



**HANFA**

CROATIAN FINANCIAL SERVICES SUPERVISORY AGENCY

# **Annual Report 2006**



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# Introduction

Supervision of the non-banking financial sector was carried out, up until 1 January 2006, in accordance with the special acts which regulated this area and was under the competence of three institutions – the Croatian Securities Commission, the Agency for the Supervision of Pension Funds and the Insurance and the Insurance Companies Supervisory Authority.

In order to establish a unique supervisory body for the supervision of the non-banking financial sector, the Act on Croatian Financial Services Supervisory Agency<sup>1</sup> was adopted on 17 November 2005, and upon the entry into force of this Act on 1 January 2006, the existing supervisory institutions of the non-banking financial sector consolidated into one and became the Croatian Financial Services Supervisory Agency (hereinafter: the Agency).

The Agency is an independent legal person with public authorities and is responsible to the Croatian Parliament. The main goals of the Agency are to promote and preserve the stability of the financial system and to supervise the legality of supervised entities' business activities.

In the pursuance of its goals, the Agency operates in a transparent manner, by building confidence among the participants of the financial market and by reporting to the consumers.

Pursuant to the legally prescribed scope of activities and competence of the Agency, the Agency is authorised to:

- adopt regulations on enforcement of the Act on Croatian Financial Services Supervisory Agency, the Securities Market Act, the Investment Funds Act, the Privatization Investment Funds Act, the Act on the Takeover of Joint Stock Companies, the Act on the Fund for Croatian Homeland War Veterans and Members of their Families, the Retired Persons' Fund Act, the Mandatory and Voluntary Pension Funds Act, the Act on Pension Insurance Companies and Payment of Pension Annuities based on Individual Capitalised Savings, the Insurance Act, and other acts when it is authorised to do so by act;
- exercise supervision over the operations of: stock exchanges and regulated public markets, authorised companies and securities issuers, companies for the management of investment, privatization investment and pension funds, investment funds, privatization investment funds, pension funds, Fund for Croatian Homeland War Veterans and Members of their Families, and the Retired Persons' Fund, brokerage companies, brokers and investment advisers, institutional investors, the Central Depository Agency, the Central Registry of Insured Persons (hereinafter: REGOS), insurance companies, pension insurance companies, insurance agents and brokers; legal entities performing operations of leasing and factoring, unless banks perform them within the scope of their registered activities, all in compliance with the Act on Croatian Financial Services Supervisory Agency and the by-laws regulating the subject matter;;
- order measures for the elimination of unlawfulness and irregularity that have been established;
- issue and withdraw licences, permissions, consents and authorisations pursuant to the legally prescribed scope of activities and competence of the Agency;
- encourage, organize and supervise measures for the effective functioning of the financial market;
- keep books and registers pursuant to the legally prescribed scope of activities and competence of the Agency;
- launch initiatives for the adoption of acts and other regulations and to inform the public of the principles according to which the financial market operates;
- adopt by-laws in order to prescribe the conditions, manner and procedures for performing unified supervision within its scope of activities and competence;

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<sup>1</sup> Official Gazette 140/05

- give opinions on the enforcement of the referred Act and other separate acts from its scope of activities and competence at the request of parties in a procedure or parties having proved legal interest in the procedure;
- report to other supervisory, administrative and judicial bodies on all issues that directly or indirectly relate to their scope of activities and competence, as occasioned by proceedings that are being handled in front of these bodies and that are pursuant to the legally prescribed procedures from the scope of activities and competence of the Agency.

At its meeting held on 10 March 2006, the Croatian Parliament adopted the decision approving the Statute of the Croatian Financial Services Supervisory Agency. Pursuant to the Act on Croatian Financial Services Supervisory Agency and the Statute of the Croatian Financial Services Supervisory Agency<sup>2</sup>, the Agency adopted the Ordinance on the internal organizational structure and the systematization of jobs in May 2006.

This led to the development of a new functional organization scheme. The Agency performs its activities through 5 sectors - Licensing and Legal Enforcement Sector, Sector for Supervision I, Sector for Supervision II, Risk Assessment, Research and Statistics Sector and the Sector for Cooperation and Improvement of Business Operations, as well as with the help of administrative and professional services.

At the end of 2006 the Agency had a total of 97 employees.

#### Number of Employees as at 31 December 2006

Organizational Unit	Number of employees
<b>Management Board</b>	<b>4</b>
Management Board Office	9
Finance and Accounting Department	3
Internal Audit Department	1
Security, Protection of the Data & IT Office	4
Administration and Human Resources Department	2
Licensing and Legal Enforcement Sector	16
Sector for Supervision I	14
Sector for Supervision II	17
Risk Assessment, Research and Statistics Sector	7
Sector For Cooperation and Improvement of Business Operations	6
Trainees	14
<b>TOTAL</b>	<b>97</b>

Source: HANFA

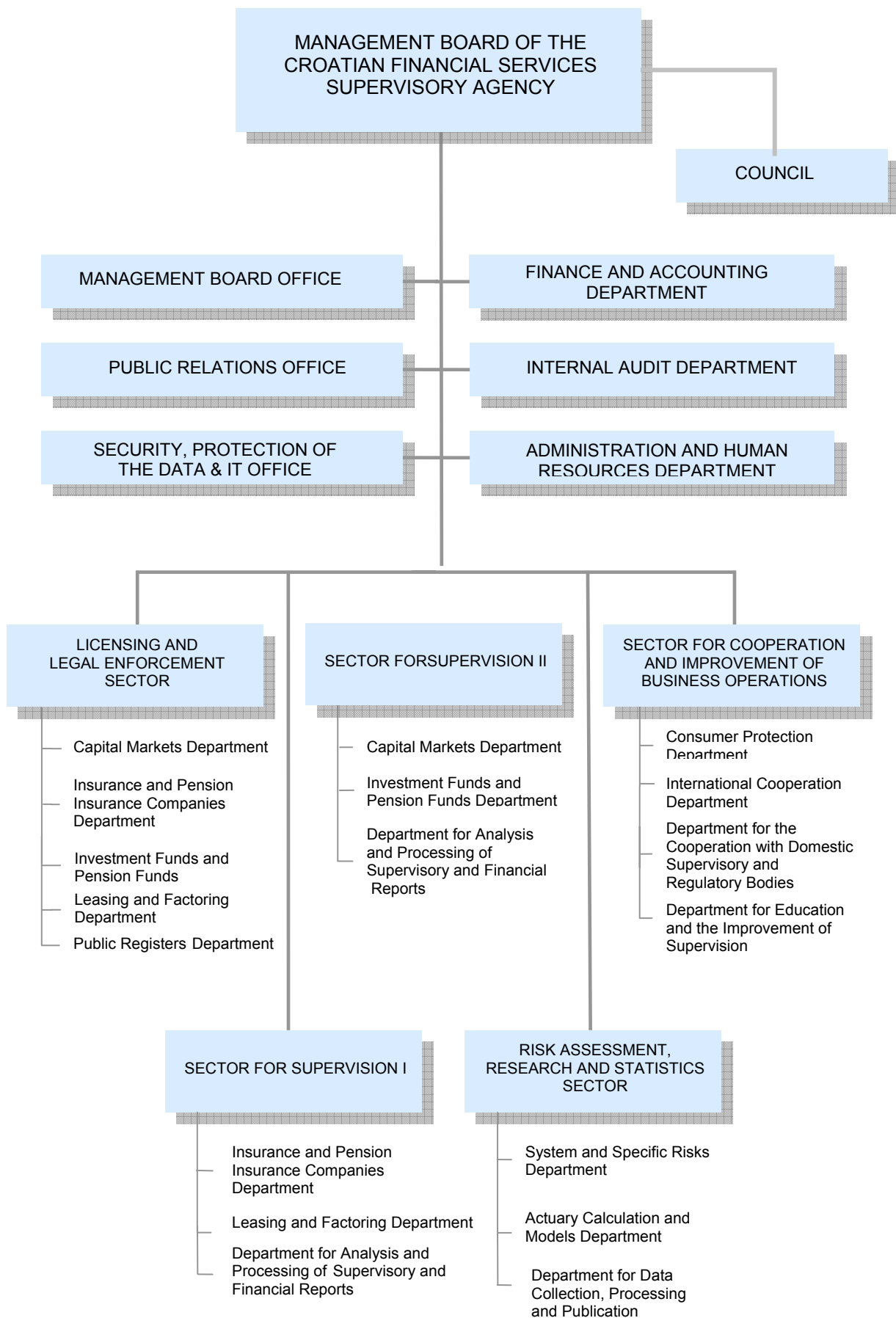
#### Members of the Management Board:

- Ante Samodol – President of the Board
- Ivica Letinić – Vice President of the Board
- Ivo Šulenta – Member of the Board
- Ivan Vrljić – Member of the Board.

#### Directors of the Sectors:

- Tomislav Ramljak – Licensing and Legal Enforcement Sector
- Jolan Ivanda – Sector for Supervision I
- Senada Dürriigl – Sector for Supervision II
- Oliver Rohtek – Risk Assessment, Research and Statistics Sector
- Tomislava Pavić Kramarić – Sector For Cooperation and Improvement of Business Operations.

<sup>2</sup> Official Gazette 31/06



The implementation of new regulations which were in line with the European legislation started at the same time the Agency began operations, which changed the existing working methods and the position of particular financial institutions as well as the situation on the financial market, and led to an improved legal and supervisory framework of the non-banking financial sector. During 2006, with the main goal to align the national legislation with the *acquis communautaire* of the EU, employees of the Agency participated in the explanatory and bilateral screening as part of Croatia's accession negotiations for full membership in the EU. Consequently, the Agency adopted a number of subordinate regulations within its scope of activities.

The previous year the capital market was marked by two events, the takeover of PLIVA d.d. and the public offering of INA's shares. Due to the importance of both of these events for the market development, the Agency dedicated its full attention to the supervision of the legitimacy of the execution of these two proceedings. In 2006, the growth in assets of institutional investors continued, especially of open-end investment funds and mandatory pension funds, which continued the trend of change in the total structure of the financial services providers.

The insurance market in 2006 was marked by the implementation and alignment of the insurance business with the new Insurance Act and the by-laws created pursuant to the Act, which regulate the establishment and business operations of insurance and reinsurance companies, insurance agencies and insurance brokerage companies and authorities of the supervisory bodies, all that with the aim of protecting consumers, i.e. users of services of insurance companies.

Upon the adoption of the Leasing Act, which entered into force on 21 December 2006, the comprehensive and systematic supervision of this segment of the Croatian financial market started. This Act regulated for the first time the terms for establishment, business operations and termination of business activities of leasing companies as well as the rights and authorities of the supervisory body when conducting supervision of business operations of such companies.

#### Assets of Financial Institutions of the Non-Banking Financial Sector as at 31 December 2006<sup>3</sup>

Supervised entities	Number	Assets (in HRK million)	Share in GDP
Insurance and reinsurance companies	22	19,662.80	7.83%
Pension funds – management companies	8	0.00	0.00%
Mandatory	4	15,919.42	6.34%
Voluntary	16	457.64	0.18%
Investment funds – management companies	26	0.00	0.00%
Open-end	71	16,038.99	6.39%
Closed-end	7	2,443.43	0.97%
Leasing companies	57	26,968.59	10.74%
Factoring companies	8	1,687.13	0.67%
<b>TOTAL</b>		<b>82,720.36</b>	<b>33.14%</b>

Source: HANFA

<sup>3</sup> GDP in 2006 amounted to HRK 251,000 million.





**1**

# **The Capital Market**



# The Capital Market

In 2006, the capital market in the Republic of Croatia continued with its growth. The annual growth of share turnover in 2006 was 121.1% for the Zagreb Stock Exchange and 70.65% for the Varaždin Stock Exchange. The share index of the Zagreb Stock Exchange CROBEX achieved a growth of 60.7%, while in the same period the Varaždin Stock Exchange index VIN achieved a 49.72% growth.

Dva događaja, preuzimanje PLIVA-e i javna ponuda INA-e, u velikoj su mjeri Two events, the takeover of PLIVA and the public offering of INA, greatly contributed to this increase in share trading in 2006, which can be seen in the contribution of these two shares in the total turnover on the Zagreb Stock Exchange. PLIVA's shares participated in the total turnover with 36% and INA's shares with 4%, which is also an important share considering the fact that INA's shares only started trading in December of 2006.

The continued increase of liquidity of institutional investors contributed to the increase in the stock index, primarily mandatory pension funds and open-end investment funds, especially equity funds whose assets in 2006 recorded a 5-fold increase and balanced funds whose assets doubled in the same period.

Bond turnover also increased in 2006. As well as in the previous period, most trading related to institutional and registered transactions whose annual increase in turnover on the Zagreb Stock Exchange was 17.7% and 23.6% respectively. Regular bond turnover remained virtually the same as in 2005. The ZSE bond index CROBIS recorded a 4.5% decrease.<sup>4</sup> The bond turnover on the Varaždin Stock Exchange did not change much either compared to the previous year; in 2006 it recorded an increase of only 2.2%.

2006 ended with another event important for the development of the domestic capital market, namely the agreement of the merger of the Varaždin and the Zagreb Stock Exchange which was implemented in 2007. That event will certainly contribute to the positioning of the Zagreb Stock Exchange as the leading stock exchange in Southeast Europe.

## PLIVA d.d. Takeover

The takeover that marked 2006 was unquestionably the takeover of PLIVA d.d., Zagreb. It was by far the biggest takeover the Agency had to tackle, due to its complexity, the amount of the financial transaction and the fact there was a competing offer. Because of that the Agency had to intensify its supervision. The Agency therefore ordered certain measures and warned the parties involved about the proceedings and behaviour which were in breach of the provisions of the Act on the Takeover of Joint Stock Companies.

After it published its competing takeover offer, company ACTAVIS GROUP withdrew its offer, and company BARR LABORATORIES EUROPE paid HRK 820.00 per share to the shareholders who accepted its offer, and after the takeover it was in disposal of 91.74% of ordinary shares of company PLIVA d.d. Zagreb.

<sup>4</sup> The CROBIS index consists of all government bonds and state agency bonds which are listed on the Zagreb Stock Exchange provided that their nominal value is higher or equal to EUR 75 million; provided that maturity is longer than 18 months and that the bonds are issued with a fixed interest rate.

## Public Offering of INA's Shares

Pursuant to the Decision on the manner of sale, price, time and terms of sale of shares of company INA – Industrija nafte d.d. (hereinafter: INA d.d.) by a public offering and special sale conditions for Croatian citizens, the Government of the Republic of Croatia put on sale 1,500,000 ordinary shares of company INA d.d. permitting possible further allocations of up to 200,000 additional shares. The issuance agent and book-runner was Raiffeisenbank Austria d.d., while the only global coordinator was Merrill Lynch International.

After the public invitation, the book-runner collected offers and payments of Croatian citizens who bought the shares with the right of priority and with special benefits in the period from November 13 – 23, 2006 until 8pm.

The period for submitting offers for entities without right of priority and under special conditions was from November 13 - 27, 2006 until 3pm.

The public offering was a complete success and the Government of the Republic of Croatia sold 1,700,000 shares of INA d.d. for the price of HRK 1,690.00 per share. Citizens of the Republic of Croatia who bought the shares under privileged terms bought 976,001 shares (44,640 citizens), while other domestic natural and legal persons and foreign legal persons bought 723,999 shares.

Table 1 Public Offering of INA's Shares

Type of investor	Number of allocated shares	Share	Accepted amount of offer	Share
<b>PREFERENTIAL OFFER</b>				
Citizens with right of priority	895,633	52.68%	1,513,619,770	55.30%
Supplementary shares	80,368	4.73%		
<b>Total preferential offer</b>	<b>976,001</b>	<b>57.41%</b>	<b>1,513,619,770</b>	<b>55.30%</b>
<b>UNPREFERENTIAL OFFER</b>				
Natural persons without right of priority	9,042	0.53%	15,280,980	0.56%
Domestic legal persons	244,358	14.37%	412,965,020	15.09%
Foreign legal persons	470,599	27.68%	795,312,310	29.06%
<b>Total unpreferential offer</b>	<b>723,999</b>	<b>42.59%</b>	<b>1,223,558,310</b>	<b>44.70%</b>
<b>TOTAL</b>	<b>1,700,000</b>	<b>100.00%</b>	<b>2,737,178,080</b>	<b>100.00%</b>

Source: HANFA

The Agency closely followed the process of share sale, took preventive measures and warned the citizens not to misuse power of attorney and did not detect any irregularities during the public offering of shares of INA d.d.

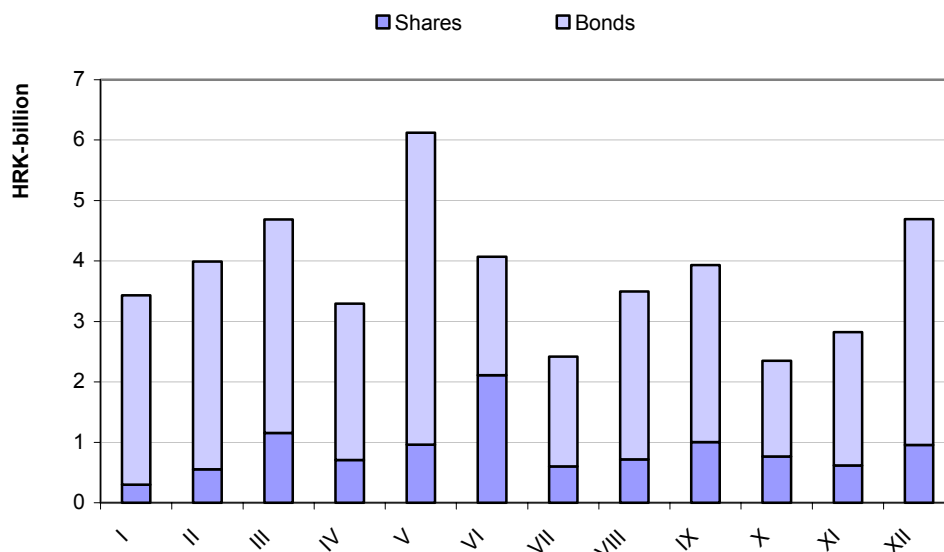
## The Zagreb Stock Exchange

In 2006, the Zagreb Stock Exchange actively traded with 197 issues of securities, which was a 16.6% increase on 2005. The total turnover in 2006 reached HRK 45,328.9 million, which was a 32.5 % increase compared to the total turnover in 2005. The market capitalization was higher by 75.2%.

Trading in bonds between institutional investors (The Securities Market Act regulates that the status of an institutional investor is considered to be: a domestic or foreign investment fund, pension fund, bank or insurance company and legal persons who by means of a decision from the Agency have received the status of an institutional investor) was HRK 29,390.5 million in 2006 which was an increase of 17.7% compared to 2005. Regular turnover in bonds on the stock exchange amounted to HRK 513.0 million, which was a 0.7% decrease compared to 2005. The reported turnover, or the turnover attained among the members of the Zagreb Stock Exchange by transactions with government debt securities which were higher than HRK 4.9 million doubled compared to the previous year.

In 2006, the average daily turnover increased from HRK 136.3 to HRK 181.3 million, which was a 33.0% increase. For the further growth of the market it is significant that the number of securities listed in the highest and most transparent stock quotation, Official Market rose by 42.9%. In 2005, that segment of the market had 28, and at the end of 2006 40 securities (8 shares, 3 treasury bills, 29 bonds). There was also a growing trend in the number of listed corporate bonds (in 2006 the Official Market listed 6 new ones). The number of transactions rose by 41.5% compared to the previous year, from 402 to 569 transactions daily.

Chart 1 Recorded Monthly Turnover for Shares and Bonds<sup>5</sup> on the Zagreb Stock Exchange



Source: Zagreb Stock Exchange d.d.

<sup>5</sup> Turnover of bonds includes institutional and registered turnover.

Table 2 Comparison of the Turnover on the Zagreb Stock Exchange Recorded in 2005 and 2006

	2005	2006	Change in %
Regular turnover:			
Shares	4,729.9	10,459.1	121.1
Bonds	516.4	513.0	-0.7
Rights	2.4	13.6	466.7
Commercial papers	0.0	5.6	-
Reported turnover	4,002.7	4,947.2	23.6
Institutional turnover	24,953.1	29,390.5	17.8
<b>Total</b>	<b>34,204.4</b>	<b>45,328.9</b>	<b>32.5</b>
Regular volume:			
Shares	13,273,663	20,109,649	51.5
Bonds	243,239,287	256,973,317	5.6
Rights	3,082,955	17,938,482	481.9
Commercial papers	0	5,800,000	-
Reported volume	1,308,165,456	2,786,650,000	113.0
Institutional volume	9,155,996,886	16,273,430,236	77.7
<b>Total</b>	<b>10,723,758,247</b>	<b>19,360,901,684</b>	<b>80.5</b>
CROBEX©	1,997.50	3,209.50	60.7
CROBIS©	105.8208	101.0577	-4.5
Total number of transactions ofottrtrtransactions	101,018	142,194	40.8
Number of active securities	169	197	16.6
Market capitalization:			
Shares	80,724.5	161,692.2	100.3
Bonds	34,399.4	40,011.3	16.3
<b>TOTAL</b>	<b>115,123.9</b>	<b>201,703.5</b>	<b>75.2</b>
Number of trading days	251	250	-0.4
Number of listed shares:			
Official market	6	8	33.3
Public Joint Stock Company (JDD) Market	126	132	4.8
Compared market	62	62	0.0
Average daily:			
Turnover	136.3	181.3	33.0
Volume	42,724,136	77,443,607	81.3
Number of transactions	402	569	41.5

Source: Zagreb stock exchange d.d.

Table 3 Shares with the Highest Market Capitalization

	Market Capitalization 29 Dec 2006	Relative share in market capitalization (%)	Cumulative share (%)
INA-R-A	22,920.0	14.2	14.2
PBZ-R-A	21,401.9	13.2	27.4
ZABA-R-A	19,971.5	12.4	39.8
PLVA-R-A	15,246.0	9.4	49.2
RIBA-R-A	8,323.8	5.1	54.3
STBA-R-A	5,918.7	3.7	58.0
KNZM-R-A	4,792.8	3.0	61.0
CROS-R-A	3,337.4	2.1	63.0
ERNT-R-A	3,275.9	2.0	65.1
ADRS-P-A	2,896.8	1.8	66.8
Other	53,607.3	33.2	100.0
<b>TOTAL</b>	<b>161,692.2</b>		

Source: Zagreb stock exchange d.d.

Table 4 Shares with the Highest Turnover (in HRK million)

	Turnover	Relative share in turnover (%)	Cumulative share (%)
PLVA-R-A	3,764.9	36.0	36.0
ADRS-P-A	1,076.6	10.3	46.3
PODR-R-A	671.8	6.4	52.7
INA-R-A	421.6	4.0	56.7
ATPL-R-A	303.4	2.9	59.6
VIRO-R-A	283.3	2.7	62.4
DLKV-R-A	240.1	2.3	64.6
PBZ-R-A	235.4	2.3	66.9
PTKM-R-A	219.9	2.1	69.0
KOEI-R-A	177.6	1.7	70.7
Ostali	3,064.6	29.3	100.0
<b>TOTAL</b>	<b>10,459.1</b>		

Source: Zagreb stock exchange d.d.

## The Varaždin Stock Exchange

The total regular turnover in 2006 amounted to HRK 3.7 billion which is a 66.28% increase in comparison to the previous year. The market capitalization increased by 15.09%, the average daily turnover by 66.95% and the VIN index by 49.72%.

A total of 427 securities were listed on the Varaždin Stock Exchange during 2006. The number of active securities rose from 194 in 2005 to 220 in 2006. The total number of transactions in 2006 was 120,367, which was an increase of 99.7% compared to 2005.

**Table 5 Comparison of the Turnover on the Varaždin Stock Exchange Recorded in 2005 and 2006**

	2005	2006	Change in %
Turnover:			
First Quotation	137,681,872.83	127,415,814.38	-7.46%
Second Quotation	276,041.63	17,085,147.86	6,089.34%
JDD Quotation	990,010,550.49	2,002,889,820.50	102.31%
Quotation of Rights	40,725,053.18	82,308,912.17	102.11%
Free Market	1,072,725,002.50	1,497,406,401.25	39.59%
<b>TOTAL</b>	<b>2,241,418,520.63</b>	<b>3,727,106,096.16</b>	<b>66.28%</b>
Interinstitutional turnover	7,462,000.00	-	-
Public auctions (in Rights) <sup>6</sup>	42,997,852.00	49,746,570.00	15.70%
VIN (as at December 31)	1,993.53	2,963.45	49.72%
Total number of transactions	60,248	120,367	
Number of active securities	194	220	13.40%
Market capitalization	63,281,407,390.90	72,828,086,652.74	15.09%
Average daily turnover:			
First Quotation	548,533.36	509,663.26	-7.09%
Second Quotation	1,099.77	68,340.59	6,114.09%
JDD Quotation	3,944,265.14	8,011,559.28	103.12%
Quotation of Rights	162,251.21	329,235.65	102.92%
Free Market	4,273,804.79	5,989,625.61	40.15%
<b>TOTAL</b>	<b>8,929,954.27</b>	<b>14,908,424.38</b>	<b>66.95%</b>

Source: Varaždin Stock Exchange d.d.

<sup>6</sup> The average weighted price of both emissions of Rights for 2006 was 76.64%.

In the total turnover on the Varaždin Stock Exchange, most trading was done with ordinary shares of Ericsson Nikola Tesla (11.01%), Slatinska Banka (6.68%) and Dom holding (5.33%)

Table 6 Securities with the Highest Turnover (in HRK)

	Change in %	Final	Amount	Turnover	Share
ERNT-R-A	30	2,500.00	188,581	410,538,790	11.01%
SNBA-R-A	-63.23	342.02	267,941	248,802,886	6.68%
KORF-R-A	17.35	159.00	1,320,413	198,677,062	5.33%
BLJE-R-A	183.13	267.50	880,890	169,881,546	4.56%
TNSA-R-A	202.86	6,645.00	31,601	157,161,908	4.22%
ADPL-R-A	57.36	174.00	889,749	125,293,773	3.36%
LKRI-R-A	60.37	269.99	450,406	124,041,354	3.33%
DDJH-R-A	61.31	149.00	666,681	90,791,177	2.44%
VDKT-R-A	34.39	1,249.50	68,199	80,071,729	2.15%
RHMF-A-A	24.28	87.00	102,366,954	78,312,523	2.10%
OTHER			74,107,840	2,043,533,348	54.83%
<b>TOTAL</b>			<b>181,239,255</b>	<b>3,727,106,096</b>	<b>100.00%</b>

Source: Varaždin Stock Exchange d.d.

During 2006, 6 public auctions for shares from the portfolio of the Croatian Privatization Fund were held. Stakes in 117 companies were sold; the realized turnover was HRK 49.7 million of Rights.

Table 7 Overview of the Realized Turnover at Public Auctions for Rights during 2006

Ordinal number of auction	Starting date of auction	Closing date of auction	Number of sold shares	Starting value of sold bundles (in Rights)	Turnover (final value of sold bundles)	Change in %
44	7 Feb 2006	9 Feb 2006	13	3,090,738	3,876,962	25.44%
45	3 Apr 2006	5 Apr 2006	25	3,319,387	5,430,979	63.61%
46	29 May 2006	31 May 2006	21	9,565,351	14,590,983	52.54%
47	24 Jul 2006	24 Jul 2006	20	6,437,078	20,404,252	216.98%
48	28 Sep 2006	2 Oct 2006	25	1,999,547	4,353,507	117.72%
49	12 Dec 2006	12 Dec 2006	13	764,556	1,089,887	42.55%
<b>TOTAL</b>			<b>117</b>	<b>25,176,657</b>	<b>49,746,570</b>	<b>97.59%</b>

Source: Varaždin Stock Exchange d.d.

## Regulatory Activities

During 2006, Amendments to the Securities Market Act<sup>7</sup> were adopted. For **authorised companies**, the term – qualifying holding (10%) was introduced, and means of acquiring it became regulated, meaning the Agency now had to give a prior approval for it to be valid. Additional criteria were also prescribed for members of the board and executives of the said companies.

When making the founding capital payment while establishing a company, as well as while acquiring any stakes or shares in a company, the new ruling prescribed that the funds for acquiring a holding or shares may not originate from loans or credits nor may they be under any type of encumbrance. The Act introduced the term transaction block, while brokerage companies were given the status of institutional investors.

As regards protection of investors, provisions of the Act regulate the conflict of interest between managers, employees and company's clients which arises during business operations. The Act also stipulates classifying clients according to their knowledge, experience, financial situation and investment goals.

This Act clearly defined the circumstances under which the Agency could cancel a transaction concluded at the stock exchange, which ultimately meant that the Agency became more efficient. The Act also incorporated new measures which included bans for disposal of assets for authorised companies, orders for conducting extraordinary audit over of the business operations and the appointment of extraordinary administration for companies and the stock exchange, regulated public markets and the Central Depository Agency.

The existing investment restrictions for portfolio managers were abolished, which then abolished the restrictions of free capital flow and led to the extending potential of investing the customer's funds. Also, giving a group order on behalf of an authorised company became possible, for the account of more customers whose portfolios are managed by certain companies on the basis of a management contract.

The amendments to the Act which cover regulated markets stipulate that shareholders in the stock exchange need not be authorised companies.

A restriction was introduced, by which a single shareholder could not have more than 10% of shares, but additional acquiring could be made possible if the Agency gave a prior approval. The amount of the founding capital for the stock exchange and regulated public markets increased and it was prescribed that acquisition of shares of regulated markets and the stock exchange could not be financed through loans and credits. Furthermore, additional criteria were prescribed for members of the board.

As closed-end investment funds were excluded from Article 114 of the Act referring to public joint stock companies, an obligation for at least 3 quotations was prescribed, which included a new quotation for the closed-end investment fund. The term derivative was created and a way to list it in the stock exchange was constructed, which enabled their regulated trading at organized markets.

Additional measures were prescribed for the **prevention of market abuse**, which consist of prohibitions and restrictions when dealing with securities and using inside

<sup>7</sup> The Act Amending the Securities Market Act (OG 138/06) was adopted on 13 December 2006

information, market manipulation and acting in concert in order to achieve illegal material or financial gain.

For the purpose of increasing **market transparency**, the existing reporting deadlines on ownership structure of public joint stock companies were shortened, a new requirement for issuer reporting while acquiring one's own shares was introduced and new provisions adopted regarding additional information that issuers of securities listed in the stock exchange are obliged to report.

A requirement was introduced for daily reporting on the identity of 10 biggest owners of any type of securities and information on the amount of securities in their ownership, in absolute and relative indices. A prompt requirement for reporting to the Central Depository Agency was established for issuers of dematerialized securities, and of **any** changes relating to dematerialized securities and acquiring certain privileges based in them.

During the formulation of the said amendments, the provisions from Directive 2004/39/EEZ on markets in financial instruments and Directive 2003/6/EZ on market abuse and the Directive 2004/109/EZ on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted for trading on a regulated market were implemented.

The complete alignment of the Croatian legislation in the area of investment services with the *acquis communautaire*, which is the regulatory framework for the securities market and investment services, will be stipulated by the adoption of a new act in the second quarter of 2008, pursuant to the underlying legal act in the EU Member States, namely Directive 2004/39/EZ on markets in financial instruments and its implementing measures, whose implementation is expected to commence on 1 November 2007.

## Licensing

During 2006, 21 licences were issued for conducting activities of a broker, 7 licences were issued for conducting activities of an investment advisor and 12 licences to authorised companies for conducting transactions with securities.

In the same period, 22 licences were revoked for conducting activities of a broker, 13 licences for conducting activities of an investment advisor and 3 licences to authorised companies for conducting transactions with securities. Brokers and investment advisors had their licences revoked because of so-called administrative reasons, i.e. because they stopped being employees of authorised companies. In two cases licences for conducting certain transactions with securities were conditionally revoked from authorised companies (Volksbank d.d. Zagreb, Complete line d.o.o. Sisak), and in one case the licence was permanently revoked (Prospectus invest d.o.o. Zagreb).

**Table 8 Comparison of the Issuance and Withdrawal of Licences in 2005 and 2006**

	2005	2006	Change
LICENCE ISSUING			
Brokers	13	21	61.54%
Investment advisors	12	7	-41.67%
Authorised companies	7	12	71.43%
LICENCE WITHDRAWAL			-
Brokers	6	22	266.67%
Investment advisors	3	13	333.33%
Authorised companies	3	3	0.00%

Source: HANFA

In 2006, the Agency adopted 2 decisions approving the publishing of data when listing shares into the first quotation (Viro d.d. Virovitica, Ina d.d. Zagreb) and 7 decisions approving the publishing of data when listing shares into the quotation of public joint stock companies (Helios Faros d.d., Siemens d.d., Pounje trikotaža d.d., Terra Mediterranea d.d., Coning turizam d.d., Dioki d.d., Hotel Kompas d.d.)

**Table 9 Prospectuses and Listings during 2005 and 2006**

	2005	2006	Change
PROSPECTUSES AND LISTINGS			
First quotation	2	2	0.00%
JDD quotation	13	7	-46.15%

Source: HANFA

During 2006, the Agency adopted 3 decisions by which, pursuant to Article 82 of the Securities Market Act, it approved internal acts of the stock exchange.

## Issuance of Shares

In 2006, the Agency received 17 requests for approval of the prospectus when issuing shares by a private offering, out of which 16 requests received the Agency's approval and 1 was declined.

The Agency also received, in the same year, 1 request for approval of the prospectus when issuing shares by a public offering which the Agency declined.

In 2006, the Agency received 44 notifications on the issuance of share by a private offering, for which the issuers were exempt from publishing the prospectus.

Table 10 Comparison of Shares Issued in 2005 and 2006

	2005	2006	Change
SHARE ISSUANCE			
prospectuses – public offering	4	-	-
<b>(1) TOTAL VALUE OF THE ISSUED SHARES</b>	<b>139,166,700</b>	-	-
refused requests	-	1	-
prospectuses – private offering	16	16	0.00%
<b>(2) TOTAL VALUE OF THE ISSUED SHARES</b>	<b>130,155,400</b>	<b>1,505,226,420</b>	<b>1,056.48%</b>
refused requests	-	1	-
issuance information – issuance without a prospectus	32	44	37.50%
<b>(3) TOTAL VALUE OF ISSUED SHARES</b>	<b>1,406,764,444</b>	<b>1,166,328,230</b>	<b>-17.09%</b>
<b>(1) + (2) + (3)</b>	<b>1,676,086,544</b>	<b>2,671,554,650</b>	<b>59.39%</b>

Source: HANFA

## Issuance of Bonds

Compared to 2005, in 2006 a significant increase occurred in issuance of bonds in the Republic of Croatia. During 2006, the Agency approved 13 requests for prospectus approval for issuing bonds by a public offering, with the total value of HRK 3 billion and EUR 16.2 million, while in 2005 only one request was approved, the one of MEDIKA d.d., Zagreb, with the total value of EUR 16.5 million.

Apart from companies, bond issuers were also the City of Rijeka and the City of Split with municipal bonds for the financing of capital city projects.

Table 11 Comparison of Bonds Issued in 2005 and 2006

	2005	2006	Change
BOND ISSUANCE			
prospectus – public offering	1	13	1,200.00%
<b>TOTAL VALUE OF ISSUED BONDS</b>	<b>16,500,000</b>	<b>3,118,845,639</b>	<b>18,802.09%</b>

Source: HANFA

## Issuance of Commercial Papers

14 companies issued commercial papers in the Republic of Croatia in 2006. Comparing the value of commercial papers issued in 2005, which was HRK 106.2 million, the total value of commercial papers issued in 2006 totalled HRK 873.5 million, which is an increase by almost 8.5 times.

INGRA d.d., Zagreb, LURA d.d., Zagreb, BELIŠĆE d.d., Belišće, ATLANTIC GRUPA d.o.o., Zagreb and MEDIKA d.d., Zagreb continued with their program of issuing commercial papers. Their program of issuing commercial papers in 2006 was also established by DALEKOVOD d.d., Zagreb, MAGMA d.d., Zagreb, ATLANTSKA PLOVIDBA d.d., Dubrovnik, PBZ CARD d.o.o., Zagreb, M SAN GRUPA d.o.o., Zagreb, OKTAL PHARMA d.o.o., Zagreb, ISTRATURIST UMAG d.d., Umag and JADRAN-GALENSKI LABORATORIJ d.d., Zagreb.

Table 12 Comparison of Commercial Papers Issued in 2005 and 2006

	2005	2006	Change
COMMERCIAL PAPERS ISSUANCE			
issuers	7	14	100.00%
<b>TOTAL VALUE OF THE ISSUED COMMERCIAL PAPERS</b>	106,200,000	873,500,000	722.50%

Source: HANFA

## Takeover of Joint Stock Companies

In 2006, the Agency approved 31 requests for publishing takeover bids, while 1 was rejected.

Out of the 31 takeover bids 1 was related to the takeover of an insurance company (SUNCE OSIGURANJE d.d., Zagreb), whereas 5 were related to the takeover of banks (KREDITNA BANKA ZAGREB d.d., Zagreb, NAVA BANKA d.d., Zagreb, GOSPODARSKO-KREDITNA BANKA d.d., Zagreb, BANKA SONIC d.d., Zagreb and PARTNER BANKA d.d., Zagreb).

Out of all the approved takeover bids, 6 concluded without any shares deposited by the shareholders. These 6 were: BELJE d.d., Darda, NAVA BANKA d.d., Zagreb, MGK-PACK d.d., Rijeka, LAVČEVIĆ d.d., Split, HOTEL DUBROVNIK d.d., Zagreb and KONČAR-ELEKTROINDUSTRIJA d.d., Zagreb.

The Agency also supervised *ex-officio* acquisition of shares in public joint stock companies and determined possible obligations to publish takeover bids. An obligation to publish a takeover bid was determined in 9 public joint stock companies in which share acquirers failed to publish the takeover bid in the legally prescribed period. In 8 companies the takeover procedure was conducted (KOESTLIN d.d., Bjelovar, ZVEČEVO d.d., Požega, SOLARIS d.d., Šibenik, MARASKA d.d., Zadar, CHROMOS BOJE I LAKOVI d.d., Zagreb, MGK-PACK d.d., Rijeka, LAVČEVIĆ d.d., Zagreb and BRESTOVAC d.d., Garešnički Brestovac), while in company JADRAN d.d. TMN, Zagreb, the acquirer did not publish a takeover bid, as a result of which the Agency issued a decision determining the obligation to publish a takeover bid.

Table 13 Comparison of Takeover Bids in 2005 and 2006

	2005	2006	Change
TAKEOVER BIDS			
approved	42	31	-26.19%
dismissed	-	1	-
declined	1	-	-
Paid out for deposited shares	192,159,573	14,077,773,454	7,226.08%
Mandatory production of a prospectus determined by a decision	-	1	

Source: HANFA

In 2006, companies which published takeover bids paid a total of HRK 14.1 billion to their small shareholders who deposited their shares, out of which HRK 14.0 billion was paid to small shareholders in the takeover of PLIVA d.d., Zagreb. When the takeover of PLIVA d.d., Zagreb is left out of the calculation, in takeover procedures during 2006 small shareholders received a total of HRK 91.1 million, whereas in 2005 a total of HRK 192.2 million was paid out. This detail is due to the fact that most public joint stock companies were already part of a takeover bid in the previous years, after which a majority holding was acquired by a legal or natural person.

Article 32, paragraph 7 of the Act on the Takeover of Joint Stock Companies stipulates that if the person who is obliged to publish a takeover bid fails to do so within the legal deadline, the Agency will pass a decision on the obligation of such person to publish the takeover bid and will submit such decision to the issuer, to the shareholders through the issuer or through the depository, to the depository and to the stock exchange or the regulated public market where the issuer's shares have been listed.

Since company JADRAN-PRODUKT d.o.o., Zagreb, failed to publish a takeover bid pursuant to Article 13 paragraph 1 of the Act on the Takeover of Joint Stock Companies and submit to request to the Croatian Securities Exchange Commission or the Agency, as its legal successor, for publishing a takeover bid, the offer and documents according to Article 12 paragraph 2 of the Act on the Takeover of Joint Stock Companies, neither did it publish an offer for the takeover of the Issuer, the Agency decided on 5 October 2006 that company JADRAN-PRODUKT d.o.o., Zagreb, Tomislavova 11, by transferring of 121,152 shares of public joint stock company JADRAN d.d. TMN on the securities account of the Central Depository Agency on 27 June 2003, was obliged to publish a bid for the takeover of that company.

## Supervision of the Capital Market

While exercising everyday supervision of trading on the stock exchange in the Republic of Croatia, the Agency also carries out examination of orders to purchase and sell securities, transactions conducted, audit of order books and accounts of customers and it supervises issuers of securities. While exercising supervision, the Agency takes into account the criteria for price oscillations, traded amount of securities, information on the customer and uses other available sources of information.

The Agency, during off-site supervision, collects, analyses and processes monthly reports of brokerage companies regarding the indicators of net liquid funds, as well as quarterly financial and business reports.

It also keeps a record of received notifications from public joint stock companies on the acquisition of its own shares and notifications the members of the management and supervisory board are required to submit during the acquisition and disposal of shares of an issuer.

Apart from the described off-site supervision, the Agency conducted 111 on-site supervisions of supervised entities in 2006.

On-site supervision comprises the analysis and insight into financial and business reports, business documentation and other items which the supervised entities keep a record of. During off-site supervision, statements and declarations of responsible persons and other employees of the supervised entities and natural persons who are in disposal of information important for the implementation of supervision are taken into account. In 2006, on the basis of the conducted supervision, the Agency cancelled a number of transactions due to the irregularities established, such as the misuse of inside information and market manipulation.

The Agency brought 4 criminal charges to the State Attorney's Office, which related to:

- the use of inside information
- providing false data and including inaccurate material facts in the prospectus
- failure to submit information about ownership in public joint stock companies
- using the customer's funds in a non-purpose way.

The Agency submitted 71 requests for initiating misdemeanour proceedings, among which we can highlight reports in relation to the following irregularities:

- conducting transactions to create a fictitious price
- failure to keep the order book in accordance to the act and ordinance
- performing brokerage activities without the necessary licence issued by the Agency
- failure to publish takeover bids for public joint stock companies
- failure to list shares into quotation of public joint stock companies of stock exchange
- failure to deliver information on the changes in the ownership structure.

The Agency also submitted offence reports for acquiring own shares contrary to the provisions of the Companies Act.

During 2006, the Agency adopted 21 decisions ordering measures in order to install legitimacy and the alignment of work activities with acts and other regulations. Some of the decisions were to do with:

- determining the obligation to publish takeover bids
- prohibiting disposal of shares,
- suspension of all activities relating to the transfer of ownership from the account of the transferor to the account of the acquirer
- cancelling a transaction on the stock exchange.

The Agency actively participated in the supervision of the legitimacy and transparency during the takeover of PLIVA d.d. Zagreb with the goal to ensure the stability of the financial system.

The observations and experience gained whilst performing the off-site and on-site supervision of these proceeding were included by the Agency into the amendments to the Securities Market Act.

### **Supervision of the Entities which Participated in Operations and Transactions Related to PLIVA d.d.'s Shares in the Period from 1 January 2006 to 12 July 2006**

The following legal and natural persons were included in the supervision process (hereinafter: supervised entities):

- PRIVREDNA BANKA ZAGREB d.d. Zagreb
- AUCTOR d.o.o., za poslovanje s vrijednosnim papirima, Zagreb
- PBZ CROATIA OSIGURANJE – OBVEZNI MIROVINSKI FOND, Zagreb
- RAIFFEISEN – OBVEZNI MIROVINSKI FOND, Zagreb
- ERSTE - OBVEZNI MIROVINSKI FOND, Zagreb
- PBZ INVEST, Zagreb
- ERSTE VRIJEDNOSNI PAPIRI, Zagreb
- HRVATSKA POŠTANSKA BANKA d.d., Zagreb
- PLIVA d.d., Zagreb
- Natural persons who conducted business operations and transactions with shares of PLIVA d.d.

The Agency concluded that Privredna banka Zagreb d.d. and accountable persons did not entirely follow the provisions of the Securities Market Act, namely provisions relating to natural persons who are permitted to carry out transactions with securities. Due to the determined facts, a request for initiating misdemeanour proceedings against Privredna banka Zagreb d.d. and accountable persons was submitted because they, contrary to the provisions of Article 53 paragraph 5 of the Securities Market Act, enabled and ordered persons who did not have a licence from the Agency, to carry out transactions with securities in the period from 28 June to 29 June 2006, without being authorised to do so.

The Agency also filed misdemeanour charges against persons who carried out transactions with securities without a licence from the Agency.

Considering the before referred, the Agency also issued a decision by which it conditionally revoked the licence from Privredna banka Zagreb d.d. for conducting transactions with securities in the period of 1 year.

Furthermore, the Agency filed criminal charges to the Municipal State Attorney's Office on suspicion that an employee from Privredna banka Zagreb d.d., who was authorised to have at his disposal information not known to the public (which was related to the securities of the issuer PLIVA d.d., Zagreb, and which, if it had been known to the public, could have affected the price of the securities) and who, knowing this was inside information, used it to buy and sell PLIVA' shares in the same day, with the goal to achieve material gain, which was the motive for the committed offence.

While conducting supervision of PBZ Croatia osiguranje d.d. the Agency determined that the brokerage house Auctor d.o.o. was given the order to sell 228,000 shares of PLIVA d.d. for the price of HRK 723.00 per share. The buyer of those shares was Actavis Group hf, based on Contract of sale of PLIVA's ordinary shares which PBZ Croatia osiguranje d.d. together with its founder (50% owner) Privredna banka Zagreb d.d. and PBZ Invest concluded with Actavis Group hf, which means that the sale of shares from the portfolio of the pension fund was done through a connected person, the founder and 50% owner – Privredna banka Zagreb d.d., which is contrary to Article 74 point 4 of the Mandatory and Voluntary Pension Funds Act, which is the reason the Agency filed a request for initiating criminal proceedings.

During the supervision of authorised company Erste vrijednosni papiri d.o.o. in connection to trading with shares of PLIVA d.d., the Agency established irregularities connected with failure to: execute orders based on priority from the order book, record the buy and sell orders in the order book in a chronological order and carry out duties of an authorised company with due professional care. Due to the determined irregularities the Agency filed a request for initiating misdemeanour proceedings.

Supervision of the issuer PLIVA d.d. Zagreb connected to the obligations of the issuer:

1. After the issuer PLIVA d.d. Zagreb received the intention for publishing the takeover bid on 28 June 2006, the president of the Management Board of the issuer decided to dispose of his own shares, on 21 July 2006, without approval from the General Assembly, based on the Contract on the transfer of shares from 21 July 2006. Starting with 28 June 2006, the Act on the Takeover of Joint Stock Companies applied, and therefore the provisions of Article 11 paragraph 1 point 3 of the same Act where applicable to the issuer. The Agency determined the existence of criminal elements from Article 35 paragraph 3 point 2 and paragraph 5 of the same Article of the Act on the Takeover of Joint Stock Companies, and therefore it filed the adequate misdemeanour charges against responsible persons.
2. On 18 January 2007 the Agency adopted a decision on the determined obligation of the issuer from 13 March 2006 to inform without delay the public and to deliver the decision to those shareholders of the company who were shareholders in the period from 13 March to 17 March 2006 and disposed of shares by selling them. The Agency believed the letter from Actavis Group hf, received from the issuer, on 13 March 2006, consisted of material facts (Article 106 of the Act) which could have affected the share price of the issuer. As a result, with the date of receiving the letter an obligation arose for the issuer to inform the public (stock exchange) without delay.

The Agency believed that the offer to buy 100% shares of PLIVA d.d., at the price which was 35% above the average price in the last 3 months until 7 March 2006 (as is referred in a memo from Actavis Group hf), was a material fact which could have affected the share price and should have been made public without delay. The Agency stated that in Article 107 the legally prescribed exemption from reporting were clearly defined. The Company did not act in accordance with the referred Article 107 of the Act, i.e. it did not request from the Agency to be exempt from the reporting requirement because it wanted to protect its own legitimate interests.

3. The Agency determined a justified suspicion that the president of the Board, other persons from the company who knew about the contents of the memo of 13 March 2006 and outside legal advisors misused the inside information, i.e. that they, on their own or through third parties, used the inside information to buy shares of PLVA-R-A, with the goal to achieve material gain.

The Agency especially suspected the trading of PLVA-R-A shares as at 16 March 2006 because they indicate misuses of inside information. On that day the price rose by 6.03% with a large number of 88,625 shares, which meant the value of share trading was HRK 43.7 million. The referred amounts were record amounts over a period of a few months; the share increase of 6.03% also represented a record increase in share price in one day in the observed period of a few months.

Only when Actavis Group hf published the contents of the memo to the investment public on 17 March 2006 did the company admit to the existence and the reception the memo which contained material facts.

Since there was justified suspicion that an offence was committed referred to in Article 149 paragraph 1 point 2 and paragraph 2 of the Securities Market Act, because responsible persons had all the criteria of a criminal offence of misuse of inside information, the Agency filed the adequate criminal charges.

## Educational Programme

Pursuant to Article 54 of the Securities Market Act<sup>8</sup> and the Ordinance on the requirements for professional training and examination of professional knowledge required for obtaining the licence to carry out activities of a broker, investment advisor and certified pension fund manager<sup>9</sup>, the Agency organized and carried out an educational programme and exams for conducting activities of a broker and an investment advisor. The educational programme lasted for 60 hours and was attended by 334 candidates.

The examination of professional knowledge required for obtaining the licence to carry out activities of a broker included these subjects:

- Regulations and the practice of trading with securities
- Securities and investments
- Fundamental of financial mathematics and the presentation of secondary data
- Statistical methods and analyses
- Reading financial reports
- Accounting and financial reporting
- Payment systems
- Introduction to corporate finances
- Resolving practical assignments for handling securities
- Ethical standards when trading in securities.

The examination of professional knowledge required for obtaining the licence to carry out activities of an investment advisor included these subjects:

- Regulations and the practice of the investment industry
- Quantitative methods for macroeconomic and microeconomic analyses
- Statistical methods and analyses
- Principles and interpretation of accounting
- Principles of economics
- Corporate finances
- Analysis of financial reports and the use of financial indicators
- Accounting and financial reporting
- Payment systems
- Securities and investments
- Portfolio management
- Analysis of cases in investment advising
- Ethical standards when trading in securities

In the first term 294 candidates applied for investment advisors, out of which 270 candidates attended the exam. The exam was taken in a written form and the score threshold was 60% for correctly answered questions. The exam consisted of 50 questions;

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<sup>8</sup> Official Gazzete 84/02

<sup>9</sup> Official Gazzete 97/06

the highest scoring rate was 100. Of the total number of candidates who attended the exam, 135 of them, i.e. 50% successfully passed the exam.

In the first term 203 candidates applied for the broker exam, out of which 190 candidates attended the exam. Of the total number of candidates who attended the exam, 127 of them, i.e. 67% successfully passed the exam.

For candidates who registered for the 1<sup>st</sup> term, and failed, the Agency organized a 2<sup>nd</sup> term examination. In the second term for investment advisors, out of 90 candidates who attended the exam 20 of them passed, 22%. Of the total 43 candidates who registered for the 2<sup>nd</sup> term examination for brokers 25 of them passed, 58%.

The total passing rate for the 1<sup>st</sup> and 2<sup>nd</sup> term was 57 % for investment advisors and 80% for brokers.

Table 14 Results of the Broker and Investment Advisor Exams in 2006

	Investment Advisor	Pass Rates	Brokers	Pass Rates
<b>1<sup>ST</sup> TERM EXAMINATION</b>				
attended	270		190	
passed	135	50%	127	67%
failed	135	50%	63	33%
<b>2<sup>ND</sup> TERM EXAMINATION</b>				
attended	90		43	
passed	20	22%	25	58%
failed	70	78%	18	42%
<b>TOTAL PASS RATES</b>	<b>155</b>	<b>57%</b>	<b>152</b>	<b>80%</b>

Source: HANFA

## Public Reference Room

Public joint stock companies, pursuant to Article 114 paragraph 4 of the Securities Market Act must present to the Agency a quarterly financial and business reports within 30 days from the last day of each quarter, and their consolidated reports within 45 days. Financial and business reports for JDD the 4<sup>th</sup> quarter must be created and delivered to the Agency within 90 days after the end of each business year. The contents and form of the quarterly and financial reports and the means and deadline for delivery are prescribed by the Ordinance on the contents and form of quarterly and financial reports of public joint stock companies<sup>10</sup>.

Those quarterly and business reports pursuant to Article 114 paragraph 6 of the Securities Market Act the Agency will make accessible to the public. Pursuant to the Securities Market Act the Agency is making them accessible to the public through its Public Reference Room on the website of the Agency (<http://www.hanfa.hr>) or on a CD after it is requested, in written form, that an authorised person delivers by post the print out of the defined information. The Agency can also provide the download of the entire database of the Public Reference Room on a CD ROM, in which case the customer concludes a special contract with the Agency. The download of the total database, in contrast to using the details found on the Agency's website, can enable the analysis of the data for one's own needs.

The importance of the Public Reference Room is in the fact that it is the only registry which collects quarterly financial and business reports of public joint stock companies, whereas other registries in the Republic of Croatia are based on data on an annual level. Therefore, the Public Reference Room provides information to all participants of the capital market, i.e. all potential investors are provided with recent data on the financial and business level of public joint stock companies in a timely manner, based on which they can more rationally and objectively assess the possible return or investment risk and decide on investing.

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<sup>10</sup> Official Gazette 118/03





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# **Investment Funds**



## Investment Funds

72 open-end investment funds were registered by 31 December 2006 in the Republic of Croatia, as well as 7 closed-end investment funds and 2 funds which were established by a separate act, namely the Fund for Croatian Homeland War Veterans and Members of their Families and the Retired Persons' Fund. By the end of 2006 a total of 27 companies were registered as investment funds management companies, which represents 5 more than the previous year.

Table 15 Comparison of Investment Funds in 2005 and 2006

	2005	2006	Change
<b>Open-end investment funds</b>	<b>56</b>	<b>72</b>	<b>28.57%</b>
- with public offering	56	62	10.71%
Cash	13	15	15.38%
Bond	15	14	-6.67%
Balanced	15	18	20.00%
Equity	13	15	15.38%
- with private offering	-	9	
- venture capital open-end investment funds	-	1	
<b>Closed-end investment funds</b>	<b>6</b>	<b>7</b>	<b>16.67%</b>

Source: HANFA

## Open-End Investment Funds

During 2006, 16 new open-end investment funds were approved. The reason for a greater presence of open-end funds compared to closed-end funds is contained in the fact open-end funds are easier to join and the fact that banks, due to the expansion of their services and in order to match the demanding markets, have become the biggest founders of open-end investment funds.

The presence of certain open-end investment funds with a public offering was still uniform; in 2006 however, the number of balanced funds increased. Open-end investment funds management companies offer their investors the possibility to invest in at least one fund in each category. Newly formed companies which manage a smaller amount of assets usually first establish balanced funds because they assume they will attract a greater number of investors that way.

Also, in 2006, 9 open-end funds with a private offering, managed by 4 companies, started operating. This type of fund is clearly defined in the Investment Funds Act which was adopted in late 2005. In fact, this is a special kind of investment fund which can be offered by a private offering exclusively to individuals who, upon meeting the requirements stipulated by this Act, have obtained the status of a qualifying investor.

In 2006 the first company for management of venture capital open-end investment funds with a private offering was established. This type of company can only manage venture capital open-end investment funds with a private offering whose assets must amount to at least HRK 75 million from the subscription until the maturity of the fund, and the

number of the investments cannot be higher than 20. Only qualifying investors can invest in this type of fund.

The increase in the number of open-end investment funds also resulted in the increase in the total assets of open-end investment funds, namely 81.5% compared to the same period in 2005. The total assets of open-end funds in the Republic of Croatia as at 31 December 2006 totalled HRK 16.0 billion, out of which HRK 15.7 billion derived from funds with a public offering while newly established funds with a private offering closed the year with a total of HRK 320 million.

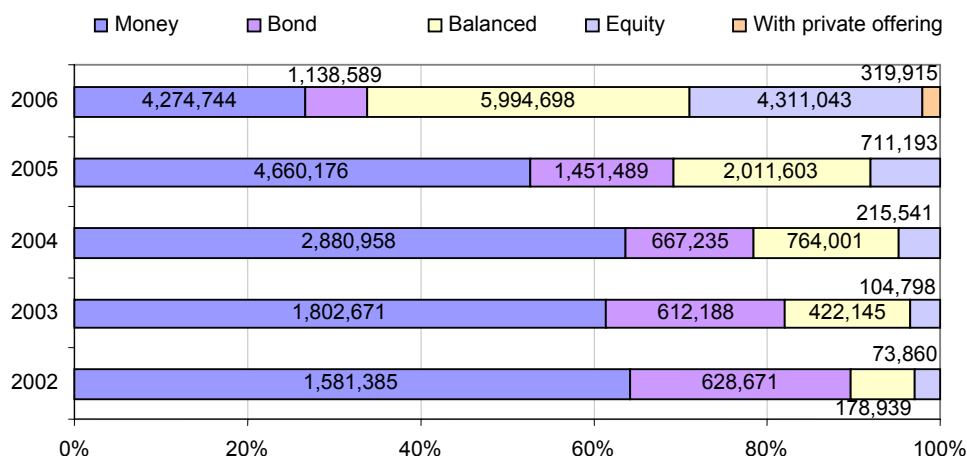
Table 16 Net Asset Value of Investment Funds (in HRK thousand)

	2005	2006
<b>Open-end investment funds</b>	<b>8,834,460</b>	<b>16,038,989</b>
- with public offering	8,834,460	15,719,074
Cash	4,660,176	4,274,744
Bond	1,451,489	1,138,589
Balanced	2,011,603	5,994,698
Equity	711,193	4,311,043
- with private offering	0	319,915
- venture capital open-end investment funds	0	0
<b>Closed-end investment funds</b>	<b>1,537,356</b>	<b>2,443,431</b>

Source: HANFA

Open-end investment funds continued their growth and became the most important institutional investors not only in the Republic of Croatia, but in other countries of south eastern Europe. The total net assets for open-end investment funds rose by 81.6% in 2006, which was a little bit less than in 2005 when the total annual increase was 95.1%. During 2006 significant changes occurred in the investment structure for certain open-end investment funds with a public offering. A considerable decrease in the share of the total net assets was recorded by cash funds, from 52.7% to 27.2%, the bond funds from 16.4% to 7.4%. Balanced funds, on the other hand, recorded an increase for the same period, from 22.8% to 38.1% and the equity funds from 8.05% to as much as 27.4% of the total net assets.

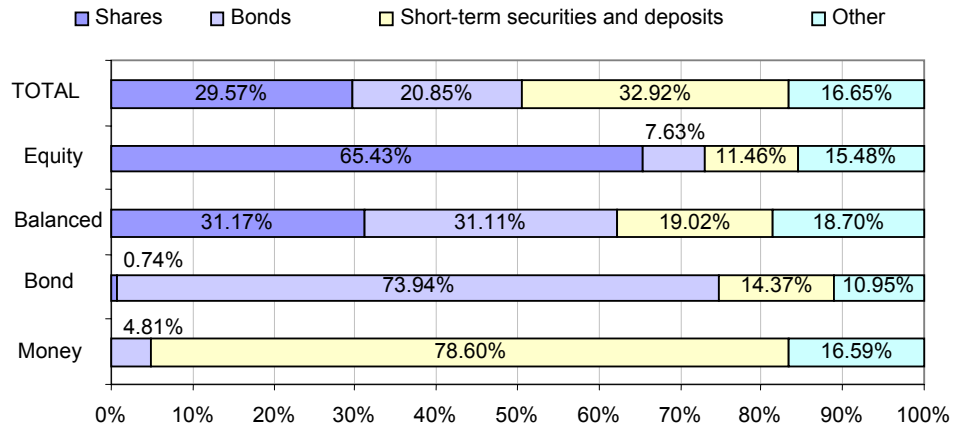
Chart 2 Shares in Total Net Assets of Open-End Investment Funds (in HRK thousand)



Source: HANFA

Open-end investment fund with a public offering completed 2006 with 30.0% of assets in shares, 20.9% assets in bonds (mostly government but also corporate and municipal) and 33.0% assets in short-term securities and deposits. However, the investment structure considerably varies concerning various types of funds: equity funds invested 65.4% of their assets in shares, bond funds invested 73.9% of their assets in bonds (69.5% into government bonds, 29.6% into corporate and only 0.9% into municipal bonds), and cash funds invested 78.6% of their assets into short-term securities and deposits.

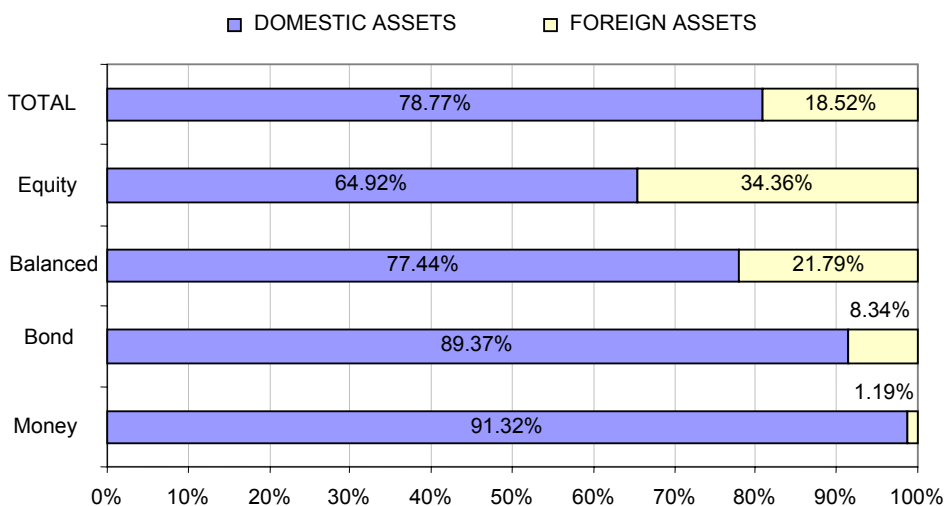
Chart 3 Investment Structure of Open-End Investment Funds with Public Offering



Source: HANFA

Open-end investment fund with a public offering continued to invest most of their assets into the domestic securities market (78.8%), while equity and balanced funds reported significant investments in foreign assets.

Chart 4 Shares of Domestic and Foreign Assets in Open-End Investment Funds with Public Offering



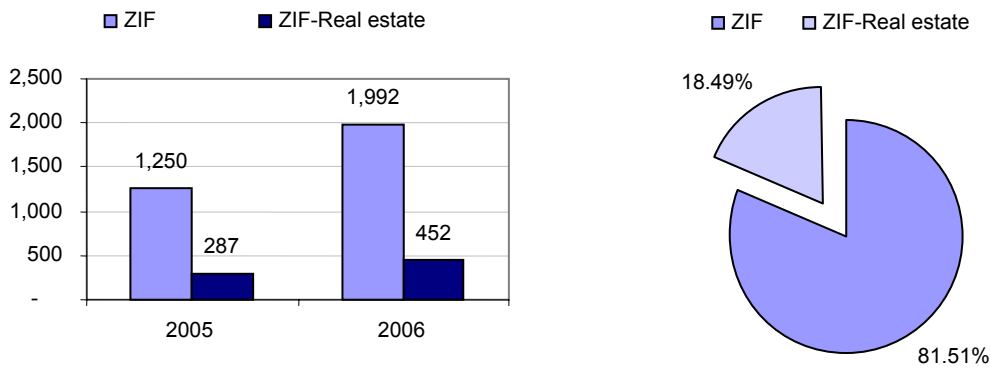
Source: HANFA

## Closed-End Investment Funds

As at 31 December 2006, a total of nine closed-end investment funds operated in the Republic of Croatia, five of which are registered for investment in real estate. Total assets of all closed-end investment funds amounted to HRK 2.4 billion, with real estate funds comprising an 18.5% share, as at 31 December 2006. This ratio did not change significantly in comparison with the previous year, even though total assets of closed-end investment funds grew by 59.0%. During 2006, one closed-end investment fund for investment in real estate was established.

Chart 5 Net Asset Value of Closed-End Investment Funds (ZIF) in 2005 and 2006 (in HRK million)

Chart 6 Share of Real Estate Funds in Total Assets of Closed-End Investment Funds



Source: HANFA

Apart from open-end and closed-end investment funds, another two funds, established by separate acts, operated in the Republic of Croatia in 2006: the Fund for Croatian Homeland War Veterans and Members of their Families and the Retired Persons' Fund.

As at 31 December 2006, total asset value of the Fund for Croatian Homeland War Veterans and Members of their Families amounted to HRK 2.9 billion, which represents an increase of almost 40% compared to the previous year. Total asset value of the Retired Persons' Fund amounted to HRK 6.6 billion.

Table 17 Investment Funds Established by Separate Acts, as at 31 December 2006 (in HRK thousand)

Investment fund	Management company	Net Asset Value
Fund for Croatian Homeland War Veterans and Members of their Families	ERSTE INVEST d.o.o.	2,945,131
Retired Persons' Fund	HPB INVEST d.o.o.	6,621,595

Source: HANFA

## Regulatory Activities

The new Investment Funds Act<sup>11</sup>, which entered into force on 1 January 2006, stipulates the Agency's obligation to regulate the operations of the investment fund management companies, as well as the funds themselves, more thoroughly by a number of subordinate regulations. Adopted ordinances cover the following areas: investment funds management, fund promotion, keeping fund registers, conditions for merger of open-end investment funds, the amount of founding capital, investment restrictions, keeping business books and producing financial reports, etc. Due to their increasing importance the capital market in the Republic of Croatia, as well as a growing number of funds and fund management companies, it was necessary to establish an institutional framework for fund establishment and management, as well as specify requirements to be complied with by fund management companies and persons employed by them. In order to ensure the transparency of investment funds with a public offering and the objectivity of promotional information, companies may publish or distribute only such promotional information that contains accurate calculations and data approved by the Agency.

The development of new types of funds led to an increased interest in new forms of investments for the purpose of producing higher return and the diversifying risk among different markets, as well as financial instruments invested into. Therefore, ordinances have been adopted regulating investments in real estate funds, as well as venture capital funds.

The modifications to the International Financial Reporting Standards (IFRS) and the Accounting Act were necessary to harmonise evaluation methods, frequency and methods of calculations, as well as the content, time frames and forms of mandatory reports on operations of certain types of investment funds, management companies and the depository bank. The harmonisation was conducted through two ordinances (Ordinance on the contents of fund shareholders' and unit-holders' reports and on bookkeeping in an investment fund management company and Ordinance on determination of investment fund asset value and on calculation of the net asset value per unit or per share of an investment fund). This has allowed for the comparison among funds as well as the determination of asset and unit value according to which payments and redemptions are made on a daily basis. The Ordinance on the mandatory content, time frames and form of mandatory reports on operations of investment funds, management companies and the depository bank was adopted in order to improve supervision and collection of supervisory and statistical information, first of all by collecting data in electronic form which will afterwards serve for the analysis and creation of a database.

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<sup>11</sup> Official Gazette (150/05)

## Licensing

The Agency issues and revokes licences, authorisations, approvals, permissions and consents, provides opinions, adopts proposals for regulations, files criminal and misdemeanour charges, initiates other procedures from the scope of activities and competence laid down in the Investment Funds Act, Privatisation Investment Funds Act, Act on the Fund for Croatian Homeland War Veterans, Retired Persons' Fund Act and Act on Croatian Financial Services Supervisory Agency, as well as subordinate legislation adopted pursuant to the aforementioned Acts.

One of the novelties introduced by the Investment Funds Act is also the promotion of investment funds, so that in 2006 there were 91 applications for the approval to promote funds, most of which relate to investment funds. The approval to promote investment funds led to an increasing transparency of advertising in fund operations.

In 2006, the Agency issued decisions for 24 applications for approvals for appointment of members of the management board of the investment fund company and one application for the approval for appointment of members of the supervisory board of investment fund company management.

## Supervision of Investment Funds

During 2006, the Agency intensified its supervisory activities significantly, in the area of both on-site and off-site investment funds supervision. Furthermore, a regulatory framework was established, significantly improving the supervision of the operations of investment fund management companies and investment funds.

After the entry into force of the new Investment Funds Act, investment funds management companies were obligated to harmonize their internal organisational structure, acts and business activity with the provisions of the Act, which became, with a special attention given to the structure of the assets and the costs of funds, the focus of the Agency's supervisory activities.

Within the indirect supervision of investment funds, the Agency analyses and processes daily and periodical reports, which include observance of the investment restrictions, accounting policies, ordinances and decisions of the Agency regulating the scope of the financial and investment activities, as well as the provisions laid down in the statute and prospectus of certain investment funds, with the aim of the optimal protection of unit-holders in open-end investment funds, i.e. shareholders of closed-end investment funds.

The Agency has modernised the reporting methods for funds, and has been improving the quality of data collection in co-operation with the industry in accordance with the legislative regulations. The depositary bank notifies the Agency of the calculation of the net asset value per unit or per share of the fund on each evaluation day through a prescribed form.

Investment fund management companies are obligated to submit to the Agency annual reports on operations and audited financial reports within the period of four months after the end of the business year, as well as half-yearly reports within the period of two months after the end of a six-month accounting period.

The authenticity of the data and documentation submitted to the Agency was examined by on-site supervision, in order to identify possible operational risks of the said entities.

On-site supervision covered the following areas:

- examination of harmonisation of business operations with legal acts and by-laws, as well as with the prospectus and the statute,
- institutional status and organisation of investment fund management operations
- examination of accounting operations and production of company's and fund's financial reports
- examination of the investment decision-making procedure, trading and settlement procedure
- examination of the calculation of the fund's unit value and of the organisation and keeping the register of units.

The following entities were supervised:

- Aureus Invest d.o.o., investment fund management company, and Aureus Equity Fund
- Raiffeisen Invest d.o.o. investment fund management company, and Raiffeisen Cash, Raiffeisen Bond, Raiffeisen Balanced, Raiffeisen Active and Raiffeisen Central Europe funds,
- HPB Invest d.o.o. and Retired Persons' Fund
- Erste Invest d.o.o. and the Fund for Croatian Homeland War Veterans and Members of their Families.

There were no major violations of legislative provisions in the specified period, except for identified minor irregularities, for which clear time limits for correction were set, and observed by the companies





**3**

# **Pension Funds**



## Pension Funds

Pension funds started operating upon the introduction of the pension reform in 2002. Pension funds represent a special type of investment funds into which their members invest in order to acquire the right to pension. The Act<sup>12</sup> defines two types of pension funds:

- mandatory pension funds, i.e. funds with mandatory membership for all employed persons (who were at the time of the establishment of these funds, i.e. of their first employment, younger than 40, where persons between 40 and 50 years of age were allowed to choose whether or not they wanted to become members of mandatory pension funds) and
- voluntary pension funds with voluntary membership, which can be open-end funds, i.e. funds for all citizens of the Republic of Croatia, or closed-end funds, with the employer, a trade union or an association of self-employed persons as the sponsor of the fund.

From the global perspective, pension funds represent the most important institutional investors, but the importance of pension funds varies from country to country. In Western Europe and North America there is a dominance of pension funds established by employers, associations of self-employed persons or by certain professional or industrial sectors. In South America, and afterwards in Eastern Europe, a significant number of countries introduced mandatory pension capitalised savings in accordance with recommendations of the World Bank, which gradually led to mandatory pension funds becoming extremely important institutional investors.

Even though pension funds constitute, for Croatian circumstances, significant institutional investors on the domestic capital market, compared to most of the countries of OECD, the total asset value of the funds, as well as the GDP value share, is still very low.

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<sup>12</sup> Mandatory and Voluntary Pension Funds Act (Official Gazette 49/99, 63/03, 103/03, 177/04)

Table 18 Asset Value and Asset Share in GDP of Pension Funds in the World (in HRK million)

Country	Total pension funds asset value		Change in %	Share in GDP %	
	2004	2005		2004	2005
Austria	13,299	14,291	7.46	4.5	4.7
Belgium	14,508	15,430	6.36	4.1	4.2
Bulgaria	553	776	40.33		
Czech Republic	3,884	5,022	29.30	3.6	4.1
Denmark	73,095	87,032	19.07	29.8	33.6
Estonia	234	449	91.88		
Finland	84,271	127,691	51.52	45.3	66.1
France	123,624	123,660	0.03	6.0	5.8
Germany	104,161	107,856	3.55	3.8	3.9
<b>Croatia</b>	<b>1,452</b>	<b>1,961</b>	<b>35.06</b>	<b>0.7</b>	<b>0.8</b>
Hungary	6,989	9,338	33.61	6.9	8.5
Iceland	14,103	19,517	38.39	108.0	123.2
Ireland	77,405	96,856	25.13	42.0	52.8
Italy	44,351	49,520	11.65	2.6	2.8
Luxembourg	116	131	12.93	0.3	0.4
Netherlands	659,839	779,843	18.19	108.7	124.9
Norway	16,939	20,266	19.64	6.6	6.8
Poland	17,022	26,325	54.65	7.0	8.7
Portugal	18,868	23,591	25.03	10.6	12.9
Slovakia	7	291	4,057.14	0.0	0.6
Slovenia	597	879	47.24		
Spain	95,185	112,207	17.88	9.0	9.1
Sweden	43,402	51,716	19.16	12.4	14.5
Switzerland	389,497	428,634	10.05	108.5	117.4
Turkey	209	919	339.71	0.1	0.3
Great Britain	1,467,118	1,541,100	5.04	68.8	70.1
<b>TOTAL</b>	<b>3,270,728</b>	<b>3,645,301</b>	<b>11.45</b>		

Source: OECD and Global Pension Statistics

## Mandatory Pension Funds

In 2006, there were four mandatory pension funds operating in the Republic of Croatia:

- AZ mandatory pension fund (managed by Allianz ZB OMD),
- Erste Plavi mandatory pension fund (managed by Erste OMD)
- PBZ Croatia osiguranje mandatory pension fund (managed by PBZ Croatia osiguranje OMD)
- Raiffeisen mandatory pension fund (managed by Raiffeisen OMD).

In 2006, a total of 77,492 persons joined one of the mandatory pension funds, whereas a total of 4,410 persons exited the funds. Like over the previous years, in 2006 the majority of insured persons (78.5%) did not select their fund voluntarily, but were allocated to one of the existing funds by the REGOS upon the expiry of the prescribed period.

Table 19 Mandatory Pension Funds (OMF) Membership

	AZ OMF	Erste OMF	PBZ/CO OMF	Raiffeisen OMF	Total
<b>Balance as at 31 December 2005</b>	<b>489,979</b>	<b>139,759</b>	<b>212,016</b>	<b>407,381</b>	<b>1,248,935</b>
First registrations	2,492	1,868	3,393	3,621	11,374
Subsequently completed registrations	1,636	985	948	1,722	5,291
REGOS's allocation	23,576	7,045	10,312	19,894	60,827
Total number of new members	27,703	9,897	14,649	25,235	77,484
Transfers to another fund	12,493	2,179	4,756	5,987	25,415
Transfers from other funds	1,380	13,006	1,876	9,153	25,415
Net transfer	-11,113	10,827	-2,880	3,166	0
Total termination of membership	1,547	560	954	1,349	4,410
<b>Balance as at 31 December 2006</b>	<b>504,822</b>	<b>159,923</b>	<b>222,832</b>	<b>434,433</b>	<b>1,322,010</b>

Source: HANFA

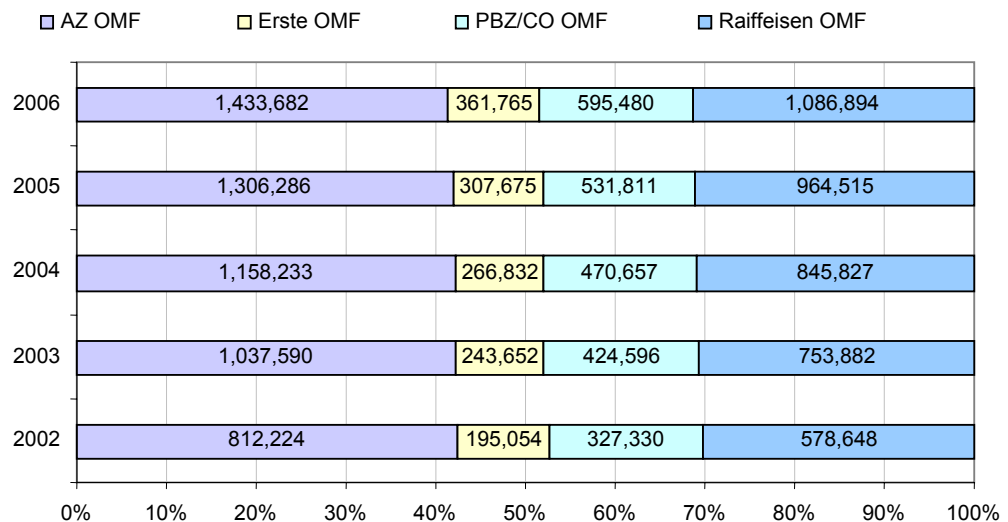
In 2006, a total of HRK 3.5 billion of pension contributions were paid into mandatory pension funds, while disbursements from funds due to closing of personal accounts amounted to HRK 51.5 million. Disbursements will gradually increase over the following years, but considering the age structure of the membership, one can expect the growth of payments into mandatory pension funds to continue.

Table 20 Net Contributions of Mandatory Pension Funds in 2006 (in HRK thousand)

	AZ OMF	Erste OMF	PBZ/CO OMF	Raiffeisen OMF	Ukupno
Net contributions	1,433,682	361,765	595,480	1,086,894	3,477,820
Payments from other OMFs	8,305	101,824	10,745	92,662	213,536
Disbursements to other OMFs	115,202	18,014	38,786	42,425	214,427
Disbursements of funds upon adjustments	3,318	1,076	1,422	2,979	8,796
Disbursements of funds upon closing of personal accounts	17,360	6,315	13,018	14,825	51,518

Source: HANFA

Chart 7 Net Contributions of Mandatory Pension Funds in the Last Five Years (in HRK thousand)



Source: HANFA

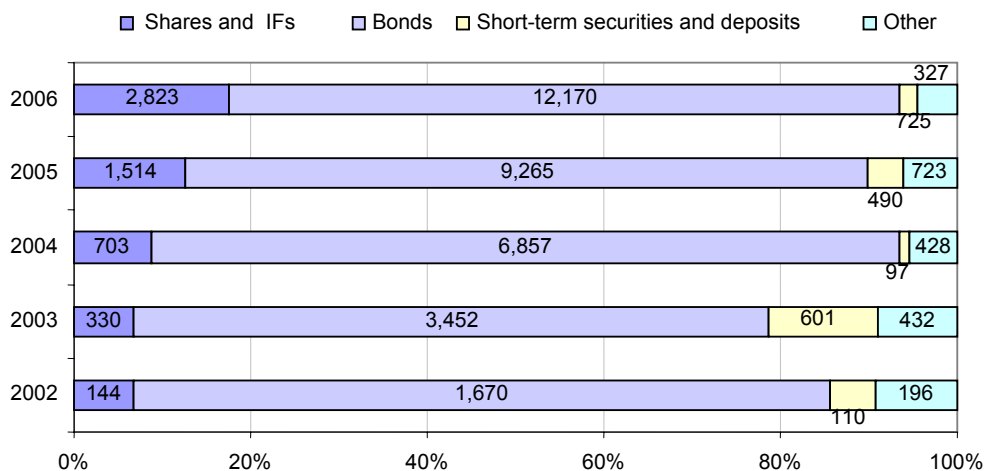
Mandatory pension funds keep investing the most in government bonds (71.4% of the total asset value). The year 2006 saw a significant increase of mandatory pension funds investments in domestic shares and open-end investment funds, but those investments did not exceed 12.5% of the total asset value. There was a slight decrease of investments in foreign securities in the same period.

Table 21 Mandatory Pension Funds Investment Structure (in HRK thousand)

	31 December 2005		31 December 2006	
	Amount	Share	Amount	Share
<b>(1) DOMESTIC ASSETS</b>	<b>10,673,953</b>	<b>89.01%</b>	<b>14,588,033</b>	<b>90.92%</b>
Securities and deposits	10,294,567	85.85%	14,313,666	89.21%
Shares + GDR	333,484	2.78%	851,845	5.31%
Government bonds	8,709,190	72.63%	11,447,577	71.35%
Municipal bonds	60,016	0.50%	62,810	0.39%
Corporate bonds	442,878	3.69%	476,121	2.97%
Closed-end investment funds	0	0.00%	0	0.00%
Open-end investment funds	258,985	2.16%	1,147,996	7.15%
Short-term securities	163,563	1.36%	11,682	0.07%
Deposits	326,450	2.72%	315,635	1.97%
Cash	148,781	1.24%	138,521	0.86%
Receivables	230,604	1.92%	135,845	0.85%
<b>(2) FOREIGN ASSETS</b>	<b>1,318,030</b>	<b>10.99%</b>	<b>1,456,965</b>	<b>9.08%</b>
Shares	134,902	1.12%	218,338	1.36%
Government bonds	208,561	1.74%	232,649	1.45%
Municipal bonds	0	0.00%	0	0.00%
Corporate bonds	52,765	0.44%	183,122	1.14%
Closed-end investment funds	0	0.00%	0	0.00%
Open-end investment funds	921,801	7.69%	822,855	5.13%
Short-term securities	0	0.00%	0	0.00%
Deposits	0	0.00%	0	0.00%
<b>TOTAL ASSETS (1) + (2)</b>	<b>11,991,983</b>	<b>100.00%</b>	<b>16,044,997</b>	<b>100.00%</b>
<b>Net assets</b>	<b>11,714,215</b>		<b>15,919,423</b>	

Source: HANFA

Chart 8 Structure of Mandatory Pension Funds Investments in the Last 5 Years (in HRK million)



Source: HANFA

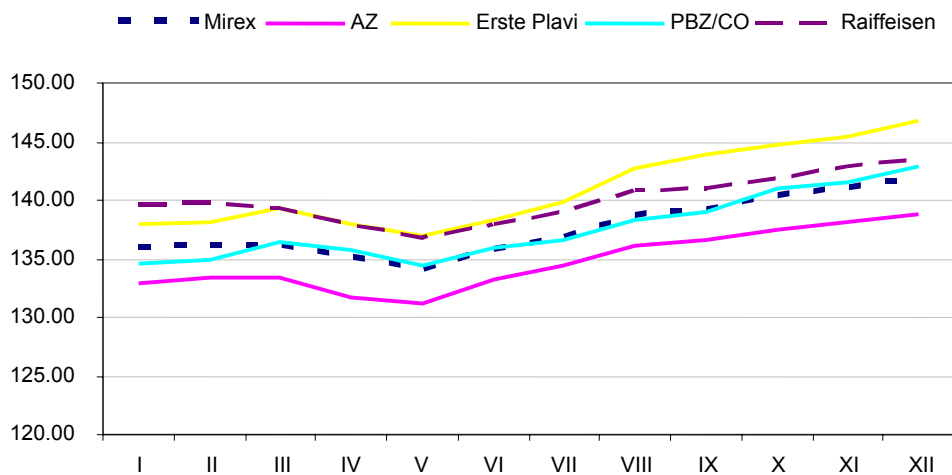
Mirex index rate of return, i.e. the average weighted rate of return of mandatory pension funds in 2006, was 5.7%, which is less than the average rate of return since the beginning of business, which is 7.8%.

Table 22 Value of Units of Account and the Mirex Index

	Value of units of account				
	31 December 2005	31 March 2006	30 June 2006	30 September 2006	31 December 2006
AZ OMF	131.2816	133.3072	133.2278	136.4811	138.8635
Erste Plavi OMF	135.4920	139.2633	138.2411	143.6741	146.8004
PBZ/CO OMF	133.2243	136.4398	135.9671	138.7503	142.8526
Raiffeisen OMF	138.1216	139.3923	137.9370	140.8471	143.6204
Mirex	134.1982	136.3698	135.6932	139.0050	141.9054

Source: HANFA

Chart 9 Movements in the Value of Units of Account and the Mirex Index during 2006



Source: HANFA

Except in the second quarter, when all mandatory pension funds achieved a negative rate of return, rate of return of all funds, including the Mirex index, was positive. Considering the important funds assets share in euros, the change of rate still has a big impact on the trend of the units of account value.

Table 23 Rates of Return of Mandatory Pension Funds

	Rates of return in the period					Annualised rate of return
	Jan - Mar 2006	Apr - Jun 2006	Jul - Sep 2006.	Oct - Dec 2006	Jan - Dec 2006	
AZ OMF	1.54%	-0.06%	2.44%	1.75%	5.78%	7.28%
Erste Plavi OMF	2.78%	-0.73%	3.93%	2.18%	8.35%	8.56%
PBZ/CO OMF	2.41%	-0.35%	2.05%	2.96%	7.23%	7.93%
Raiffeisen OMF	0.92%	-1.04%	2.11%	1.97%	3.98%	8.05%
MIREX	1.62%	-0.50%	2.44%	2.09%	5.74%	7.78%

Source: HANFA

## Voluntary Pension Funds

As in 2005, there were six open-end voluntary pension funds (ODMFs), managed by four voluntary pension fund management companies (DMDs):

- AZ benefit ODMF (managed by Allianz ZB d.o.o. DMD)
- AZ profit ODMF (managed by Allianz ZB d.o.o. DMD)
- Croatia osiguranje ODMF (managed by Croatia osiguranje DMD)
- Erste Plavi expert ODMF (managed by Erste DMD)
- Erste Plavi protect ODMF (managed by Erste DMD)
- Raiffeisen ODMF (managed by Raiffeisen DMD).

Even though voluntary pension funds still have significantly fewer members than mandatory pension funds, the total number of insured person has been increasing continuously. In 2006, the number of employed persons grew by more than 46.9% in comparison to the year 2005, amounting to 75,160 members at the end of the year.

Table 24 Open-End Voluntary Pension Funds Membership

	Balance as at 31 December 2005	Total increase in membership	Balance as at 31 December 2005
AZ benefit ODMF	4,054	1,462	5,516
AZ profit ODMF	17,047	9,066	26,113
Croatia osiguranje ODMF	7,125	3,152	10,277
Erste Plavi expert ODMF	2,076	3,528	5,604
Erste Plavi protect ODMF	905	742	1,647
Raiffeisen ODMF	19,951	6,052	26,003
<b>Total</b>	<b>51,158</b>	<b>24,002</b>	<b>75,160</b>

Source: HANFA

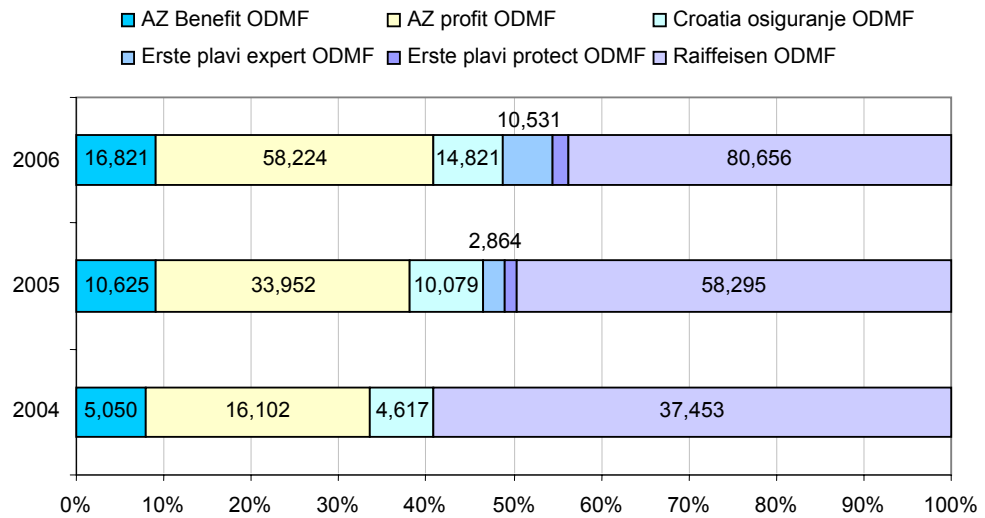
The membership growth was accompanied by the continuous increase in payments, which amounted to HRK 184.3 million, which is 57.1% more compared to the previous year.

Table 25 Gross Contributions of ODMFs' Members (in HRK thousand)

	Gross contributions in 2005	Gross contributions in 2006.
AZ benefit ODMF	10,625	16,821
AZ profit ODMF	33,952	58,224
Croatia osiguranje ODMF	10,079	14,821
Erste Plavi expert ODMF	2,864	10,531
Erste Plavi protect ODMF	1,481	3,247
Raiffeisen ODMF	58,295	80,656
<b>Total</b>	<b>117,295</b>	<b>184,300</b>

Source: HANFA

Chart 10 Gross Contributions of ODMFs' Members in the Last 3 Years (in HRK thousand)



Source: HANFA

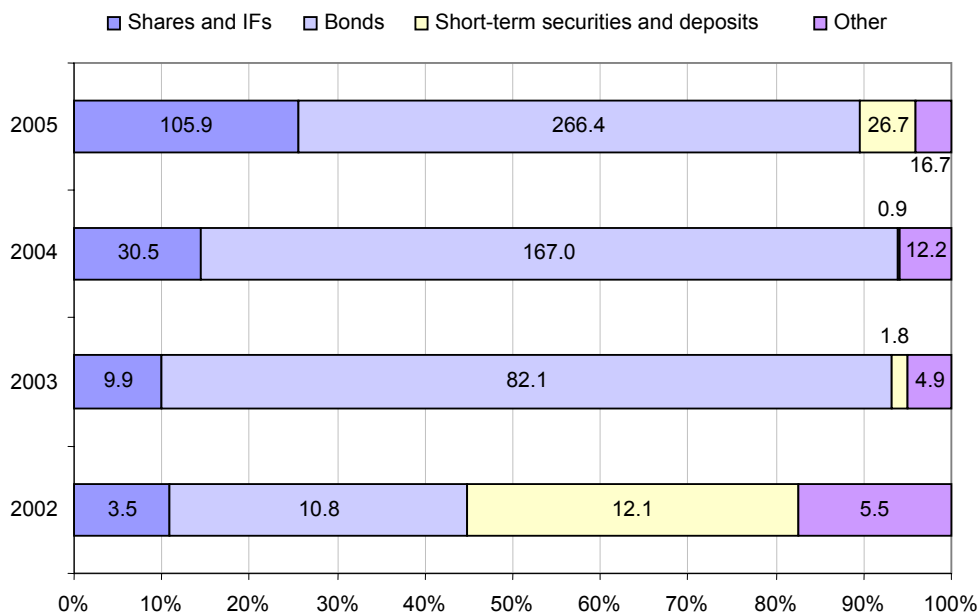
The ODMFs' assets almost doubled over the year 2006, in the course of which the investment structure changed considerably. Investment in government bonds decreased, for example, from 72.8% to 51.2% of the total assets, whereas the same period saw a substantial increase in domestic shares, open-end investment funds and corporate bonds.

Table 26 Open-End Voluntary Pension Funds Investment Structure (in HRK thousand)

	31 December 2005		31 December 2006	
	Amount	Share	Amount	Share
<b>(1) DOMESTIC ASSETS</b>	<b>198,645</b>	<b>94.35%</b>	<b>392,823</b>	<b>94.51%</b>
Securities and deposits	186,430	88.54%	376,158	90.50%
Shares + GDR	5,227	2.48%	32,619	7.85%
Government bonds	153,251	72.79%	212,871	51.22%
Municipal bonds	3,113	1.48%	1,788	0.43%
Corporate bonds	10,600	5.03%	51,753	12.45%
Closed-end investment funds	0	0.00%	0	0.00%
Open-end investment funds	13,384	6.36%	50,457	12.14%
Short-term securities	49	0.02%	0	0.00%
Deposits	805	0.38%	26,669	6.42%
Cash	12,212	5.80%	14,623	3.52%
Receivables	4	0.00%	2,042	0.49%
<b>(2) FOREIGN ASSETS</b>	<b>11,905</b>	<b>5.65%</b>	<b>22,818</b>	<b>5.49%</b>
Shares	0	0.00%	1,889	0.45%
Government bonds	0	0.00%	0	0.00%
Municipal bonds	0	0.00%	0	0.00%
Corporate bonds	0	0.00%	0	0.00%
Closed-end investment funds	0	0.00%	0	0.00%
Open-end investment funds	11,905	5.65%	20,930	5.04%
Short-term securities	0	0.00%	0	0.00%
Deposits	0	0.00%	0	0.00%
<b>TOTAL ASSETS (1) + (2)</b>	<b>210,550</b>	<b>100.00%</b>	<b>415,641</b>	<b>100.00%</b>
Net assets	206,269		397,335	

Source: HANFA

Chart 11 ODMFs' Investment Structure in the Last 4 Years



Source: HANFA

In 2006, ODMFs achieved rates of return ranging from 5.3% to 16.4%, which is comparable to the annualised rates of return earned by funds since the beginning of business. Observing the results by quarters, it is evident that the rates of return varied considerably over the year, with a negative rate of return, i.e. a rate of return almost equal to zero, generated in the second quarter by the ODMFs. The rates of return also varied considerably among different funds over the whole year, and one of the reasons for this can be found in different investment policies of different funds. The Mandatory and Voluntary Pension Funds Act is considerably less restrictive in regulation of OMFs' investment, so that certain companies offer more conservative and some offer risky portfolios

Table 27 Value of ODMFs' Units of Account

	Value of units of accounts				
	31 Dec 2005	31 Mar 2006	30 Jun 2006	30 Sep 2006	31 Dec 2006
AZ benefit	117.5851	119.0167	119.7049	122.7840	124.9274
AZ profit	124.8151	130.0258	131.1953	136.6907	140.7790
Croatia osiguranje	112.8280	114.5639	114.5078	118.2587	121.2594
Erste Plavi expert	109.9721	118.1739	117.4865	125.0084	128.0476
Erste Plavi protect	105.1318	108.5040	107.4010	110.0511	110.7152
Raiffeisen	130.7163	132.1249	131.8140	136.5941	140.4768

Source: HANFA

Table 28 ODMFs' Rates of Return

	Rates of return in the period					Annualised rate of return
	Jan - Mar 2006	Apr - Jun 2006	Jul - Sep 2006	Oct - Dec 2006	Jan - Dec 2006	
AZ benefit	1.22%	0.58%	2.57%	1.75%	6.24%	7.49%
AZ profit	4.17%	0.90%	4.19%	2.99%	12.79%	11.07%
Croatia osiguranje	1.54%	-0.05%	3.28%	2.54%	7.47%	6.26%
Erste Plavi expert	7.46%	-0.58%	6.40%	2.43%	16.44%	14.72%
Erste Plavi protect	3.21%	-1.02%	2.47%	0.60%	5.31%	5.82%
Raiffeisen	1.08%	-0.24%	3.63%	2.84%	7.47%	8.02%

Source: HANFA

Apart from open-end voluntary pension funds, voluntary pension funds management companies also manage closed-end voluntary pension funds (ZDMFs) whose members may become employees of a certain employer, members of trade unions and members of associations of independent professions. In 2006, two more ZDMFs were established, which made the total number of the funds grow to ten.

Table 29 Closed-End Voluntary Pension Funds

Dobrovoljno mirovinsko društvo	Closed-end voluntary pension fund	Date of starting business
Allianz ZB DMD	AZ VIP ZDMF	8 March 2004
	AZ Dalekovod ZDMF	14 December 2004
	AZ Hrvatska kontrola zračne plovidbe ZDMF	14 March 2005
Croatia osiguranje DMD	Sindikat pomoraca Hrvatske ZDMF	21 October 2004
	CROATIA OSIGURANJE ZDMF	20 September 2005
	ZDMF HEP grupe	9 May 2006
Raiffeisen DMD	Hrvatski liječnički sindikat ZDMF	1 July 2004
	Erikson Nikola Tesla ZDMF	21 February 2005
	Novinar ZDMF	14 October 2005
	T-HT ZDMF	20 December 2006

Source: HANFA

The total number of ZDMFs' members was, despite the considerable increase in 2006, still insignificant and amounted to mere 10,663 members, whereas the total net assets of all the funds amounted to HRK 60.3 million. Considering the increasing trend in the number of ZDMFs in the course of 2006, one can expect the number of ZDMFs' users to rise, especially because of the fact that more and more big employers in the Republic of Croatia are showing their interest in establishing this type of pension fund.

Table 30 Main Indicators for ZDMFs

	31 December 2005	31 December 2006
ZDMFs' total membership	5,336	10,663
Total contributions of ZDMFs (in HRK thousand)	19,115	55,919
ZDMFs' total net assets (in HRK thousand)	21,511	60,303

Source: HANFA

Closed-end voluntary pension funds' rates of return ranged between 0.1% and 14.2% in 2006. Annualised rates of return since the beginning of business ranged between 3.2% and 16.7%.

Table 31 Values of Units of Account and ZDMFs' Rates of Return

	Values of units of account		Rates of return	
	31 Dec 2005	31 Dec 2006	2006	Annualised rate of return
AZ VIP ZDMF	120.4869	134.957	12.01%	11.23%
AZ Dalekovod ZDMF	117.7568	131.6709	11.82%	14.39%
AZ Hrvatska kontrola zračne plovidbe ZDMF	114.2356	128.1181	12.15%	14.76%
CROATIA OSIGURANJE ZDMF	99.4843	104.8353	5.38%	3.76%
Ericsson Nikola Tesla ZDMF	115.2193	128.0394	11.13%	14.23%
Hrvatski liječnički sindikat ZDMF	119.8826	136.883	14.18%	13.37%
Sindikata pomoraca Hrvatske ZDMF	103.1038	107.2315	4.00%	3.23%
Novinar ZDMF	107.1869	120.6357	12.55%	16.72%
ZDMF HEP grupe		101.956	1.96%	
T-HT ZDMF		100.1054	0.11%	

Source: HANFA

## Regulatory Activities and Licensing

By entry into force of the new Act on Accounting<sup>13</sup> on 1 January 2006, in accordance with the new modifications to International Accounting Standards, the subordinate regulations stipulating methods of financial reporting and presenting performance of funds and management companies as well as the manner of determining and measuring their asset value was changed. Upon the entry into force of this Act, it was necessary to create amendments to the existing ordinances this Act refers to (Ordinance amending the Ordinance on accounting and financial reports of pension companies and pension funds and Ordinance amending the Ordinance on the valuation of assets and liabilities of pension funds).

In the course of 2006, two new closed-end voluntary pension funds licensed by the Agency started operating. In the same period the Agency issued decisions for five applications for appointment of members of management boards of pension companies and 11 applications for membership in supervisory boards of pension companies.

<sup>13</sup> Official Gazette 146/05

## Supervision of Pension Funds

The Agency continuously supervised operations of pension companies and pension funds as well as their compliance with acts and by-laws for the purpose of protecting interests of mandatory and voluntary funds' members.

Within the pension funds supervision, over the year 2006, the Agency directed its activities at:

### Daily and Periodical Report Analysis (Off-Site Supervision)

Covered valuation of assets of mandatory and voluntary pension funds, observance of the investments restrictions, compliance with accounting policies, ordinances and decisions of the Agency, as well as daily monitoring of events on the capital market in the Republic of Croatia and capital markets in OECD Member States.

Apart from the abovementioned daily supervision, the Agency supervised the regularity of submission and accuracy of drawing up financial reports.

On the basis of the delivered data the return rates of funds and the value of the Mirex index are calculated on a daily basis, whereas the analyses of the performance of pension companies and funds, as well as the assessment of quantitative and qualitative risk of the operations of the said supervised entities are conducted on a periodical basis. The analysis covered changes in capital, compliance of the investment of funds with the legislation, monitoring funds' membership, guarantee deposit funds' adjustment, monitoring potential liability for payment of guaranteed return, calculation of liquidity and profitability, monitoring the structure and relationship between costs and income, as well as the accuracy of fee calculations.

### On-Site Supervision

The authenticity of the delivered data and documentation was examined and the data and documentation presented to the Agency, for the purpose of identifying potential risks in operations of the abovementioned supervised entities.

On-site supervision covered the following areas:

- supervision of bookkeeping and drawing up financial reports of pension companies and funds
- supervision of the guaranteed deposit's account and all its changes
- supervision of the amount of the money borrowed by pension companies
- monitoring methods of reporting on pension funds' rates of return
- monitoring the ban on purchase and sale of the assets, and on granting loans and offering guarantee to persons connected with pension companies
- monitoring of contractual duties between custodian banks and pension companies
- monitoring custodial services and holding a pension fund's assets, settlement and ownership of securities, and supervision of the payment of dividends, coupons, or interest rates which belong to a pension fund.

The Agency also performed extraordinary on-site supervision for the business year 2006 in the following companies:

- PBZ Croatia osiguranje d.d. mandatory pension fund management company and PBZ Croatia osiguranje mandatory pension fund,
- Erste d.o.o. mandatory pension fund management company and Erste plavi mandatory pension fund, and
- Raiffeisen pension company for mandatory pension fund management and Raiffeisen mandatory pension fund.

There were no major violations of legislative provisions in the specified period, except for identified minor irregularities, for which clear time limits for correction were set, and observed by the companies.

After the extraordinary supervision was performed of the operations of PBZ Croatia osiguranje d.d. mandatory pension fund management company and PBZ Croatia osiguranje mandatory pension fund, the request for instigation of misdemeanour proceedings against PBZ Croatia osiguranje d.d. mandatory pension fund management company was submitted.

## Supervision of the REGOS

The Agency performs supervision of the operations of the REGOS regarding the management of collected contributions for mandatory pension insurance on the basis of individual capitalised savings and keeping records of insured persons, members of mandatory pension funds.

Continuous supervision of REGOS's operations is performed by the Agency through the analysis of standardised reports by means of which REGOS, in a prescribed manner and on a monthly basis informs the Agency of the collected and processed data on the cash flow of contributions, stored in the electronic database of the REGOS IT system at the Croatian Financial Agency (FINA) and of data on OMFs's membership, contained in mandatory records kept by REGOS.

The continuous supervision is aimed at monitoring the results of the following activities under the REGOS's competence:

- collecting cash on transit account
- data matching and creating conditions for transfer of funds
- distribution of funds
- initiation and conduction of cash transfers from the transit account to legal beneficiaries
- resolving the status of the funds transferred to the transit account
- transfer of assets of the funds' members to legal beneficiaries
- dealing with insured persons' applications for the selection of membership in on of the mandatory pension funds
- allocation of insured persons *ex officio*.

The reporting data on the results of REGOS's management of collected contributions for mandatory pension insurance on the basis of individual capitalised savings are continuously supervised with the view to evaluate of the completeness, timeliness and accessibility of the data, logical and mathematical accuracy of the data, change of the trend in the time series of the data, take measures for the purpose of establishing the reasons of the occurred changes, as well as to evaluate the appropriateness of the produced reports to serve the needs of the supervision and comparison of the data of other participants within the pension system.

In 2006, no data and trends pointing out REGOS's failures were noticed. Its original reporting data, appropriately processed and analysed beforehand, were used to inform the public of the total amount of the paid contributions during the reporting period, the amount of the funds transferred to personal accounts, as well as of the total number and structure of OMFs' members, through regular reports of the Agency (Internet, published materials, presentations).

## Educational Programme

Pursuant to the Ordinance on the requirements for professional training and examination of professional knowledge required for obtaining the licence to carry out activities of a broker, investment advisor and certified pension fund manager<sup>14</sup>, the Agency organised an educational programme and examination procedure for certified pension funds managers.

The examination of professional knowledge required for obtaining a licence to carry on activities of an certified pension fund manager covers the following areas:

- Financial institutions and markets
- Financial and investment analysis
- Securities
- Portfolio theory
- Managing business finances and reading financial reports
- Pension funds and pension companies accounting
- Payment systems
- Statistical methods and analysis
- Valuation of pension funds' assets, International Financial Reporting Standards and financial reporting
- REGOS
- Business management and business ethics
- Croatian Company Act
- Croatian legislative framework for the functioning of financial markets.

A total of 13 candidates attended the first term examination for a certified pension funds manager. Seven candidates, i.e. 54% of the total number, passed the exam successfully.

None of the four candidates who attended the second term examination passed it successfully.

**Table 32 Results of the Examination for Certified Pension Funds Managers**

	Number of candidates	Performance
<b>FIRST TERM EXAMINATION</b>		
Number of candidates who attended the examination	13	
Number of candidates who passed the examination	7	54%
Number of students who failed the examination	6	46%
<b>SECOND TERM EXAMINATION</b>		
Number of candidates who attended the examination	4	
Number of candidates who attended the examination	-	-
Number of students who failed the examination	4	100%
<b>TOTAL PERFORMANCE</b>	<b>7</b>	<b>54%</b>

Source: HANFA

<sup>14</sup> Official Gazette 97/06





4

# **Insurance Market**



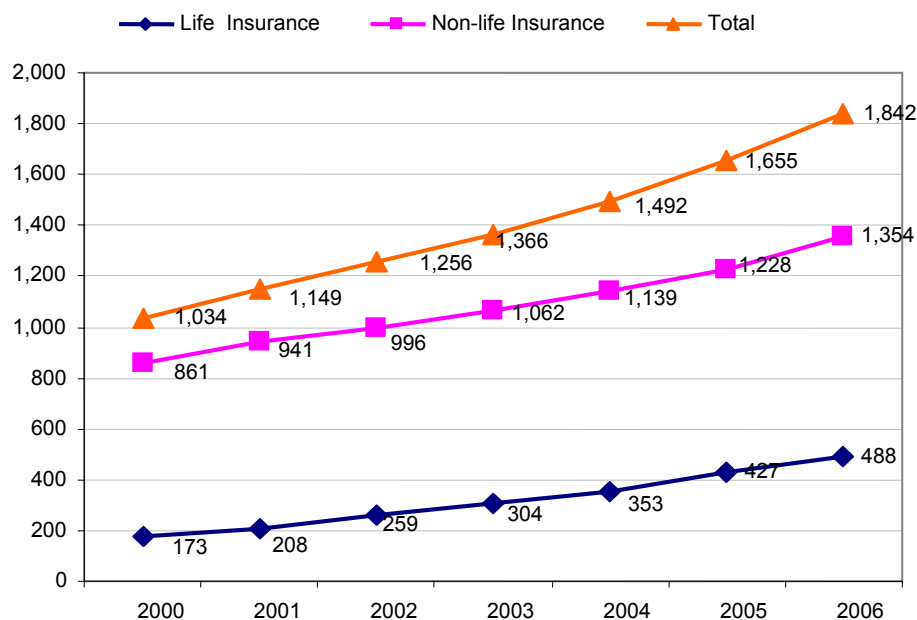
# Insurance Market

## Introduction

The report on the situation in the insurance industry has been produced on the basis of conducted analyses of financial reports, statistical data and on-site supervision of the performance of insurance and reinsurance companies, insurance agencies and insurance brokerage companies as well as of insurance agents and insurance brokers all pursuant to the tasks and duties that are within the competence of the Agency according to the Insurance Act<sup>15</sup>, Act on Compulsory Insurance within the Transport Sector<sup>16</sup> and Act on Croatian Financial Services Supervisory Agency. Insurance market in 2006 was characterized by application of legislation and alignment of overall operations of insurance and reinsurance companies, insurance agencies and insurance brokerage companies as well as insurance mediators with the provisions of the Insurance Act and Act on Compulsory Insurance within the Transport Sector and ordinances adopted pursuant to these acts.

Data on the share of gross written premium in gross domestic product as well as data on insurance density (gross written premium per capita) are important indicators based on which it is possible to determine the situation of the insurance market in a particular country. The dynamics of insurance density and the share of insurance premium in GDP in the Republic of Croatia in the period 2000 – 2006 are shown as follows

Chart 12 Insurance Density in the Period 2000 – 2006 (in HRK)

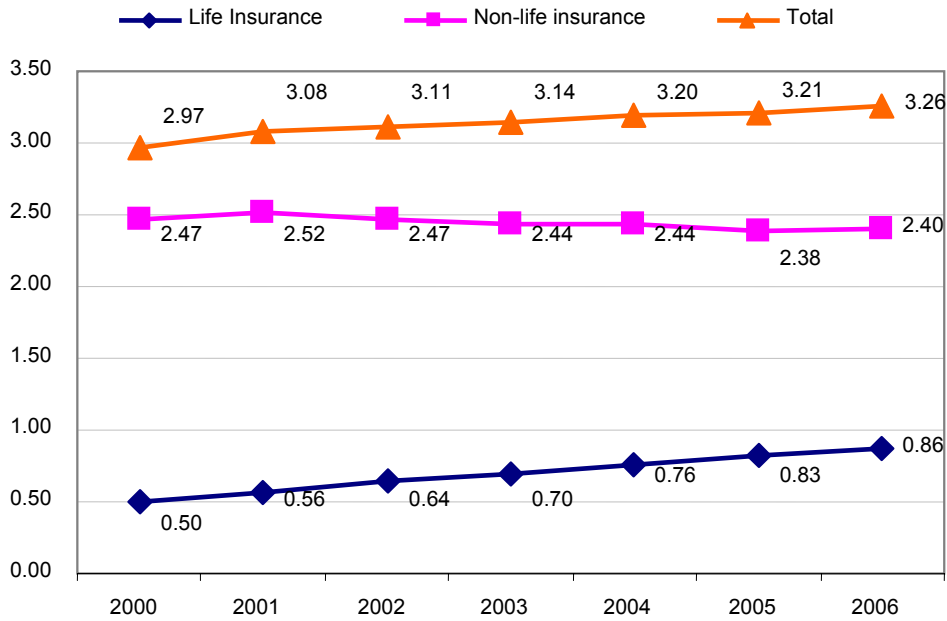


Source: HANFA

<sup>15</sup> Official Gazette 151/05

<sup>16</sup> Official Gazette 151/05

Chart 13 Share of Gross Written Premium in GDP in the Period 2000 – 2006 (%)



Source: HANFA

In the period 2000-2006 gross written premium increased twice as fast as the GDP, but its share in GDP is still relatively low especially in terms of life insurance. Although the share of non-life insurance in GDP decreased in 2005 in comparison to the previous year, the year 2006 registered a slight growth (from 2.38% to 2.40%), while the share of life insurance segment grew firmly (it increased from 0.83% to 0.86%). The premium per capita (insurance density) is also often used as an indicator of the development of an insurance market, which in 2006 in the Republic of Croatia totalled HRK 1,842, i.e. € 252, which is far below the European average.

## Market Description

### State of Play

In 2006 there were total of 25 companies operating on the Croatian insurance market including 2 reinsurance companies, 5 insurance companies conducting exclusively life insurance business, 8 insurance companies conducting non-life insurance business, while the 10 remaining insurance companies carrying out both life and non-life insurance business. The table below shows the insurance activities that the companies conducted during the business year 2006.

**Table 33 Insurance Activities Conducted by Insurance Companies during 2006**

	<b>Insurance Company</b>	<b>Insurance activities</b>
1.	Addenda osiguranje d.d.	Non-life
2.	Agram životno osiguranje d.d.	Life
3.	Allianz Zagreb d.d.	Composite (life and non-life)
4.	Allianz reosiguranje d.d.	Reinsurance
5.	Basler osiguranje d.d.	Non-life
6.	Basler životno osiguranje d.d.	Life
7.	Cosmopolitan life d.d.	Life
8.	Croatia osiguranje d.d.	Composite (life and non-life)
9.	Croatia Lloyd d.d.	Reinsurance
10.	Croatia zdravstveno osiguranje d.d.	Non-life
11.	Erste Sparkassen osiguranje d.d.	Life
12.	Euroherc osiguranje d.d.	Non-life
13.	Generali osiguranje d.d.	Non-life
14.	Generali životno osiguranje d.d.	Life
15.	Grawe Hrvatska d.d.	Composite (life and non-life)
16.	Osiguranje Helios d.d.	Composite (life and non-life)
17.	HOK osiguranje d.d.	Non-life
18.	Jadransko osiguranje d.d.	Non-life
19.	Kvarner Wiener Städtische osiguranje d.d.	Composite (life and non-life)
20.	Libertas osiguranje d.d.	Composite (life and non-life)
21.	Merkur osiguranje d.d.	Composite (life and non-life)
22.	Sunce osiguranje d.d.	Non-life
23.	Triglav osiguranje d.d.	Composite (life and non-life)
24.	Uniqa osiguranje d.d.	Composite (life and non-life)
25.	Osiguranje Zagreb d.d.	Composite (life and non-life)

Source: HANFA

Insurance company Addenda zdravstveno osiguranje d.d. ceased working in April 2006 based on the decision on the withdrawal of the licence for conducting all types of insurance, while at the end of the year (29 December 2006) insurance company Generali osiguranje d.d. and insurance company Generali životno osiguranje d.d. merged with insurance company Libertas osiguranje d.d., in a way that these 2 companies ceased to exist as independent legal entities. After the completion of the merger procedure insurance company Libertas osiguranje d.d. changed its name into Generali osiguranje d.d.

Consequently, as at 31 December 2006 there were 22 insurance and reinsurance companies operating on the insurance market.

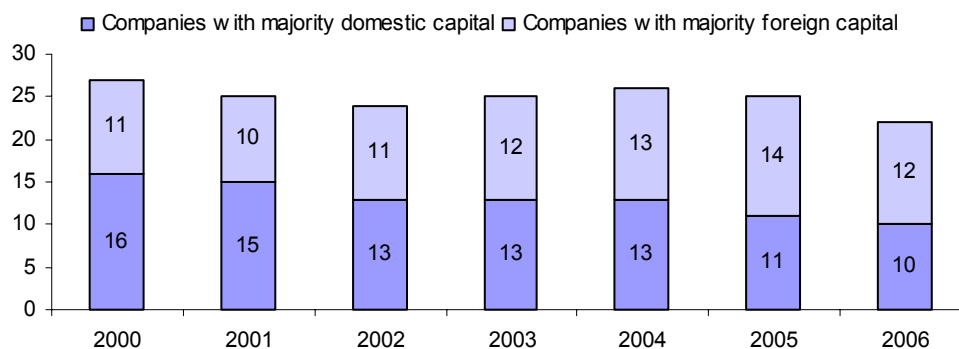
Chart 14 Number of Insurance and Reinsurance Companies Operating at 1 January 2006 and 31 December 2006



Source: HANFA

In 1994, out of 12 insurance companies which were granted a licence to conduct insurance business only 3 of them were majority foreign owned, while as at 31 December 2006 out of a total of 22 companies operating on the Croatian insurance market, 12 were with majority foreign capital. Companies with majority foreign capital influenced the development of insurance industry in the Republic of Croatia, the growth of competitiveness among Croatian insurance companies as well as the increase of quality and diversity of insurance products and services and it is expected that Croatia's approach to the day of becoming a full member of the European Union will allow further entrance of foreign capital into the Croatian insurance market with the aim of establishing new insurance companies.

Chart 15 Ownership Structure of Insurance and Reinsurance Companies in the Period 2000 – 2006



Source: HANFA

Out of a total of HRK 1.5 billion of registered founding capital of insurance and reinsurance companies as at 31 December 2006, HRK 883.1 million (59.8%) was in the ownership of domestic legal and natural persons, while HRK 594.9 million (40.3%) was in the ownership of foreign legal persons.

**Table 34 Share of Majority Domestic and Foreign Capital by Insurance Classes in Total Registered Capital of Insurance and Reinsurance Companies as at 31 December 2006**

	Share of majority domestic capital	Share of majority foreign capital
Insurance classes		
Life	2.37%	3.73%
Non-life	13.81%	1.49%
Composite	34.28%	34.95%
Reinsurance	9.29%	0.09%
<b>TOTAL</b>	<b>59.75%</b>	<b>40.25%</b>

Source: HANFA

## Gross Written Premium

Gross written premium, as insurance and reinsurance companies income, includes in non-life insurance all premiums written (contracted) in the current accounting period covering the period of up to one year irrespective of whether these amounts fully or partly cover the later account period, while in life insurance gross written premiums include all premiums which were paid for by the end of the accounting period. The table below gives a comparative overview of gross written premium by insurance companies..

Table 35 Gross Written Premium by Insurance Company in 2005 and 2006 (in HRK)

	Insurance company	Gross Written Premium (GWP)		Dynamic 2006/2005	Share in total GWP	
		2005	2006		2005	2006
1	Addenda osiguranje d.d.	29,796,698			0.41%	0.00%
2	Agram životno osiguranje d.d.	114,760,639	201,490,960	175.57	1.56%	2.46%
3	Allianz Zagreb d.d.	751,529,141	873,534,058	116.23	10.22%	10.68%
4	Basler osiguranje d.d.	22,198,663	21,094,458	95.03	0.30%	0.26%
5	Basler životno osiguranje d.d.	14,738,494	42,071,579	285.45	0.20%	0.51%
6	Cosmopolitan Life osiguranje d.d.	41,471,423	53,822,480	129.78	0.56%	0.66%
7	Croatia osiguranje d.d.	2,825,083,041	2,951,386,338	104.47	38.44%	36.08%
8	Croatia zdravstveno osiguranje d.d.	27,662,821	59,144,795	213.81	0.38%	0.72%
9	Erste Sparkassen osiguranje d.d.	10,289,109	51,488,658	500.42	0.14%	0.63%
10	Euroherc osiguranje d.d.	841,349,146	920,601,130	109.42	11.45%	11.25%
11	Generali osiguranje d.d. <sup>17</sup>	24,779,952	216,179,697	156.22	0.34%	2.64%
12	Generali životno osiguranje d.d.	56,186,556		0.00	0.76%	0.00%
13	Grawe Hrvatska d.d.	376,470,849	395,128,360	104.96	5.12%	4.83%
14	Osiguranje Helios d.d.	109,426,813	124,132,501	113.44	1.49%	1.52%
15	HOK osiguranje d.d.	4,671,688	4,965,006	106.28	0.06%	0.06%
16	Jadransko osiguranje d.d.	546,181,641	612,059,413	112.06	7.43%	7.48%
17	Kvarner Wiener Städtische osiguranje d.d.	292,974,559	400,840,206	136.82	3.99%	4.90%
18	Libertas osiguranje d.d.	57,411,740		0.00	0.78%	0.00%
19	Merkur osiguranje d.d.	233,685,220	259,250,716	110.94	3.18%	3.17%
20	Sunce osiguranje d.d.	167,901,438	122,293,199	72.84	2.28%	1.49%
21	Triglav osiguranje d.d.	273,912,176	318,382,222	116.24	3.73%	3.89%
22	Uniqa osiguranje d.d.	91,383,766	109,656,947	120.00	1.24%	1.34%
23	Osiguranje Zagreb d.d.	436,207,932	442,632,822	101.47	5.93%	5.41%
	<b>UKUPNO</b>	<b>7,350,073,505</b>	<b>8,180,155,545</b>	<b>111.29</b>	<b>100.00%</b>	<b>100.00%</b>

Source: HANFA

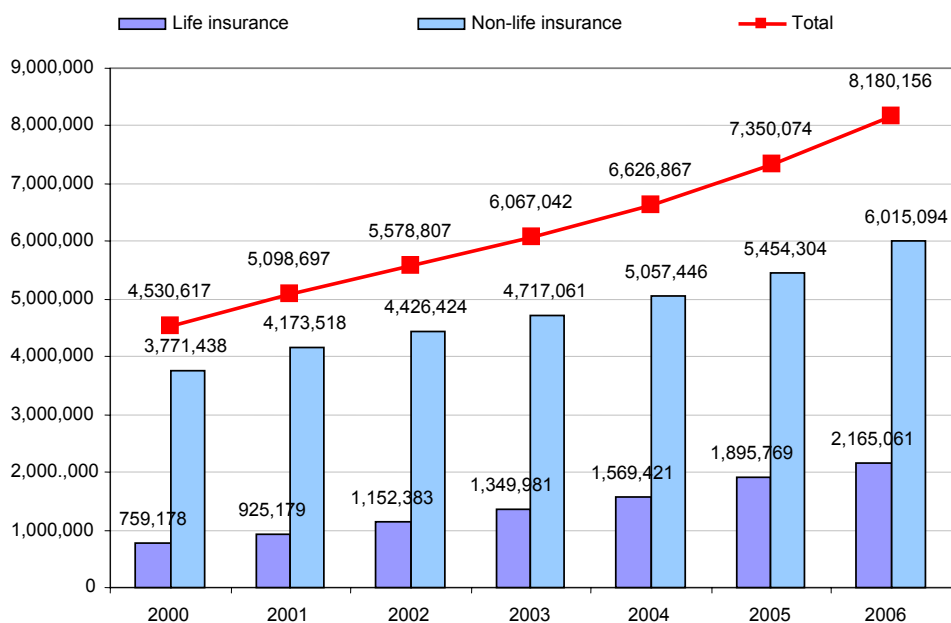
<sup>17</sup> Data shown for the year 2006 for the insurance company Generali osiguranje d.d. comprise the amounts of gross written premium of the companies: Libertas osiguranje d.d., Generali životno osiguranje d.d. and Generali osiguranje d.d.

The most important characteristics of the Croatian insurance market in 2006 are as follows:

- growth of insurance market in 2006 by 11.3% in comparison to 2005,
- continued decrease of market share of Croatia osiguranje d.d. (the largest insurance company) from 2005 to 36.1%
- growth of market shares of its close competitors
- premium growth in 18 out of 23 insurance companies
- market share of 6 companies lower than 1%

The 4.5% growth of market share of Croatia osiguranje d.d. was significantly lower than the average growth rate of the insurance industry, which caused the continuation of the decrease in market share of the said insurance company from 38.4% in 2005 to 36.1% in 2006. Despite the low growth rates and decrease of market share in total insurance portfolio on the Croatian market, Croatia osiguranje d.d. was still the leading insurer in non-life insurance business with a market share of 44.1% (46.8% in 2005), while in life insurance segment the leading position was maintained by company Allianz Zagreb d.d. with the market share of 16.4% in comparison to 2005 (15.8%).

Chart 16 Gross Written Premium in the Period 2000 – 2006 (in HRK thousand)

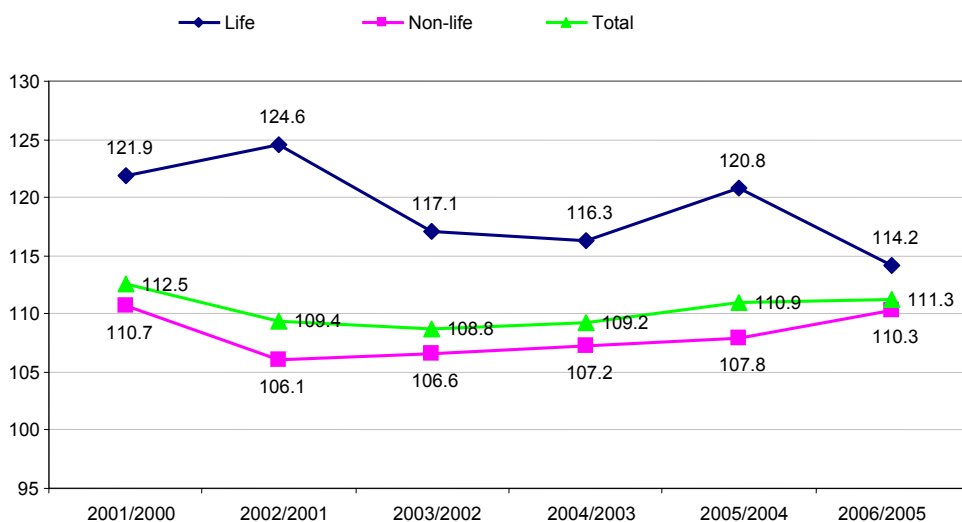


Source: HANFA

In the year 2006 insurance companies achieved gross written premium of HRK 8.2 billion, including non-life insurance premium which totalled HRK 6.0 billion and life insurance premium which totalled HRK 2.2 billion.

Total gross written premium increased in 2006 by 11.3% in comparison to 2005 and continued with double-digit growth rates from 2005 (10.9%), while in the last seven years total gross written premium was growing by the average rate of 10.4%. In the respective period the non-life insurance premium achieved double-digit growth rates in 2001 (10.7%) and 2006 (10.3%), while the average growth rate of this insurance class in the last seven years amounted to 8.1%. The life insurance premium growth rate increased twice as fast as the growth rate of total gross written premium, i. e. the average growth rate amounted to 19.1%. In that insurance segment high growth rates were registered in 2001, 2002 and 2005 (21.9%; 24.6% and 20.8% respectively), while a somewhat slower growth was registered in 2003, 2004 and 2006 (17.1%; 16.3% and 14.2% respectively).

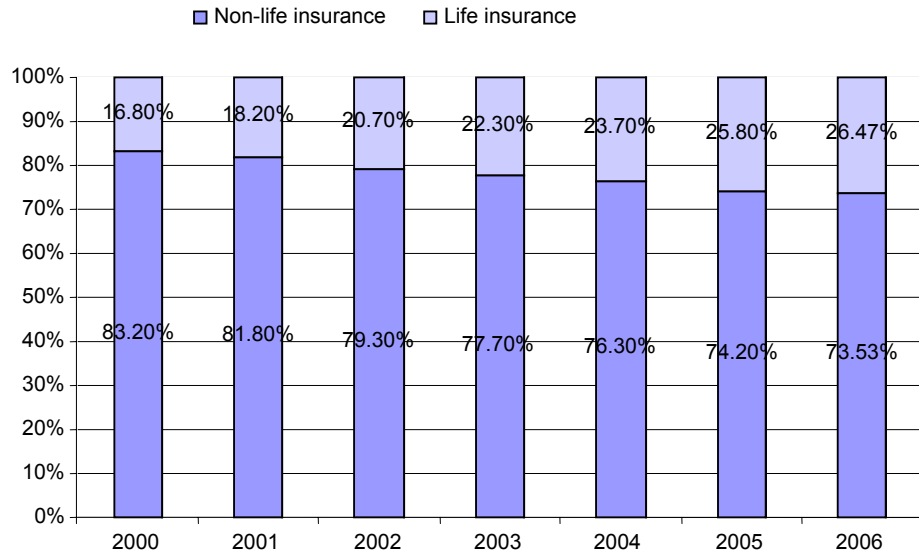
Chart 17 Gross Written Premium Indices in the Period 2000 – 2006



Source: HANFA

In the period 2000 – 2006, the trend of constant growth of life insurance premium share in total insurance portfolio was registered (from 16.8% in 2000, to 26.5% in 2006), while the share of non-life premium was gradually decreasing. This trend was the consequence of high growth rates in life insurance segment, and its continuation brings the Croatian insurance market closer to the trend prevailing in developed countries of the European Union.

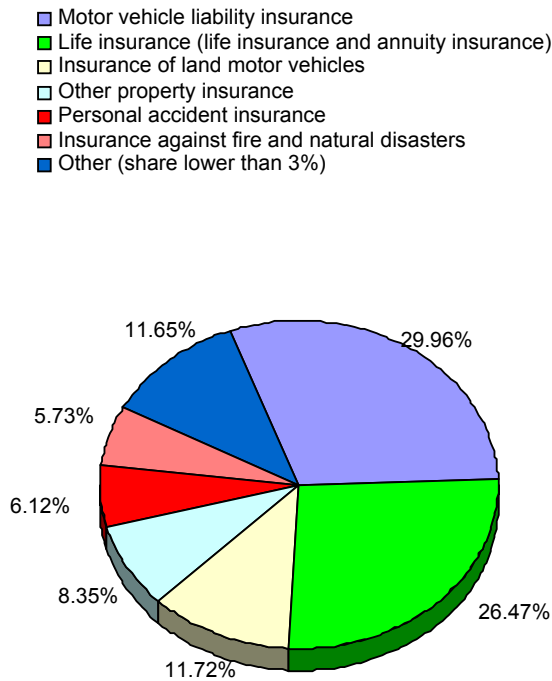
Chart 18 Share of Life and Non-life Insurance in Total Gross Written Premium



Source: HANFA

In the structure of total insurance portfolio the trend of uneven share of certain insurance classes continued due to the fact that 6 insurance types (out of 19) occupied almost 90% of total insurance portfolio.

Chart 19 Structure of Gross Written Premium by Types of Insurance in 2006 (in %)



Source: HANFA

In the structure of total insurance premium regarding non-life insurance the largest shares were still held by:

- motor vehicle liability insurance - with the gross written premium of HRK 2.5 billion which increased by 9.1% in comparison to 2005, however, its market share of 30.0% was by 0.6 percentage points lower than in 2005
- insurance of land motor vehicles - with the gross written premium worth HRK 959.1 million which increased by 10.5% in comparison to 2005, while its market share of 11.7% was by 0.1 percentage points lower in comparison to 2005
- insurance against fire and natural disasters together with other property insurance lines - with a HRK 1.2 billion premium which increased by 10.6% in comparison to 2005, but 14.1% of the market share of these insurance types was by 0.1 percentage points lower than in 2005
- personal accident insurance - with the gross written premium worth HRK 500.3 million increased by 6.5% in comparison to the previous year, but its 6.1% market share was by 0.3 percentage points lower in comparison to 2005.

Table 36 Motor Vehicle Liability Insurance in 2006 (in HRK)

	Insurance company	Gross written premium	Share	Technical result
1.	Croatia osiguranje d.d.	816,835,826	33.82%	-34,804,797
2.	Euroherc osiguranje d.d.	591,244,325	24.48%	14,074,569
3.	Jadransko osiguranje d.d.	417,149,075	17.27%	4,329,953
4.	Allianz Zagreb d.d.	149,266,618	6.18%	4,933,559
5.	Kvarner Wiener Städtische osiguranje d.d.	105,074,107	4.35%	-4,925,342
6.	Osiguranje Zagreb d.d.	103,708,111	4.29%	-7,072,616
7.	Triglav osiguranje d.d.	103,362,480	4.28%	2,527,895
8.	Grawe Hrvatska d.d.	44,357,786	1.84%	-9,674,856
9.	Sunce osiguranje d.d.	26,960,042	1.12%	-7,414,728
10.	Osiguranje Helios d.d.	26,549,607	1.10%	-2,600,612
11.	Generali osiguranje d.d.	15,819,627	0.65%	-4,653,389
12.	Uniqa osiguranje d.d.	14,889,835	0.62%	-516,208
<b>TOTAL</b>		<b>2,415,217,439</b>	<b>100.00%</b>	<b>-45,796,572</b>

Source: HANFA

In 2006, Croatia osiguranje d.d. achieved the highest gross written premium in the segment of motor vehicle liability insurance in the amount of HRK 816.8 million which participated with 33.8% in total premium of this segment. It was followed by Euroherc osiguranje d.d. with a HRK 591.2 million worth premium and a 24.5% share and Jadransko osiguranje d.d. with a HRK 417.1 premium and a 17.3% share. At the same time Euroherc osiguranje d.d. and Jadransko osiguranje d.d. achieved a positive technical result in this insurance type in the amount of HRK 14.1 million, and HRK 4.3 million respectively, while Croatia osiguranje registered a negative technical result in the amount of HRK 34.8 million. Besides Croatia osiguranje d.d., seven more companies achieved negative technical result, therefore the final technical result of twelve companies conducting motor vehicle liability insurance was a loss in the amount of HRK 45.8 million

## Asset Structure <sup>18</sup>

The assets value of all insurance and reinsurance companies as at 31 December 2006 amounted to HRK 19.7 billion and was by 18.7% higher than the total value of assets registered in 2005. Investments constituted 83.9% of the total value of the insurance sector assets, receivables 10.1%, other assets 3.4%, whereas intangible assets, investments for the benefit of life insurance policyholders who bear the investment risk and prepayments and accrued income constituted 2.6% of the total value of the insurance sector assets.

**Table 37 Assets Structure of Insurance and Reinsurance Companies in 2005 and 2006**

	2005 (in HRK)	Share	2006 (in HRK)	Share	Dynamics 2006/2005
Subscribed capital, unpaid					
Intangible assets	106,641,893	0.6%	113,104,692	0.6%	106.1
Investments	13,500,087,614	81.5%	16,493,589,663	83.9%	122.2
Investments for the benefit of life insurance policy holder who bear the investment risk	56,518,079	0.3%	153,439,249	0.8%	271.5
Receivables	1,981,409,143	12.0%	1,991,263,054	10.1%	100.5
Other assets	702,569,460	4.2%	665,862,819	3.4%	94.8
Prepayments and accrued income	215,922,732	1.3%	245,541,095	1.2%	113.7
<b>TOTAL ASSETS</b>	<b>16,563,148,921</b>	<b>100.0%</b>	<b>19,662,800,572</b>	<b>100.0%</b>	<b>118.7</b>

Source: HANFA

The value of investments in the amount of HRK 16.5 billion registered in 2006 increased by 22.2% in comparison to 2005, which led to an increase of the share of investments in the total assets from 81.5% in 2005 to 83.9% in 2006. Insurance companies put their investments mainly into securities, land and buildings that accounted for HRK 10.7 billion and constituted 65.1% of total investments.

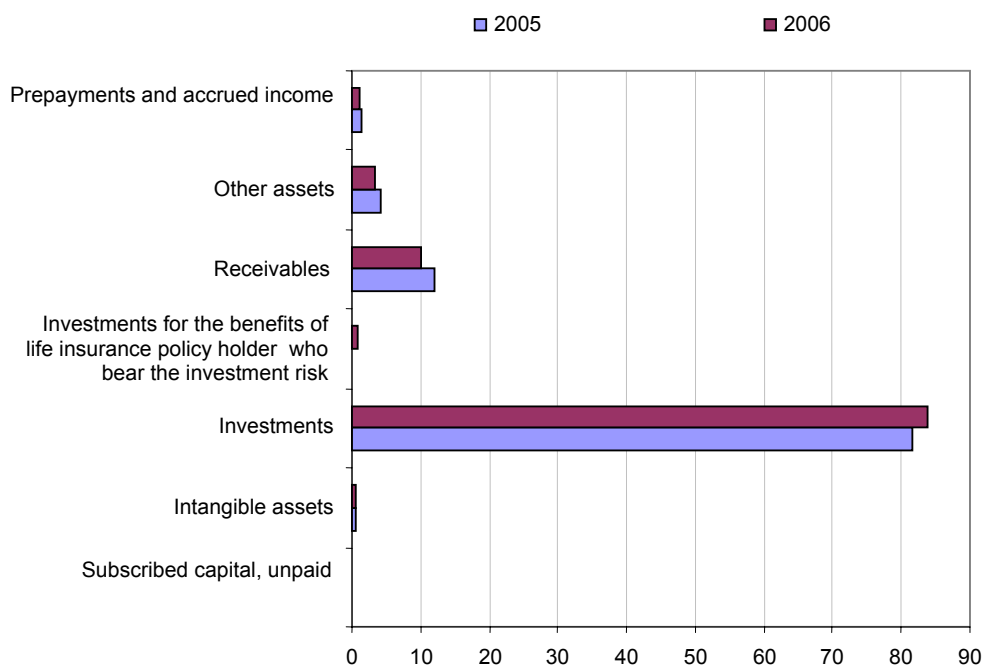
The total value of receivables in the amount of HRK 2.0 billion remained at the same level as in 2005 and constituted 10.1% of total assets, whilst the largest receivables were the insured (61.8%). One of the reasons for high share of receivables from the insured in total value of receivables was not in time payment of due, but unpaid receivables which were not settled within 180 days from the day when they should have been paid

<sup>18</sup> All financial data from the balance sheet and profit and loss account are shown based on unaudited financial reports submitted by insurance and reinsurance companies to the Agency in legally stipulated time frame for the purpose of an easier comparison of data shown among companies. Companies that are majority foreign owned presented data in audited financial reports applying adequate IFRS (International Financial Reporting Standards) that allow companies to record technical provisions in the liability side of the balance sheet in gross amounts whilst increasing the value of the assets for the stated amount. Besides that, the profit and loss account shows cumulative effect of valuation of investments during the past three years which led to different presentation of profit and loss in 2006 between unaudited and audited financial reports in some companies since the financial result cannot be corrected by backdating. Moreover, out of 10 companies that in 2006 conducted credit insurance, only 2 of them, according to Article 107 of the Insurance Act, set up equalisation reserves. Out of the 8 remaining companies, 2 of them achieved a premium lower than HRK 10,000.

Other assets decreased from 4.2% share in 2005 to 3.4% in 2006, and still mainly comprised of equipment and money in banks and cash. These accounted for HRK 509.8 million with a 76.6% share in the total value of other assets.

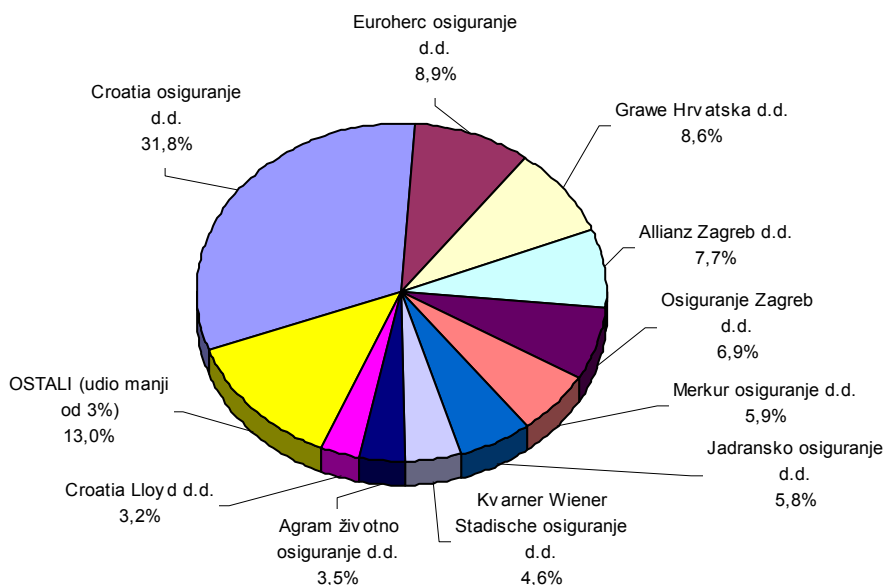
Significant increase was registered in investments for the benefit of life insurance policyholders who bear the investment risk (life insurance linked with units of investment funds) which increased from HRK 56.5 million in 2005 to 153.4 million in 2006 (increase by 171.5%).

Chart 20 Asset Structure of Insurance and Reinsurance Companies in 2005 and 2006 (in %)



Source: HANFA

Chart 21 Shares of Assets of Insurance and Reinsurance Companies in Total Assets of the Insurance Sector in 2006 (in %)



Source: HANFA

Regarding the representation of particular companies in total assets of insurance and reinsurance companies, the largest share was held by Croatia osiguranje d.d. with a 31.8% share followed by Euroherc osiguranje d.d. with 8.9%, Grawe Hrvatska d.d. with 8.6%, Allianz Zagreb d.d. with 7.7%, Osiguranje Zagreb d.d. with 6.9%, Merkur osiguranje d.d. with 5.9%, Jadransko osiguranje d.d. with 5.8%, Kvarner Wiener Städtische osiguranje d.d. with 4.6%, Agram životno osiguranje with 3.5% and Croatia Lloyd d.d. with 3.2%, while other companies with shares lower than 3% formed 13.0% of total assets.

## Liability Structure

Technical provisions constituted 71.4% of the total value of insurance and reinsurance companies' liabilities, capital and reserves (equity) 19.8%, other liabilities 5.9%, whereas technical provisions for life insurance policies where the investment risk is borne by the policyholder, other non-insurance reserves of a technical nature, deposits received from reinsurers and accruals and deferred income constituted 2.9% of the total liability value.

Table 38 Liability Structure of Insurance and Reinsurance Companies in 2005 and 2006

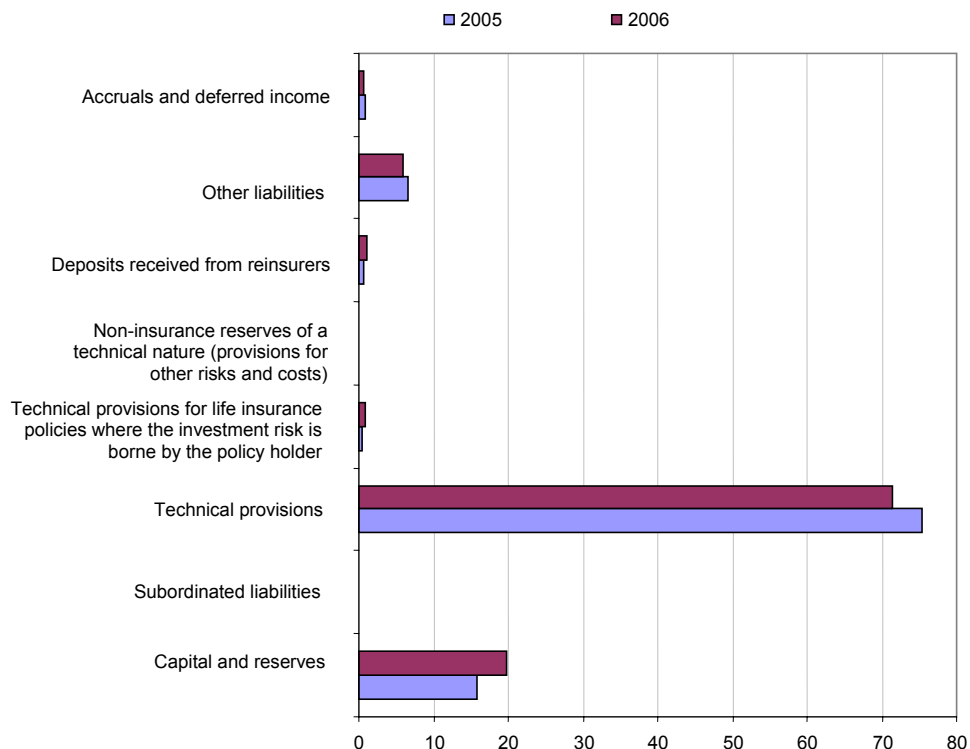
	2005	Share	2006	Share	Dynamics 2006/2005
Capital and reserve (equity)	2,639,068,565	15.9%	3,885,779,084	19.8%	147.2
Subordinated liabilities					
Technical provisions	12,485,570,931	75.4%	14,033,183,529	71.4%	112.4
Technical provisions for life insurance policies where the investment risk is borne by the policyholder	56,194,330	0.3%	153,401,410	0.8%	273.0
Non-insurance reserves of a technical nature (provisions for other risks and costs)	42,168,638	0.3%	62,596,334	0.3%	148.4
Deposits received from reinsurers	121,839,904	0.7%	221,314,236	1.1%	181.6
Other liabilities	1,084,955,373	6.6%	1,163,665,734	5.9%	107.3
Accruals and deferred income	133,351,182	0.8%	142,860,245	0.7%	107.1
<b>TOTAL LIABILITIES</b>	<b>16,563,148,921</b>	<b>100.0%</b>	<b>19,662,800,572</b>	<b>100.0%</b>	<b>118.7</b>

Source: HANFA

Like in the previous year, the largest share in liability structure (71.4%) was held by technical provisions which in the amount of HRK 14.0 billion rose by 12.4% in comparison to 2005, which was mostly the result of the creation of life insurance mathematical provisions that accounted for HRK 6.7 billion with a 19.8% growth rate in comparison to 2005 due to the noticeable growth in that insurance class with a 14.2% growth rate.

Capital and reserves (equity) increased due to the change of legally stipulated regulations (the amounts of minimum founding capital increased for all insurance classes) by 47.2% and amounted to HRK 3.9 billion and constituted 19.8% of total liabilities. Other liabilities of insurance and reinsurance companies with a 5.9% share and a 7.3% growth rate include liabilities arising out of direct insurance and reinsurance operations, received loans, amounts owed to credit institutions and other liabilities. These totalled HRK 1.2 billion as of 31 December 2006.

Chart 22 Liability Structure of Insurance and Reinsurance Companies in 2005 and 2006 (in %)



Source: HANFA

## Net Financial Result

Profit and loss account is one of the basic financial reports that insurance and reinsurance companies are obliged to compile showing incomes and expenses, as well as the other elements that influence the financial result of a company. Consequently, insurance and reinsurance companies are obliged to determine their results separately for life insurance business, non-life insurance business and present a combined result.

In 2006, insurance sector recorded a total technical profit of HRK 311.3 million which is by 30.4% higher than the net profit recorded in 2005 when it totalled HRK 238.7 million. Out of 20 insurance companies (2 reinsurance companies) that in 2005 conducted non-life insurance (including composite companies), in 2006 one insurance company was withdrawn the licence for conducting insurance business activities by the supervisory body (Addenda zdravstveno osiguranje d.d.), while one insurance company (Libertas osiguranje d.d.), after the acquisition of insurance company Generali osiguranje d.d., changed its name into Generali osiguranje d.d., so that as at 31 December 2006, 8 companies recorded net financial profit, and 10 companies recorded negative technical result in the amount of HRK 155.8 million which is by 78.4% higher in comparison to 2005. At the same time it is important to emphasize that insurance company Sunce osiguranje d.d. recorded positive technical results exclusively due to the reduction of provisions for claims in the amount of HRK 10.5 million. Out of 14 companies that as at 31 December 2006 conducted life insurance business (including composite companies), 11 recorded a positive, while 3 companies recorded a negative result of life insurance technical account in the total amount of HRK 71.9 million which is by 17.7% lower than in the year 2005.

As at 31 December 2006, out of 20 insurance and 2 reinsurance companies, the net financial profit in the amount of HRK 335.5 million was recorded by 18 insurance and reinsurance companies, while the net financial loss in the amount of HRK 24.2 million was recorded in 4 insurance companies.

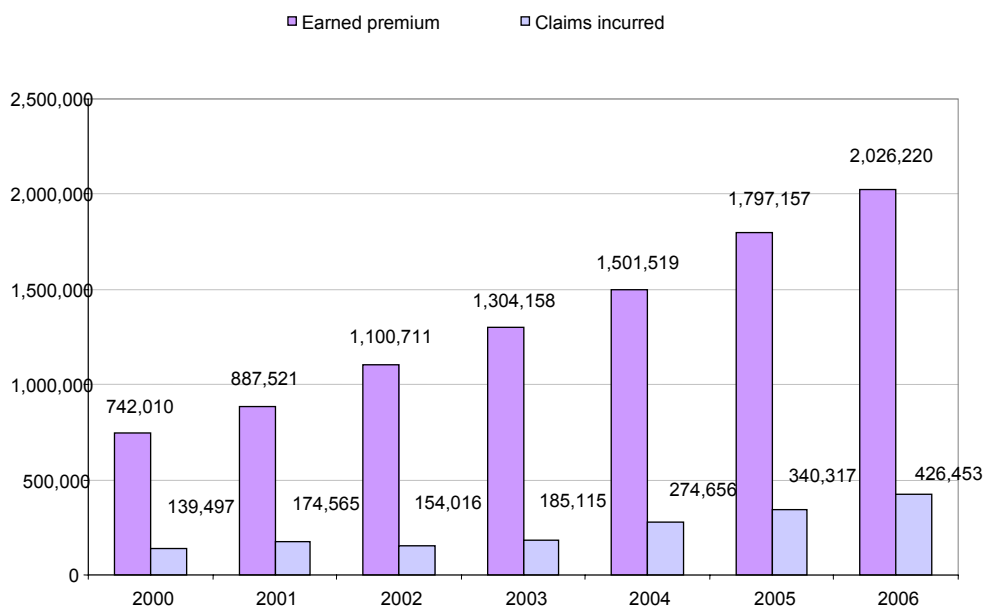
The following insurance companies recorded the net financial loss: Basler osiguranje d.d. HRK 0.6 million, Basler životno osiguranje HRK 1.8 million, Erste Sparkassen osiguranje d.d. 6.8 million and Generali osiguranje d.d. HRK 15.0 million.

## Claims Incurred

Claims incurred equal claims paid in the accounting period, irrespective of the accounting period the claim occurred in, increased by provisions for claims at the end of the accounting period, and reduced by provisions for claims at the beginning of the accounting period.

In 2006, the total value of claims incurred in life insurance business, which includes claims paid and changes in claim provisions without changes in life insurance mathematical provisions, amounted to HRK 426.5 million, which is by 25.3% higher than in 2005.

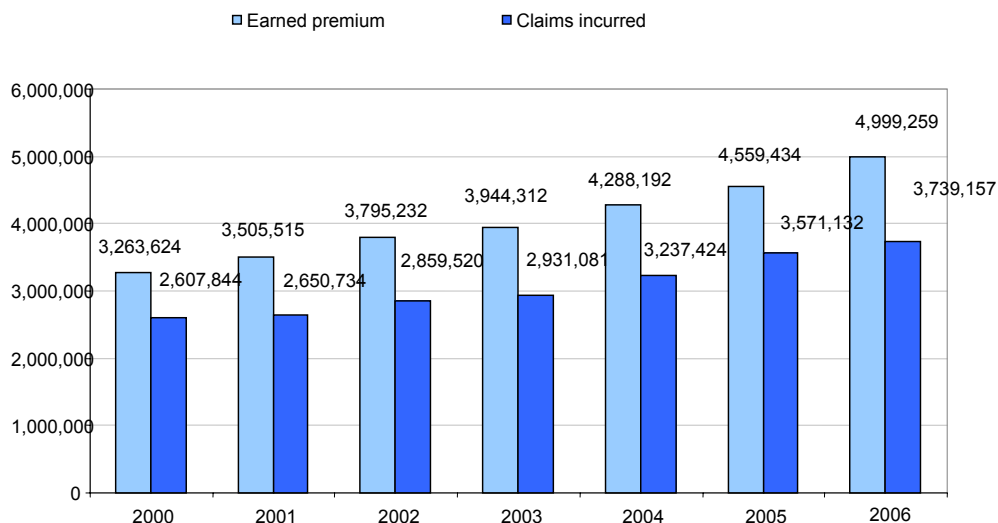
Chart 23 Claims Incurred and Earned Premiums in Life Insurance Business in the Period 2000 – 2006 (in HRK thousand)



Source: HANFA

In 2006, the total value of claims incurred in non-life insurance business, which includes claims paid and changes in claim provisions in gross amounts, totalled HRK 3.7 billion which is by 4.7% higher than the value of claims incurred registered in that insurance class in 2005.

Chart 24 Claims Incurred and Earned Premiums in Non-life Insurance Business in the Period 2000 – 2006 (in HRK thousand)

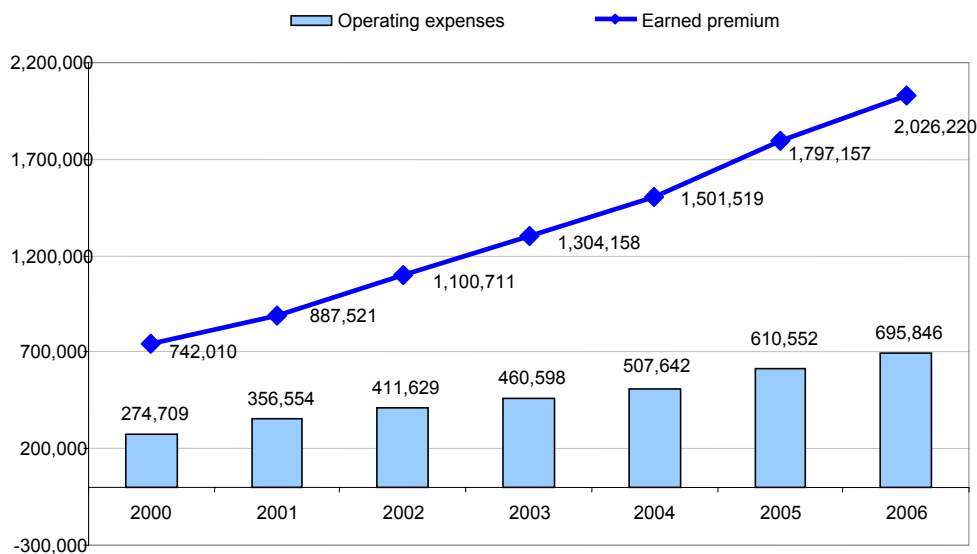


Source: HANFA

### Operating Expenses

Operating expenses comprise acquisition costs (commission and other acquisition costs), changes in deferred acquisition costs, administrative expenses (depreciation of the equipment and other tangible assets, salaries and salary taxes and contributions and other administrative costs) reduced by reinsurer's commission and profit participation.

Chart 25 Operating Expenses and Earned Premiums in Life Insurance Business in the Period 2000 – 2006 (in HRK thousand)



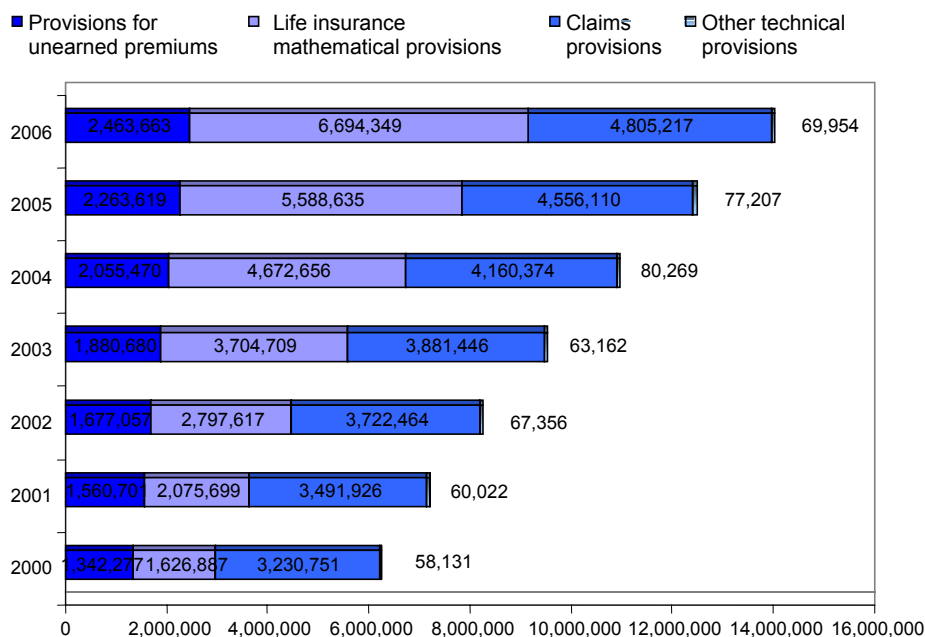
Source: HANFA

In 2006, the total value of operating expenses achieved in life insurance sector amounted to HRK 695.8 million which is by 14.0% higher than the amount of operating expenses registered in 2005 due to an increase in acquisition costs by 14.2% and an increase in administrative costs by 12.1%. Regarding the share of operating expenses in earned premium in life insurance segment in 2006, the trend of the previous years was continued, i.e. although the earned premium in life insurance was almost three times higher than operating expenses, the share of operating expenses in earned premium amounted to 34.3% due to the high acquisition costs with a 61.3% share, with commission expenses constituting 81.3%.

### Technical Provisions

According to the provisions of the Insurance Act, insurance and reinsurance companies are obliged, during their regular activities of conducting insurance and reinsurance business, to form adequate technical provisions for the fulfilment of liabilities arising from insurance contracts and possible losses due to risks arising from the business written, which means that the fulfilment of liabilities arising from insurance contracts is closely connected with the setting up of provisions that are used for the fulfilment of liabilities towards the insured. Technical provisions comprise: provisions for unearned premiums, provisions for claims, provisions for bonuses and rebates and other technical provisions. At the same time, it is important to emphasize that mathematical provisions, as a part of technical provisions, must be set up by insurance companies which carry on life insurance business or personal insurance lines, whose premiums are accumulated in the form of savings funds or funds used to cover risks in later years of insurance, such as personal accident insurance or health insurance which are of a long-term nature and which are subject to similar probability tables and calculations to that of life insurance, while insurance companies conducting credit insurance are required to form equalisation reserve.

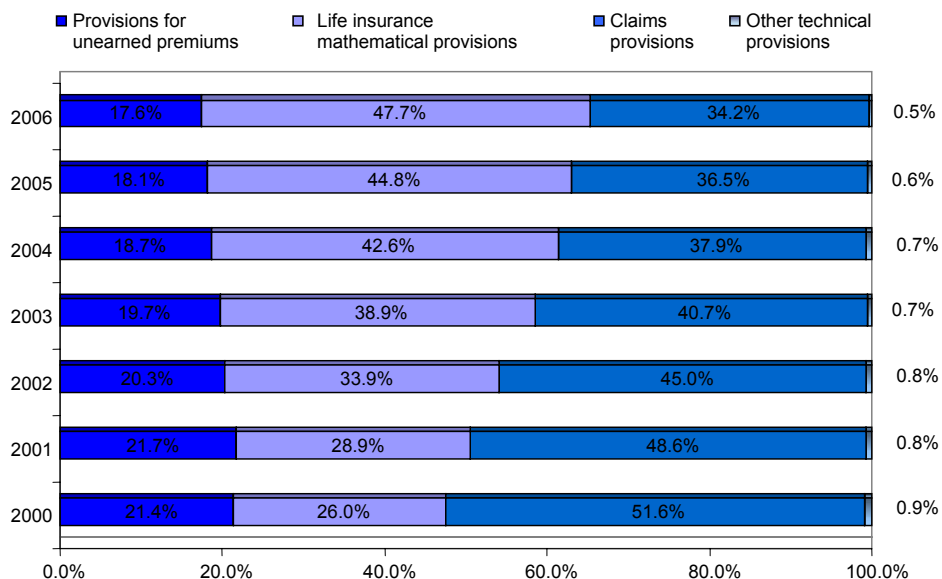
Chart 26 Technical Provisions in the Period 2000 – 2006 (in HRK thousand)



Source: HANFA

As at 31 December 2006, the total value of technical provisions amounted to HRK 14.0 billion which constituted 71.4% of total liabilities. In 2006, the value of technical provisions increased by 12.4% in comparison to 2005, which is slightly higher than the gross written premium growth rate, which in the respective period increased by 11.3%. Like in the previous year, the life insurance mathematical provision had the largest share in total value of technical provisions which amounted to 47.7% and the value of life insurance mathematical provisions increased by 19.8% as compared with 2005, while in the period of the last seven years it increased more than four times.

Chart 27 Structure of Technical Provisions in the Period 2000– 2006 (in HRK thousand)

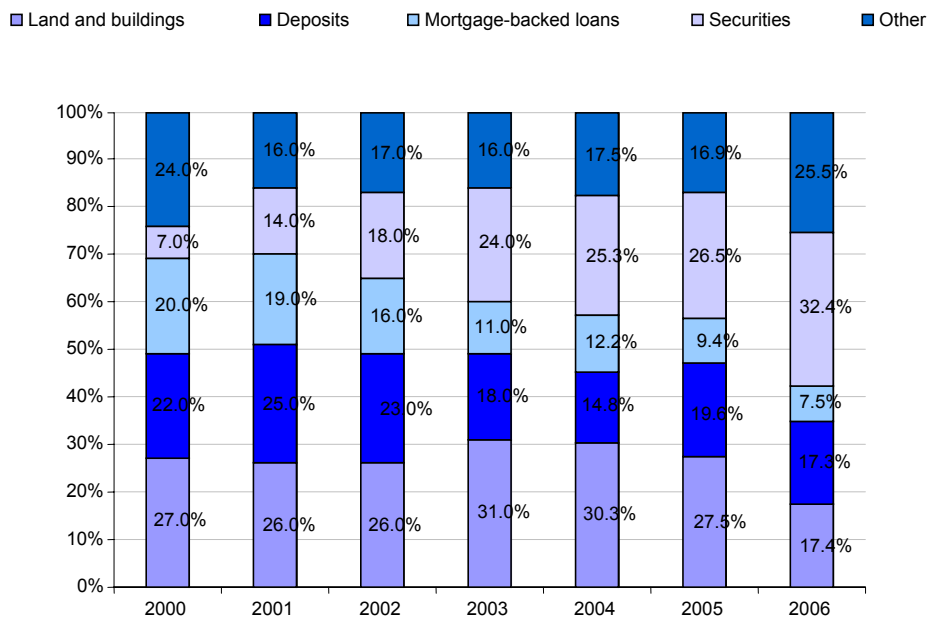


Source: HANFA

### Investments of Assets Covering Technical Provisions

According to the provisions of Articles 115 and 116 of the Insurance Act, insurance companies are obliged to set up assets covering technical provisions. In selecting the type of investment of the assets covering technical provisions, an insurance company must take account of the type of business carried on in such a way as to secure the safety, yield and marketability of investments, and must ensure that these are diversified and adequately spread. Moreover, an insurance company is required to match its investments of assets covering technical provisions, including mathematical provisions, which are exposed to risks of possible losses due to changes in interest rates, exchange rates and other market risks, with its liabilities under the insurance contracts whose level depends on the same changes.

Chart 28 Structure of Investments From Technical Provisions in the Period 2000 – 2006 (in HRK thousand)



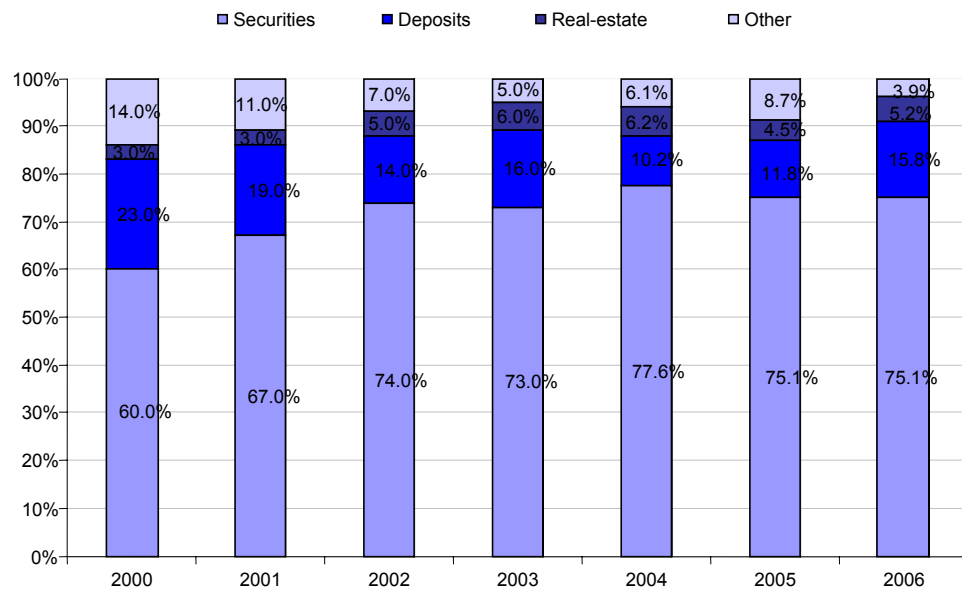
Source: HANFA

### Investments of Assets Covering Mathematical Provisions

Insurance companies are obliged to form mathematical provisions from life insurance funds at the level of present value of estimated future liabilities of an insurance company under the insurance contracts in force after deduction of the present estimated value of future premiums payable under such insurance contracts. An insurance company which carries on the lines of insurance in respect of which mathematical provisions must be formed must set aside assets covering mathematical provisions and must manage such assets separately from other assets. The value of the assets covering mathematical provisions must at all times be at least equal to the amount of the required coverage.

Insurance companies are obliged to invest those free funds according to the provisions of Articles 122 and 123 of the Insurance Act taking into account the type of business carried on in such a way as to secure the safety, yield of investments and adequate diversity. Free funds must be adequately invested so that with a higher spread and more precise definition of investment purposes investment risk should be reduced to the lowest level, especially regarding life insurance taking into account the fact that these funds have characteristics of long-term savings.

Chart 29 Structure of Investments from the Life Insurance Mathematical Provision in the Period 2000 – 2006 (in HRK thousand)



Source: HANFA

## Indicators in Insurance Sector

When supervising the operations of insurance companies the following indicators are used: claims ratio, expense ratio, combined ratio and return on investment (in the Appendices).

**Claims ratio** is the proportionate relationship of claims paid, changes in the provision for claims and changes of other technical provisions to net earned premiums expressed as a percentage.

**Expense ratio** is the proportionate relationship of operating expenses (acquisition and administrative costs) and other technical charges to gross written premium reduced by premiums assigned to reinsurance expressed as a percentage. The usual range of the value of the expense ratio for the insurance sector is 20%-30%.

**Combined ratio** is calculated by adding the claims ratio to expense ratio and indicates the profitability of operations before including incomes from investments.

**Return on investment** is the proportionate relationship of the net income from investments to balance of investments expressed as a percentage. Security of funds invested is extremely important for the insurance sector because insurance companies acting as financial institutions accumulate substantial financial funds, and when calculating insurance premium, future investment result is taken into account, therefore allowing the premium needed for payment of insured event and coverage of costs for conducting business activities to be reduced for that amount.

Based on the information from balance sheets and profit and loss accounts, solvency (solvency margin) and profitability indicators are calculated as well.

**Solvency indicator** (solvency margin) is used for expression of capital adequacy, i.e. valuation of the insurer's capital and guarantee capital with respect to the size of its business, and it depends on adequacy of technical provisions which must be sufficient for a full coverage of the liabilities of the insurance company under the insurance contracts in force. Provisions of Articles 98 and 99 of the Insurance Act and Ordinance on the calculation of solvency margin (capital adequacy) of insurance companies<sup>19</sup> stipulate separate presentation of capital adequacy for non-life insurance class, life insurance class, composite insurance companies and reinsurance companies, as well as the rules for calculation of solvency margin (capital adequacy) of insurance companies, form and the content of the forms by which solvency margin (capital adequacy) is calculated and time frame and manner of reporting to the Agency. According to the provisions of Article 92 paragraph 1 of the Act, the definition of capital adequacy specifies that insurance company must maintain, at all times, the capital level adequate to both the volume and the lines of insurance written, as well as to the nature of risks to which it is exposed. The capital of an insurance company which carries on life insurance business must be at least equal to the solvency margin which is calculated pursuant to provisions of Article 98 of the Act, whereas the capital of an insurance company which carries on non-life insurance lines and the capital of an insurance

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<sup>19</sup> Official Gazette 122/06

company which carries on reinsurance business must at least, according to the provisions of the Article 99 of the Act, be equal to the solvency margin calculated on the basis of premiums ratio or claims ratio, whichever is higher.

**Return on assets** (ROA) is the proportionate relationship of net profit to total assets showing how much net profit is brought by 100 monetary units of total assets. In 2006, this ratio amounted to 1.58% and was more favourable than the one registered in 2000 (0.53%) as well as the one in 2005 when it amounted to 1.44%.

**Return on equity** (ROE) is the proportionate relationship of net profit and own funds (subscribed capital, reserve capital from the sale of shares above their nominal value, revaluation reserves, reserves and retained net profit or loss) expressed as a percentage showing how much net profit can be made by HRK 100 of own funds. In 2006 return on equity amounted to 8.01% and it was significantly more favourable than the one registered in 2000 when it accounted for 3.17%. But a decrease in this indicator was registered in comparison to 2005 when it amounted to 9.05%.

## Regulatory Activities

### Legal Framework

Legal framework which regulates operations and supervision of insurance companies, preparation of financial reports, the conduct of internal audit and audit of insurance companies, winding-up and bankruptcy proceedings, insurance agency and brokerage activities, powers of the supervisory authority and its supervision activities is stipulated by the following acts: Obligations Act<sup>20</sup>, Act on Croatian Financial Services Supervisory Agency<sup>21</sup>, Accounting Act<sup>22</sup>, Audit Act<sup>23</sup>, Insurance Act<sup>24</sup>, Act on Compulsory Insurance within the Transport Sector<sup>25</sup> which have been applied since 1 January 2006 and Companies Act<sup>26</sup>, whose final amendments have been applied since 1 January 2004.

### Drafting of Act Proposal

Within the National Programme for the Accession of the Republic of Croatia to the European Union, in relation to the negotiations for Chapter 9 - Financial Services, during 2006 a working group was appointed for drafting of the Insurance Act amendments. Members of the working group are employees of the Ministry of Finance and the Agency. The deadline for the adoption of the Act is 30 June 2008 and the Second draft of the proposal of the Insurance Act amendments is in preparation.

### Drafting of Subordinate Regulations

In accordance with Article 15 of the Act on Croatian Financial Services Supervisory Agency, Article 303 of the Insurance Act and Article 70 of the Act on Compulsory Insurance within the Transport Sector, regarding alignment of overall operations of insurance and reinsurance companies as well as insurance agencies and insurance brokerage companies with the above mentioned Acts, during 2006, the Agency's employees produced 16 subordinate regulations and three opinions.

For the purpose of harmonisation of legal framework with provisions of European Union Directives, the mentioned subordinate regulations stipulate in more detail requirements for granting the approval to a candidate for the position of the member of the board of an insurance company, granting the approval for the insurance mediation business, as well as for the activities of a certified actuary. Furthermore, they stipulate method of

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<sup>20</sup> Official Gazette 35/05

<sup>21</sup> Official Gazette 140/05

<sup>22</sup> Official Gazette 146/05

<sup>23</sup> Official Gazette 146/05

<sup>24</sup> Official Gazette 151/05

<sup>25</sup> Official Gazette 151/05

<sup>26</sup> Official Gazette 111/93, 34/99 and 118/03

calculation of the capital, guarantee capital and capital adequacy of insurance companies, the method of calculation of liquidity ratios and solvency margins, investments of assets covering technical provisions, as well as the method of calculation and measures for calculation of technical provisions. The form and the contents of audit reports of insurance companies is also prescribed, as well as the procedure of supplementary supervision of an insurance group, the schedule of risk types by class and line of business and statistical reporting standards.

### Alignment with the *Acquis Communautaire*

In accordance with the conclusions of the *Screening report* of the European Commission of 29 November 2006, which refers to accession negotiations of the Republic of Croatia under Chapter 9 - Financial Services, the Insurance Act and the Act on Compulsory Insurance within the Transport Sector are in largely aligned with the *acquis communautaire*, while the alignment of remaining inconsistencies will be achieved through the adoption of amendments to the Insurance Act, Financial Conglomerates Act, Act on the Reorganisation and Winding-Up of Credit Institutions and Insurance Companies, and through the adoption of a decision of the Government of the Republic of Croatia on minimum motor insurance coverage levels, which will apply as of the date of Croatia's accession to the EU.

Amendments to the Insurance Act will stipulate the provisions which refer to solvency margin calculation of insurance companies and to the amount of professional indemnity insurance of insurance mediators that will enter into force upon the adoption of amendments to the Insurance Act and will apply as of the date of Croatia's accession to the EU, while the provisions that refer to reinsurance and insurance groups will apply upon the adoption of the Act. By adopting the Financial Conglomerates Act in the third quarter of 2008, the definition of financial conglomerate and relevant terms will be stipulated as well as the thresholds for identifying a financial conglomerate, its financial position, risk concentration and supervision of financial conglomerate operations. The Act on Reorganisation and Winding-Up of Insurance Companies and Credit Institutions will include the provisions in respect of bankruptcy and winding-up of insurance companies that will be left off the Insurance Act and the public announcement of reorganisation measures will also be stipulated

## Licensing

In 2006 two Decisions with measures for eliminating irregularities in operations of insurance companies were adopted and six misdemeanour proceeding requests have been submitted against insurance companies and responsible persons in insurance companies.

Due to the failure to execute orders of the Insurance Companies Supervisory Authority (legal predecessor of the Agency), determined during supervision of the insurance company in 2005, in April 2006 insurance company Addenda zdravstveno osiguranje d.d. conducting health and personal accident insurance had the licence for conducting all insurance types withdrawn. Insurance company Osiguranje Zagreb d.d. took over the whole portfolio of the insurance company Addenda zdravstveno osiguranje d.d. in May 2006. Furthermore, due to illegitimacies and irregularities established during the on-site supervision, a member of the board of insurance company Agram životno osiguranje d.d. had the licence withdrawn.

Furthermore, on the basis of submitted requests of insurance agents and brokers, and with reference to alignment with the provisions of the Insurance Act in 2006, 90 existing and 4 newly established insurance agencies were authorised for conducting insurance representation business, while 4 existing and 6 newly established companies for insurance brokerage were authorised for conducting insurance brokerage business. Licences for conducting insurance representation business were also approved to 97 existing and 4 newly established insurance representation trades.

Apart from these licences, 987 licences for conducting insurance representation and 138 licences for conducting insurance brokerage were granted to natural persons with licence for insurance mediation approved by the Ministry of Finance.

During 2006, seven exam terms were held for acquiring the licence for insurance representation and brokerage business. 1,955 candidates have attended the exam among which 1,203 (61.5%) have successfully passed it and obtained the licence for insurance mediation business approved by the supervisory authority.

## Supervision of the Insurance Market

During 2006, the Agency, in accordance with its competence, carried out on-site and off-site supervision of insurance companies, reinsurance companies and insurance agents and brokers. According to the provisions of the Insurance Act, and on the basis of submitted financial and statistic reports, actuary opinions and audit reports, systematic analyses and control of supervised entities were conducted.

During 2006, partial on-site supervision was carried out in 12 insurance companies regarding the application of Common conditions for compulsory motor vehicle liability insurance and Basic premium system for motor vehicle liability insurance in the Republic of Croatia, while in 8 insurance companies supervision of investments of mathematical and technical provisions in real estate was conducted. Furthermore, in 2 insurance companies (Agram životno osiguranje d.d. and Osiguranje Zagreb d.d.) the execution of orders placed by Insurance Companies Supervisory Authority from 2005 was reviewed. Upon the request of Municipal State Attorney's Office in Rijeka partial on-site supervision of operations of Kvarner Wiener Städtische osiguranje d.d. was conducted. Moreover, in December 2006, partial on-site supervision of the operations of insurance company Allianz Zagreb d.d. and insurance company Triglav osiguranje d.d. started in respect of mathematical and technical provisions investment in real estates as well as the partial supervision of the operations of insurance company Croatia osiguranje d.d., insurance company Jadransko osiguranje d.d. and insurance company Helios osiguranje d.d. in respect of the application of Common conditions for motor vehicle liability insurance and Basic premium system for motor vehicle liability insurance in the Republic of Croatia, which have been finished in the meantime.

During the on-site supervision of mathematical and technical provisions investments on 30 June 2006, conducted in 3 insurance companies (Basler osiguranje d.d., Basler životno osiguranje d.d. and Merkur osiguranje d.d.) no irregularities were found, in 4 companies (Agram životno osiguranje d.d., Cosmopolitan Life osiguranje d.d., Kvarner Wiener Städtische osiguranje d.d. and Libertas osiguranje d.d.) registration of the realestate in the land register had not been carried out, while insurance company Croatia zdravstveno osiguranje d.d. had presented investments from technical provisions on the wrong balance sheet position which was corrected during the year. For the companies with irregularities the registration in the land register is in the process at the competent commercial courts.

During the partial on-site supervision of operations of Kvarner Wiener Städtische osiguranje d.d. the following irregularities were determined: the company had recorded guarantee deposits given to the related company Kvarner Wiener Städtische nekretnine d.o.o. for the purpose of insurance of rent payment as receivables for advance payments, although it is a mater of interest free investment of funds in related company. The company had also recorded acquisition costs, i.e. marketing services on the basis of inauthentic documents which brought into question the amount of registered costs. During the supervision the company partially corrected the irregularities.

During the supervision of insurance agency Hrvatsko-američka inicijativa d.o.o., the accuracy of intangible asset amount in the balance sheet recorded as at 31 August 2006 came into question. However, after the supervision the company presented the documents justifying the occurred situation

### **Appliance of Common Conditions for Motor Vehicle Liability Insurance and Basic Premium System for Motor Vehicle Liability Insurance in the Republic of Croatia**

During the on-site supervision of 12 insurance companies it was found that the companies Allianz Zagreb d.d., Croatia osiguranje d.d., Euroherc osiguranje d.d., Jadransko osiguranje d.d., Kvarner Wiener Städtische osiguranje d.d., Sunce osiguranje d.d., Osiguranje Zagreb d.d. and Triglav osiguranje d.d. did not comply with the Common conditions for compulsory motor vehicle liability insurance and Basic premium system for the motor vehicle liability insurance in the Republic of Croatia. According to the data obtained from the Information Centre at the Croatian Insurance Bureau the on-site supervision was subsequently repeated in companies Croatia osiguranje d.d., Euroherc osiguranje d.d., Jadransko osiguranje d.d., Kvarner Wiener Städtische osiguranje d.d., Osiguranje Zagreb d.d. and Sunce osiguranje d.d.. After the irregularities had been established, legal measures against the insurance companies and responsible persons were taken.





**5**

**Pension  
Insurance  
Company**



# Pension Insurance Company

## Market Description

Raiffeisen mirovinsko osiguravajuće društvo d.o.o. (hereinafter: Raiffeisen MOD) is presently the only pension insurance company operating in the Republic of Croatia. According to the submitted data, as at 31 December 2006, there were 287 concluded pension contracts, and the payment of pension annuities had commenced for 260 pensioners.

Raiffeisen MOD pays out pension annuities to members of mandatory and voluntary pension funds, as well as annuities on the basis of direct lump-sum payments remitted by natural persons and employers for their employees at the time of their retirement. The amount of a pension annuity depends on the amount of capitalised paid-in contributions of a fund member and the term of annuity payout, and is determined, based on the principle of mutuality and principle of defined contribution, by way of the contract concluded between a fund member and a pension insurance company. A pension insurance company may pay out to one pensioner (the person who receives pension annuities from a pension insurance company on the basis of a pension contract) pension annuities on the basis of contributions paid into only one mandatory pension fund. At the same time, the same pension insurance company may pay out pension annuities receivable on the basis of contributions paid into one or more voluntary pension funds.

## Regulatory Activities

### Legal Framework and Subordinate Legislation

The legal framework which regulates operations and supervision of pension insurance companies is covered by the following acts: Act on Pension Insurance Companies and Payment of Pension Annuities Based on Individual Capitalised Savings<sup>27</sup> which has been effective since 1 January 2002, Obligations Act, Act on Croatian Financial Services Supervisory Agency, Accounting Act, Audit Act, which have been effective since 1 January 2006, and Companies Act, whose last amendments have been effective since 1 January 2004.

Pursuant to the Act on Pension Insurance Companies and Payment of Pension Annuities Based on Individual Capitalised Savings, the Agency for Supervision of Pension Funds and Insurance (legal predecessor of the Agency) adopted 11 subordinate regulations.

### Drafting of Act Proposal

Within the National Programme for the Accession of the Republic of Croatia to the European Union, in relation to the negotiations for Chapter 19 - Social Policy And Employment, a working group was appointed for drafting the amendments to the Act on Pension Insurance Companies and Payment of Pension Annuities Based on Individual Capitalised Savings, under the auspices of the Ministry of Economy, Labour and Entrepreneurship. The deadline for the adoption of the amendments to the Act is 31 December 2007.

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<sup>27</sup> Official Gazette 106/99, 63/00

## Supervision of the Operations of Pension Insurance Companies

In 2006, the off-site supervision of operations of Raiffeisen MOD was conducted by way of the analysis of the submitted statistical and financial reports on the basis of which the following was determined:

The asset value (HRK 43.9 million) of the company increased in 2006 by 83.2% (in 2005 by 28.4%), and the largest share in the amount of HRK 39.2 million referred to financial investments (investments from voluntary pension insurance funds accounted for 83.5% of this amount). The amount totalling 91.6% of the voluntary pension insurance technical reserves fund reduced by deferred income (HRK 6.7 million) was invested into government bonds. The presented investment structure is in accordance with the legally prescribed investment provisions, although this kind of investment policy without portfolio diversification is not favourable with respect to return rates.

Technical reserves constituted the largest liability share (67.1%), while the equity (capital and reserves) amounted to 14.8% of the liability value. Although losses from the earlier period in the amount of HRK 7.7 million, as well as the current year loss in the amount of HRK 0.5 million caused a decrease in equity to the amount of HRK 6.5 million, it is still above the legally prescribed minimum amount of the founding capital which totals HRK 5.0 million. However, if the company in future accounting periods, presents a negative result, it may result in the decrease of the liable capital below the minimum amount. Therefore, and with the purpose of continuing with its business activities, the company will be obliged to increase the equity to the level prescribed by the law.

Total income recorded in 2006 increased by 87.6% and amounted to HRK 23.9 million, the largest share of which (in the amount of HRK 21.3 million) was recorded in the voluntary pension insurance on basis of remittances of pension companies and direct lump-sum payments. However, the income increase was not sufficient to cover the total expenses of the company which increased by 59.3% and amounted to HRK 24.4 million (expenses recorded in the voluntary pension insurance based on pension contracts amounted to HRK 22.0 million), so that the company reported a negative result (HRK 0.5 million) for the business year 2006.



6

# Leasing



# Leasing

## Introduction

The leasing market in the Republic of Croatia started developing more rapidly in 1997, but the Croatian leasing industry had been neither systematically supervised nor legally regulated until the Act on Croatian Financial Services Supervisory Agency was enacted in November 2005, i.e. until 1 January 2006, when the Croatian Financial Services Supervisory Agency began operations and the Leasing Act<sup>28</sup> was enacted.

In June 2003, for the purpose of producing statistical reports, the Croatian National Bank (CNB) started systematically collecting financial data on operations of leasing companies. In the meantime, the Croatian leasing market has multiplied in size several times over. As at 31 December 2004, according to CNB's data, total assets of 37 leasing companies amounted to HRK 16.5 billion, whereas at 31 December 2005, according to Agency's data, total assets of 52 leasing companies covered by Agency's report amounted to almost HRK 20.4 billion, which represented a 23.1% increase in companies' total assets compared to the previous year. As at 31 December 2006, assets of 57 covered companies amounted to almost HRK 27.0 billion, or 32.2% more than in 2005. Considering the continuous growth of assets, leasing companies have gradually been occupying an ever more important position on the Croatian financial market. According to the data as at 31 December 2006, 57 leasing companies employed 868 persons, i.e. 22% more employees than in 2005.

More than a third or as much as 35.3% of the total financed value amounting to HRK 32.5 billion related to passenger cars. Lease of commercial vehicles, plant and machines and equipment accounted for one third, or 33.1% of the total financed value of all active contracts, while the remaining part related to real estate, vessels and other leasing/loan objects.

As regards ownership structure of leasing companies on the basis of founding capital entered in the court register as at 31 December 2006, out of 57 leasing companies as many as 39 companies were in direct non-resident ownership, whereas that number, as regards direct and indirect<sup>29</sup> ownership of founding capital, amounted to 49 companies, or 85.9% of all leasing companies in foreign ownership, or more specifically, in majority ownership of foreign banks and companies connected with them

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<sup>28</sup> Official Gazette 135/06

<sup>29</sup> Direct ownership of a leasing company implies the origin of the founding capital of the parent company.

## General Data

According to the data available to the Agency, the Croatian financial market saw a continuous growth in the number of registered companies which conduct leasing operations, i.e. conduct operating and finance leasing transactions, which is demonstrated by the following data:

**Table 40 Number of Leasing Companies by Years, as at 31 December**

	2003	2004	2005	2006
Number of leasing companies	35	37	52	57

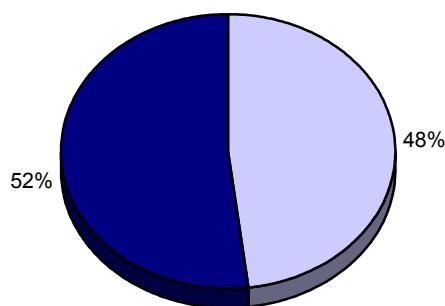
Source: CNB (2003 and 2004), HANFA (2005 and 2006)

If all leasing companies are classified according to ownership, as at 31 December there were 8 leasing groups<sup>30</sup> operating in the Republic of Croatia, comprising 38 leasing companies, whereas the remaining 19 leasing companies operated independently.

Out of 57 leasing companies 39 were in direct non-resident ownership, while only 8 leasing companies were in the ownership of residents. However, observing the companies classified according to direct and indirect ownership, out of the total number of companies, as many as 49 are owned by non-residents, as is shown the chart below.

**Chart 30 Founding Capital of Leasing Industry by Capital Origin as at 31 December 2006**

□ Founding capital in resident ownership ■ Founding capital in non-resident ownership



Source: HANFA

According to the data from the Aggregate balance sheet of the leasing industry as at 31 December 2006, the share of foreign capital in total registered founding capital of the leasing industry amounted to 51.9%, whereas 48.1% related to the founding capital owned by residents. In total founding capital of residents, Croatia leasing d.o.o. participated with a 49.2% share.

<sup>30</sup> A leasing group represents 2 and/or more leasing companies registered at a competent commercial court in the Republic of Croatia and connected in terms of ownership.

## Portfolio Structure of the Leasing Industry

As at 31 December 2006, according to the data collected from 57 leasing companies, there were 134,102 active contracts, which is by 19.1% more than in the business year 2005. The sharpest increase was recorded in the number of operating lease contracts, which was by 24.7% higher than in 2005. Financed value of active contracts as at 31 December 2006 amounted to HRK 32.5 billion, and was 30.0% higher than in the previous business year, which is mostly contributed to the increase in the number of finance lease contracts, whose financial value as at 31 December 2006 totalled HRK 12.4 billion and was by 31.6% higher than the said amount in 2005. The comparison of numbers of active contracts is given in the table below.

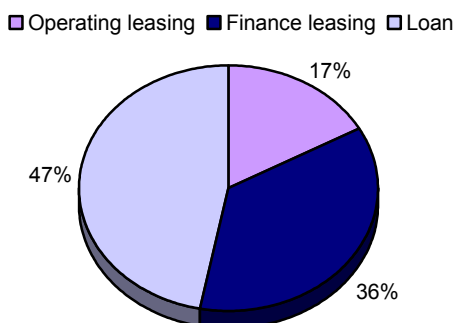
Table 41 Structure of Active Contracts in the Leasing Industry as at 31 December 2006 and 31 December 2005<sup>31</sup>

	Number of active contracts			Financed/contracted value <sup>32</sup> of active contracts		
	31 Dec 2006	31 Dec 2005	Dynamics 2006/2005	31 Dec 2006	31 Dec 2005	Dynamics 2006/2005
Operating leasing	63,613	51,032	124.65	11,968,845,607	9,337,835,972	128.18
Finance leasing	47,975	39,336	121.96	12,360,554,831	9,396,325,242	131.55
Loan	22,514	22,201	101.41	8,126,518,472	6,234,123,838	130.36
<b>TOTAL</b>	<b>134,102</b>	<b>112,569</b>	<b>119.13</b>	<b>32,455,918,910</b>	<b>24,968,285,052</b>	<b>129.99</b>

Source: HANFA

As at 31 December 2006, operating lease contracts accounted for the major part (47.4%) of the active contract structure, whereas finance lease contracts comprised 35.8% of all active contracts. As much as 16.8% of all active contracts in the entire leasing industry related to loan contracts, which, after the entry into force of the Leasing Act, must not be concluded by leasing companies, i.e. leasing companies are not allowed to grant credits or loans.

Chart 31 Structure of Concluded Contracts as at 31 December 2006



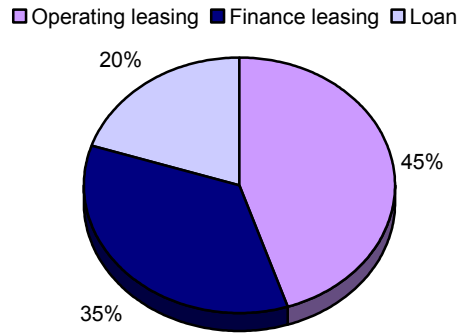
Source: HANFA

<sup>31</sup> Unaudited Leasing Companies' Report as at 31 December 2006

<sup>32</sup> Financed/contracted value of contracts in operating leasing contracts is the amount of all instalments during the lease period, whereas in finance leasing and loan this amount relates to contracted amount by means of which a leasing company finances a user of the leasing/loan.

As at 31 December 2005, there were 112,569 active contracts in the total portfolio of the entire leasing industry, 19.7% of which related to loan contracts, whereas the most represented were still operating lease contracts with a 45.3% share, which is shown in the chart below.

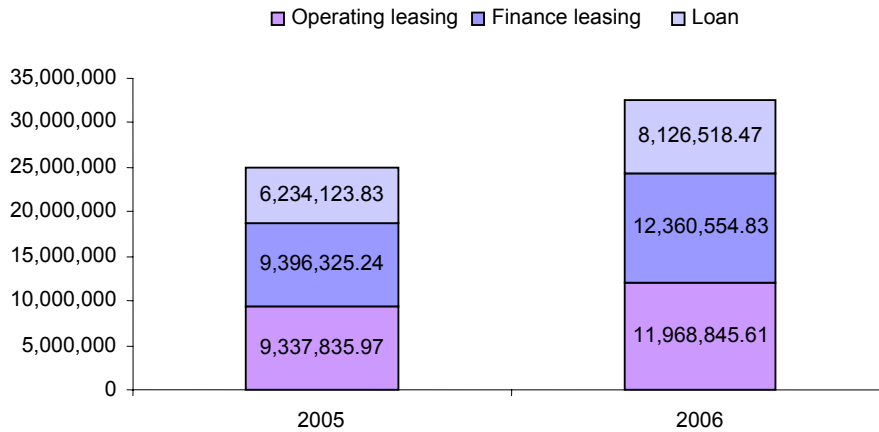
Chart 32 Structure of Concluded Contracts as at 31 December 2005



Source: HANFA

The following chart compares the proportions of finance and operating leasing, as well as of loans in total financed/contracted value as at 31 December 2006 and 31 December 2005.

Chart 33 Comparison of the Value of Financed/Contracted Active Contracts in 2005 and 2006 (in HRK thousand)



Source: HANFA

The trend in the number, structure and financed value of newly concluded lease contracts in the period from 1 January to 31 December 2006 showed 54,344 new contracts, which is a 23.9% increase on the business year 2005. The financed value/value of contracts concluded in the same period amounted to HRK 13.3 billion, which is a 39.9% increase compared to the value of the contracts concluded in 2005. Although the number of concluded loan contracts in 2006 was lower than the number of the concluded loan contracts in 2005, it is evident that the financed value of loan contracts approved in 2006 was higher by as much as 60.2% in comparison to the previous year. These facts testify to the increased number of approved loans in 2006, before the entry into force of the Leasing

Act, which stipulates that leasing companies must not grant loans and credits any more. The following table compares the data from 2005 and 2006.

Table 42 Number, Structure and Financed Value of Contracts<sup>33</sup>

	Number of concluded contracts			Value/Financed value of concluded contracts		
	2006	2005	Dynamics 2006/ 2005	2006	2005	Dynamics 2006/ 2005
Operating leasing	29,153	22,618	128.89	4,934,717,676	3,585,547,208	137.63
Finance leasing	19,400	15,417	125.84	5,129,880,772	3,902,079,030	131.47
Loan	5,791	5,843	99.11	3,279,550,518	2,047,856,419	160.15
<b>TOTAL</b>	<b>54,344</b>	<b>43,878</b>	<b>123.85</b>	<b>13,344,148,966</b>	<b>9,535,482,657</b>	<b>139.94</b>

Source: HANFA

## Portfolio Structure of the Leasing Industry by Leasing / Loan Object

As regards type of leasing object, active contracts relating to passenger cars comprised the majority, or as much as 69.4% of all active contracts as at 31 December 2006; commercial vehicle contracts accounted for 19.1%, whereas machines and equipment contracts comprised 8.0% of all active contracts. As at 31 December 2005, passenger car contracts accounted for 68.4%, commercial vehicle contracts for 20.2%, while machines and equipment contracts comprised the remaining part of all active contracts.

Table 43 Number of all Active Contracts of the Leasing Industry by Leasing / Loan Object<sup>34</sup>

Leasing / loan object	Number of active contracts as at				
	31 Dec 2006	Share	31 Dec 2005	Share	Dynamics 2006/2005
Passenger cars	93,012	69%	76,969	68%	120.84
Commercial (load + transporting) vehicles	25,565	19%	22,729	20%	112.48
Machines and equipment	10,667	8%	9,451	9%	112.87
Plant	59	0%	54	0%	109.26
Real estate	1,274	1%	897	1%	142.03
Vessels	1,539	1%	1,147	1%	134.18
Other	1,986	2%	1,324	1%	150.00
<b>TOTAL</b>	<b>134,102</b>	<b>100%</b>	<b>112,571</b>	<b>100%</b>	<b>119.13</b>

Source: HANFA

The analysis of the structure of financed/contracted value of all active contracts classified by leasing/loan objects shows that, as at 31 December 2006, active contracts for passenger car leasing/loan accounted for the major part, or 35.3% of the total value of active contracts.

<sup>33</sup> Unaudited Leasing Companies' Report as at 31 December 2006

<sup>34</sup> Unaudited Leasing Companies' Report as at 31 December 2006

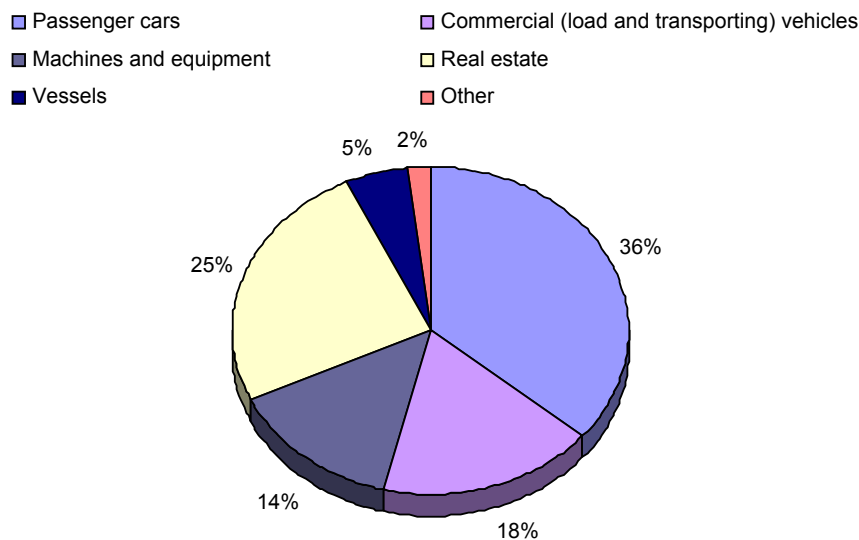
Table 44 Financed/Contracted Value of all Concluded Contracts<sup>35</sup>

Leasing / loan object	Financed/contracted value of all active contracts as at				
	31 Dec 2006	Share	31 Dec 2005	Share	Dynamics 2006/2005
Passenger cars	11,454,086,650	35%	8,875,217,136	39%	129.06
Commercial (load + transporting) vehicles	5,989,812,303	19%	4,973,775,565	22%	120.43
Machines and equipment	4,684,137,792	14%	3,511,603,210	16%	133.39
Plant	61,749,099	0%	53,041,633	0%	116.42
Real estate	8,082,322,266	25%	4,003,226,555	18%	201.90
Vessels	1,593,554,312	5%	886,048,487	4%	179.85
Other	590,256,488	2%	333,327,659	1%	177.08
<b>TOTAL</b>	<b>32,455,918,910</b>	<b>100%</b>	<b>22,636,240,245</b>	<b>100%</b>	<b>143.38</b>

Source: HANFA

Real estate leasing/loan contracts followed with a 24.90% share, and commercial vehicle contracts with a 18.46% share in the financed/contracted value of all active contracts of the leasing industry as at 31 December 2006. The following chart gives a comparative overview of the proportions in financed/contracted value of contracts according to leasing/loan objects.

Chart 35 Financed Value of Active Contracts as at 31 December 2006

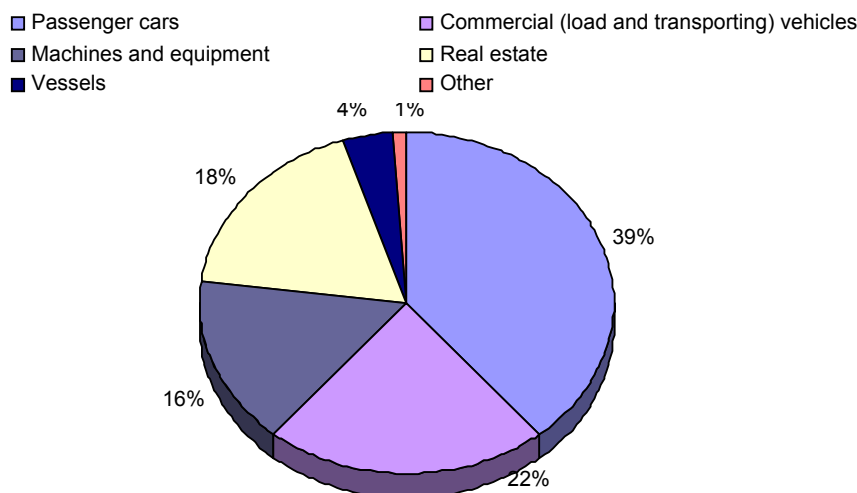


Source: HANFA

As at 31 December 2005, financed value of passenger car leasing/loan contracts accounted for 36.2% of total financed/contracted value of active contracts according to leasing object, and was followed by financed/contracted value of real estate contracts with a 20.9% share, and financed/contracted value of commercial vehicle contracts with a 20.4% share of total financed value.

<sup>35</sup> Unaudited Leasing Companies' Report as at 31 December 2006

Chart 36 Financed Value of Active Contracts as at 31 December 2005



Source: HANFA

In 2006, there were 54,344 concluded leasing/loan contracts, 38,627 of which related to passenger car leasing/loan, whereas 9,440 or 17.4% of all newly concluded contracts in 2006 related to commercial vehicles. The structure of the total amount of newly concluded contracts was almost the same in 2005, as is shown in the following table.

Table 45 Number and Structure of the Contracts Concluded in 2005 and 2006<sup>36</sup>

Leasing Object	Number of concluded contracts in				
	2006	Share	2005	Share	Dynamics 2006/2005
Passenger cars	38,627	71%	30,837	70%	125.26
Commercial (load + transporting) vehicles	9,440	18%	7,883	18%	119.75
Machines and equipment	3,831	7%	3,474	8%	110.28
Plant	10	0%	14	0%	71.43
Real estate	506	1%	309	1%	163.75
Vessels	655	1%	460	1%	142.39
Other	1,275	2%	901	2%	141.51
<b>TOTAL</b>	<b>54,344</b>	<b>100%</b>	<b>43,878</b>	<b>100%</b>	<b>123.85</b>

Source: HANFA

The sharpest increase of as much as 63.8% in the number of concluded contracts in 2006 related to real estate, and was followed by the increase in the number of vessel contracts amounting to 42.4% of the total number of concluded contracts in the business year 2006.

In 2006, the total value of concluded contracts amounted to HRK 13.3 billion, with the value of passenger car contracts contributing to the major part of it with HRK 4.7 billion or 35.1%, whereas the value of real estate leasing/loan contracts accounted for 29.3% or HRK 3.9 billion of the total value. Plant leasing/loan contracts were the least represented in the total value of concluded contracts, as is evident from the following table.

<sup>36</sup> Unaudited Leasing Companies' Report as at 31 December 2006

Table 46 Financed/Value of the Contracts Concluded in the Period 1 January – 31 December 2005<sup>37</sup>

Leasing Object	Value/financed value of contracts concluded in the period				
	2006	Share	2005	Share	Dynamics
Passenger cars	4,681,769,027	35%	3,568,799,204	38%	131.19
Commercial (load + transporting) vehicles	2,288,044,718	17%	1,786,259,938	19%	128.09
Machines and equipment	1,526,196,759	12%	1,268,772,996	13%	120.29
Plant	8,743,964	0%	12,287,707	0%	71.16
Real estate	3,905,711,810	29%	2,132,532,378	22%	183.15
Vessels	683,715,280	5%	542,977,027	6%	125.92
Other	249,967,408	2%	223,853,406	2%	111.67
<b>TOTAL</b>	<b>13,344,148,966</b>	<b>100%</b>	<b>9,535,482,656</b>	<b>100%</b>	<b>139.94</b>

Source: HANFA

The value structure of newly concluded contracts in 2005 was almost the same as the one in 2006, with the value for passenger car and real estate leasing contracts being at the highest level, followed by commercial vehicle contracts, whereas the value of newly concluded leasing/loan contracts for plant stood at the lowest level.

## Assets, Capital and Liabilities

### Assets

As at 31 December 2006, total assets of leasing companies amounted to HRK 27.0 billion, which is an increase of HRK 6.6 billion or 32.2% compared to the assets recorded in 2005. The following table and chart show the amount and increase in the total assets of leasing companies by years.

Table 47 Total Assets of Leasing Companies as at 31 December (in HRK million)

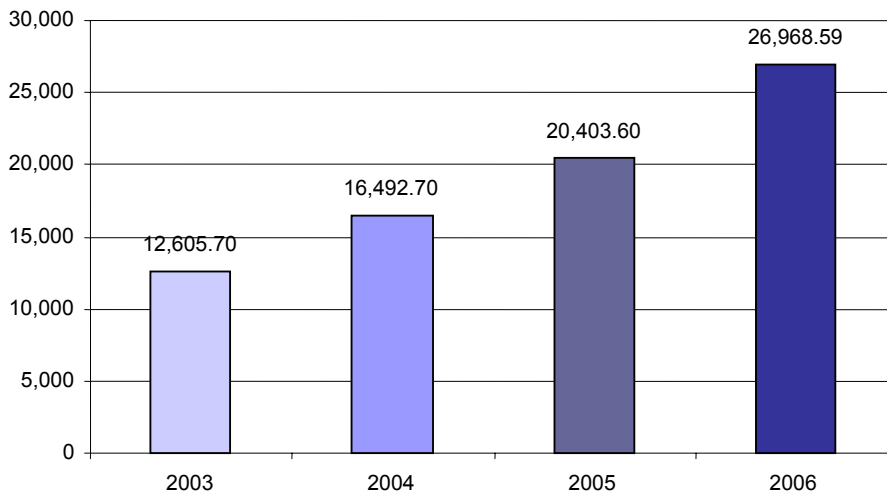
Description	2003	2004	Dynamics 2004/2003	2005	Dynamics 2005/2004	2006	Dynamics 2006/2005
<b>TOTAL</b>	<b>12,605.70</b>	<b>16,492.70</b>	<b>130.84</b>	<b>20,403.60</b>	<b>123.71</b>	<b>26,968.59</b>	<b>132.18</b>
Number of companies	35	37		52		57	

Source: CNB (2003 and 2004), HANFA (2005 and 2006)

When compared to assets recorded in 2003, total assets of leasing companies in the Republic of Croatia more than doubled in 2006, i.e. had an increase of 113.9% or as much as HRK 14.4 billion.

<sup>37</sup> Unaudited Leasing Companies' Report as at 31 December 2006

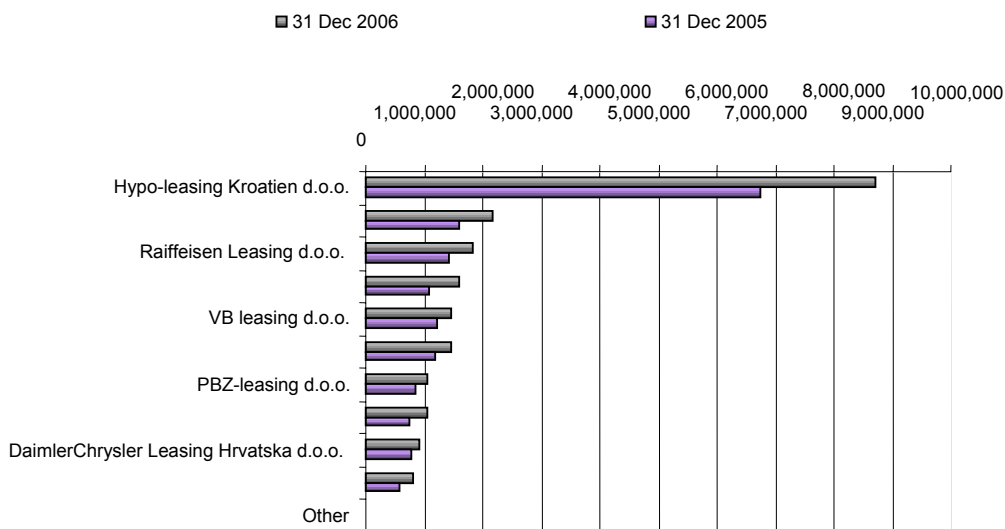
Chart 37 Total Assets of Leasing Companies as at 31 December (in HRK million)



Source: HANFA

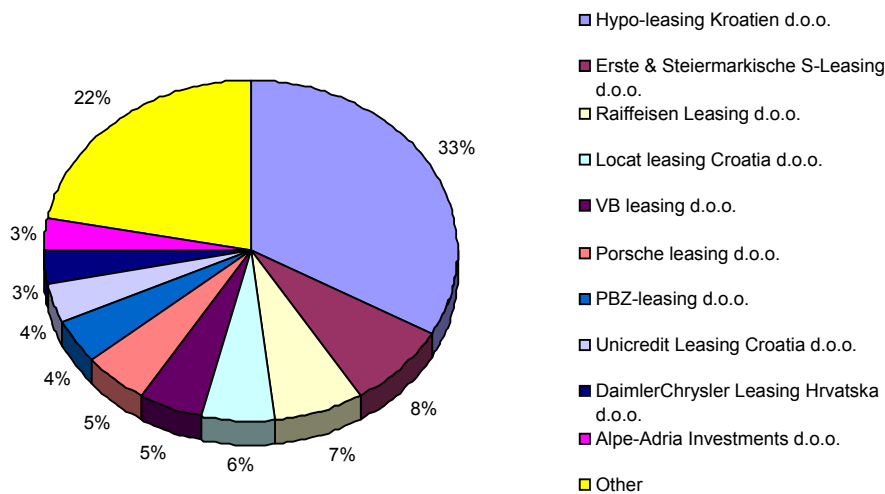
In total assets of leasing companies in the business year 2006, the largest proportion in the amount of HRK 8.7 billion, or 32.3% was held by leasing company Hypo leasing Kroatien d.o.o. It was followed by leasing company Erste&Steiermärkische S-Leasing d.o.o. with the assets totalling HRK 2.2 billion or 8.0%, and leasing company Raiffeisen Leasing d.o.o. with the assets of HRK 1.8 billion or 6.8% of the total leasing industry in 2006. The following charts show the ranking and the share in the total assets of the top ten leasing companies in 2006/2005.

Chart 38 Total Assets of the 10 Largest Leasing Companies (in HRK thousand)



Source: HANFA

Chart 39 Asset Shares of the 10 Largest Leasing Companies in the Total Assets of the Leasing Industry as at 31 December 2006



Source: HANFA

### Interest-Bearing Assets of the Leasing Industry

Interest-bearing assets of a leasing company cover the assets which for the leasing company represent the basis for generating income from leasing activities, and comprise: tangible assets leased under operating lease, long-term loans, long-term receivables based on finance lease, short-term receivables based on operating lease, short-term receivables based on finance lease and short-term loans.

Total interest-bearing assets of leasing companies at 31 December 2006 amounted to HRK 23.4 billion, which was a 26.5% increase compared to the interest-bearing assets recorded in the business year 2005. The interest-bearing asset growth was slighter than the growth of the total assets which increased by 32.2% compared to the previous business year, while the other asset items had an increase of 86.8% compared to 2005, as is shown in Table 48.

Table 48 Interest-Bearing Assets of Leasing Companies as at 31 December 2006 and 31 December 2005<sup>38</sup> (in HRK)

	31 Dec 2006	Total asset share	31 Dec 2005	Dynamics 2006/2005
Total interest-bearing assets	23,390,701,633	86.73%	18,488,009,240	126.52
Other asset items	3,577,889,392	13.27%	1,915,592,838	186.78
<b>TOTAL ASSETS</b>	<b>26,968,591,025</b>	<b>100.00%</b>	<b>20,403,602,078</b>	<b>132.18</b>

Source: HANFA

Interest-bearing assets accounted for 86.7% of total assets, whereas the remaining 13.3% related to other items of total assets of leasing companies as at 31 December 2006. The size of interest-bearing assets of the leasing industry, according to the data as at 31

<sup>38</sup> Unaudited Leasing Companies' Report as at 31 December 2006

December 2006, totalled HRK 23.4 billion. The following table compares the structure of the interest-bearing assets recorded for the business years 2006/2005.

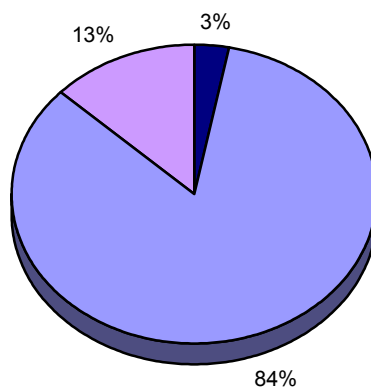
Table 49 Structure of Interest-Bearing Assets in the Leasing Industry<sup>39</sup>

Balance sheet position	31 Dec 2006	Share in total interest-bearing assets	31 Dec 2005	Share in total interest-bearing assets
<b>LONG-TERM ASSETS</b>	<b>22,484,433,512</b>	<b>96.13%</b>	<b>17,371,487,907</b>	<b>93.96%</b>
Tangible assets leased under operating lease	8,585,079,768	36.71%	6,786,581,572	36.71%
Long-term loans	5,351,956,268	22.88%	4,326,719,262	23.40%
Receivables based on finance lease	8,547,397,476	36.54%	6,258,187,073	33.85%
<b>SHORT-TERM ASSETS</b>	<b>906,268,121</b>	<b>3.87%</b>	<b>1,116,521,333</b>	<b>6.04%</b>
Receivables based on operating lease	217,332,796	0.93%	252,749,496	1.37%
Receivables based on finance lease	501,363,871	2.14%	585,649,424	3.17%
Short-term loans	187,571,454	0.80%	278,122,413	1.50%
<b>TOTAL INTEREST-BEARING ASSETS</b>	<b>23,390,701,633</b>	<b>100.00%</b>	<b>18,488,009,240</b>	<b>100.00%</b>

Source: HANFA

Chart 40 Asset Structure of the Leasing Industry as at 31 December 2006

■ Short-term interest-bearing assets ■ Long-term interest-bearing assets  
■ Other asset items

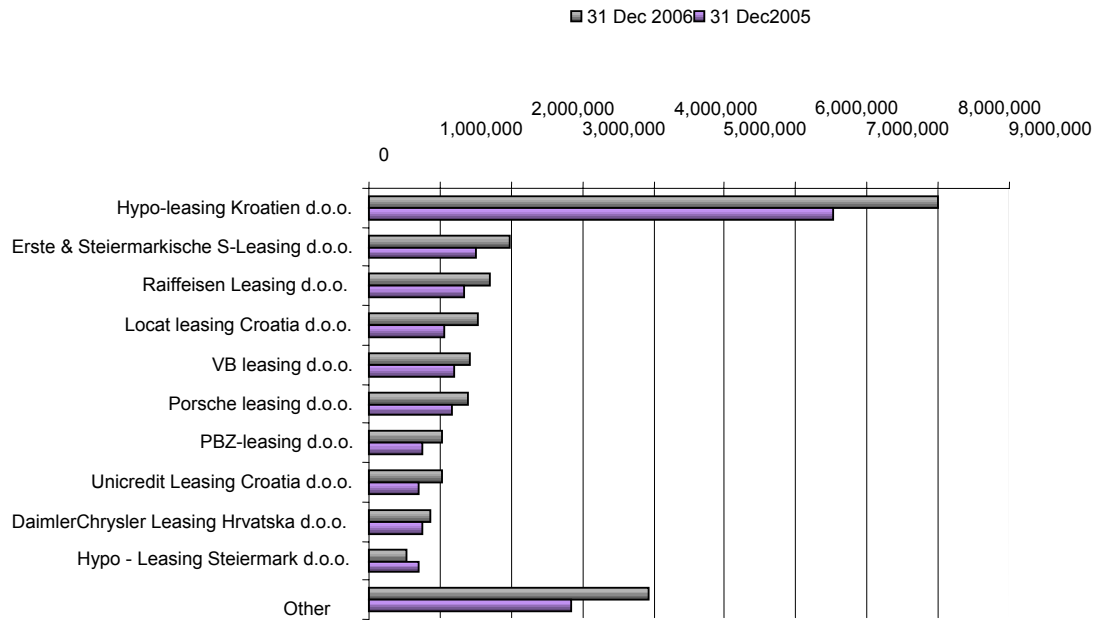


Source: HANFA

The following chart shows the ranking of the top ten leasing companies by size of total interest-bearing assets in the business years 2006/2005.

<sup>39</sup> Unaudited Leasing Companies' Report as at 31 December 2006

Chart 41 Top Ten Leasing Companies by Size of Interest-Bearing Assets (in HRK thousand)

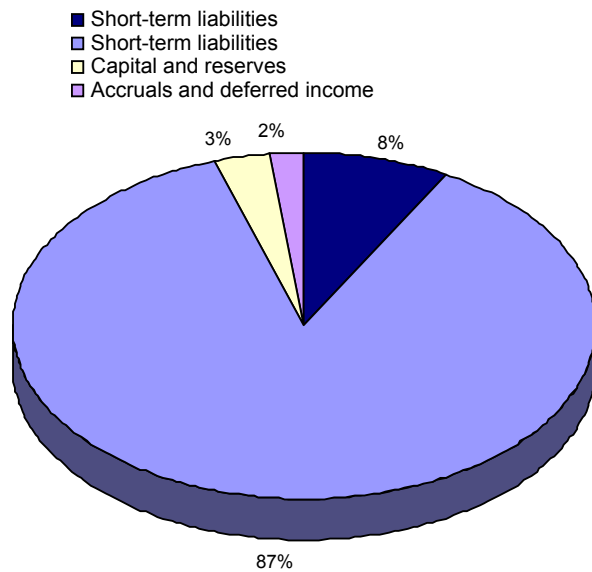


Source: HANFA

## Liabilities

Long-term liabilities accounted for the major part, or 86.7% of the liability structure of all leasing companies. Short-term liabilities accounted for 8.4%, whereas leasing companies' equity accounted for mere 3.2% of the total liabilities.

Chart 42 Liability Structure of Leasing Industry as at 31 December 2006



Source: HANFA

## Capital and Reserves

The total amount of capital and reserves of all leasing companies totalled HRK 865 million, and comprised other reserves amounting to HRK 443 million and subscribed capital amounting to HRK 380.4 million, and accounting for 44.2% of total capital and reserves

Table 50 Equity Structure of Leasing Companies as at 31 December 2006 and 31 December 2005

	31 Dec 2006	Share in total capital and reserves	31 Dec 2005	Share in total capital and reserves	Dynamics 2006/2005	Absolute change (2006-2005)
Subscribed capital	380,419,393	44.21%	342,039,793	46.09%	111.22	38,379,600
Revaluation reserves	5,691,789	0.66%	732,602	0.10%	776.93	4,959,187
Other reserves <sup>40</sup>	442,902,536	51.47%	368,478,886	49.65%	120.20	74,423,650
Retained earnings/accumulated loss	-58,418,502	-6.79%	-196,210,107	-26.44%	29.77	137,791,605
Profit/loss of the current year	89,901,507	10.45%	227,096,451	30.60%	39.59	-137,194,945
Profit of the current year	177,643,377		263,056,953		67.53	-85,413,576
Loss of the current the year	-87,741,870		-35,960,502		244.00	-51,781,368
<b>TOTAL CAPITAL AND RESERVES</b>	<b>860,496,723</b>	<b>100.00%</b>	<b>742,137,625</b>	<b>100.00%</b>	<b>115.95</b>	<b>118,359,098</b>

Source: HANFA

Accumulated loss in the amount of HRK 58.4 million recorded in 2006 was lower by 70.3% compared to the accumulated loss recorded in 2005, whereas profit of the current year of the total leasing industry amounted to HRK 89.9 million and were lower by 60.4% compared to 2005.

## Leasing Companies by Amount of Equity as at 31 December 2006

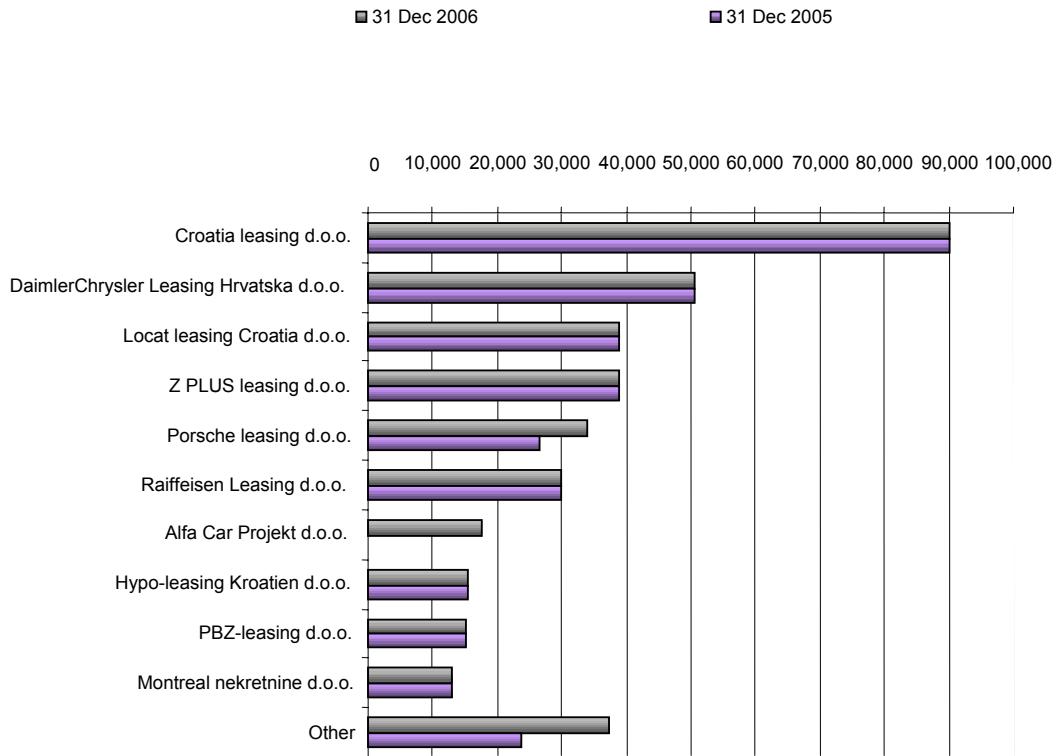
In 2006, as many as 17 leasing companies recorded a HRK 60.5 million loss above the amount of capital, whereas in 2005, 14 companies recorded a HRK 91.2 million loss above the amount of capital, which is a 33.7% increase compared to 2006.

## Shares of Certain Leasing Companies in Total Founding Capital of all Leasing Companies

The following chart of the top ten largest leasing companies in 2006/2005 ranks the companies by the amount of the founding capital, which in the business year 2006 totalled HRK 380.4 million for all leasing companies.

<sup>40</sup> Other reserves. A common practice among leasing companies is usage of accelerated depreciation rates for assets under operating lease, in which process a part of double depreciation is not booked under assets, but under liability reserves.

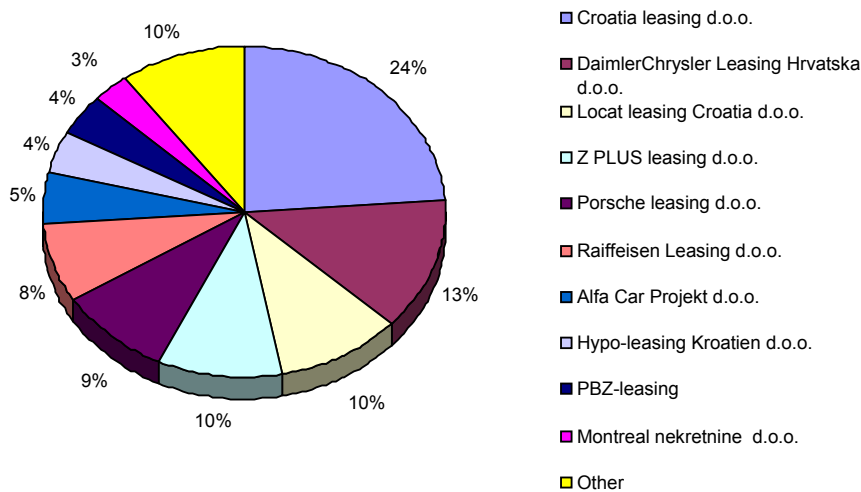
Chart 43 Top Ten Leasing Companies Ranked by Amount of Founding Capital



Source: HANFA

As at 31 December 2006, the largest amount of founding capital was recorded by Croatia leasing d.o.o., company in 100% ownership of Croatia osiguranje d.d., totalling HRK 90.0 million, which accounted for 24% of total founding capital of all leasing companies. This company was followed by DaimlerChrysler Leasing Hrvatska d.o.o. with HRK 50.5 million or 13.0% of the total capital, and by Locat leasing d.o.o. with HRK 39.0 million or 10% of the total founding capital recorded for all leasing companies.

Chart 44 Shares of Top Ten Largest Companies in the Total Founding Capital of Leasing Industry as at 31 December 2006



Source: HANFA

35 of the total of 57 leasing companies reported subscribed founding capital lower than HRK 1 million, i.e. lower than the lowest amount of founding capital as specified by the Leasing Act. Companies performing leasing activities are obligated to bring the amount of founding capital and their overall operations in the accordance with the provisions of the Leasing Act no later than 21 June 2007

### Liabilities

Liabilities for all leasing companies recorded at 31 December 2006 totalled HRK 26.1 billion, and comprised long-term liabilities totalling HRK 22.4 billion or 89.5% of total liabilities; short-term liabilities amounting to HRK 2.3 billion or 8.7% of total liabilities; and accruals and deferred income in the amount of HRK 466.0 million or 1.8% of total liabilities.

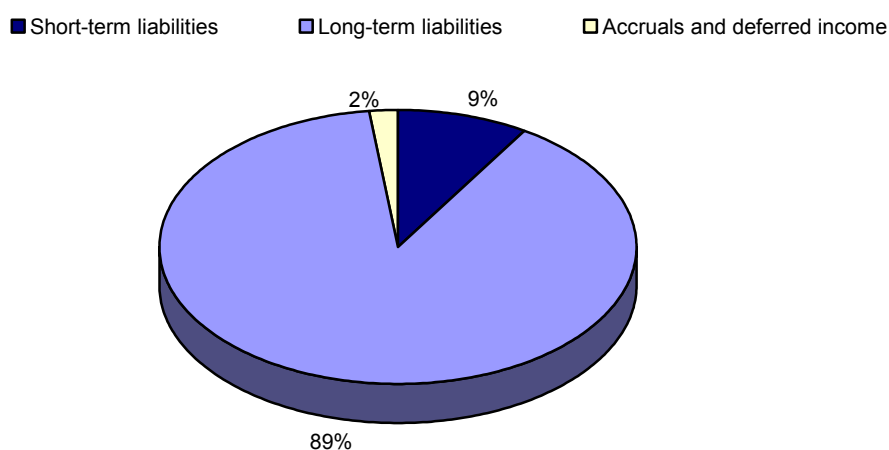
Total liabilities recorded a rise of HRK 6.4 billion, or a 32.8% increase compared to the previous period. Long-term liabilities increased by HRK 5.6 billion or 31.6%, short-term liabilities recorded a 44.5% or HRK 700.0 million increase, and accruals and deferred income had a rise of HRK129.1 million, i.e. 38.3% compared to the previous period, as is shown in Table 51 and Chart 45.

Table 51 Liability Structure of all Leasing Companies as at 31 December 2006 and 31 December 2005<sup>41</sup> (in HRK)

Description	31 Dec 2006	Total liability share	31 Dec 2005	Dynamics 2006/2005	Absolute change 2006-2005
Long-term liabilities	23,367,423,151	89.50%	17,749,954,578	131.65	5,617,468,573
Short-term liabilities	2,274,685,011	8.71%	1,574,636,045	144.46	700,048,966
Accruals and deferred income	465,986,140	1.79%	336,873,830	138.33	129,112,310
<b>TOTAL LIABILITIES</b>	<b>26,108,094,302</b>	<b>100.00%</b>	<b>19,661,464,453</b>	<b>132.79</b>	<b>6,446,629,849</b>

Source: HANFA

Chart 45 Liability Structure of all Leasing Companies as at 31 December 2006

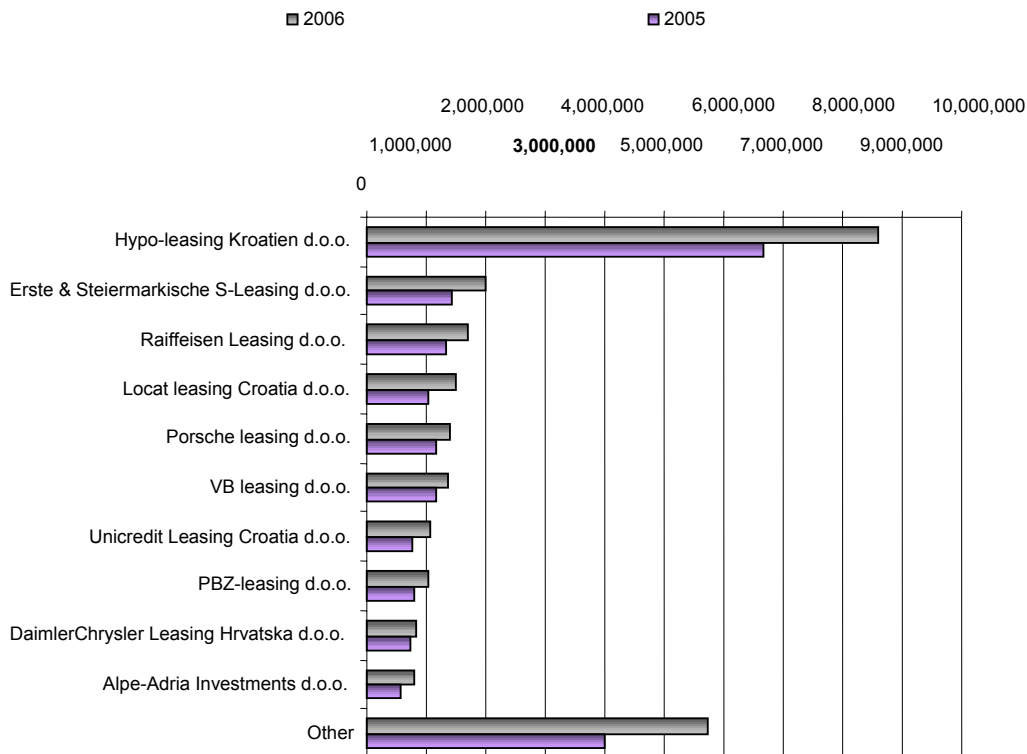


Source: HANFA

<sup>41</sup> Unaudited Leasing Companies' Report as at 31 December 2006

The following Chart ranks the top ten leasing companies by liability level.

Chart 46 Top Ten Leasing Companies Ranked by Liability Level (in HRK)



Source: HANFA

At 31 December 2006, the top ten leasing companies reported liabilities in the amount of HRK 20.4 billion or a 78.0% share in total liabilities, whereas the remaining 47 companies recorded HRK 5.7 billion or a 21.9% share in total liabilities of all leasing companies.

### Performance Results

In the business year 2006, all leasing companies registered a total income of HRK 9.5 billion, which is a 18% or HRK 1.4 billion increase, whereas reported expenses totalled HRK 9.3 billion, which is a HRK 1.6 billion, or 21.0% increase on the previous year. This means that total income recorded a lower increase than total expenses. The following chart compares pre-tax profit shares in total income for 2006/2005.

Chart 47 Pre-tax Profits in Total Income as at 31 December 2006 and 31 December 2005 (in HRK thousand)



Source: HANFA

Income generated from finance lease activities recorded the sharpest increase of 28.3%. There was also a 20.2% increase in income from calculated interest, commissions and fees, whereas other types of business income were lower by 13.8%. Table 52 compares income structure for 2006/2005.

Table 52 Total Income of all Leasing Companies in 2006 and 2005<sup>42</sup>

	2006.	Share in total income in 2006	2005	Dynamics 2006/2005
Income from interest, commissions and fees	1,038,633,575	10.97%	863,968,651	120.22
Income generated from operating lease activities	2,050,327,475	21.65%	1,626,137,034	126.09
Income from "sales" based on finance lease <sup>43</sup>	4,906,319,779	51.81%	3,822,817,749	128.34
Other business income	1,474,116,800	15.57%	1,709,880,664	86.21
<b>Total</b>	<b>9,469,397,629</b>	<b>100.00%</b>	<b>8,022,804,098</b>	<b>118.03</b>

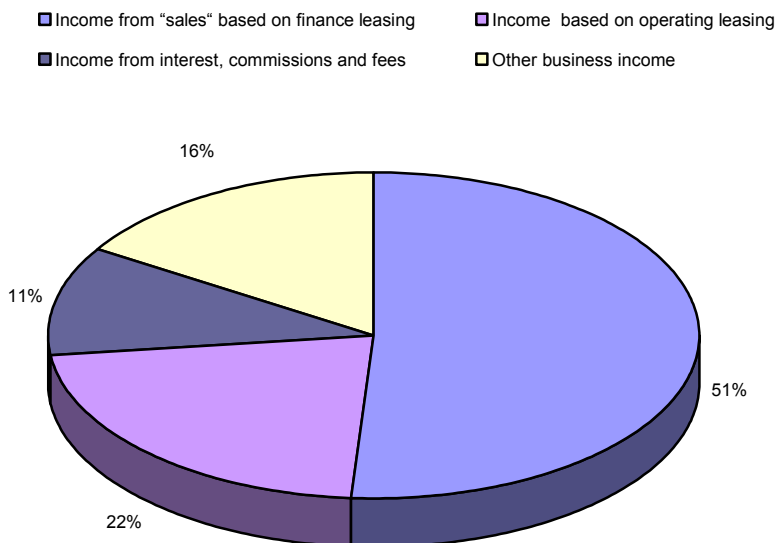
Source: HANFA

Income from sales based on finance lease recorded the largest share in the 2006 income structure amounting to 51.8%, and was followed by income from operating lease activities totalling 21.6% of all leasing industry income. Income from interest, commissions and fees accounted for 10.9% of all income, whereas other business income made up for 15.6% of the total 2006 income.

<sup>42</sup> Unaudited Leasing Companies' Report as at 31 December 2006

<sup>43</sup> Income from sales based on finance leasing is the total amount of invoice values of leasing objects, delivered on the basis of finance contracts concluded with lessees.

Chart 48 Structure of Total Income of Leasing Companies Generated in 2006



Source: HANFA

In 2006, leasing companies recorded expenses in the total amount of HRK 9.3 billion, which is a HRK 1.6 billion or 20.5% increase on the previous business year. Costs for purchase of assets for finance leasing accounted for 52.8% of total expenses. These costs recorded a 23.0% increase compared to the previous business year, whereas costs for interest, commissions and fees recorded a 43.2% increase. Table 53 and Chart 49 compare the structures of total expenses reported by all leasing companies for 2006/2005.

Table 53 Total Expenses of Leasing Companies in 2006 and 2005<sup>44</sup>

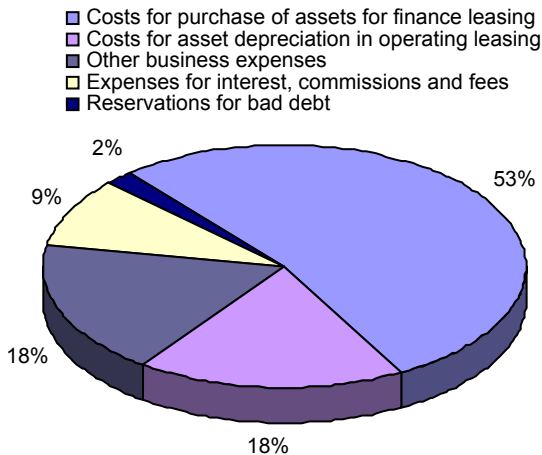
Description	2006	Share in total expenses	2005	Dynamics 2006/2005
Expenses for interest, commissions and fees	837,334,535	8.98%	584,695,331	143.21
Costs for asset depreciation in operating leasing	1,699,763,924	18.22%	1,424,598,101	119.32
Costs for purchase of assets for finance leasing <sup>45</sup>	4,930,707,805	52.85%	4,008,826,226	123.00
Other business expenses	1,714,836,789	18.38%	1,553,898,217	110.36
Reservations for bad debt	146,610,631	1.57%	167,709,533	87.42
<b>Total</b>	<b>9,329,253,684</b>	<b>100.00%</b>	<b>7,739,727,408</b>	<b>120.54</b>

Source: HANFA

<sup>44</sup> Unaudited Leasing Companies' Report as at 31 December 2006

<sup>45</sup> Costs for the purchase of assets for finance leasing constitute the invoice value provided by the supplier of leasing objects which are financed by a leasing company.

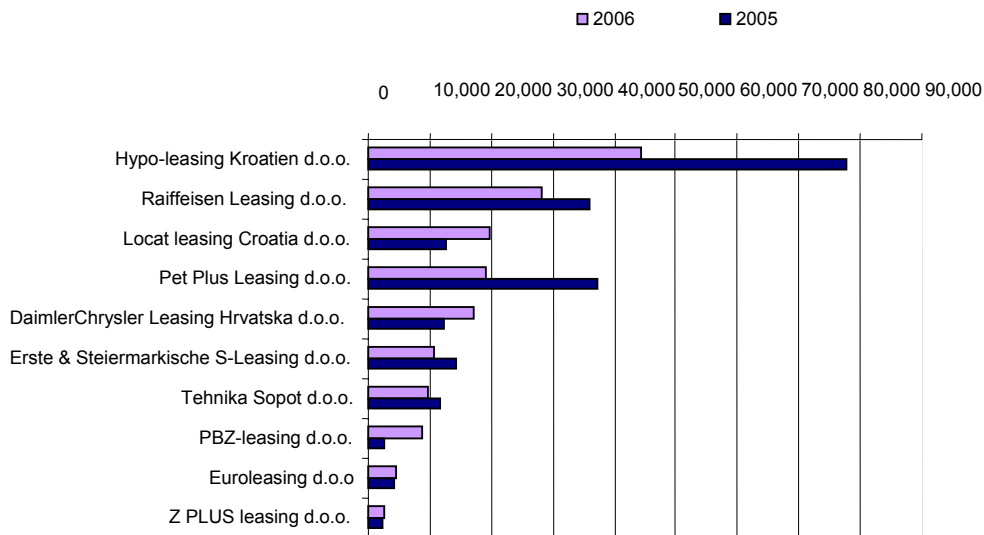
Chart 49 Structure of Total Expenses of Leasing Companies in 2006



Source: HANFA

Companies performing leasing activities in the period from 1 January 2006 to 31 December 2006 recorded after-tax profit in the amount of HRK 89.9 million, down by HRK 137.2 million or 60.4% compared to the same period in the business year 2005 when the recorded profit totalled HRK 227.1 million. The following chart ranks the top ten leasing companies by their after-tax profit.

Chart 50 Leasing Companies by After-Tax Profit Recorded in 2006 (in HRK thousand)

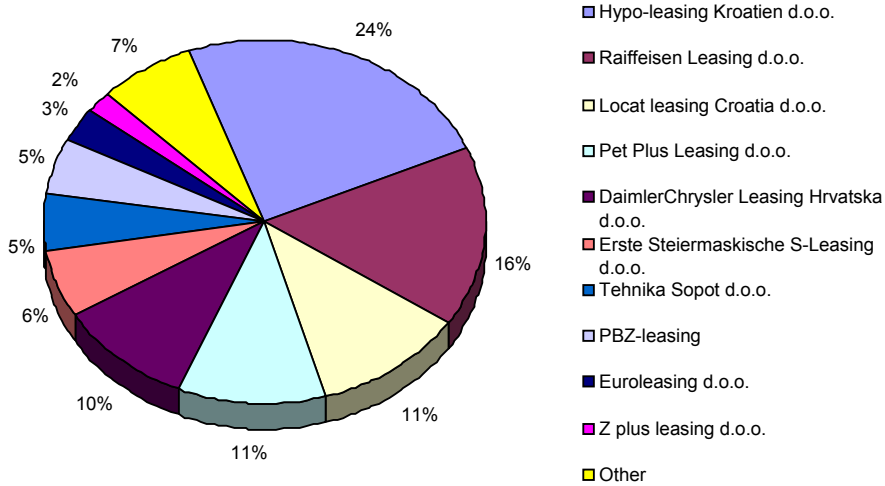


Source: HANFA

Of all leasing companies 37 reported after-tax profit in the total amount of HRK 177.6 million, with Hypo leasing Kroatien accounting for 24.0%, Raiffeisen Leasing d.o.o. for

16%, and Locat leasing Croatia d.o.o. for 11.0% of the total after-tax profit of all leasing companies.

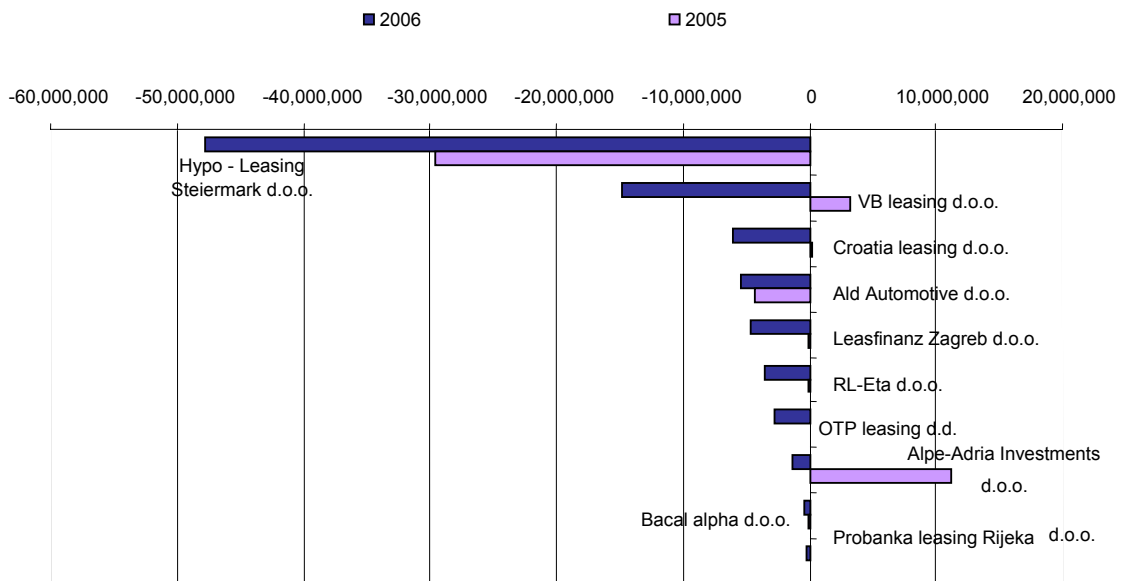
Chart 51 Shares of the Ten Largest Companies in the Profit Recorded by Leasing Companies in 2006



Source: HANFA

In the business year 2006, as many as 20 leasing companies recorded a loss totalling HRK 87.7 million. The biggest loss, amounting to HRK 47.7 million or 54.4% of the total loss of the industry, was reported by Hypo leasing Steiermark d.o.o. The following chart compares the top ten largest leasing companies ranked by the amount of loss recorded in 2006/2005.

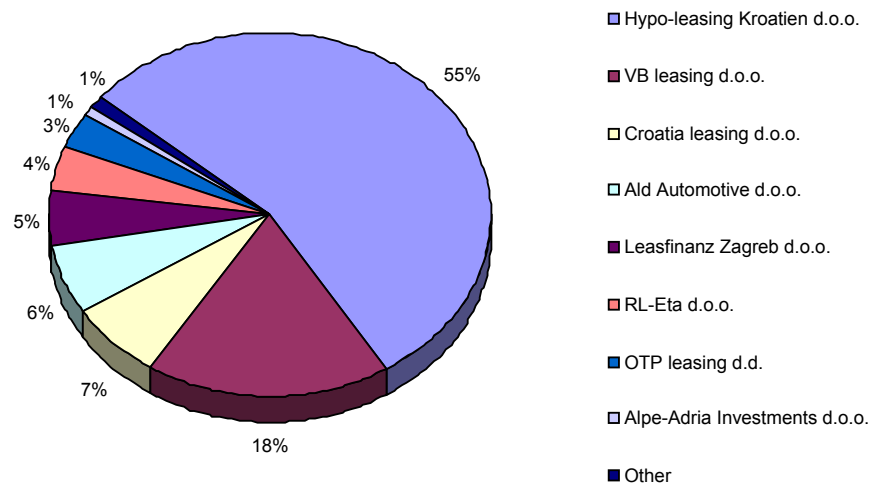
Chart 52 Top Ten Leasing Companies by Amount of Loss Recorded in 2006 (in HRK)



Source: HANFA

The amount of loss of the top ten leasing companies (ranked by amount of loss recorded in the business year 2006) totalled HRK 86.8 million, which accounted for 99.0% of the total loss for all leasing companies.

Chart 53 Shares of the Top Ten Leasing Companies in the Total Loss Recorded in 2006 (in %)



Izvor: HANFA

## Solvency and Liquidity Ratios of the Leasing Industry

### Liquidity Ratio

**Current ratio** is the appraisal of liquidity and solvency and indicates the availability of current assets (short-term assets) in relation to current (short-term) liabilities. The current ratio of the leasing industry in 2006 was 0.96, which means that the value of the short-term assets was 4% lower than the level of the short-term liabilities. The same ratio in 2005 totalled 1.24, which means that the value of the short-term assets was higher than the value of the short-term liabilities.

In 2006, a total of 37 companies reported a ratio equal or higher than the average current ratio of the leasing industry, while at the same time the current ratio for 25 companies was lower than the average.

**Quick ratio** indicates the coverage of short-term liabilities with liquid short-term assets, i.e. money. In 2006, quick ratio of the leasing industry amounted to 0.15, while in 2005 it totalled 0.14, which is above the threshold of the quick ratio.

A total of 32 companies recorded a ratio equal or higher than the average quick ratio, whereas the ratio for 25 companies was lower than the average.

### Financial Stability Ratios

**Cover rate I** indicates the rate of self-financing of long-term assets, i.e. financing long-term assets from own sources. In terms of operational stability it is desirable to have the highest possible share of long-term assets financed from own sources. The rate of 0.03 in 2006 means that a unit of long-term assets in the leasing industry was covered by 0.03 units of equity, which presents a very low cover rate of self-financing of the leasing activity. This rate amounted to 0.04 in 2005.

In 2006, 20 companies reported cover rate I equal to or higher than the average rate of the industry, while 37 companies in the industry recorded the cover rate I even lower than the average.

**Cover rate II** indicates the rate of financing of long-term assets from long-term sources. A desirable situation is for long-term assets to be completely financed from long-term sources (rate = 1). The level of the 2006 rate for the leasing industry was 0.98, which means that the value of equity and long-term liabilities was lower by 2% in 2006. In 2005, this rate amounted to 1, implying a decreased ability for financing long-term assets from long-term sources decreased.

In 2006, 37 companies reported cover rate II equal to or higher than the average rate of the leasing industry, while in the same period 20 companies reported cover rate II lower than the average.

## Gearing Ratios

**Self-financing ratio** indicates the share of own resources in total assets. In terms of indebtedness, the highest possible ratio is considered desirable. In 2006, the ratio amounted to 0.03 for the whole leasing industry, meaning that equity accounted for only 3% of total assets. In 2005, this ratio amounted to 0.04.

A total of 21 companies reported a self-financing ratio equal to or higher than the average in 2006, and 36 companies recorded a self-financing ratio lower than average ratio in the leasing industry.

**Debt ratio** indicates the share of liabilities in total assets. The 2006 ratio totalling 0.97 means that liabilities of leasing companies accounted for 97% of total assets. A noticeable increase in this ratio, amounting to 0.96 in 2005, testifies to the increase in indebtedness in the leasing industry.

A total of 39 companies recorded a debt ratio equal to or higher than the average in 2006, while 18 companies recorded a debt ratio lower than the average ratio of the leasing industry.

## Activity Ratios

**Total asset turnover ratio** indicates how efficiently total assets are used to generate income, i.e. how many times in one year do the total assets turn into income. The highest possible ratio is considered desirable. The 2006 ratio amounting to 0.35 means that the amount of the yearly income in the leasing industry was lower than the total assets by 65%. This ratio was slightly higher in 2005 and amounted to 0.39.

A total of 21 companies reported a total asset turnover ratio equal to or higher than the average in 2006, while at the same time 36 companies reported a lower total asset turnover ratio than the average ratio in the leasing industry.

## Profitability Ratios

**Return on total assets - ROA** is calculated by correlating gross income and total assets. The 2006 ratio totalling 0.52% testifies to the low profitability of the leasing industry. This index decreased from 1.39% in 2005. A decrease in the asset profitability in 2006 is the result of a decrease in the gross income occurring simultaneously with the increase in the asset value.

19 companies reported an ROA index equal to or higher than the average in 2006, while at the same time 38 companies reported a lower ROA than the average in the leasing industry.

**Return on Equity - ROE** is a calculated rate of return on equity. The highest possible rate is considered desirable. The 2006 rate of 10.45% indicates the rate of return on equity in this percentage. This rate amounted to 30.60% in 2005, which testifies to an decrease in ROE.

A total of 33 companies reported an ROE index equal to or higher than the average in 2006, while at the same time 24 companies reported the lower ROE than the average rate in the leasing industry.

Due to the specificity of financing methods in the leasing industry which almost completely relies on borrowed sources, mainly the ones of a related foreign bank, a decrease in most of the observed industry ratios compared to the previous year does not constitute any difficulties for the business operations for the time being. However, it serves as a significant warning and confirms the validity of the decision on the need for the continuous supervision of operations of leasing companies.

## Regulatory Framework

The main act which regulates operations of leasing companies is the Leasing Act<sup>46</sup> which entered into force on 21 December 2006, and pursuant to the transitional provisions, most of the provisions will apply six months after the entry into force of the Act, i.e. as of 21 June 2007. The Leasing Act regulates:

1. conditions for the establishment, operations and termination of operations of a leasing company
2. leasing contracts
3. rights and duties of subjects in leasing operations
4. financing and reporting
5. supervision of operations of leasing companies
6. risk management

The Croatian Financial Services Supervisory Agency is obliged to enforce the Leasing Act. The articles of the Act relating to risk management stipulate that a leasing company is obliged to provide detailed policies and procedures for the purpose of identifying, measuring and monitoring the risks to which it is exposed while performing its business activities, whereas the Agency can adopt an ordinance specifying obligations of leasing companies and branches of foreign leasing companies, criteria and risk management methods, forming of the reserves, conditions and methods of using reserves, as well as a form, method and deadlines for the reporting on risk management. A leasing company produces and publishes financial statements in accordance with the Accounting Act. The Leasing Act also provides the possibility to require a chart of accounts to be produced by leasing companies

The provisions of the Leasing Act will, in the coming period, change the current situation on the leasing market, especially with respect to the activities that may be conducted by leasing companies. Since the entry into force of the Leasing Act, leasing companies have been prohibited to grant credits and loans, which had been a common occurrence significantly changing the financial market situation. Pursuant to the Leasing Act, a leasing company may conduct only finance and operating leasing activities, as well as brokerage activities related to the sale of objects owned by the leasing company on the basis of leasing operations.

According to the Leasing Act, finance lease operations are legal agreements in which during the period of the usage of a leasing object the lessee pays to the lessor the fee (which takes into account the total value of the leasing object), covers the depreciation costs of the object, and by the act of purchasing can obtain the ownership rights over the object at a price which is at the time of purchasing lower than the real value of the leasing object..

The Leasing Act defines operating lease activities as legal agreements in which during the period of the usage of a leasing object the lessee pays to the lessor fee which

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<sup>46</sup> Official Gazette 135/06

does not have to take into account the total value of the leasing object, the lessor covers the depreciation costs for the leasing object, and the lessee does not have a previously defined option of purchasing the object, the usage of the object may therefore be terminated under certain conditions.

According to the Leasing Act, a foreign leasing company may also conduct leasing activities in the Republic of Croatia, but only through its branch and on the basis of the authorisation for the leasing activities provided by the Agency.

The Leasing Act will introduce great changes in the leasing market with respect to the amount of founding capital for leasing companies, since the mandatory minimum amount of the founding capital may not be lower than HRK 1.0 million and has to be fully paid before a company is registered. Since the amount of the founding capital for the establishment of a company before the Leasing Act entered into force had been regulated by the Companies Act, the majority of leasing companies in the Republic of Croatia reported founding capital in the prescribed minimum amount of HRK 20,000.

Furthermore, according to the Agency, as at 31 December 2006, 32 out of 57 leasing companies had no employed staff. The status of the management board of a leasing company is regulated by Articles 19 through 23 of the Leasing Act, requiring that the number of the members of the board be no lower than two, and that at least one member have permanent residence in the Republic of Croatia, whereas all the members of the board have to be full time employees in the leasing company, and have the authorisation to perform their roles issued by the Agency.

Since Article 106 of the Leasing Act stipulates that the overall operations of leasing companies have to be aligned with the other provisions of the Act by 21 June 2007, as well as it stipulates an obligation to apply for the authorisation to perform leasing activities by the Agency, this will provide the prerequisites for a complete insight into all the companies which perform leasing activities in the Republic of Croatia. As at 21 June 2007, the deadline for the alignment with the provisions of the Leasing Act expires, upon which changes in the number of leasing companies and in the ownership structure of these companies may be expected. Leasing activities themselves, as well as other activities performed by leasing companies until the entry into force of the Leasing Act, will be aligned with the provisions of the Act, considering the fact that leasing companies will be able to perform exclusively leasing activities, which can affect the structure and the number of members of boards of leasing companies in the Republic of Croatia.

## Supervision of Operations of Leasing Companies

Within its competence, the Agency continuously performed on-site and off-site supervision of operations of leasing companies during the business year 2006.

In accordance with the tasks stipulated by the Leasing Act, and on the basis of the submitted data, the Agency verifies and analyses financial reports of each leasing company in their entirety and with respect to both the relevant regulations and indicators of financial stability of a company, with the purpose of assessing the position of the leasing company, and thus the leasing industry as a whole.

In the period October-December 2006, 9 procedures for on-site supervision of operations of leasing companies were initiated. Full-scope supervision of operations of 2 leasing companies (Alfa nekretnine d.o.o. and Beta nekretnine d.o.o.) was finished until the end of the business year 2006, whereas on-site supervision of 7 leasing companies (Hypo leasing Kroatien d.o.o., Hypo centar Šibenik d.o.o., Alpe Adria Poslovodstvo d.o.o., Alpe Adria Investments d.o.o., Jadran jahte d.o.o., Croatia leasing d.o.o. and PBZ leasing d.o.o.) started in 2006 and was finished by the time this report was produced.

Since the Leasing Act was adopted on 13 December 2006, the procedures for the on-site supervision of performance of the leasing companies were initiated on the basis of Article 15 paragraph 1 point 2 indent 8 and Article 8 paragraph 1 of the Act on Croatian Financial Services Supervisory Agency, and were conducted in the process of examining the application of International Financial Reporting Standards, the enforcement of the Accounting Act<sup>47</sup>, the Companies Act<sup>48</sup> and other regulations binding upon companies in the Republic of Croatia.

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<sup>47</sup> Official Gazette 145/05

<sup>48</sup> Official Gazette 111/93, 34/99, 121/99 and 118/03

## Remarks on Methodology

In the period from 2003 to 31 December 2005, statistical data for leasing companies were collected by the Croatian National Bank, whereas the data on financial operations of leasing companies and the portfolio structure have been systematically collected by the Agency through TMSI-LD forms (Leasing Companies' Report) since the beginning of the business year 2006. The report on the state of play in the leasing industry has been made on the basis of the analysed financial reports and statistical data from 57 leasing companies.

### Scope of the Report

According to the Agency, as at 31 December 2006, leasing operations in the Republic of Croatia were actively conducted by 58 leasing companies, while this Report covers 57 companies. The number of registered companies for the finance and operating leasing is significantly higher, but regardless of the registered activity, many companies do not perform leasing operations.

### Data Accuracy

The analysed annual data published in this report have been obtained on the basis of unaudited reports of leasing companies (TMSI-LD), prescribed for the purpose of collecting statistical data and performing supervision by the Agency. The Agency has systematically collected data from leasing companies since 30 September 2006, through the forms prescribed before the Leasing Act and accompanying subordinate regulations on the content and form of the reports submitted to the Agency were adopted. By 31 December 2006, a number of companies covered by the report fails to submit all the data required by the Leasing Companies' Report (TMSI-LD). This mainly concerns the data on portfolio structure according to the original maturity, activity and the size of transactor. The reasons for incomplete and inaccurate data vary: the data collection according to the prescribed form had just recently started, programme limitations which could not be overcome in the short period, and the differences in the methods of publishing of separate balance sheet items due to the non-existence of a uniform chart of accounts for leasing companies.







# Factoring



## Factoring

According to the 2006 financial reports, eight companies, in addition to banks, performed factoring operations in the Republic of Croatia. Four out of these eight companies comprise a significant share in total financial volume (Prvi faktor d.o.o., Erste factoring, Adriatic Zagreb d.o.o. and Croatia factoring d.o.o.), while the remaining four companies either perform factoring operations to a lesser extent (Alfa Faktor d.o.o., CEI Zagreb d.o.o. and Novi faktor), or perform factoring operations as their secondary activities (Alea d.o.o.). There are more companies registered at the court register for performing factoring operations, though they are currently not engaged in this activity. Some of these companies had just been established, and some do not perform factoring operations (Euro faktor d.o.o., Duga faktor d.o.o. i Lucet d.o.o.).

**Table 54 Total Assets of Factoring Companies in the Republic of Croatia as at 31 December 2006 (in HRK)**

Name	Total assets as at 31 Dec 2006	Total assets as at 31 Dec 2005	Absolute change 2006/2005	Change in %
Erste factoring d.o.o.	781,981,583	0	781,981,583	
Prvi faktor d.o.o.	758,842,860	324,640,444	434,202,415	133.75
Adriatic Zagreb d.o.o.	80,834,021	5,207,552	75,626,469	1.452.25
Croatia factoring d.o.o.	30,700,981	0	30,700,981	
Alea d.o.o.	30,221,640	2,352,776	27,868,864	1.184.51
Alfa faktor d.o.o.	2,190,203	949,326	1,240,877	130.71
CEI Zagreb d.o.o.	1,321,141	1,204,226	116,914	9.71
Novi faktor d.o.o.	1,034,741	1,498,906	-464,165	-30.97
<b>Total</b>	<b>1,687,127,171</b>	<b>335,853,231</b>	<b>1,351,273,939</b>	<b>402.34</b>

Source: HANFA

Development of factoring in the Republic of Croatia through specialised companies started in 2003 with the entry into the market of Prvi Faktor d.o.o., which is owned by the Slovenian companies Nova Ljubljanska Banka and Slovenska Izvozna Družba, through Prvi faktor d.o.o. Ljubljana. Prvi faktor d.o.o. is a company which generates the highest income of all factoring companies, and, even though it does not have the highest asset value, it has the highest receivables on the basis of factoring (HRK 502.8 million). Erste factoring d.o.o., which was established in 2006 and is a member of the Erste Group, has the highest asset value, but not the receivables on the basis of factoring (HRK 199.2 million), because a significant part of their resources (HRK 433.0 million) is kept as deposits at OTP banka d.d., Hrvatska poštanska banka d.d. and Volksbank d.d. Two other significant factoring companies, Adriatic Zagreb d.o.o. and Croatia factoring d.o.o. (established in 2006), are privately owned.

Besides factoring operations (domestic, import and export factoring), factoring companies in the Republic of Croatia perform activities of loan granting and discounting of bills of exchange. Factoring activities can be the ones with a reimbursement right (in case receivables are not paid by the buyer, a factoring company has the right to claim the costs from the seller of the receivables) or without a reimbursement right (in case receivables are not paid by the buyer, a factoring company has no right to claim the costs from the seller of the receivables).

Factoring is in the Republic of Croatia still in the rudimentary stage, but further development and establishment of new companies, as well as the activation of the registered but inactive companies is expected



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**Cooperation,  
Consumer Protection  
and Education**



# Cooperation and Consumer Protection

## Cooperation with Croatian and Foreign Institutions and International Organizations

In compliance with Articles 16-18 of the Act on Croatian Financial Services Supervisory Agency, during 2006 the Agency actively cooperated with Croatian and foreign institutions whose scope of activity and competence relate to supervision of the financial services and financial market, with the purpose of achieving efficient information exchange and development of supervision, as well as the improvement of the cooperation of the Agency with these institutions.

Representatives of the Agency were involved in the preparation of the Protocol on Cooperation and Formation of an Interinstitutional Working Group for the Anti-Money Laundering and Terrorist Financing, and they also attended a number of weekly workshops related to this issue, and which were organized by Austrian representatives at the State Attorney's Office as a part of the CARDS programme.

With respect to this issue, the Agency's employees were also involved in the process of the third Moneyval evaluation. The representatives of the Agency also participated in the activity within the CARDS twinning project „Strengthening Capacities of the Office for Prevention of Corruption and Organised Crime (USKOK)“ which was led by experts of the European Commission.

According to the provisions of Article 16 of the Act on Croatian Financial Services Supervisory Agency, the Agency cooperates with the Croatian National Bank by exchanging data and information on the supervised entities from its scope of activity and competence. With the purpose of further strengthening of the cooperation, and in accordance with the legal provisions, the Agency and the Croatian National Bank signed the Agreement on Cooperation. By this agreement both institutions expressed readiness to cooperate in the field of promotion and safeguarding of the financial system and supervision of the legitimacy of business operations of supervised entities, as well as in other fields of their authorities and agree to base such cooperation on mutual trust and understanding. The agreement defines the contents and manner of their mutual cooperation in the context of exercise of their authority.

In accordance with Article 17 of the Act on Croatian Financial Services Supervisory Agency, the Agency cooperated during the whole year with the following Croatian institutions: Croatian National Bank, Ministry of Interior, Ministry of Finance, USKOK at the State Attorney's Office, Ministry of Economy, Labour and Entrepreneurship, Department for

the Anti-Money Laundering and Terrorist Financing, Croatian Competition Agency, State Attorney's Office of the Republic of Croatia and Zagreb Municipal State Attorney's Office.

In the area of international cooperation, with the purpose of establishing new and the improvement of the existing contacts, the Agency cooperated with a number of institutions and organizations, such as the State Commission for Regulation of Financial Services Markets of Ukraine, Austrian Insurance Association, the supervisory body in charge of insurance from Italy, Slovenian Securities Market Agency, Banking and Payment Authority of Kosovo, etc.

The Agency is a member of the following international institutions: IOSCO (International Organization of Securities Commissions), IOPS (International Organization of Pension Supervisors) and IAIS (International Association of Insurance Supervisors), in accordance with the provisions of Article 18 of the Act on Croatian Financial Services Supervisory Agency.

## EU Screening

During 2006, Agency's employees participated in the activities of three working groups related to the screening and assessment of the degree of harmonisation of the national legislation with the *acquis communautaire*, whose main purpose is to determine the existing differences in each chapter of the negotiations between the national legislation and the *acquis communautaire*, as it is needed to align the national legislation with the *acquis* by the time the of Croatia's accession to the EU.

These working groups relate to the Chapter 4 - Free movement of capital, Chapter 6 - Company law and Chapter 9 - Financial services.

Chapter 4 - Free movement of capital covers the legislation concerning movement of capital and payments, payment systems and anti-money laundering for which the explanatory and bilateral meeting were held in 2005, whereas Agency's employees participated in the technical meeting concerning that chapter in Bruxelles in October 2006, with respect to the establishment of the Action Plan for Prevention of Money Laundering and Terrorist Financing.

During December, the Action plan for Anti-Money Laundering and Terrorist Financing was drawn up. According to this plan, the Agency will:

- establish the Council for Anti-Money Laundering,
- supervise money laundering and terrorist financing within regular supervisions,
- carry out special supervisions at the request of the Department for Anti-Money Laundering,
- continuously educate employees in supervisory groups on new occurrences and methods of money laundering in the non-banking sector,
- organize meetings with other regulatory bodies in the Republic of Croatia,
- organize education on prevention of money laundering for market participants,
- include prevention of money laundering and terrorist financing as an obligatory subject in the educational programme for brokers, investment advisors and pension fund managers,
- publish instructions (insurance, capital market) for the purpose of easier identification of suspicious transactions related to the money laundering and terrorist financing.

On 21 June 2006, the explanatory screening meeting for Chapter 6 - Company law was held in Bruxelles, while on 19 July 2006 the bilateral screening meeting took place, with the aim of analysing this part of the *acquis communautaire*, which includes two subchapters - Company law and management and Financial reporting. The company law *acquis* includes rules on the formation, registration, domestic and cross-border merger and division of companies. In the field of financial reporting, the *acquis* specifies rules on preparation of annual and consolidated reports, including simplified rules for small- and medium-sized companies. In addition to participating in the screening and assessment of the degree of alignment of the national legislation with the *acquis communautaire*, Agency's employees also participated in the preparation of the draft proposal of the Negotiating position for this chapter which was adopted by the Government of the Republic of Croatia on 1 February 2007.

Chapter 9 - Financial services includes providing financial services in the areas of banking, insurance, securities markets and investment services.

For the purpose of aligning with the *acquis*, and with respect to the fields covered by Chapter 9, Agency's employees participated in the explanatory screening phase for Chapter 9 - Financial Services, held in Bruxelles on 29 and 30 March 2006, with the aim of analysing the *acquis communautaire* in this area. The relevant EU legislation, among others legislation for the insurance, pension funds and securities market was presented, for the purpose of collecting information for the preparation of the bilateral screening held in Bruxelles on 4 and 5 May 2006.

The bilateral screening phase covered the overview of the current state obtained by comparison of the national legislation with the *acquis communautaire*, the overview of the administrative capacity for the enforcement of the legislation, and plans for the alignment of the legislation. The presentations of the Agency representatives covered the following topics:

- Insurance representation and brokerage
- Administrative framework for the supervision of the non-banking sector, supervision of insurance companies and pension funds
- Voluntary pension insurance sponsored by the employer
- Annual and consolidated financial reports of insurance companies
- Groups of insurance companies
- Reinsurance
- Life insurance
- Non-life insurance and related international agreements
- Reorganization and winding-up of insurance companies
- Administrative capacity for the supervision of the securities market and investment services
- Financial instruments markets
- Investment insurance system
- UCITS
- Prospectus
- Market abuse
- Transparency requirements for companies trading on an organised market.

In addition to participating in the screening and assessment of the degree of the alignment of the national legislation with the *acquis communautaire*, the working group for the preparation for negotiations on Chapter 9 also participated in the preparation of the draft proposal of the Negotiating position for this chapter which was adopted by the Government of the Republic of Croatia on 28 March 28 2007.

With respect to the process of accession to the EU, Agency's employees participated in the preparation of the National Programme for the Integration of the Republic of Croatia into the European Union for 2007, in the field related to the legislative and enforcement activities concerning the accession of the Republic of Croatia to the EU in Chapter 9, i.e. concerning all the acts and subordinate regulations which are planned to be adopted in 2007, and which will enable the alignment with the *acquis communautaire*.

It is also important to mention the participation at the meetings of the Subcommittee on Economic and Financial Affairs, Subcommittee on Statistics, Subcommittee on Internal Market and Market Competition, all according to the Stabilisation and Association Agreement between the EU and its Member States and the Republic of Croatia.

## Consumer Protection

Article 14 of the Act on Croatian Financial Services Supervisory Agency stipulates one of the principles of the Agency which implies reporting to consumers, which includes development of the awareness of the benefits and risks connected with various types of investments and financial activities. The Agency monitors, analyses and takes measures aimed at consumer protection and also receives complaints and notes submitted by consumers in connection with the provisions of the acts within the scope of activities and competence of the Agency, as well as of the Consumer Protection Act in the field related to services provided on the financial market.

In 2006, a total of 44 cases were opened, 35 of which related to the consumers complaining about operations of the entities supervised by the Agency, while the remaining 9 were directed at the Agency itself and concerned providing information from the scope of activities of the Agency, aimed at the consumer protection.

**Table 55 Number of Complaints for Each Supervised Entity in 2006**

	Number of complaints
Jadransko osiguranje d.d.	5
Osiguranje Zagreb d.d.	5
Euroherc osiguranje d.d.	4
Kvarner Wiener Städtische d.d.	4
Croatia osiguranje d.d.	3
Libertas osiguranje d.d.	2
Sunce osiguranje d.d.	2
Grawe Hrvatska d.d.	2
Addenda zdravstveno osiguranje d.d.	2
HOK osiguranje d.d.	1
Generali životno osiguranje d.d.	1
Alianz Zagreb d.d.	1
Triglav osiguranje d.d.	1
Uniqa osiguranje d.d.	1
HPB Invest d.o.o.	1

Source: HANFA

## Employee Education

During 2006, Agency's employees participated in a number of seminars in the Republic of Croatia and abroad whose topics were related to the objectives, principles, scope of activities and competence of the Agency. While selecting seminars for Agency's employees, precedence was given to those seminars which in addition to the topics relevant for the activities of the Agency provided emphasis on both theory and practical knowledge.

In 2006, Agency employees participated in the following seminars, meetings and counselling:

- Financial Restructuring of the Profit and Non-Profit Sector in Croatia, Pula
- IOSCO Emerging Markets Committee Meeting, Shanghai
- The 6th Euromoney Regional Finance and Investment Conference for SouthEast Europe, Cavtat
- Zagreb Stock Exchange Days, Rovinj
- Croatian Insurance Days 2006, Opatija
- IT Audit - Critical Security Issues, Zagreb
- IBM Forum, Umag
- Administrative Law and Practical Law Procedure, Opatija
- Conference on Market Competition, Zagreb
- Study Tours for Civil Servants and Officials: Bruxelles, Strasbourg, Luxembourg
- IAIS Insurance Core Principles Seminar, Zagreb
- International Financial Reporting Standards, Prague
- Specialist Seminar ISFR-7 Financial Instruments, Zagreb
- Regional Seminar on Selected Insurance Core Principles for Supervision in Central and East Europe, Vienna
- Development of Insurance Supervision in non EU Countries, London
- 7th International Professional Meeting of Leaders of the Actuarial Profession and Actuarial Educators in Central and Eastern Europe, Warsaw
- Anti-Money Laundering Seminar, organized by EBRD, Zagreb
- Counselling on Internal Audit and Control, Poreč
- Compliance in the Financial Sector, Bruxelles
- Project Management in WB-funded Projects: control of project delivery, procurement and financial management procedures, Turin
- Methodology of Preparation of EU Projects, Zagreb
- EU Accession Negotiation Training, Workshop 11-Financial Services, Zagreb.





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**Financial  
Report  
of the Agency**



## Agency's Financial Report

According to the provisions of Article 20 of the Act on Croatian Financial Services Supervisory Agency, the Agency can be financed:

- by the state budget funds,
- from fees from the assets and revenue of supervised entities and
- from fees for services from the scope of activities of the Agency provided.

In 2006, the Agency was financed from fees for services provided and from fees from the assets and revenue of supervised entities. The Agency did not use the state budget funds for financing its activities.

In 2006, the Agency recorded income in amount of HRK 43.0 million, most of which (HRK 41.9 million) was generated on the basis of fees from the assets and revenue of supervised entities and fees from the services from the scope of activities of the Agency provided. The expenditures amounted to HRK 20.6 million. Out of total expenditures, gross salaries for the employees accounted for 66.5%, while the remaining expenditures amounted to 33.5%.

The type and level of the fees which constitute the Agency's income and supervised entities' obligations are regulated by the Ordinance on the calculation, level and charging of the fees paid to the Croatian Financial Services Supervisory Agency<sup>49</sup>, and Ordinance on type and level of the fees and administrative fees paid to the Croatian Financial Services Supervisory Agency<sup>50</sup>. These Ordinances were adopted on the basis of Article 20 of the Act on Croatian Financial Services Supervisory Agency<sup>51</sup>.

As at 31 December 2006, total assets of the Agency amounted to HRK 34.1 million, of which long-term assets accounted for HRK 5.6 million, while the remaining HRK 28.5 million constituted the short-term assets of the Agency.

Due to the fact that in 2006 the Agency financed its activities exclusively from the fees from the assets and revenue of supervised entities, and these fees were paid accordingly in time, according to the balance sheet, the Agency had no unpaid receivables as at 31 December 2006. The Agency organizes bookkeeping along the lines of non-profit organizations.

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<sup>49</sup> Official Gazette 105/06

<sup>50</sup> Official Gazette 45/06

<sup>51</sup> Official Gazette 140/05

Table 56 Balance Sheet for 2006

	Amount (in HRK)
<b>ASSETS</b>	
Long-term assets	5,566,908
Short-term assets	28,541,584
<b>TOTAL ASSETS</b>	<b>34,108,492</b>
<b>LIABILITIES</b>	
Sources of financing	34,108,492
<b>TOTAL LIABILITES</b>	<b>34,108,492</b>

Source: HANFA

Table 57 Income and Expenditure Account for 2006

	Amount (in HRK)
<b>INCOME</b>	<b>43,073,939</b>
Income from membership and other fees	41,923,779
Other income	1,150,160
<b>EXPENDITURE</b>	<b>20,653,659</b>
Material expenditure and depreciation	4,410,526
Expenditures for employees	14,003,891
Other expenditures	2,239,242
<b>DIFFERENCE: INCOME OVER EXPENDITURE</b>	<b>22,420,280</b>

Source: HANFA





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# **Appendix**

# Appendix

## Statistical Overview

Table A1 Number of Investment Funds

*End of period*

	2001	2002	2003	2004	2005	2006
<b>Open-end investment funds</b>	<b>14</b>	<b>27</b>	<b>37</b>	<b>41</b>	<b>56</b>	<b>72</b>
- with public offering	14	27	37	41	56	62
Cash	3	6	11	12	13	15
Bond	4	7	11	10	15	14
Balanced	4	9	9	11	15	18
Equity	3	5	6	8	13	15
- with private offering						9
- Open-end venture capital funds						1
<b>Closed-end investment funds</b>	<b>6</b>	<b>7</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>

Table A2 Net Assets of Investment Funds

*End of period, in HRK thousand*

	1999	2000	2001	2002	2003	2004	2005	2006
<b>Open-end investment funds</b>	23,951	168,835	1,306,652	2,462,855	2,941,801	4,527,735	<b>8,834,460</b>	<b>16,038,989</b>
- with public offering	23,951	168,835	1,306,652	2,462,855	2,941,801	4,527,735	8,834,460	15,719,074
Cash	789	165,145	801,151	1,581,385	1,802,671	2,880,958	4,660,176	4,274,744
Bond	0	0	318,766	628,671	612,188	667,235	1,451,489	1,138,589
Balanced	0	0	102,067	178,939	422,145	764,001	2,011,603	5,994,698
Equity	23,162	3,690	84,668	73,860	104,798	215,541	711,193	4,311,043
- with private offering								319,915
<b>Closed-end investment funds</b>	1,006,863	1,163,699	1,210,173	1,208,836	976,996	1,120,273	<b>1,537,356</b>	<b>2,443,431</b>

Table A3 Asset Structure of Open-End Investment Funds with Public Offering <sup>1)</sup>*End of period, in HRK thousand*

Type of assets	Equity	Balanced	Bond	Cash	Total
<b>Domestic assets</b>	<b>2,771,290</b>	<b>4,829,082</b>	<b>1,177,571</b>	<b>4,174,367</b>	<b>12,952,310</b>
Cash	322,893	148,506	18,322	302,012	791,733
Receivables	53,214	77,681	85,275	36,614	252,783
Securities and deposits	2,395,183	4,602,895	1,073,976	3,835,742	11,907,797
Shares and GDRs	1,693,295	1,612,994	8,903	679	3,315,871
Government bonds	202,526	1,348,208	551,162	131,574	2,233,470
Municipal bonds	2,009	9,801	8,745	5,931	26,486
Corporate bonds	62,503	409,066	295,345	26,467	793,381
Closed-end funds	1,980	4,073	0	0	6,053
Open-end funds	18,710	14,963	6,565	0	40,238
Short-term securities	100,152	274,390	19,370	1,609,239	2,003,151
Deposits	314,009	929,402	183,885	2,061,851	3,489,147
<b>Foreign assets</b>	<b>1,548,445</b>	<b>1,386,398</b>	<b>100,841</b>	<b>53,939</b>	<b>3,089,622</b>
Shares	1,209,201	320,918	968	1,707	1,532,794
Government bonds	65,580	172,377	81,984	52,232	372,173
Municipal bonds	0	0	0	0	0
Corporate bonds	0	6,150	12,434	0	18,584
Closed-end funds	0	0	0	0	0
Open-end funds	273,664	886,953	5,455	0	1,166,072
Short-term securities	0	0	0	0	0
Deposits	0	0	0	0	0
<b>Other assets</b>	<b>112,608</b>	<b>15,046</b>	<b>8,679</b>	<b>325,804</b>	<b>462,137</b>
<b>TOTAL ASSETS</b>	<b>4,432,342</b>	<b>6,230,526</b>	<b>1,287,093</b>	<b>4,554,110</b>	<b>16,504,071</b>
<b>TOTAL LIABILITIES</b>	<b>121,299</b>	<b>235,828</b>	<b>148,504</b>	<b>279,366</b>	<b>784,997</b>
<b>NET ASSETS</b>	<b>4,311,043</b>	<b>5,994,698</b>	<b>1,138,589</b>	<b>4,274,744</b>	<b>15,719,074</b>
Derivatives	-453	-806	106	315,222	314,068
Repurchase agreements	22,064	14,864	8,454	10,130	55,512

1) as at 31 December 2006

Table A4 Net Assets of Open-End Investment Funds with Public and Private Offering

End of period, in HRK thousand

Open-end Investment fund	Management company	Offering	Type	2001	2002	2003	2004	2005	2006
Aureus Balanced	AUREUS INVEST d.o.o.	JP	BA						37,014
Aureus Equity	AUREUS INVEST d.o.o.	JP	E					14,349	200,021
Aureus Private Fond	AUREUS INVEST d.o.o.	PP	E						69,162
Global Strategy	CAIB INVEST d.o.o.	JP	BA						0
Select Euro bond	CAIB INVEST d.o.o.	JP	BO		121,749	93,073	87,219	108,179	87,731
Select Europe	CAIB INVEST d.o.o.	JP	E	75,043	50,041	52,092	57,196	69,974	145,431
Select Novčani	CAIB INVEST d.o.o.	JP	C			61,356	108,519	176,230	77,768
Erste Adriatic Equity	ERSTE - INVEST d.o.o.	JP	E			22,404		32,894	441,293
Erste Balanced	ERSTE - INVEST d.o.o.	JP	BA	23,668	19,975	8,423	23,671	28,443	178,520
Erste Bond	ERSTE - INVEST d.o.o.	JP	BO			21,380	43,435	247,173	173,496
Erste Money	ERSTE - INVEST d.o.o.	JP	C				305,466	692,815	677,747
FIMA Bond	FIMA GLOBAL INVEST d.o.o.	JP	BO						5,105
FIMA equity	FIMA GLOBAL INVEST d.o.o.	JP	E				7,100	37,062	174,733
HPB Alpha Fond	HPB-INVEST d.o.o.	PP	E						7,917
HPB Dionički	HPB-INVEST d.o.o.	JP	E					18,673	69,852
HPB Dynamic	HPB-INVEST d.o.o.	JP	BA						35,655
HPB Global	HPB-INVEST d.o.o.	JP	BA					25,778	212,691
HPB Novčani	HPB-INVEST d.o.o.	JP	C					34,589	82,086
HPB Obveznički	HPB-INVEST d.o.o.	JP	BO					31,169	45,674
CIIOF-10	HYPO-ALPE-ADRIA INVEST d.d.	JP	BA						0
CIIOF-3	HYPO-ALPE-ADRIA INVEST d.d.	JP	BA						0
Hi-balanced	HYPO-ALPE-ADRIA INVEST d.d.	JP	BA		2,408	5,906	9,865	14,554	70,184
Hi-cash	HYPO-ALPE-ADRIA INVEST d.d.	JP	C			23,910	79,852	191,275	138,399
Hi-conservative	HYPO-ALPE-ADRIA INVEST d.d.	JP	BO		2,632	3,712	4,260	4,844	9,023
Hi-growth	HYPO-ALPE-ADRIA INVEST d.d.	JP	E		2,290	4,073	8,126	13,159	84,836
Capital One	ICAM d.o.o.	JP	BO				7,572	23,342	15,445
EQUINOX 1	ICAM d.o.o.	PP	BA						11,060
EQUINOX 2	ICAM d.o.o.	PP	BA						41,205
EQUINOX 3	ICAM d.o.o.	PP	BA						29,885
Hermes	ICAM d.o.o.	PP	BO						78,927
KWSO Capital Flex	ICAM d.o.o.	PP	BA						10,841
OXYGEN	ICAM d.o.o.	PP	BA						9,300
ICF Balanced	ICF INVEST d.o.o.	JP	BA					35,494	203,623
ICF Equity *	ICF INVEST d.o.o.	JP	E		11,169	9,180	7,653		
ICF Fixed Income	ICF INVEST d.o.o.	JP	BO		158,142	78,696	94,349	124,917	99,478
ICF Money Market	ICF INVEST d.o.o.	JP	C		32,869	130,879	441,475	211,550	25,388
Ilirika Jugoistočna Europa	ILIRIKA INVESTMENTS d.o.o.	JP	E				788	31,632	94,921
Ilirika Jugoistočna Europa Balanced	ILIRIKA INVESTMENTS d.o.o.	JP	BA						33,410
InterInvest Balanced	INTERINVEST d.o.o.	JP	BA						29,439
InterInvest Cash	INTERINVEST d.o.o.	JP	C						6,570
KD Adria Bond	KD INVESTMENTS d.o.o.	JP	BO			615	5,005	5,172	6,134
KD Balanced	KD INVESTMENTS d.o.o.	JP	BA						12,465
KD Victoria	KD INVESTMENTS d.o.o.	JP	E	1,162	2,829	10,131	49,860	170,006	277,842
OTP euro obveznički	OTP INVEST d.o.o.	JP	BO					5,578	6,599
OTP novčani	OTP INVEST d.o.o.	JP	C					7,500	53,727
OTP uravnoteženi	OTP INVEST d.o.o.	JP	BA					6,205	37,723
PBZ Bond	PBZ INVEST d.o.o.	JP	BO			30,984	36,288	196,325	177,908
PBZ Dollar	PBZ INVEST d.o.o.	JP	C					93,930	33,493
PBZ Equity	PBZ INVEST d.o.o.	JP	E					34,301	834,190
PBZ Euro novčani	PBZ INVEST d.o.o.	JP	C		50,348	50,629	58,232	250,885	173,028
PBZ Global	PBZ INVEST d.o.o.	JP	BA		43,860	69,457	111,825	297,309	1,402,798
PBZ Kunski novčani	PBZ INVEST d.o.o.	JP	C		12,989	94,289	141,631	289,072	408,460
PBZ Novčani	PBZ INVEST d.o.o.	JP	C	448,683	555,517	550,537	315,195	400,555	342,412
PROSPECTUS Global Equity	PROSPECTUS INVEST d.o.o.	JP	E						7,692
Raiffeisen Active	RAIFFEISEN INVEST d.o.o.	JP	E			22,562	31,570	67,064	65,679
Raiffeisen Balanced	RAIFFEISEN INVEST d.o.o.	JP	BA		29,782	47,101	237,745	789,209	1,869,526
Raiffeisen Bonds	RAIFFEISEN INVEST d.o.o.	JP	BO		66,593	116,677	159,837	446,314	317,098
Raiffeisen Cash	RAIFFEISEN INVEST d.o.o.	JP	C			178,791	275,368	679,722	731,214
Raiffeisen Central Europe	RAIFFEISEN INVEST d.o.o.	JP	E					78,525	1,047,319
RF 105	RAIFFEISEN INVEST d.o.o.	PP	BA						61,618
ST Balanced	ST INVEST d.o.o.	JP	BA			178	885	7,543	26,737
ST Bond	ST INVEST d.o.o.	JP	BO		3,789	3,093	3,887	1,720	5,046
ST Cash	ST INVEST d.o.o.	JP	C				12,894	13,914	9,940
ST Global Equity	ST INVEST d.o.o.	JP	E	8,463	7,531	6,759	8,547	10,716	19,268
ST US \$ Bond **	ST INVEST d.o.o.	JP	BO					415	3,211
ZB aktiv	ZB INVEST d.o.o.	JP	E						514,544
ZB bond	ZB INVEST d.o.o.	JP	BO	90,231	275,766	276,914	225,384	256,341	186,642
ZB euroaktiv	ZB INVEST d.o.o.	JP	E				44,701	132,839	333,421
ZB europlus	ZB INVEST d.o.o.	JP	C	228,535	344,190	256,660	241,965	138,359	64,135
ZB global	ZB INVEST d.o.o.	JP	BA	78,399	59,244	73,331	114,069	390,620	1,384,901
ZB plus	ZB INVEST d.o.o.	JP	C	352,468	585,473	434,240	900,361	1,479,779	1,450,378
ZB trend	ZB INVEST d.o.o.	JP	BA		23,670	203,769	265,941	416,449	460,012
<b>TOTAL</b>				1,306,652	2,462,855	2,941,801	4,527,735	8,834,460	16,038,989

1) Offering: JP – public offering, PP – private offering; Type: C – cash, BO – bond, BA – balanced, E – equity

Table B1 Number of Pension Funds <sup>1)</sup>*End of period*

	2002	2003	2004	2005	2006
Mandatory pension funds	7	4	4	4	4
Open-end voluntary pension funds		4	4	5	6
Closed-end voluntary pension funds				3	10
<b>TOTAL</b>	<b>7</b>	<b>8</b>	<b>8</b>	<b>12</b>	<b>20</b>

1) as at 29 December 2006

Table B2 Pension Funds' Membership <sup>1)</sup>*End of period*

	2002	2003	2004	2005	2006
Mandatory pension funds	983,310	1,070,932	1,170,092	1,248,931	1,322,010
Open-end voluntary pension funds		8,773	30,022	51,121	75,161
Closed-end voluntary pension funds				5336	10,633
<b>TOTAL</b>	<b>983,310</b>	<b>1,079,705</b>	<b>1,200,114</b>	<b>1,305,388</b>	<b>1,407,804</b>

1) as at 29 December 2006

Table B3 Pension Funds' Net Assets <sup>1)</sup>*End of period, in HRK thousand*

	2002	2003	2004	2005	2006
Mandatory pension funds	2,036,920	4,677,336	7,913,238	11,714,215	15,919,423
Open-end voluntary pension funds		29,591	95,682	206,269	397,335
Closed-end voluntary pension funds			1,235	7,682	60,303
<b>TOTAL</b>	<b>2,036,920</b>	<b>4,706,927</b>	<b>8,010,155</b>	<b>11,928,166</b>	<b>16,377,061</b>

1) as at 29 December 2006

Table B4 Investment Structure of Mandatory Pension Funds' Total Assets

*End of period, in HRK thousand*

Type of assets	2002	2003	2004	2005	2006
<b>DOMESTIC ASSETS</b>	<b>2,016,901</b>	<b>4,385,210</b>	<b>7,498,547</b>	<b>10,673,953</b>	<b>14,588,033</b>
Securities and deposits	1,886,332	4,136,219	7,174,461	10,294,567	14,313,666
Shares and GDRs	101,580	160,478	279,148	333,484	851,845
Government bonds	1,650,975	3,256,039	6,210,223	8,709,190	11,447,577
Municipal bonds		0	66,697	60,016	62,810
Corporate bonds		141,538	521,763	442,878	476,121
Closed-end investment funds	23,386	0	0	0	0
Open-end investment funds		0	0	258,985	1,147,996
Short-term securities	107,356	523,338	59,953	163,563	11,682
Deposits	3,034	54,827	36,676	326,450	315,635
<b>Cash</b>	<b>78,407</b>	<b>121,679</b>	<b>221,129</b>	<b>148,781</b>	<b>138,521</b>
<b>Receivables</b>	<b>52,162</b>	<b>127,313</b>	<b>102,957</b>	<b>230,604</b>	<b>135,845</b>
<b>FOREIGN ASSETS</b>	<b>102,750</b>	<b>406,317</b>	<b>585,955</b>	<b>1,318,030</b>	<b>1,456,965</b>
Shares	3,137	93,717	62,982	134,902	218,338
Government bonds	80,848	88,956	41,257	208,561	232,649
Municipal bonds		0	0	0	0
Corporate bonds		54,216	57,855	52,765	183,122
Closed-end investment funds	18,765	0	0	0	0
Open-end investment funds		169,427	423,862	921,801	822,855
Short-term securities		0	0	0	0
Deposits		0	0	0	0
<b>TOTAL ASSETS</b>	<b>2,119,651</b>	<b>4,791,527</b>	<b>8,084,502</b>	<b>11,991,983</b>	<b>16,044,997</b>
<b>NET ASSETS</b>	<b>2,036,920</b>	<b>4,677,336</b>	<b>7,913,238</b>	<b>11,714,215</b>	<b>15,919,423</b>

Table B5 Investment Structure of Voluntary Open-End Pension Funds' Total Assets

*End of period, in HRK thousand*

Type of assets	2003	2004	2005	2006
<b>DOMESTIC ASSETS</b>	<b>29,811</b>	<b>91,876</b>	<b>198,645</b>	<b>392,823</b>
Securities and deposits	24,283	87,013	186,430	376,158
Shares and GDRs	1,405	2,523	5,227	32,619
Government bonds	10,779	72,672	153,251	212,871
Municipal bonds	0	2,742	3,113	1,788
Corporate bonds	0	6,692	10,600	51,753
Closed-end investment funds	0	0	0	0
Open-end investment funds	0	550	13,384	50,457
Short-term securities	7,443	1,780	49	0
Deposits	4,656	54	805	26,669
<b>Cash</b>	<b>5,528</b>	<b>4,863</b>	<b>12,212</b>	<b>14,623</b>
<b>Receivables</b>			<b>4</b>	<b>2,042</b>
<b>FOREIGN ASSETS</b>	<b>2,057</b>	<b>6,825</b>	<b>11,905</b>	<b>22,818</b>
Shares	0	0	0	1,889
Government bonds	0	0	0	0
Municipal bonds	0	0	0	0
Corporate bonds	0	0	0	0
Closed-end investment funds	0	0	0	0
Open-end investment funds	2,057	6,825	11,905	20,930
Short-term securities	0	0	0	0
Deposits	0	0	0	0
<b>TOTAL ASSETS</b>	<b>31,868</b>	<b>98,701</b>	<b>210,550</b>	<b>415,641</b>
<b>NET ASSETS</b>	<b>29,591</b>	<b>95,682</b>	<b>206,269</b>	<b>397,335</b>

Table C1 Number of Insurance and Reinsurance Companies

*End of period*

	2000	2001	2002	2003	2004	2005	2006
Life assurance	2	3	4	4	4	5	4
Non-life insurance	9	8	6	7	8	7	5
Composite	15	13	13	13	12	11	11
Reinsurance	1	1	1	1	2	2	2
<b>TOTAL</b>	<b>27</b>	<b>25</b>	<b>24</b>	<b>25</b>	<b>26</b>	<b>25</b>	<b>22</b>

Table C2 Balance Sheet

*End of period, in HRK thousand*

	2000	2001	2002	2003	2004	2005	2006
<b>ASSETS</b>							
Subscribed capital unpaid	16,895	1,758	1,200	0	18,000	0	
Intangible assets	61,354	64,333	76,579	85,551	149,533	106,642	113,105
Investments	6,254,605	7,430,310	8,719,708	10,105,279	11,471,709	13,500,088	16,493,589
Investments for the benefit of life assurance policyholders who bear the investment risk	246	246	246	459	1,547	56,518	153,439
Receivables	1,640,333	1,431,238	1,497,592	1,577,991	1,736,545	1,981,409	1,991,263
Other assets	545,988	644,104	656,771	752,946	815,723	702,569	665,863
Prepayments and accrued income	96,038	98,126	144,722	166,332	213,484	215,923	245,541
<b>TOTAL ASSETS</b>	<b>8,615,458</b>	<b>9,670,115</b>	<b>11,096,818</b>	<b>12,688,558</b>	<b>14,406,541</b>	<b>16,563,149</b>	<b>19,662,801</b>
<b>LIABILITIES AND SHAREHOLDERS CAPITAL</b>							
Capital and reserves	1,500,296	1,753,120	1,883,987	2,121,054	2,194,875	2,639,069	3,885,779
Subordinate liabilities							
Technical provisions	6,258,046	7,188,348	8,264,494	9,529,997	10,968,769	12,485,571	14,033,184
Technical provisions for life assurance policies where the investment risk is borne by the policyholders	0	688	720	449	1,528	56,194	153,401
Provisions for other risks and charges	25,347	27,272	28,004	26,862	25,984	42,169	62,596
Deposits received from reinsurance	3,201	5,235	17,863	39,490	62,151	121,840	221,314
Other liabilities	582,982	615,587	775,800	855,091	1,034,560	1,084,955	1,163,666
Accruals and deferred income	245,586	79,864	125,950	115,615	118,674	133,351	142,860
<b>TOTAL</b>	<b>8,615,458</b>	<b>9,670,115</b>	<b>11,096,818</b>	<b>12,688,558</b>	<b>14,406,541</b>	<b>16,563,149</b>	<b>19,662,801</b>

Table C3 Number of Insurance Policies

*End of period*

	<b>Line of insurance</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
1	Personal accident insurance	1,270,229	1,383,386	1,669,120	1,878,009	2,022,985	2,201,682	2,437,677
2	Health insurance	66,884	85,576	62,109	67,443	96,649	98,170	140,525
3	Insurance of land passenger cars	192,844	229,472	274,582	289,443	337,890	382,679	412,688
4	Insurance of railway locomotives and rolling stocks	462	437	49	41	52	172	98
5	Insurance of aircrafts	160	122	123	94	90	104	92
6	Insurance of vessels	4,138	4,931	6,197	6,698	7,647	8,606	10,370
7	Insurance of goods in transit	21,854	22,470	21,925	22,147	22,637	19,407	19,736
8	Insurance against fire and natural disasters	259,262	277,704	319,175	324,617	361,788	385,818	426,618
9	Other property insurance lines	371,963	361,778	399,631	428,606	477,145	492,252	523,646
10	Motor vehicle liability insurance	1,423,076	1,503,389	1,591,473	1,629,255	1,668,230	1,728,455	1,868,553
11	Aircraft liability insurance	125	155	156	130	171	161	181
12	Insurance of liability arising out of use of vessels	9,030	10,136	11,644	12,242	12,636	14,320	16,987
13	Other liability insurance lines	19,359	22,438	29,598	29,707	33,182	33,170	40,962
14	Credit insurance	1,443	14,267	13,230	21,672	23,938	17,027	13,021
15	Surety ship insurance	177	289	283	343	425	325	382
16	Insurance of miscellaneous losses	1,083	1,709	3,836	4,117	4,105	5,301	6,197
17	Insurance of legal protection	0	0	0	316	4,138	7,187	7,795
18	Travel insurance	5,906	6,401	8,041	16,293	18,493	21,911	30,760
19	Life assurance	486,108	575,703	665,479	737,283	800,110	914,990	1,064,308
	<b>TOTAL (non-life insurances, lines 1-18)</b>	<b>3,647,995</b>	<b>3,924,660</b>	<b>4,411,172</b>	<b>4,731,173</b>	<b>5,092,201</b>	<b>5,416,747</b>	<b>5,956,288</b>
	<b>TOTAL (life assurance, line 19)</b>	<b>486,108</b>	<b>575,703</b>	<b>665,479</b>	<b>737,283</b>	<b>800,110</b>	<b>914,990</b>	<b>1,064,308</b>
	<b>TOTAL</b>	<b>4,134,103</b>	<b>4,500,363</b>	<b>5,076,651</b>	<b>5,468,456</b>	<b>5,892,311</b>	<b>6,331,737</b>	<b>7,020,596</b>

Table C4 Gross Written Premium

*End of period, in HRK thousand*

	<b>Line of insurance</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
1	Personal accident insurance	331,048	362,986	398,785	448,293	458,305	469,950	500,316
2	Health insurance	285,323	324,619	172,952	104,579	127,375	187,244	221,466
3	Insurance of land passenger cars	466,045	574,136	682,616	717,858	794,640	867,882	959,096
4	Insurance of railway locomotives and rolling stocks	1,296	1,213	834	939	1,353	2,606	2,351
5	Insurance of aircrafts	28,760	38,323	37,566	25,412	27,547	35,815	34,153
6	Insurance of vessels	103,382	121,167	120,012	159,587	132,518	164,576	203,058
7	Insurance of goods in transit	58,003	63,301	72,080	62,266	59,185	64,358	71,613
8	Insurance against fire and natural disasters	356,165	370,371	372,746	397,826	412,553	439,882	469,086
9	Other property insurance lines	430,275	445,132	528,774	553,913	609,739	601,922	683,049
10	Motor vehicle liability insurance	1,542,304	1,668,449	1,779,501	1,957,113	2,111,469	2,246,038	2,450,936
11	Aircraft liability insurance	402	734	2,465	2,232	2,193	1,124	2,063
12	Insurance of liability arising out of use of vessels	29,792	29,312	31,006	25,738	24,350	28,680	32,227
13	Other liability insurance lines	92,647	107,631	136,258	151,965	174,311	193,869	224,447
14	Credit insurance	31,363	48,810	53,843	64,894	74,976	92,364	98,529
15	Surety ship insurance	617	1,020	1,100	1,031	2,019	1,684	2,529
16	Insurance of miscellaneous losses	12,868	14,972	34,116	40,455	38,355	46,245	48,769
17	Insurance of legal protection	0	0	0	725	1,889	3,098	2,864
18	Travel insurance	1,150	1,342	1,770	2,235	4,670	6,968	8,541
19	Life assurance	759,179	925,179	1,152,383	1,349,981	1,569,421	1,895,769	2,165,061
	<b>TOTAL (non-life insurances, lines 1-18)</b>	<b>3,771,438</b>	<b>4,173,518</b>	<b>4,426,424</b>	<b>4,717,061</b>	<b>5,057,446</b>	<b>5,454,304</b>	<b>6,015,094</b>
	<b>TOTAL (life assurance, line 19)</b>	<b>759,179</b>	<b>925,179</b>	<b>1,152,383</b>	<b>1,349,981</b>	<b>1,569,421</b>	<b>1,895,769</b>	<b>2,165,061</b>
	<b>TOTAL</b>	<b>4,530,617</b>	<b>5,098,697</b>	<b>5,578,807</b>	<b>6,067,042</b>	<b>6,626,867</b>	<b>7,350,074</b>	<b>8,180,156</b>

Table C5 Number of Claims

*End of period*

	<b>Line of insurance</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
1	Personal accident insurance	20,553	19,560	19,540	18,977	19,599	19,152	18,562
2	Health insurance	23,959	24,616	33,190	47,386	87,937	132,388	120,015
3	Insurance of land passenger cars	31,329	38,265	46,725	58,897	69,161	71,794	78,936
4	Insurance of railway locomotives and rolling stocks	12	4	2	11	21	13	45
5	Insurance of aircrafts	16	16	14	20	13	10	10
6	Insurance of vessels	518	458	539	663	658	825	887
7	Insurance of goods in transit	7,282	6,157	8,423	8,733	9,098	5,269	6,410
8	Insurance against fire and natural disasters	16,875	17,147	18,241	18,088	22,164	22,597	22,138
9	Other property insurance lines	84,318	84,871	82,793	82,534	84,935	87,203	86,856
10	Motor vehicle liability insurance	71,650	78,238	85,733	93,217	100,018	105,997	116,430
11	Aircraft liability insurance	0	0	6	1	1	1	1
12	Insurance of liability arising out of use of vessels	92	104	484	124	196	169	110
13	Other liability insurance lines	6,405	6,207	6,744	7,668	9,588	10,127	10,673
14	Credit insurance	3,760	2,116	3,415	2,554	3,159	3,507	4,806
15	Surety ship insurance	0	0	12	25	64	6	4
16	Insurance of miscellaneous losses	647	860	1,231	1,260	959	917	765
17	Insurance of legal protection	0	0	0	0	0	2	2
18	Travel insurance	190	254	366	432	560	691	654
19	Life assurance	19,859	18,690	17,666	19,752	21,592	20,667	25,301
	<b>TOTAL (non-life insurances, lines 1-18)</b>	<b>267,606</b>	<b>278,873</b>	<b>307,458</b>	<b>340,590</b>	<b>408,131</b>	<b>460,668</b>	<b>467,304</b>
	<b>TOTAL (life assurance, line 19)</b>	<b>19,859</b>	<b>18,690</b>	<b>17,666</b>	<b>19,752</b>	<b>21,592</b>	<b>20,667</b>	<b>25,301</b>
	<b>TOTAL</b>	<b>287,465</b>	<b>297,563</b>	<b>325,124</b>	<b>360,342</b>	<b>429,723</b>	<b>481,335</b>	<b>492,605</b>

Table C6 Claims Paid

*End of period, in HRK thousand*

	<b>Line of insurance</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
1	Personal accident insurance	151,297	156,287	162,085	155,079	162,175	157,349	155,325
2	Health insurance	131,502	130,201	127,820	100,581	97,395	110,783	126,199
3	Insurance of land passenger cars	274,915	335,511	404,860	497,183	578,539	604,180	655,626
4	Insurance of railway locomotives and rolling stocks	84	265	8	103	289	41	141
5	Insurance of aircrafts	6,097	976	2,661	657	558	974	6,486
6	Insurance of vessels	48,979	74,708	62,429	86,418	77,805	71,143	75,837
7	Insurance of goods in transit	22,153	27,838	17,142	29,461	17,026	17,058	24,077
8	Insurance against fire and natural disasters	148,142	117,671	165,184	139,645	157,169	162,113	200,371
9	Other property insurance lines	292,470	304,615	315,538	348,016	355,256	407,630	404,052
10	Motor vehicle liability insurance	1,088,830	1,152,139	1,172,337	1,286,947	1,327,199	1,385,872	1,590,194
11	Aircraft liability insurance	0	0	69	6	27	158	57
12	Insurance of liability arising out of use of vessels	18,041	8,082	27,585	7,817	5,960	10,017	5,841
13	Other liability insurance lines	54,242	59,608	91,383	72,367	72,645	93,933	94,490
14	Credit insurance	21,419	16,833	34,636	56,031	79,891	94,984	149,306
15	Surety ship insurance	0	0	1,066	688	1,921	-22	618
16	Insurance of miscellaneous losses	7,511	5,809	12,996	8,814	14,975	20,447	18,405
17	Insurance of legal protection	0	0	0	0	0	4	30
18	Travel insurance	684	757	1,281	1,487	2,370	3,192	3,009
19	<b>Life assurance</b>	129,622	158,401	143,855	173,422	259,748	315,131	421,048
	<b>TOTAL (non-life insurances, lines 1-18)</b>	<b>2,266,369</b>	<b>2,391,292</b>	<b>2,599,083</b>	<b>2,791,330</b>	<b>2,951,202</b>	<b>3,139,855</b>	<b>3,510,062</b>
	<b>TOTAL (life assurance, line 19)</b>	<b>129,622</b>	<b>158,401</b>	<b>143,855</b>	<b>173,422</b>	<b>259,748</b>	<b>315,131</b>	<b>421,048</b>
	<b>TOTAL</b>	<b>2,395,991</b>	<b>2,549,693</b>	<b>2,742,938</b>	<b>2,964,752</b>	<b>3,210,950</b>	<b>3,454,986</b>	<b>3,931,111</b>

Table D1 Aggregate Balance Sheet of Leasing Companies - Assets

*End of period, in HRK thousand*

	Description	2005		2006	
		30 September 2005 <sup>1)</sup>	31 December 2005 <sup>2)</sup>	30 September 2006 <sup>1)</sup>	31 December 2006 <sup>2)</sup>
	ASSETS				
<b>A.</b>	<b>LONG TERM ASSETS</b>	<b>18,661,533</b>	<b>18,409,748</b>	<b>24,369,570</b>	<b>24,699,527</b>
I.	INTANGIBLE ASSETS	14,726	44,611	49,632	75,073
II.	TANGIBLE ASSETS	7,837,557	7,708,095	10,474,156	10,402,958
2.1	Tangible assets in preparation (construction in progress)	729,851	768,634	1,305,621	1,602,920
2.2	Tangible assets given under operating lease	6,926,776	6,786,582	8,950,180	8,585,080
	In that assets given under operating lease to non-residents	9,773	26,015	13,951	32,249
2.2.1	Passenger cars	3,449,810	3,604,841	4,498,558	4,711,876
2.2.2	Commercial (load + transport) vehicles	793,165	813,913	886,363	956,534
2.2.3	Machines and equipment	857,700	936,450	1,083,023	1,039,250
2.2.4	Plant		31,063		27,877
2.2.5	Real estate (property)	1,361,454	966,788	1,807,588	1,179,058
2.2.6	Vessels	357,586	348,705	576,249	579,767
2.2.7	Other	107,060	84,822	98,398	90,719
2.3	Other tangible assets	180,930	152,880	218,355	214,958
III.	LONG-TERM FINANCE ASSETS	4,235,302	4,398,594	5,400,335	5,663,369
3.1	Investments in subsidiaries, associations and joint ventures	311	1,261	373	18,828
3.2	Long-term loans to related parties	381	1,413	205	189,459
3.3	Investments in long-term securities	44,836	64,310	78,382	96,888
3.4	Long-term loans	4,183,996	4,326,719	5,316,819	5,351,956
3.5	Long-term deposits	-	0	962	650
3.6	Other finance assets	5,779	4,891	3,593	5,587
IV.	LONG TERM RECEIVABLES	6,573,948	6,258,448	8,445,448	8,558,127
4.1	Receivables under finance lease	6,570,246	6,258,187	8,437,745	8,547,397
4.2	Receivables from related parties	666	0	61	0
4.3	Other receivables	3,036	261	7,642	10,730
<b>B.</b>	<b>SHORT TERM ASSETS</b>	<b>1,683,768</b>	<b>1,933,714</b>	<b>2,062,039</b>	<b>2,172,971</b>
I.	INVENTORY	124,959	51,894	317,176	198,040
II.	SHORT TERM RECEIVABLES	806,817	1,242,884	1,182,911	1,313,182
2.1	Reveivables under operating lease	250,127	252,749	303,692	217,333
2.2	Receivables under finance lease	65,447	585,649	125,461	501,364
2.3	Related parties receivables	7,043	6,459	11,352	18,811
2.4	State and other institutions receivables	175,926	125,927	249,182	122,864
2.5	Other receivables	308,275	272,099	493,224	452,811
III.	SHORT TERM FINANCE ASSETS	252,211	417,874	366,007	309,862
	Investments in subsidiaries, associations and joint ventures	-	0	-	0
3.1	Investments in securities	20,990	2,504	35,800	16,710
3.2	Loans	135,867	278,122	73,248	187,571
3.3	Deposits	25,707	121,585	46,703	88,566
3.4	Other assets	69,647	15,663	210,256	17,015
IV.	CASH WITH BANKS AND IN HAND	499,781	221,063	195,945	351,887
<b>C.</b>	<b>PREPAYMENTS AND ACCRUED INCOME</b>	<b>41,928</b>	<b>60,140</b>	<b>91,525</b>	<b>96,093</b>
<b>D.</b>	<b>TOTAL ASSETS</b>	<b>20,387,229</b>	<b>20,403,602</b>	<b>26,523,135</b>	<b>26,968,591</b>
<b>E.</b>	<b>Off-balance sheet items</b>	<b>88,097</b>	<b>107,490</b>	<b>110,720</b>	<b>111,739</b>

Table D1 Aggregate Balance Sheet of Leasing Companies – Equity and Liabilities

*End of period, in HRK thousand*

	Description	2005		2006	
		30 September 2005 <sup>1)</sup>	31 December 2005 <sup>2)</sup>	30 September 2006 <sup>1)</sup>	31 December 2006 <sup>2)</sup>
	EQUITY AND LIABILITIES				
<b>A.</b>	<b>EQUITY</b>	<b>884,784</b>	<b>742,138</b>	<b>917,329</b>	<b>860,497</b>
I.	Subscribed capital	358,500	342,040	375,079	380,419
	In that owned by non-residents	147,937	180,619	151,646	197,350
II.	Revaluation reserves	3,950	733	3,388	5,692
III.	Other reserves	400,083	368,479	396,901	442,903
IV.	Retained earnings	-165,992	-196,210	-38,733	-58,419
V.	Net profit for the year	288,243	227,096	180,695	89,902
<b>B.</b>	<b>LONG TERM LIABILITIES</b>	<b>17,400,983</b>	<b>17,749,955</b>	<b>23,014,725</b>	<b>23,367,423</b>
I.	Liabilities toward related parties	10,051,463	10,330,070	11,897,664	12,463,863
II.	Foreign banks and financial institutions loans	5,876,006	5,818,973	9,008,242	8,837,153
III.	Domestic banks and financial institutions loans	415,874	388,555	767,907	558,976
IV.	Liabilities for advances, deposits and guarantees in respect of lease	981,406	1,112,955	1,243,774	1,384,174
	Liabilities for issued securities	-	0	-	0
V.	Other long term liabilities	76,234	99,401	97,138	123,258
<b>C.</b>	<b>SHORT TERM LIABILITIES</b>	<b>1,583,954</b>	<b>1,574,636</b>	<b>1,973,459</b>	<b>2,274,685</b>
I.	Short term liabilities toward related parties	632,457	545,226	612,039	601,178
II.	Foreign banks and financial institutions loans	217,407	358,047	468,028	572,944
III.	Domestic banks and financial institutions loans	154,377	150,312	212,880	331,988
	Liabilities for short-term securities	-	0	-	0
IV.	Liabilities for advances, deposits and guarantees in respect of lease	299,883	158,372	306,085	179,278
V.	Other short term liabilities	279,829	362,679	374,427	589,297
<b>D.</b>	<b>ACCRUALS AND DEFERRED INCOME</b>	<b>517,508</b>	<b>336,874</b>	<b>617,622</b>	<b>465,986</b>
<b>E.</b>	<b>TOTAL EQUITY AND LIABILITIES</b>	<b>20,387,229</b>	<b>20,403,602</b>	<b>26,523,135</b>	<b>26,968,591</b>
F.	Off-balance sheet items	88,097	107,490	110,720	111,739

1) Preliminary data for 66 companies registered for lease activities on 30 September 2006

2) Data for 57 companies registered for lease activities on 31 December 2006

Table D2 Aggregate Profit and Loss Account of Leasing Companies <sup>1)</sup>*End of period, in HRK thousand*

	Description	01 Jan -31 Dec 2006	01 Jan -31 Dec 2005	Dynamics 2006/2005	Change (2006-2005)
1	INTEREST INCOME (2+3+4)	970,066	815,269	118,99	154,797
2	Interest income - from financial lease	586,212	473,871	123,71	112,341
3	Interest income- from loans	310,771	270,447	114,91	40,324
4	Other interest income	73,083	70,951	103,01	2,132
5	INTEREST EXPENSE ( 6+7+8)	810,481	564,557	143,56	245,924
6	Interest expense for loans from domestic banks	62,981	50,706	124,21	12,275
7	Interest expense for loans form foreign banks	707,905	481,127	147,13	226,778
8	Other interest expenses	39,595	32,724	121,00	6,871
9	NET INTEREST INCOME (1-5)	159,585	250,712	63,65	-91,127
10	FEE AND COMMISSION INCOME	68,568	48,700	140,80	19,868
11	FEE AND COMMISSION EXPENSE	26,854	20,138	133,35	6,715
12	NET FEE AND COMMISSION INCOME (10-11)	41,714	28,562	146,05	13,152
13	OTHER OPERATING INCOME(14+...+21)	8,430,764	7,158,835	117,77	1,271,929
14	Income from operate lease	2,050,327	1,626,137	126,09	424,190
15	Income from refund expenses and damages on assets in operate lease	167,771	150,092	111,78	17,679
16	Gain from disposed assets in operate lease	75,638	148,740	50,85	-73,102
17	Income from disposed assets in financial lease	34,006	202,296	16,81	-168,290
18	Income from "sale" under financial lease	4,906,320	3,822,818	128,34	1,083,502
19	Gain from other disposed assets	391,093	2,921	13,390,23	388,173
20	Income from foreign exchange differences	565,439	963,485	58,69	-398,045
21	Other income	240,170	242,348	99,10	-2,178
22	OTHER OPERATING EXPENSES (23+...+32)	8,345,309	6,987,323	119,43	1,357,986
23	Depreciation of assets in operate lease	1,699,764	1,424,598	119,32	275,166
24	Depreciation of other assets	21,101	18,055	116,87	3,046
25	Refunded expenses and damages on assets in operate lease	163,157	136,325	119,68	26,832
26	Loss from disposed assets in operate lease	407,286	115,072	353,94	292,214
27	Cost value of assets under financial lease	4,930,708	4,008,826	123,00	921,882
28	Loss from other disposed assets	19,969	551	3,622,06	19,418
29	Employee expenses	172,058	143,336	120,04	28,722
30	General and administrative expenses	222,713	177,737	125,30	44,976
31	Expenses from foreign exchange differences	541,242	817,504	66,21	-276,263
32	Other expenses	167,310	145,317	115,13	21,993
33	NET PROFIT/LOSS FROM OTHER OPERATING ACTIVITIES (13-22)	85,456	171,513	49,82	-86,057
34	Provisions for bad and doubtful receivables	146,611	167,710	87,42	-21,099
35	TOTAL INCOME (1+10+13)	9,469,398	8,022,804	118,03	1,446,594
36	TOTAL EXPENSE( 5+11+22+34)	9,329,254	7,739,727	120,54	1,589,526
37	PROFIT/LOSS BEFORE TAX (35-36)	140,144	283,077	49,51	-142,933
38	INCOME TAX	50,242	55,980	89,75	-5,738
39	NET PROFIT FOR THE YEAR (37-38)	89,902	227,096	39,59	-137,195

1) Data for 57 companies registered for lease activities on 31 December 2006

Table D3 Structure of Operating Lease Contracts by Object of Lease

*End of period, in HRK thousand*

Number of active contracts	2005		2006	
	30 September 2005 <sup>1)</sup>	31 December 2005 <sup>2)</sup>	30 September 2006 <sup>1)</sup>	31 December 2006 <sup>2)</sup>
Passenger cars	35,147	40,371	52,804	50,801
Commercial (load + transport) vehicles	5,857	7,879	8,974	9,042
Machines and equipment	1,127	2,004	2,657	2,336
Plant	2	14	2	13
Real estate (property)	89	91	121	118
Vessels	87	335	466	514
Other	371	338	424	789
<b>TOTAL</b>	<b>42,680</b>	<b>51,032</b>	<b>65,448</b>	<b>63,613</b>

1) Preliminary data for 66 companies registered for lease activities on 30 September 2006

2) Data for 57 companies registered for lease activities on 31 December 2006

Contracted value	2005		2006	
	30 September 2005 <sup>1)</sup>	31 December 2005 <sup>2)</sup>	30 September 2006 <sup>1)</sup>	31 December 2006 <sup>2)</sup>
Passenger cars	4,417,608	5,023,122	6,585,566	6,391,657
Commercial (load + transport) vehicles	1,168,316	1,688,519	1,718,065	1,976,496
Machines and equipment	602,209	1,103,303	1,358,828	1,252,528
Plant	20,594	32,540	20,437	32,084
Real estate (property)	1,248,808	888,680	1,719,705	1,360,724
Vessels	94,186	490,707	592,337	781,817
Other	147,049	110,965	176,627	173,540
<b>TOTAL</b>	<b>7,698,770</b>	<b>9,337,836</b>	<b>12,171,566</b>	<b>11,968,846</b>

1) Preliminary data for 66 companies registered for lease activities on 30 September 2006

2) Data for 57 companies registered for lease activities on 31 December 2006

Table D4 Structure of Active Finance Lease Contracts by Object of Lease

*End of period, in HRK thousand*

Number of active contracts	2005		2006	
	30 September 2005 <sup>1)</sup>	31 December 2005 <sup>2)</sup>	30 September 2006 <sup>1)</sup>	31 December 2006 <sup>2)</sup>
Passenger cars	21,663	23,428	27,126	28,929
Commercial (load + transport) vehicles	8,010	9,731	11,399	11,494
Machines and equipment	4,237	4,937	6,847	5,703
Plant	27	22	5	25
Real estate (property)	139	205	306	413
Vessels	325	389	461	521
Other	305	624	476	890
<b>TOTAL</b>	<b>34,706</b>	<b>39,336</b>	<b>46,620</b>	<b>47,975</b>

1) Preliminary data for 66 companies registered for lease activities on 30 September 2006

2) Data for 57 companies registered for lease activities on 31 December 2006

Financed value	2005		2006	
	30 September 2005 <sup>1)</sup>	31 December 2005 <sup>2)</sup>	30 September 2006 <sup>1)</sup>	31 December 2006 <sup>2)</sup>
Passenger cars	2,607,004	2,754,947	3,408,208	3,760,242
Commercial (load + transport) vehicles	1,797,211	2,327,840	2,738,301	2,920,447
Machines and equipment	1,440,310	1,794,568	2,445,503	2,321,544
Plant	1,123,513	16,210	2,103	21,027
Real estate (property)	672,586	2,068,659	2,332,098	2,694,705
Vessels	230,016	290,233	364,172	416,852
Other	144,051	143,867	164,943	225,738
<b>TOTAL</b>	<b>8,014,690</b>	<b>9,396,325</b>	<b>11,455,327</b>	<b>12,360,555</b>

1) Preliminary data for 66 companies registered for lease activities on 30 September 2006

2) Data for 57 companies registered for lease activities on 31 December 2006

Table D5 Structure of Active Loan Contracts by Object of Lease

*End of period, in HRK thousand*

Number of active contracts	2005		2006	
	30 September 2005 <sup>1)</sup>	31 December 2005 <sup>2)</sup>	30 September 2006 <sup>1)</sup>	31 December 2006 <sup>2)</sup>
Passenger cars	12,862	13,170	13,886	13,282
Commercial (load + transport) vehicles	4,498	5,119	5,284	5,029
Machines and equipment	1,267	2,510	1,365	2,628
Plant	10	18	9	21
Real estate (property)	526	601	718	743
Vessels	368	423	512	504
Other	1,450	360	1,782	307
<b>TOTAL</b>	<b>20,981</b>	<b>22,201</b>	<b>23,556</b>	<b>22,514</b>

1) Preliminary data for 66 companies registered for lease activities on 30 September 2006

2) Data for 57 companies registered for lease activities on 31 December 2006

Financed value	2005		2006	
	30 September 2005 <sup>1)</sup>	31 December 2005 <sup>2)</sup>	30 September 2006 <sup>1)</sup>	31 December 2006 <sup>2)</sup>
Passenger cars	1,293,774	1,268,266	1,418,533	1,302,187
Commercial (load + transport) vehicles	926,167	1,073,444	1,126,628	1,092,869
Machines and equipment	565,402	1,095,900	616,651	1,110,066
Plant	208,145	5,593	5,105	8,639
Real estate (property)	1,941,570	2,268,097	3,650,550	4,026,892
Vessels	292,567	325,170	410,178	394,886
Other	617,664	197,654	744,161	190,978
<b>TOTAL</b>	<b>5,845,289</b>	<b>6,234,124</b>	<b>7,971,806</b>	<b>8,126,518</b>

1) Preliminary data for 66 companies registered for lease activities on 30 September 2006

2) Data for 57 companies registered for lease activities on 31 December 2006

# Insurance Market

Table: Capital Adequacy of Insurance and Reinsurance Companies as at 31 December 2006

INSURANCE COMPANY	CAPITAL ADEQUACY							
	LIFE				NON-LIFE			
	GF >= 1/3 SM	GF >= min FC	C >= SM	TRUE	GF >= 1/3 SM	GF >= min FC	C >= SM	TRUE
Agram životno osiguranje d.d.	yes	yes	yes	yes	yes	yes	yes	yes
Allianz Zagreb d.d.	yes	yes	yes	yes	yes	yes	yes	yes
Basler osiguranje d.d.	yes	yes	yes	yes	yes	yes	yes	yes
Basler životno osiguranje d.d.	yes	yes	yes	yes	yes	yes	yes	yes
Cosmopolitan Life d.d.	yes	yes	yes	yes	yes	yes	yes	yes
Croatia osiguranje d.d.	yes	yes	yes	yes	yes	yes	yes	yes
Croatia zdravstveno osiguranje d.d.	yes	yes	yes	yes	yes	yes	yes	yes
Erste Sparkassen osiguranje d.d.	yes	yes	yes	yes	yes	yes	yes	yes
Euroherc osiguranje d.d.	yes	yes	yes	yes	yes	yes	yes	yes
Generali osiguranje d.d.	yes	yes	yes	yes	yes	yes	yes	yes
GRAWE Hrvatska d.d.	yes	yes	yes	yes	yes	yes	yes	yes
Osiguranje Helios d.d.	yes	yes	yes	yes	yes	yes	yes	yes
HOK osiguranje d.d.	yes	yes	yes	yes	yes	yes	yes	yes
Jadransko osiguranje d.d.	yes	yes	yes	yes	yes	yes	yes	yes
Kvarner Wiener Städtische osiguranje d.d.	yes	yes	yes	yes	yes	yes	yes	yes
Merkur osiguranje d.d.	yes	yes	yes	yes	yes	yes	yes	yes
Sunce osiguranje d.d.	yes	yes	yes	yes	yes	yes	yes	yes
Triglav osiguranje d.d.	yes	yes	yes	yes	yes	yes	yes	yes
UNIQA osiguranje d.d.	yes	yes	yes	yes	yes	yes	yes	yes
Osiguranje Zagreb d.d.	yes	yes	yes	yes	yes	yes	yes	yes
Allianz reosiguranje d.d.	yes	yes	yes	yes	yes	yes	yes	yes
Croatia Lloyd d.d.	yes	yes	yes	yes	yes	yes	yes	yes

GF = GUARANTEE FUND

SM = SOLVENCY MARGIN

FC = FOUNDATION CAPITAL

TRUE = ACCEPTABLE (MEET ALL CONDITIONS )

Table: Guarantee Fund and Solvency Margin Ratio of Insurance and Reinsurance Companies as at 31 December 2006

in HRK

INSURANCE COMPANY	GUARANTEE FUND (according to Article 100 of Insurance Act)		SOLVENCY MARGIN (according to Article 98 and 99 of Insurance Act)		1/3 SOLVENCY MARGIN		SOLVENCY MARGIN DEVIATION ( $\geq 1/3$ )	
	LIFE	NON-LIFE	LIFE	NON-LIFE	LIFE	NON-LIFE	LIFE	NON-LIFE
Agram životno osiguranje d.d.	89,695,689		25,270,254		8,423,418		81,272,271	
Allianz Zagreb d.d.	54,858,677	110,934,828	30,374,772	65,589,942	10,124,924	21,863,314	44,733,753	89,071,514
Basler osiguranje d.d.		27,245,120		3,484,509		1,161,503		26,083,617
Basler životno osiguranje d.d.	24,738,986		3,266,334		1,088,778		23,650,208	
Cosmopolitan Life d.d.	28,251,344		5,956,400		1,985,467		26,265,878	
Croatia osiguranje d.d.	66,788,720	1,070,903,738	49,876,389	341,368,311	16,625,463	113,789,437	50,163,257	957,114,301
Croatia zdravstveno osiguranje d.d.		29,948,676		8,280,271		2,760,090		27,188,586
Erste Sparkassen osiguranje d.d.	24,575,979		1,978,046		659,349		23,916,630	
Euroherc osiguranje d.d.		563,879,103		122,773,262		40,924,421		522,954,682
Generali osiguranje d.d.	38,707,106	46,876,670	9,156,483	4,588,523	3,052,161	1,529,508	35,654,945	45,347,163
GRAWE Hrvatska d.d.	167,866,233	86,646,520	53,876,958	17,586,580	17,958,986	5,862,193	149,907,247	80,784,326
Helios osiguranje d.d.	39,728,018	22,747,832	14,192,352	14,433,013	4,730,784	4,811,004	34,997,234	17,936,828
HOK osiguranje d.d.		23,088,729		759,699		253,233		22,835,496
Jadransko osiguranje d.d.		399,727,390		81,999,167		27,333,056		372,394,334
Kvarner Wiener Städtische osiguranje d.d.	141,729,411	66,893,838	15,111,868	21,302,533	5,037,289	7,100,844	136,692,122	59,792,994
Merkur osiguranje d.d.	87,776,166	28,221,986	38,620,881	4,507,648	12,873,627	1,502,549	74,902,538	26,719,437
Sunce osiguranje d.d.		80,295,807		16,542,840		5,514,280		74,781,527
Triglav osiguranje d.d.	22,776,592	42,166,479	5,490,108	37,827,575	1,830,036	12,609,192	20,946,556	29,557,287
UNIQA osiguranjed.d.	28,311,087	30,164,764	5,322,302	3,417,756	1,774,101	1,139,252	26,536,986	29,025,512
Osiguranje Zagreb d.d.	39,516,989	36,046,942	36,946,929	31,235,493	12,315,643	10,411,831	27,201,346	25,635,111
Allianz reosiguranje d.d.		24,098,012		633,124		211,041		23,886,971
Croatia Lloyd d.d.		200,691,743		36,309,821		12,103,274		188,588,469

Table: Capital and Solvency Margin Ratio of Insurance and Reinsurance Companies as at 31 December 2006

in HRK

INSURANCE COMPANY	CAPITAL (according to Article 94 of Insurance Act)		SOLVENCY MARGIN (according to Articles 98 and 99 of Insurance Act)		SOLVENCY MARGIN DEVIATION (>=)	
	LIFE	NON-LIFE	LIFE	NON-LIFE	LIFE	NON-LIFE
Agram životno osiguranje d.d.	57,425,689		25,270,254		32,155,435	
Allianz Zagreb d.d.	54,858,677	88,434,828	30,374,772	65,589,942	24,483,905	22,844,886
Basler osiguranje d.d.		27,245,120		3,484,509		23,760,612
Basler životno osiguranje d.d.	24,738,986		3,266,334		21,472,652	
Cosmopolitan Life d.d.	28,251,344		5,956,400		22,294,944	
Croatia osiguranje d.d.	66,788,720	777,444,691	49,876,389	341,368,311	16,912,331	436,076,380
Croatia zdravstveno osiguranje d.d.		29,948,676		8,280,271		21,668,405
Erste Sparkassen osiguranje d.d.	24,575,979		1,978,046		22,597,933	
Euroherc osiguranje d.d.		534,004,865		122,773,262		411,231,602
Generali osiguranje d.d.	38,707,106	46,876,670	9,156,483	4,588,523	29,550,623	42,288,147
GRAWE Hrvatska d.d.	167,866,233	86,646,520	53,876,958	17,586,580	113,989,275	69,059,940
Osiguranje Helios d.d.	39,728,018	22,747,832	14,192,352	14,433,013	25,535,666	8,314,819
HOK osiguranje d.d.		23,088,729		759,699		22,329,030
Jadransko osiguranje d.d.		375,329,183		81,999,167		293,330,016
Kvarner Wiener Städtische osiguranje d.d.	141,679,411	66,701,838	15,111,868	21,302,533	126,567,543	45,399,305
Merkur osiguranje d.d.	87,776,166	28,221,986	38,620,881	4,507,648	49,155,284	23,714,338
Sunce osiguranje d.d.		76,395,807		16,542,840		59,852,967
Triglav osiguranje d.d.	22,776,592	41,843,579	5,490,108	37,827,575	17,286,484	4,016,004
UNIQA osiguranje d.d.	28,311,087	30,164,764	5,322,302	3,417,756	22,988,785	26,747,008
Osiguranje Zagreb d.d.	39,516,989	31,908,212	36,946,929	31,235,493	2,570,060	672,719
Allianz reosiguranje d.d.		24,098,012		633,124		23,464,888
Croatia Lloyd d.d.		179,204,149		36,309,821		142,894,328

Table: Basic Insurance-Technical Indicators

INSURANCE COMPANY	CLAIMS RATIO (%)		EXPENSE RATIO (%)		COMBINED RATIO (%)		RETURN ON INVESTMENT (%)		DEBT RATIO		ROE (%)		ROA(%)	
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
Addenda osiguranje d.d.	58.78		67.93		126.71		4.70		1.08		-118.21		-50.36	
Agram životno osiguranje d.d.	72.76	54.37	17.36	43.35	90.12	97.73	2.60	3.83	0.91	0.84	70.02	25.43	3.72	3.28
Allianz Zagreb d.d.	69.24	71.58	31.35	31.06	100.59	102.65	3.33	6.26	0.88	0.88	19.18	29.47	2.01	2.71
Basler osiguranje d.d.	55.38	50.77	45.94	62.03	101.32	112.80	14.30	2.76	0.55	0.58	4.26	-1.90	1.85	-0.81
Basler životno osiguranje d.d.	66.35	72.06	57.79	36.37	124.14	108.44	11.54	2.34	0.58	0.70	0.20	-6.67	0.09	-2.13
Cosmopolitan Life d.d.	57.61	57.90	57.39	50.77	115.00	108.67	3.48	4.61	0.73	0.76	1.51	3.10	0.41	0.72
Croatia osiguranje d.d.	72.25	75.29	42.62	42.24	114.88	117.53	2.69	4.51	0.84	0.80	11.86	9.11	1.72	1.68
Croatia zdravstveno osiguranje d.d.	45.66	49.60	53.06	36.98	98.72	86.58	1.28	1.37	0.43	0.61	0.33	1.34	0.19	0.51
Erste Sparkassen osiguranje d.d.	0.00	69.97	0.00	48.72	0.00	118.70	0.00	2.84	0.00	0.65	0.00	-21.02	0.00	-9.22
Euroherc osiguranje d.d.	65.39	60.19	33.43	36.96	98.82	97.15	4.59	2.78	0.78	0.66	14.28	7.21	2.71	2.31
Generali osiguranje d.d.	27.66	63.26	319.99	98.44	347.65	161.70	6.23	2.97	0.39	0.79	-20.62	-14.66	-15.81	-3.52
Generali životno osiguranje d.d.	85.27		108.26		193.53		2.32		0.75		-30.26		-10.88	
GRAWE Hrvatska d.d.	77.61	90.73	26.18	28.99	103.79	119.73	5.48	5.35	0.92	0.92	18.12	15.98	1.18	1.04
Osiguranje Helios d.d.	90.73	97.32	38.15	42.33	128.88	139.65	5.06	7.57	0.92	0.91	2.71	2.29	0.20	0.20
HOK osiguranje d.d.	61.92	59.99	35.48	44.79	97.40	104.78	5.99	2.27	0.57	0.32	8.23	1.63	3.27	1.09
Jadransko osiguranje d.d.	63.16	59.14	30.29	38.25	93.44	97.39	1.90	1.46	0.76	0.59	17.80	5.61	3.69	2.19
Kvarner Wiener Städtische osiguranje d.d.	66.54	63.73	40.51	46.21	107.05	109.94	1.46	5.79	0.83	0.84	0.19	4.48	0.03	0.67
Libertas osiguranje d.d.	47.17		58.08		105.25	0.00	1.02		0.73		34.67		6.98	
Merkur osiguranje d.d.	73.88	87.88	25.20	28.08	99.08	115.97	2.80	4.73	0.91	0.90	34.30	11.87	2.34	1.10
Sunce osiguranje d.d.	65.03	76.02	28.64	28.78	93.66	104.80	10.51	6.49	0.80	0.68	5.44	5.01	1.05	1.55
Triglav osiguranje d.d.	79.56	71.94	40.93	40.49	120.49	112.42	4.88	6.95	0.92	0.86	-48.19	5.06	-7.03	0.69
UNIQA osiguranje d.d.	39.84	67.20	52.49	48.23	92.32	115.44	2.35	3.65	0.77	0.78	8.32	3.57	1.79	0.75
Osiguranje Zagreb d.d.	74.39	66.48	47.39	44.50	121.78	110.98	9.75	4.58	0.94	0.94	1.73	14.10	0.10	0.74
Allianz reosiguranje d.d.	0.00	156.32	0.00	124.25	0.00	280.57	0.00	5.89	0.03	0.20	2.07	2.21	1.96	1.73
Croatia Lloyd d.d.	79.06	71.26	3.87	9.43	82.93	80.69	4.29	2.82	0.64	0.62	19.09	20.64	5.74	6.55
<b>TOTAL</b>	<b>70.50</b>	<b>70.83</b>	<b>37.75</b>	<b>39.44</b>	<b>108.25</b>	<b>110.28</b>	<b>3.88</b>	<b>4.49</b>	<b>0.84</b>	<b>0.80</b>	<b>9.94</b>	<b>8.71</b>	<b>1.44</b>	<b>1.58</b>

Table: Claims Incurred in Non-Life Insurance in Gross Amounts, 1 January - 31 December

*in HRK thousand*

INSURANCE COMPANY	CLAIMS PAID, GROSS AMOUNTS			CLAIMS IN CLAIMS PROVISIONS GROSS AMOUNTS			TOTAL CLAIMS INCURRED GROSS AMOUNTS		
	2005	2006	Dynamics 2006/2005	2005	2006	Dynamics 2006/2005	2005	2006	Dynamics 2006/2005
Addenda osiguranje d.d.	16,768			358			17,126		
Allianz Zagreb d.d.	199,449	232,770	116.7	35,155	37,548	106.8	234,603	270,317	115.2
Basler osiguranje d.d.	3,853	5,256	136.4	4,507	4,297	95.3	8,361	9,552	114.3
Croatia osiguranje d.d.	1,692,291	1,758,932	103.9	55,517	108,845	196.1	1,747,807	1,867,778	106.9
Croatia zdravstveno osiguranje d.d.	7,488	15,439	206.2	2,452	5,988	244.2	9,940	21,427	215.6
Euroherc osiguranje d.d.	396,823	475,642	119.9	111,016	43,100	38.8	507,839	518,742	102.1
Generali osiguranje d.d.	3,029	14,821	489.4	3,714	11,744	316.2	6,743	26,564	394.0
GRAWE Hrvatska d.d.	63,197	66,439	105.1	6,047	14,346	237.2	69,244	80,785	116.7
Osiguranje Helios d.d.	34,567	41,085	118.9	2,844	7,200	253.2	37,411	48,285	129.1
HOK osiguranje d.d.	287	264	92.0	3,331	3,004	90.2	3,619	3,269	90.3
Jadransko osiguranje d.d.	303,632	317,520	104.6	40,146	20,834	51.9	343,778	338,353	98.4
Kvarner Wiener Städtische osiguranje d.d.	64,875	142,962	220.4	25,031	-6,561		89,907	136,401	151.7
Libertas osiguranje d.d.	129			169			298		
Merkur osiguranje d.d.	13,169	14,427	109.6	9,903	9,935	100.3	23,072	24,362	105.6
Sunce osiguranje d.d.	49,295	91,395	185.4	8,839	-10,086		58,134	81,308	139.9
Triglav osiguranje d.d.	149,920	145,944	97.3	16,326	8,735	53.5	166,246	154,679	93.0
UNIQA osiguranje d.d.	15,576	40,429	259.6	28,052	-16,040		43,629	24,389	55.9
Osiguranje Zagreb d.d.	125,506	146,738	116.9	77,869	-13,793		203,375	132,945	65.4
<b>TOTAL</b>	<b>3,139,855</b>	<b>3,510,062</b>	<b>111.8</b>	<b>431,277</b>	<b>229,094</b>	<b>53.1</b>	<b>3,571,132</b>	<b>3,739,157</b>	<b>104.7</b>

Table: Operating Expenses and Earned Premium Ratio in Non-life Insurance in the Period 1 January – 31 December

*in HRK thousand*

INSURANCE COMPANY	EARNED PREMIUM			OPERATING EXPENSES			OPERATING EXPENSES AND EARNED PREMIUM RATIO in %	
	2005	2006	Index 2006/2005	2005	2006	Index 2006/2005	2005	2006
Addenda osiguranje d.d.	29,064			18,479			63.58	
Allianz Zagreb d.d.	341,511	395,208	115.72	107,401	127,996	119.18	31.45	32.39
Basler osiguranje d.d.	14,713	17,736	120.54	8,149	10,663	130.86	55.38	60.12
Croatia osiguranje d.d.	2,180,048	2,220,644	101.86	655,840	711,295	108.46	30.08	32.03
Croatia zdravstveno osiguranje d.d.	21,770	43,198	198.43	14,263	21,240	148.92	65.52	49.17
Euroherc osiguranje d.d.	774,105	855,400	110.50	239,628	266,254	111.11	30.96	31.13
Generali osiguranje d.d.	4,527	19,822	437.89	25,707	38,649	150.35	567.87	194.98
GRAWE Hrvatska d.d.	85,168	92,581	108.70	22,990	31,494	136.99	26.99	34.02
Osiguranje Helios d.d.	33,836	38,907	114.99	13,874	17,754	127.96	41.01	45.63
HOK osiguranje d.d.	3,855	4,426	114.82	1,531	2,057	134.36	39.72	46.49
Jadransko osiguranje d.d.	502,888	576,975	114.73	154,507	191,479	123.93	30.72	33.19
Kvarner Wiener Städtische osiguranje d.d.	63,243	145,206	229.60	30,872	60,942	197.40	48.82	41.97
Libertas osiguranje d.d.	1,809			718			39.69	
Merkur osiguranje d.d.	25,254	27,441	108.66	10,798	11,896	110.17	42.76	43.35
Sunce osiguranje d.d.	73,784	107,551	145.77	20,423	31,558	154.52	27.68	29.34
Triglav osiguranje d.d.	196,676	213,128	108.37	68,746	71,464	103.95	34.95	33.53
UNIQA osiguranje d.d.	11,913	18,103	151.96	7,897	8,543	108.19	66.29	47.19
Osiguranje Zagreb d.d.	195,271	222,931	114.16	54,848	85,451	155.80	28.09	38.33
<b>TOTAL</b>	<b>4,559,434</b>	<b>4,999,259</b>	<b>109.65</b>	<b>1,456,673</b>	<b>1,688,737</b>	<b>115.93</b>	<b>31.95</b>	<b>33.78</b>

Table: Operating Expenses and Earned Premium Ratio of Life Insurance in the Period 1 January – 31 December

*in HRK thousand*

INSURANCE COMPANY	EARNED PREMIUM			OPERATING EXPENSES			OPERATING EXPENSES AND EARNED PREMIUM RATIO in %	
	2005	2006	Index 2006/2005	2005	2006	Index 2006/2005	2005	2006
Agram životno osiguranje d.d.	114,444	200,067	174.8	19,913	40,571	203.7	17.4	20.3
Allianz Zagreb d.d.	295,953	349,987	118.3	82,637	91,455	110.7	27.9	26.1
Basler Životno osiguranje d.d.	14,443	41,624	288.2	8,254	14,882	180.3	57.1	35.8
Cosmopolitan Life d.d.	38,189	51,922	136.0	21,916	26,400	120.5	57.4	50.8
Croatia osiguranje d.d.	273,405	294,413	107.7	83,316	97,904	117.5	30.5	33.3
Erste Sparkassen osiguranje d.d.	10,160	50,806	500.1	9,229	24,229	262.5	90.8	47.7
Generali životno osiguranje d.d.	27,443			28,967			105.6	
GRAWE Hrvatska d.d.	238,157	247,291	103.8	64,327	69,443	108.0	27.0	28.1
Osiguranje Helios d.d.	51,604	53,003	102.7	16,885	21,856	129.4	32.7	41.2
Kvarner Wiener Städtische osiguranje d.d.	110,832	121,892	110.0	39,727	60,398	152.0	35.8	49.6
Libertas osiguranje d.d.	55,420			32,260			58.2	
Merkur osiguranje d.d.	189,847	210,798	111.0	43,606	53,755	123.3	23.0	25.5
Sunce osiguranje d.d.	67,021			21,495			32.1	
Triglav osiguranje d.d.	50,756	59,591	117.4	17,457	21,567	123.5	34.4	36.2
UNIQA osiguranje d.d.	40,123	48,396	120.6	20,484	23,234	113.4	51.1	48.0
Osiguranje Zagreb d.d.	219,361	199,623	91.0	100,079	70,043	70.0	45.6	35.1
<b>TOTAL</b>	<b>1,797,157</b>	<b>2,026,220</b>	<b>112.7</b>	<b>610,552</b>	<b>695,846</b>	<b>114.0</b>	<b>34.0</b>	<b>34.3</b>

Table: Claims Incurred in Life Assurance in Gross Amounts (without life insurance mathematical provisions) in the Period 1 January - 31 December

*in HRK thousand*

INSURANCE COMPANY	CLAIMS PAID			CHANGES IN CLAIMS PROVISIONS			TOTAL INDEMNITY		
	2005	2006	Dynamics 2006/2005	2005	2006	Dynamics 2006/2005	2005	2006	Dynamics 2006/2005
Agram životno osiguranje d.d.	3,817	16,275	426.4	4,608	2,533	55.0	8,425	18,808	223.2
Allianz Zagreb d.d.	22,252	34,694	155.9	492	4,774	969.5	22,744	39,468	173.5
Basler životno osiguranje d.d.	478	725	151.8	-237	336		241	1,061	441.0
Cosmopolitan Life d.d.	1,900	4,014	211.3		47		1,900	4,061	213.8
Croatia osiguranje d.d.	94,641	126,931	134.1	-1,350	3,329		93,292	130,260	139.6
Erste Sparkassen osiguranje d.d.		888		29	616	2.152.7	29	1,504	5.254.6
Generali životno osiguranje d.d.	2,471			2,376			4,847		
GRAWE Hrvatska d.d.	61,743	71,024	115.0	745	1,444	193.8	62,488	72,468	116.0
Osiguranje Helios d.d.	16,743	23,256	138.9	-738	2,169		16,005	25,425	158.9
Kvarner Wiener Städtische osiguranje d.d.	7,196	33,628	467.3	1,684	-4,888		8,880	28,740	323.7
Libertas osiguranje d.d.	2,020			839			2,859		
Merkur osiguranje d.d.	26,368	30,353	115.1	2,418	1,539	63.6	28,785	31,892	110.8
Sunce osiguranje d.d.	7,590			-1,228			6,362		
Triglav osiguranje d.d.	18,507	20,090	108.6	1,397	2,465	176.5	19,903	22,555	113.3
UNIQA osiguranje d.d.	2,245	4,997	222.6	-213	279		2,032	5,276	259.6
Osiguranje Zagreb d.d.	47,161	46,392	98.4	14,362	-10,929		61,524	35,463	57.6
<b>TOTAL</b>	<b>315,131</b>	<b>421,048</b>	<b>133.6</b>	<b>25,186</b>	<b>5,405</b>	<b>21.5</b>	<b>340,317</b>	<b>426,453</b>	<b>125.3</b>

Table: Overview of Life and Non-Life Gross Written Premium

in HRK thousand

INSURANCE COMPANY	NON-LIFE INSURANCE					LIFE INSURANCE					TOTAL				
	2005	2006	Index	Share in premium of all companies in %		2005	2006	Index	Share in premium of all companies in %		2005	2006	Index	Share in premium of all companies in %	
				2005	2006				2006/2005	2005				2006	2006/2005
Addenda osiguranje d.d.	29,797			0.5					0.0		29,797			0.4	
Agram životno osiguranje d.d.						114,761	201,491	175.6	6.1	9.3	114,761	201,491	175.6	1.6	2.5
Allianz Zagreb d.d.	452,059	519,451	114.9	8.3	8.6	299,470	354,083	118.2	15.8	16.4	751,529	873,534	116.2	10.2	10.7
Basler osiguranje d.d.	22,199	21,094	95.0	0.4	0.4				0.0		22,199	21,094	95.0	0.3	0.3
Basler životno osiguranje d.d.						14,738	42,072	285.5	0.8	1.9	14,738	42,072	285.5	0.2	0.5
Cosmopolitan Life d.d.						41,471	53,822	129.8	2.2	2.5	41,471	53,822	129.8	0.6	0.7
Croatia osiguranje d.d.	2,551,386	2,654,716	104.0	46.8	44.1	273,697	296,670	108.4	14.4	13.7	2,825,083	2,951,386	104.5	38.4	36.1
Croatia zdravstveno osiguranje d.d.	27,663	59,145	213.8	0.5	1.0				0.0		27,663	59,145	213.8	0.4	0.7
Erste Sparkassen osiguranje d.d.						10,289	51,489	500.4	0.5	2.4	10,289	51,489	500.4	0.1	0.6
Euroherc osiguranje d.d.	841,349	920,601	109.4	15.4	15.3				0.0		841,349	920,601	109.4	11.4	11.3
Generali osiguranje d.d.	24,780	63,417	255.9	0.5	1.1		152,763		0.0	7.1	24,780	216,180	872.4	0.3	2.6
Generali životno osiguranje d.d.						56,187			3.0		56,187			0.8	
GRAWE Hrvatska d.d.	137,930	146,145	106.0	2.5	2.4	238,541	248,983	104.4	12.6	11.5	376,471	395,128	105.0	5.1	4.8
Osiguranje Helios d.d.	56,775	69,916	123.1	1.0	1.2	52,652	54,217	103.0	2.8	2.5	109,427	124,133	113.4	1.5	1.5
HOK osiguranje d.d.	4,672	4,965	106.3	0.1	0.1				0.0		4,672	4,965	106.3	0.1	0.1
Jadransko osiguranje d.d.	546,182	612,059	112.1	10.0	10.2				0.0		546,182	612,059	112.1	7.4	7.5
Kvarner Wiener Städtische osiguranje	144,552	232,407	160.8	2.7	3.9	148,422	168,433	113.5	7.8	7.8	292,975	400,840	136.8	4.0	4.9
Libertas osiguranje d.d.	1,410			0.0		56,002			3.0		57,412			0.8	
Merkur osiguranje d.d.	36,683	40,896	111.5	0.7	0.7	197,002	218,355	110.8	10.4	10.1	233,685	259,251	110.9	3.2	3.2
Sunce osiguranje d.d.	100,306	122,293	121.9	1.8	2.0	67,596			3.6		167,901	122,293	72.8	2.3	1.5
Triglav osiguranje d.d.	223,034	258,921	116.1	4.1	4.3	50,878	59,461	116.9	2.7	2.7	273,912	318,382	116.2	3.7	3.9
UNIQA osiguranje d.d.	36,832	47,710	129.5	0.7	0.8	54,552	61,947	113.6	2.9	2.9	91,384	109,657	120.0	1.2	1.3
Osiguranje Zagreb d.d.	216,698	241,356	111.4	4.0	4.0	219,510	201,277	91.7	11.6	9.3	436,208	442,633	101.5	5.9	5.4
<b>TOTAL</b>	<b>5,454,304</b>	<b>6,015,094</b>	<b>110.3</b>	<b>100.0</b>	<b>100.0</b>	<b>1,895,769</b>	<b>2,165,061</b>	<b>114.2</b>	<b>100.0</b>	<b>100.0</b>	<b>7,350,074</b>	<b>8,180,156</b>	<b>111.3</b>	<b>100.0</b>	<b>100.0</b>

Table: Result of Technical Account and Total Account by Insurance Company

INSURANCE COMPANY	TECHICAL ACCOUNT RESULT						NON-TECNICAL ACCOUNT		
	NON-LIFE INSURANCE AND REINSURANCE			LIFE ASSURANCE AND REINSURANCE			TOTAL ACCOUNT (net profit or loss)		
	2005	2006	Index 2006/2005	2005	2006	Index 2006/2005	2005	2006	Index 2006/2005
Addenda osiguranje d.d.	-6,288,582						-12,501,476		
Agram životno osiguranje d.d.				23,567,745	29,357,902	124.6	18,645,143	22,813,556	122.4
Allianz Zagreb d.d.	15,450,473	30,146,872	195.1	172,216	12,702,126	7,375.7	22,933,746	40,951,412	178.6
Basler osiguranje d.d.	-584,589	-1,162,358	198.8				1,026,973	-551,177	
Basler životno osiguranje d.d.				-1,703,847	-2,281,674	133.9	33,500	-1,789,405	
Cosmopolitan Life d.d.				-1,711,479	1,326,684		372,873	993,743	266.5
Croatia osiguranje d.d.	47,347,761	49,188,107	103.9	3,647,464	3,217,898	88.2	98,219,653	105,077,578	107.0
Croatia zdravstveno osiguranje d.d.	-87,372	154,832					97,830	396,773	405.6
Erste Sparkassen osiguranje d.d.				-5,703,621	-7,498,634	131.5	-5,605,694	-6,826,269	121.8
Euroherc osiguranje d.d.	32,794,851	40,177,320	122.5				35,237,876	40,647,898	115.4
Generali osiguranje d.d.	-10,087,849	-12,583,518	124.7		-10,342,137		-8,024,911	-14,996,938	186.9
Generali životno osiguranje d.d.				-9,039,189			-8,969,039		
GRAWE Hrvatska d.d.	982,795	-5,481,410		20,696,253	21,834,775	105.5	17,634,052	17,679,718	100.3
Osiguranje Helios d.d.	-821,600	-310,407	37.8	668,368	615,166	92.0	998,044	1,094,557	109.7
HOK osiguranje d.d.	-63,412	-286,534	451.9				500,809	377,285	75.3
Jadransko osiguranje d.d.	31,978,204	13,145,232	41.1				30,411,920	25,207,548	82.9
Kvarner Wiener Städtische osiguranje d.d.	-14,114,122	-4,886,027	34.6	4,949,272	720,781	14.6	253,967	5,990,630	2,358.8
Libertas osiguranje d.d.	347,315			-940,170			11,012,061		
Merkur osiguranje d.d.	-122,490	-740,730	604.7	26,212,454	12,710,679	48.5	22,438,976	12,909,797	57.5
Sunce osiguranje d.d.	924,403	5,114,576	553.3	17,577,687			2,409,279	4,025,952	167.1
Triglav osiguranje d.d.	-39,181,857	-2,724,304	7.0	5,932,861	486,312	8.2	-30,639,865	3,681,286	
UNIQA osiguranje d.d.	1,227,985	-2,723,437		1,681,728	1,712,794	101.8	3,532,922	2,025,346	57.3
Osiguranje Zagreb d.d.	-9,968,308	3,756,724		1,459,384	7,381,362	505.8	1,210,284	9,957,649	822.8
Allianz reosiguranje d.d.	-365,542	-569,393	155.8				390,650	520,383	133.2
Croatia Lloyd d.d.	37,982,067	45,638,241	120.2				37,120,376	41,161,847	110.9
<b>TOTAL</b>	<b>87,350,132</b>	<b>155,853,787</b>	<b>178.4</b>	<b>87,467,127</b>	<b>71,944,033</b>	<b>82.3</b>	<b>238,739,950</b>	<b>311,349,168</b>	<b>130.4</b>

Table: Technical Provisions by Insurance Company

in HRK thousand

INSURANCE COMPANY	TECHNICAL PROVISIONS TOTAL			PROVISIONS FOR PREMIUMS UNEARNED			LIFE INSURANCE MATHEMATICAL RESERVES			CLAIMS PROVISIONS		
	2005	2006	Index 2006/2005	2005	2006	Index 2006/2005	2005	2006	Index 2006/2005	2005	2006	Index 2006/2005
Addenda osiguranje d.d.	15,873			13,483						2,375		
Agram životno osiguranje d.d.	450,282	543,498	120.7	4,280	4,896	114.4	434,996	525,063	120.7	11,006	13,539	123.0
Allianz Zagreb d.d.	856,769	1,071,526	125.1	179,632	202,372	112.7	458,988	619,875	135.1	218,147	248,591	114.0
Basler osiguranje d.d.	27,487	30,866	112.3	12,587	12,057	95.8				14,900	18,809	126.2
Basler životno osiguranje d.d.	21,051	50,345	239.2	43	62	142.4	20,975	49,916	238.0	32	368	1,151.9
Cosmopolitan Life d.d.	60,899	96,544	158.5		78		60,899	96,419	158.3		47	
Croatia osiguranje d.d.	4,451,397	4,680,459	105.1	923,723	946,839	102.5	1,044,938	1,188,081	113.7	2,458,736	2,545,538	103.5
Croatia zdravstveno osiguranje d.d.	20,317	42,251	208.0	13,934	29,881	214.4				3,305	9,293	281.2
Erste Sparkassen osiguranje d.d.	7,395	42,505	574.8	2	-50		7,369	41,460	562.6	23	595	2,540.5
Euroherc osiguranje d.d.	912,970	995,993	109.1	412,499	454,987	110.3				500,470	541,006	108.1
Generali osiguranje d.d.	5,604	196,219	3,501.4	4,808	16,386	340.8		137,761		796	13,242	1,663.8
Generali životno osiguranje d.d.	26,483			59			25,204			1,219		
GRAWE Hrvatska d.d.	1,338,036	1,523,377	113.9	49,624	61,209	123.3	1,192,073	1,347,180	113.0	92,209	107,623	116.7
Osiguranje Helios d.d.	440,302	482,633	109.6	21,552	27,851	129.2	337,721	366,230	108.4	81,029	88,552	109.3
HOK osiguranje d.d.	8,304	10,863	130.8	737	905	122.7				7,567	9,958	131.6
Jadransko osiguranje d.d.	530,172	585,983	110.5	271,827	301,384	110.9				258,315	284,599	110.2
Kvarner Wiener Städtische osiguranje d.d.	452,679	527,354	116.5	60,446	90,171	149.2	254,196	311,109	122.4	132,115	123,015	93.1
Libertas osiguranje d.d.	78,707			3,795			60,097			3,319		
Merkur osiguranje d.d.	852,052	1,022,454	120.0	14,923	15,326	102.7	786,043	944,992	120.2	51,087	61,903	121.2
Sunce osiguranje d.d.	151,722	151,554	99.9	50,015	57,459	114.9				101,578	93,895	92.4
Triglav osiguranje d.d.	375,618	416,898	111.0	98,308	109,991	111.9	91,797	111,204	121.1	184,813	195,157	105.6
UNIQA osiguranje d.d.	72,839	103,302	141.8	2,746	7,229	263.2	52,566	81,806	155.6	11,295	13,120	116.2
Osiguranje Zagreb d.d.	997,897	1,118,596	112.1	88,278	94,191	106.7	760,772	873,253	114.8	148,846	151,153	101.5
Allianz reosiguranje d.d.		505			6						499	
Croatia Lloyd d.d.	330,718	339,459	102.6	36,316	30,434	83.8				272,928	284,714	104.3
<b>TOTAL</b>	<b>12,485,571</b>	<b>14,033,184</b>	<b>112.4</b>	<b>2,263,619</b>	<b>2,463,663</b>	<b>108.8</b>	<b>5,588,635</b>	<b>6,694,349</b>	<b>119.8</b>	<b>4,556,110</b>	<b>4,805,217</b>	<b>105.5</b>

Table: Technical Provisions by Insurance Company (continued)

in HRK thousand

INSURANCE COMPANY	PROVISIONS FOR PREMIUM REFUNDS (BONUSES & REBATES)			EQUILISATION RESERVES			OTHER TECHNICAL PROVISIONS		
	2005	2006	Dynamics 2006/2005	2005	2006	Dynamics 2006/2005	2005	2006	Dynamics 2006/2005
Addenda osiguranje d.d.							14		
Agram životno osiguranje d.d.									
Allianz Zagreb d.d.		686					2	2	100.0
Basler osiguranje d.d.									
Basler životno osiguranje d.d.									
Cosmopolitan Life d.d.									
Croatia osiguranje d.d.							24,000		
Croatia zdravstveno osiguranje d.d.	3,078	3,077	100.0						
Erste Sparkassen osiguranje d.d.		500							
Euroherc osiguranje d.d.									
Generali osiguranje d.d.								28,830	
Generali životno osiguranje d.d.									
GRAWE Hrvatska d.d.							4,130	7,366	178.3
Osiguranje Helios d.d.									
HOK osiguranje d.d.									
Jadransko osiguranje d.d.				30					
Kvarner Wiener Städtische osiguranje d.d.							5,921	3,059	51.7
Libertas osiguranje d.d.							11,496		
Merkur osiguranje d.d.								233	
Sunce osiguranje d.d.	129	128	99.3		71				
Triglav osiguranje d.d.					387		700	159	22.7
UNIQA osiguranje d.d.	6,232	1,147	18.4						
Osiguranje Zagreb d.d.									
Allianz reosiguranje d.d.									
Croatia Lloyd d.d.	189	197	104.6				21,286	24,113	113.3
<b>TOTAL</b>	<b>9,627</b>	<b>5,735</b>	<b>59.6</b>	<b>30</b>	<b>458</b>	<b>1,504.8</b>	<b>67,549</b>	<b>63,761</b>	<b>94.4</b>

Table: Profit and Loss Account (total for life assurance companies and reinsurance companies) in the Period 1 January – 31 December

Rank	Position mark	Description of position	Amount in 2005	Amount in 2006	Dynamics 2006/2005
	A	TECHNICAL ACCOUNT- NON-LIFE INSURANCE			
001	I	Earned premiums (incomed)	4,693,103,576	5,166,685,063	110.1
002	1	Gross written premiums	5,836,267,345	6,478,654,198	111.0
006	II	Allocated investment return transferred from the non-technical account (+ C, VI)	205,729,773	255,293,947	124.1
007	III	Other technical income, net of reinsurance	357,118,374	369,802,008	103.6
008	IV	Claims incurred, net of reinsurance	-3,284,563,806	-3,498,256,171	106.5
015	V	Changes in other technical reserves, net of reinsurance	11,809,213	17,276,606	146.3
016	VI	Bonuses and rebates, net or reinsurance	795,638	-3,188,408	
019	VII	Net operating expenses	-1,462,153,423	-1,703,946,256	116.5
029	VIII	Other technical costs, net of reinsurance	-434,489,213	-447,772,285	103.1
030	IX	Change in the equalization provisions (damage fluctuations), net of reinsurance		-40,715	
031	X	<b>Sub total (balance on the technical account – non-life insurance) item C, I</b>	87,350,132	155,853,787	178.4
	B	TECNICAL ACCOUNT-LIFE INSURANCE			
032	I	Earned premiums (incomed)	1,797,156,828	2,026,220,082	112.7
033	1	Gross written premuims	1,895,769,074	2,165,061,287	114.2
037	II	<b>Investment income</b>	433,284,439	594,800,510	137.3
047	III	Unrealized gains on investments	5,392,243	8,752,433	162.3
048	IV	Other technical income, net of reinsurance	29,970,258	35,589,733	118.8
049	V	Claims incurred, net	-332,118,334	-416,186,441	125.3
056	VI	Changes in other technical provisions, net of reinsurance	-970,885,667	-1,197,800,761	123.4
061	VII	Bonuses and rebates, net of reinsurance	-43,178,174	8,679,339	
064	VIII	Net operating expenses	-610,551,899	-695,845,575	114.0
074	IX	Investments costs	-185,306,901	-214,969,215	116.0
081	X	<b>Unrealized losses on investments</b>	-1,795,242	-98,896	5.5
082	XI	Other technical costs, net of reinsurance	-31,522,723	-73,438,649	233.0
083	XII	<b>Allocated investment return transferred to the non-technical account (-) (item C, IV)</b>	-2,977,700	-3,758,527	126.2
084	XIII	<b>Sub total (balance on the technical account – life assurance) (item C, II)</b>	87,467,127	71,944,033	82.3
	C	NON TECHNICAL ACCOUNT – TOTAL			
085	I	<b>Balance on the technical account – non-life insurance (A.X.)</b>	87,350,132	155,853,787	178.4
086	II	<b>Balance on the technical account – life insurance (B. XIII)</b>	87,467,127	71,944,033	82.3
087	III	<b>Investment income</b>	497,097,262	549,818,989	110.6
097	IV	<b>Allocated investment return transferred from the life insurance technical account (+) (item B, XII)</b>	2,977,700	3,758,527	126.2
098	V	<b>Investment costs</b>	-224,204,640	-197,177,842	87.9
105	VI	<b>Allocated investment return transferred to the non-life insurance technical account (item A, II)</b>	-205,729,773	-255,293,947	124.1
106	VII	<b>Other income</b>	88,123,013	77,014,756	87.4
107	VIII	<b>Other costs, including value adjustments</b>	-32,690,090	-17,388,028	53.2
108	IX	<b>Tax on profit or loss on ordinary activities</b>	-66,145,026	-81,375,207	123.0
109	X	<b>Profit or loss on ordinary activities after tax</b>	234,245,705	307,155,068	131.1
110	XI	Extraordinary income	11,442,065	6,827,946	59.7
111	XII	Extraordinary costs	-6,838,028	-2,633,846	38.5
112	XIII	<b>Extraordinary profit or loss</b>	4,604,037	4,194,100	91.1
113	XIV	<b>Tax on extraordinary profit or loss</b>	-109,792		
114	XV	Other taxes (that were not shown under previous positions)			
115	XVI	<b>Profit or loss for the financial year</b>	238,739,950	311,349,168	130.4

Table: Balance Sheet as at 31 December 2006

in HRK

Rank	Position mark	Description of position	Amount in 2005	Amount in 2006	Dynamics 2006/2005
<b>ASSETS</b>					
001	A	<b>SUBSCRIBED CAPITAL UNPAID</b>			
004	B	<b>INTAGIBLE ASSETS</b>	106,641,893	113,104,692	106.1
008	C	INVESTMENTS	13,500,087,614	16,493,589,663	122.2
009	I	Land and buildings	2,403,665,797	3,353,117,015	139.5
012	II	Investments in subsidiaries and associated companies	1,396,122,534	869,578,904	62.3
019	III	Other financial investments	9,700,299,283	12,270,893,744	126.5
027	IV	Deposits with ceding companies (in reinsurance)			
028	D	INVESTMENTS FOR THE BENEFIT OF LIFE INSURANCE POLICYHOLDERS WHO BEAR THE INVESTMENT RISK	56,518,079	153,439,249	271.5
029	E	RECEIVABLES	1,981,409,143	1,991,263,054	100.5
035	F	<b>OTHER ASSETS</b>	702,569,460	665,862,819	94.8
044	G	<b>PREPAYMENTS AND ACCRUED INCOME</b>	215,922,732	245,541,095	113.7
050	H	TOTAL ASSETS	16,563,148,921	19,662,800,572	118.7
<b>LIABILITIES</b>					
052	A	CAPITAL AND RESERVES – OWN CAPITAL	2,639,068,565	3,885,779,084	147.2
053	I	Subscribed capital	1,350,850,985	1,478,010,910	109.4
056	II	Premium on share capital	16,350,605	12,693,216	77.6
057	III	Revaluation reserves	134,555,613	1,086,487,082	807.5
061	IV	Reserves	826,404,848	935,299,033	113.2
065	V	Accumulated (retained) profit or loss	72,969,657	61,939,675	84.9
068	VI	Profit or loss of the accounting period	237,936,857	311,349,168	130.9
071	B	SUBORDINATED LIABILITIES			
072	C	TECHNICAL PROVISIONS	12,485,570,931	14,033,183,529	112.4
073	1	Transfer premiums, net of reinsurance	2,263,618,682	2,463,663,028	108.8
076	2	Life assurance mathematical reserves, net of reinsurance	5,588,634,930	6,694,348,748	119.8
079	3	Indemnity reserves, net of reinsurance	4,556,110,216	4,805,217,411	105.5
082	4	Reserves for premium refunds dependent on and independent of performance (bonuses and rebates), net of reinsurance	9,627,445	5,735,455	59.6
085	5	Reserves for fluctuation of damages	30,447	458,162	1,504.8
086	6	Other insurance reserves of a technical nature, net of reinsurance	67,549,212	63,760,725	94.4
089	D	TECHNICAL RESERVES FOR LIFE ASSURANCE POLICIES WHERE THE INVESTMENT RISK IS BORN BY THE POLICYHOLDERS, NET OF REINSURANCE	56,194,330	153,401,410	273.0
092	E	PROVISIONS FOR OTHER RISKS AND COSTS	42,168,638	62,596,334	148.4
096	F	<b>DEPOSITS RECEIVED FROM REINSURERS</b>	121,839,904	221,314,236	181.6
097	G	<b>OTHER LIABILITIES</b>	1,084,955,373	1,163,665,734	107.3
103	H	ACCRUALS AND DEFERRED INCOME	133,351,182	142,860,245	107.1
104	I	<b>TOTAL LIABILITIES</b>	16,563,148,921	19,662,800,572	118.7

Table: Share of Individual Companies' Assets in Total Assets

*in HRK*

INSURANCE COMPANY	2005	Share in %	2006	Share in %
Addenda osiguranje d.d.	24,825,036	0.15		
Agram životno osiguranje d.d.	501,820,742	3.03	696,008,623	3.54
Allianz Zagreb d.d.	1,142,754,115	6.90	1,510,799,338	7.68
Basler osiguranje d.d.	55,637,207	0.34	67,898,624	0.35
Basler životno osiguranje d.d.	39,398,154	0.24	84,098,375	0.43
Cosmopolitan Life d.d.	92,054,024	0.56	138,850,229	0.71
Croatia osiguranje d.d.	5,708,706,791	34.47	6,246,418,787	31.77
Croatia zdravstveno osiguranje d.d.	51,726,055	0.31	77,072,723	0.39
Erste Sparkassen osiguranje d.d.	40,499,719	0.24	73,998,008	0.38
Euroherc osiguranje d.d.	1,299,570,175	7.85	1,757,065,895	8.94
Generali osiguranje d.d.	50,762,079	0.31	425,723,750	2.17
Generali životno osiguranje d.d.	82,463,579	0.50		
GRAWE Hrvatska d.d.	1,500,769,227	9.06	1,700,261,524	8.65
Osiguranje Helios d.d.	502,582,308	3.03	560,968,873	2.85
HOK osiguranje d.d.	15,293,913	0.09	34,647,321	0.18
Jadransko osiguranje d.d.	825,223,605	4.98	1,148,657,439	5.84
Kvarner Wiener Städtische osiguranje d.d.	803,902,204	4.85	898,926,100	4.57
Libertas osiguranje d.d.	157,795,329	0.95		
Merkur osiguranje d.d.	957,524,714	5.78	1,169,359,884	5.95
Sunce osiguranje d.d.	229,240,832	1.38	259,472,123	1.32
Triglav osiguranje d.d.	435,989,724	2.63	530,887,719	2.70
UNIQA osiguranje d.d.	197,488,135	1.19	269,668,660	1.37
Osiguranje Zagreb d.d.	1,180,499,702	7.13	1,353,224,212	6.88
Allianz reosiguranje d.d.	19,900,952	0.12	30,086,494	0.15
Croatia Lloyd d.d.	646,720,598	3.90	628,705,873	3.20
<b>TOTAL</b>	<b>16,563,148,921</b>	<b>100.00</b>	<b>19,662,800,572</b>	<b>100.00</b>

## Acts and Ordinances

Legislative and subordinate regulations adopted in 2006	Published
<b>Act on Croatian Financial Services Supervisory Agency</b>	
<b>Ordinances:</b>	
Ordinance on the calculation, level and charging of the fees paid to the Croatian Financial Services Supervisory Agency for the year 2006	(OG 105/2006)
Ordinance on the suspension of trade on the stock exchanges in the Republic of Croatia	(OG 114/2006)
<b>Securities Market</b>	
<b>Acts:</b>	
Amendments to the Securities Market Act	(OG 138/06)
<b>Investment funds</b>	
<b>Ordinances:</b>	
Ordinance on the contents of the supporting documents submitted with an application for issuance of the approval to an investment fund management company	(OG 29/2006)
Ordinance on the contents and method of keeping the register of funds	(OG 29/2006)
Ordinance on the conditions for performance of duties of a Board member of an investment fund management company	(OG 29/2006)
Ordinance on the promotion of investment funds with public offering	(OG 29/2006)
Ordinance on the contents of fund shareholders' and unit-holders' reports and on bookkeeping in an investment fund management company	(OG 45/2006)
Ordinance on the form and amount of the subscribed capital which investment fund management companies are liable to preserve	(OG 97/2006)
Ordinance amending the Ordinance on the promotion of investment funds with public offering	(OG 109/2006)
Ordinance on the investments of closed-end investment funds with a public offering for investment in real estate	(OG 131/2006)
Ordinance on the compulsory contents of the contract concluded between a closed-end investment fund with a public offering and a management company	(OG 139/2006)
Ordinance on the procedure, the conditions and the manner of the merger of the open-end investment funds	(OG 139/2006)
<b>Pension funds</b>	
<b>Ordinances:</b>	
Ordinance on the requirements for professional training and examination of professional knowledge required for the performance of duties of a certified actuary	(OG 45/2006)
Ordinance amending the Ordinance on additional criteria on investment and investment limits of pension funds	(OG 116/2006)
Ordinance on the requirements for professional training and examination of professional knowledge required for obtaining the licence to carry out activities of a broker, investment advisor and certified pension fund manager	(OG 97/2006)
Ordinance amending the Ordinance on marketing of pension funds	(OG 109/2006)
Ordinance amending the Ordinance on the valuation of assets and liabilities of pension funds	(OG 119/2006)

Legislative and Subordinate Regulation adopted in 2006	Published
<b>Funds established by separate acts</b>	
<b>Acts:</b>	
The Retired Persons' Fund Act	(OG 21/2006)
<b>Ordinances:</b>	
Ordinance on the valuation of assets and liabilities of the Retired Persons' Fund	(OG 21/2006)
Ordinance on the valuation of assets of the Fund for Croatian Homeland War Veterans and Members of their Families	(OG 70/2006)
<b>Insurance companies</b>	
<b>Ordinances:</b>	
Ordinance on the contents of the supporting documents submitted with an application for issuance of the approval to the candidate for the position of a Board member in an insurance company	(OG 25/2006)
Ordinance on the requirements for professional training and examination of professional knowledge required for the performance of duties of a certified actuary	(OG 45/2006)
Ordinance on the requirements for professional training and examination of professional knowledge required for obtaining the authorisation to carry on the insurance representation and insurance brokerage business	(OG 45/2006)
Ordinance on the form, contents of and rules for the method of keeping registers of insurance agents and brokers	(OG 58/2006)
Ordinance amending the Ordinance on the requirements for professional training and examination of professional knowledge required for obtaining the authorisation to carry on the insurance representation and insurance brokerage business	(OG 76/2006)
Ordinance on a more detailed form, minimum scope and contents of the audit examination and audit report for insurance companies	(OG 76/2006)
Ordinance on the method relating to the calculation of capital, guarantee fund and capital adequacy of insurance companies	(OG 78/2006)
Ordinance on the types and characteristics of the assets covering technical provisions, the rules for diversification and the restrictions regarding the investment of these assets, the rules for their valuation, matching, the rules for the use of financial derivatives, along with the method and reporting time limits	(OG 78/2006)
Ordinance on the method of the liquidity ratio calculation and the minimum value of the liquidity ratio of insurance companies	(OG 78/2006)
Ordinance on the calculation of solvency margin (capital adequacy) of insurance companies	(OG 112/2006)
Ordinance on the contents of regular reports and reports at the request of the Agency	(OG 116/2006)
Ordinance on the technical and organisational conditions for conducting insurance representation business at vehicle roadworthiness test garages	(OG 116/2006)
Ordinance on the supplementary supervision of insurance groups	(OG 132/2006)
Ordinance on the schedule of risk types by class and line of insurance business	(OG 139/2006)
Ordinance on the minimum standards, the criteria and the method for calculation of technical provisions of insurance business	(OG 139/2006)
Ordinance on guarantee fund	(OG 139/2006)
<b>Leasing</b>	
<b>Acts</b>	
Leasing Act	(OG 135/2006)

## Abbreviations

<b>CNB</b>	Croatian National Bank
<b>CROBEX</b>	The share index of Zagreb Stock Exchange
<b>CROBIS</b>	The bond index of Zagreb Stock Exchange
<b>FINA</b>	Croatian Financial Agency
<b>GDP</b>	Gross Domestic Product
<b>GDR</b>	Global Depositary Receipt
<b>HANFA</b>	Croatian Financial Services Supervisory Agency
<b>HRK</b>	Croatian Kuna
<b>IAIS</b>	International Association of Insurance Supervisors
<b>IFRS</b>	International Financial Reporting Standards
<b>IOSCO</b>	International Organisation of Securities Commissions
<b>IOPS</b>	International Organisation of Pension Supervisors
<b>JDD</b>	Public Joint Stock Company
<b>MIREX</b>	Index Rate of Return of Average Mandatory Pension Funds
<b>MOD</b>	Pesion Insurance Company
<b>ODMF</b>	Open-End Voluntary Pension Fund
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>OMF</b>	Open-End Pension Fund
<b>REGOS</b>	Central Registry of Insured Persons
<b>VIN</b>	Varaždin Stock Exchange Index
<b>ZDMF</b>	Closed-End Voluntary Pension Fund
<b>ZIF</b>	Closed-End Investment Fund
<b>ZSE</b>	Zagreb Stock Exchange