road traffic	1,046,997	1,028,264	98.2
0232	Other means of transportation	0	0	-
024	Book, artwork and other exhibition valuables	167,044	167,044	100.0
0241	Books in libraries	0	0	-
0242	Work of arts (in galleries, museums etc.)	167,044	167,044	100.0
0243	Museum exhibits and natural rarities	0	0	-

Account from the Chart of Accounts	Item	Balance as at 1 January 2014	Balance as at 31 December 2014	Index (5/4)
1	2	4	5	6
0244	Other unmentioned exhibition valuables	0	0	-
025	Growing crops and live stock	0	0	-
0251	Multiannual plantations	0	0	-
0252	Livestock unit	0	0	-
026	Intangible produced assets	92,849	602,508	648.9
0261	Software investments	92,849	602,508	648.9
0262	Artistic, literary and scientific works	0	0	-
0263	Other intangible produced assets	0	0	-
029	Value adjustment for produced fixed assets	9,493,918	9,837,450	103.6
03	Precious metals and other valuables	0	0	-
031	Precious metals and other valuables	0	0	-
0311	Precious metals and jewelry	0	0	-
0312	Stored books, works of arts and similar values	0	0	-
04	Small inventory	0	0	-
041	Small inventory on stock	0	0	-
042	Small inventory in use	99,478	122,883	123.5
049	Value adjustment for small inventory	99,478	122,883	123.5
05	Non-financial assets under construction	0	0	-
051	Buildings under construction	0	0	-
052	Plant and equipment under construction	0	0	-
053	Vehicle under construction	0	0	-
054	Growing crops and live stock in preparation	0	0	-
0541	Growing crops in preparation	0	0	-
0542	Live stock in preparation	0	0	-
055	Other intangible produced assets in preparation	0	0	-
056	Other non-financial assets in preparation	0	0	-
06	Produced current assets	0	0	-
061	Inventories for the pursuit of activities	0	0	-
0611	Inventories for redistribution to others	0	0	-
0612	Inventories of materials for regular needs	0	0	-
0613	Inventories of spare parts	0	0	-
0614	Inventories of materials for regular needs	0	0	-
062	Production and products	0	0	-
0621	Production in progress	0	0	-
0622	Finished products	0	0	-
063	Goods for resale	0	0	-
1	Financial assets	31,381,964	27,146,742	86.5
11	Cash at bank and in hand	5,707,642	6,642,797	116.4
111	Cash at bank	5,702,354	6,636,044	116.4

Account from the Chart of Accounts	Item	Balance as at 1 January 2014	Balance as at 31 December 2014	Index (5/4)
1	2	4	5	6
1111	Cash in the account with domestic commercial banks	5,702,354	6,636,044	116.4
1112	Cash in the account with foreign commercial banks	0	0	-
1113	Interim account	0	0	-
112	Cash reserved	0	0	-
113	Cash in hand	5,288	6,753	127.7
114	Securities in hand	0	0	-
12	Deposits, guarantee deposits and receivables from employees, for prepayments made regarding taxes and others	25,142,944	20,084,522	79.9
121	Deposits with banks and other financial institutions	25,000,000	20,000,000	80.0
1211	Deposits with domestic banks and other financial institutions	25,000,000	20,000,000	80.0
1212	Deposits with foreign banks and other financial institutions	0	0	-
122	Guarantee deposits	0	0	-
123	Receivables from employees	1,472	345	23.4
124	Receivables for prepayments made regarding taxes and contributions	1,668	5,075	304.3
1241	Receivables for prepayments made regarding taxes	1,668	5,075	304.3
1242	Receivables for value-added tax with tax payers	0	0	-
1243	Receivables for prepayments made regarding duties and customs duty	0	0	-
1244	Receivables for prepayments made regarding other taxes	0	0	-
1245	Receivables for prepayments made regarding contributions	0	0	-
129	Other receivables	139,804	79,102	56.6
1291	Receivables for remuneration refunded	17,486	23,922	136.8
1292	Receivables for damages	0	0	-
1293	Receivables for advance payments	79,925	12,857	16.1
1294	Other receivables	42,393	42,323	99.8
13	Loans	0	0	-
131	Loans to citizens and households	0	0	-
132	Loans to legal entities engaged in entrepreneurial activity	0	0	-
133	Loans to other entities	0	0	-
139	Impairment of loans receivable	0	0	-
14	Securities in hand	0	0	-

Account from the Chart of Accounts	Item	Balance as at 1 January 2014	Balance as at 31 December 2014	Index (5/4)
1	2	4	5	6
141	Cheques	0	0	-
1411	Cheques - domestic	0	0	-
1412	Cheques - foreign	0	0	-
142	Commercial papers and treasury bills	0	0	-
1421	Commercial papers and treasury bills - domestic	0	0	-
1422	Commercial papers and treasury bills - foreign	0	0	-
143	Bills of exchange	0	0	-
1431	Bills of exchange - domestic	0	0	-
1432	Bills of exchange - foreign	0	0	-
144	Bonds	0	0	-
1441	Bonds - domestic	0	0	-
1442	Bonds - foreign	0	0	-
145	Options and other financial derivatives	0	0	-
1451	Options and other financial derivatives - domestic	0	0	-
1452	Options and other financial derivatives - foreign	0	0	-
146	Other securities	0	0	-
1461	Other domestic securities	0	0	-
1462	Other foreign securities	0	0	-
149	Value adjustment of securities	0	0	-
15	Shares and participations in equity	0	0	-
151	Shares and participations in equity of banks and other financial institutions	0	0	-
1511	Shares and participations in equity of domestic banks and other financial institutions	0	0	-
1512	Shares and participations in equity of foreign banks and other financial institutions	0	0	-
152	Shares and participations in equity of companies	0	0	-
1521	Shares and participations in equity of domestic companies	0	0	-
1522	Shares and participations in equity of foreign companies	0	0	-
159	Value adjustment of shares and participations in equity	0	0	-
16	Income receivables	0	0	-
161	Receivables from employees	0	0	-
162	Receivables for membership fees and membership contributions	0	0	-
163	Receivables for income under special regulations	0	0	-

Account from the Chart of Accounts	Item	Balance as at 1 January 2014	Balance as at 31 December 2014	Index (5/4)
1	2	4	5	6
164	Receivables for income from assets	0	0	-
1641	Receivables for income from financial assets	0	0	-
1642	Receivables for income from non-financial assets	0	0	-
165	Other receivables	0	0	-
169	Value adjustment for receivables	0	0	-
19	Prepayments and accrued income	531,378	419,423	78.9
191	Prepayments	207,855	221,667	106.6
192	Accrued income	323,523	197,756	61.1
Liabilities and own sources				
	Liabilities and own sources	36,393,578	32,402,129	89.0
2	Liabilities	3,984,545	4,548,514	114.2
24	Liabilities for expenses	3,908,303	4,176,832	106.9
241	Liabilities for employees	3,521,311	3,573,220	101.5
2411	Liabilities for salaries - net	1,156,364	1,206,317	104.3
2412	Liabilities for salary compensation - net	112,647	111,865	99.3
2413	Liabilities for salaries in kind - net	0	0	-
2414	Liabilities for tax and surtax regarding salaries	343,964	287,388	83.6
2415	Liabilities for contributions from salaries	408,144	399,382	97.9
2416	Liabilities for contributions on salaries	308,556	345,124	111.9
2417	Other liabilities for employees	1,191,636	1,223,144	102.6
242	Liabilities for material expenses	346,420	557,680	161.0
2421	Remuneration of employees' costs	55,556	54,447	98.0
2422	Remuneration to members of representative and executive bodies, committees, etc.	0	0	-
2423	Remuneration to volunteers	0	0	-
2424	Remuneration to other non-employed persons	0	0	-
2425	Liabilities towards domestic suppliers	290,864	501,194	172.3
2426	Liabilities towards foreign suppliers	0	0	-
2429	Other liabilities for financing operating expenses	0	2,039	-
244	Liabilities for financial expenses	0	0	-
2441	Liabilities for interests on issued securities	0	0	-
2442	Liabilities for interests on received credits and loans	0	0	-
2443	Liabilities for other financial expenses	0	0	-
245	Liabilities for financial aid funds collected	0	0	-
246	Liabilities for penalties and damages	0	0	-
249	Other liabilities	40,572	45,932	113.2
2491	Tax liabilities	0	0	-
2492	Liabilities for value-added tax	926	0	0.0
2493	Liabilities for prepayments, deposits, caution money received and other liabilities	39,646	45,932	115.9

Account from the Chart of Accounts	Item	Balance as at 1 January 2014	Balance as at 31 December 2014	Index (5/4)
1	2	4	5	6
25	Liabilities for securities	0	0	-
251	Liabilities for cheques	0	0	-
2511	Liabilities for cheques – domestic	0	0	-
2512	Liabilities for cheques – foreign	0	0	-
252	Liabilities for bills of exchange	0	0	-
2521	Liabilities for bills of exchange – domestic	0	0	-
2522	Liabilities for bills of exchange – foreign	0	0	-
259	Value adjustment of liabilities for securities	0	0	-
26	Liabilities for credits and loans	0	0	-
261	Liabilities for bank credits and credits from other creditors	0	0	-
2611	Liabilities for domestic credits	0	0	-
2612	Liabilities for foreign credit	0	0	-
262	Liabilities for commodity and other loans	0	0	-
2621	Liabilities for domestic loans	0	0	-
2622	Liabilities for foreign loans	0	0	-
269	Value adjustment for liabilities for credits and loans	0	0	-
29	Accrued expenses and deferred income	76,242	371,682	487.5
291	Accrued expenses	33,919	61,684	181.9
292	Deferred income	42,323	309,998	732.5
2921	Accrued income	0	267,675	-
2922	Deferred income	42,323	42,323	100.0
5	Own sources	32,409,033	27,853,615	85.9

Source: Hanfa

Appendix 4: Statistical overview

4.1 Pension companies

Table A1: Statement of comprehensive income of pension companies (in HRK thousand)

Item	2013	2014
Income from fund management	317,931	360,726
Fee from paid contributions	42,401	42,943
Fee from total assets of the pension fund	275,514	317,765
Exit fee	16	17
Bonus payment	0	0
Expenses on fund management	82,542	84,950
Transaction costs	67	100
Marketing costs	6,112	5,081
Sales agent costs	9,688	10,527

Item	2013	2014
Other pension fund management costs	66,675	69,243
Profit from fund management	235,389	275,775
Operating expenses	79,791	86,960
Material costs	1,373	1,248
Staff costs	35,687	40,381
Depreciation and adjustment of value of other assets	5,430	5,261
Provisions	53	404
Other operating expenses	37,248	39,667
Profit from regular business activities	155,598	188,815
Net financial result	20,272	15,688
Other income and expenses	4,839	1,866
Pre-tax profit	180,708	206,369
Profit tax	36,172	41,629
Profit	144,536	164,740

Source: Hanfa

Table A2: Statement of financial position of pension companies (in HRK thousand)

Item	31 Dec 2013	Share (%)	31 Dec 2014	Share (%)
I. Financial assets	499,642	84.46	581,592	85.96
II. Receivables	30,806	5.21	36,304	5.37
III. Prepayments and accrued income	2,129	0.36	2,198	0.32
IV. Deferred tax assets	4,282	0.72	4,088	0.60
V. Property, plant and equipment	6,313	1.07	6,729	0.99
VI. Investment in real estate	0	0.00	0	0.00
VII. Intangible assets	12,419	2.10	10,834	1.60
VIII. Other assets	35,956	6.08	34,850	5.15
Total assets	591,547	100.00	676,595	100.00
Capital and reserves	545,799	92.27	624,994	92.37
I. Subscribed capital	357,844	60.49	401,800	59.39
II. Capital reserves	0	0.00	4,490	0.66
III. Reserves	8,300	1.40	8,300	1.23
IV. Revaluation reserves	1,219	0.21	3,346	0.49
V. Retained earnings or accumulated loss	33,901	5.73	42,318	6.25
VI. Profit or loss of the current year	144,536	24.43	164,740	24.35
Liabilities	18,161	3.07	22,990	3.40
Reserves	7,548	1.28	7,361	1.09
Accruals and deferred income	19,733	3.34	20,484	3.03
Deferred tax liabilities	306	0.05	767	0.11
Total liabilities	591,547	100.00	676,595	100.00

Source: Hanfa

Table A3: Statement of comprehensive income of the pension insurance company for 2013 and 2014 (in HRK)

No.	Item	2013	2014	Change (%)
	Income from payments of pension companies and lump sum payments - mandatory pension insurance	2,014,287	8,803,440	337.0
	Income from payments of pension companies and lump sum payments- voluntary pension insurance	145,937,491	153,936,379	5.5
3	Income from investments - mandatory pension insurance	842,153	1,572,938	86.8
4	Income from investments - voluntary pension insurance	22,899,637	40,733,833	77.9
5	Income from investments - business operations of the pension insurance company	539,687	340,344	-36.9
6	Income from fees and commissions	5,985,583	6,977,341	16.6
7	Other income	71,377	19,490	-72.7
	Total income	178,290,214	212,383,764	19.1
8	Expenses arising from pension contracts - mandatory pension insurance	-2,709,966	-10,134,262	274.0
9	Expenses arising from pension contracts - voluntary pension insurance	-159,486,371	-186,691,644	17.1
10	Operating expenses	-3,601,750	-3,957,364	9.9
11	Investment expenses - mandatory pension insurance	-143,724	-237,903	65.5
12	Investment expenses - voluntary pension insurance	-8,995,502	-7,638,365	-15.1
13	Investment expenses - business operations of the pension insurance company	0	0	-
	Total expenses	-174,937,313	-208,659,538	19.3
14	Pre-tax profit or loss of the accounting period	3,352,902	3,724,226	11.1
15	Profit tax	-669,830	-743,180	11.0
16	After-tax profit or loss of the accounting period	2,683,072	2,981,046	11.1

Source: Hanfa

Table A4: Statement of financial position of the pension insurance company as at 31 December 2013 and 31 December 2014 (in HRK thousand)

No.	Item	31 Dec 2013	31 Dec 2014	Change (%)
Assets				
1	Receivables for subscribed capital unpaid	0	0	-
2	Intangible assets	0	420,185	-
3	Tangible assets	51,110	118,966	132.8
4	Investments	310,441,821	391,030,711	26.0
5	Share of reinsurance in technical provisions	0	0	-
6	Deferred and current tax assets	227,859	0	-100.0
7	Receivables	457,711	691,179	51.0
8	Other assets	14,461,148	12,698,314	-12.2
9	Prepayments and accrued income	6,471,668	7,723,827	19.3

No.	Item	31 Dec 2013	31 Dec 2014	Change (%)
	Total assets	332,111,317	412,683,182	24.3
Liabilities				
10	Capital and reserves	29,202,853	37,464,240	28.3
11	Minority interest			-
12	Technical provisions	279,812,633	353,200,432	26.2
13	Other provisions -reservations	0	0	-
14	Non-insurance-technical provisions - reservations	0	0	-
15	Financial liabilities	0	0	-
16	Deferred and current tax liabilities	0	195,401	-
17	Other liabilities	3,010,283	524,336	-82.6
18	Accruals and deferred income	20,085,547	21,298,773	6.0
	Total liabilities	332,111,317	412,683,182	24.3

Source: Hanfa

4.2 Investment funds

Table B1: Statement of comprehensive income of management companies (in HRK thousand)

Item		31 Dec 2013	31 Dec 2014
I.	Income from investment fund management fees	214,273	214,092
II.	Investment fund management expenses	63,357	68,125
Net result from investment fund management fees		150,917	145,967
III.	Income from portfolio management	5,377	7,760
IV.	Income from provision of investment advice	215	181
V.	Financial income and expenses	8,851	25,720
VI.	General and administrative operational expenses	102,806	120,654
VII.	Depreciation and value adjustment of other assets	5,221	4,058
VIII.	Provisions	125	1,904
IX.	Other income and operational expenses	7,017	9,146
X.	Pre-tax profit or loss	64,225	62,394
XI.	Profit tax	14,394	15,760
XII.	Profit or loss	49,831	46,634

Source: Hanfa

Table B2: Statement of financial position of management companies (in HRK thousand)

Item	31 Dec 2013	Share (%)	31 Dec 2014	Share (%)
Property, plant and equipment	2,835	0.29	2,296	0.27
Investment in real estate	0	0.00	0	0.00
Intangible assets	16,536	1.68	4,977	0.59
Financial assets	881,902	89.45	759,647	89.33
Receivables	82,106	8.33	78,391	9.22
Prepayments and accrued income	2,078	0.21	2,926	0.34
Deferred tax assets	281	0.03	736	0.09

Item	31 Dec 2013	Share (%)	31 Dec 2014	Share (%)
Other assets	203	0.02	1,436	0.17
Total assets	985,941	100.00	850,409	100.00
Capital and reserves	220,255	22.34	246,719	29.01
Liabilities	752,001	76.27	590,439	69.43
Provisions	2,009	0.20	2,734	0.32
Accruals and deferred income	9,498	0.96	8,529	1.00
Deferred tax liabilities	2,178	0.22	1,988	0.23
Total liabilities	985,941	100.00	850,409	100.00

Source: Hanfa

4.3. Insurance

Table C1: Abbreviated statement of financial position (balance sheet) of insurance companies and reinsurance companies (in HRK thousand)

	31 Dec 2013			31 Dec 2014		
	Life	Non-life	Total	Life	Non-life	Total
Receivables for subscribed capital unpaid	0	0	0	0	0	0
Intangible assets	7,020	87,801	94,820	13,457	77,042	90,499
Tangible assets	95,251	1,878,034	1,973,284	106,612	1,700,658	1,807,269
Investments	16,288,169	11,239,232	27,527,401	17,788,960	11,809,914	29,598,874
Investments for the account of life insurance policyholders who bear the investment risk	853,006	0	853,006	894,622	0	894,622
Reinsurer's share of technical provisions	379,058	1,058,397	1,437,455	390,387	1,207,395	1,597,782
Deferred and current tax assets	22,411	112,474	134,884	22,085	257,747	279,832
Receivables	160,730	2,149,797	2,310,527	165,956	1,990,588	2,156,545
Other assets	95,942	342,911	438,852	125,366	310,309	435,675
Prepayments and accrued income	283,916	271,199	555,115	301,738	283,716	585,454
Total assets	18,185,502	17,139,843	35,325,345	19,809,183	17,637,368	37,446,551
Capital and reserves	2,194,626	4,809,356	7,003,982	2,622,235	5,460,071	8,082,307
Subordinated liabilities		37,315	37,315	6,129	37,413	43,542
Technical provisions	14,454,488	9,874,398	24,328,887	15,461,150	9,814,872	25,276,022
Special provisions for life insurance policies where the investment risk is borne by the policyholder, gross amount	848,137	0	848,137	892,718	0	892,718
Other provisions	11,450	131,606	143,056	28,538	253,654	282,191
Deferred and current tax liabilities	43,244	215,062	258,307	144,386	250,385	394,772
Deposits held under reinsurance business ceded	364,551	72,419	436,969	375,450	82,326	457,776

	31 Dec 2013			31 Dec 2014		
	Life	Non-life	Total	Life	Non-life	Total
Financial liabilities	5,951	534,548	540,498	1,586	187,462	189,048
Other liabilities	212,674	1,032,567	1,245,241	212,268	1,077,173	1,289,441
Accruals and deferred income	50,382	432,573	482,954	64,723	474,013	538,735
Total liabilities	18,185,502	17,139,843	35,325,345	19,809,183	17,637,368	37,446,551

Source: Hanfa

Table C2: Abbreviated statement of comprehensive income (profit and loss account) of insurance companies and reinsurance companies (in HRK thousand)

		1.1.2013.-31.12.2013.			1.1.2014.-31.12.2014.		
		Life	Non-life	Total	Life	Non-life	Total
I.	Earned premiums	2,407,020	5,572,047	7,979,067	2,446,770	5,128,499	7,575,270
II.	Income from investments	1,110,922	589,813	1,700,735	967,789	586,372	1,554,162
III.	Income from fees and commissions	20,782	198,477	219,259	18,629	189,191	207,820
IV.	Other insurance-technical income, net amount from reinsurance	4,626	46,550	51,175	5,180	105,194	110,374
V.	Other income	11,531	110,162	121,692	7,652	61,690	69,343
VI.	Costs for insured events, net amount	-1,459,849	-2,503,497	-3,963,346	-1,407,324	-2,558,858	-3,966,183
VII.	Changes in mathematical provisions and other technical provisions, net amount from reinsurance	-862,324	-11,776	-874,101	-932,768	-37,565	-970,332
VIII.	Changes in special provisions for insurance policies where the investment risk is borne by the policyholder, net amount from reinsurance (+/-)	-41,910	0	-41,910	-43,094	0	-43,094
IX.	Costs for returns of premiums (bonuses and rebates), net amount from reinsurance	0	-1,377	-1,377	0	-2,774	-2,774
X.	Operating expenses, net amount	-789,781	-2,787,137	-3,576,918	-781,793	-2,836,332	-3,618,125
XI.	Investment expenses	-215,903	-723,115	-939,018	-91,431	-522,408	-613,839
XII.	Other technical expenses, net amount from reinsurance	-8,457	-249,113	-257,570	-8,023	-189,327	-197,350

		1.1.2013.-31.12.2013.			1.1.2014.-31.12.2014.		
		Life	Non-life	Total	Life	Non-life	Total
XIII.	Other expenses, including value adjustments	-9,962	-61,096	-71,058	-6,565	-130,448	-137,013
XIV.	Pre-tax profit or loss of the accounting period (+/-)	166,694	179,935	346,629	175,024	-206,766	-31,742
XV.	Profit or loss tax	-31,799	-97,642	-129,440	-32,811	13,806	-19,005
XVI.	After-tax profit or loss of the accounting period (+/-)	134,896	82,293	217,189	142,213	-192,960	-50,747
XVII.	Total income	3,561,919	6,578,649	10,140,568	3,444,169	6,179,041	9,623,210
XVIII.	Total expenses	-3,427,023	-6,496,356	-9,923,379	-3,301,956	-6,372,001	-9,673,958
XIX.	Other comprehensive income	-148,335	-226,158	-374,493	369,676	150,327	520,003
XX.	Total comprehensive income	-13,439	-143,865	-157,304	511,889	-42,633	469,256
XXI.	Reclassification adjustments	0	0	0	0	0	0

Source: Hanfa

4.4 Leasing

Table D1: Total assets of leasing companies (in HRK thousand)

Item	31 Dec 2013	31 Dec 2014
Fixed assets	13,753,609	13,029,071
Intangible assets	16,127	12,622
Tangible assets	5,583,442	5,236,082
Tangible assets in preparation (investments in progress)	39,105	4,043
Tangible assets leased out under an operating lease	5,445,073	5,032,341
Property	1,198,077	829,269
Passenger cars	2,850,388	2,971,455
Commercial vehicles	470,981	472,191
Vessels	431,041	370,925
Aircraft	6,928	6,415
Plant, machinery, transport machines and equipment	487,111	379,873
Other	547	2,212
Other tangible assets	99,263	77,737
Assets leased and rented	0	121,961
Long-term assets	344,033	105,734
Investments in branches, associates and joint ventures	29,702	260
Investment in long-term securities	144,930	97,102
Long term loans	157,837	1,886
Long term deposits	8,569	4,650
Other long-term financial assets	2,995	1,837

Item	31 Dec 2013	31 Dec 2014
Long-term receivables	7,665,899	7,520,428
Receivables under finance lease	7,662,131	7,440,899
Other long-term receivables	3,768	79,529
Deferred tax assets	144,108	154,204
Short-term assets	5,868,958	4,767,136
Inventory	868,548	816,369
Short-term receivables	3,522,551	3,259,014
Receivables under operating lease	161,336	176,992
Receivables under finance lease	3,192,878	2,918,598
State and other institutions receivables	95,524	58,967
Other short-term receivables	72,813	104,457
Short-term financial assets	1,209,590	455,326
Investments in branches, associates and joint ventures	0	0
Investments in securities	12,028	28
Loans granted	841,545	263,356
Deposits given	322,172	188,734
Other short-term financial assets	33,845	3,208
Cash at bank and in hand	268,269	236,428
Prepayments and accrued income	63,066	67,294
Total assets	19,685,633	17,863,501
Off-balance sheet items	9,024,089	10,503,972

Source: Hanfa

Table D2: Total liabilities of leasing companies (in HRK thousand)

Item	31 Dec 2013	31 Dec 2014
Capital and reserves	1,292,931	351,991
Initial capital	935,825	1,191,468
of which owned by non-residents	819,545	1,066,788
Other reserves	309,386	295,820
Capital reserves	2,437,335	2,787,772
Retained profit/loss brought forward	-2,141,768	-2,593,950
Profit/loss for the year	-247,846	-1,329,119
Provisions	103,410	148,369
Long-term liabilities	10,949,164	11,633,804
Foreign banks and financial institutions long-term credits and loans	8,935,494	9,560,930
Domestic banks and financial institutions long-term credits and loans	889,733	1,314,480
Liabilities for advances in respect of lease	9,010	9,410
Liabilities for deposits and guarantees in respect of lease	459,374	373,717
Liabilities for issued securities	0	0
Other long-term liabilities	648,865	369,206

Item	31 Dec 2013	31 Dec 2014
Deferred tax liability	6,689	6,061
Short-term liabilities	7,017,746	5,435,101
Foreign banks and financial institutions credits and loans	6,125,348	4,339,479
Domestic banks and financial institutions credits and loans	354,888	629,449
Liabilities for short-term securities	0	2,518
Liabilities for advances in respect of lease	31,997	59,449
Liabilities for deposits and guarantees in respect of lease	154,978	127,750
Other short-term liabilities	350,535	276,456
Accruals and deferred income	322,382	294,237
Total liabilities	19,685,633	17,863,501
Off-balance sheet items	9,024,089	10,503,972
Capital and reserves	319,586	334,506
Attributable to owners of the parent	319,586	334,506
Attributable to non-controlling interests	0	0

Source: Hanfa

Table D3: Statement of comprehensive income of leasing companies (in HRK thousand)

Item	31 Dec 2013	31 Dec 2014
Interest income	745,081	672,351
Interest income - finance lease	625,236	583,295
Interest income - loans granted	51,033	42,189
Other interest income	68,812	46,867
Interest expenses	430,553	383,280
Interest expenses on credits from domestic banks and financial institutions	53,353	66,304
Interest expenses on credits from foreign banks and financial institutions	355,503	300,332
Other interest expenses	21,697	16,644
Profit/loss on interest	314,529	289,071
Profit from commissions and fees	52,182	40,177
Expenses on commissions and fees	29,394	28,230
Profit/loss on commissions and fees	22,788	11,946
Other operating income	2,073,708	1,857,427
Income from operating lease	1,746,504	1,552,672
Profit from sale of assets - operating lease	83,839	52,522
Profit from sale of assets - finance lease	19,376	15,611
Profit from reimbursable lease expenses	23,389	20,296
Profit from exchange rate differences	8,326	26,076
Other income	192,274	190,250
Other operating expenses	2,071,430	2,316,092

Item	31 Dec 2013	31 Dec 2014
Loss on sale of assets - operating lease	11,223	22,667
Loss on sale of assets - finance lease	7,353	6,455
Loss on reimbursable lease expenses	1,377	3,116
Loss on exchange rate differences	91,078	15,230
Costs for depreciation of assets under an operating lease	1,295,618	1,176,151
Costs for depreciation of other assets	15,774	17,250
Staff costs	219,859	215,541
Overheads and administrative operating costs	230,227	235,733
Other expenses	198,922	623,948
Profit/loss on other income and expenses	2,278	-458,665
Profit/loss before expenses on value adjustment for impairment losses	339,594	-157,648
Costs for value adjustment for impairment losses	529,093	1,119,664
Profit/loss before profit tax	-189,499	-1,277,312
Profit tax	58,347	51,807
Profit/loss after profit tax	-247,846	-1,329,119
Attributable to owners of the parent	63,388	47,453
Attributable to non-controlling interests	0	0
Other comprehensive income	-4,042	-26,519
Change in revaluation reserves (property, plant, equipment and intangible assets)	0	0
Unrealised gains/losses on financial assets available for sale	-1,826	-33,138
Gains/losses on hedging instruments in a cash flow hedge	-3,227	-10
Actuarial gains/losses on defined benefit pension plans	0	-1
Gains/losses arising from translation of financial statements relating to foreign operations	0	0
Profit tax on other comprehensive income	-1,011	-6,630
Total comprehensive income	-251,888	-1,355,638
Attributable to owners of the parent	63,388	47,453
Attributable to non-controlling interests	0	0
Reclassification adjustments	0	0

Source: Hanfa

Table D4: Structure of the portfolio of active lease contracts by type and by leased asset/loan

	As at	31 Dec 2013		31 Dec 2014	
	Item	Number of active contracts	Value of active contracts (outstanding contract value/outstanding receivables) ¹ (in HRK thousand)	Number of active contracts	Value of active contracts (outstanding contract value/outstanding receivables) ¹ (in HRK thousand)
Operating lease	Total	53,358	3,961,519	50,736	3,757,482
	Property	102	1,014,766	74	903,857
	Passenger cars	44,864	1,923,501	42,602	1,923,848
	Commercial vehicles	5,651	355,752	5,452	353,736
	Vessels	576	258,501	465	217,375
	Aircraft	1	1,461	1	482
	Plant, machinery, transport machines and equipment	2,000	407,182	1,744	356,319
	Other	164	355	398	1,865
Finance lease	Total	58,641	10,457,374	58,126	10,419,586
	Property	1,036	3,514,931	955	3,139,558
	Passenger cars	33,711	1,858,378	33,482	2,010,267
	Commercial vehicles	14,441	2,114,743	14,430	2,385,949
	Vessels	727	349,941	710	294,658
	Aircraft	1	1,765	1	0
	Plant, machinery, transport machines and equipment	7,923	2,543,796	7,642	2,520,210
	Other	802	73,820	906	68,944
Loans	Total	2,085	355,495	1,789	121,359
	Property	346	331,133	297	108,714
	Passenger cars	629	59	472	2
	Commercial vehicles	560	90	523	0
	Vessels	54	11,079	50	9,249
	Aircraft	3	0	3	0
	Plant, machinery, transport machines and equipment	487	5,649	441	3,394
	Other	6	7,485	3	0
Total	Total	114,084	14,774,388	110,651	14,298,426
	Property	1,484	4,860,830	1,326	4,152,129
	Passenger cars	79,204	3,781,938	76,556	3,934,117
	Commercial vehicles	20,652	2,470,585	20,405	2,739,685
	Vessels	1,357	619,521	1,225	521,282
	Aircraft	5	3,227	5	482
	Plant, machinery, transport machines and equipment	10,410	2,956,627	9,827	2,879,924
	Other	972	81,660	1,307	70,809

1) Outstanding contract value of the operating lease portfolio structure refers to the amount of outstanding leases (VAT excluded) under operating lease contracts. Outstanding receivables refer to the outstanding amount of financing (outstanding principal) under finance lease contracts and loans in gross amount.

Source: Hanfa

Table D5: Structure of newly concluded lease contracts by type and by leased asset

	Period from 1 Jan to	31 Dec 2013		31 Dec 2014	
	Item	Number of newly concluded lease contracts	Value of newly concluded lease contracts (contract/financed value) ¹ (in HRK thousand)	Number of newly concluded lease contracts	Value of newly concluded lease contracts (contract/financed value) ¹ (in HRK thousand)
Operating lease	Total	13,430	1,655,603	17,308	1,868,046
	Property	22	170,150	9	144,137
	Passenger cars	11,805	1,070,092	15,532	1,332,952
	Commercial vehicles	1,198	160,592	1,246	200,608
	Vessels	82	90,337	87	106,579
	Aircraft	0	0	0	0
	Plant, machinery, transport machines and equipment	322	164,270	197	81,656
	Other	1	163	237	2,115
Finance lease	Total	14,726	3,971,175	17,501	3,375,383
	Property	47	175,287	58	63,998
	Passenger cars	8,895	1,004,795	11,346	1,312,682
	Commercial vehicles	3,665	1,080,999	4,081	1,193,501
	Vessels	196	195,883	176	97,026
	Aircraft	0	0	0	0
	Plant, machinery, transport machines and equipment	1,584	1,476,589	1,646	683,883
	Other	339	37,622	194	24,293
Total	Total	28,156	5,626,778	34,809	5,243,429
	Property	69	345,436	67	208,135
	Passenger cars	20,700	2,074,887	26,878	2,645,634
	Commercial vehicles	4,863	1,241,591	5,327	1,394,110
	Vessels	278	286,221	263	203,605
	Aircraft	0	0	0	0
	Plant, machinery, transport machines and equipment	1,906	1,640,859	1,843	765,539
	Other	340	37,785	431	26,408

1) Contract value of the operating lease portfolio structure refers to total contract value equalling the sum of leases (VAT excluded) under newly concluded operating lease contracts. Financed value of the finance lease portfolio structure refers to the amount used for financing lessees (principal) under newly concluded finance lease contracts concluded in the reporting period.

Source: Hanfa

4.5 Factoring

Table E1: Aggregate balance sheet of factoring companies (in HRK thousand)

Item	31 Dec 2013 ¹	31 Dec 2014 ²
Assets		
Receivables for subscribed capital unpaid	0	0
Fixed assets	85,679	142,768
Current assets	7,970,164	7,675,183
Accounts receivable	1,724,317	1,503,175
Domestic factoring	1,601,240	1,318,766
Export factoring	45,365	56,300
Import factoring	77,713	128,109
Discounting of bills of exchange	4,759,365	4,809,197
Loans granted	256,206	256,565
Deposits given	682,531	457,543
Cash at bank and in hand	368,453	516,016
Other current assets	179,292	132,686
Prepayments and accrued income	49,885	9,911
Total assets	8,105,728	7,827,862
Liabilities		
Capital and reserves	406,195	566,436
Long-term liabilities	82,695	754,087
Loans from domestic banks and financial institutions	1,054	7,780
Loans from foreign banks and financial institutions	63,887	689,532
Other long-term liabilities	17,754	56,775
Short-term liabilities	7,600,166	6,493,302
Loans from domestic banks and financial institutions	1,571,257	1,555,775
Loans from foreign banks and financial institutions	5,583,665	4,484,939
Other short-term liabilities	445,245	452,588
Accruals and deferred income	144,536	164,740
Total liabilities	8,105,728	7,827,862

1) Data for 15 factoring companies

2) Data for 16 factoring companies

Source: Hanfa

Table E2: Aggregate profit and loss account of factoring companies (in HRK thousand)

Item	1 Jan -31 Dec 2013 ¹	1 Jan -31 Dec 2014 ²
Interest income	448,060	494,870
Interest income - factoring	99,273	90,794
Domestic factoring	93,858	81,735
Export factoring	1,434	3,673
Import factoring	3,981	5,386
Interest income - discounting of bills of exchange	297,709	362,179
Interest income - loans granted	15,661	20,607

Item	1 Jan -31 Dec 2013 ¹	1 Jan -31 Dec 2014 ²
Interest income - deposits given	18,524	13,060
Other interest income	16,893	8,230
Interest expenses	226,025	250,074
Interest expenses - domestic banks and financial institutions	71,432	109,324
Interest expenses - foreign banks and financial institutions	146,323	121,768
Other interest expenses	8,269	18,982
Interest profit/loss	222,035	244,797
Income from fees and commissions	107,131	88,273
Expenses on fees and commissions	47,110	33,812
Profit/loss on fees and commissions	60,021	54,461
Other operating income	272,484	206,124
Other operating expenses	347,862	235,722
Service costs	39,516	25,499
Staff costs	37,897	31,880
Costs for value adjustment for impairment losses	65,795	35,541
Other operating costs	204,654	142,802
Profit/loss on other income and expenses	-75,377	-29,598
Profit/loss before profit tax	206,678	269,660
Profit tax	43,271	54,529
Profit/loss after profit tax	163,407	215,131

1) Data for 15 factoring companies

2) Data for 16 factoring companies

Source: Hanfa

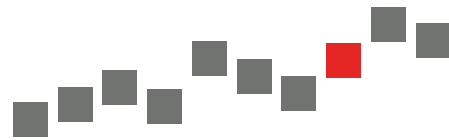
Table E3: Transaction volume of factoring companies (in HRK thousand)

Item	1 Jan - 31 Dec 2013 ¹	1 Jan - 31 Dec 2014 ²
Factoring	3,932,681	3,685,483
Domestic factoring	3,605,016	3,238,647
Export factoring	145,420	170,577
Import factoring	182,245	276,259
Discounting of bills of exchange	13,047,735	15,159,001
Loans granted	356,008	306,122
Total	17,336,425	19,150,607

1) Data for 15 factoring companies

2) Data for 16 factoring companies

Source: Hanfa



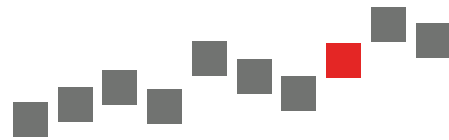
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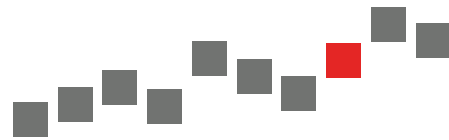
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Abbreviations and Symbols



15 Abbreviations and Symbols

AIF	Alternative investment fund
AIFA	Alternative Investment Funds Act
AIFM	Managers of alternative investment funds
AIFMD	Directive 2011/61/EU on Alternative Investment Fund Managers
AOEIF	Act on Open-Ended Investment Funds with a Public Offering
ARAI	Act on Right of Access to Information
BRRD	Directive 2014/59/EU on establishing a framework for the recovery and resolution of credit institutions and investment firms
CCP	Central counterparty
CDCC	Central Depository and Clearing Company
CDCC-CCP	CDCC-Smart Clear
CEDOH	Insurance Education Centre
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
CESR	Committee of European Securities Regulators
CN POOL	Croatian Nuclear Insurance and Reinsurance Pool EIG
CoCos	Contingent convertible bonds
CRA III	Regulation (EU) No 462/2013 on credit rating agencies
CRD IV	Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms
CSDR	Regulation (EU) No 909/2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012
CSMAD	Directive 2014/57/EU on criminal sanctions for market abuse
DAB	State Agency for Deposit Insurance and Bank Resolution
Directive amending Transparency Directive	Directive 2013/50/EU amending Directive on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market, Directive on the prospectus to be published when securities are offered to the public or admitted to trading and Directive 2007/14/EC laying down detailed rules for the implementation of certain provisions of Directive 2004/109/EC
DMS	Document Management System
DWH	Data Warehouse
EBA	European Banking Authority
EIG	Economic interest grouping
EIOPA	European Insurance and Occupational Pensions Authority
ELTIF	European Long-term Investment Fund
ELTIF Regulation	European Long-term Investment Fund Regulation
EMIR	Regulation (EU) No 648/2012 on OTC derivatives, central counterparties and trade repositories
ESAs	European Supervisory Authorities
ESFS	European System of Financial Supervision

ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
FATCA	Foreign Account Tax Compliance Act
FATF	Financial Action Task Force
FISC	Financial Innovation Standing Committee
FOS	Freedom to provide services
GATTS	General Agreement on Trade in Services
Hanfa	Croatian Financial Services Supervisory Agency (Hrvatska agencija za nadzor financijskih usluga)
IASB	International Accounting Standards Board
IDD	Insurance Distribution Directive
IFRS	International Financial Reporting Standards
IORP Directive	Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision
IORP II	Directive on Institutions for Occupational Retirement Provision
IOSCO	International Organization of Securities Commissions
LEI	Legal Entity Identifier
MAR	Regulation (EU) No 596/2014 on market abuse
MiFID II	Directive 2014/65/EU on markets in financial instruments
MiFIR	Regulation (EU) No 600/2014 on markets in financial instruments
MISC	Market Integrity Standing Committee
MMF Regulation	Money Market Fund Regulation
MMoU	Multilateral Memorandum of Understanding
MPFA	Mandatory Pension Funds Act
MTF	Multilateral trading facility
OAM	Officially Appointed Mechanism for the central storage of regulated information
OCC	Osijek Commodity Exchange
ODMF	Open-ended voluntary pension fund
OECD	Organisation for Economic Cooperation and Development
OMF	Mandatory pension fund
Omnibus Directive	Directive 2014/51/EU amending Directives 2003/71/EC and 2009/138/EC and Regulations (EC) No 1060/2009, (EU) No 1094/2010 and (EU) No 1095/2010 in respect of the powers of the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority)
Omnibus I Directive	Directive 2010/78/EU amending Directives 98/26/EC, 2002/87/EC, 2003/6/EC, 2003/41/EC, 2003/71/EC, 2004/39/EC, 2004/109/EC, 2005/60/EC, 2006/48/EC, 2006/49/EC and 2009/65/EC in respect of the powers of the European Supervisory Authority (European Banking Authority), the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority)
ORSA	Own Risk and Solvency Assessment

OTC trading	Over-the-counter trading
OTF	Organised trading facilities
Preparatory Guidelines	EIOPA's Guidelines on the preparatory phase for the new regulatory system as prescribed by the Solvency II Directive
Prospectus Directive	Directive 2003/71/EC on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC
REGOS	Central Register of Insured Persons
EIOPA Regulation	Regulation (EU) No 1094/2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority)
ESMA Regulation	Regulation (EU) No 1092/2010 establishing a European Supervisory Authority (European Securities and Markets Authority)
ESRB Regulation	Regulation 1092/2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board and Regulation 1096/2010 conferring specific tasks upon the European Central Bank concerning the functioning of the European Systemic Risk Board
RLA	Register of Leased Assets
ROA	Return on assets
ROC	Regulatory Oversight Committee
ROE	Return on equity
SCR	Solvency capital requirement
Short Selling Regulation	Regulation (EU) No 236/2012 on short selling and certain aspects of credit default swaps
SMSC	Secondary Markets Standing Committee
Solvency II Directive	Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance
TAIEX	Technical Assistance and Information Exchange Instrument of the European Commission
The Bureau	Croatian Insurance Bureau
Transparency Directive	Directive 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market
TTIP	Transatlantic Trade and Investment Partnership
UCITS	Open-ended investment funds with public offering
UCITS IV Directive	Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities
UCITS V Directive	Directive 2014/91/EU amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards depositary functions, remuneration policies and sanctions
UP Form	Supervisory reports on portfolio management
ZDMF	Closed-ended voluntary pension fund
ZSE	Zagreb Stock Exchange

Corrigendum to data from the Annual Report:

- On page 11, the sentence: “Returns of „other funds“ ranged between 6.1% and 12.9%.” is amended to read as follows: “Returns of „other funds“ ranged between -6.1% and 12.9%.”
- On page 11, the sentence: “Their net assets totalled HRK 2.6bn, rising by 24.2% relative to 2013. This was primarily due to a 107.3% increase in net assets of venture capital alternative investment funds with private offering – economic cooperation funds.” is amended to read as follows: “Their net assets totalled HRK 2.6bn, rising by 25.0% relative to 2013. This was primarily due to a 102.8% increase in net assets of venture capital alternative investment funds with private offering – economic cooperation funds.”
- On page 13, the paragraph: “In 2014, the insurance market generated a loss totalling HRK 136.1m, as opposed to 2013, when it realised a net profit of HRK 465.7m. Net profit amounting to HRK 480.4m was reported by 18 insurance companies, while a HRK 616.5m loss was reported by seven insurance companies and one reinsurance company. The reported loss was mainly due to operating results recorded by non-life insurance, which recorded a HRK 283.3m loss. Of this amount, four insurance companies and one reinsurance company reported a loss totalling HRK 603.4m, and 14 insurance companies reported a profit in the amount of HRK 320.1m. The life insurance group recorded a HRK 147.2m profit, of which a HRK 171.0m profit was generated by ten insurance companies, while a HRK 23.8m loss was realised by five insurance companies. Total income from insurance representation services and insurance and reinsurance brokerage services provided in 2014 reached HRK 352.6m, declining by HRK 3.7m or 1.0% relative to the preceding year.” is amended to read as follows: “In 2014, the insurance market generated a loss totalling HRK 50.7m, as opposed to 2013, when it realised a net profit of HRK 217.2m. Net profit amounting to HRK 436.8m was reported by 18 insurance companies, while a HRK 487.6m loss was reported by seven insurance companies and one reinsurance company. The reported loss was mainly due to operating results recorded by nonlife insurance, which recorded a HRK 193.0m loss. Of this amount, four insurance companies and one reinsurance company reported a loss totalling HRK 475.4m, and 14 insurance companies reported a profit in the amount of HRK 282.5m. The life insurance group recorded a HRK 142.2m profit, of which a HRK 165.0m profit was generated by ten insurance companies, while a HRK 22.8m loss was realised by five insurance companies. Total income from insurance representation services and insurance and reinsurance brokerage services provided in 2014 reached HRK 379.5m, rising by HRK 23.2m or 6.5% relative to the preceding year.
- On page 14, the sentence: “In 2014, leasing companies reported negative operating results, reflected in loss after profit, which totalled HRK 69.8m (in 2013, it reached HRK 247.8m).” is amended to read: “In 2014, leasing companies reported negative operating results, reflected in loss after profit, which totalled HRK 1.4bn (in 2013, it reached HRK 247.8m).”
- On page 52, the sentence: “Net assets of basic AIFs with private offering rose by 6.7%, whereas net assets of closed-ended AIFs with public offering for real estate investments decreased, as did net assets of venture capital AIFs with private offering” is amended to read as follows: “Net assets of basic AIFs with private offering rose by 6.7%, whereas net assets of closed-ended AIFs with public offering for real estate investments decreased.” Footnotes 60 and 61 are deleted.

- On page 63, the sentence: “As at 31 December 2014, mandatory pension funds’ total net assets amounted to HRK 66.3bn, increasing by HRK 8.0bn compared to 2013, with the HRK 4.6bn increase (56.8%) being due to net payments of members, and the HRK 3.5bn increase (43.2%) being the result of returns achieved by mandatory pension funds.” is amended to read as follows: “As at 31 December 2014, mandatory pension funds’ total net assets amounted to HRK 66.3bn, increasing by HRK 8.0bn compared to 2013, with the HRK 1.5bn increase (18.6%) being due to net payments of members, and the HRK 6.5bn increase (81.4%) being the result of returns achieved by mandatory pension funds.”

- On page 63, Table 4.3 is amended as follows:

Table 4.3. Payment of contributions to mandatory pension funds in 2014 (in HRK thousand)

OMF categories	A	B	C	Total
Net contributions	10.093	4.827.214	29.902	4.867.209
Payments from other OMFs	329.120	44.154	1.547.237	1.920.511
Disbursements to other OMFs	1.206	1.919.308	0	1.920.514
Disbursements of funds upon adjustments	7	3.502	11	3.521
Disbursements of funds upon the closure of personal accounts	0	3.324.876	39.416	3.364.292

Source: REGOS

- On page 63, the sentence: “A total of HRK 4.9bn was paid into personal accounts of mandatory pension fund members, while HRK 294.9m was paid out upon the closing of personal accounts of mandatory pension fund members.” is amended to read as follows: “A total of HRK 4.9bn was paid into personal accounts of mandatory pension fund members, while HRK 3.4bn was paid out upon the closing of personal accounts of mandatory pension fund members.”