



ANNUAL REPORT

2019

**CROATIAN FINANCIAL SERVICES
SUPERVISORY AGENCY**



HANFA

Croatian Financial Services Supervisory Agency
Franje Račkoga 6, 10000 Zagreb
www.hanfa.hr
Telephone: +385 1 6173 200
Fax: +385 1 4811 406
Prepress: D.S.M.-grafika d.o.o., Zagreb

ISSN 1846-6362

Those using data from this publication are requested to cite the source.

Contents

Foreword	5
1. Hanfa in figures	10
2. Trends in the financial services sector	14
2.1 Macroeconomic developments and capital market	15
2.2 Investments	18
2.3 Pension system	24
2.4 Insurance	29
2.5 Non-bank financing	32
3. Supervisory activities	35
3.1 Microprudential supervision	37
3.2 Macroprudential supervision	32
4. Normative activities	53
4.1 Capital market and investments	54
4.2 Investment funds	56
4.3 Pension system	57
4.4 Insurance	60
4.5 Non-banking financing	61
4.6 Prevention of money laundering and terrorist financing	61
4.7 Other normative activities	61
5. Licensing and training	63
5.1 Licensing	64
5.2 Examinations and professional training	68
6. Consumer protection and improvement of financial literacy	72
6.1 Consumer Protection	73
6.2 Financial literacy	76
7. Communication activities	79
7.1 Categories of the public	80
7.2 Communication activities in 2019	80
7.3 Right to access information	81
8. International cooperation	82
8.1 Participation in the work of supervisory authorities and organisations	83
8.2 Technical international cooperation, bilateral international cooperation and exchange of information	87
8.3 Enhancing Hanfa's capacities via Structural Reform Support Programme (SRSP)	89
8.4 Hanfa's participation in preparations for the Croatian presidency of the Council of the European Union	89

9. Judicial proceedings	92
9.1 Misdemeanour proceedings	93
9.2 Administrative disputes	96
9.3 Criminal charges	96
9.4 Debt recovery actions	96
10. Hanfa's business operations	97
10.1 Internal structure and human resources	98
10.2 Internal audit	101
10.3 Information security in Hanfa	101
10.4 Hanfa's information systems	101
10.5 Hanfa's financial operations	102
11. Statistical overview of industries	106
12. Appendices	114
Appendix 1: List of ordinances adopted in 2019	115
Appendix 2: Hanfa's financial reports	120

Foreword

Ante Žigman, President of the Board

During 2019, the Croatian Financial Services Supervisory Agency (Hanfa) focused its work on promoting and preserving the stability of the financial system and supervising the legality of the business of financial service providers through supervisory, legislative, educational and other activities, while respecting high professional standards, responsibility, team work and independent, impartial, consistent and balanced treatment. It is important to emphasise this, since the assets of the financial services sector are constantly growing and represent one third of the financial system of the Republic of Croatia, in which we have begun to approach the EU average, where the balance between the banking and non-banking parts of the financial system is much greater. Pension funds are the most important entities in the market with assets exceeding HRK 100bn in 2019. Aware that such large assets can be influenced by numerous internal and external factors, especially in conditions of significant global uncertainties and risks such as they were throughout 2019, we focused our work primarily on preventive, followed by corrective actions. Therefore, our prospective supervision system based on risk analysis has been enhanced through a project financed by the European Union through the Structural Reform Support Programme. With this project we want to further increase Hanfa's effectiveness in carrying out risk-based supervision of individual entities, but also develop a system of identification and control of systemic risks, which can remain unnoticed if the supervisory focus is placed only on individual institutions or market segments, i.e. when, figuratively, you cannot see forest for the trees. With our new publication, the Macroprudential risk scanner, we wanted to communicate clearly and transparently to the market of financial services, but also to the general public, the process of identifying, assessing and monitoring the evolution of systemic risks in order to better understand and prevent them.

Positive macroeconomic developments in 2019 in a low-interest environment have had a positive effect on the prices of domestic bonds, which are the main investment asset of intermediaries on the financial services market, as well as on the still dormant domestic capital market. The announcement of good business results of leading issuers and the spillover of positive trends from global stock markets contributed to the positive sentiment in the domestic capital market, although not in full. Our capital market is burdened with low liquidity and considerable interconnection and intertwining of ownership. The best prevention in this context is the harmonisation of legal regulations with EU regulations, taking into account the size of individual supervised entities or segments of the financial services market. In addition, at the beginning of 2019, the legislative amendments significantly liberalized the investments of pension funds in all forms



dr. sc. Ante Žigman
President of the Board

of assets in view of the introduction of the possibility of investing in infrastructure projects and start-ups and increased limits for investing in joint-stock companies.

A novelty on the domestic capital market in 2019 is Progress, a new market for growing SMEs, which will increase market financing opportunities for this segment of non-financial corporations, which is one of the cornerstones of the European Union initiative on capital market integration.

Furthermore, full application of the amendments to the Capital Market Act from the beginning of 2019 gave Hanfa greater authority with regard to supervision and publication of issuer's financial statements. By combining experience and enthusiasm, we have ensured the quality in the supervision of issuers. The employees who have been following individual issuers for many years have been joined by several young people with experience in auditing. This, as well as the funds we received from the European Union which we directed towards the development of the supervisory methodology, and the development of the Code of Corporate Governance together with the Zagreb Stock Exchange, helps Hanfa contribute to better management and transparency of the operations of companies whose securities are listed on the stock exchange.

During 2019 we continuously worked on improving market conditions for all segments of the financial services market that we regulate, but also on improving business practices, reducing risks, administrative unbundling and resolving open issues for all participants in financial markets. This is certainly contributed by our active cooperation and participation in national and international bodies responsible for supervising and regulating financial services markets. Aware of the environment and importance of the so-called third countries, which are not regulated by the single legislative framework as Member States, by signing bilateral agreements and realisation of twinning and TAIEX projects we have intensified various forms of cooperation, consultation and information exchange.

As the head of this institution I am especially proud of the fact that as a regulator we managed to be fast and flexible and keep up with the times in which the way capital is collected, the structure of the market and access to consumers are constantly changing with the development of technology. We designed and established the Innovation Hub, which plays an active role in Hanfa's collaboration with the existing entities, technological services providers, start-ups and other stake-holders in business ventures that use or want to use innovative solutions in the field of non-banking financial services.

In 2019, we intensified our activities related to raising the level of financial literacy of citizens, while consumer protection and reducing the number of complaints and disputes remains one of the common objectives of the regulator and the industry. Hanfa is continuously working on building of a transparent relationship with consumers, the financial industry and the general public through daily announce-



ments on its website, which recorded more than 1.5 million views in 2019, as well as responses to press inquiries and complaints from financial service users, and by being present at professional conferences, panels and discussions relevant to the part of the financial system under our supervision. In this context, I would like to add that in 2019 we continued to be an active participant in the development of the domestic financial services market and the economy in general. Without concrete dialogue and education aimed towards both the financial services sector and the public, we will never be able to develop the market on a sustainable basis.

Finally, as 2019 was largely marked by Hanfa's participation in preparatory activities related to the Croatian Presidency of the Council of the European Union in the first half of 2020, I am certain that 2020 will be full of uncertainty with regard to coronavirus and the consequent crisis. This will require additional flexibility, fast action, even greater digitalisation and cooperation between all stakeholders in the financial services market, with great commitment and expertise of our employees. In such historical times, preserving the stability and value of the financial system is in the interest of the entire community, to which Hanfa will significantly contribute within its scope of competence.



Ante Žigman
President of the Board





Members of Hanfa Board (from left to right):

Tomislav Ridzak, Ilijana Jeleč, Ante Žigman (President of the Board), Antun Palarić and Jurica Jednačak





Hanfa in figures




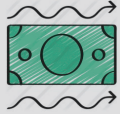






1 Hanfa in figures

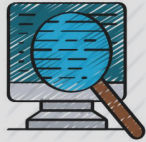
Supervised entities

40 pension funds	5 pension fund management companies	135 investment funds	23 investment fund management companies
7 investment firms	16 insurance companies	14 leasing companies	6 factoring companies
REGOS	MOD	ZSE	CDCC
HUO			
Issuers, brokers, investment advisers, tied agents, insurance and reinsurance agents			

Financial highlights

 118,8 bn HRK net assets of pension funds	 27,1 bn HRK net assets of investment funds	 10,5 bn HRK gross written premium of insurance companies	 62 m HRK total assets of investment firms
 21,3 bn HRK total assets of leasing companies	 1,4 bn HRK total assets of factoring companies	 263,8 bn HRK market capitalisation of the ZSE	 438,7 bn HRK market value of securities in the depository

Hanfa's Activities



18

Decisions ordering the elimination of irregularities and illegalities found during supervisory processes were issued



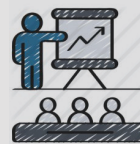
50

Hanfa Board held 50 meetings and issued 1040 decisions

97
ordinances adopted, additionally regulating legislative provisions



10
public warnings issued with respect to unauthorised provision of services and drawing attention to potential risks



>1400

More than 1400 secondary-school and university students visited Hanfa's presentations and lectures, as part of the activities aimed at raising the level of financial literacy



33

Educational programme in the field of capital market, pension funds and pension insurance companies carried out, with the help of 33 presenters



2

training sessions held in cooperation with the Croatian Chamber of Economy; one related to the prevention of money laundering and terrorist financing, and another one, aimed at insurance companies, related to consumer protection

8
Innovation hub participated in 8 conferences and panels, and held meetings with 37 various entities



>2000

LinkedIn profile had more than 2000 followers at the end of the year

305.150

hanfa.hr website recorded 305,150 visits in 2019



Important dates

28 January 2019

Zagrebačka burza d.d. given approval to register MTF Progress as a growing market of SMEs

25 April 2019

legal and natural persons engaged in the provision of exchange services between virtual currencies and fiat currencies and the provision of custodian wallet services became obliged to implement measures for the prevention of money laundering and terrorist financing, which are supervised by Hanfa

25 July 2019

Hanfa issued the Decision on the permanent prohibition of marketing, distribution and selling of binary options to retail investors and the Decision on the permanent restriction on marketing, distribution and selling of contracts for differences (CFDs) to retail investors

15 October 2019

Hanfa and ZSE adopted the new Code of Corporate Governance

23 October 2019

the company Mesna Industrija Braća Pivac d.o.o. given approval to publish a takeover bid with respect to the company Kraš prehrambena industrija d.d.

31 October 2019

Guidelines on conflicts of interest in managing mandatory pension funds and Guidelines on regulated systems for raising capital when investing the assets of mandatory pension funds

31 October 2019

the company AUCTOR HOLDING a.s., Czech Republic, given approval to publish a takeover bid with respect to the closed-ended alternative investment fund Slavonski zatvoreni alternativni investicijski fond s javnom ponudom d.d.

21 November 2019

the company Jadran Galenski Laboratorij d.d. given approval for a unique prospectus related to the public offering and admission of bonds to the regulated market of up to HRK 130,000,000.00

22 November 2019

Hanfa issued recommendations to insurance companies relating to the preparation of Own Risk and Solvency Assessment (ORSA) reports

25 November 2019

Hanfa approved new Rules of the ZSE

30 November 2019

insurance companies ERGO osiguranje d.d. and ERGO životno osiguranje d.d. carried out a cross-border portfolio transfer to the company Zavarovalnica Sava d.d., Republic of Slovenia

12 December 2019

Guidelines on benchmarks used by pension companies when investing in transferable equity securities adopted

13 December 2019

two new acts adopted: Act amending the Act on Open-Ended Investment Funds with Public Offering and Act amending the Alternative Investment Funds Act

18 December 2019

Decision on signing the Memorandum of Understanding relating to cooperation and information exchange in connection with participants in the clearing and settlement system with British regulatory authorities Bank of England and Prudential Regulation Authority



Trends in the financial services sector



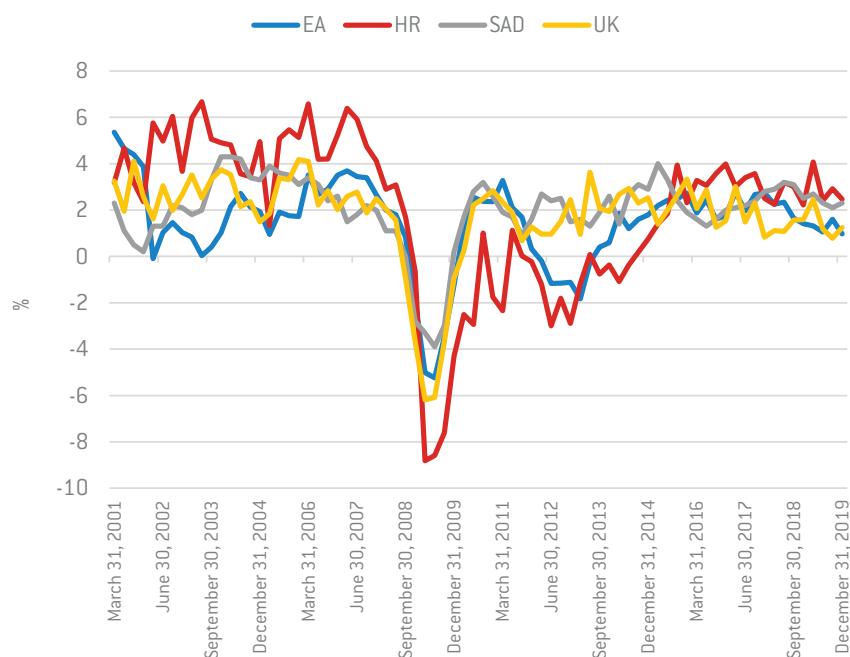
2 Trends in the financial services sector

The slowdown in the world economy continued in 2019, due to the deterioration in macroeconomic indicators, decline in trade due to tensions between the USA and China, uncertainty related to the withdrawal of the United Kingdom from the European Union and an increased level of uncertainty in general. Monetary policies remained accommodative in this macroeconomic context, thus also intensifying and prolonging the historically low interest rate environment, which presented the main challenge to investors in global financial markets. While searching for yield, investors took higher risks, investing in riskier and less liquid types of assets, while some financial markets saw the development of trends unsustainable in the long term. At the same time, domestic economic activity grew by 2.9% at an annual level, and was primarily driven by cyclical factors such as individual consumption considering labour market conditions and foreign demand for tourism services. The domestic capital market also recorded a turnover increase, 4.9% at an annual level, even though domestic investors, in accordance with global trends, made some more investments in foreign assets in their search for yield.

2.1 Macroeconomic developments and capital market

In 2019, a slowdown was experienced by the largest world economies, but also by developing countries, which led to a decline in global economic activity. Due to the weakening of the global trade and a relatively high level of economic uncertainty, economic sentiment indices started falling already in the first quarter of 2019. This was followed by a sharper slowdown in economic growth due to trade tensions between the USA and China, the possibility of a no-deal Brexit and growing technological instabilities. The global economic slowdown and high geopolitical tensions led to an increased overall level of uncertainty in global financial markets, reinforced by the uncertainty regarding the course and potential of leading central banks' monetary policies. In such circumstances, there was a high level of risk of a sudden change in investors' risk appetite and their investment sentiment and, consequently, possible sharper price corrections in financial markets. In addition, in 2019 global financial markets were affected by investors' intense search for yield and their readiness to take higher risk, considering the fact that the several-year long expansionary policies of major world central banks lowered interest rates to historically low, even negative, levels, but failing to boost economic activity. Therefore, some global financial and real estate markets recorded price movements not based on macroeconomic factors, emphasising the risk of a sudden and significant price correction.

Figure 2.1.1 Annual real GDP growth rates



Source: Eurostat, St. Louis Fed

In 2019, domestic economy recorded a 2.9% annual real growth, mildly accelerating in comparison with the previous year, when the annual real growth totalled 2.7%. The recorded economic growth is a result of still favourable cyclical movements, considering the fact that the main growth generators were still individual consumption, supported by positive labour market trends, and net export of goods and services as a result of a good tourist season, while the increase in net export of goods was slower due to the economic slowdown of Croatia’s main trading partners. Investment activity also recorded a slow growth and was primarily realised through increased construction activity, namely infrastructure and residential construction, also significantly exposed to cyclical movements. The economic growth encouraged the improvement of public finances through the rise of budget income due to higher tax levies, while favourable financing conditions led to a fall in budget expenditures, which was followed by the return of the Republic of Croatia to the investment credit rating level. This resulted in a significant decrease in required yields on government bonds, which make the largest part of investments made by companies and funds from the financial services sector. Despite the growth in the value of bond investments, the fall in the yield curve put pressure on the profitability, in particular of certain segments of the financial services sector, which made financial institutions search for yield and gradually turn to foreign financial markets and alternative forms of investments, such as real estate.

The Zagreb Stock Exchange [hereinafter: ZSE] recorded a HRK 3.0bn turnover, a 4.9% rise compared to 2018 [Figure 2.1.2]. This was primarily due to a higher share turnover, which amounted to HRK 2.7bn, increasing by 27.3% relative to the previous year, in spite of the fact that during 2019 the number of shares admitted to trading declined. At the end of the year, there were 119 shares admitted to trading on the ZSE, 13 shares fewer than in 2018. However, in spite of the rise in the turnover, the domestic capital market remained below the average recorded by comparable countries, considering a relatively small portion of shares actively traded in the total number of admitted issues. The turnover of 10 most traded shares accounted for one third of the share turnover or more than a half of the total turnover recorded on the ZSE. At the same time, the market capitalisation of shares reached HRK 148.0bn or 37% of the GDP, which is an 11.5% increase relative to end-2018. At the beginning of 2019, the ZSE presented the Pro-



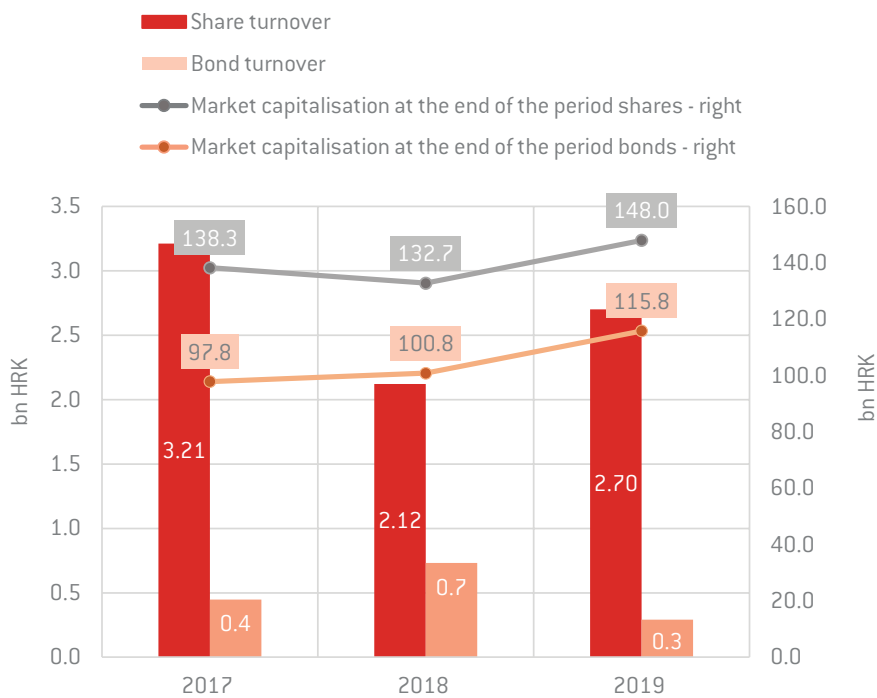
gress Market – a multilateral trading facility for small and medium enterprises, for the purpose of providing financing opportunities on the capital market for enterprises in all phases of their growth and development. At the end of 2019, there were five issuers admitted to trading on the Progress Market, with the turnover totalling HRK 1.3m.

MARKET CAPITALISATION

Market capitalisation is used to measure the size of a company and it is calculated by multiplying the number of the company's shares outstanding by their current market price. It refers to how much investors are willing to pay for the company at a certain point of time.

At the same time, the domestic bond market recorded a 60.1% fall in annual turnover, reaching HRK 292.5m. Out of 26 bond issues admitted to trading on the ZSE, there were 11 corporate bonds, while the remaining 15 bonds were related to government and municipal issues. This shows that debt financing on the capital market by the private sector is relatively less represented than traditional bank lending.

Figure 2.1.2 Turnover and market capitalisation on the Zagreb Stock Exchange

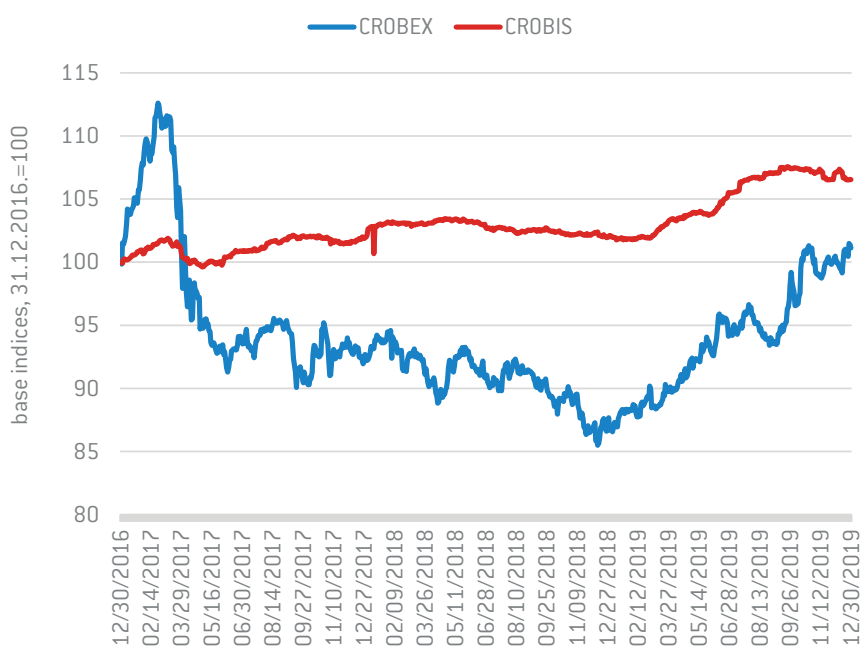


Source: ZSE

In February 2019, the ZSE launched a new equity index – CROBEXprime, which reflects the share turnover on the Prime Market taking account of share liquidity¹, while in June 2019, the Zagreb and Ljubljana Stock Exchange launched a common index, ADRIAprime. The CROBEX share index totalled 2017.43 points at end-2019, rising by 15.4% compared to end-2018, and making up for the decrease in the domestic share index from the preceding years related to the crisis in the Agrokor Group. The CROBIS bond index also grew, by 4.1%, reaching 115.59 points at the end of the year.

1 The calculation of the CROBEXprime, but also of other CROBEX indices, takes account of their liquidity expressed as free float, or the number of shares available for sale.

Figure 2.1.3 Changes in the values of ZSE share and bond indices



Source: ZSE

2.2 Investments

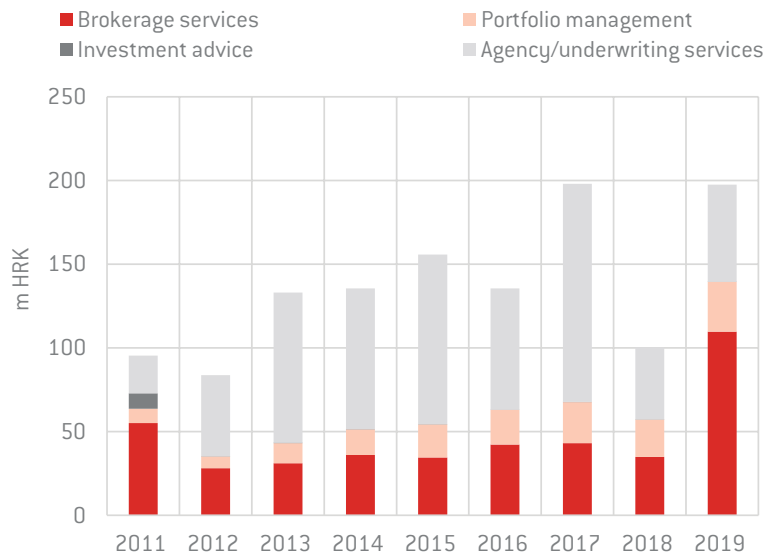
Investment services providers

In 2019, investment services and services related to investment services were provided by eight² investment firms, one firm more than in the previous year, and by seven investment fund management companies and 13 credit institutions, as in 2018.

Demand for investment services on the domestic capital market rose slightly, encouraged by the economic growth, however, turnovers remained relatively low compared with the several-year averages. Total income from the provision of investment services and activities recorded by investment services providers in 2019 increased by 6.7% relative to the previous year, reaching HRK 3.9bn. The largest share of the income received from investment services was generated by credit institutions (98.5% of total income), primarily through dealing on own account, while the remaining part was relatively evenly distributed between investment firms (HRK 35.9m) and investment fund management companies (HRK 22.8m). Investment firms recorded a 52.4% increase in income from brokerage services, which points to a growth in retail investors' activity on the capital market in 2019. Investment firms' capitalisation improved moderately, bringing the capital adequacy level of all the firms above the legal minimum requirements.

² Seven private investment firms and a market intermediary

Figure 2.2.1 Income from firms authorised to provide investment services by activities

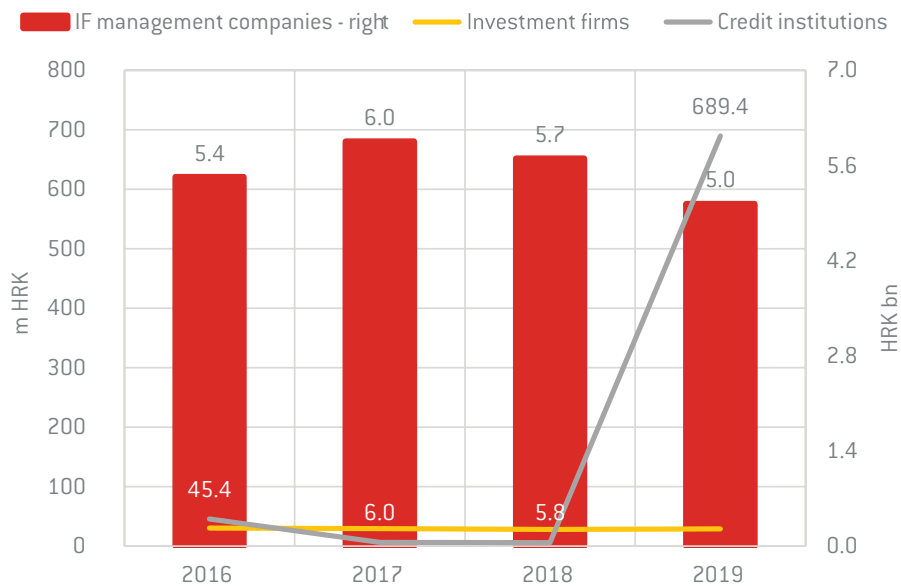


Note: The figure does not present income from dealing on own account.

Source: Hanfa

In 2019, a significant part of assets under management of a company managing investment funds was transferred to a credit institution within the same financial group. Therefore, at the end of the year, credit institutions managed a total of 12% of assets under management, or HRK 0.7bn, which is significantly more than in the previous years, whereas investment fund management companies managed assets totalling HRK 5bn. Income recorded by investment fund management companies from the provision of these services rose by 4.4% on an annual basis, reaching HRK 22.7m or almost 97% of total income. The rise in income was affected by market growth in the value of assets under management.

Figure 2.2.2 Value of assets under management



Source: Hanfa

Other than by companies registered in Croatia and licensed by Hanfa, investment services in Croatia may also be directly provided by companies from EU Member States, provided they have previously notified Hanfa of their intention to directly provide investment services. These companies are not subject to Hanfa's supervision; the legality and regularity of their operation in accordance with the legal framework of the country of their origin are supervised by competent supervisory authorities of respective EU Member States. Hanfa keeps a register of these companies, publicly available on its website, according to which at the end of 2019, there were 119 companies from EU Member States that had notified Hanfa of their intention to provide investment services in Croatia directly. However, investment services are often offered via the internet by service providers from third countries with questionable legality or regularity of business operations. These providers often promote and distribute complex and high-risk financial instruments, such as contracts for differences (CFDs) or binary options, intended solely for speculative trading. Hanfa regularly informs the public about these investment services providers, and pursuant to the guidelines of the European Securities and Markets Authority (hereinafter: ESMA) of 25 July 2019, it adopted a decision permanently prohibiting the sale of binary options and restricting the sale of riskier CFDs to retail clients, as these are non-standardised products traded on the OTC market with a complex and non-transparent pricing.

CONTRACTS FOR DIFFERENCES (CFDS)

CFDs are complex financial products mostly traded on OTC markets. Consequently, the pricing, trading terms and conditions and settlement of such products are not standardised and are less transparent, which limits the ability of retail investors to understand the terms and conditions related to these products.

Investment funds

Open-ended investment funds with public offering

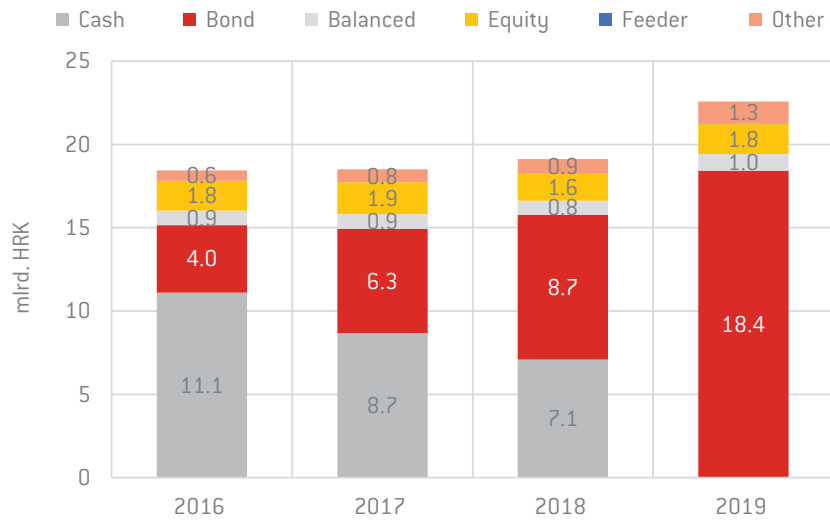
In 2019, the assets of 99 open-ended investment funds with public offering (hereinafter: UCITS) increased by 18.1% compared to 2018, amounting to HRK 22.6bn. This was mostly due to favourable market developments, but also to the positive net inflows. The UCITS structure was dominated by bond funds, both in terms of their number (39), but also in terms of their share in total net assets of all the funds (HRK 18.4bn or 81.6%). This was a result of the entry into force of the Money Market Fund Regulation³, pursuant to which money market funds were obliged to align their legal form with their investment strategy; therefore, the majority of money market funds took a different form at the beginning of 2019 and continued operating as short-term bond funds. As a result, at the end of 2019, there were only two money market funds operating in Croatia in 2019 (19 funds fewer than at end-2018), and their net assets totalled HRK 8m (99% less than at end-2018). Favourable market developments led to an increase in net assets of other UCITS categories as well: at end-2019 net assets of 23 equity funds totalled HRK 1.8bn (13% more than in 2018), net assets of nine balanced funds reached HRK 1.0bn (16% more than in 2018) and net assets of UCITS categorised as other funds stood at HRK 1.3bn (54% more than in 2018).

FEEDER FUND

A feeder fund is a fund that invests at least 85% of its assets in units of the master fund; therefore, it has the same investment goal and strategy as the master fund. At the end of 2019, there were two feeder funds in Croatia, with their net assets totalling HRK 15m.

³ Directive (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds, OJ L 169

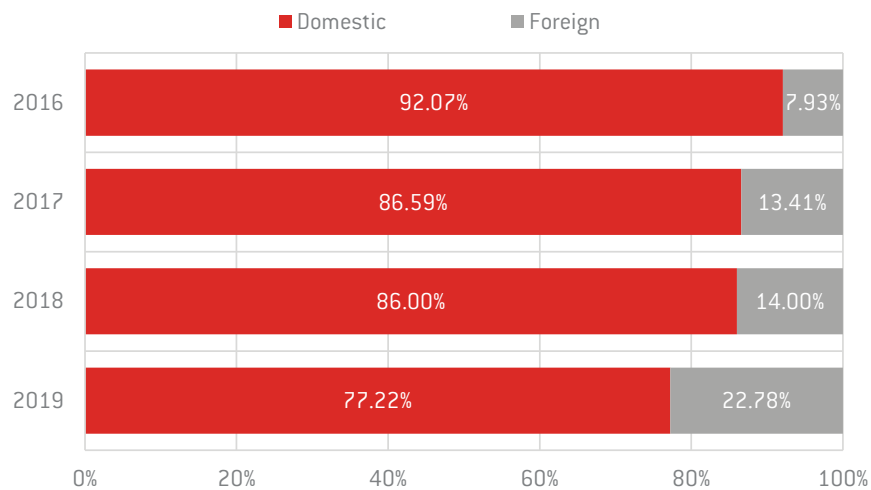
Figure 2.2.3 Net assets of UCITS



Source: Hanfa

UCITS assets were mainly invested in instruments on the domestic market (77% at end-2019), however, in the global low-interest-rate and search-for-yield environment foreign investments rose noticeably. Equity, balanced and bond funds recorded the strongest growth in exposure to foreign markets and at the end of 2019, 22.8% of net assets of all UCITS were invested in foreign financial instruments, up by 62.7% relative to the previous year.

Figure 2.2.4 Asset structure of UCITS by domicile

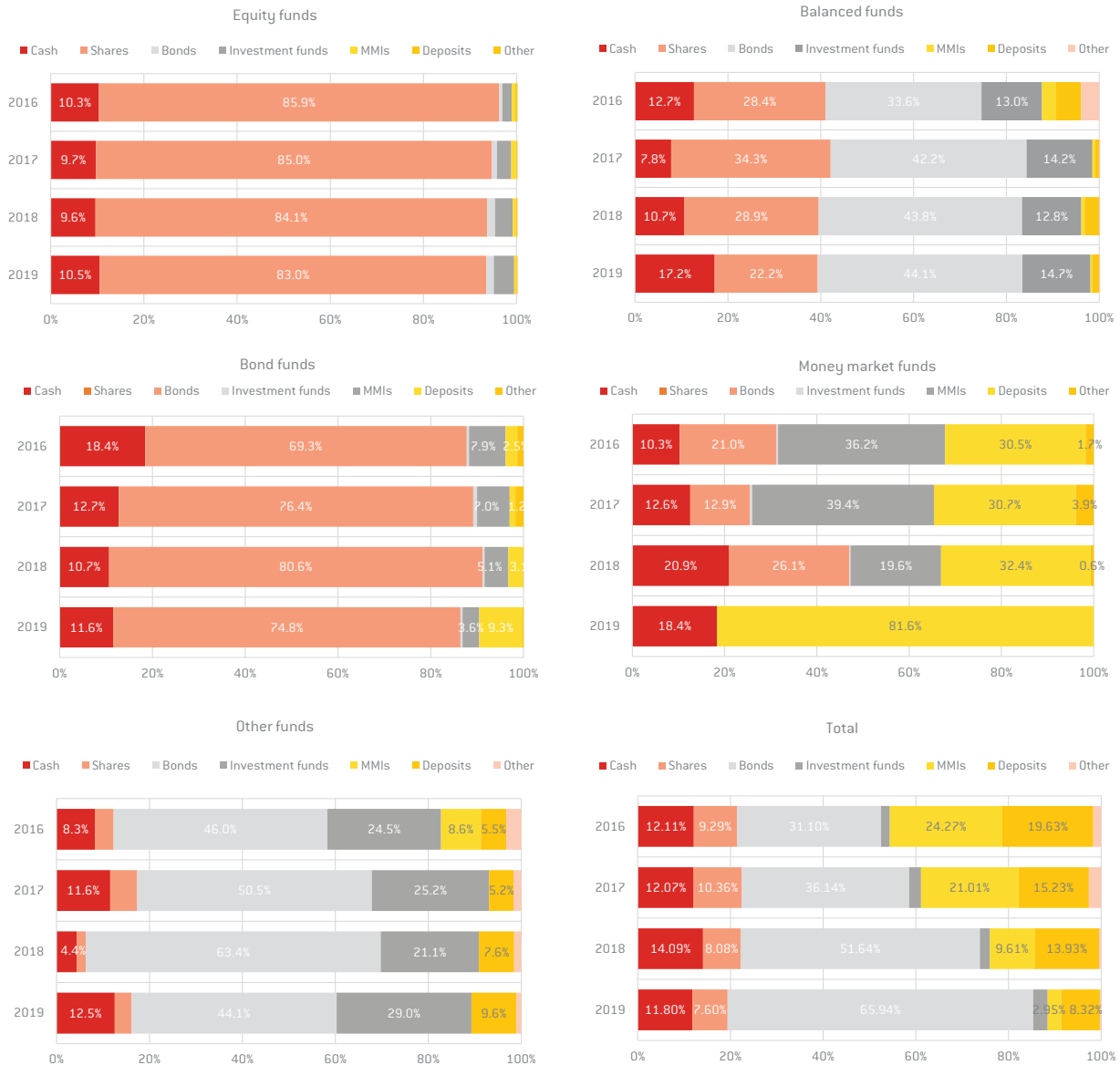


Source: Hanfa

Broken down by type of financial instruments, the UCITS investment structure is dominated by bonds, which accounted for 66% of all their investments, rising by 14 p.p. compared to 2018. The increase in the portion of bond investments in total investments was a result of a fall in the yield on domestic government bonds, which made up the largest part of all bond investments, considering the return of Croatia to the investment credit rating level, and the subsequent rise in the value of the existing bond portfolios of the funds. In addition, UCITS increased their bond portfolio by a net amount of HRK 3.6bn by underwriting

new bond issues. Not considering money market funds and bond funds, due to their legal reclassification carried out in 2019 and reflected in the change in their investment structure (a fall in bond investments in the money market fund category and a rise in deposits and cash positions in the bond fund category), the investment structures of other UCITY types remained relatively stable compared to the previous year, with merely cash positions and deposits rising slightly in the investment structure.

Figure 2.2.5 Asset structure of UCITS

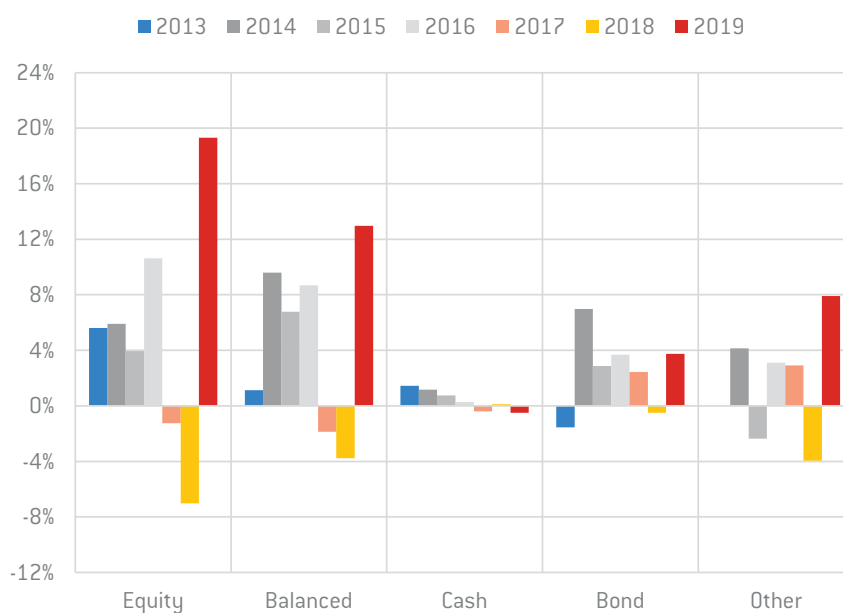


Note: MMIs – Money market instruments

Source: Hanfa

In 2019, the annual average rates of return of all UCITS categories rose, apart from those of money market funds, which recorded an average loss totalling -0.5%. The highest returns, in line with risks taken, were recorded by equity funds (19.3%), followed by balanced funds (12.9%) and other (7.9%) funds, whereas the return generated by bond funds reached 3.7%.

Figure 2.2.6 Weighted average annual returns



Source: Hanfa

Alternative investment funds

In 2019, there were 35 alternative investment funds, of which four funds with public, and 31 funds with private offering. Compared to the previous year, the net assets of alternative investment funds with public offering decreased by 31.6%, while the net assets of alternative investment funds with private offering rose by 28.3%.

Table 2.2.1 AIF assets by type

Alternative investment funds	31 December 2018	Share (%)	31 December 2019	Share (%)	Absolute change	Change (in %)
Public offering	217,144	6.1%	148,543	3.3%	-68,601	-31.6%
open-ended	21,531	0.6%	-	0.0%	-21,531	-100.0%
closed-ended	138,107	3.8%	148,543	3.3%	10,436	7.6%
closed-ended real estate	57,506	1.6%	-	0.0%	-57,506	-100.0%
Private offering	3,371,384	93.9%	4,326,112	96.7%	954,728	28.3%
basic	682,563	19.0%	1,302,776	29.1%	620,214	90.9%
special	496,162	13.8%	953,155	21.3%	456,994	92.1%
venture capital	2,440	0.1%	2,179	0.0%	261	-10.7%
venture capital – economic cooperation funds	992,767	27.7%	682,668	15.3%	-310,099	-31.2%
closed-ended	1,197,452	33.4%	1,385,334	31.0%	187,882	15.7%
Total	3,588,528	100.0%	4,474,656	100.0%	886,127	24.7%

Source: Hanfa

Fund established under a special act

The net assets of the Fund for Croatian Homeland War Veterans and Members of their Families amounted to HRK 946m on 31 December 2019, a 35.7% rise compared to the previous year. Its unit price increased by 20.6% relative to 2018, due to positive economic developments.

Management companies

As at 31 December 2019, there were 24 registered companies managing investment funds, four companies more than in 2018. Seven of these companies managed UCITS only. Nine companies managed only alternative investment funds, while eight companies managed both UCTS and alternative investment funds.

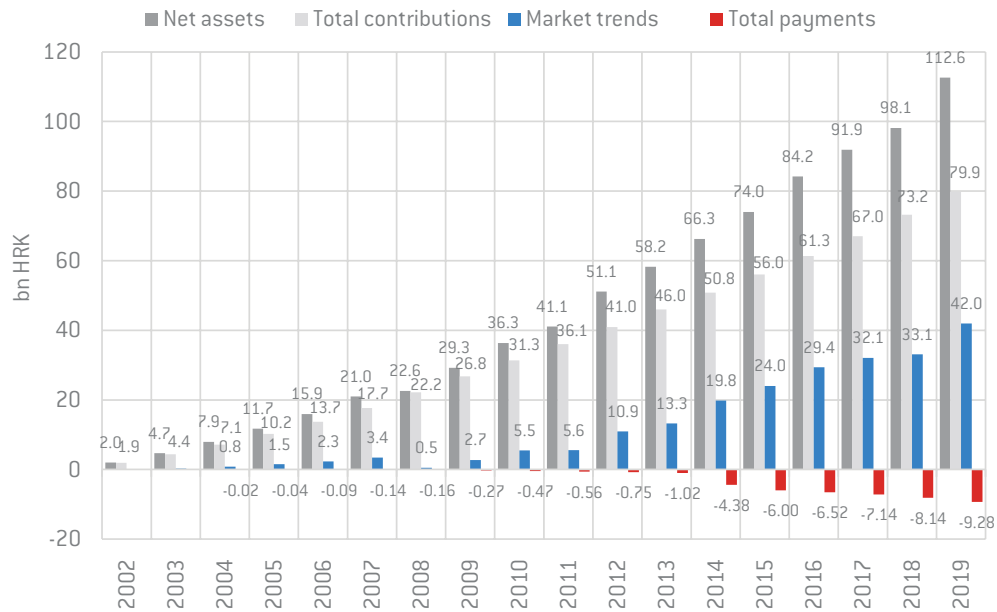
In 2019, investment fund management companies recorded a net profit of HRK 58.7m or 20.8% more than in the previous year, primarily due to an increase in net management results, i.e. the difference between the management fee income and management expenses (an 8.49% rise relative to 2018). Own funds, or capital and reserves, were the main source of financing for investment fund management companies (with a 75.6% share in liabilities), while the largest part of assets were invested in cash and financial assets (59.6% of total assets).

2.3 Pension system

Mandatory pension funds

In addition to contributions prescribed by the law, which still exceed the payments, market circumstances and favourable domestic macroeconomic developments contributed to the continued several-year growing trend of mandatory pension funds. Therefore, in July 2019, net assets of mandatory pension funds exceeded HRK 100bn, while at the end of the year their assets stood at slightly above HRK 12bn, rising by 14.8% annually (Figure 2.3.1). In spite of unfavourable demographic developments, at the end of 2019, mandatory pension funds had slightly more than 2 million members or 3.8% members more than in the previous year. The majority of pension system members belong to category B mandatory pension funds (97% of all the insured persons), whose investment strategy involves medium risks in comparison with category A funds, which take higher investment risks (1.3% of all the insured persons), and in comparison with the most conservative category C funds (1.8% of all the insured persons). Considering the legislative changes that entered into force during 2019, pursuant to which insured persons who fail to select a pension fund category according to their age themselves will be allocated to category A, the membership structure by fund category may be expected to change. In addition, these legislative changes also introduced a higher degree of liberalisation for certain mandatory pension fund investment policies, namely recognition of infrastructural projects as a new asset class, possibility to invest in transferable equity and/or debt securities serving for the financing or securitisation of infrastructural projects in the territory of the Republic of Croatia and investing in start-up projects, whose purpose is to encourage the development of the domestic SME market. They also placed emphasis on the importance for pension fund management companies to invest in financial literacy for the purpose of encouraging citizens to make their own decisions on their pension savings, as only a small part of insured persons take an active role in selecting their mandatory pension fund (only 4% of new insured persons in 2019).

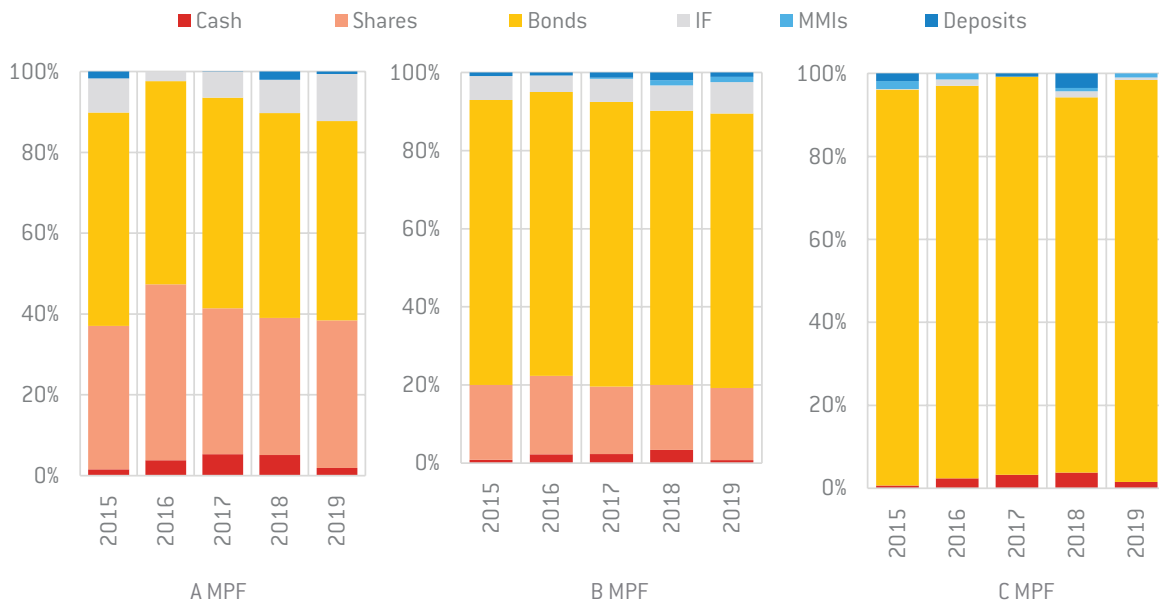
Figure 2.3.1 Net assets, total contributions, payments and market trends recorded by mandatory pension funds (MPF)



Source: Hanfa

In spite of the challenging low interest rate environment, mandatory pension funds' return rates recorded a strong rise in all the categories, due to favourable developments on domestic and foreign financial markets. A significant impact was also made by the improvement in Croatia's credit rating, which was followed by a growth in the value of mandatory pension funds' bond portfolios – a prevailing form of investment of all the fund categories (Figure 2.3.2).

Figure 2.3.2 Mandatory pension funds' asset structure by investments type

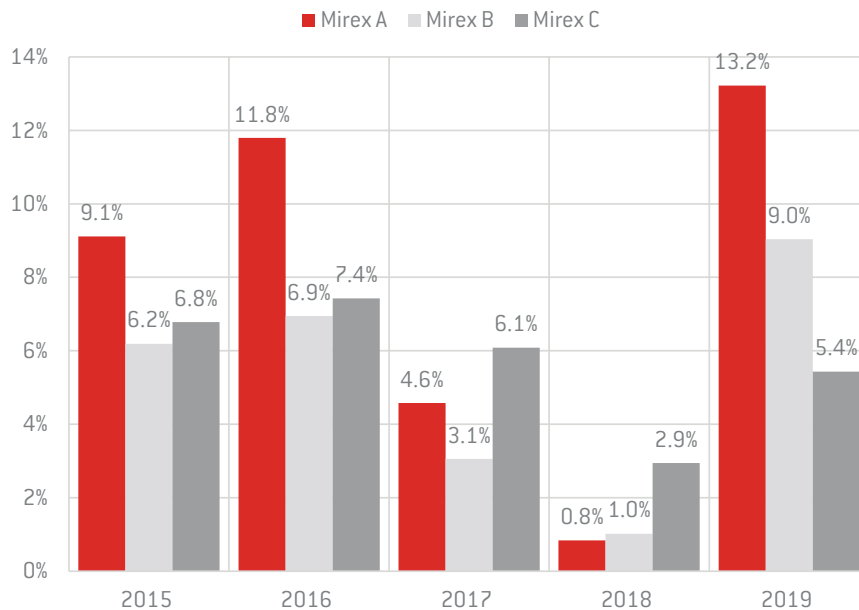


Note: IF – investment funds MMIs – Money market instruments

Source: Hanfa

Rates of return of certain pension fund categories reflect the level of risk pertaining to their investment strategies. Therefore, the sharpest growth was recorded by Mirex A, amounting to slightly above 12 p.p., due to a considerable increase in the value of assets invested in foreign government bonds (a rise reaching more than 177% compared to the same period in 2018) and assets invested in domestic (a rise totalling almost 31%), but also in foreign shares (a rise exceeding 55%). Mirex B generated an increase amounting to 8 p.p. at an annual level, considering steady contributions and a rise in the value of bond investments, while the slowest rise, by 2.5. p.p., was recorded by Mirex C (Figure 2.3.3).

Figure 2.3.3 Mandatory pension funds' rates of return



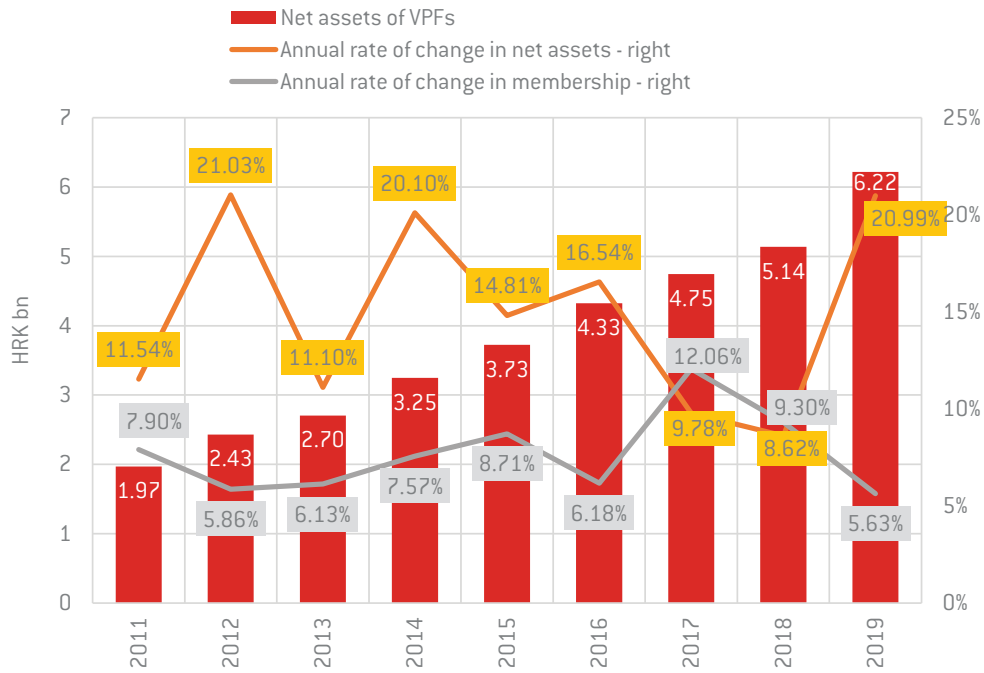
Source: Hanfa

Voluntary pension funds

In 2019, one closed-ended voluntary pension fund ceased operating, so there were eight open-ended voluntary pension funds (hereinafter: OVPFs) and 20 closed-ended voluntary pension funds (hereinafter: CVPFs) operating at the end of the year. Positive market trends that marked the year 2019 contributed to a 21% increase in voluntary pension funds' (hereinafter: VPFs) net assets, that reached more than HRK 6.2bn at the end of the year. Of that amount, HRK 5.1bn was related to OVPFs' net assets (Figure 2.3.4). The number of VPFs' members also rose, by 5.6%, totalling 365,102 at the end of the year (Figure 2.3.4). This number is expected to continue growing in the upcoming period, since the legislative changes introduced in 2019 made VPFs more attractive due to a decrease in fees and increased possibilities related to the payment of pensions.

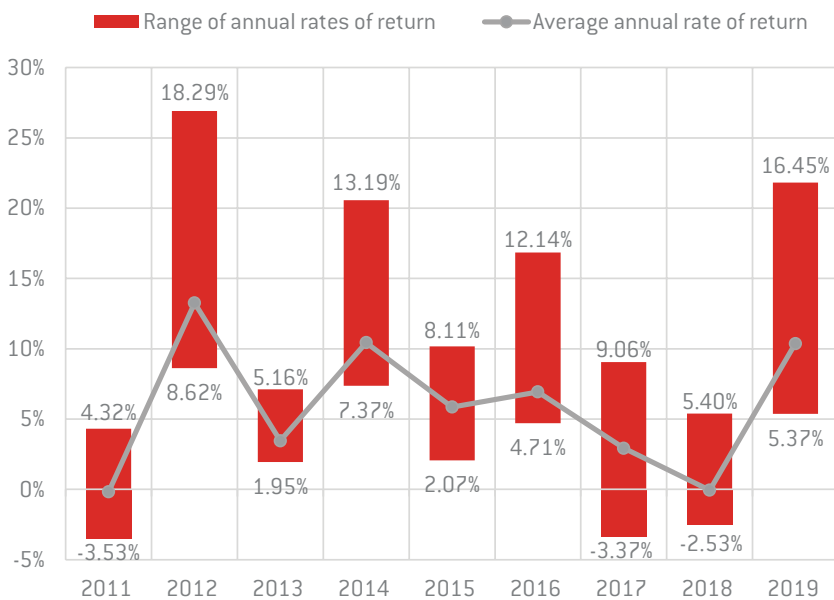
Voluntary pension funds made most investments in government bonds, and in 2019 this type of investment grew significantly, considering a rise in bond prices in the low interest rate environment. As opposed to mandatory pension funds, voluntary pension funds made somewhat larger investments in shares. As the stock market also grew, in 2019 VPFs generated rates of returns ranging from 5.37% to 16.5% and reflecting their differentiated investment strategies, that result from less conservative legislative investment restrictions compared to mandatory pension funds.

Figure 2.3.4 Voluntary pension funds' net assets and annual rates of change in their net assets and membership



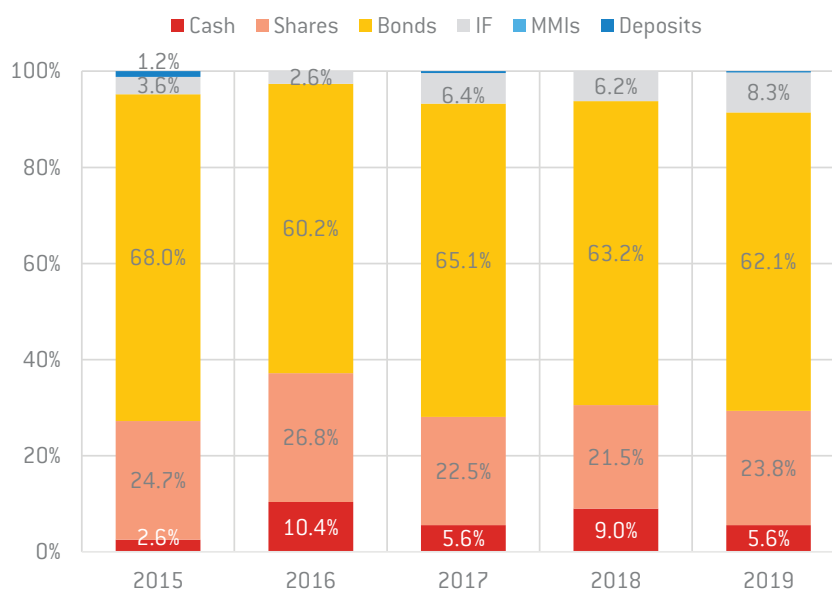
Source: Hanfa

Figure 2.3.5 Voluntary pension funds' annual rates of return



Source: Hanfa

Figure 2.3.6 Open-ended voluntary pension funds' investment structure



Note: IF – investment funds, MMIs – Money market instruments

Source: Hanfa

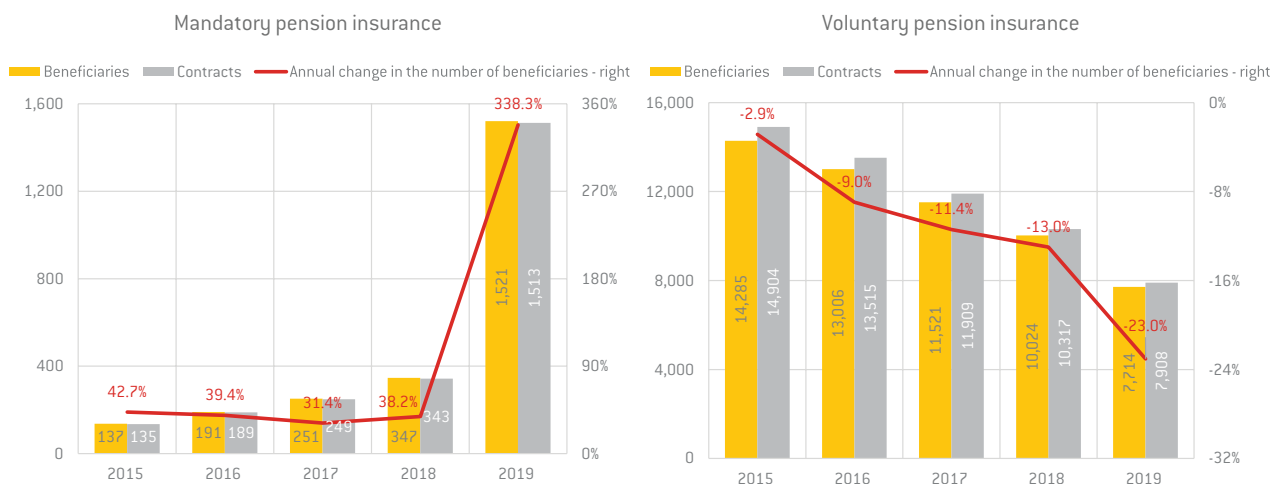
Pension insurance company

In 2019, there was only one pension insurance company operating in Croatia, as in the previous year. At the end of the year, the assets of the pension insurance company totalled HRK 873m, rising by almost 58% compared to end-2018, when they reached HRK 554m. This growth was mostly a result of a larger number of contracts, i.e. retired beneficiaries whose funds were allocated to the pension insurance company, and of generated investment returns. The liabilities were dominated by technical provisions for mandatory pension insurance, that grew in 2019 as well, by 193%, due to the number of new retired persons. At the same time, the assets covering technical provisions for mandatory pension insurance increased sharply, too (from slightly more than HRK134m as at 31 December 2018 to HRK 388m as at 31 December 2019).

The structure of pension insurance beneficiaries or pension contracts recorded a growth in the number of beneficiaries and contracts in mandatory pension insurance, while the number of beneficiaries and contracts in voluntary pension insurance declined. This was due, among other things, to legislative changes which provide for an option of combined payments of mandatory insurance pensions from the 1st and the 2nd pillar, as a pension supplement is also paid on the amount of funds saved within the 2nd pillar of mandatory pension insurance. At the same time, expanded voluntary pension savings payout options through the fund or life insurance companies increased competition in the area of voluntary pension payments, which led to a fall in the number of beneficiaries and contracts in this segment.

Profit after tax recorded in 2019 by the pension insurance company totalled HRK 5.8m, growing by 21.49% compared with the previous period. Its total income rose significantly (from HRK 266m in 2018 to HRK 487.9m in 2019), primarily due to payments made by pension companies, direct lump-sum payments and payments made by other persons, which accounted for 79% of total income. Total expenses grew as well (from HRK 260.2m in 2018 to HRK 480.9m in 2019) and were dominated by expenses arising from pension contracts (84% of total expenses).

Figure 2.3.7 Pension insurance beneficiaries, contracts and annual rates of change in the number of beneficiaries



Source: Hanfa

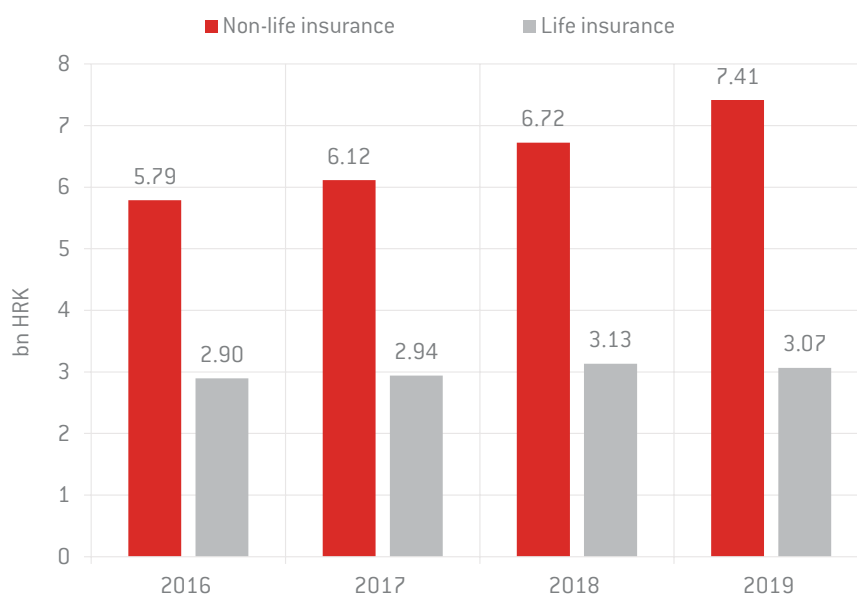
Pension companies

In the previous year, voluntary and mandatory pension funds were managed by five companies, of which three companies were authorised to manage both mandatory and voluntary pension funds, while each of the two remaining companies were authorised to manage either mandatory or voluntary pension funds. Profit after tax recorded by the pension companies in 2019 amounted to HRK 157.4m, falling by 22% relative to 2018, when it stood at HRK 202.8m. The decrease in the profit was due to legislative changes which introduced the elimination or reduction of fees, but also ensured that a part of the management fee charged by pensions companies is given back to beneficiaries through payments into the mandatory pension fund.

2.4 Insurance

At the beginning of 2019, there were 18 insurance companies operating in Croatia, however, as two companies made a cross-border portfolio transfer during the year, at end-2019 there were 16 insurance companies with their registered offices in the Republic of Croatia. In spite of the decrease in their number, insurance companies recorded a growth in total gross written premium, which amounted to HRK 10.5bn at the end of the year, rising by 6.3% relative to 2018. Broken down by the type of insurance activity, gross written premium rose in non-life insurance business (by 10.3%, reaching HRK 7.4bn), while it fell in life-insurance business (by -2.2%, totalling HRK 3.1bn). The non-life insurance premium growth was a result of favourable macroeconomic developments and was primarily generated by the rise in credit insurance premium due to banks' intensified credit activity (47.2%) and increased activity related to land motor vehicle insurance – comprehensive car insurance (18.6%) and health insurance (16.5%). The life insurance premium decrease was recorded by all life insurance classes and was caused by the long-term low interest rate environment, due to which life insurance products were not as attractive to policyholders any longer, as they search for investment products or assets that produce higher yields. In 2019, claims settled stood at HRK 6.0bn, rising by 7.6% relative to 2018 and continuing their growing trend, partly generated by mature life insurance portfolios.

Figure 2.4.1 Gross written premium



Source: Hanfa

As at 31 December 2019, the total assets of insurance companies reached HRK 45.5bn, increasing by 8.5% in comparison with the previous year. The largest portion of the assets was accounted for by investments, which made up 78.1% of their structure, while technical provisions (61.7%) and capital and reserves (25.0%) accounted for the largest liability share.

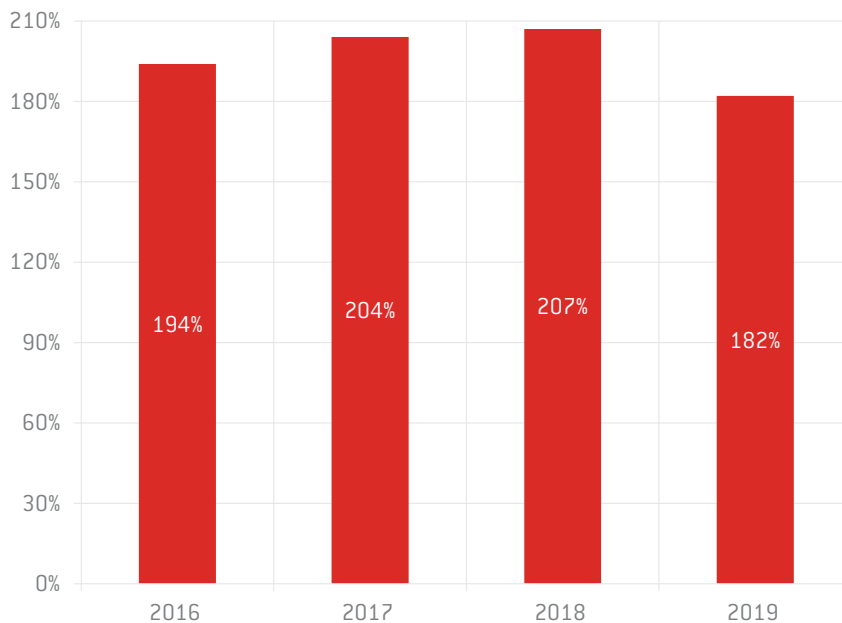
Historically low interest rates that marked the year 2019 had a significant influence on the profitability of insurance companies, particularly as regards their life insurance business, due to a relatively high share of policies concluded with high guaranteed rates in previous years. In spite of this, both life and non-life insurance companies generated profits in 2019. Profit recorded by life insurance companies totalled HRK 205.0m, rising by as much as 11.9% compared to 2018, while non-life insurance companies realised profit amounting to HRK 575.5m and growing by 1.2% in comparison with the previous year. The increase in the profit generated by life insurance companies was primarily due to the rise in income from investments and to the decrease in investment costs in comparison with 2018.

One of the reasons for the profit rise could definitely be the search-for-yield strategy, however, insurance companies' investment strategies have experienced only insignificant or slight changes over recent years. The dominant investment form of insurance companies in the Republic of Croatia have traditionally been government bonds, that amounted to 64.5% of insurance companies' total investments⁴ at end-2019 (an 8.1% rise compared to 2018). Investment property was the most represented type of investment among the remaining investment forms and made up 7.9% of total investments (a 4.5% increase compared to 2018), followed by loan investments, that accounted for 6.8% of total investments (a 6.2% fall compared to 2018) and investments in investment funds, that reached 4.9% (a 12.9% decrease relative to 2018). Investments in corporate bonds and shares contain elements of the search-for-yield strategy as they record high growth rates, by 22.9% and 14.7% respectively, in comparison with 2018; however, due to their low level of representation in total investments, this strategy has an insignificant impact on insurance companies' business results.

⁴ Data used for the purposes of the calculation are data from the SII balance sheet, that include the *Loans and Mortgages* item.

The median solvency ratio of the insurance companies was still considerably higher than the regulatory minimum for all groups of insurers, but the year 2019 saw a significant decrease in this indicator, that was a result of a sharp fall in reference interest rates used for discounting insurance companies' technical provisions. The low interest rates led to a significant rise in technical provisions, which contributed to a decline in own funds of some insurance companies. In addition, the application of transitional measures was followed by an increase in the risk weight in the calculation of capital requirements for exposures to EU Member States' sovereign bonds issued in foreign currency, which led to a growth in total solvency capital requirements as a result of increased capital requirements for spread risk and market concentration risk.

Figure 2.4.2 Insurance companies' solvency ratio median



Note: Solvency ratio represents the average ratio of eligible own funds to capital requirements (SCR or MCR, whichever is higher) of insurance companies.

Source: Hanfa

Croatian Insurance Bureau

The Croatian Insurance Bureau (hereinafter: the Bureau) operates as an association of insurance companies, financed by its members. Membership of the Bureau is mandatory for insurance companies offering compulsory motor vehicle liability insurance to its policyholders, while other companies may join the Bureau on a voluntary basis.

Financial operations of the Bureau, as a non-profit organisation, comprise the Guarantee Fund and regular business operations (the non-profit segment of its operations), which include taxable activity (the profit-making segment). According to the balance sheet of the regular business operations, as at 31 December 2019, the total assets of the Bureau amounted to HRK 11.2m, while its total liabilities stood at HRK 3.6m, and sources of financing at HRK 7.6m. The Bureau's income totalled HRK 8.2m or 3.2% more in comparison with the previous year, and was primarily made up of income from its members. Expenses recorded by the Bureau amounted to HRK 8.5m, falling by 8.5% relative to 2018, and were dominated by expenses for regular business activities.

Pursuant to Article 45(1) of the Act on Compulsory Traffic Insurance⁵, insurance companies conducting compulsory insurance business are obliged to pay contributions to the Bureau for the Guarantee Fund, in proportion to the premium or number of risks recorded in a certain class of compulsory insurance in the current year. The Bureau is obliged to separate the assets of the Guarantee Fund from other assets of the Bureau and keep them in a special account. As at 31 December 2019, the total assets of the Guarantee Fund amounted to HRK 14.9m, decreasing by 7.7% compared to the previous year.

Croatian Nuclear Insurance and Reinsurance Pool, EIG

Pursuant to Article 351 of the Insurance Act⁶, the Croatian Nuclear Insurance and Reinsurance Pool, EIG (hereinafter: CN POOL) carries out activities related to:

- conclusion and fulfilment of obligations under contracts on co-insurance and reinsurance of nuclear plants or risks in Croatia and abroad
- organisation of activities in Croatia for the purpose of implementing measures aimed at preventing and mitigating nuclear and other risks or damage that endanger property or persons
- mediation, representation, recording of risks, recording and assessment of damage, provision of legal assistance and other intellectual and technical services related to insurance, co-insurance and reinsurance of nuclear plants and risks
- collection, keeping, depositing and fixed-term depositing of funds generated through its business operations and the provision of loans to insured persons and other legal persons.

The CN POOL was founded by four insurance companies from the Republic of Croatia, which make up its membership. As at 31 December 2019, total assets of the CN POOL amounted to HRK 94.8m, rising by 7.9% compared to the previous year. The largest part of the assets was accounted for by investments, that made up a 79.0% share, while the liabilities were dominated by technical provisions, with an almost identical share, 78.9%. At the end of the year, the CN POOL recorded profit totalling HRK 32.6 thousand.

2.5 Non-bank financing

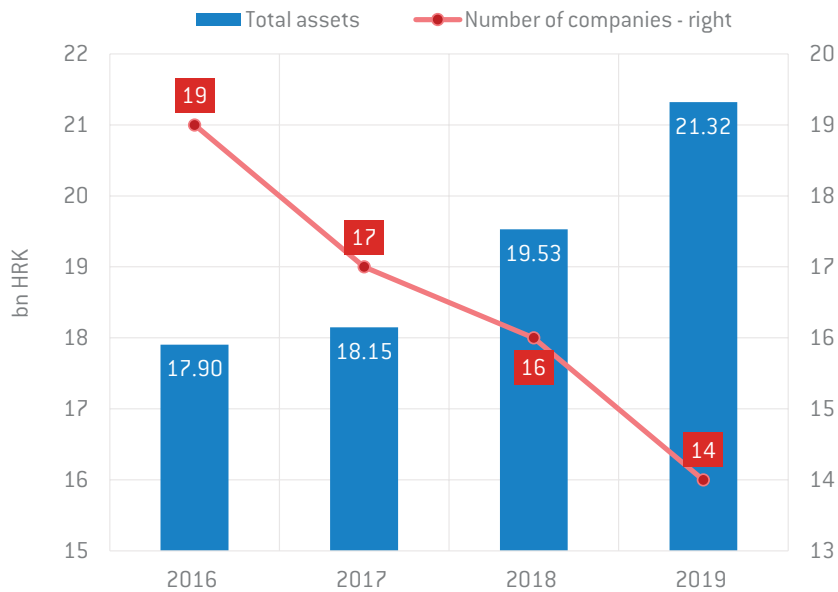
Leasing companies

At the end of 2019, there were 14 leasing companies operating in the Republic of Croatia, two companies fewer than in 2018. As at 31 December 2019, their total assets amounted to HRK 21.3bn, growing by 9.2% in comparison with the previous year. The largest asset item were finance lease receivables totalling HRK 14.4bn and rising by 15.7% compared with the previous year, due to the fact that the increase in economic activity had a positive impact on the lease of vehicles, particularly those relating to passenger transport. Leasing companies finance their operations primarily by foreign borrowing, as a result of which their liabilities for credits and loans from foreign banks and financial institutions increased by 11.0% in 2019, totalling HRK 15.5bn.

5 Official Gazette, No 151/05, 36/09, 75/09, 76/13 and 152/14

6 Official Gazette, No 30/15 and 112/18

Figure 2.5.1 Number of leasing companies and their assets



Source: Hanfa

The several-year long growing trend in the leasing market in the Republic of Croatia continued in 2019, with the value of newly concluded contracts rising by 15.5% and reaching HRK 10.2bn. Outstanding receivables, or contracted value of active contracts stood at HRK 17.1bn, increasing by 14.0% relative to 2018. Finance lease activities recorded a faster growth (16.7%) in newly concluded contracts in comparison with the rise recorded by operating lease activities (9.8%), due to favourable macroeconomic developments and tourist season, which made passenger and commercial vehicles the predominant leased asset. This is a result of continued several-year long trends, due to which vehicles dominate the structure of the value of all active contracts (with HRK 12.7bn or 74.7% of the value of all active contracts). These contracts were primarily concluded by business entities; therefore, in spite of their positive trend (21.7% in 2019), lease contracts concluded with the household sector made up 11.4% of the total value of active contracts.

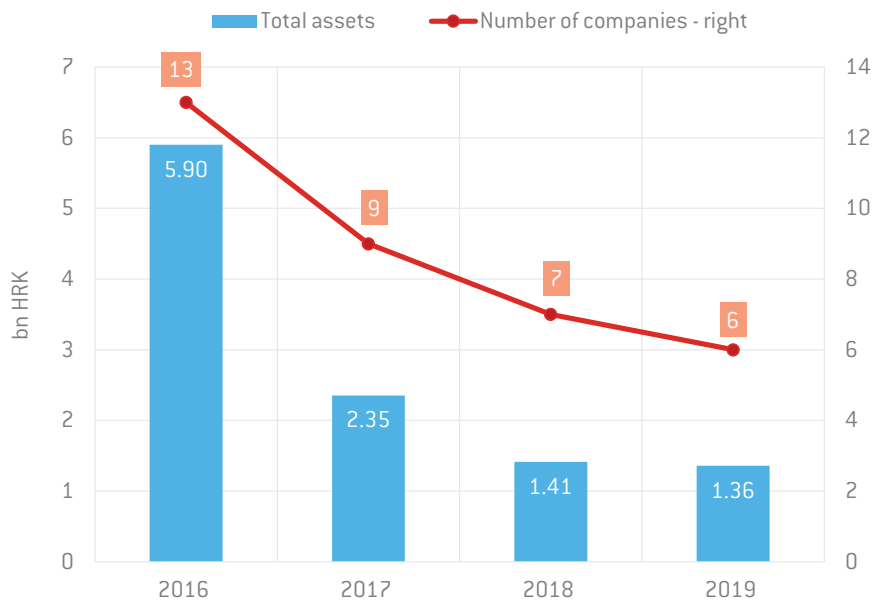
Factoring companies

In 2019, the factoring market experienced a significant decline in the consolidation process, as the assets of the factoring companies remained at almost the same level as in 2018, amounting to HRK 1.4bn. The volume of transactions also reached the similar level as in the previous year, totalling HRK 3.1bn or only 3.5% less.

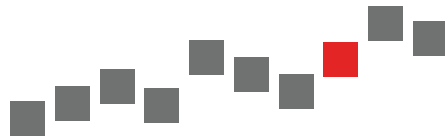
A significant decline in the volume of business operations was again recorded by factoring transactions involving the discounting of bills of exchange, that fell by 57.4% at end-2019, reaching only 6.9% of the total transaction volume (only two years ago, they accounted for a 35.8% share in the total volume of transactions), as a result of developments related to the Agrokor Group in 2017.

As at 31 December 2019, the factoring companies' receivables amounted to HRK 885.0m, of which HRK 452.1m related to factoring operations, HRK 63.0m related to factoring including the discounting of bills of exchange, while HRK 369.9m related to reverse factoring.

Figure 2.5.2 Number of factoring companies and their assets



Source: Hanfa



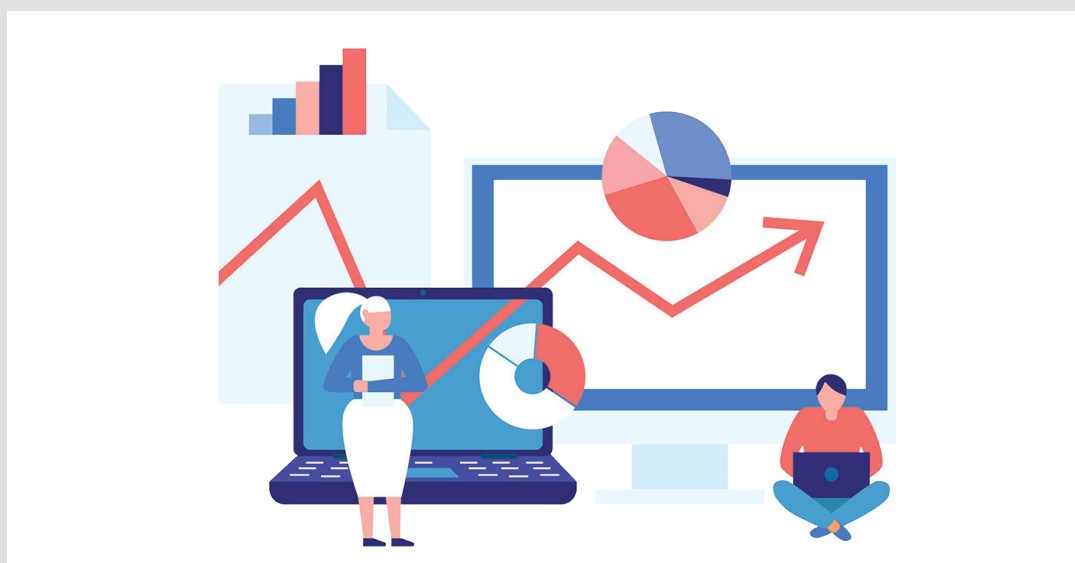
Supervisory activities



3 Supervisory activities

Hanfa verifies, on a continuous basis, whether supervised entities operate in accordance with laws and other regulations, risk management rules, internal by-laws and professional rules and whether they operate, in general, in a manner that ensures their proper functioning and the implementation of measures and activities aimed at eliminating illegalities and irregularities established. Supervisory examinations, either on-site (carried out at the supervised entity's premises) or off-site, are subject to the General Administrative Procedure Act⁷, unless otherwise provided for. The main objectives of supervision are to verify whether supervised entities operate in accordance with law and to assess the safety and stability of their business operations in order to protect the interests of financial services users and public interest, to contribute to the stability of the financial system and to promote and maintain confidence in that system. Hanfa's planning and implementation of supervisory procedures is based on an analysis of the risks to which an individual entity, industry or entire financial services sector is exposed in order to prevent the materialisation of these risks.

Supervision based on risk analysis is founded on the assessment of the total risk exposure of individual supervised entities



BUSINESS

- liquidity
- profitability
- solvency
- market share
- investment risks

MANAGEMENT

- management quality
- risk function
- internal audit
- investor relations
- reporting

OTHER RISKS

- legal risks
- reputational risk
- other risks

⁷ Official Gazette, No 47/09

3.1 Microprudential supervision

Capital market

Capital market supervision includes supervision of market infrastructure entities and issuers admitted to the regulated market and MTF. The specificity of supervision stems from the systemic importance of individual supervised entities, as well as from Hanfa's authority in the part of supervision relating to issuers. This specificity is primarily reflected in the indirect and preventive manner of conducting supervision. The capital market infrastructure consists of the ZSE and the Central Depository and Clearing Company (hereinafter: the CDCC), the operation of which Hanfa continuously supervises throughout the year. The aim of the supervision is prevention of potential irregularities and illegalities in operations and risk reduction, which is extremely important in view of their irreplaceability in part of the services they provide on the capital market, which is why these entities are considered to have systemic significance. In addition to the market infrastructure entities, as the supervisory authority of the capital market, Hanfa also supervises issuers on the market, but to a limited extent relating to the supervision of their financial statements with a view to increasing the quality of the publication of regulated information by issuers and the acquisition and disposal of financial instruments. Supervision of issuers is carried out through off-site supervisory activities (supervising the timeliness of announcements, supervision of the scope and content of the published information, supervision of compliance of the published financial information with the relevant financial reporting framework) and educational activities (presentations, workshops, direct communication and proposals). In 2019, together with the ZSE, Hanfa adopted a new Code of corporate governance for issuers and implemented certain administrative unbundling measures, which contributes to easier compliance with the required obligations.

CODE OF CORPORATE GOVERNANCE

The new Code of corporate governance for issuers was adopted by Hanfa and the ZSE on 15 October 2019. The core principles of the Code imply ensuring transparent business operations, defining detailed procedures for the work of management and supervisory boards of issuers, avoiding conflicts of interest of relevant persons in the issuer (members of the management board, supervisory board, senior management) and establishing effective internal control and an efficient system of accountability. These principles of good corporate governance are achieved primarily by appropriate behaviour of key persons within the issuer.

Supervision of capital market infrastructure

During 2019, Hanfa continuously conducted off-site supervision of the ZSE, the only operator of regulated and MTF markets in Croatia, by regularly collecting and analysing reports on the operations of the regulated market and MTF that have to be submitted to Hanfa in accordance with the provisions of the Capital Market Act⁸ (hereinafter: CMA). In addition, in 2019 Hanfa adopted a decision approving the Rules of the ZSE and carried out the procedure upon ZSE's request for the authorisation of fees for regulated market services. At the same time, Hanfa supervised trading in financial instruments admitted to the regulated market and MTF in real time. During 2019, in accordance with the Ordinance on reporting actual or potential infringements of the Market Abuse Regulation⁹ the ZSE and investment firms submitted to Hanfa 11 reports relating to suspicions of market abuse and five reports relating to suspicions of insider dealing. In addition, different natural and legal persons submitted one notification and three complaints related to market abuse, in relation to which additional documentation was collected and analysed. In 2019, Hanfa found three cases of market abuse and adopted decisions ordering the termi-

8 Official Gazette, No 65/18

9 Official Gazette, No 60/16

nation of behaviour contrary to the provisions of the CMA in connection with market abuse and Regulation (EU) No 596/2014 on market abuse¹⁰ and issued warnings.

Hanfa regularly reports its capital market supervisory activities to ESMA and, in 2019, it submitted all notifications of temporary suspension of trading and/or exclusion from trading in financial instruments admitted to the regulated market, information on net short positions and data on duration-adjusted amount of sovereign debt instruments issued by the Republic of Croatia, which it is obliged to submit in accordance with the Short Selling Regulation¹¹ and the provisions of Commission Delegated Regulation (EU) No 918/2012¹², and data on settlement fails pursuant to Hanfa's Decision on reporting on settlement fails.

In addition to the ZSE, during 2019, Hanfa continuously conducted supervision of the sole clearing and settlement service provider in Croatia, the CDCC, in line with the obligations laid down in the CMA. As part of a continuous off-site supervision in 2019, Hanfa analysed reports received from the CDCC and controlled their contents and timely submission. Off-site supervision was also conducted by monitoring the implementation of EMIR¹³ and CSDR¹⁴. Moreover, Hanfa issued a decision approving amendments to the Rules of the CDCC and Instructions of the CDCC, as well as the Price List of the CDCC.

Since CDCC operates the Investor Protection Scheme, Hanfa supervised its operations as the operator of the Investor Protection Scheme and analysed semi-annual and annual financial statements of the Scheme, which must be submitted pursuant to the CMA.

INVESTOR PROTECTION SCHEME

This is a fund whose purpose is to protect the claims of investors, however not all investors, but only those who are clients of the fund members, namely claims which fund members cannot pay and/or return to their clients. A client's claims are insured up to a value of HRK 150,000 and they are paid from the fund's assets.

Supervision of issuers

In 2019, Hanfa carried out 217 off-site examinations of issuers, 131 of which referred to the publication of regulated information, 26 to the acquisition and/or disposal of issuers' shares by persons in managerial positions and 26 to the acquisition and/or disposal of own shares and other financial instruments of issuers, while 34 off-site examinations of issuers included additional activities with the aim requesting statements from participants in the capital market. Of the 34 off-site examinations, 22 related to publications under the CMA, 10 were based on media and newspaper articles, while two off-site examinations were based on omissions in issuers' publications. Based on off-site supervision, Hanfa has issued two decisions relating to the improvement of the internal system for managing the process of publishing regulated and inside information, and one decision on the termination of temporary suspension of trading for one issuer.

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

11 Regulation (EU) No 236/2012 of the European Parliament and of the Council of 14 March 2012 on short selling and certain aspects of credit default swaps, OJ L 086

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

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

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

Hanfa continuously monitored the publication of the issuers' information at the ZSE, the OAM and other public platforms and analysed the information concerned and supervised the publication and orderly submission of the financial statements, the marking and signature of the regulated information and the submission of insider lists¹⁵.

O A M

Officially Appointed Mechanism for the central storage of regulated information (OAM) is a system for collecting, storing, processing, publishing and making available regulated information. In the Republic of Croatia, it is managed by Hanfa.

OAM is also part of the system consisting of interconnected official registers of the regulated information of all Member States and the European Electronic Access Point, developed and maintained by ESMA.

In addition, Hanfa supervised the compliance of issuers' financial statements with the relevant financial reporting framework with a view to ensuring consistent, transparent and quality financial reporting by issuers, in order to contribute to the development and stability of the capital market through the provision of relevant and reliable information to investors and other capital market stakeholders. Hanfa carried out a total of eight supervisory examinations of issuers' financial statements for the year 2018, during which it requested statements from issuers due to risks it identified. Identified risks mostly referred to the valuation of fixed tangible assets. A comparison of financial information presented in the statements in various formats¹⁶ was carried out with respect to 115 issuers that submitted their audited financial statements for the year 2018, by 30 September 2019. Differences were established with the majority of issuers (66%). A smaller number of differences was the result of the structure of the prescribed form, while a larger number of differences originated from different classification of financial information by issuers, errors within individual positions, etc. Hanfa informed the issuers about the existing differences, and it will continue to monitor the compliance of audited financial statements and prescribed forms. Subannual financial statements of issuers were also analysed, and they were found to be having an inconsistent overview of the financial condition and operations in the comparative and current period. Consequently, issuers were requested to submit clarifications.

ESMA determines on an annual basis the European common enforcement priorities (ECEP), which regulators take into account when supervising the issuers' financial statements. As priorities for the annual statements for 2018, ESMA designated IFRS 9 Financial instruments, IFRS 15 Revenue under contracts with customers and IFRS 16 Leases. By reviewing the issuers' financial statements, Hanfa identified issuers having priority standards significantly represented in the financial statements.

In 2019, Hanfa approved six applications for the prospectus approval, five of which in connection with the admission of shares on the regulated market and one in connection with the public offering and the admission of bonds on the regulated market, which raised HRK 130m.

In addition to prospectuses approved, Hanfa received a total of 26 notifications relating to prospectuses and 104 notifications relating to supplements to prospectuses from competent authorities in other Member States. Such prospectuses and supplements to prospectuses have the same effect as those approved by Hanfa. Notified prospectuses were mainly related to the issuance of structured securities of credit institutions. The notifications were received from regulators in Luxembourg (93), Austria (22), Germany (12) and other regulators (3).

In 2019, 4027 final details were received, a decrease in comparison to 2018, when 4400 final details were received. Final details contain the final details of the offer relating to the basic prospectus for debt securities for continuous and recurring issues of credit institutions.

15 They are sent to Hanfa on a quarterly basis, pursuant to Decision on the manner and deadlines for the submission of insider lists. Issuers are obliged to compile, update and submit to Hanfa, upon request, such insider lists in accordance with Directive (EU) 596/2014 on market abuse.

16 PDF format and XLS format

The Capital Market Act sets out cases where persons proposing to offer securities to the public or admit them to trading on a regulated market are not obliged to publish a prospectus. In this respect, a total of 58 notifications were received about the use of exemption from the obligation to publish a prospectus [issuance/admission to the regulated market]. The exemptions from the obligation to publish a prospectus in connection with the issuance of securities were most often used in the following cases: an offer of securities addressed to fewer than 150 natural or legal persons per Member State, other than qualified investors (31), an offer of securities addressed solely to qualified investors (19), an offer to creditors for whom the pre-bankruptcy agreement or the insolvency plan confirmed by a valid court order has legal effect (7), an offer of securities to existing or former board members or employees by their employer or by an affiliated undertaking (7) and other cases (8).¹⁷ As far as the notifications on the use of exemption from the obligation to publish a prospectus in connection with the admission of securities to the regulated market, they referred to the offer of shares to the existing shareholders of the company and the allocation of shares in the process of acquisition, merger or division of companies. The notifications received concerned shares (37), bonds (11) and structured products (11).

Eight takeover bids were approved. A total of ca HRK 334m was paid for the deposited shares based on takeover bids, significantly less than in 2018, when the amount reaching ca HRK 811m was paid. Hanfa received two notifications on the use of exemption to publish a takeover bid pursuant to Article 14 of the Act on the Takeover of Joint-Stock Companies¹⁸. These were the following exemptions: the acquirer of shares of the target company holds a percentage of voting shares equal to or less than the percentage of voting shares held by another shareholder of the target company and the transfer of the shares of the target company did not result in a change of the controlling person of the target company.

Investing

Corrective supervisory activities

Supervision of closet indexing in the investment strategy of equity UCITS

In 2019, off-site supervision of closet indexing in the investment strategy of equity UCITS was conducted. There is reasonable doubt in the EU that investment funds that are advertised as actively managed are in fact managed completely passively by relying on the following of stock exchange indices. At the same time, in addition to such a passive investment strategy, higher management fees are charged in accordance with proclaimed active investment strategies. In 2019, Hanfa initiated supervision of 23 domestic UCITS in order to determine the extent of closet indexing. The supervision was carried out in accordance with the internally established Hanfa methodology for the analysis of the investment strategy, following ESMA's instructions and the practices of other regulators of EU Member States. The results showed a lack of consistency in the public disclosure of the indices/benchmarks of the fund in the relevant UCITS documentation and advertising materials, i.e. a lack of a clear declaration of the fund whether the type of management is active or passive. The results of the supervision were published on 4 October 2019, on Hanfa website¹⁹.

CLOSET INDEXING

This is an investment fund management practice in which an investment fund remains close to or fully follows a stock exchange index or benchmark, while at the same time presenting itself as an actively managed fund.

¹⁷ Notifications of the exemption from the obligation to publish a prospectus may include several exemptions, therefore the number of exemptions used is higher than the number of notifications received.

¹⁸ Official Gazette, No 109/07, 36/09, 108/12, 90/13, 99/13 and 148/13

¹⁹ <https://www.hanfa.hr/vijesti/proveden-nadzor-na-temu-prikrivenog-repliciranja-indeksa-eng-closet-indexing-koddoma%C4%87ih-ucits-fondova/>

Supervision of functional independence of economic cooperation funds' asset valuation

In September 2019, Hanfa initiated on-site examinations of four companies managing venture capital investment funds with private offering, which manage a total of five economic cooperation funds (hereinafter: ECFs). ECFs are open-ended venture capital investment funds with private offering, established under the Regulation of the Croatian government and operating pursuant to the Alternative Investment Funds Act²⁰ (hereinafter: AIFA). A total of five ECFs have been established, and all of them are still active.

The target of these examinations was to check the functional independence of ECFs asset valuation operations from asset management operations, as prescribed by the AIFA, where the focus of asset valuation referred to the procedure of fair value assessment of certain investments of a fund. The supervision procedure established that in all four companies the asset valuation operations were not organised in such a way to be functionally independent from the asset management operations, since the same organisational units responsible for asset management activities of ECFs also carried out fair value assessments of individual fund investments, contrary to the provisions of the AIFA. It was also found that internal regulations of companies did not prescribe obligations, roles and responsibilities of certain organisational units in the investment valuation process.

PRIVATE EQUITY

Type of equity investment in companies with active participation in the business operations of the investee. Venture capital (private equity) funds work on improving the business of companies in which they invest capital.

Supervision of investment firms

In 2019, Hanfa issued a decision to an investment firm ordering the termination of persuading existing and potential clients to trade and misleading clients about the services it provides, as well as the termination of the provision of trading in contracts for differences in third countries without having previously established a branch there. In the same year, the firm notified Hanfa that it ceased to provide the service mentioned. In addition, another investment firm was issued a decision ordering the establishment of effective measures and procedures ensuring the security, integrity and confidentiality of data and a system for the appropriate recording of telephone conversations.

Supervision of investment fund management companies

In addition to the above-mentioned supervision of closet indexing in the investment strategy of equity UCITS funds and of the functional independence of economic cooperation funds asset valuation, in 2019 Hanfa issued a decision to one venture capital fund management company ordering it to harmonise the method for calculating the annual management fee with the Rules of the ECF.

Furthermore, one management company was issued a decision ordering it to ensure that AIF investments reflect the investment strategy proclaimed in the fund's rules and to improve the risk management and conflict of interest management system. A declaratory decision was to one management company regarding the fulfilment of the minimum regulatory capital requirement. All of the companies acted in accordance with the measures imposed.

Preventive supervisory activities

Supervision of distribution of credit institutions' financial instruments

In 2019, Hanfa initiated off-site supervision of the operations of credit institutions when offering, selling and advising on financial instruments. The aim of the supervision was to ensure that credit institutions in that part of business act in accordance with the provisions of the CMA and recommendations from

²⁰ Official Gazette, No 21/18 and 126/19

MYSTERY SHOPPING

Mystery shopping is an anonymous research method aimed at collecting specific information about products and services. Based on the information collected, the quality of their distribution is controlled, as well as compliance with regulatory requirements.

Hanfa's Guidelines on distribution channels for investment products. The findings of the supervision are of particular benefit to retail investors who invest or are interested in investing in financial instruments (such as, for example, the purchase of shares in UCITS) with a view to making a fully informed investment decision and understanding all related risks. These requirements were introduced to improve investor protection by regulating the entire cycle of products or services, in order to ensure that companies that produce and distribute products act in the best interest of clients. In the second part of 2019, Hanfa conducted off-site examination of six selected credit institutions that act as distributors of financial instruments. The supervision covered a range of products that credit institutions distribute, identification of the target market, definition of distribution strategy and channels, keeping a register of authorised persons, control of documentation on a sample of clients, qualifications of sales staff, internal control of the behaviour of employees involved in distribution, etc. In addition, as part of the supervision, Hanfa carried out the activity of the so-called mystery shopping in some branches of credit institutions throughout the Republic of Croatia in order to verify the conduct of employees who participate in the distribution of financial instruments. Publication of the results of this supervision at the beginning of 2020 will draw the attention of retail investors to the existence of strict rules of conduct of employees/distributors of credit institutions, which should be complied with when communicating with clients, all in order to develop good practice in the process of managing investment products.

Pension system

Corrective supervisory activities

During 2019, Hanfa carried out off-site examinations of the process of investing pension fund assets in non-listed shares of two issuers and examined the efficiency and adequacy of the risk management and conflict of interest management systems established in pension companies. In particular, management of the risk of non-admittance of these shares on the regulated market of the stock exchange was controlled, as a special risk forming part of the risk of non-compliance of pension companies with the relevant regulations.

During off-site supervisory procedures, some minor illegalities, irregularities and deficiencies of the risk management system in the investment process and prevention of conflicts of interest were identified in one pension company. The company did not establish and implement appropriate measures and procedures to minimise the risk of non-compliance with the relevant regulations, nor did it establish a comprehensive and efficient system for managing risks and conflicts of interest. During the off-site supervision procedure, the pension company in question eliminated the established illegalities and irregularities, therefore, it was not necessary to order any supervisory measures.

Preventive supervisory activities

In 2019, preventive supervisory activities focused on controlling the activities of pension companies with regard to the compliance with the new provisions from the Mandatory Pension Funds Act²¹ and the Voluntary Pension Funds Act²². In this sense, the majority of control activities referred to the verification of legal compliance of data in statutes, prospectuses, informative prospectuses and key information of pension funds, as well as the verification of content and visibility and the control of obligatory publica-

21 Official Gazette, No 19/14, 93/15, 64/18 and 115/18

22 Official Gazette, No 19/14, 29/18 and 115/18

tions on the websites of pension companies. Based on the results of the control activities carried out, pension companies were given explanations about the implementation of certain provisions of applicable regulations governing the obligatory content of the pension companies' website, as well as instructions that the established amendments to the investment strategy of mandatory pension funds represent substantial amendments to the statute, for which Hanfa's approval is required.

Furthermore, in 2019, Hanfa adopted the Guidelines on regulated systems for raising capital, further describing situations that are considered conflicts of interest and the Guidelines on benchmarks used by pension companies when investing in transferable equity securities, which were published on Hanfa's website.

With the Guidelines on regulated systems for raising capital Hanfa defined the regulated systems for raising capital which it recognises and through which mandatory pension funds will be able to invest in securities and shares in start-up companies financed via crowdfunding platforms.

REGULATED SYSTEM FOR RAISING CAPITAL

A trading facility allowing access to financing for SMEs and innovative and start-up companies that are in the initial stages of business operations.

In the Guidelines, which further describe situations deemed to be a conflict of interest, in accordance with its authorities referred to in Article 49a(4) of the Mandatory Pension Funds Act, Hanfa listed examples of situations related to pension companies and pension funds that can be considered a conflict of interest.

Under the provisions of the Mandatory Pension Funds Act stipulating that when investing a mandatory pension fund's assets in transferable equity securities admitted to a regulated market, one or more benchmarks recognised by Hanfa must be used, with the Guidelines on benchmarks used by pension companies when investing in transferable equity securities Hanfa informs pension companies of the benchmarks it recognises, as well as of certain criteria that benchmarks must meet in order to be recognised.

BENCHMARK

A reference point for comparing the investment performance, used to periodically compare the investment strategy and assess whether the achieved results of the pension fund are better or worse than the reference point.

MyPension.hr

In 2019, Hanfa started participating in the project titled "The Role of Pension Awareness and Promoting Pension Savings", funded under the Structural Reform Support Programme of the European Commission, for which the Ministry of Labour and Pension System and the Croatian Pension Insurance Institute applied. The working title of the project is *MyPension.hr*, i.e. "MojaMirovina.hr". Other than Hanfa, a series of other institutions from Croatia participated: the Ministry of Labour and Pension System, the Croatian Pension Insurance Institute, Central Registry of Affiliates and the Association of Croatian Pension Funds Management Companies and Pension Insurance Companies.

The project aims to establish an online platform "MyPension.hr", which aims to provide all insured persons with a single point of information on all three pension pillars. In addition, future pensioners could use the platform services in a simple and understandable manner to quickly find unified information on the estimated future pensions from all three pillars. Such information would be based on an estimate, and the platform should also provide simulations of future pensions depending on the current income and/or contribution to voluntary pension savings.

Preparation of the Enforcement Manual

In 2019, Hanfa participated in two workshops organised by the International Organization of Securities Commissions (hereinafter: IOSCO), which dealt with the preparation of the Enforcement Manual. The workshops are part of a larger project, consisting of five phases, whose aim is to prepare the above-mentioned Manual for the region including the European Regional Committee. Two phases of the project relate to the workshops held in Armenia (May 2019) and in North Macedonia (October 2019), in which Hanfa actively participated. Other phases related to active efforts within respective institutions on the harmonisation of the text of the Manual. Apart from Hanfa, the workshops were attended by representatives of regulators from Albania, Armenia, North Macedonia and Ukraine, and the expected final product of the project will be the Enforcement Manual, dealing with issues such as supervisory procedures, supervisory practices, co-operation, settlement and sanctioning, and the imposition and implementation of measures.

Pan-European Personal Pension Product

In 2019, Hanfa's representatives participated in the expert working group of the Ministry of Finance for drafting the Proposal for the Act implementing the Pan-European Personal Pension Product Regulation²³ (hereinafter: PEPP Regulation).

The draft act will, among other things, address national options and discretions arising from the PEPP Regulation, determine the authority responsible for its implementation and supervision, prescribe violations for acting contrary to the Regulation, etc. The discussion topics were therefore characteristics of PEPP products left to discretion by the PEPP Regulation to Member States, as well as products on the Croatian market with characteristics of PEPP products. On 17 June 2019, a presentation on PEPP products and PEPP Regulation was given to supervised entities in interested professional associations (pension companies, investment fund management companies, insurers).

PAN-EUROPEAN PERSONAL PENSION PRODUCT (PEPP)

This is a personal pension product in the form of long-term savings. It is based on a contract concluded on a voluntary basis and it supplements a statutory or occupational pension product. It allows for a long-term accumulation of capital with a clear objective of securing pension income after retirement and with limited options to withdraw funds before retirement.

Insurance

Corrective supervisory activities

In 2019, Hanfa conducted five on-site examinations of insurance companies, of which two were full-scope, and three were targeted. One examination was initiated in 2017 and ended in 2019, two examinations were initiated in 2018 and ended in 2019, and two examinations were initiated in 2019. The inspections covered the following areas: business processes of investment and valuation of loans, claims handling process, provision of pre-contractual information and valuation of provisions for premiums and claims. The aim of the inspections carried out by Hanfa was timely detection of illegalities and irregularities in order to preserve financial stability and consumer protection. Three decisions were issued in 2019, two of which referred to the elimination of illegalities and irregularities, while one decision referred to the completion of an on-site examination procedure.

²³ Regulation (EU) 2019/1238 of the European Parliament and of the Council of 20 June 2019 on a pan-European Personal Pension Product (PEPP), OJ L 198

In 2019, Hanfa was engaged in seven off-site supervisory inspections. Three procedures had been initiated earlier, while four procedures were initiated in 2019. The inspections covered the following areas: capital adequacy, premium sufficiency for insurance class 03 – insurance of land motor vehicles and risk type 10.01 – third party motor vehicle liability insurance, the process of contracting insurance policies and claims handling and settlement with respect to the above-mentioned insurance and risk types, and the provision of insurance via freedom to provide services.

Three decisions ordering the elimination of illegalities and irregularities were issued, as well as three decisions determining the elimination of illegalities and irregularities upon off-site examinations in 2019. Three companies complied with Hanfa's decisions by improving the risk management process and ensuring premium sufficiency for insurance class 03 and risk type 10.01, i.e. by improving the system for claims handling process and pre-contractual informing with regard to conducting insurance activities based on freedom to provide services. Other than the supervision activities carried out, in 2019 Hanfa monitored five cases of acting in accordance with recommendations from completed off-site examinations targeted at premium sufficiency in insurance class 03.

Preventive supervisory activities

Preventive supervisory activities included recommendations and guidelines issued to improve the quality of the reports and meetings with insurance companies and audit firms that carried out statutory audit and audit of reports for the purposes of Hanfa. In 2019, individual recommendations were issued to insurance companies to improve the quality of qualitative reports under the Solvency II Directive²⁴, which should be implemented when writing the Regular Supervisory Report (RSR) and the Solvency and Financial Condition Report (SFCR) for 2019. After analysing and assessing the qualitative reports for 2018, according to the internal system for the quality assessment of such reports, Hanfa determined whether they fulfil the requirements laid down in Commission Delegated Regulation (EU) 2015/35 supplementing the Solvency II Directive²⁵ and the Guidelines on reporting and public disclosure²⁶. After the analysis, individual written recommendations were sent to companies. They should implement the recommendations when preparing the RSR and SFCR reports for 2019.

In addition, following the analysis of the Own Risk and Solvency Assessment Reports (ORSA Reports), Hanfa held individual meetings with representatives of companies for the purpose of further clarifying ORSA processes and reports and the business strategy and business model of a particular company, providing instructions and recommendations with the aim of improving and encouraging insurance companies to use the results of ORSA process more actively in business decision-making process and business strategy defining. Subsequently, individual written recommendations were sent to each company. The aim was to ensure compliance with regulations, anticipative management of concentration and liquidity risks and ensure business continuity through an improved system for management of risks that each company is exposed to, and that have an impact on the overall financial stability of the insurance market.

As part of preventive activities, individual meetings were held with audit firms that carried out audits of the reports of insurance companies with a view to exchanging views and essential facts concerning individual companies. During the year, companies are required to submit to Hanfa regular supervisory reports, which include financial, statistical and additional reports, audit reports and reports under the Solvency II Directive. During 2019, Hanfa continuously carried out supervision and verification of all ele-

24 Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), OJ L 335/1

25 Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), OJ L 241

26 EIOPA-BoS-15/109 HR

ments of the regular supervisory reporting that supervised entities were required to provide. In addition to mandatory reports, numerous additional reports, information and documentation were requested, which were also subject to various analyses. On the basis of the information obtained from these reports, full-scope off-site examinations of insurance companies were carried out in the areas of analysis of financial and supervisory reports, compliance of investments with relevant regulations and trends of indicators for classes of insurance / risk types. All of the companies complied with the requirement to publish SFCR reports on their websites, since these reports are primarily intended for the public concerned. In addition, Hanfa requested (and received) reports for 2018 from internal audit function, actuarial function reports and risk management function along with the risk catalogue for 2018. In addition to insurance companies, Hanfa received and reviewed the completeness of financial and statistical reports of persons authorised to perform insurance distribution and/or reinsurance distribution activities, the Bureau, the POOL and the Pension Insurance Company.

Moreover, a survey on climate change was carried out in order to assess how the insurance industry in the Republic of Croatia perceives the importance and impact of climate change on business operations and how it meets these challenges. Questions were grouped according to the following topics: general awareness and awareness on climate change, general perception of climate change, strategy and business, regulations with respect to climate change, risk management, investment and insurance products. The answers provided indicate that companies are aware of the significance of climate change and the risks associated with it, but believe that for now they are not significantly exposed to these risks.

Finally, in 2019 Hanfa initiated mystery shopping procedure with respect to insurance intermediaries. The target of the supervision was the provision of pre-contractual information on insurance products offered by insurance intermediaries via websites, in order to detect possible illegalities and irregularities that could jeopardise consumer protection.

Supervisory activities in cooperation with EIOPA and other national supervisors

Once a year, the European Insurance and Occupational Pensions Authority (EIOPA) conducts an analysis and reports on the impact of the use of long-term guarantees (LTG) and the equity risk measures on the operations of insurance companies. During the national validation, Hanfa verified the information provided by participating insurance companies and requested additional information or corrections, after which the data was submitted to EIOPA.

At end-2019, EIOPA started to collect data, opinions and analyses for the purpose of revising the Solvency II Directive, which continued in 2020. Hanfa participated in collecting data from insurance companies on estimates of the costs of revising the Directive, as well as in providing opinions and analyses on the impact of the proposed changes (related to term structures, risk-free interest rates, technical provisions, equity risks and other changes related to the Solvency Capital Requirement).

JOINT SUPERVISION

Supervisory procedure in which Hanfa participates with a competent supervisory authority of a Member State. It is conducted with respect to the activities of an insurance company from the Republic of Croatia in that Member State, or the operations of a branch of an insurance company from that Member State in the territory of the Republic of Croatia.

In 2019, Hanfa participated in two joint on-site examination procedures organised by competent supervisory authorities from Member States, one of which was also completed in 2019. One examination targeted a Croatian insurance company branch in a member state, and the other one targeted a group of insurers in the field of the prevention of money laundering and terrorist financing.

Own Risk and Solvency Assessment Report

Own risk and Solvency assessment (ORSA) is a report by which insurance companies inform Hanfa of the results of their own risk assessment to which they are or may be exposed and the current and estimated future solvency positions. It is an integral part of insurance companies' risk management. An important feature of the ORSA Report is to present the roles of management and key functions in the ORSA process. Insurance companies are obliged to carry out their own risk and solvency assessment regularly and without delay after any significant change in their risk profile (at least once a year and exceptionally if there are any significant changes in their business operations leading to significant changes in the risk profile).

Figure 1 Three key areas of ORSA Report



Source: Hanfa

Given that the assessment of the overall solvency needs is a company's own position on its risk profile, capital and other necessary means to address these risks, the company should decide on its own how to prepare an ORSA report in view of the nature, scale and complexity of the risks inherent to its activity. Since the ORSA report does not have a prescribed or predefined structure, companies independently, in accordance with their organisational capacities, formulate the report within the legal framework and defined basic elements.

As a supervisory authority, Hanfa is tasked with evaluating the quality of ORSA documentation, assessing whether companies have appropriately assessed their risks and solvency needs given the nature, scale and complexity of the risk inherent to their activity, and overall evaluating the ORSA process, including the assessment of the assumptions and methods used, and the results and actions taken after and during the implementation of individual procedures within the framework of the ORSA process.

During the past three years, Hanfa has communicated with insurance companies regarding the formal and substantive content of ORSA reports through individual meetings with companies and written recommendations and the implementation of other supervisory activities in order to improve the ORSA process and the content of ORSA reports.

As early as in 2015, Hanfa developed its own system for internal evaluation of ORSA reports. The system is being continuously upgraded. Following the analysis and evaluation of reports submitted, Hanfa held meetings with representatives of all the companies. The purpose of meetings was to gain better understanding of the ORSA process and of the business models and strategies of companies. After the meetings, individual written recommendations were sent to each company, consisting of a general part and a part referring to the specific shortcomings of a particular ORSA report.

Guidelines for the preparation of ORSA Reports

In order to improve the ORSA process and content of ORSA reports, as part of preventive supervisory activities Hanfa put together and sent to companies guidelines, i.e. joint recommendations concerning the involvement of the management in the ORSA process and the ORSA Report. The companies showed insufficient involvement of the management, inadequate presentation and explanation of the measures that the management implements and will implement in the future, insufficient diversity and adequacy of stress tests and insufficient explanation of the business strategy for the period of business planning. Therefore, in November 2019, Hanfa published on its website the Report on the implementation of its own risk and solvency assessment with recommendations, describing the results of the analysis carried out in relation to the ORSA process. In this report, Hanfa presented its observations and assessments, as well as expectations and recommendations in significant areas of ORSA.

The recommendations included key elements of the ORSA report, which should involve the management board of an insurance company, and also stressed that the management should ensure the quantification of capital requirements and a qualitative description of material risks, whether or not risks can be quantified. In addition, the recommendations included Hanfa's expectations regarding stress tests (including reverse stress tests) and scenario analyses, including the management board indicating the measures the insurance company is able to apply if adverse scenarios occur. They also stated that management boards of insurance companies should ensure that realistic projections are made for all key items of their business operations, according to their own risk profile. The guidelines expect that companies carry out back testing with respect to the projections made. Finally, the recommendations pointed out that ORSA is not just another report, but that it is a process for which it is essential to be integrated within an insurance company.

Non-banking financing

Corrective supervisory activities

Leasing

In 2019, Hanfa initiated one off-site examination of a leasing company, the target of which was the calculation of interest rates under lease contracts. The report on the illegalities and irregularities found was drawn up following this examination. It also completed one on-site examination targeting the lease business process and issued a decision on the eliminated illegalities and irregularities. In accordance with its competence, in 2019 Hanfa also carried out an off-site examination of a company not licensed to carry out leasing activities, with a view to determining whether the company concerned carried out leasing activities without Hanfa's approval. After the supervision, which found that the company had carried out leasing activities without authorisation, the company stopped this practice, acting in accordance with Hanfa's Decision on the elimination of illegalities and irregularities.

Factoring

In 2019, Hanfa conducted three on-site examinations of factoring companies, with the subject matter of supervision being the compliance with the provisions of the Factoring Act²⁷ with regard to operations, risk management and financial reporting (one of these examinations had been initiated in 2018), and the supervision of the application of the Anti-Money Laundering and Terrorist Financing Act²⁸. Within supervision procedures of two factoring companies, illegalities and irregularities were found, and Hanfa issued a decision ordering their elimination. One company eliminated the illegalities and irregularities in 2019, while the other company is expected to do so in 2020. Moreover, the supervision procedure initiated at the end of 2019 is expected to end in 2020.

Preventive supervisory activities

Preventive supervisory activities included continuous correspondence with leasing and factoring companies, recommendations for improving the quality of reports of leasing and factoring companies, as well as contacts with audit firms that carried out the statutory audit of reports of leasing and factoring companies for Hanfa's purposes. Consultative meetings with individual companies were also held, with the aim of ensuring compliance with regulations, focusing on management of risks to which each company is exposed and ensuring business continuity. Individual meetings were also held with leasing companies regarding the planned liquidation of companies, i.e. the licensing of a new company on the leasing market in the Republic of Croatia. In addition to directly cooperating with companies, Hanfa continuously cooperates with the Association of Leasing Companies and the Association of Factoring Service Providers, which operate within the Croatian Chamber of Economy.

Since leasing and factoring companies are required to submit to Hanfa regular reports, including financial, additional and audit reports, during 2019, Hanfa continuously carried out supervision and verification of all elements of their regular reporting, and it requested numerous additional reports, information and documentation, which were also subject to analysis and off-site supervision.

Prevention of money laundering and terrorist financing

Corrective supervisory activities

In 2019, Hanfa completed four and started two on-site examinations of the operations of companies whose subject matter of supervision included the prevention of money laundering and terrorist financing. Three supervisory procedures were carried out on factoring companies, one of them still ongoing, two on insurance companies and one on an investment fund management company. Examinations performed on factoring companies revealed illegalities and irregularities related primarily to the implementation of due diligence measures, while regarding insurance companies the identified illegalities and irregularities referred to interconnected cash transactions whose amount exceeded HRK 105,000.00. The supervision of an investment fund management company found illegalities and irregularities related to the implementation of due diligence measures and deficiencies in mandatory internal regulations. In the future, Hanfa will conduct supervisory activities related to the prevention of money laundering and terrorist financing through a separate supervisory organisational unit, the Anti-Money Laundering Office. One of the main reasons for forming this unit is placing the topic of the prevention of money laundering and terrorist financing in the ever growing focus and raising awareness, both worldwide and in Croatia. The main advantages of having a separate unit are increasing the number of supervisory activities in order to focus on one topic, specialising in the area of the prevention of money laundering and terrorist financing, better coordination in work in this area and knowledge concentration.

27 Official Gazette, No 94/14 and 41/16

28 Official Gazette, No 108/17 and 39/19

Apart from the regular supervisory procedures, in 2019 Hanfa participated in a joint on-site examination together with the Austrian supervisory authority, which controlled the implementation and application of group guidelines by companies from Croatia.

Hanfa participates in the work of the Inter-Institutional Working Group on the Prevention of Money Laundering and Terrorist Financing (MIRS), presided by the Anti-Money Laundering Office of the Ministry of Finance. Hanfa representatives participated in a project of updating the National Risk Assessment, which identifies and analyses the main risks of money laundering and terrorist financing at the national level.

Supervision of reporting

Pursuant to Article 67(2) of the Anti-Money Laundering and Terrorist Financing Act, entities supervised by Hanfa shall submit their annual work plan for the current year and the activity report for the previous year in the field of the prevention of money laundering and terrorist financing by 31 March of the current year at the latest. These reports and plans provide insight into the actions of obliged entities in the field of prevention of money laundering and terrorist financing.

Preventive supervisory activities

During 2019, Hanfa provided responses to inquiries from supervised entities and provided guidance on the implementation of certain provisions of the Anti-Money Laundering and Terrorist Financing Act and related subordinate legislation. In addition, a training session for supervised entities was held in the Croatian Chamber of Economy, covering topics in connection with supervisory practices, virtual currencies, National Risk Assessment and international restrictive measures. Moreover, a meeting was held with the representatives of companies providing exchange services between virtual currencies and fiat currencies and custodian wallet services, where new obligations in relation to the prevention of money laundering and terrorist financing were discussed.

3.2 Macprudential supervision

Along with the Croatian National Bank (hereinafter: the CNB), the Ministry of Finance and the State Agency for Deposit Insurance and Bank Resolution, Hanfa is responsible for the stability of the financial system in the Republic of Croatia, therefore promoting and preserving financial stability, in accordance with the Act on the Croatian Financial Services Supervisory Agency²⁹, is one of the basic goals of its work. Financial stability can be disrupted by the processes that arise and develop within the system, creating vulnerabilities that may materialize in the event of certain shocks in the form of disturbed liquidity and capital positions of financial institutions, disabling the normal functioning of a part or the entire financial

FINANCIAL STABILITY

A stable financial system implies the smooth functioning of all its segments (financial institutions, markets, services and infrastructure) in the process of resource allocation, risk assessment and management, and carrying out payments, as well as its resistance to sudden shocks.

SYSTEMIC RISK

Any risk to which the system is exposed and which can have adverse effects on the functioning of the entire financial system or its part, thus causing a serious negative impact on the real economy, represents a systemic risk.

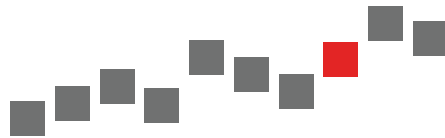
29 Official Gazette, No 140/05, 154/11 and 12/12

system. Such shocks can be external, i.e. transferred from the international environment, or idiosyncratic, i.e. generated by domestic macroeconomic and financial developments, economic policy or changes in the institutional environment. In order to prevent the identified risks in time, and to mitigate the effect of their materialisation, an appropriate set of instruments and tools, i.e. policies aimed at ensuring the stability of the system as a whole, called the macroprudential supervision, has to be developed. Therefore, in the European Union bodies with macro-prudential powers have been established at the national and international level, and frameworks for international cooperation have been developed along with macro-prudential tools. Although in the initial phase of macroprudential capacity development, the focus was primarily on the banking sector, the growing share and importance of the non-banking part of the financial system creates structural changes and requires further development of the macroprudential framework, as well as the expansion to the financial services sector in order to adequately address systemic risk and prevent regulatory arbitrage. In addition, financial integration is constantly deepening, creating the need for a holistic approach, which the system views as an inseparable whole, the key part of which consists of monitoring and addressing vulnerabilities in a cross-sectoral, but also cross-border context.

The significance of the financial services sector under Hanfa's competence has been steadily increasing for ten years now, and at the end of 2019 the supervised entities managed assets of HRK 217bn, which represents one third of the total financial system of the Republic of Croatia. The development of the financial sector has significantly expanded the spectrum of services and the variety of products offered by financial service providers, including business model transformations, adoption of advanced technologies and a continued change of regulatory environment. Moreover, the number of financial services consumers is on the rise, which increases its significance and the extent of its impact. The growing importance of the sector, through the supply of increasingly complex products, intertwined investments, global impacts and changes in consumer behaviour, requires careful and systematic monitoring of risks and addressing vulnerabilities in order to preserve financial stability and prevent systemic risk. Over the past few years, global progress has been made in the area of understanding and consequently identification, evaluation and monitoring of systemic risks of the financial sector. Analytical approach depends on the form of the observed systemic risk and sector characteristics, but most often analytical tools are roughly divided into indicators of financial stability and early warning, stress testing of institutions and models of contagion and spillover. During 2019, Hanfa intensively worked on the project aimed at integrating and improving risk-based supervision, financed by the EU via the Structural Reform Support Programme, implemented together with the European Commission. The project focused on increasing Hanfa's effectiveness in carrying out systemic risk supervision through identification of systemic risks based on macroeconomic indicators and market risk indicators, sectoral risk indicators, cross-sectoral exposure indicators and indicators showing the systemic relevance of financial institutions under Hanfa's supervision. The cyclical risk assessment model at sectoral and cross-sectoral level is based on the widely adopted analytical tool — the heatmap, which, based on the selected set of indicators, indicates overheating of the system. Furthermore, in 2019 Hanfa started publishing the Macroprudential Risk Scanner, a publication providing insight into the process of identifying, assessing and monitoring the evolution of systemic risks in the financial services sector under Hanfa's supervision, in order to timely take appropriate measures to prevent their materialisation and the impairment of the financial system stability. This also contributes to a better understanding of systemic risks, particularly in the vulnerability identification and risk spreading segment, it stimulates action planning and measures that provide adequate protection against the materialisation of such risks and contributes to greater confidence in the financial system. Trends in the financial services sector in 2019 did not indicate an increase in the level of systemic risks, and main vulnerabilities of entities under Hanfa supervision were the concentration of investments in Croatian debt securities and the resulting pronounced sensitivity to interest rate changes and exposure to the risk of contagion, as well as pressures on the profitability of financial service providers in an environment of extremely low interest rates.

With its activities, primarily supervisory and normative ones, Hanfa undertakes all measures within its own powers to contribute to the preservation of the stability of the financial system of the Republic of Croatia, through assessment of the security and stability of business operations of supervised entities from the entire financial services industry under its competence, and through cooperation with national and international authorities on all segments of the market. At the national level, macroprudential policy of the Republic of Croatia is shaped by the Financial Stability Council – an interinstitutional body composed of representatives of institutions key to preserving financial stability in the Republic of Croatia – Hanfa, the CNB, the Ministry of Finance of the Republic of Croatia and the State Agency for Deposit Insurance and Bank Resolution. The most important authority of the Council refers to issuing warnings and recommendations to competent authorities, other state administration bodies and legal persons with public authorities operating in the Republic of Croatia. Warnings serve to draw attention to systemic risks that may threaten financial stability, while recommendations point to the need to introduce new measures or amend existing measures and instruments that should be undertaken in order to preserve financial stability in the Republic of Croatia.

At the EU level, the European Systemic Risk Board (hereinafter: ESRB) is in charge of macroprudential supervision of the financial system, and its main tasks cover the prevention, mitigation and avoidance of systemic risks and the strengthening of the system's resilience to financial shocks. ERSB closely cooperates with members of the European System of Financial Supervision (ESFS) – EIOPA, ESMA and the European Banking Authority (EBA), as well as with national competent authorities. In addition to direct cooperation through ESRB committees, Hanfa indirectly participated in the creation of ESRB macroprudential policies through work in various committees, working groups and networks of EIOPA and ESMA. Moreover, as a member of the International Association of Insurance Supervisors (hereinafter: IAIS), through participation in committees during 2019, Hanfa took part in the development and adoption of the IAIS holistic framework for systemic risk in the insurance sector, the key elements of which are the improvement of supervisory policies, global monitoring of risks by the IAIS and the powers of supervisory intervention with mechanisms that allow for consistent application at global level. At the EU level, new tools for macroprudential action in the insurance sector were presented in the proposal for a revision of the Solvency II regulatory framework in 2020. Although these trends are positive, further development of macroprudential policies and authorities for macroprudential action in all segments of the financial sector is necessary in order to achieve the ultimate objective of macroprudential policy, which is a stable financial system.



Normative activities



4 Normative activities

Hanfa's declared objectives of preserving the stability of the financial system are achieved, inter alia, through normative activities at all levels in order to ensure to financial services providers a regulatory environment in accordance with best practices and international regulatory standards through consistent and transparent regulation. With regard to the legislative activities, Hanfa actively participates in the working groups for drafting laws governing the provision of financial services. Hanfa independently adopts by-laws in the area of its competence, which apart from ordinances, include decisions, guidelines, recommendations and opinions on the application of regulations. Hanfa's regulatory activities go hand in hand with EU regulatory activities, ensuring the application of EU standards in the provision of financial services by service providers in the Republic of Croatia. In 2019, Hanfa was very active in the adoption of by-laws from almost all areas of competence – the Hanfa Board adopted a total of 97 ordinances, three instructions and three sets of guidelines. All of the by-laws were preceded by professional and public consultation. Through the e-Consultations portal, Hanfa conducted a total of 95 consultations in 2019, which, according to the Report of the Legislation Office, ranks it high second among 34 institutions conducting public consultations through this portal, showing a high level of transparency in its normative activities.

4.1 Capital market and investments³⁰

Capital Market Act

Due to the continued need to align the Croatian regulatory framework of the capital market with that of the EU, which has been extremely dynamic over the past few years, Hanfa participated in the drafting of the Act amending the Capital market Act³¹ (hereinafter: Act amending the CMA) in 2019, which ensured the implementation of the Prospectus Regulation³² on the territory of the Republic of Croatia. The Prospectus Regulation has completely replaced the former prospectus regulatory framework. Significant novelties in the Act amending the CMA include raising the threshold for the obligation to publish a prospectus for public offers of securities from the existing EUR 5m to EUR 8m in HRK equivalent, with the obligation to create an information document on the offer for all securities offers between EUR 4m and EUR 8m in HRK equivalent. This amendment constitutes administrative unbundling for issuers and/or offerors and makes issuance of securities more cost effective, while investors receive uniform and essential information through the information document, enabling them to make an informed investment decision.

PROSPECTUS

Prospectus is an informative document containing all relevant information on a security and its issuer, including information on the financial position and business operations of the issuer.

In addition, the Act amending the CMA facilitates the conditions for market intermediaries to operate as one type of financial services market participant. Since sole proprietorships are also active in the finan-

30 Report on Public Consultations Held in the Process of Adoption of Laws and other Regulations in 2019, Legislation Office, Government of the Republic of Croatia

31 Official Gazette, No 17/12

32 Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC, OJ L 168

cial services market (as, for example, insurance agents) and taking into account the scope of the services and responsibilities they have, it was necessary, in order to facilitate and equalise the conditions for carrying out comparable activities in the financial market, to allow sole proprietorships to carry out market intermediation activities.

A significant change also concerns Hanfa's additional powers regarding corporate governance in issuers, in terms of collecting and publishing information. These amendments further strengthen the corporate governance of issuers whose financial instruments are admitted to the regulated market without additional administrative or financial burdens for issuers.

By-laws

In 2019, based on the provisions of the CMA, Hanfa issued 21 ordinances in the field of capital market and two technical instructions for the completion of reports prescribed by these ordinances. The ordinances mainly concerned the licensing and current and future reporting and supervisory obligations of market infrastructure institutions — the stock exchange and the central depository and clearing company functioning as a central depository i.e. central counterparty³³.

One of the most important ordinances relating to a wider circle of stakeholders is the Ordinance on the professional training and examinations taken in order to acquire qualifications to provide information on investment products and services, carry out brokerage activities and provide investment advice services³⁴, which significantly improved the content of the educational programme for examinations organised by Hanfa. In addition, the modular structure of examinations was established and a new exam was introduced – provision of information on investment products and services. It is intended for all those who are just starting their career in the financial industry and financial employees who regularly inform clients or offer them investment services and products and who are not strictly specialised in providing investment services.

The Ordinance on reporting breaches or suspected breaches of the provisions of the Capital Market Act, Regulation (EU) No 600/2014, Regulation (EU) No 596/2014 and Regulation (EU) No 909/2014³⁵ provides secure channels for so-called whistle-blowers to notify Hanfa about breaches of regulations governing the provision of investment services and the prohibition of market abuse.

Other normative activities

In October 2019, Hanfa and the ZSE adopted a new Code of Corporate Governance (hereinafter: the Code) intended for issuers whose shares are admitted to the regulated market. This was the outcome of a joint project financed by the European Bank for Reconstruction and Development, aimed at improving the quality of corporate governance in Croatian listed companies and increasing the level of their reporting on corporate governance.

The Code requires greater accountability, involvement, independence and gender equality of management and supervisory board members, improved communication and dialogue with shareholders and other stakeholders, the establishment of higher standards for managing the remuneration of management and supervisory board members, conflicts of interest, risks and internal control and audit systems, as well as greater corporate social responsibility with respect to environmental and community impacts regarding the preservation of human rights and workers' rights and the prevention and penalisation of bribery and corruption.

33 The list of ordinances adopted by Hanfa in 2019 is provided in the Appendix.

34 Official Gazette, No 99/19

35 Official Gazette, No 124/19

The Code shall apply from 1 January 2020. Pursuant to the Code, issuers are required to fill in two questionnaires once a year: the compliance questionnaire and the governance practices questionnaire. Both questionnaires will be submitted to Hanfa and the compliance questionnaire will be published. Reporting in accordance with the provisions of the Code will begin with the 2019 reporting period, so that progress in improving corporate governance and the quality of reporting can be monitored with the application of the Code.

4.2 Investment funds

Legislative activities

The legislative framework for the operation of investment funds in the Republic of Croatia was further improved in 2019 by the adoption of the Act amending the Act on Open-Ended Investment Funds with Public Offering³⁶ and the Act amending the Alternative Investment Funds Act³⁷. Experts from Hanfa participated in their preparation as members of the working group of the Ministry of Finance.

These two acts in parallel regulate the role of companies managing open-ended investment funds with public offering and alternative investment fund managers in performing securitisation activities under the Regulation on Securitisation³⁸. Furthermore, the amendments in question introduce the horizontal alignment with the CMA, in particular in the requirements for management/supervisory board members, the acquisition of a qualifying holding and the distribution of units in funds. The requirements for supervisory board members and management board members are proportionately relaxed and comply with the conditions for supervisory board members and management board members of other financial institutions, and full alignment with the provisions of the CMA is carried out with respect to the assessment, procedure, conditions and legal consequences of the acquisition of a qualifying holding without Hanfa's authorisation, thus equalising the standard of treatment of financial entities in all sectors with regard to assessing the appropriateness of the acquisition of a qualifying holding in them.

The terminology relating to the distribution of units is fully harmonised with the CMA, so that the "offering" (of units) became "distribution" (of units) and, for reasons of legal certainty, the uniform treatment of financial service market participants and the unambiguous protection of investors, it was necessary to align the requirements and obligations of management companies distributing units in investment funds with the requirements and obligations of other market participants carrying out distribution activities in relation to other financial instruments.

By-laws

Alternative investment funds

Given that the new AIFA was adopted in March 2018, in 2019 Hanfa adopted 18 new ordinances regulating the business operations of alternative investment fund management companies and four ordinances on amendments to existing ordinances³⁹, thus fully updating the regulatory framework for the operation of alternative investment fund management companies with the amended legal framework. Among the more significant regulations stands the Ordinance amending the Ordinance on determining the net asset

36 Official Gazette, No 126/19

37 Official Gazette, No 126/19

38 Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012, OJ L 347

39 The list of ordinances adopted by Hanfa in 2019 is provided in the Appendix.

value of AIF and the price of AIF units⁴⁰, which further clarified the procedures and rules for valuation of the assets of funds and laid down in more detail the how to invest the assets of funds in financial derivatives, in a way that would enable easier protection of fund's assets. Furthermore, the Ordinance on costs and charges that may be paid from the assets of an AIF⁴¹ prescribes in more detail the costs and charges for which the assets of an alternative investment fund may be charged, giving specific examples of such costs.

Open-Ended Investment Funds with Public Offering

The Ordinance on compensating investors in UCITS and/or compensating UCITS⁴² regulates the procedure of compensating damages which a management company has to compensate to UCITS fund investors and/or UCITS fund in the event of miscalculation of the net asset value per unit or unit price and unauthorised breach of the investment limit.

Two amendments to the Ordinance on determining the net asset value of UCITS and the price of UCITS units⁴³ prescribe in more detail how to invest a fund's assets in financial derivatives and government bonds, in a way that will enable easier protection of the fund's assets.

4.3 Pension system

Legislative activities

In April 2019, Hanfa became involved in the working group of the Ministry of Finance drafting the Proposal for the Act implementing the Pan-European Personal Pension Product Regulation (PEPP), which allows for the creation of a personal pension product of a long-term nature which will take into account environmental, social and management factors, as much as possible. This pension product should be simple, safe, transparent, consumer-friendly and transmissible across the EU and it should have a reasonable price and complement existing schemes in the Member States.

By-laws

As the Act amending the Mandatory Pension Funds Act⁴⁴ and the Act amending the Voluntary Pension Funds Act⁴⁵ came into force, in 2019 Hanfa adopted and amended a series of ordinances closely regulating work and operations of pension funds. In 2019, a total of 15 by-laws (ordinances, instructions and guidelines) were adopted regulating mandatory pension funds, and nine ordinances regulating voluntary pension funds.⁴⁶

Mandatory pension funds

The most significant amendments to the by-laws in the field of mandatory pension funds relate to the complete and timely provision of information to members, management of pension fund assets and fees that a pension company may charge.

40 Official Gazette, No 124/19, 2/20

41 Official Gazette, No 26/19, 82/19

42 Official Gazette, No 16/19

43 Official Gazette, No 124/19, 2/20

44 Official Gazette, No 115/18

45 Official Gazette, No 115/18

46 The list of ordinances adopted by Hanfa in 2019 is provided in the Appendix.

With respect to the obligations of pension companies regarding the provision of information to members, the new Ordinance on marketing, informative prospectus and other information for members of mandatory pension funds⁴⁷ prescribes a uniform data representation structure to ensure that informative prospectuses of mandatory pension funds are easy to read and understand and that they focus on the information relevant to fund members. Therefore, this Ordinance introduced the obligation to draw up a clear table at the beginning of the information prospectus, which must contain data on fees and costs, investment objectives and the target structure of the pension fund portfolio, a brief overview of the allocation of pension fund assets along with the list of investments of pension fund assets in infrastructure projects and equity securities whose share in the issue exceeds ten percent, and information on the risk profile and risk exposure and the historical returns of the fund.

Since the legislative amendments introduced the obligation to use a benchmark, which will compare the success of investing the equity part of a mandatory pension fund portfolio, and the obligation of a pension company to indicate and explain in the information prospectus the mutual deviations of such returns, Hanfa adopted the Guidelines on benchmarks used by pension companies when investing in transferable equity securities. These Guidelines define benchmarks that pension companies may use, information that must be made publicly available in the informative prospectus regarding the deviation from the benchmark returns, and how it must be disclosed, all with a view to increasing transparency towards members and potential fund members.

As the legislative amendments provide that the assets of a mandatory pension fund may also be invested in small and medium-sized enterprises, in particular innovative and so-called start-up companies that are in the initial stages of business, in which they are invested through regulated capital raising systems, Hanfa adopted the Guidelines on regulated systems for raising capital, in which it outlined the capital raising systems it recognises.

Since the implementation of the pension reform in 2002, assets in mandatory pension funds have mostly accumulated, but in the near future there will be more and more payouts from funds, since a growing number of members will be entitled to retire. Therefore, when amending a significant number of ordinances⁴⁸, Hanfa focused on the obligation to improve the liquidity management system of pension funds in order to minimise the possibility of a significant decrease in the value of accounting units in case of increased liquidity needs. These amendments introduced a number of new obligations, under which a pension company is required to assess the marketability of assets, periodically assess whether the portfolio of the fund contains sufficient liquid assets so that payments can be made at any time, perform stress tests enabling the assessment of the fund's liquidity resilience to exceptional circumstances, provide Hanfa with new supervisory reports on liquidity and coverage of mandatory pension funds' liabilities, and publish on the website data on the share of pension fund assets that cannot be marketed within one year.

Furthermore, through amendments to the Ordinance on organisational requirements pension companies managing mandatory pension funds⁴⁹, Hanfa further defined the criteria that a pension company or a person within a pension company must take into account when deciding on any act or omission of an act that may result in a conflict of interest. In addition, in 2019, Hanfa also adopted Guidelines further describing situations that are considered conflicts of interest, outlining specific examples of conflicts of interest.

47 Official Gazette, No 2/20

48 The list of ordinances adopted by Hanfa in 2019 is provided in the Appendix.

49 Official Gazette, No 2/20

Ordinance amending the Ordinance on permitted investments and additional investment limitations relating to mandatory pension funds⁵⁰ prescribes in more detail investments of pension fund assets into financial derivatives and government bonds, in a way that will enable easier protection of fund assets.

Amendments to the Ordinance on the treatment of mandatory pension funds' members by the Central Registry of Affiliates and pension companies⁵¹ prescribe in more detail the actions of the Central Registry of Affiliates (hereinafter: Regos) and pension companies towards members of mandatory pension funds, in a way that each pension company (out of four operating in the Republic of Croatia) gets 1/5 of new insured persons, while the pension company that achieved the highest risk adjusted return in the previous year gets the remaining 1/5 of insured persons. These amendments also prescribe the procedure for determining the basis for determining the higher amount of management fee charged, as well as the roadmap for the payment of the higher amount charged to the corresponding REGOS payment account for those companies that will have such an obligation.

Voluntary pension funds

The most significant amendments to the by-laws in the field of voluntary pension funds relate to the complete and timely provision of information to members and the offering of pension schemes.

Since there are several different models of pension payments from the voluntary pension fund at the disposal to the member who made the right to retire, Hanfa adopted amendments to the Ordinance on requirements to be met in order to be entitled to receive retirement benefits arising from voluntary pension insurance, on register of members, and on cancellation of payments into and out of voluntary pension funds⁵², which will make it easier for a member of a voluntary pension fund to make a selection among the options at their disposal and will provide them with more information about the rights and actual amounts of pension.

The Ordinance amending the Ordinance on requirements for offering pension schemes within the voluntary pension insurance based on individual capitalised savings⁵³ clearly defines the activities of offering pension schemes (offered by third parties for the account of a pension company), by including the offer of brochures or similar informative or advertising material of a pension company and the collection of requests for the conclusion of agreements on conditions for payment of pensions through the fund and its forwarding to the pension company. In addition, amendments also prescribe which data must be provided to future beneficiaries of voluntary pension insurance, including the delivery of prospectuses, statutes and key data for fund members, an overview of all options for payment of pensions through a pension company and general information on other options for pension payment, informative calculations of pensions adjusted to a specific pension beneficiary, as well as other relevant information necessary for them to understand the offer and make an informed decision on the conclusion of a contract on the conditions of pension payment through a fund.

Pension insurance companies

As part of the pension reform in 2018, the Act amending the Act on Pension Insurance Companies⁵⁴ was adopted, based on which Hanfa adopted 17 ordinances in 2019 that significantly improved the regulatory framework of operating conditions of pension insurance companies⁵⁵. As with mandatory and volun-

50 Official Gazette, No 2/20

51 Official Gazette, No 60/14, 135/15, 86/18 and 56/19

52 Official Gazette, No 2/20

53 Official Gazette, No 2/20

54 Official Gazette, No 115/18

55 The list of ordinances adopted by Hanfa in 2019 is provided in the Appendix.

tary pension funds, the most significant changes for users of financial services are laid down in the Ordinance on pension insurance companies' pension scheme offer⁵⁶ and the Ordinance on promotional activities and the website of the pension insurance company⁵⁷, which clearly define the activities of offering pension schemes and prescribe data to be given to future pension beneficiaries regarding the possibilities and conditions of pension payment.

4.4 Insurance

Legislative activities

In 2019, as part of the working group of the Ministry of Finance, Hanfa participated in drafting the Act amending the Insurance Act, which was submitted to the procedure in the Croatian Parliament by the government in January 2020. In order to comply with the obligation to consistently implement the Solvency II Directive, the amendments concerned provisions relating to the calculation of the minimum capital requirement, the conditions to be met by insurance companies in order to qualify as small companies and the amounts involved in high risks so that amounts in HRK were replaced by amounts in EUR. In addition, the draft act ensures compliance with the Bilateral Agreement between the European Union and the United States of America on prudential measures regarding insurance and reinsurance⁵⁸ by prescribing that in the event of the conclusion of an international agreement obliging the Republic of Croatia, the conditions laid down in the international agreement apply to the operation of a third-country reinsurance company which is party to that agreement. Furthermore, the draft act prescribes the obligation to obtain prior approval from Hanfa to perform the function of a member of the supervisory board of an insurance company and the conditions for refusal to grant authorisation to perform the function of a member of the supervisory board, the termination of authorisation to perform the function of a member of the supervisory board, and the revocation of authorisation to perform the function of a member of the supervisory board by means of a direct review of those conditions in view of the role and importance of the supervisory board of an insurance company. Finally, the draft act also expanded the circle of insurance intermediaries by giving leasing companies the possibility to carry out insurance distribution activities.

By-laws

On the basis of amendments to the Act amending the Insurance Act⁵⁹, in 2019 Hanfa adopted 19 ordinances regulating business operations of insurance companies and insurance distribution companies in the Republic of Croatia⁶⁰

In early 2019, Hanfa adopted the most important piece of subordinate legislation regarding insurance distribution, the Ordinance on the professional knowledge and competence requirements for insurance distributors and reinsurance distributors and their entry into register⁶¹, which prescribes the manner of acquiring, verifying and assessing the knowledge of insurance and reinsurance intermediaries, their employees and ancillary intermediaries, and the requirements regarding competence and continuous

56 Official Gazette, No 2/20

57 Official Gazette, No 2/20

58 Bilateral Agreement between the European Union and the United States of America on prudential measures regarding insurance and reinsurance, OJ L 258

59 Official Gazette, No 112/18

60 The list of ordinances adopted by Hanfa in 2019 is provided in the Appendix.

61 Official Gazette, No 16/19

education of persons involved in insurance distribution. Requirements regarding good reputation and competence of these persons are also defined, which represents a significant improvement of the distribution process and positively affects the interests of financial services users.

The Ordinance on the requirements for performing key functions in insurance/reinsurance companies⁶² further strengthens management systems in insurance companies by requiring them to assess, in a formal procedure, the competence, good reputation and experience of key function holders in the company, in accordance with the conditions set by Hanfa.

4.5 Non-banking financing

In 2019, Hanfa participated in the working group of the Ministry of Finance for drafting the Act amending the Leasing Act. Since the Leasing Act⁶³ has not been amended since 2013, and the leasing market has changed significantly in the meantime, it is necessary to further strengthen the management of leasing companies through appropriate legislative amendments and to define the rights and obligations of these companies more clearly.

4.6 Prevention of money laundering and terrorist financing

Legislative activities

The Act amending the Anti-Money Laundering and Terrorist Financing Act⁶⁴ (hereinafter: Act amending the AMLTF Act) was adopted in 2019, and Hanfa participated in its preparation. Among other things, the Act amending the AMLTF Act introduced definitions of virtual assets, virtual currencies and custodial wallet service providers into Croatian legislation for the first time. In addition, legal and natural persons engaged in the provision of exchange services between virtual currencies and fiat currencies and the provision of custodian wallet services for the purpose of holding, storing and transferring virtual currencies were added to the list of entities obliged to implement measures for the prevention of money laundering and terrorist financing. From 1 January 2020, Hanfa will be responsible for the supervision of the implementation of the Act amending the AMLTF Act by the above-mentioned obliged entities. Other significant changes introduced by the Act amending the AMLTF Act concern the introduction of public access to the Register of beneficial owners of legal entities, as well as the transposition of Directive (EU) 2018/843⁶⁵ into national legislation of the Republic of Croatia.

4.7 Other normative activities

Legislative activities

In 2019, Hanfa also participated in the drafting of a series of legislative acts relating directly and indirectly to its supervised entities.

62 Official Gazette, No 68/19, 15/20

63 Official Gazette, No 141/13

64 Official Gazette, No 39/19

65 Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU, OJ L 156

As part of the working group of the Ministry of Finance, experts from Hanfa worked on drafting the Act amending the Act on International Restrictive Measures⁶⁶. This act enables the implementation of the provisions of sanctions established by UN Security Council resolutions and ensures that the Republic of Croatia may, if necessary, apply international restrictive measures set out in UN resolutions even before the completion of the process of transposition, harmonisation and adoption of legal acts at EU level. In accordance with the FATF⁶⁷ recommendations, the Act amending the Act on International Restrictive Measures introduced a new definition of assets, including virtual assets.

As part of the working group of the Ministry of Economy, Hanfa participated in the preparation of the Act implementing Regulation (EU) 2017/2394 of the European Parliament and of the Council of 12 December 2017 on cooperation between national authorities responsible for the enforcement of consumer protection laws and repealing Regulation (EC) No 2006/2004⁶⁸, which prescribes coordination and cooperation of a series of institutions in the Republic of Croatia, for the sake of consistent and efficient protection of consumer interests.

In 2019, experts from Hanfa were part of working groups for drafting a set of laws under the competence of the CNB, which form part of the Action Plan of the Republic of Croatia for joining the European Exchange Rate Mechanism – Act amending the Credit Institutions Act⁶⁹, Act amending the Act on the Croatian National Bank⁷⁰ and the Act amending the Act on Rehabilitation of Credit Institutions and Investment Firms⁷¹.

Hanfa also made a significant contribution to the working group of the Ministry of Justice when drafting the Act amending the Companies Act⁷², particularly concerning the transposition of the provisions of Directive (EU) 2017/828 on shareholders' rights⁷³ into the legal system of the Republic of Croatia.

66 Official Gazette, No 63/2019

67 Financial Action Task Force

68 Official Gazette, No 54/2020

69 Official Gazette, No 47/20

70 Official Gazette, No 47/20

71 Official Gazette, No 47/20

72 Official Gazette, No 40/19

73 Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement, OJ L 132



Licensing and training



5 Licensing and training

Hanfa's licensing activities involve the assessment, based on relevant regulations, of the fulfilment of requirements relating to the company form, companies' shares or holdings, initial capital, holders of qualifying holdings and close links; requirements relating to management board members; and, where applicable, requirements relating to supervisory board members and companies' organisational requirements. It is a first step in ensuring that companies' business operations are carried out in line with regulations and rules and therefore also in protecting financial services users.

5.1 Licensing

Within the framework of its licensing procedures conducted in 2019, Hanfa issued authorisations to carry out business activities, to perform the function of a management board member, to perform the function of a supervisory board member, to acquire a qualifying holding, to carry out status change, to delegate tasks to third parties, to open an investment firm's branch and to conduct business via a tied agent. It also issued approvals to pursue the activity of insurance or reinsurance distribution, to carry out the activity of a certified actuary and to transfer insurance portfolios (Table 5.1.1).

Table 5.1.1 Licensing

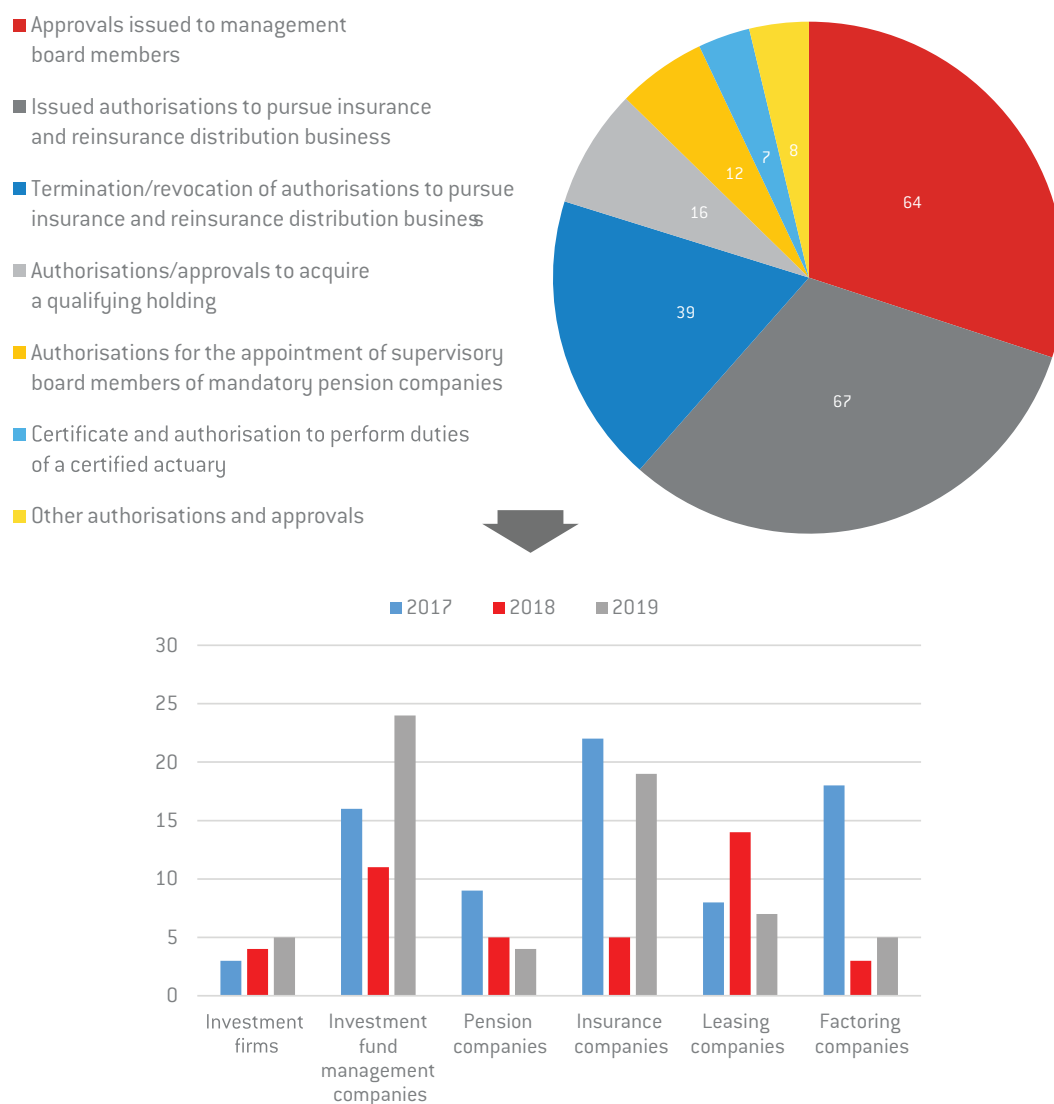
Authorisations, approvals and licences issued	2017	2018	2019
Approvals for the appointment of management board members of investment firms	3	4	5
Prior approvals issued to credit institutions	0	3	2
Authorisations/approvals for the appointment of management board members of investment fund management companies	16	11	24
Authorisations/approvals for the acquisition of a qualifying holding in investment fund management companies	4	1	7
Approval issued to investment fund management companies for delegating tasks to third persons	1	2	1
Authorisations for medium-sized AIFMs (change of category of the existing AIFMs)	0	3	0
Authorisations for medium-sized AIFMs (new managers)	0	0	3
Authorisations for the appointment of management board members of mandatory/voluntary pension companies	9	5	4
Authorisations for the appointment of supervisory board members of mandatory pension companies	8	2	12
Authorisations/approvals for the indirect acquisition of a qualifying holding in investment fund management companies	0	0	1
Authorisations to perform the function of an insurance company management board member	22	5	19
Authorisations issued to insurance companies to transfer their portfolio	0	0	2
Certificates and authorisations to perform duties of a certified actuary	3	5	7
Authorisations issued to insurance representation crafts to pursue insurance distribution business	61	60	46
Authorisations issued to insurance agencies to pursue insurance distribution business	19	19	14
Authorisations issued to insurance and reinsurance brokerage crafts to pursue insurance and reinsurance distribution business	0	0	1
Authorisations issued to insurance and reinsurance brokerage companies to pursue insurance and reinsurance distribution business	4	2	6
Termination/revocation of authorisations issued to insurance representation crafts	29	24	21
Termination/revocation of authorisations issued to insurance representation agencies	28	7	16

Authorisations, approvals and licences issued	2017	2018	2019
Termination/revocation of authorisations issued to insurance and reinsurance brokerage companies	1	0	2
Termination/revocation of authorisations issued to natural persons to pursue insurance distribution business	1	1	0
Approvals to perform the function of a leasing company management board member	8	14	7
Approvals to acquire a qualifying holding in leasing companies	14	3	6
Approvals to perform the function of a factoring company management board member	18	3	5
Approvals to acquire a qualifying holding in factoring companies	10	6	2

Source: Hanfa

In 2019, the majority of applications were related to the issuance of authorisation to perform the function of a management board member and to the issuance of authorisation to pursue insurance distribution business (Figure 5.1.1). In addition, decisions on the termination of authorisations to pursue insurance and reinsurance distribution business were issued ex officio.

Figure 5.1.1 Authorisations and approvals issued



Source: Hanfa

Capital market

In 2019, Hanfa issued five approvals to perform the function of an investment firm management board member. All the applications were related to the extension of the term of office of the existing investment firm management board members, for a period of five years, except in a case where the approval was issued for a term of office lasting one year. This was due to a supervisory procedure opened in the investment firm during the process of issuing approval to the management board member.

In addition, two prior approvals were issued to a credit institution⁷⁴ to provide the investment service involving the reception and transmission of orders in relation to one or more financial instruments. Hanfa issued its first authorisation to a market intermediary at the company HRportfolio d.o.o., namely to provide investment services involving the reception and transmission of orders in relation to one or more financial instruments. As opposed to an investment firm, a market intermediary is authorised, pursuant to the Capital Market Act, to provide only two investment services: the reception and transmission of orders in relation to one or more financial instruments and the provision of investment advice. In addition, Hanfa also issued its first approval to an investment firm to open a branch and pursue business through a tied agent in the EU. This approval was issued to the investment firm Interkapital vrijednosni papiri d.o.o., namely to open a branch in the Republic of Slovenia and operate through a tied agent with the registered office in the Republic of Slovenia.

Investments

In 2019, three authorisations were issued to alternative investment fund management companies (hereinafter: AIFMs), in the medium-sized AIFM category. The medium-sized AIFM authorisation was issued to the companies Maverick Wealth Management d.o.o., Griffon Asset Management d.o.o. and Feelsgood Capital Partners d.o.o.

Furthermore, 24 authorisations were issued for the appointment of members of management boards of investment fund management companies, significantly more than in 2018, when 11 authorisations were issued. Of this number, one authorisation was issued for the appointment of a management board member of a UCITS management company, three authorisations were issued for the appointment of management board members of companies managing UCITS and AIFs, while seven authorisations were issued for the appointment of a management board member of an AIFM. This was a result of the establishment of three new AIFMs, but also of the expiry of the term of office of the existing management board members. Moreover, this has been the largest number of such authorisations issued over the last three years.

Last year, seven authorisations were issued for the acquisition of qualifying holdings in investment fund management companies, of which three authorisations were related to the direct, and four authorisations to the indirect acquisition of qualifying holdings. The authorisations were issued for the acquisition of a qualifying holding in the company SQ CAPITAL d.o.o. reaching 35%, for the direct acquisition of qualifying holdings reaching 74% and 26% and two indirect acquisitions of qualifying holdings reaching 37% each in the company Intercapital Asset Management d.o.o., for the acquisition of a qualifying holding in the company Raiffeisen Invest d.o.o. reaching 22.64% and for the acquisition of a qualifying holding in the company Generali Investments d.o.o. reaching 96.72% of the initial capital and voting rights. Two authorisations issued for the indirect acquisition of qualifying holdings were related to a change in the ownership structure at group level. One issuance procedure relating to the authorisation for the indirect acquisition of a qualifying holding was suspended as the acquisition had been carried out before Hanfa issued its authorisation; therefore, Hanfa issued a decision ordering the disposal of the qualifying holdings acquired illegally. In 2019, one authorisation was issued to an investment fund management company for delegating internal audit tasks to a third person.

⁷⁴ A credit institution with its registered office in the Republic of Croatia may provide investment services and perform investment activities and related ancillary services provided it has obtained authorisation by the Croatian National Bank and Hanfa's prior approval.

Pension system

In 2019, Hanfa issued four authorisations to perform the function of a member of the management board and 12 authorisations to perform the function of a member of the supervisory board of the pension company. Four of these authorisations were related to members of the supervisory board of pension companies appointed by the Government of the Republic of Croatia⁷⁵ for the purpose of protecting the interests of mandatory pensions fund members. Furthermore, Hanfa issued two authorisations to perform the function of a member of the management board of the pension insurance company, as opposed to 2018, when no such authorisations were issued.

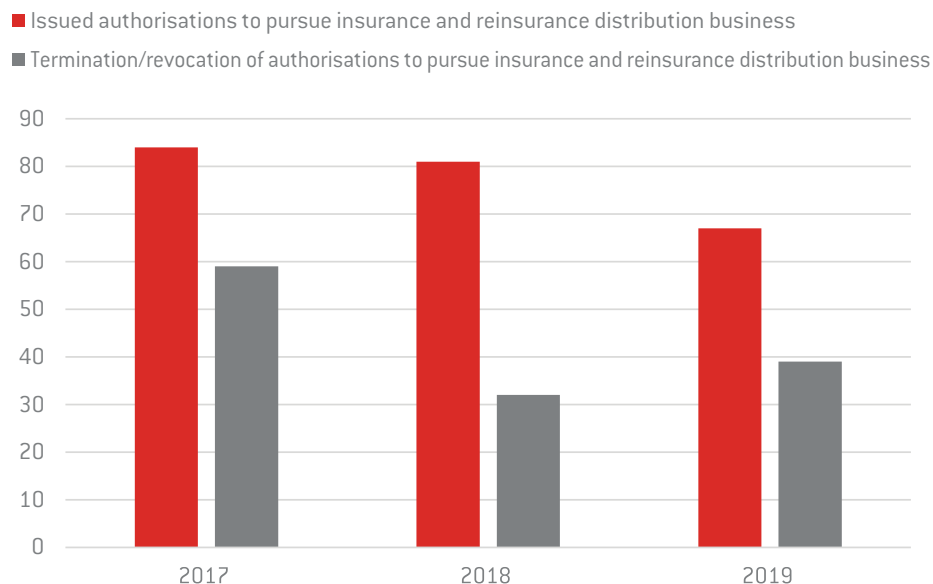
Two authorisations were issued for the indirect acquisition of qualifying holdings, namely in the pension company Raiffeisen društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d. and the pension insurance company Raiffeisen mirovinsko osiguravajuće društvo d.d., both reaching 22.64% of the initial capital and voting rights, which was related to a change in the ownership structure at group level.

Insurance

In 2019, Hanfa issued 19 authorisations for the appointment of members of the management board of insurance companies, an increase compared with the previous year, when only five such authorisations were issued. Furthermore, the insurance companies ERGO osiguranje d.d. and ERGO životno osiguranje d.d. obtained authorisations to transfer their entire portfolios to the insurance company Zavarovalnica Sava d.d., which led *ex lege* to the termination of their authorisations to pursue insurance business. Seven authorisations were issued to perform duties of a certified actuary, two more than in the previous year.

As regards insurance and reinsurance distribution business, 67 authorisations were issued to carry out insurance and reinsurance distribution activity, primarily to insurance representation crafts. A total of 39 authorisations to pursue insurance and reinsurance distribution business issued to insurance brokerage crafts or companies and insurance agencies either ceased to be valid or were revoked.

Figure 5.1.2 Authorisations to pursue insurance and/or reinsurance distribution business



Source: Hanfa

⁷⁵ Pursuant to the Act on Amendments to the Mandatory Pension Funds Act (Official Gazette, No 115/18), that entered into force on 1 January 2019

Non-bank financing

Leasing companies

In 2019, Hanfa issued seven approvals to perform the function of a member of the management board in leasing companies and five approvals to acquire a qualifying holding, of which four approvals were related to direct, and two approvals to indirect acquisition of qualifying holdings. In a joint procedure, the company Volvo Financial Services leasing d.o.o. pre-incorporated obtained Hanfa's authorisation to carry out leasing activities, the company Volvo Group Croatia d.o.o. obtained Hanfa's approval to acquire a qualifying holding in Volvo Financial Services leasing d.o.o. pre-incorporated, and two candidates for the position of a member of the management board obtained Hanfa's approval to perform the function of the management board member. Furthermore, an approval was issued to a company for its status change: the company UniCredit Leasing Croatia d.o.o., Zagreb, received the approval to acquire the company Hypo Alpe-Adria-Leasing d.o.o. undergoing winding-up proceedings.

Factoring companies

Within the framework of procedures initiated at the request of candidates, in 2019 five approvals were issued to perform the function of a member of the management board in factoring companies. In a joint procedure Hanfa issued its approvals to two natural persons applying to acquire a qualifying holding in the factoring company Centar Faktor d.o.o. Zagreb. An approval was issued to the company Adriatic Zagreb Faktoring d.o.o., Zagreb, for the status change involving division by acquisition.

5.2 Examinations and professional training

Examinations taken in order to provide information on investment products and services, carry out brokerage activities and provide investment advice services, examinations taken by candidates for certified pension fund managers and examinations taken in order to acquire qualifications to manage pension insurance companies

In 2019, Hanfa organised a professional training and examinations that need to be taken in order to provide information on investment products and services, carry out brokerage activities and provide investment advice services, a professional training and examinations for candidates for certified pension fund managers and a professional training and examinations that need to be taken in order to acquire qualifications to manage pension insurance companies⁷⁶.

Table 5.2.1 Examination results

Examinations in 2019		Number of candidates	%
Provision of information on investment products and services	Candidates who applied	3	
	Candidates who took the examination	3	
	Passed	2	67
	Failed	1	33
Brokerage activities	Candidates who applied	4	
	Candidates who took the examination	4	
	Passed	4	100
	Failed	0	0

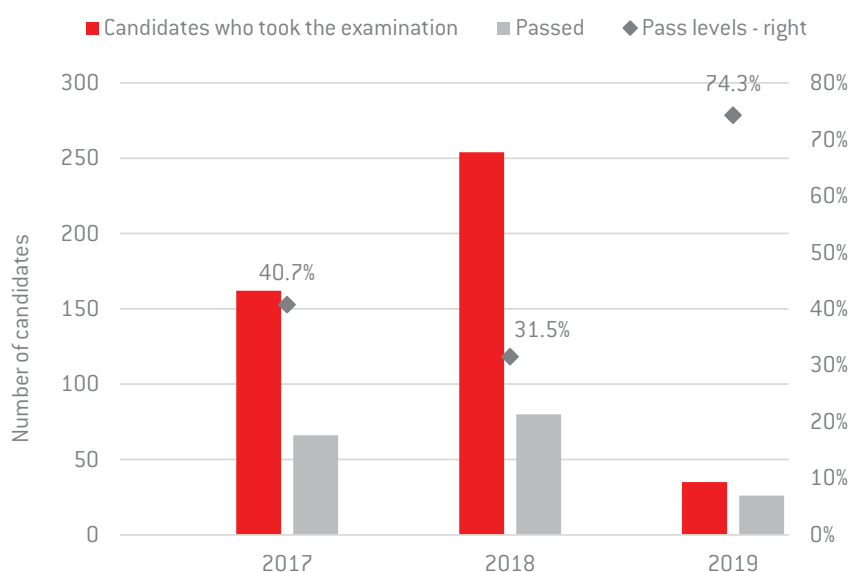
⁷⁶ Pursuant to the Ordinance on the professional training and examinations taken in order to acquire qualifications to provide information on investment products and services, carry out brokerage activities and provide investment advice services (Official Gazette, No 99/19) and the Ordinance on the professional training and examinations for certified managers of pension funds and managers of pension insurance companies (Official Gazette, No 99/19)

Examinations in 2019		Number of candidates	%
Investment advice	Candidates who applied	24	
	Candidates who took the examination	18	
	Passed	11	61
	Failed	7	39
Certified pension fund managers	Candidates who applied	5	
	Candidates who took the examination	5	
	Passed	4	80
	Failed	1	20
Acquisition of qualifications to manage pension insurance companies	Candidates who applied	5	
	Candidates who took the examination	5	
	Passed	5	100
	Failed	0	0

Source: Hanfa

Professional training relating to the field of capital markets, pension funds and pension insurance companies was organised in mid-November 2019 and it covered the areas of corporate finance, prevention of money laundering and terrorist financing, mathematical and statistical quantitative methods, accounting and financial reporting, economic policy, actuarial services in pension insurance, foreign exchange and payment system, financial institutions and markets, ethical standards in financial industry, licensing, market abuse, portfolio theory, risk management, company law and takeover of joint-stock companies. The training was provided by 33 lecturers. A total of 41 candidates applied to take the examination that was organised in mid-December 2019. The examination was taken by 35 candidates, of which 26 or 74.3% passed. Even though a significantly lower number of candidates took the examination in comparison with the previous two years, partly due to a lower number of the examinations organised in 2019, the percentage of the candidates who passed was considerably higher, in particular as regards the examinations relating to brokerage activities and the provision of investment advice.

Figure 5.2.1 Pass levels



Source: Hanfa

Examinations of professional knowledge required in order to pursue insurance and/or reinsurance distribution activities

The transposition of the Insurance Distribution Directive⁷⁷ (hereinafter: IDD) in the Insurance Act brought about changes in the organisation of examinations of professional knowledge required in order to pursue insurance and/or reinsurance distribution activities.

The examination involves tests of knowledge by the selected group of insurance, category of insurance intermediaries and ancillary insurance intermediaries and insurance or reinsurance products which intend to be distributed, and it is carried out in accordance with the Ordinance on the professional knowledge and competence requirements for insurance distributors and reinsurance distributors and their entry in the register⁷⁸.

In 2019, four examination terms were organised, with 1,605 candidates having taken the examinations. The number of candidates taking the examinations rose compared with the previous years due to the change in the organisation and due to fewer examinations terms organised in 2018 following changes made in regulations. The pass levels recorded in 2019 remained the same as in the previous years.

A new legal requirement regarding on-going professional training and development was introduced for insurance and reinsurance companies' employees and intermediaries entered in Hanfa's register who pursue insurance or reinsurance distribution business, lasting for a minimum of 15 hours per year, and for ancillary intermediaries lasting for a minimum of 10 hours per year. The professional training for insurance intermediaries and ancillary insurance intermediaries needed for the purpose of the on-going fulfilment of the competence requirements referred to in Article 422 of the Insurance Act may be provided by trainers who have obtained Hanfa's approval for their training plans and programmes⁷⁹. Last year Hanfa granted such approval to 26 companies that had met the requirements relating to the provision of the on-going training.

Table 5.2.2 Examinations for insurance and reinsurance distributors

Examinations for insurance and reinsurance distributors		2017		2018		2019	
		Number of candidates	%	Number of candidates	%	Number of candidates	%
Insurance and/or reinsurance business	Candidates who applied	1428		792		1720	
	Candidates who took the examination	1395		716		1605	
	Candidates who passed at least one type of the examination	1160	83	582	81	1410	88
	Failed	235	17	134	19	195	12

Source: Hanfa

Professional training for issuers

In April and November 2019, Hanfa organised professional training for issuers aimed at increasing the transparency level and quality of reporting and publishing relevant information by issuers, for the purpose of encouraging confidence in the Croatian capital market. The training provided issuers with detailed information on requirements relating to the transparent publication of regulated information and was

⁷⁷ Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution, OJ L 26

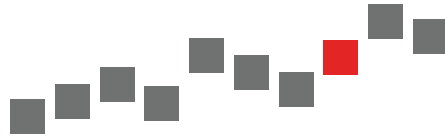
⁷⁸ Official Gazette, No 16/19

⁷⁹ Pursuant to Article 10 of the Ordinance on the professional knowledge and competence requirements for insurance distributors and reinsurance distributors and their entry in the register (Official Gazette, No 16/19)

attended by about one hundred representatives from about sixty issuers. The professional training is supposed to help issuers keep up with regulations governing the fulfilment of requirements by companies admitted to the regulated market and prevent any mistakes. At the same time, it helps create a stable financial and business environment for issuers, but also for all other market participants, which should result in orderly and fair trading in financial instruments and the financing of joint-stock companies at lower costs. Hanfa also communicated with issuers by email on an on-going basis, in order to update them on issues relating with the capital market and ESMA's activities and public statements.

Together with the ZSE and the CDCC, Hanfa participated in the organisation of the 10th educational congress for issuers, held in June 2019. At the congress, Hanfa explained the trends in the presentation of risks in prospectuses in accordance with the final report on guidelines on risk factors under the Prospectus Regulation ((EU) 2017/1129) and it presented its project relating to the improvement of the financial information supervision.



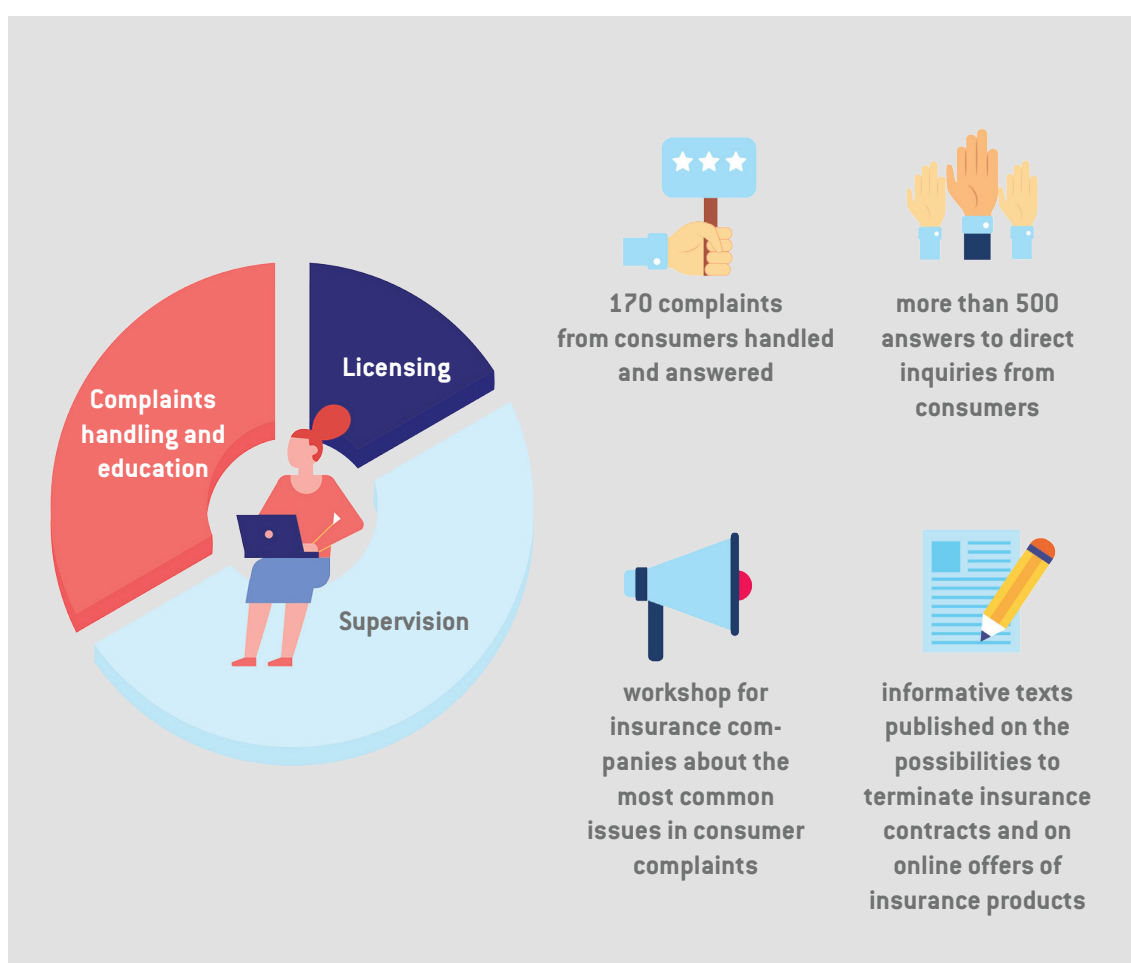


Consumer protection and improvement of financial literacy



6 Consumer protection and improvement of financial literacy

In achieving its legally defined objectives, Hanfa is guided by the principles of building confidence among participants of the financial market and reporting to consumers. Great importance is attached to monitoring the protection of consumers – users of financial services and activities aimed at raising the level of financial literacy of target groups and the general public. Hanfa conducts numerous activities in these areas continuously, throughout the year. This includes communication with consumers and acting upon their complaints, independent educational activities and cooperation with other stakeholders in this field.



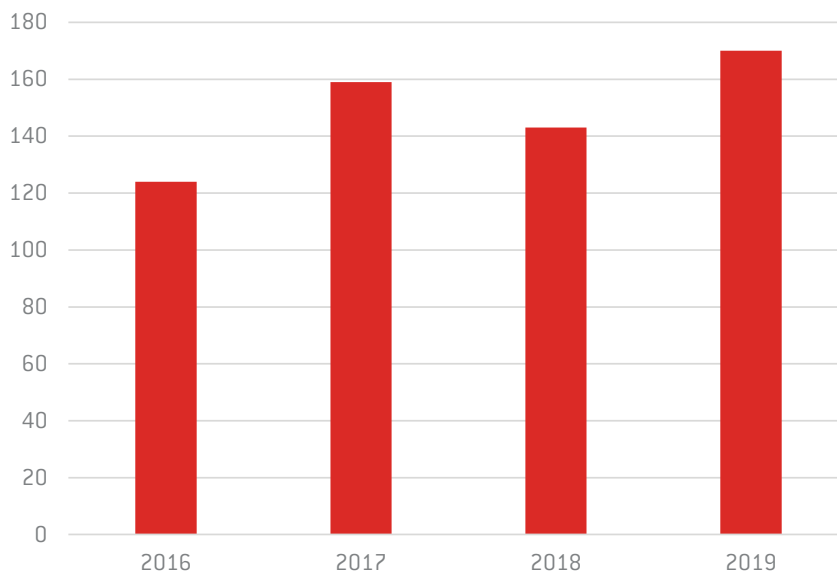
6.1 Consumer Protection

As part of consumer (financial services users) protection monitoring, throughout the year Hanfa continuously receives complaints from financial services users, usually indicating potential irregularities and illegalities in the work of entities supervised by Hanfa. In addition to complaints about the work of finan-

cial institutions and funds on the financial services market, financial services user can also file complaints related to Hanfa’s work, i.e. the work of its employees. All the complaints received are handled in a way that implies verification of the indications from the complaint, which often includes direct contact with supervised entities regarding whose operations the complaint is submitted and the collection of supporting documents. The response is sent to the complaint sender within 30 days of receipt of the complaint. Such procedure has multiple benefits both for users of financial services and for Hanfa. Analyses of complaints can identify possible irregularities and illegalities in the work of entities supervised by Hanfa and lead to decisions on Hanfa's further activities, which include the initiation of on-site examinations, initiation of court proceedings, issuing recommendations to supervised entities or activities related to possible amendments of regulations. In addition, examinations the subject matter of complaints enables the identification of areas related to financial services, requiring additional education and provision of information to target groups or the general public.

In 2019, Hanfa received 170 complaints, which is 27 (18.9%) complaints more than in 2018.

Figure 6.1.1 Number of received complaints over the years

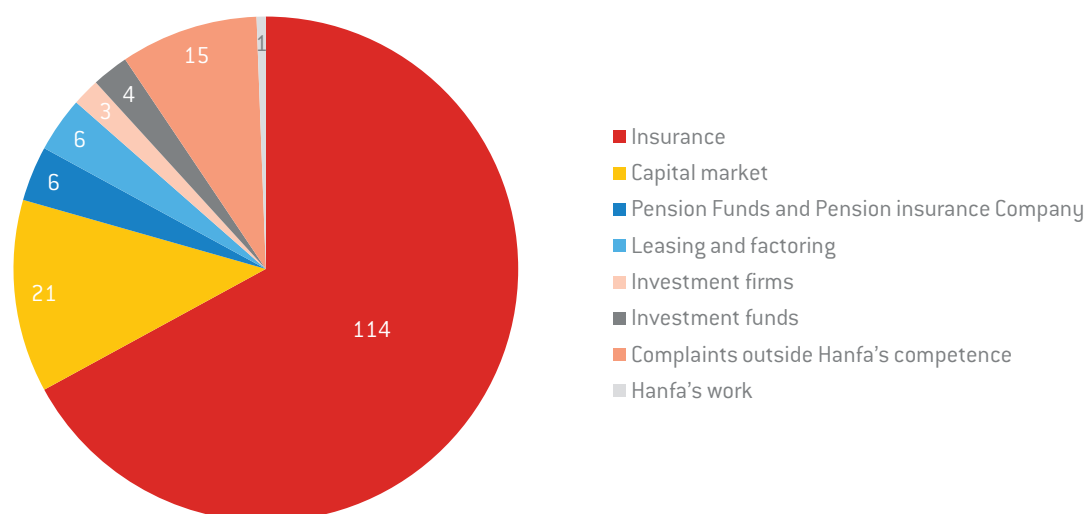


Source: Hanfa

In terms of segments of the financial services market, most of the received complaints (114, i.e. 67.5% of all complaints received in 2019) refer to the insurance field, as well as in previous years. Among other things, this is the result of comparatively large number of contracts, i.e. insured natural persons and diversified distribution network of the insurance market, compared to other segments of the financial services market. A significant number of complaints regarding the insurance sector entities concern the justification and/or amount of claims and the interpretation of the provisions of insurance contracts (in particular those relating to the possibility of contract termination). The capital market is second in line when it comes to the number of received complaints (21 i.e. 12.4%), and the majority of them concerned issuers, concretely – the insider dealing. Complaints that are not within Hanfa’s competence are forwarded to other competent institutions, and senders of the complaints are notified about it.



Figure 6.1.2 Number of complaints sent by financial services users to Hanfa in 2019, by segments of financial services providers



Source: Hanfa

Information on possible infringements of consumer protection is received by direct communication through inquiries of users i.e. future users of financial services. Hanfa is not authorised to give legal or investment advice, but it provides information and clarifications on the characteristics of financial services and the legal framework regarding its scope and competence. Examples of such information and clarifications are those relating to registers of service providers, the cross-border use of financial services, regulation of civil obligations and characteristics and risks associated with investing in certain financial products. It should be noted that Hanfa is not authorised to arbitrate in matters of property and legal relations and to assist in the exercise of consumer rights that may arise from a particular contractual relationship, but it can check whether there are any deficiencies or errors in terms of legal non-compliance or irregularities. Deciding on property and legal matters falls under the competence of relevant judicial bodies.

In addition to responses to inquiries and complaints of financial service users, Hanfa's activities in the segment of consumer protection monitoring are realised through various forms of communication with financial service providers. Since the insurance filed is a segment of industry connected with the largest number of complaints from financial service users continuously over the years, in 2019, with the support of the Croatian Chamber of Economy, Hanfa organised an educational workshop for representatives of all insurance companies established in the Republic of Croatia, with the intention of minimizing the number of new complaints and preventing disputes between financial services users and insurance companies. The workshop sought to further inform insurance companies about the importance of transparent and comprehensive provision of information to consumers and to inform them of the examples and causes of the most common disputes between consumers and insurers. It stressed that minimising disputes with users is in the interest of service providers as well, in particular in the context of operational burden due to work on user complaints and the reputation of service providers. Hanfa intends to continue conducting workshops with similar content, and with representatives of other financial service providers.

Apart from individual communication with financial services users who turn to Hanfa by submitting complaints or sending inquiries, Hanfa also communicates with financial services users and the general public through public announcements on its website. In 2019, Hanfa issued one public warning concerning the activities of companies not authorised to operate on the territory of the Republic of Croatia and nine informative materials on developments, activities and products on the financial services market explaining concepts interesting to the general public or drawing attention to potential risks. More specif-

ically, in 2019, Hanfa informed financial services users and the public of the novelties in the pension system, certain business models for long-term lease, the impact of Brexit on the capital market, a permanent ban on the marketing, distribution and sale of binary options to retail investors, restrictions on the marketing, distribution and sale of contracts for differences to retail investors, websites for comparison of insurance offers, inappropriate advertising and necessary vigilance when trading in contracts for differences, and the possibilities and consequences of termination of insurance contracts.

Apart from its independent activities, Hanfa actively cooperated with other institutions in the area of consumer protection, particularly through membership in the National Consumer Protection Council and through cooperation with the Ministry of Economy, Entrepreneurship and Crafts on several projects. Some of the projects that need to be emphasised are the development of a new web portal for consumers and the marking of the World Consumer Rights Day on 15 March 2019, during which a lecture was held on the importance of education and security with respect to online finances. In addition, Hanfa was one of the donors of funds for awards for best student works. Monitoring the protection of financial services users at the international level is achieved through work in committees of ESMA and EIOPA dealing with this issue, which includes, inter alia, reporting on consumer complaints and providing various quantitative and qualitative data and exchanging experiences with other Member States regarding the protection of consumers and users of financial services.

6.2 Financial literacy

In 2019, Hanfa further intensified its activities connected to raising the level of financial literacy of target groups and the wider public. As in previous years, the focus of these activities was on familiarising the audience with the characteristics of financial products and services (with emphasis on risks) and on the rights and obligations of consumers of financial products and services. The intensification of these activities is most evident in the number of presentations and workshops: 42 presentations were held for more than 1700 people. It is important to emphasize that educative sessions took place not only at Hanfa's premises, but also all over Croatia, and the presentations were held in cooperation with various stakeholders, primarily from the education system (elementary schools, secondary schools, universities and institutions of higher education, associations). The contents of these presentations would be regularly adapted, in agreement with the co-organizers, to the interests, needs and knowledge of the persons attending the presentations. Some of the activities mentioned were realised as a result of a public call to all interested stakeholders for proposals of cooperation in the field of educational activities, which is announced by Hanfa at the beginning of each year. Hanfa intends to continue this practice in 2020.

Since Hanfa is not the only stakeholder in the field of raising the level of financial literacy, cooperation with other public institutions regarding this matter continued in 2019. This includes membership in the National Consumer Protection Council, cooperation with the Ministry of Economy, Entrepreneurship and Crafts and membership in the Task Force for monitoring the implementation of measures and activities defined in the Action Plan for the Improvement of Financial Literacy, coordinated by the Ministry of Finance. Cooperation with the Croatian Chamber of Economy and the City Office for Education, Culture and Sports of the City of Zagreb in the implementation of the project titled "The more we know, the better we understand" also continued. The project, held for the third consecutive year, is intended for teachers and pupils of five secondary schools in Zagreb, with over 300 pupils and teachers participating in 2019. The aim of the project is to familiarize students with issues related to banking products and services, personal finance, insurance, investment and pension funds, capital markets and the importance of financial literacy through educational and informative activities.

In addition to various warnings and informative texts, in 2019 Hanfa started publishing new publications on its website which, apart from additional information for consumers, introduce content intended for the professional circles (Macroprudential risk scanner, Standard presentation format). The year 2019 also saw the beginning of preparations for the launch of a new website aimed at better financial literacy of citizens.

EUROPEAN AND GLOBAL MONEY WEEK

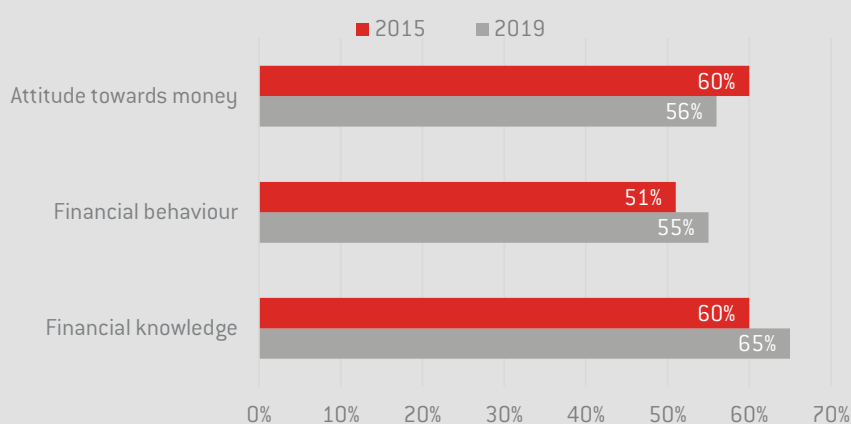
These are international initiatives that have been marked in the Republic of Croatia for several years now through activities highlighting the importance of financial literacy, especially of young people. During that week, Hanfa independently organized a series of activities aimed at secondary school and university students: a debate titled "Investing in crypto-currencies – yes or no" was organised in Osijek in cooperation with two student associations, and there were also lectures for students from seven secondary schools and four higher education institutions. In addition, in cooperation with the Croatian Chamber of Economy, lectures were held at several County Chambers of the Croatian Chamber of Economy (in Virovitica, Bjelovar, Varaždin, Požega and Šibenik). These educative activities covered more than 800 people.

2019 financial literacy survey

In 2015, together with the CNB and supported by the Ministry of Finance, Hanfa conducted a survey of financial literacy in the Republic of Croatia. The survey was conducted in line with the methodology of the Organization for Economic Cooperation and Development (OECD) and its findings are comparable to the results of the same research in other countries. According to the survey, the average score of financial literacy of Croatian citizens was 11.7 out of 21 points. The OECD defines financial literacy as a combination of information, knowledge, skills, attitudes and behaviours needed to make the right financial decisions to achieve individual gain. The study therefore measured three basic categories: financial knowledge, financial behaviour and attitude towards spending money.

Within the framework of the project Technical assistance in financial education supported by the OECD and its International Network on Financial Education (INFE) and the Ministry of Finance of the Netherlands, a new financial literacy survey was conducted in 2019 (apart from the Republic of Croatia, the survey was conducted in other countries participating in the project: Bulgaria, Montenegro, Georgia, Northern Macedonia, Moldova and Romania). The results show that the overall level of financial literacy in Croatia increased from 11.7 points in 2015 to 12.3 points in 2019. The level of financial literacy in Croatia is higher than the average (12.0 points) of the Southeast European countries in which the OECD conducted the survey in 2019, and it neared the average mark of financial literacy of the G20 countries in 2017 (12.7 points). Compared to 2015, citizens in Croatia improved their financial knowledge (from 60% to 65%) and financial behaviour (from 51% to 55%). At the same time, their attitude towards spending money worsened, from 60% to 56%.

Figure 1 Components of financial literacy, shown as % of average correct answers



Source: OECD

Sociodemographic characteristics significantly affect the level of financial literacy of citizens. Financial literacy increases with the age of respondents, so those older than 29 have a higher level of financial knowledge than younger people. At the same time, young people aged between 18 and 29 are least responsible in their attitude towards money. A higher level of literacy was shown by respondents living in cities, compared to those living in rural areas, while financial literacy is positively correlated with the level of IT literacy. Men showed a somewhat higher level of financial literacy than women.

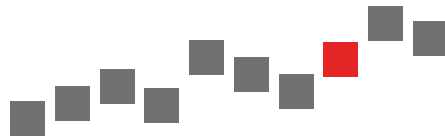
Financial knowledge is an important component of financial literacy, essential for understanding and following information about the economy and finances, but also for making financial decisions. Therefore, the fact that there was an increase in financial knowledge in Croatia compared to 2015 is important, since respondents had a higher percentage of correct answers to six out of seven questions about financial knowledge. The greatest increase in correct responses (13%) referred to the question of understanding the concept of time value of money, while the respondents showed the best knowledge regarding interest rates on loans (88% of respondents answered correctly).

The financial behaviour of Croatian citizens improved compared to 2015, so they show greater responsibility in managing money through savings, timely payment of liabilities and informed purchases, although they are not inclined to draw up and run personal budgets and long-term financial plans. In Croatia, 68% of citizens actively save money, 50% of whom keep cash at home, while only 4% invest in stocks. Only investments in real estate appeared to be significant, with 10% of Croatian citizens engaged in such investments. The attitude towards money worsened compared to 2015. Although a smaller number of citizens live for today without thinking about tomorrow, the number of those who prefer spending over saving and who believe that money exists solely to be spent increased compared to 2015.

In addition to assessing financial literacy by components, the survey also produced an evaluation of financial inclusion. The results show that 85% of citizens are familiar with at least five financial products, while almost 90% of citizens have a current account or a credit or debit card. The number of citizens who possess some form of insurance decreased compared to 2015. In Croatia, 22% of citizens show trust in their pension plans. Out of the total number of respondents, within their pension plans 77% of them rely on national pensions and 13% on children or family members.

Very often the personal perception of respondents does not necessarily correspond with the objective status. Thus, the perception of financial knowledge in Croatia is relatively high, i.e. as many as 21% of respondents think that they have a high level of knowledge, 59% think that theirs is average, and only 19% think that they have a low level of financial knowledge. At the same time, almost half of the respondents believe that their financial situation significantly affects their lives, primarily in a negative way. However, as many as 60% of Croatian citizens still believe that they are not over-indebted. Only one third of respondents are satisfied with their current financial situation, and 49% are concerned about covering basic costs of living.





Communication activities



7 Communication activities

Public relations have been recognised as an important component of Hanfa's work, therefore, the goals of the communication strategy are also harmonised with the institution's long-term goals. All communication activities and communication efforts are directed towards bringing closer work, decision-making methods and decisions taken by Hanfa to the general public and ultimately to raising the general level of knowledge of financial services.

7.1 Categories of the public

Since Hanfa is the regulator of the financial services market, which forms a significant part of the overall financial system of the Republic of Croatia, communication between Hanfa and all stakeholders is of exceptional importance and needs to be carefully and continuously implemented. A great emphasis is placed on respecting the rules of open and transparent communication through all available communication channels and towards to all categories of the public. The only exceptions are cases where there is a legal obligation of confidentiality or where data and information are already classified as confidential.

The basic categories of the public with which Hanfa continuously communicates are: the general public and consumers, legislative authorities and other state and public institutions, entities supervised by Hanfa, professional associations and interest groups, academia, media representatives and the internal public. Hanfa adapts its communication activities and channels to the target category of the public and to a specific event, i.e. case. Hanfa's international role should also be highlighted, as well as its participation in the work of international supervisory institutions and authorities, which includes both the communication between Hanfa and those institutions and the transmission of information published by those institutions to the interested public at home.

7.2 Communication activities in 2019

In 2019, public relations activities were further intensified and a significant emphasis was placed on fast and timely communication with the professional and the general public (media, associations, public and non-profit organisations, academia, etc.).

Hanfa communicated with the media on a daily basis, answering press inquiries in a timely manner. In addition to periodical press releases on all current topics in the field of supervision, in the second part of 2019 weekly press releases were introduced, containing decisions from the Board meetings and became a regular channel of communication with journalists, and thus with the overall public.

During the year, about one hundred press inquiries were answered, about fifty press releases were published, as well as about ten major interviews with the President of Hanfa Board or annual columns in special media editions. Regular press conferences were held throughout the year, in order to bring the work of Hanfa and a part of the financial system under its competence closer to the public.

Members of the Board also participated in expert conferences, presentations and panels, informing the professional and general public about the news related to all activities and functions of Hanfa. Special emphasis was placed on educating about the work of Hanfa and its results in the implementation of supervision and recognition of systemic risks, as well as the recognition of new opportunities for the development of the financial services sector.

In order to better present the changes brought about by the new Code of Corporate Governance and constantly encourage discussion about the development of the capital market in Croatia, Hanfa also

organised a public conference in mid-2019. On that occasion, Steven Maijoor, the Chair of ESMA, held a public expert presentation for the first time in Croatia.

The newly launched Hanfa profile on LinkedIn reached more than 2,000 followers at the end of 2019. The website was updated daily and it provided numerous useful information for both entities supervised by Hanfa and the general public.

In order to improve communication, especially in the segment of education and raising the level of financial literacy, in 2019 Hanfa started working on a special online platform whose role will primarily be educational, with the aim of raising the overall financial literacy of citizens. In the upcoming period, digital communication is expected to strengthen, in order to further facilitate the general public's insight into the work of Hanfa and its role in strengthening the financial system and protecting the users of financial services.

Table 7.2.1 2019 conferences attended by Hanfa representatives

Conference
Big Plans Day
Capital Markets Day
Euromoney CEE Forum
Croatian Financial Institutions Day
FinTech Adria
Croatian Insurance Days
Croatian Money Market
Challenge of Change
Quality of Corporate Governance
Retirement and Active Ageing
Regional Governors Meeting
Zagreb – a Financial Centre

Source: Hanfa

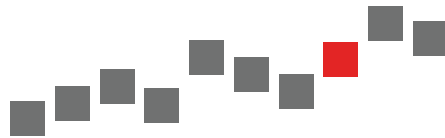
7.3 Right to access information

As a public authority, Hanfa continued meeting its obligations laid down by the Act on the Right to Access Information⁸⁰ (hereinafter: ARAI) regarding the access to timely, accurate and comprehensive information on its website in an easily searchable manner and in a machine readable form. In view of this, the annual number of requests for access to information received has been decreasing.

Six requests for access to information were received in 2019, two less than in 2018. The analysis of the requests showed that all of them were handled within the legal deadline and in the manner prescribed by the ARAI. Two requests for access to information were handled in a way that senders were given information in the field of Hanfa's work and competence, while one request concerned access to information for which there was a confidentiality obligation, in accordance with the law governing the security and intelligence system of the Republic of Croatia (Article 1(4) of the ARAI). Furthermore, one request was forwarded to another public authority in accordance with the provisions of the ARAI, and one request sender was referred to the information already published.

Since a request for access to information in which a public authority has to create new information, which it does not already hold, is not considered a request under the ARAI, in one case the requester was replied that Hanfa was not obliged to provide an analytical overview of the requested information from its field of operation, as this would entail the creation of new information.

80 Official Gazette, No 25/13 and 85/15



International cooperation



8 International cooperation

As in the previous years, international activities in 2019 were primarily focused on the work of the European Supervisory Authorities, with Hanfa's employees participating in numerous committees, working groups, subgroups and networks. Emphasis was also placed on activities relating to Hanfa's new membership in international organisations, namely the IAIS and the International Organisation of Pension Supervisors (hereinafter: IOPS). Hanfa also continued strengthening bilateral cooperation, initiating the process of signing ESMA Memorandum of Understanding with supervisory authorities from third countries, relating to consultation, cooperation and exchange of information as regards supervision of entities under the Alternative Investment Fund Managers Directive. It also signed Memoranda of Understanding with supervisory authorities from Israel and Abu Dhabi for the purpose of improving regulatory cooperation in the area of financial technology, while continuing its usual bilateral cooperation with other supervisory authorities, involving study visits and exchange of information. Technical international cooperation was focused on the completion of the majority of activities planned under the twinning projects in Montenegro and Serbia and on the participation in European Commission's Technical Assistance and Information Exchange Instrument (TAIEX) in Ukraine, Montenegro and the Republic of North Macedonia. The year 2019 was also marked by Hanfa's participation in preparatory activities related to the Croatian presidency of the Council of the European Union in the first half of 2020.

8.1 Participation in the work of supervisory authorities and organisations

ESMA – European Securities and Markets Authority

Hanfa actively participates in the work of ESMA through its membership of ESMA Board of Supervisors and its standing committees, networks, working groups and subgroups. In 2019, the President of the Board of Hanfa or his alternate attended six meetings of ESMA Board of Supervisors, while Hanfa's employees participated in 30 meetings, taking part in the work of 12 standing committees, six working groups, six networks and one subgroup of ESMA. During the year, Hanfa also participated in 137 written procedures by which ESMA took various decisions and it complied with provisions of eight guidelines issued by ESMA⁸¹.

ESMA's operations were primarily focused on activities related to the withdrawal of the United Kingdom from the EU in a no-deal Brexit scenario. The remaining activities carried out by ESMA related to the preparation and publication of numerous consultation papers, guidelines, opinions, questions and answers and other supervisory tools aimed at providing explanation on and properly implementing the provisions of EU sectoral legislation governing the area of investment funds, investment firms, capital markets and capital infrastructure. In addition, following the set of legislative acts proposed by the European Commis-

81 The list of ESMA guidelines Hanfa complied with in 2019:

1. Guidelines on certain aspects of the MiFID II suitability requirements (ESMA 35-43-1163)
2. Guidelines on CCP conflict of interest management (ESMA 70-151-1439)
3. Guidelines on EMIR anti-procyclicality margin measures for central counterparties (ESMA 70-151-1496)
4. Guidelines on internalised settlement reporting under Article 9 of CSDR (ESMA 70-151-367)
5. Guidelines on the application of C6 and C7 of Annex 1 of MiFID II (ESMA 70-156-869)
6. Guidelines on non-significant benchmarks under the Benchmarks Regulation (ESMA 70-145-1209)
7. Guidelines on internalised settlement reporting under Article 9 of CSDR (ESMA 70-151-367)
8. Guidelines on risk factors under the Prospectus Regulation (ESMA 31-62-1293)

sion relating to sustainable finance⁸², ESMA was focused on the preparation of its technical advice to the European Commission on amendments to MiFID II⁸³, UCITS Directive⁸⁴, AIFMD⁸⁵ and regulations adopted under these Directives. The purpose of the advice was to integrate sustainability risks and factors into business processes of management companies, investment firms and investment advisors relating to their organisational requirements, investment decision-making, provision of investment advice and risk management system. Considering the importance of sustainable finance, in 2019 ESMA set up a special Coordination Network on Sustainability, with one of Hanfa's employees becoming its member, along with representatives from other EU Member States' competent authorities.

While drawing up these documents, ESMA took account of the proportionality principle, i.e. the level of development of smaller EU Member States, giving proposals related to the usage of preparatory transition period measures and certain waivers. At the same time, attention was paid to maintaining the adequate investor protection level. Hanfa was particularly focused on the preparation of documents relating to the area of investment funds and issues regarding appropriate liquidity management testing, standardised procedures and messaging protocols under the CSDR considering their impact on local investment firm, discussions on amendments to the PRIIPs Regulation⁸⁶ considering their impact on entities offering packaged products such as UCITS and AIFs and the revision of the MAR⁸⁷. It also dealt with the restrictions on fees charged for the usage of trading data considering their impact on the ZSE and users of such data, reporting under the Securities Financing Transactions Regulation⁸⁸ and preparation of the CRR technical standards related to the definition of eligible equity and debt securities which are constituents of indices that may be recognised as collaterals for credit institutions. A series of Hanfa's comments were accepted and made part of final drafts of these documents.

It is also important to mention Hanfa's initiative for signing the ESMA Memorandum of Understanding relating to the provision of advice, cooperation and exchange of information regarding the supervision of entities under the Alternative Investment Fund Managers Directive⁸⁹ (hereinafter: the MoU) with some

-
- 82 Proposal for a Taxonomy Regulation (Regulation (EU) 2020/... of the European Parliament and of the Council of ... on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088), Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, OJ L 317) and amendments to the Benchmarks Regulation as regards climate transition benchmarks and Paris-aligned benchmarks (Regulation (EU) 2019/2089 of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks, OJ L 317)
- 83 Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU, OJ L 173
- 84 Directive 2014/91/EU of the European Parliament and of the Council of 23 July 2014 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards depositary functions, remuneration policies and sanctions, OJ L 257
- 85 Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010, OJ L 174
- 86 Regulation (EU) 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs), OJ L 352
- 87 Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC, OJ L 173
- 88 Regulation (EU) No 2015/2365 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012, OJ L 337
- 89 In the title of the MoU, the Alternative Investment Funds Managers Directive relates to Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010, OJ L 174

non-EU countries. The conclusion of such MoUs fosters cooperation in the area of the supervision of entities subject to the AIFMD. The emphasis was placed on investor protection and on maintaining market and financial integrity, and confidence in the stability of the financial system. For Hanfa, this marks the beginning of further initiatives related to international cooperation with regulators outside the EU. In November 2019, Hanfa signed the MoU with the Abu Dhabi Global Market Financial Services Regulatory Authority (ADGM FSRA). At the beginning of 2020, two more MoUs are expected to be signed, namely with the Guernsey Financial Services Commission (GFSC) and the Qatar Financial Centre Regulatory Authority (QFCRA). In addition, negotiations relating to the signing of the MoU with several other third-country supervisory authorities are to be continued.

EIOPA – European Insurance and Occupational Pensions Authority

During 2019, Hanfa was heavily engaged in the work of EIOPA: the president of Hanfa Board or his alternate participated in five regular meetings and one strategy meeting held by the EIOPA Board of Supervisors, while Hanfa's employees took part in the work of 11 of its expert networks, two committees and one subcommittee. These activities included the exchange of experience and supervisory practices and submission of relevant information, and Hanfa's work was coordinated with the work of other Member States' supervisory authorities. The President of Hanfa Board Ante Žigman is also a member of the EIOPA Mediation Panel, whose role is to mediate disputes between national competent authorities in an impartial manner.

In 2019, EIOPA focused on the inclusion of issues relating to environment protection and sustainable finance and management in the regulatory framework governing insurance and occupational pensions, and on the strengthening of investor protection (with particular emphasis on digitalisation, cyber risks and implementation of IDD within the common EU insurance market). Attention was also paid to establishing EU-wide efficient and consistent supervisory practices, on-going work related to the revision of the Solvency II Directive, preparations for Brexit, preparations for new tasks and powers EIOPA will assume following the revision of regulations governing the work of the European Supervisory Authorities⁹⁰ (i.e. resulting from the PEPP Regulation), maintaining financial stability and development of the SupTech (supervisory technology).

EBA – European Banking Authority

Considering the fact that EBA's mandate includes the adoption of regulations governing prudential supervision of investment firms, Hanfa's employees participated in the work of EBA's committees relating to the preparation and application of EU regulations to investment firms.

Therefore, in 2019 Hanfa notified EBA that it complied with its Guidelines on outsourcing arrangements, that, in addition to credit institutions, also apply to investment firms, supervised by Hanfa.

ESRB – European Systemic Risk Board

In 2019, the ESRB continued with the identification, monitoring and analysis of systemic risks of structural and cyclical nature the European financial system is exposed to, according to which it adjusted its

90 Regulation (EU) 2019/2175 of the European Parliament and of the Council of 18 December 2019 amending Regulation (EU) No 1093/2010 establishing a European Supervisory Authority (European Banking Authority), Regulation (EU) No 1094/2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), Regulation (EU) No 1095/2010 establishing a European Supervisory Authority (European Securities and Markets Authority), Regulation (EU) No 600/2014 on markets in financial instruments, Regulation (EU) 2016/1011 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds, and Regulation (EU) 2015/847 on information accompanying transfers of funds, OJ L 334

framework for macroprudential measures and harmonisation of national macroprudential policies. The focus of its work was, among other things, on monitoring trends in residential and commercial real estate markets and risks that could materialise due to the exposure of EU financial systems to those markets. Therefore, in mid-2019 the ESRB issued warnings to five European countries (Norway, Iceland, France, Germany and the Czech Republic) relating to medium-term risks arising from real estate markets. Furthermore, in order to ensure comprehensive and harmonised monitoring of developments in real estate markets, in August 2019 the ESRB published a Recommendation amending the Recommendation on closing real estate data gaps, adopted in 2016 for the purpose of harmonising data needed for the assessment and monitoring financial stability risks related to real estate markets. Considering the complexity of the establishment of a harmonised statistical framework for monitoring this market, the goal of the amendments was to facilitate this process at the EU-level. In addition to this, at end-2019 the ESRB also issued the Recommendation on exchange and collection of information for macroprudential purposes on branches of credit institutions having their head office in another Member State or in a third country, for the purpose of strengthening cooperation and exchange of information among authorities entrusted with the adoption and/or activation of macroprudential policy measures or with other financial stability tasks. Apart from strengthening the macroprudential framework by issuing warnings and recommendations, ESRB permanent bodies and temporary groups monitored and analysed, on an on-going basis, developments in the macroeconomic and financial system, and participated in the preparation of macroeconomic scenarios for stress tests led by European Supervisory Authorities. In 2019, a member of Hanfa Board attended ESRB General Board meetings, while Hanfa's employees participated in meetings of its Advisory Technical Committee and Analysis Working Group.

IAIS – International Association of Insurance Supervisors

At the end of 2018, Hanfa became a full member of the IAIS, as a member of the CEET region (Central and Eastern Europe and Transcaucasia), soon actively joining the work of that international association of insurance supervisors and regulators. In February 2019, the President of Hanfa Board was elected by IAIS members from supervisory authorities of the CEET countries to represent the region in the IAIS Executive Committee. As this is the international standard-setting body responsible for developing and assisting in the implementation of principles, standards and other supporting material for the supervision of the insurance sector, the President of Hanfa Board used his participation in the work of the Executive Committee for promoting the interests of the region and the importance of regional markets, thus affecting the shaping of IAIS policies. In September 2019, following the invitation by the Selection Committee, the President of Hanfa Board became its member, as well.

During the first year of its IAIS membership, Hanfa also joined the work of its other committees, namely the Macroprudential Committee and the FinTech Forum, while also preparing its application for the membership of the Macroprudential Supervision Working Group.

Hanfa's IAIS activities during the year involved regular participation in meetings and teleconferences of the committees mentioned, the preparation of various materials and documents, and discussion and exchange of information with other IAIS members. Special emphasis should be placed on Hanfa's participation in the assessment of the compliance of Croatian insurance regulations from Hanfa's scope of competence with IAIS Core Principles. The assessment was carried out by an IAIS expert team, which confirmed a very high level of compliance.

IOPS – International Organisation of Pension Supervisors

As Hanfa became a member of the IOPS at the beginning of 2019, during the year its employees joined a series of activities carried out by this international organisation. Members of Hanfa Board participated regularly in the Technical Committee meetings, as well as in joint meetings of the IOPS and the OECD

Working Party on Private Pensions. The emphasis was put on discussions with IOPS members on current issues relating to pension systems, on frequent exchange of information with other members regarding regulations governing the functioning of pension systems and different practices of supervisory authorities, and on the submission of comments, data and information needed for the implementation of IOPS projects aimed at the preparation of guidelines, principles and recommendations relating to pensions system supervisory practices and required for the purpose of issuing various publications.

IOSCO – International Organisation of Securities Commissions

In 2019, Hanfa's membership of IOSCO implied intensified activity of Hanfa's employees in the work of IOSCO committees and exchange of information with other supervisory authorities pursuant to the IOSCO Memorandum of Understanding relating to consultation and cooperation, and exchange of information. Members of Hanfa Board participated on a regular basis in meetings of the Presidents Committee, the Growth and Emerging Markets Committee and the European Regional Committee. At the end of the year, Hanfa made preparations for the membership of the FinTech Network and initiated the membership application procedure, expecting IOSCO's confirmation at the beginning of 2020.

In April 2019, Hanfa signed the Administrative arrangement for the transfer of personal data between EEA Authorities and Non-EEA Authorities (hereinafter: IOSCO Administrative Arrangement), not legally binding. The IOSCO Administrative Arrangement was signed by 49 supervisory authorities, whose intention was to show their readiness to establish adequate security measures for personal data processing while performing their supervisory tasks.

Hanfa's involvement in the work of IOSCO was also marked by the participation of its experts in the IOSCO Technical Assistance Project for Enforcement Manuals, that was carried out in several phases throughout the year and also included the engagement of experts from many other supervisory authorities. The Manual provides detailed information on the supervisory process approach, conduct of supervisory activities, supervisory practice, cooperation, powers, security measures and settlements.

8.2 Technical international cooperation, bilateral international cooperation and exchange of information

In 2019, Hanfa continued with its activities within two twinning projects in Montenegro and Serbia. The twinning project run in Serbia was titled "Strengthening of the institutional capacities of the National Bank of Serbia in the EU accession process" and was carried out by a consortium of the central banks of Croatia, Germany and Romania, and involved the participation by experts from the central banks of England, Austria, Portugal, Slovakia and Slovenia, and by experts from the German Federal Financial Supervisory Authority (BaFin) and Hanfa. Hanfa's engagement in the project was related to the area of insurance and covered issues relating to the transposition of the Solvency II Directive and Insurance Distribution Directive into national law and issues relating to insurance guarantee funds. Apart from missions at the National Bank of Serbia in Belgrade, the project also involved a study visit by the employees of the National Bank of Serbia to Hanfa, which included visits to Croatian insurance companies, the Croatian Insurance Bureau and the Croatian Actuarial Association. The project is expected to come to an end in March 2020.

As a member of the consortium, Hanfa continued with its activities within the twinning project "Support to regulation of financial services" for the financial sector in Montenegro. Hanfa participated in this project along with the central banks of Croatia, Germany and the Netherlands and BaFin, and its end was foreseen for July 2020. The beneficiary institutions were the Insurance Supervision Agency of Montenegro (hereinafter: the Agency), the Securities and Exchange Commission of Montenegro (hereinafter: the

Commission) and the Central Bank of Montenegro. Hanfa's activities were focused on the Agency and the Commission and covered issues relating to the supervision of the insurance and capital market, preparation of legislation regarding the transposition of EU regulations governing these markets, and employee training aimed at strengthening internal capacities of these institutions. Employees of the Agency and the Commission also made study visits to Hanfa, which included visits to Croatian insurance companies, the Croatian Actuarial Association, the Croatian Insurance Bureau, the Zagreb Stock Exchange and a meeting at the Croatian Chamber of Economy with representatives of investment fund management companies.

Within the European Commission's Technical Assistance and Information Exchange Instrument (TAIEX), Hanfa's experts participated in three projects in 2019, namely in the Republic of North Macedonia, Ukraine and Montenegro. Within the framework of the mission in the Republic of North Macedonia, Hanfa's expert held workshops for their Ministry of Finance, covering issues related to the implementation of regulations governing financial instruments markets (MiFID II). Risk management related to the prevention of money laundering and terrorist financing on securities markets was the topic discussed within the mission carried out in Ukraine. Hanfa placed emphasis on the explanation of the securities market regulators' role in the prevention of money laundering, terrorist financing and the financing of the proliferation of weapons of mass destruction, Croatia's experience in that area and the experience of the EU in regulating virtual assets. The mission carried out for the Supervision Agency of Montenegro involved the presentation of important issues and Croatian experience related to the implementation of the IDD, Hanfa's activities aimed at the adjustment of business operations for the purpose of implementing the IDD and the influence of this Directive on the insurance market.

Study visits made to Hanfa by representatives of supervisory authorities from other countries, visits by Hanfa's experts to other supervisory authorities, the signing of Memoranda of Understanding in the area of financial innovations and the exchange of information with other supervisory authorities relating to various topics and fields from Hanfa's area of competence marked Hanfa's bilateral cooperation in 2019.

Two bilateral study visits were organised at Hanfa, namely a visit by the Icelandic Financial Supervisory Authority and the Ukrainian National Securities and Stock Markets Commission. The representatives of the Icelandic supervisory authority were acquainted with the work and powers of Hanfa, its supervised entities, market environment, supervisory practice and activities aimed at preventing money laundering and protecting consumer rights. The Ukrainian representatives were made familiar with topics related to Hanfa's work and activities, with a special emphasis on investment funds, which included presentations on Hanfa's supervisory practice in this area.

Hanfa's experts participated in a study visit to the central bank of the Netherlands (De Nederlandsche Bank – DNB), that included lecturers by Dutch experts for pension funds supervision. The visit also covered topics such as the overview of the Dutch pension system, supervisory practice and risk based supervision, the implementation of the IORP Directive⁹¹, concrete examples relating to the supervision of pension fund asset investments, on-site supervision, etc. Some of these findings have been applied by Hanfa in its everyday activities, e.g. a new supervisory report for pension funds.

Hanfa signed two Memoranda of Understanding for the purpose of improving regulatory cooperation in the area of financial technology: with the Abu Dhabi Global Market Financial Services Regulatory Authority (ADGM FSRA) and with two Israeli supervisory authorities – the Israel Securities Authority (ISA) and the Capital Markets, Insurance and Savings Authority (CMISA). The Memoranda provide a cooperation framework for the purpose of ensuring support to financial innovations and companies engaged in financial

91 Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs), OJ L 354

innovations in order to facilitate understanding of regulatory regimes of different jurisdictions, at the same time defining the framework for cooperation in the area of supervision between these institutions and Hanfa.

8.3 Enhancing Hanfa's capacities via Structural Reform Support Programme (SRSP)

In 2019, Hanfa carried out several projects approved and financed by the European Commission within the SRSP. The implementation of the project "Integration and improvement of risk-based supervision" started in December 2019, and its completion is expected in 2020. The aim of the project is to improve and increase the efficiency of the overall supervision process of the financial services sector by enhancing risk-based supervision at the cross-sectoral and systemic levels, as well as to strengthen Hanfa's capacities for carrying out supervision.

STRUCTURAL REFORM SUPPORT PROGRAMME (SRSP)

SSRP is an EU programme established by the European Commission in 2015. It supports, through technical assistance, all Member States in building more effective institutions, stronger administrative frameworks and efficient public administrations. Its implementation is coordinated by the Directorate-General for Structural Reform Support (DG REFORM) of the European Commission.

The year 2019 also saw the beginning of the implementation of the project "The improvement of risk-based supervision for the insurance sector". It continues and completes the above mentioned project, placing a special emphasis on more effective usage of the existing supervisory tools and the introduction of new tools in the area of insurance companies supervision.

Hanfa also received approval for the project "Establishing supervision of issuers' financial statements", related to new supervisory powers of Hanfa laid down in the Capital Market Act. The project started in the first half of 2019, it is expected to end in 2020, and it ensures technical assistance to Hanfa in carrying out supervision of issuers' financial statements, an insight into various practices of European national supervisory authorities and the training of Hanfa's employees.

Hanfa continued applying for technical assistance via the SSRP and received approval for the project within the 2020 SRSP cycle relating to the training for national European regulators in the field of insurance, with the emphasis on supervision and Solvency II. The project will be carried out by EIOPA in cooperation with the European Commission.

8.4 Hanfa's participation in preparations for the Croatian presidency of the Council of the European Union

In 2019, Hanfa participated in preparations for the Croatian presidency of the Council of the European Union in the first half of 2020. Hanfa's employees took part in the preparation of analytical documents, in training and in other preparatory activities related to the presidency, particularly with regard to financial services regulations falling within Hanfa's area of competence under the authority of the Ministry of

Finance⁹², and to financial services regulations falling within Hanfa's competence under the authority of the Ministry of Justice⁹³.

In this phase, Hanfa cooperated closely with the Ministry of Finance in the preparation of regulations likely to be under debate at the time of Croatian presidency. Special emphasis was placed on the potential impact of certain regulations on financial markets in the Republic of Croatia. Based on the previous working dynamics regarding the adoption of regulations, and on the level of their complexity and political sensitivity, an overall framework was established for the working dynamics relating to regulations from the area of financial services during the Croatian presidency.

As part of the preparations, Hanfa's employees participated in a series of preparatory meetings with representatives of the European Commission, the General Secretariat of the Council and the Finnish presidency, that preceded the Croatian presidency of the EU Council. The purpose of the meetings was to provide Hanfa's employees with more information on the status of specific regulations and on the points of view of certain institutions. During the last two months of the Finnish presidency, Hanfa's representatives also participated in some of the meetings of the Finnish presidency with the European Commission, and in the so-called trilogues – negotiations between the European Parliament and the Council, attended by Hanfa's employees as observers.

Hanfa Innovation Hub

In mid-2019, Hanfa established the first regulatory Innovation Hub in Croatia, creating a special contact point for various entities, in particular technology services providers, start-ups and other stakeholders in business ventures that use or want to use innovative solutions in the field of non-banking financial services. The Innovation Hub enables managers of innovative projects in the field of financial services to obtain informal support, advice or guidelines in order to understand their position within the regulatory framework and to determine regulatory, supervisory and legal issues that are of significance to their project. It also serves as a point that provides information, responds to inquiries, exchanges information and provides explanations in the field of financial innovation falling within Hanfa's competence. It consists of a specialised team of people reflecting the cross-section of Hanfa's scope of competence and powers.

92 Proposal for a Regulation of the European Parliament and of the Council on a framework for the recovery and resolution of central counterparties and amending Regulations (EU) No 1095/2010, (EU) No 648/2012, and (EU) 2015/2365, CELEX: 52016PC0856;

Proposal for a Regulation of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment, CELEX: 52018PC0353;

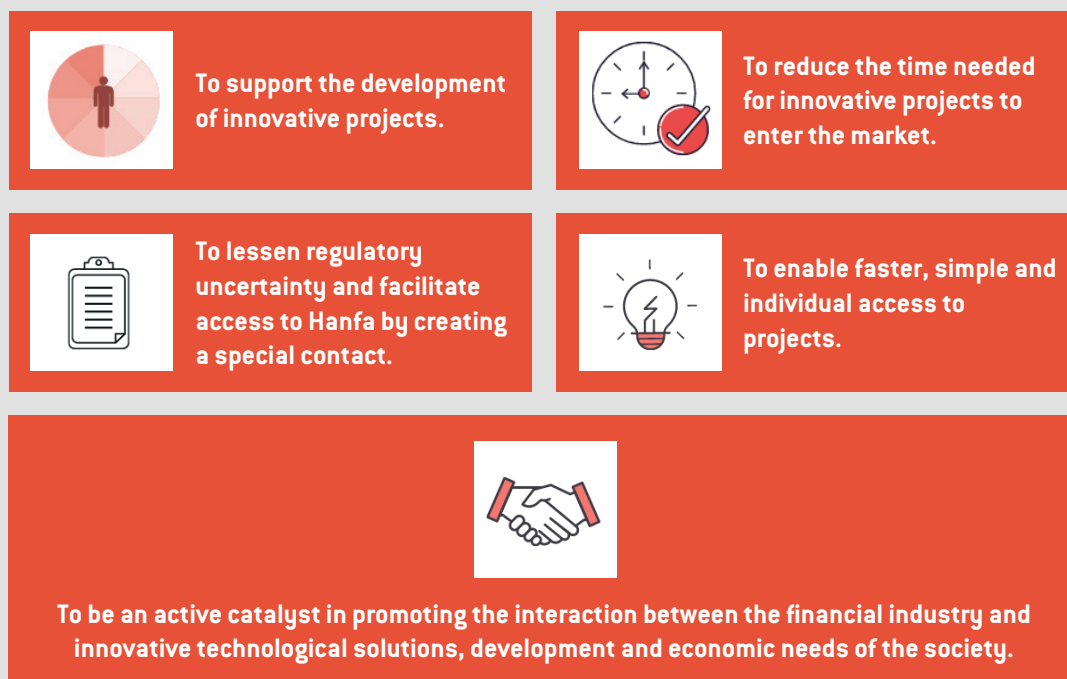
Proposal for a Regulation of the European Parliament and of the Council on European Crowdfunding Service Providers (ECSP) for Business, CELEX: 52018PC0113;

Proposal for a Regulation of the European Parliament and of the Council amending Directive 2009/103/EC of the European Parliament and the Council of 16 September 2009 relating to insurance against civil liability in respect of the use of motor vehicles, and the enforcement of the obligation to ensure against such liability, CELEX: 52018PC0336;

93 Proposal for a Directive of the European Parliament and of the Council on credit servicers, credit purchasers and the recovery of collateral, CELEX: 52018PC0135;

Proposal for a Regulation of the European Parliament and of the Council on the law applicable to the third-party effects of assignments of claims, CELEX: 52018PC0096

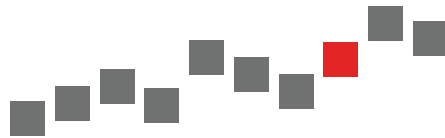
Figure 1 The most important functions of the Innovation Hub



Source: Hanfa

During its first six months, the Innovation Hub was contacted by almost 40 various entities, from the existing regulated entities to technology services providers and start-ups. Furthermore, a wide range of usage options relating to new technologies in the financial services area were presented, from the use of the distributed ledger technology to the use of artificial intelligence and cloud computing. Inquiries directed to the Innovation Hub were diverse, and related mostly to information regarding terms and conditions for the provision of regulated services and procedures under Hanfa's competence, presentation of products (with Hanfa's feedback), meetings, interviews, presentations, etc.

For the purpose of encouraging active cooperation with various stakeholders, representatives of the Innovation Hub actively participated in eight conferences and panel discussions. During the year, Hanfa's employees also actively participated in international committees for financial innovations, such as the Fintech Forum (IAIS), the Financial Innovation Standing Committee (ESMA) and the European Forum for Innovation Facilitators. Within the framework of international cooperation, Hanfa signed two international Memoranda of Understanding relating to financial innovations: with the Israel Securities Authority (ISA) and the Israeli Capital Markets, Insurance and Savings Authority (CMISA), and with the Abu Dhabi Global Market Financial Services Regulatory Authority (ADGM FSRA).



Judicial proceedings



9 Judicial proceedings

In line with its statutory powers, Hanfa, as the authorised prosecutor, brings indictments to the Zagreb Municipal Misdemeanour Court and the Financial Inspectorate of the Republic of Croatia. In accordance with the provisions of the Act on the Croatian Financial Services Supervisory Agency, which regulates Hanfa's legal position as well as its objectives, principles, scope and competence, procedures conducted by Hanfa within its competence are subject to provisions of the General Administrative Procedure Act, unless otherwise provided by law. Administrative disputes may be initiated against Hanfa's acts since they are final pursuant to the Hanfa Act. As a defendant, Hanfa participates in administrative disputes upon lawsuits filed against any of its administrative acts. In addition, in the event of a criminal offence that is prosecuted ex officio, Hanfa files criminal charges to the State Attorney's Office in accordance with criminal procedure regulations.

9.1 Misdemeanour proceedings

In accordance with its authority, in 2019 Hanfa brought ten indictments to the competent Zagreb Municipal Misdemeanour Court. Final rulings were issued in three of these cases in 2019. These misdemeanour proceedings followed supervisory procedures that Hanfa had conducted in the field of capital market, investment funds, insurance and leasing.

Table 9.1.1 Indictments brought in 2019

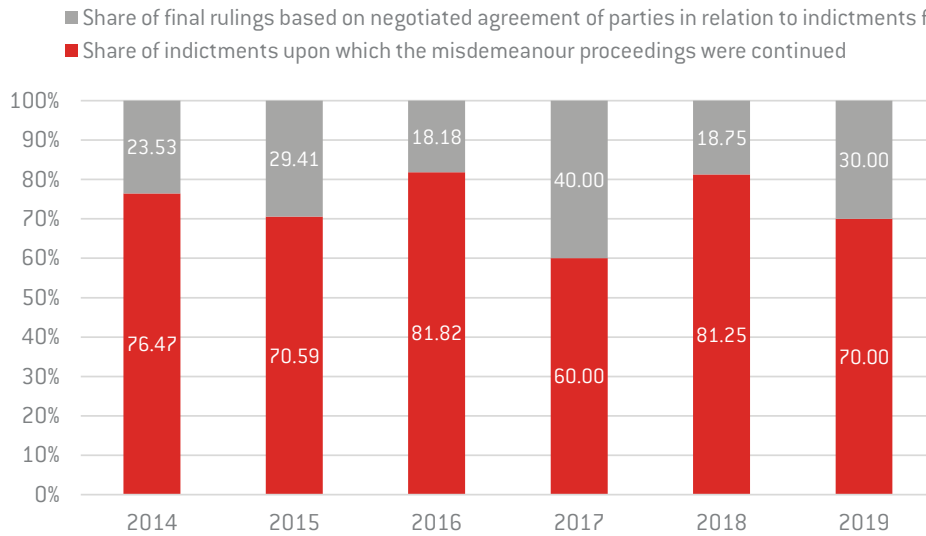
Area	Act	Number of indictments
Investment funds	Act on Open-Ended Investment Funds with Public Offering	1
	Alternative Investment Funds Act	1
Capital market	Capital Market Act	3
Insurance market	Act on Compulsory Insurance within the Transport Sector	4
Leasing	Leasing Act	1
Total indictments brought in 2019		10

Source: Hanfa

The Misdemeanour Act⁹⁴ provides for the possibility for the authorised plaintiff and defendant to negotiate the terms and conditions for the admission of guilt and the sanction and measures to be imposed. The general tendency towards alternative dispute resolution resulted in 25 acquittals in the period between 2014 and 2019, three of which happened in 2019.

94 Official Gazette, No 107/07, 39/13, 157/13, 110/15, 70/17 and 118/18

Figure 9.1.1 Share of final rulings based on negotiated agreement of parties in relation to indictments filed from 2014 to 2019 (in %)

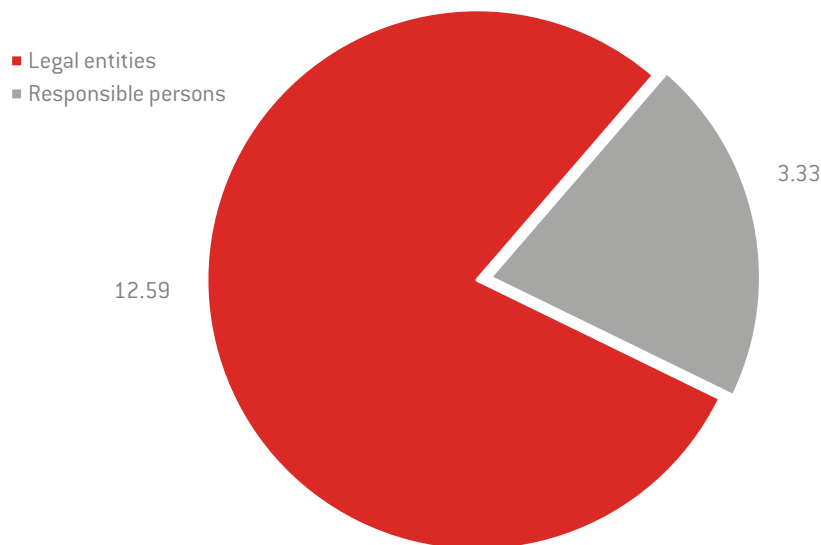


Note: Final rulings based on negotiated agreement of parties for the year 2016 include one agreement concluded and confirmed that year, for which the indictment was filed in 2012, when the negotiation between an authorised plaintiff and a defendant was not defined in the Misdemeanour Act.

Source: Hanfa

Following finalised Hanfa’s misdemeanour proceedings, the competent courts and the Financial Inspectorate imposed fines in the amount of HRK 15.92m between 2006 and 2019, which on average amounts to HRK 1.14m annually. Fines collected under finalised court rulings are part of the revenue of the state budget. Hanfa is not authorised to initiate or carry out proceedings for the enforcement of final court rulings. Such procedures, in accordance with the provisions of the Misdemeanour Act, are conducted by the competent authorities at the request of the court or other competent authority which issued the decision, unless the court itself executes its decision.

Figure 9.1.2 Amount of fines imposed per defendant for the period 2006 - 2019 (in HRK million)



Source: Hanfa

Capital market

In 2019, Hanfa brought three indictments against perpetrators of misdemeanours for violating provisions of the Capital Market Act. One indictment was brought against a legal entity and its responsible person because they did not cooperate with Hanfa during the supervisory procedure, since they withheld data relevant for conducting the supervisory procedure. One indictment was brought against a legal entity its responsible persons due to their failure to publish, within the prescribed deadline, the issuer's annual statement with the audit report, as well as the quarterly report. Furthermore, one indictment was brought against a natural person due to their failure to submit, within the prescribed deadline, notifications on the exceeding the threshold of voting rights in a share issuer to addressees defined by law. By 31 December 2019, one final ruling was issued with respect to the above-mentioned cases.

Investment funds

With regard to investment funds, during supervisory procedures violations of the provisions of the Act on Open-Ended Investment Funds with Public Offering⁹⁵ and the AIFA were detected, therefore Hanfa brought two indictments in 2019. Indictments were brought against investment fund management companies and their responsible persons because key information for investors did not contain content prescribed by the Act on Open-Ended Investment Funds with Public Offering and because of failure to ensure capital adequacy of an investment fund management company. By 31 December 2019, one final ruling was issued with respect to the above-mentioned cases.

Insurance market

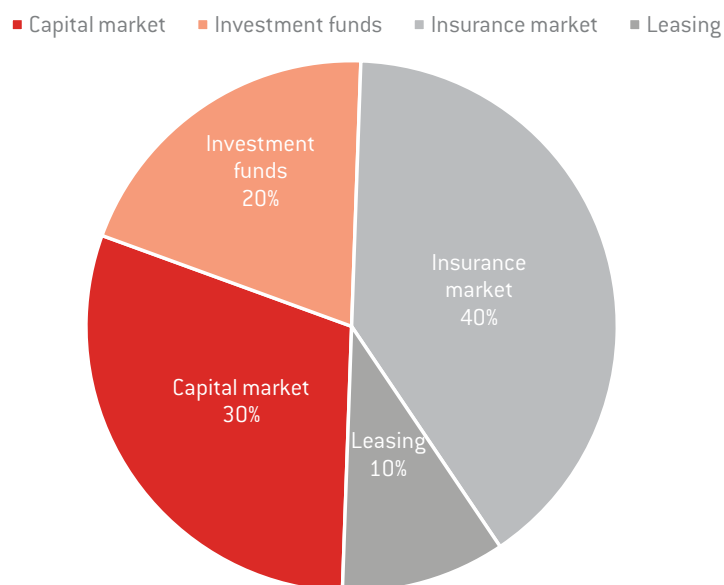
Four indictments were brought against insurance companies and their responsible persons in 2019. All indictments were filed for violating the provisions of the Insurance Act, because the perpetrators failed to submit a reasoned offer to the injured parties within the legally prescribed deadline, that is, a justified response to their claim for damages, and because they failed to compensate the injured parties within the same deadline for the amount of compensation or undisputed part of the damage as an advance. By 31 December 2019, one final ruling was issued with respect to the above-mentioned cases.

Leasing

Hanfa filed one indictment against a legal entity and its responsible person because the legal entity carried out leasing activities contrary to the Leasing Act, since it had not obtained an authorisation from Hanfa as the supervisory authority for leasing business.

95 Official Gazette, No 44/16

Figure 9.1.3 2019 indictment structure



Source: Hanfa

9.2 Administrative disputes

In 2019, three administrative disputes were initiated against Hanfa's decisions following complaints filed with the Zagreb Administrative Court and Rijeka Administrative Court. Pursuant to the Administrative Disputes Act⁹⁶, Hanfa provided responses to the complaints and submitted requested files based on which the complaints had been filed. In these proceedings, Hanfa's employees filed reports and attended hearings before the courts. The administrative disputes were related to decisions in the area of capital market, leasing and insurance. The latter administrative dispute was terminated at first instance by issuing a non-final judgement rejecting the claim and it was forwarded to the High Administrative Court, following an appeal by the plaintiff. In 2019, all of the proceedings were still ongoing.

9.3 Criminal charges

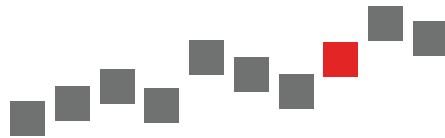
Since its establishment on 1 January 2006, until 31 December 2019, Hanfa filed 49 criminal charges to the State Attorney's Office.

9.4 Debt recovery actions

Three proceedings are under way, pursued at the competent Commercial Courts, for the purpose of recovering debts based on fees that supervised entities are obliged to pay to Hanfa. Hanfa actively participates in these proceedings as a party. During 2019, with respect to one debtor, who is being tried before the Commercial Court in Zagreb for the purpose of collecting a claim, a decision on the opening of insolvency proceedings was issued in accordance with the Insolvency Act⁹⁷. Hanfa, as a creditor, lodged its claim against the bankruptcy estate. The bankruptcy proceedings are still under way, while the civil procedure has been terminated.

96 Official Gazette, No 20/10, 143/12, 94/16 and 29/17

97 Official Gazette, No 71/15 and 104/17



Hanfa's business operations



10 Hanfa's business operations

Pursuant to the Act on Hanfa, Hanfa's vision is to support sustainable development of the financial system in the Republic of Croatia by carrying out proactive supervision, imposing modern regulatory framework and reaching high standards relating to protection of financial services users, at the same time contributing to the overall economic prosperity. Hanfa's mission is to safeguard the financial stability by strengthening the financial system, build confidence among participants of the financial market by regulating and supervising, in a consistent and transparent manner, operations of supervised entities in accordance with best practices and international regulatory standards and contribute to consumer protection by raising awareness of benefits and risks related to various types of financial services provided by supervised entities. While striving to achieve its goals, Hanfa follows the principles of transparency and timely reporting to financial market participants, financial services users and general public as regards all of its activities.

10.1 Internal structure and human resources

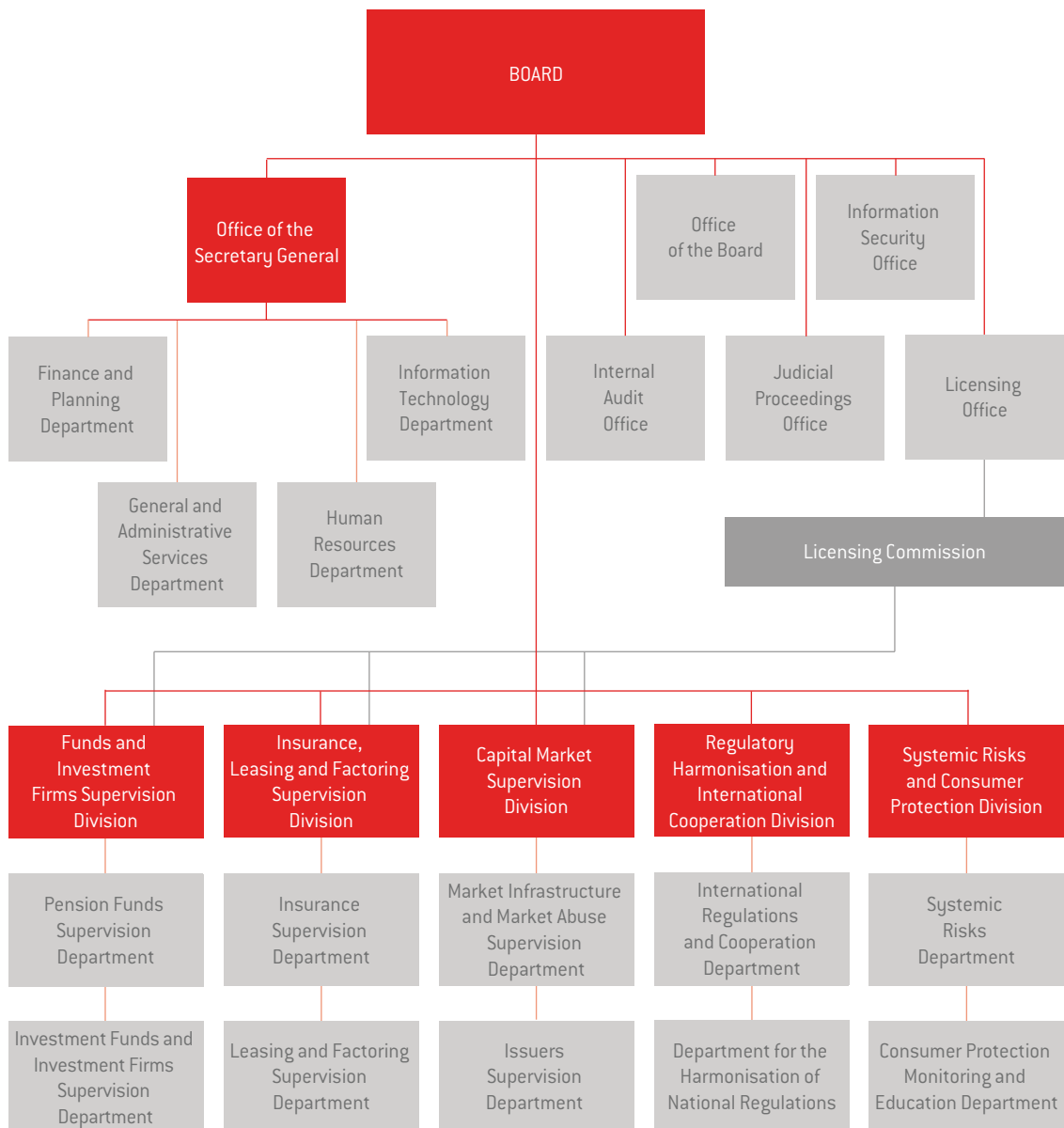
Hanfa is governed by the Board consisting of five members, one of whom is the President. From the beginning of 2018, members of the Board are: Ante Žigman (President), Antun Palarić, Tomislav Ridzak, Ilijana Jeleč and Jurica Jednačak. The President and the members of the Board are appointed and dismissed by the Croatian Parliament at the proposal of the Government of the Republic of Croatia. All decisions within Hanfa's scope and competence are issued by the Board at meetings, normally held once a week, by a majority of at least three votes. The President or a member of the Board may not abstain from voting. In 2019, the Board held 50 meetings and issued 1040 decisions.

Hanfa's Council is an advisory body issuing opinions and expert and scientific advice. It consists of nine members, pursuant to the Act on Hanfa. In 2019, members of the Council were: Ante Žigman, President of Hanfa Board, Damir Vandelić, Kristijan Buk, Ivana Gažić, Josip Glavaš, Marko Juranić, Ivana Ravlić Ivanović, Ivana Žepić and Novka Simić. The Council held 4 meetings: on 6 March, 24 May, 13 September and 19 December 2019.

Hanfa's Office of the Secretary General is under direct authority of the Board, and its task is to ensure the everyday operations of Hanfa concerning the management of human resources, finance, IT system and general and administrative affairs. Vesna Kadić Komadina is Hanfa's Secretary General.

Hanfa's fundamental functions, which are reflected in supervisory, normative, analytical, legal, communication and international activities described in previous chapters, are organised in five divisions and five offices.

Figure 10.1.1 Internal structure

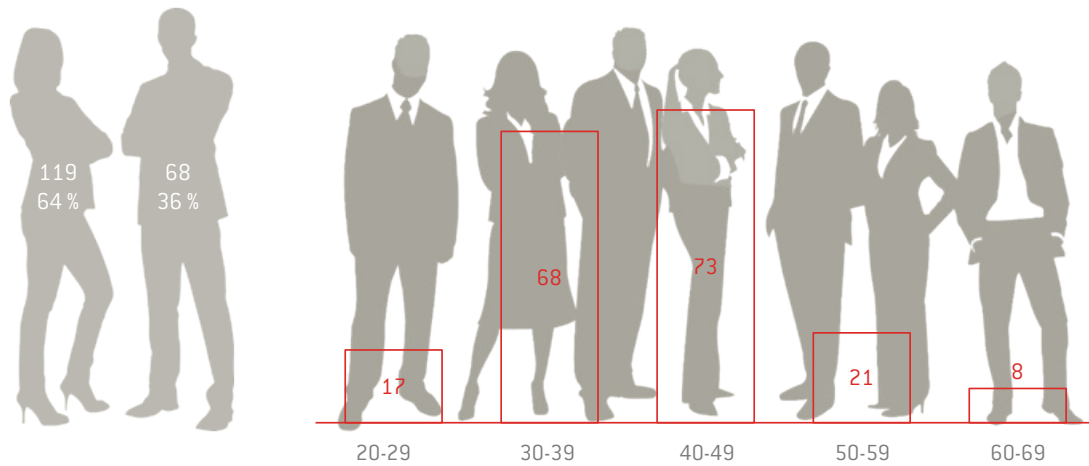


Source: Hanfa

At the end of 2019, Hanfa had 187 employees, 9 employees (5%) more than at the end of 2018. 33 persons were newly employed in 2019. Ten new employees, mostly economists, were given the opportunity to work as trainees in various organisational units. Most of the employment was done in order to fill positions vacant after some of the staff left Hanfa, and the rest due to the increased number of necessary employees due to increased business needs, since an organisational restructuring was carried out at the end of 2018, in order to achieve greater efficiency of the organisation.

Majority of employees (176 of them) had permanent work contracts, while 11 had fixed-term work contracts. Almost two thirds of all employees are women, and there is also somewhat higher proportion of women at managerial positions than men. As in the previous year, the average employee age was 41, and the average total length of service was 15.4 years.

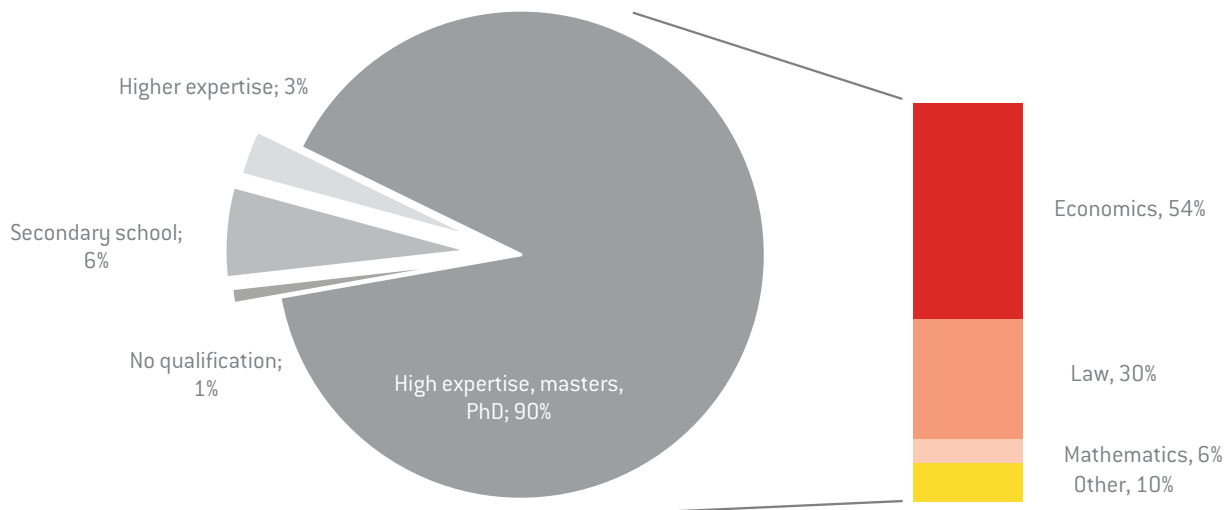
Figure 10.1.2 Employees by gender and age



Source: Hanfa

Majority of Hanfa employees have a university degree, mostly in the field of economy. Given the business processes and functions of Hanfa, the legal profession is also highly represented. As in previous years, a large proportion of employees attended some kind of professional training during 2019, such as seminars, workshops, conferences or courses. In 2019, 74% of employees took part in at least one training session, with three professional training sessions being the average. Two employees were granted funds to finance their higher education, while another two were granted funds to finance their postgraduate studies.

Figure 10.1.3 Qualifications of employees



Source: Hanfa

Student internships and scholarships

In 2019, following a competition, six students were selected and given the opportunity for student internship under the guidance of mentors and with the assistance of other colleagues within the organisational unit where the internship took place. Four of the students studied economy, one studied mathematics and one law.

With the aim of supporting successful students whose professional interests and future vocations are in accordance with Hanfa's scope of work and expected personnel needs, Hanfa launched a scholarship tender in the academic year 2009/2020, aimed at students studying economy, law, mathematics and IT. Following a selection procedure, seven students from various study programmes and study years were selected. They will receive scholarships until the end of their studies, and through student internship they will have the opportunity to learn about the particular segment of Hanfa's activities.

10.2 Internal audit

Internal audit is carried out according to a plan drawn up on the basis of the requirements of the financial management and control systems and the requirements of Hanfa's business operations, in accordance with the importance of business processes, risks and other parameters.

During 2019, the Internal Audit Office carried out internal audits in the area of management of IT systems related to physical and logical access to information system resources, IT systems related to remote user access (VPN), the procurement process, complaints handling and consumer protection process and the processes related to case handling, case closing, filing and sending to the filing and records office for archiving. Recommendations given by the internal audit contribute to improving the quality of business processes and increasing business efficiency.

10.3 Information security in Hanfa

In 2019, Hanfa adopted a new Information security policy, the Ordinance on video surveillance and the Ordinance on the implementation of information security measures and standards. All necessary measures were taken to protect the information system against cyber-attacks, and the data access rights were revised in cooperation with the Internal Audit Office. In the framework of activities related to the protection of personal data, employees were trained on the basics of personal data protection with regular updating of personal data records processed by Hanfa. Measures for protecting classified information handled in Hanfa were continuously implemented, and within its scope the Office for Information Security participated in certain supervisory activities.

10.4 Hanfa's information systems

Proper operation, reliability and stability of server and client equipment, network infrastructure and mobile device fleet are Hanfa's key IT priorities. These systems must be adaptable, without negatively affecting their quality, to continuous advances in technology, software solutions, business mobility and extreme increase of available data. It is therefore necessary to ensure the safe exchange, expansion and enhancement of the usability of IT systems in order for Hanfa to fulfil its obligations towards other European supervisory authorities and to comply with the relevant regulatory and legal frameworks.

In 2019, the availability of wireless network was expanded to the entire primary location of Hanfa, with an increase in the connection permeability between the primary and secondary location and the restoration of a part of outdated network and server infrastructure. This increased the speed of data transmission and improved the IT infrastructure performance. In addition, the upgrade of the system for monitoring continuous training of employees of insurance/reinsurance companies and intermediaries engaged in insurance distribution activities was completed. Furthermore, the system for the preparation and receipt of reports was upgraded with the aim of facilitating and accelerating changes to report design, as well as the system for processing, validation and submission of XBRL reports to EIOPA, by including the

taxonomy for reporting on closed-ended voluntary pension funds in the scope of system functionality. Data Warehouse was expanded by importing new data sources obtained on the basis of Hanfa's specific reporting requirements and via ESMA's Financial Instruments Reference Data system (FIRDS). During 2019, the test phase of migration and renewal of the version of the electronic content management system was also completed.

10.5 Hanfa's financial operations

In its accounting and financial operations Hanfa applies the provisions of the Act on Financial Operations and Accounting of Non-Profit Organizations⁹⁸ and the provisions of subordinate regulations adopted under this Act.

As at 31 December 2019, Hanfa's total assets amounted to HRK 34.7m.

Table 10.5.1 Hanfa's Abbreviated Balance Sheet as at 31/12/2019 (in HRK thousand)

ASSETS	34,740	Share in assets
Non-financial assets	8,169	23.5%
Financial assets	26,571	76.5%
LIABILITIES	34,740	Share in liabilities
Liabilities	8,337	24.0%
Own sources	26,403	76.0%

Note: A detailed balance sheet of Hanfa is provided on its website.

Source: Hanfa

In 2019, Pursuant to Article 20 of the Act on Hanfa, Hanfa financed its activities from fees from assets and revenue of supervised entities and fees for services provided. The calculation and amount of fees and the manner of charging fees from assets and income of supervised entities charged by Hanfa in 2019 are defined by the Ordinance on the calculation, amount and charging of fees paid to the Croatian Financial Services Supervisory Agency in 2019⁹⁹, while the type and amount of fees for the provision of services falling within Hanfa's competence in 2019 are defined by the Ordinance on the type and amount of fees paid to the Croatian Financial Services Supervisory Agency¹⁰⁰. In 2019, total income reached HRK 75.7m, increasing by 19% in comparison with 2018. Total expenses reached HRK 69m, rising by 17.6% in comparison to 2018.

Income

Out of the total income generated in 2019, 98% (HRK 74.1m) was accounted for by income received under special regulations from, realised from fees from assets and income of supervised entities, fees for the provision of services within Hanfa's competence and other income under special regulations. Income from assets, income from donations and other income totalled HRK 1.6m, accounting for 2% of total income.

98 Official Gazette, No 121/14

99 Official Gazette, No 112/18 and 18/19

100 Official Gazette, No 26/19

Table 10.5.2 Summary of income realised in 2019 (in HRK thousand)

Income type	75,687
Income received under special regulations	74,147
<i>Income generated under the Ordinance on the calculation, amount and charging of fees paid to Hanfa in 2019</i>	66,642
<i>Income generated under Ordinance on the type and amount of fees paid to Hanfa</i>	7,322
<i>Other income received under special regulations</i>	183
Income from assets	4
Income from donations	256
Other income	1,280

Source: Hanfa

The largest part of income received under special regulations (89.9%) consisted of income received under the Ordinance on the calculation, amount and charging of fees paid to Hanfa in 2019, while 9.9% of income was received under the provisions of the Ordinance on the type and amount of fees paid to Hanfa. The income structure is shown in Table 10.5.3.

Table 10.5.3 Income from fees in 2019 (in HRK thousand)

Income generated under the Ordinance on the calculation, amount and charging of fees paid to Hanfa in 2019	Amount (in HRK thousand)	Share in total income (in %)
Income from pension companies	38,586	57.9
Income from insurance companies and reinsurance companies	8,295	12.4
Income from investment fund management companies	8,147	12.2
Income from credit institutions	4,233	6.4
Income from leasing companies	4,060	6.1
Income from the Central Depository and Clearing Company	1,481	2.2
Income from insurance distributors and reinsurance distributors	570	0.9
Income from the Zagreb Stock Exchange	427	0.6
Income from factoring companies	280	0.4
Income from companies managing funds established under special regulations	242	0.4
Income from pension insurance companies	162	0.2
Income from investment firms	157	0.2
Income from issuers	2	0.1
Total	66,642	100.0

Income generated under Ordinance on the type and amount of fees paid to Hanfa	Amount (in HRK thousand)	Share in total income (in %)
Income generated under the Act on the Takeover of Joint-Stock Companies	3,012	41.1
Income generated under the Insurance Act	2,470	33.7
Income generated under the Capital Market Act	469	6.4
Income generated under the Act on Open-Ended Investment Funds with Public Offering	337	4.6
Income generated under the Alternative Investment Funds Act	203	2.8
Income generated under the Leasing Act	140	1.9
Income generated under the Mandatory Pension Funds Act	95	1.3
Income generated under the Factoring Act	80	1.1

Income generated under Ordinance on the type and amount of fees paid to Hanfa	Amount (in HRK thousand)	Share in total income (in %)
Income generated under the Act on Pension Insurance Companies	43	0.6
Income generated under the Voluntary Pension Funds Act	40	0.6
Income from the maintenance of the Register of Leased Assets	199	2.7
Income from fees charged for the training organised for brokers, investment advisers, certified pension fund managers, certified pension insurance company managers	115	1.6
Income generated under the Act on Hanfa (issuance of opinions and copies)	104	1.4
Income generated under the Act implementing CSDR	15	0.2
Total	7,322	100.0

Source: Hanfa

The largest share in income from supervised entities was accounted for by the income from pension fund management companies, which amounted to HRK 38.6m, increasing by HRK 6.2m (19%) compared to 2018. Income from insurance companies and reinsurance companies and from investment fund management companies also increased by HRK 3.0m relative to 2018, accounting for 24.7% in the total income from supervised entities.

Hanfa generated the largest amount of income from services provided under the provisions of the Act on the Takeover of Joint-Stock Companies, due to takeover fees paid, and under the Insurance Act, based on the examination of professional knowledge and the issuance of authorizations and licenses for insurance and reinsurance distribution business.

Expenditure

In 2019, the largest share in the expenditure was accounted for by employee expenses, which amounted to HRK 42.4m (61.5%), increasing by 12.4% relative to 2018. The increase in employee expenses resulted from the increased number of employees, the increase of the salary base, as well as the secondment of employees to work at the Permanent Representation of the Republic of Croatia to the EU for the purpose of activities connected with the Croatian Presidency of the Council of the EU.

Material expenses made up 32.1% of total expenditure, increasing by HRK 3.9m (21.4%) relative to 2018. The increase in material expenses was the result of a large number of business trips as part of preparations for the Croatian Presidency of the Council of the EU, increased costs of renting business premises and related overhead costs, increased intellectual and personal services and higher amounts of mandatory membership fees in the European Supervisory Authorities (ESMA and EIOPA), as well as other international membership fees (IOPS, IAIS and IIF).

In 2019, Hanfa was involved in marking the World Consumer Rights Day with the theme "Trusted Smart Products – Consumer Protection in the Digital World", in the framework of which it donated an interactive (smart) board to a school selected through a prize competition. In addition, it started giving scholarships to students following a competition. These expenses are included in the donations group.

Table 10.5.4 Summary of expenditure realised in 2019 (in HRK thousand)

Expenditure type	68,999
Employee expenses	42,411
Material expenditure	22,159
<i>Costs for employees</i>	3,885
<i>Costs for external staff</i>	80
<i>Expenditure on services</i>	10,340
<i>Expenses on materials and energy</i>	1,404
<i>Other material expenditure</i>	6,450
Depreciation expenditure	3,283
Financial expenditure	104
Donations	74
Other expenses	968

Source: Hanfa

In 2019, Hanfa recorded surplus income over expenditure in the amount of HRK 6.7m, which was transferred into the state budget of the Republic of Croatia on 12 March 2020, pursuant to the provisions of the Act amending the Act on the Croatian Financial Services Supervisory Agency¹⁰¹.

On the grounds of a self-assessment of financial management and control systems, carried out pursuant to the Fiscal Responsibility Act¹⁰², Hanfa prepared the 2018 Statement of Fiscal Responsibility. The self-assessment in line with the prescribed criteria did not detect any deficiencies and/or irregularities. The Statement, which confirmed a legitimate, intended and purposeful use of resources and effective and efficient functioning of financial management and control system, within the financial limits determined by the financial plan, was delivered to the Croatian Parliament.

In accordance with the Act on Financial Operations and Accounting of Non-Profit Organisations, an external audit of Hanfa's 2019 financial statements was carried out, and the Independent Auditor's Report was published on Hanfa's website.

101 Official Gazette, No 12/12

102 Official Gazette, No 111/18



Statistical overview of industries



11 Statistical overview of industries

Investment funds

Open-ended investment funds with public offering

Investment funds - UCITS						
	2014	2015	2016	2017	2018	2019
Number of funds	82	85	91	95	96	99
Net assets of funds, in HRK thousand	12,981,415	13,857,695	18,440,776	18,499,606	19,117,203	22,577,123

Issuance and redemption of units in UCITS, in HRK thousand						
	2014	2015	2016	2017	2018	2019
Issuance of units	20,560,948	23,669,357	22,139,754	18,108,512	11,496,927	11,498,262
Redemption of units	19,879,690	22,947,028	17,930,220	18,219,022	10,811,532	9,486,498

Asset structure of equity UCITS per asset type, in HRK thousand						
	2014	2015	2016	2017	2018	2019
Cash	155,586	117,648	188,563	187,921	155,063	191,965
Shares	1,456,584	1,445,965	1,568,137	1,640,305	1,356,601	1,513,730
Bonds	7,198	6,044	11,801	20,305	26,685	29,050
IF	74,457	52,792	36,828	58,850	61,403	79,575
MMIs	245	–	–	–	–	–
Deposits	5,854	7,193	6,697	2,732	3,205	1,363

Asset structure of balanced UCITS per asset type, in HRK thousand						
	2014	2015	2016	2017	2018	2019
Cash	36,753	30,529	114,196	70,187	94,989	170,954
Shares	278,191	274,640	254,959	309,063	257,702	221,032
Bonds	296,337	342,711	301,746	379,825	390,711	438,988
IF	113,221	126,465	117,048	127,699	113,786	146,212
MMIs	18,990	17,402	26,238	–	–	–
Deposits	7,001	15,843	49,514	7,664	27,948	15,459

Asset structure of bond UCITS per asset type, in HRK thousand						
	2014	2015	2016	2017	2018	2019
Cash	28,732	112,486	802,896	829,976	991,665	2,232,505
Shares	896	–	–	–	–	–
Bonds	850,761	1,276,443	3,020,783	4,982,146	7,491,015	14,408,996
IF	4,662	11,007	22,021	53,664	37,221	87,145
MMIs	40,376	31,125	342,403	458,012	474,855	692,834
Deposits	21,270	45,610	110,150	80,003	291,476	1,797,672

Asset structure of cash UCITS per asset type, in HRK thousand						
	2014	2015	2016	2017	2018	2019
Cash	559,277	685,228	1,250,622	1,144,437	1,561,461	1,486
Shares	–	3	–	–	–	–
Bonds	1,045,197	1,073,291	2,552,431	1,173,673	1,949,331	–
IF	62,147	33,253	41,214	49,792	21,411	–
MMIs	3,967,222	3,258,507	4,405,600	3,586,937	1,466,158	–
Deposits	3,662,147	4,296,871	3,706,160	2,800,701	2,421,975	6,600

Asset structure of other UCITS per asset type, in HRK thousand						
	2014	2015	2016	2017	2018	2019
Cash	171,936	62,300	54,533	92,020	39,281	173,691
Shares	19,025	7,841	26,649	46,346	17,670	50,558
Bonds	171,440	268,953	303,960	402,083	568,729	611,887
IF	33,626	159,801	161,661	201,057	189,580	402,438
MMIs	598	101,884	56,603	–	–	–
Deposits	36,882	87,097	36,226	41,715	67,835	133,383

Asset structure of feeder UCITS per asset type, in HRK thousand						
	2014	2015	2016	2017	2018	2019
Cash					2,159	764
Shares					–	–
Bonds					–	–
IF					17,312	14,476
MMIs					–	–
Deposits					–	–

Alternative investment funds - AIF

Investment funds - AIF						
	2014	2015	2016	2017	2018	2019
Number of funds	28	28	29	38	34	36
Net assets of funds, in HRK thousand	2,594,754	2,891,069	3,235,912	3,486,817	3,588,528	4,474,656

Investment firms

Investment firms						
	2014	2015	2016	2017	2018	2019
Number of firms	8	8	8	7	7	7
Portfolio management, in HRK thousand	21,274	32,236	30,158	29,169	27,934	23,106
Custody of financial instruments, in HRK thousand	280,908	412,357	646,154	691,026	677,305	1,055,282

Pension funds

Mandatory pension funds

Mandatory pension funds						
	2014	2015	2016	2017	2018	2019
Number of funds	12	12	12	12	12	12
Number of fund members	1,705,720	1,731,181	1,784,169	1,844,272	1,936,261	2,010,403
Category A	4,827	5,094	5,369	5,874	6,273	25,453
Category B	1,685,594	1,707,104	1,755,823	1,810,704	1,896,361	1,948,510
Category C	15,299	18,983	22,977	27,694	33,627	36,440
Net assets of funds, in HRK thousand	66,281,554	74,004,667	84,179,365	91,924,545	98,126,194	112,598,105
Total contributions (HRK thousand)	50,849,573	56,009,813	61,348,342	67,011,806	73,191,233	79,885,879
Total payments (HRK thousand)	-4,384,839	-6,000,282	-6,522,907	-7,143,223	-8,143,581	-9,280,324

Mirex values						
	2014	2015	2016	2017	2018	2019
Mirex A	105	114	128	133	135	152
Mirex B	206	218	234	241	243	265
Mirex C	103	110	118	125	129	136

Asset structure of category A MPFs per asset type, in HRK thousand						
	2014	2015	2016	2017	2018	2019
Cash	5,051	6,469	19,273	31,596	33,699	15,702
Shares	70,562	150,211	221,299	214,033	222,283	305,045
Bonds	235,760	223,241	255,773	308,956	332,626	411,578
IF	27,003	35,435	11,901	37,767	54,301	97,084
MMIs	14,994	-	-	-	-	-
Deposits	-	7,200	-	307	13,000	5,000

Asset structure of category B MPFs per asset type, in HRK thousand						
	2014	2015	2016	2017	2018	2019
Cash	1,042,115	562,110	1,792,551	2,040,812	3,095,922	820,503
Shares	12,141,136	13,875,977	16,223,498	15,177,046	15,500,483	19,555,589
Bonds	46,868,793	52,801,140	58,741,529	64,105,360	65,269,705	74,555,257
IF	3,625,426	4,398,076	3,442,194	5,252,268	6,040,680	8,582,871
MMIs	1,311	-	-	199,512	1,249,715	1,405,660
Deposits	1,291,830	668,049	616,071	1,195,812	1,811,324	1,165,028

Asset structure of category C MPFs per asset type, in HRK thousand						
	2014	2015	2016	2017	2018	2019
Cash	35,787	15,168	73,052	128,031	184,826	85,683
Shares	-	-	-	-	-	-
Bonds	1,418,987	2,177,674	2,896,107	3,809,899	4,388,270	5,499,820
IF	6,405	3,004	46,266	-	69,079	33,321
MMIs	131,372	44,553	44,739	-	39,996	55,973
Deposits	15,000	42,051	-	30,467	169,001	-

Open-ended voluntary pension funds

Open-ended voluntary pension funds						
	2014	2015	2016	2017	2018	2019
Number of funds	6	6	6	8	8	8
Number of fund members	220,527	236,975	257,075	285,822	305,145	320,533
Net assets of funds, <i>in HRK thousand</i>	2,651,987	3,044,842	3,548,401	3,895,569	4,231,346	5,119,466
Total contributions during the year (<i>in HRK thousand</i>)	357,339	386,781	464,138	548,789	624,305	727,137
Total payouts during the year (<i>in HRK thousand</i>)	-136,363	-144,457	-144,677	-202,942	-250,782	-243,343

Annual returns of OVPFs						
	2014	2015	2016	2017	2018	2019
AZ Benefit OVPF	10.66%	5.04%	7.65%	3.80%	-0.07%	6.56%
AZ Profit OVPF	8.72%	6.65%	5.13%	-3.37%	-2.53%	10.45%
Croatia osiguranje OVPF	8.57%	2.07%	5.56%	2.10%	-1.52%	12.20%
Croatia osiguranje 1000 A OVPF					5.23%	13.76%
Croatia osiguranje 1000 C OVPF					2.45%	5.37%
Erste Plavi Expert OVPF	9.36%	6.88%	11.13%	4.31%	-2.09%	12.60%
Erste Plavi Protect OVPF	8.18%	3.85%	6.62%	3.51%	5.40%	6.85%
Raiffeisen OVPF	13.19%	6.53%	6.68%	3.19%	1.61%	8.86%

Asset structure of OVPFs per asset type, <i>in HRK thousand</i>						
	2014	2015	2016	2017	2018	2019
Cash	61,067	126,693	420,911	236,344	401,078	318,790
Shares	526,970	751,869	951,369	877,886	910,732	1,216,157
Bonds	1,908,750	2,070,334	2,134,504	2,537,236	2,675,416	3,177,205
IF	109,745	108,372	93,483	249,754	264,014	427,111
MMIs	-	-	-	-	-	-
Deposits	60,354	36,507	-	13,529	-	12,800

Closed-ended voluntary pension funds

Closed-ended voluntary pension funds						
	2014	2015	2016	2017	2018	2019
Number of funds	16	17	18	19	21	20
Number of fund members	23,927	28,778	29,237	30,387	40,482	44,569
Net assets of funds, <i>in HRK thousand</i>	596,188	681,211	777,088	849,556	908,054	1,101,694
Total contributions during the year (<i>in HRK thousand</i>)	86,400	103,227	86,534	93,986	124,961	154,667
Total payouts during the year (<i>in HRK thousand</i>)	-37,659	-36,886	-32,829	-34,480	-56,864	-37,454

Asset structure of CVPFs per asset type, in HRK thousand						
	2014	2015	2016	2017	2018	2019
Cash	32,003	55,289	76,726	60,718	108,159	66,942
Shares	114,927	161,383	193,757	193,817	212,670	280,586
Bonds	416,586	434,434	456,569	534,282	533,800	635,612
IF	25,805	29,271	42,667	60,449	58,831	117,674
MMIs	–	–	–	–	–	–
Deposits	8,014	2,650	–	2,041	–	4,260

Insurance companies

Insurance						
	2014	2015	2016	2017	2018	2019
Number of insurance and reinsurance companies	27	24	22	20	18	16
Gross written premiums, in HRK thousand	8,644,379	8,694,393	8,672,628	9,062,401	9,862,029	10,487,755
Claims settled, gross amounts, in HRK thousand	4,411,555	4,588,383	4,723,352	5,106,300	5,553,116	5,976,279

Gross written premium by insurance classes

Code	Insurance class	2018 (in HRK thousand)	Share (%)	2019 (in HRK thousand)	Share (%)	Change (%)
01	Personal accident insurance	483,664	5	499,145	5	3
02	Health insurance	519,962	5	605,981	6	17
03	Insurance of land motor vehicles	1,049,308	11	1,244,009	12	19
04	Insurance of railway rolling stock	6,959	0	1,938	0	–22
05	Insurance of aircraft	9,585	0	9,507	0	–1
06	Insurance of vessels	148,726	2	158,864	2	7
07	Insurance of goods in transit	31,769	0	33,190	0	4
08	Insurance against fire and natural disasters	652,014	7	683,373	7	5
09	Other property insurance lines	691,651	7	768,496	7	11
10	Motor vehicle liability insurance	2,178,911	22	2,260,025	22	4
11	Aircraft liability insurance	4,857	0	4,003	0	–18
12	Insurance against liability arising out of the use of vessels	39,139	0	37,966	0	–3
13	Other liability insurance lines	413,749	4	468,759	4	13
14	Credit insurance	260,347	3	383,123	4	47
15	Suretyship insurance	9,255	0	11,536	0	25
16	Insurance against miscellaneous financial losses	125,918	1	140,059	1	11
17	Legal expenses insurance	5,425	0	5,096	0	–6
18	Travel insurance	96,599	1	106,251	1	10
19	Life insurance	2,532,510	26	2,498,094	24	–1

Code	Insurance class	2018 (in HRK thousand)	Share (%)	2019 (in HRK thousand)	Share (%)	Change (%)
20	Annuity insurance	16,443	0	11,653	0	-29
21	Supplementary insurance linked with life insurance	132,035	1	130,507	1	-1
22	Marriage and birth insurance	4,688	0	4,281	0	-9
23	Life or annuity insurance where the investment risk is borne by the policyholder	448,516	5	421,898	4	-6
24	Tontines	-	-	-	-	-
25	Insurance with paid-up sum assured	-	-	-	-	-
Total non-life insurance (classes 01 – 18)		6,727,838	68	7,421,322	71	10
Total life insurance (classes 19 – 25)		3,134,191	32	3,066,433	29	-2
Total (classes 01 – 25)		9,862,029	100	10,487,755	100	6

Note: Data in the Table include the premium of CN POOL

Leasing companies

Leasing companies	31 December 2014	31 December 2015	31 December 2016	31 December 2017	31 December 2018	31 December 2019
Number of leasing companies	23	21	19	17	16	14
Assets of leasing companies <i>in HRK thousand</i>	17,863,501	17,626,251	17,904,585	18,149,656	19,526,659	21,320,617

Number of newly concluded contracts (from 1 January to)						
Operating lease	17,308	17,798	19,428	22,388	20,483	14,853
Finance lease	17,501	18,565	25,256	30,696	41,223	50,600
TOTAL	34,809	36,363	44,684	53,084	61,706	65,453

Value of newly concluded contracts <i>in HRK thousand</i> (from 1 January to)						
Operating lease	1,868,046	1,504,247	1,744,661	1,595,112	1,493,608	1,640,408
Finance lease	3,375,383	3,625,340	4,763,030	5,717,928	7,320,667	8,543,535
TOTAL	5,243,429	5,129,588	6,507,691	7,313,041	8,814,275	10,183,942

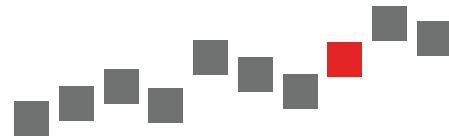
Number of active contracts						
Operating lease	50,736	50,998	46,979	44,486	43,426	43,399
Finance lease	58,126	60,112	65,466	76,057	90,457	106,438
Loans	1,789	1,210	755	238	205	25
TOTAL	110,651	112,320	113,200	120,781	134,088	149,862

Value of active contracts <i>in HRK thousand</i>						
Operating lease	3,757,482	3,356,963	3,201,019	2,928,944	2,523,613	2,616,111
Finance lease	10,419,586	10,308,096	10,803,204	10,949,997	12,425,489	14,438,107
Loans	121,359	75,793	43,018	23,842	15,263	562
TOTAL	14,298,426	13,740,852	14,047,241	13,902,783	14,964,365	17,054,781

Factoring companies

Factoring companies	31 December 2014	31 December 2015	31 December 2016	31 December 2017	31 December 2018	31 December 2019
Number of factoring companies	16	13	13	6	7	6
Assets of factoring companies <i>in HRK thousand</i>	7,827,862	6,587,220	5,900,059	2,352,743	1,397,891	1,363,017
<i>Transaction volume in HRK thousand (from 1 January to)</i>						
Factoring				2,394,857	1,721,668	1,869,816
Factoring including discounting of bills of exchange				1,914,769	500,620	213,476
Reverse factoring				1,036,558	1,004,048	1,029,198
Total				5,346,184	3,226,337	3,112,490
<i>Receivables (in HRK thousand)</i>						
Factoring				720,577	394,346	452,151
Factoring including discounting of bills of exchange				1,383,402	258,730	62,972
Reverse factoring				414,747	388,689	369,925
Total				2,518,726	1,041,765	885,048

Note: In 2017, new forms and reporting methods for factoring companies were prescribed. Therefore, the data in the 2017 reports are not completely comparable to the previous reports (until 2016).



Appendices



12 Appendices

Appendix 1: List of ordinances adopted in 2019

Ordinances adopted under the Act on Hanfa

1. Ordinance amending the Ordinance on the calculation, level and charging of fees paid to the Croatian Financial Services Supervisory Agency for the year 2019 (Official Gazette, No 18/2019)
2. Ordinance on the calculation, level and charging of fees paid to the Croatian Financial Services Supervisory Agency for the year 2020 (Official Gazette, No 2/2020)
3. Ordinance on the type and amount of fees paid to the Croatian Financial Services Supervisory Agency (Official Gazette, No 26/19)

Ordinances adopted under the Mandatory Pension Funds Act

1. Ordinance on costs that may be paid from assets of a mandatory pension fund and on the manner and content of calculation of total costs indicator of a mandatory pension fund (Official Gazette, No 9/19)
2. Ordinance amending the Ordinance on determining the net asset value and the value of accounting units of mandatory pension funds (Official Gazette, No 2/2020)
3. Ordinance on annual, quarterly and other reports of mandatory pension funds (Official Gazette, No 2/2020)
4. Ordinance on permitted investments and additional investment limitations relating to mandatory pension funds (Official Gazette, No 2/2020)
5. Ordinance amending the Ordinance on organisational requirements for pension companies managing mandatory pension funds (Official Gazette, No 2/2020)
6. Ordinance on marketing, informative prospectus and other information for members of mandatory pension funds (Official Gazette, No 2/2020)
7. Ordinance amending the Ordinance on the treatment of mandatory pension funds' members by the Central Register of Insured Persons and pension companies (Official Gazette, No 56/19)
8. Ordinance amending the Ordinance on the treatment of mandatory pension funds' members by the Central Register of Insured Persons and pension companies (Official Gazette, No 91/2019)
9. Ordinance amending the Ordinance on the conditions for performing the function a member of the management and supervisory board of a mandatory pension company (Official Gazette, No 112/2019)
10. Ordinance on the approval of the establishment and statute of a mandatory pension fund (Official Gazette, No 2/2020)
11. Ordinance on the professional training and examinations for certified managers of pension funds and managers of pension insurance companies (Official Gazette, No 99/2019)

Ordinances adopted under the Voluntary Pension Funds Act

1. Ordinance amending the Ordinance on determining the net asset value and the price of units of a voluntary pension fund (Official Gazette, No 2/2020)

2. Ordinance amending the Ordinance on permitted investments and additional investment limitations relating to voluntary pension funds (Official Gazette, No 2/2020)
3. Ordinance on organisational requirements for pension companies managing voluntary pension funds (Official Gazette, No 2/2020)
4. Ordinance amending the Ordinance on requirements for offering pension schemes within the voluntary pension insurance based on individual capitalised savings (Official Gazette, No 2/2020)
5. Ordinance on requirements to be met in order to be entitled to receive retirement benefits arising from voluntary pension insurance, on register of members, and on cancellation of payments into and out of voluntary pension funds (Official Gazette, No 2/2020)
6. Ordinance amending the Ordinance on the capital and technical provisions of pension companies managing voluntary pension funds (Official Gazette, No 112/2019)
7. Ordinance amending the Ordinance on the conditions for performing the function a member of the management and supervisory board of a voluntary pension company (Official Gazette, No 112/2019)
8. Ordinance on the professional training and examinations for certified managers of pension funds and managers of pension insurance companies (Official Gazette, No 99/2019)
9. Ordinance on costs that may be paid from assets of a voluntary pension fund and on the manner and content of calculation of total costs indicator of a voluntary pension fund (Official Gazette, No 124/2019)

Ordinances adopted under the Capital Market Act

1. Ordinance on supervisory reports for legal persons authorised to provide investment services and perform investment activities, market intermediaries, investment firm branches from another Member State and a third country (Official Gazette, No 39/2019)
2. Ordinance on the criteria for meeting the conditions for being appointed a tied agent and on the register of tied agents (Official Gazette, No 25/2019)
3. Ordinance on the professional training and examinations taken in order to acquire qualifications to provide information on investment products and services, carry out brokerage activities and provide investment advice services (Official Gazette, No 99/2019)
4. Ordinance on the manner of obtaining data, content of reports and deadlines for the submission of data from the central depository (Official Gazette, No 107/19)
5. Ordinance on the remuneration policy of the Central Depository and Clearing Company (Official Gazette, No 18/19)
6. Ordinance on the content of the application and accompanying documents for granting work authorisation to the Central Depository and Clearing Company (Official Gazette, No 18/19)
7. Ordinance on the structure and contents of annual financial statements of the Central Depository and Clearing Company (Official Gazette, No 18/19)
8. Ordinance on the requirements for membership in the management board of the Central Depository and Clearing Company and the procedure for granting approval for the position of a member of the management board of the Central Depository and Clearing Company (Official Gazette, No 26/19)
9. Ordinance on the list of documents needed for the assessment of a request for approval for the acquisition of a qualifying holding in the Central Depository and Clearing Company (Official Gazette, No 26/19)
10. Ordinance on the structure, content, manner and time limits for the submission of annual financial statements, audit report, interim financial reports and the application of the chart of accounts for a central securities depository (Official Gazette, No 91/2019)

11. Ordinance on periodic, statistical and capital reporting by the central securities depository and reporting by the central securities depository of another Member State (Official Gazette, No 91/2019)
12. Ordinance on the structure and contents of annual financial statements of the stock exchange (Official Gazette, No 25/2019)
13. Ordinance on Hanfa's conduct in relation to fees for regulated market services (Official Gazette, No 25/2019)
14. Ordinance on regular contributions of members, manner of funds' disposal and financial statements of the Investor Protection Scheme (Official Gazette, No 66/2019)
15. Ordinance on determining the occurrence of a covered risk in the investor protection scheme in the capital market (Official Gazette, No 66/2019)
16. Ordinance on the recovery plan, significance criteria and trend indicators indicating the inability to meet the conditions for the operation and outsourcing of significant activities and processes of the central counterparty on a continuous basis (Official Gazette, No 77/2019)
17. Ordinance on the content, format and manner of submission of requests for granting work authorisation to a central counterparty (Official Gazette, No 77/2019)
18. Ordinance on the structure, content, manner and time limits for the submission of annual financial statements and audit report and the application of the chart of accounts for central counterparties (Official Gazette, No 77/2019)
19. Ordinance on supervisory reports of the central counterparty (Official Gazette, No 82/2019)
20. Ordinance on reporting breaches or suspected breaches of the provisions of the Capital Market Act, Regulation (EU) No 600/2014, Regulation (EU) No 596/2014 and Regulation (EU) No 909/2014 (Official Gazette, No 124/2019)
21. Ordinance on reporting on the exceptions from the application of position limits in commodity derivatives and on reporting on positions in commodity derivatives (Official Gazette, No 5/2020)

Ordinances adopted under the Act on Open-Ended Investment Funds with Public Offering

1. Ordinance on compensating investors in UCITS and/or compensating UCITS (Official Gazette, No 16/19)
2. Ordinance amending the Ordinance on determining the net asset value of UCITS and the price of UCITS units (Official Gazette, No 124/2019)
3. Ordinance amending the Ordinance on determining the net asset value of UCITS and the price of UCITS units (Official Gazette, No 2/2020)

Ordinances adopted under the Alternative Investment Funds Act

1. Ordinance on compensating investors in AIF and/or compensating AIF (Official Gazette, No 16/19)
2. Ordinance amending the Ordinance on determining the net asset value of AIF and the price of AIF units (Official Gazette, No 124/2019)
3. Ordinance amending the Ordinance on determining the net asset value of AIF and the price of AIF units (Official Gazette, No 2/2020)
4. Ordinance on the structure and contents of annual and semi-annual reports and other reports of alternative investment funds (Official Gazette, No 16/19)
5. Ordinance amending the Ordinance on the structure and contents of annual and semi-annual reports and other reports of alternative investment funds (Official Gazette, No 82/2019)
6. Ordinance on the structure and contents of annual and semi-annual financial statements and other reports of AIFMs (Official Gazette, No 13/19)

7. Ordinance on the form and amount of regulatory capital of AIF management companies (Official Gazette, No 13/19)
8. Ordinance on issuing authorisation for the operation of an AIFM and on documents accompanying the notification on the acquisition of a qualifying holding in an AIFM (Official Gazette, No 20/2019)
9. Ordinance on liquidation and extension of AIFs (Official Gazette, No 26/2019)
10. Ordinance on master and feeder alternative investment funds (Official Gazette, No 25/2019)
11. Ordinance on units in AIFs (Official Gazette, No 26/19)
12. Ordinance on exercising depositary functions with respect to AIFs (Official Gazette, No 25/2019)
13. Ordinance on the delegation of AIF management operations (Official Gazette, No 26/2019)
14. Ordinance on additional organisational requirements of alternative investment fund management companies (Official Gazette, No 25/2019)
15. Ordinance on requirements for membership in the management and supervisory board of an AIFM and for membership in the supervisory board of a closed-ended AIF with external manager (Official Gazette, No 20/2019)
16. Ordinance on status changes of AIFs without legal personality and on requirements for changing the distinctiveness and form of AIFs (Official Gazette, No 20/2019)
17. Ordinance on contents and method of keeping the register of AIFMs and AIFs (Official Gazette, No 20/2019)
18. Ordinance on issuing authorisations for the establishment and operation of AIFs (Official Gazette, No 20/2019)
19. Ordinance on types of alternative investment funds (Official Gazette, No 28/2019)
20. Ordinance on the content of the request for approval for status changes of and AIFM, the documents required and the content of accompanying documents (Official Gazette, No 25/2019)
21. Ordinance on costs and charges that may be paid from the assets of an AIF (Official Gazette, No 26/2019)
22. Ordinance amending the Ordinance on costs and charges that may be paid from the assets of an AIF (Official Gazette, No 82/2019)

Ordinances adopted under the Insurance Act

1. Ordinance amending the Ordinance on the audit in insurance companies (Official Gazette, No 60/2019)
2. Ordinance amending the Ordinance on the structure and contents of financial statements and additional reports of insurance companies and/or reinsurance companies (Official Gazette, No 50/2019)
3. Ordinance amending the Ordinance on the structure and content of financial and statistical reports of insurance agencies and/or insurance and reinsurance brokerage companies (Official Gazette, No 28/2019)
4. Ordinance amending the Ordinance on the classification of risk types by groups and classes of insurance or reinsurance (Official Gazette, No 42/19)
5. Ordinance amending the Ordinance on insurance statistical standards (Official Gazette, No 60/2019)
6. Ordinance on reporting on material changes and reporting at request of the Croatian Financial Services Supervisory Agency (Official Gazette, No 66/2019)
7. Ordinance on minimum standards, manner of calculating and criteria for calculating technical provisions in accordance with accounting regulations (Official Gazette, No 72/19)

8. Ordinance on the requirements for performing the function of a member of the management board and a member of the supervisory board of an insurance and/or reinsurance company, authorised officer of an insurance and/or reinsurance company and an authorised representative of a branch of an insurance and/or reinsurance company (Official Gazette, No 72/19)
9. Ordinance on the conditions for performing a key function in an insurance company / reinsurance company (Official Gazette, No 68/19)
10. Ordinance on requirements for issuing authorisations to acquire a qualifying holding in insurance companies or reinsurance companies (Official Gazette, No 68/19)
11. Ordinance on the professional knowledge and competence requirements for insurance distributors and reinsurance distributors and their entry in the register (Official Gazette, No 16/19)

Ordinances adopted under the Act on Pension Insurance Companies

1. Ordinance amending the Ordinance on emergency reserves of the pension insurance company (Official Gazette, No 116/2019)
2. Ordinance amending the Ordinance on valuation of assets of the pension insurance company (Official Gazette, No 2/2020)
3. Ordinance on organisational requirements for pension insurance companies (Official Gazette, No 2/2020)
4. Ordinance on audit in pension insurance companies (Official Gazette, No 116/2019)
5. Ordinance on permitted investments and investment limits relating to assets covering technical provisions of the pension insurance company (Official Gazette, No 2/2020)
6. Ordinance on pension insurance companies' pension scheme offer (Official Gazette, No 2/2020)
7. Ordinance on marketing activities and website of the pension insurance company (Official Gazette, No 2/2020)
8. Ordinance on the requirements for issuing work authorisation and for acquisition of a qualifying holding in a pension insurance company (Official Gazette, No 121/2019)
9. Ordinance on the requirements for performing the function of a member of management and supervisory boards of pension insurance companies (Official Gazette, No 121/2019)
10. Ordinance on the partial lump sum payment to beneficiaries of old-age and early basic pension (Official Gazette, No 9/19)
11. Ordinance on the allocation of mandatory pension fund members to a pension insurance company (Official Gazette, No 35/19)
12. Ordinance on the professional training and examinations for certified managers of pension funds and managers of pension insurance companies (Official Gazette, No 99/2019)
13. Ordinance on regular reports of pension insurance companies (Official Gazette, No 99/2019)
14. Ordinance amending the Ordinance on capital adequacy of the pension insurance company (Official Gazette, No 116/2019)
15. Ordinance on the calculation basis and manner of charging the asset management fee (Official Gazette, No 116/2019)
16. Ordinance on the conditions for performing a key function in a pension insurance company (Official Gazette, No 121/2019)
17. Ordinance on organisational requirements and documentation for the outsourcing of functions and activities of a pension insurance company (Official Gazette, No 2/2020)

Appendix 2: Hanfa's financial reports

Hanfa's balance sheet as at 31/12/2019 (in HRK)

Account from the Chart of Accounts	ITEM	ADP	As at 1 January	As at 31 December	Index (5/4)
1	2	3	4	5	6
ASSETS					
	ASSETS (ADP 002+074)	001	33,389,536	34,740,276	104.0
0	Non-financial assets (ADP 003+018+047+051+055+064)	002	9,796,455	8,168,646	83.4
01	Non-produced fixed assets (ADP 004+008-017)	003	1,449,570	777,235	53.6
011	Tangible assets - natural resources (ADP 005 to 007)	004	0	0	–
0111	Land	005	0	0	–
0112	Mineral resources	006	0	0	–
0113	Other tangible assets (natural resources)	007	0	0	–
012	Intangible assets (ADP 009 to 016)	008	3,316,736	3,711,659	111.9
0121	Patents	009	0	0	–
0122	Concessions	010	0	0	–
0123	Licences	011	2,227,756	2,575,990	115.6
0124	Other rights	012	1,088,980	1,135,669	104.3
0125	Goodwill	013	0	0	–
0126	Formation expenses	014	0	0	–
0127	Research and development	015	0	0	–
0128	Other intangible assets	016	0	0	–
019	Value adjustment for non-produced fixed assets	017	1,867,166	2,934,424	157.2
02	Produced fixed assets (ADP 019 019+023+031+034+039+042- 046)	018	7,444,205	7,286,602	97.9
021	Buildings (ADP 020 to 022)	019	3,564,810	3,564,810	100.0
0211	Houses	020	0	–	–
0212	Commercial buildings	021	3,450,670	3,450,670	100.0
0213	Other buildings	022	114,140	114,140	100.0
022	Plant and equipment	023	8,546,366	9,553,525	111.8
0221	Office equipment and furniture	024	7,603,805	8,493,022	111.7
0222	Telecommunications equipment	025	228,188	322,073	141.1
0223	Maintenance and security equipment	026	576,963	582,935	101.0
0224	Medical and laboratory equipment	027	0	0	–
0225	Instruments and machines	028	30,123	30,123	100.0
0226	Sports and musical equipment	029	0	0	–
0227	Machines and equipment for other purposes	030	107,287	125,372	116.9
023	Means of transportation (ADP 032+033)	031	1,054,324	684,267	64.9
0231	Means of road transportation	032	1,054,324	684,267	64.9
0232	Other means of transportation	033	0	0	–
024	Books, artwork and other exhibits (ADP 035 to 038)	034	158,301	152,751	96.5
0241	Library books	035	0	0	–
0242	Work of arts (in galleries, museums etc.)	036	158,301	152,751	96.5

Account from the Chart of Accounts	ITEM	ADP	As at 1 January	As at 31 December	Index (5/4)
1	2	3	4	5	6
0243	Museum exhibits and objects of natural rarities	037	0	0	–
0244	Other exhibits	038	0	0	–
025	Growing crops and live stock (ADP 040+041)	039	0	0	–
0251	Growing crops	040	0	0	–
0252	Live stock	041	0	0	–
026	Intangible produced assets (ADP 043 to 045)	042	4,234,616	4,538,956	107.2
0261	Software investments	043	4,234,616	4,538,956	107.2
0262	Works of art, literary and scientific works	044	0	0	–
0263	Other intangible produced assets	045	0	0	–
029	Value adjustment for produced fixed assets	046	10,114,212	11,207,707	110.8
03	Precious metals and other valuables (ADP 048)	047	0	0	–
031	Precious metals and other valuables (ADP 049+050)	048	0	0	–
0311	Precious metals and precious stones	049	0	0	–
0312	Archived books, works of art and similar valuables	050	0	0	–
04	Small inventory (ADP 052+053-054)	051	0	0	–
041	Small inventory on stock	052	0	0	–
042	Small inventory in use	053	245,948	402,629	163.7
049	Value adjustment for small inventory	054	245,948	402,629	163.7
05	Non-financial assets - work in progress (ADP 056 to 059+062+063)	055	876,399	80,277	9.2
051	Buildings - work in progress	056	0	0	–
052	Plant and equipment - work in progress	057	876,399	80,277	9.2
053	Means of transportation - work in progress	058	0	0	–
054	Growing crops and livestock - work in progress (ADP 060+061)	059	0	0	–
0541	Growing crops - work in progress	060	0	0	–
0542	Live stock - work in progress	061	0	0	–
055	Other intangible produced assets - work in progress	062	0	0	–
056	Other intangible assets - work in progress	063	0	0	–
06	Produced current assets (ADP 065+070+073)	064	26,281	24,532	93.3
061	Inventories for the pursuit of activities (ADP 066 to 069)	065	26,281	24,532	93.3
0611	Inventories for redistribution	066	0	0	–
0612	Materials inventory for regular needs	067	26,281	24,532	93.3
0613	Spare parts inventory	068	0	0	–
0614	Materials inventory for special needs	069	0	0	–
062	Production and products	070	0	0	–
0621	Production in progress	071	0	0	–
0622	Finished goods	072	0	0	–
063	Goods for resale	073	0	0	–
1	Financial assets (ADP 075 +083+100+105+125+133+142)	074	23,593,081	26,571,630	112.6
11	Cash at bank and in hand	075	21,961,299	24,887,265	113.3
111	Cash at bank (ADP 077 to 079)	076	21,951,970	24,874,861	113.3
1111	Cash in the account with domestic commercial banks	077	21,951,970	24,874,861	113.3

Account from the Chart of Accounts	ITEM	ADP	As at 1 January	As at 31 December	Index (5/4)
1	2	3	4	5	6
1112	Cash in the account with foreign commercial banks	078	0	0	–
1113	Interim account	079	0	0	–
112	Cash reserved	080	0	0	–
113	Cash in hand	081	9,329	12,404	133.0
114	Securities in hand	082	0	0	–
12	Deposits, guarantee deposits, employee receivables and receivables for prepaid taxes, and other (ADP 084+087+088+089+095)	083	669,687	789,907	118.0
121	Deposits with banks and other financial institutions (ADP 085+086)	084	0	0	–
1211	Deposits with domestic banks and other financial institutions	085	0	0	–
1212	Deposits with foreign banks and other financial institutions	086	0	0	–
122	Guarantee deposits	087	603,502	603,502	100.0
123	Employee receivables	088	12,692	28,051	221.0
124	Receivables for prepaid taxes and contributions (ADP 090 to 094)	089	0	5,471	–
1241	Receivables for prepaid taxes	090	0	5,471	–
1242	Value-added tax receivables	091	0	0	–
1243	Receivables for prepaid duties and customs duties	092	0	0	–
1244	Receivables for prepaid other taxes	093	0	0	–
1245	Receivables for prepaid contributions	094	0	0	–
129	Other receivables (ADP 096 to 099)	095	53,493	152,883	285.8
1291	Receivables for refundable benefits	096	18,514	13,347	72.1
1292	Receivables for damages	097	0	0	–
1293	Receivables for advance payments	098	10,378	113,844	1,097.0
1294	Other receivables	099	24,601	25,692	104.4
13	Loans (ADP101+102+103-104)	100	0	0	–
131	Loans to citizens and households	101	0	0	–
132	Loans to legal entities engaged in entrepreneurial activity	102	0	0	–
133	Loans to other entities	103	0	0	–
139	Impairment of loan receivables	104	0	0	–
14	Securities (ADP 106 +109+112+115+118+121-124)	105	0	0	–
141	Cheques (ADP 107+108)	106	0	0	–
1411	Cheques – domestic	107	0	0	–
1412	Cheques – foreign	108	0	0	–
142	Commercial papers and treasury bills (ADP 110+111)	109	0	0	–
1421	Commercial papers and treasury bills – domestic	110	0	0	–
1422	Commercial papers and treasury bills – foreign	111	0	0	–
143	Bills of exchange (ADP 113+114)	112	0	0	–
1431	Bills of exchange – domestic	113	0	0	–
1432	Bills of exchange – foreign	114	0	0	–

Account from the Chart of Accounts	ITEM	ADP	As at 1 January	As at 31 December	Index (5/4)
1	2	3	4	5	6
144	Bonds (ADP 116+117)	115	0	0	–
1441	Bonds – domestic	116	0	0	–
1442	Bonds – foreign	117	0	0	–
145	Options and other financial derivatives (ADP 119+120)	118	0	0	–
1451	Options and other financial derivatives – domestic	119	0	0	–
1452	Options and other financial derivatives – foreign	120	0	0	–
146	Other securities (ADP 122+123)	121	0	0	–
1461	Other domestic securities	122	0	0	–
1462	Other foreign securities	123	0	0	–
149	Value adjustment of securities	124	0	0	–
15	Shares and participations in equity (ADP 126+129-132)	125	0	0	–
151	Shares and participations in equity of banks and other financial institutions (ADP 127+128)	126	0	0	–
1511	Shares and participations in equity of domestic banks and other financial institutions	127	0	0	–
1512	Shares and participations in equity of foreign banks and other financial institutions	128	0	0	–
152	Shares and participations in equity of companies (ADP 130+131)	129	0	0	–
1521	Shares and participations in equity of domestic companies	130	0	0	–
1522	Shares and participations in equity of foreign companies	131	0	0	–
159	Value adjustment of shares and participations in equity	132	0	0	–
16	Income receivables (ADP 134 to 137+140-141)	133	0	0	–
161	Customer receivables	134	0	0	–
162	Receivables for membership fees and membership contributions	135	0	0	–
163	Receivables for income under special regulations	136	0	0	–
164	Receivables for income from assets (ADP 138+139)	137	0	0	–
1641	Receivables for income from financial assets	138	0	0	–
1642	Receivables for income from non-financial assets	139	0	0	–
165	Other receivables	140	0	0	–
169	Value adjustment for receivables	141	0	0	–
19	Prepayments and accrued income (ADP 143+144)	142	962,095	894,458	93.0
191	Prepayments	143	959,995	894,458	93.2
192	Accrued income	144	2,100	0	0.0
LIABILITIES AND OWN SOURCES					
	Liabilities and own sources (ADP 146+195)	145	33,389,536	34,740,276	104.0
2	Liabilities (ADP 147+174+182+190)	146	8,701,699	8,337,477	95.8
24	Liabilities for expenditures (ADP 148+156+164+168+169+170)	147	7,635,735	7,075,980	92.7
241	Liabilities for employees (ADP 149 to 155)	148	4,966,477	4,910,483	98.9
2411	Liabilities for salaries - net	149	1,536,763	1,756,066	114.3
2412	Liabilities for salary compensations - net	150	192,785	204,713	106.2

Account from the Chart of Accounts	ITEM	ADP	As at 1 January	As at 31 December	Index (5/4)
1	2	3	4	5	6
2413	Liabilities for salaries in kind – net	151	0	0	–
2414	Liabilities for tax and surtax on salaries	152	351,009	419,709	119.6
2415	Liabilities for contributions from salaries	153	527,657	593,429	112.5
2416	Liabilities for contributions on salaries	154	415,122	447,410	107.8
2417	Other liabilities for employees	155	1,943,141	1,489,156	76.6
242	Liabilities for material expenses (ADP 157 to 163)	156	2,580,558	1,942,723	75.3
2421	Costs for employees	157	73,197	77,492	105.9
2422	Remuneration for members of representative and executive bodies, committees etc.	158	0	0	–
2423	Remuneration for volunteers	159	0	0	–
2424	Costs for external staff	160	0	0	–
2425	Liabilities towards domestic suppliers	161	2,010,292	1,239,894	61.7
2426	Liabilities towards foreign suppliers	162	497,069	583,548	117.4
2429	Other liabilities for financing operating expenses	163	0	41,789	–
244	Liabilities for financial expenses (ADP 165 to 167)	164	0	0	–
2441	Liabilities for interest on issued securities	165	0	0	–
2442	Liabilities for interest on credits and loans received	166	0	0	–
2443	Liabilities for other financial expenses	167	0	0	–
245	Liabilities for financial aid funds collected	168	0	0	–
246	Liabilities for penalties and damages	169	0	0	–
249	Other liabilities (ADP 171 to 173)	170	88,700	222,774	251.2
2491	Liabilities for taxes	171	0	0	–
2492	Liabilities for value-added tax	172	9,069	119,274	1,315.2
2493	Liabilities for prepayments, deposits, caution money received and other liabilities	173	79,631	103,500	130.0
25	Liabilities for securities (ADP 175+178-181)	174	0	0	–
251	Liabilities for cheques (ADP 176+177)	175	0	0	–
2511	Liabilities for cheques – domestic	176	0	0	–
2512	Liabilities for cheques – foreign	177	0	0	–
252	Liabilities for bills of exchange (ADP 179+180)	178	0	0	–
2521	Liabilities for bills of exchange – domestic	179	0	0	–
2522	Liabilities for bills of exchange – foreign	180	0	0	–
259	Value adjustment of liabilities for securities	181	0	0	–
26	Liabilities for credits and loans (ADP 183+186-189)	182	0	0	–
261	Liabilities for bank credits and credits from other creditors (ADP 184+185)	183	0	0	–
2611	Liabilities for domestic credits	184	0	0	–
2612	Liabilities for foreign credits	185	0	0	–
262	Liabilities for commodity and other loans (ADP 187+188)	186	0	0	–
2621	Liabilities for domestic loans	187	0	0	–
2622	Liabilities for foreign loans	188	0	0	–
269	Value adjustment for liabilities for credits and loans	189	0	0	–

Account from the Chart of Accounts	ITEM	ADP	As at 1 January	As at 31 December	Index (5/4)
1	2	3	4	5	6
29	Accrued expenses and deferred income	190	1,065,964	1,261,497	118.3
291	Accrued expenses	191	202,962	286,155	141.0
292	Deferred income (ADP 193+194)	192	863,002	975,342	113.0
2921	Accrued income	193	327,070	693,925	212.2
2922	Deferred income	194	535,932	281,417	52.5
5	Own sources (ADP 196+199-200)	195	24,687,837	26,402,799	106.9
51	Own sources (ADP 197+198)	196	2,366,359	2,317,519	97.9
511	Own sources	197	2,366,359	2,317,519	97.9
512	Revaluation reserves	198	0	0	–
5221	Excess of income	199	22,321,478	24,085,280	107.9
5222	Lack of income	200	0	0	–
Off-balance sheet items					
61	Off-balance sheet items – assets	201	0		–
62	Off-balance sheet items – liabilities	202	0	0	–

Statement of Hanfa's income and expenditure for the period from 1 January to 31 December 2019 (in HRK)

Account from the Chart of Accounts	ITEM	ADP	Realised in the previous year	Realised in the reporting period	Index (5/4)
1	2	3	4	5	6
INCOME					
3	Income (ADP 002 +005+008+011+024+040+049)	001	63,584,762	75,687,331	119.0
31	Income from the sale of goods and provision of services	002	0	0	–
3111	Income from the sale of goods	003	0	0	–
3112	Income from the provision of services	004	0	0	–
32	Income from membership fees and membership contributions	005	0	0	–
3211	Membership fees	006	0	0	–
3212	Membership contributions	007	0	0	–
33	Income under special regulations (ADP 009+010)	008	62,760,430	74,147,105	118.1
3311	Income under special regulations from the state budget	009	0	0	–
3312	Income under special regulations from other sources	010	62,760,430	74,147,105	118.1
34	Income from assets (ADP 012+021)	011	60,870	4,239	7.0
341	Income from financial assets (ADP 013 to 020)	012	60,870	4,239	7.0
3411	Interest income from loans granted	013	0	0	–
3412	Income from interest on securities	014	0	0	–
3413	Interest on time deposits and demand deposits	015	54,703	178	0.3
3414	Income from default interest	016	1,504	0	0.0

Account from the Chart of Accounts	ITEM	ADP	Realised in the previous year	Realised in the reporting period	Index (5/4)
1	2	3	4	5	6
3415	Income from positive exchange rate differences	017	4,663	4,061	87.1
3416	Dividend income	018	0	0	–
3417	Income from profits of companies, banks and other financial institutions under special regulations	019	0	0	–
3418	Other income from financial assets	020	0	0	–
342	Income from non-financial assets (ADP 022+023)	021	0	0	–
3421	Income from leases and rents	022	0	0	–
3422	Other income from non-financial assets	023	0	0	–
35	Income from donations (ADP 025+030+033+036+037)	024	255,725	255,942	100.1
351	Income from donations from the budget (ADP 026 to 029)	025	255,725	255,725	100.0
3511	Income from donations from the state budget	026	255,725	255,725	100.0
3512	Income from donations from bodies of local and regional self-government	027	0	0	–
3513	Income from donations from the state budget for EU projects	028	0	0	–
3514	Income from donations from bodies of local and regional self-government for EU projects	029	0	0	–
352	Income from foreign governments and international organisations (ADP 031+032)	030	0	0	–
3521	Income from foreign governments and international organisations	031	0	0	–
3522	Income from EU institutions and bodies	032	0	0	–
353	Income from companies and other legal persons (ADP 034+035)	033	0	217	–
3531	Income from companies and other legal persons	034	0	217	–
3532	Income from companies and other legal persons for EU projects	035	0	0	–
354	Income from citizens and households	036	0	0	–
355	Other income from donations (ADP 038+039)	037	0	0	–
3551	Other income from donations	038	0	0	–
3552	Other income from donations for EU projects	039	0	0	–
36	Other income (ADP 041+044+045)	040	507,737	1,280,045	252.1
361	Income from damages and refunds (ADP 042+043)	041	397,922	611,782	153.7
3611	Income from damages	042	10,727	16,894	157.5
3612	Income from refunds	043	387,195	594,888	153.6
362	Income from the sale of fixed assets	044	0	198,000	–
363	Other income (ADP 046 to 048)	045	109,815	470,263	428.2
3631	Liability write-off	046	0	0	–
3632	Receivables written off	047	0	0	–
3633	Other income	048	109,815	470,263	428.2
37	Income from related non-profit organisations (ADP 050 to 053)	049	0	0	–
3711	Current income from related non-profit organisations	050	0	0	–

Account from the Chart of Accounts	ITEM	ADP	Realised in the previous year	Realised in the reporting period	Index (5/4)
1	2	3	4	5	6
3712	Capital income from related non-profit organisations	051	0	0	–
3713	Current income from related non-profit organisations for EU projects	052	0	0	–
3714	Capital income from related non-profit organisations for EU projects	053	0	0	–
EXPENDITURE					
4	EXPENSES (ADP 055 +067+108+109+120+128+139)	054	58,659,966	68,998,733	117.6
41	Employee expenses (ADP 056+061+062)	055	37,741,886	42,410,947	112.4
411	Salaries (ADP 057 to 060)	056	27,981,215	32,176,194	115.0
4111	Salaries for regular work	057	27,797,163	31,536,197	113.5
4112	Salaries in kind	058	184,052	570,795	310.1
4113	Salaries for overtime work	059	0	69,202	–
4114	Salaries for extraordinary working conditions	060	0	0	–
412	Other employee expenses	061	5,258,781	5,067,342	96.4
413	Contributions on salaries (ADP 063 to 066)	062	4,501,890	5,167,411	114.8
4131	Contributions for health insurance	063	4,057,473	5,167,411	127.4
4132	Employment contributions	064	444,417	0	0.0
4133	Pension insurance contributions paid by the employer	065	0	0	–
4134	Special contributions for stimulating employment of people with disabilities	066	0	0	–
42	Material expenses (ADP 068+072+077+082+087+097+102)	067	18,249,908	22,159,101	121.4
421	Employees' costs (ADP 069 to 071)	068	2,422,351	3,885,046	160.4
4211	Business trips	069	973,371	2,209,515	227.0
4212	Travel, field and separate maintenance allowance	070	804,712	927,916	115.3
4213	Employees' professional training	071	644,268	747,615	116.0
422	Remuneration for members of representative and executive bodies, committees etc. (ADP 073 to 076)	072	73,087	79,753	109.1
4221	Remuneration for regular activities	073	73,087	79,753	109.1
4222	Business travel costs	074	0	0	–
4223	Other costs	075	0	0	–
4224	Other remuneration	076	0	0	–
423	Remuneration to volunteers (ADP 078 to 081)	077	0	0	–
4231	Remuneration for regular operations	078	0	0	–
4232	Business travel costs	079	0	0	–
4233	Other costs	080	0	0	–
4234	Other remuneration	081	0	0	–
424	Remuneration to external staff (ADP 083 to 086)	082	10,642	0	0.0
4241	Remuneration for regular activities	083	0	0	–
4242	Business travel costs	084	10,642	0	0.0
4243	Other costs	085	0	0	–
4244	Other remuneration	086	0	0	–

Account from the Chart of Accounts	ITEM	ADP	Realised in the previous year	Realised in the reporting period	Index (5/4)
1	2	3	4	5	6
425	Expenses for services (ADP 088 to 096)	087	8,829,347	10,339,929	117.1
4251	Telephone, postal and transport services	088	513,723	306,591	59.7
4252	Daily and investment maintenance services	089	2,344,762	1,619,338	69.1
4253	Promotional and information services	090	85,563	226,305	264.5
4254	Public utility services	091	785,362	1,472,910	187.5
4255	Leases and rents	092	2,349,333	3,049,479	129.8
4256	Health care and veterinary services	093	17,810	172,983	971.3
4257	Intellectual and personal services	094	1,079,293	1,712,892	158.7
4258	IT services	095	417,218	414,882	99.4
4259	Other services	096	1,236,283	1,364,549	110.4
426	Expenses for material and energy (ADP 098 to 101)	097	1,030,943	1,403,913	136.2
4261	Stationery and other material expenses	098	445,839	476,711	106.9
4262	Raw materials and consumables	099	0	0	–
4263	Energy	100	462,300	745,678	161.3
4264	Small inventory and car tires	101	122,804	181,524	147.8
429	Other material expenses (ADP 103 to 107)	102	5,883,538	6,450,460	109.6
4291	Insurance premiums	103	57,433	87,072	151.6
4292	Representation	104	285,655	464,020	162.4
4293	Membership fees	105	5,540,370	5,896,368	106.4
4294	Participation fees	106	0	3,000	–
4295	Other material expenditure	107	80	0	0.0
43	Depreciation expenditure	108	2,105,985	3,283,270	155.9
44	Financial expenses (ADP 110+111+115)	109	100,002	104,023	104.0
441	Interest on securities issued	110	0	0	–
442	Interest on credits and loans received (ADP 112 to 114)	111	0	0	–
4421	Interest on credits received from banks and other creditors	112	0	0	–
4422	Interest on received commodity and other loans	113	0	0	–
4423	Interest on approved, unconsumed credits and loans	114	0	0	–
443	Other financial expenses (ADP 116 to 119)	115	100,002	104,023	104.0
4431	Banking and payment system services	116	55,067	67,000	121.7
4432	Negative exchange rate differences and currency clause	117	43,471	36,893	84.9
4433	Default interest	118	12	130	1,083.3
4434	Other material expenditure	119	1,452	0	0.0
45	Donations (ADP 121+125)	120	0	73,750	–
451	Current donations (ADP 122 to 124)	121	0	73,750	–
4511	Current donations	122	0	37,000	–
4512	Scholarships	123	0	36,750	–
4513	Current donations from EU funds	124	0	0	–
452	Capital donations (ADP 126+127)	125	0	0	–
4521	Capital donations	126	0	0	–
4522	Capital donations from EU funds	127	0	0	–

Account from the Chart of Accounts	ITEM	ADP	Realised in the previous year	Realised in the reporting period	Index (5/4)
1	2	3	4	5	6
46	Other expenses (ADP 129+134)	128	462,185	967,642	209.4
461	Fines, penalties and indemnities (ADP 130 to 133)	129	0	0	–
4611	Compensation for financial losses given to legal and natural persons	130	0	0	–
4612	Penalties, storage charges and other	131	0	0	–
4613	Indemnities for employees	132	0	0	–
4614	Agreed fines and other compensations for damage	133	0	0	–
462	Other financial expenses (ADP 135 to 138)	134	462,185	967,642	209.4
4621	Net book value and other expenses for retired and disposed fixed assets	135	10,657	51,114	479.6
4622	Receivables written off	136	0	0	–
4623	Expenses for other tax levies	137	3,316	8,277	249.6
4624	Other expenses	138	448,212	908,251	202.6
47	Expenses for the funding of related non-profit organisations (ADP 140 to 143)	139	0	0	–
4711	Current expenses for the funding of related non-profit organisations	140	0	0	–
4712	Capital expenses for the funding of related non-profit organisations	141	0	0	–
4713	Current expenses for the funding of related non-profit organisations for EU projects	142	0	0	–
4714	Capital expenses for the funding of related non-profit organisations for EU projects	143	0	0	–
	Production and finished goods inventory at the beginning of the period	144	0	0	–
	Production and finished goods inventory at the end of the period	145	0	0	–
	Increase in production and finished goods inventory (ADP 145-144)	146	0	0	–
	Decrease in production and finished goods inventory (ADP 144-145)	147	0	0	–
	TOTAL EXPENSES (ADP 054-146 or 054+147)	148	58,659,966	68,998,733	117.6
	EXCESS OF INCOME (ADP 001-148)	149	4,924,796	6,688,598	135.8
	DEFICIENCY OF INCOME (ADP 148-001)	150	0	0	–
5221	Excess of income – transferred	151	17,396,682	17,396,682	100.0
5222	Deficiency of income – transferred	152	0	0	–
	Income tax liabilities	153	0	0	–
	Surplus income available in the following period (ADP 149+151-150-152-153)	154	22,321,478	24,085,280	107.9
	Deficit of income for the coverage in the following period (ADP 150+152-149-151+153)	155	0	0	–
Additional data					
11	Cash at the beginning of the year	156	7,501,765	21,961,298	292.7
11-payables	Total inflows of cash at bank and in hand	157	117,375,955	95,869,553	81.7
11-receivables	Total outflows of cash at bank and in hand	158	102,916,422	92,943,586	90.3

Account from the Chart of Accounts	ITEM	ADP	Realised in the previous year	Realised in the reporting period	Index (5/4)
1	2	3	4	5	6
11	Cash at the end of the period (ADP 156+157-158)	159	21,961,298	24,887,265	113.3
	Average number of employees at the end of the reporting period (whole number)	160	171	182	106.4
	Average number of employees' working hours (whole number)	161	153	169	110.5
	Number of volunteers	162	0	0	–
	Number of volunteered hours	163	0	0	–
Value of realised investments in new fixed assets		ADP	Realised value		Index (5/4)
			in the same period last year	in the reporting period	
051	Buildings - work in progress	164	0	0	–
052	Plant and equipment - work in progress	165	876,399	80,277	9.2
053	Means of transportation - work in progress	166	0	0	–
054	Growing crops and livestock - work in progress (ADP)	167	0	0	–
055	Other intangible produced assets - work in progress	168	0	0	–
056	Other intangible assets - work in progress	169	0	0	–
Item		ADP	A sat 1 January	At the end of the reporting period	Index (5/4)
	Inventories	170	26,281	24,532	93.3
	Control sum (ADP 160 to 170)	171	903,004	105,160	11.6