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CROATIAN FINANCIAL SERVICES
SUPERVISORY AGENCY

HANFA

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Contents

Introduction

In 2017, the Croatian Financial Services Supervisory Agency (hereinafter: Hanfa) performed its regular activities in accordance with its statutory powers (on-site and off-site examinations of supervised entities, licensing procedures, adoption of subordinate regulations, cooperation with other domestic and foreign authorities, and other activities as defined by law). Similarly to several previous years, 2017 was marked by intensive efforts aimed at harmonising the Croatian regulatory framework with the *acquis communautaire* that regulates financial services and at implementing these regulations in the Republic of Croatia. Economic situation and macroeconomic environment have a significant effect on supervised entities (financial services providers), while the circumstances concerning the Croatian largest food and retail conglomerate Agrokor d.d. in 2017 additionally influenced their business operations, as well as Hanfa's activities. The impact of these events was noticed in the entire economy of the Republic of Croatia, as well as in almost all branches of the financial industry under Hanfa's supervision, which also inevitably influenced Hanfa's regular activities. In consequence, during 2017, Hanfa focused its activities on minimizing the impact of these events on the non-banking financial sector.

As well as in several previous years, significant financial and human resources were invested in tasks in connection with Hanfa's membership of European supervisory authorities ESMA and EIOPA. Due to their intense engagement, Hanfa's employees are familiar with current developments and can anticipate future trends in the area of financial services, particularly in the segment associated with the advancement of technology (e.g. development of new products, new distribution methods, regulatory challenges, cross-border provision of services), but also with improving and modifying the existing regulations.

2017 was also marked by the continuation of intense efforts regarding financial literacy, especially of target groups, but also of general public. Some of the activities were carried out in cooperation with other institutions, and some were done independently, but they all shared a common feature in presenting Hanfa's contribution to informing the public about financial services and raising the awareness regarding the importance of financial literacy.

From the global point of view, financial services markets are, by their very nature, extremely dynamic and innovative almost everywhere, and they require significant engagement and a high level of responsibility from each competent regulatory and supervisory body, including Hanfa. I hope that Hanfa's activities within the framework of its competence will be recognised as useful in preserving the stability of the financial system.

Ante Žigman
President of the Board

Summary

Summary

Capital market

The economic recovery in Croatia did not have any significant effect on investment activities, the growth of market indicators and capital market in general. In 2017, trading on the regulated market of the Zagreb Stock Exchange (hereinafter: ZSE) amounted to HRK 3.7bn, decreasing by 5.3% in comparison to 2016. Trading in shares within the order book amounted to HRK 2.6bn, an increase of 37.3%, while trading in bonds within the order book amounted to HRK 0.4bn, a decrease of 16.1%. Block trade in shares amounted to HRK 0.6bn, decreasing by 51.3%, while block trade in bonds fell by 68.3%, amounting to HRK 0.08bn. The decline in total turnover was primarily impacted by the decrease in block trade in shares and bonds, while the turnover of shares within the order book grew significantly. OTC turnover reached HRK 19.9bn, falling by 23.3%. The main stock index CROBEX decreased by 7.6%, CROBEX10 decreased by 10%, while CROBEXtr decreased by 5%. The CROBIS bond index grew by 2%, while CROBIStr rose by 6.5%.

MTF (CE Enter market) recorded a total turnover amounting to HRK 0.07bn, which is a 12.6% increase compared to 2016. The turnover of shares within the order book on MTF reached HRK 0.07bn, increasing by 11.5%. Block trade in shares on MTF reached HRK 4.8m, rising by 30.4% in comparison to 2016.

2017 was marked by problems in Agrokor d.d. (the largest business entity in the Republic of Croatia) and the months-long suspension of trading in stocks of companies that were majority-owned by Agrokor d.d. This had a significant effect on the trade in shares and on the entire market.

At end-2017, the total market capitalisation of financial instruments admitted to the regulated market stood at HRK 236.1bn, increasing by 1.6% relative to 2016. Market capitalisation of financial instruments admitted to MTF reached HRK 3.9bn, decreasing by 7.3% relative to 2016.

In 2017, six new shares were admitted for the first time on the official market of the Zagreb Stock Exchange, while 26 financial instruments were removed from the market.

Transfers within the clearing and settlement system of the Central Depository and Clearing Company made up 80% of depository's operations.

In 2017, a total of 218,278 transactions worth HRK 196.1bn were settled within the Central Clearing Deposit Company, which represents an increase of 23% relative to 2016. The total value of transactions settled within the clearing and settlement system decreased by 26% as a result of the reduction in prices of securities on the market. 94% of all transactions settled were transactions in shares, while transactions in bonds accounted for 55% of total transaction value.

In 2017, a corporate bond of Erste&Steiermarkische Bank d.d. was admitted on the official market of the Zagreb Stock Exchange, as well as four bonds of the Ministry of Finance of the Republic of Croatia. A bond of the issuer Sunce koncern d.d. was admitted to the regular market.

During the past year, Hanfa issued two decisions approving amendments to the Price List of the Zagreb Stock Exchange, and two decisions approving amendments to the Rules of the Zagreb Stock Exchange.

It also approved four requests for prospectus approval and one request for the approval of prospectus supplement. Out of the four approved prospectuses, two were related to the listing of shares on the regulated market, one was related to the public offering and listing of shares, and one was related to the public offering and listing of bonds. 2017 saw three less prospectuses than in 2016 being approved. The amount of approximately HRK 1.1bn was collected on the capital market via prospectuses in connection with the public offer, which was an increase compared to 2016, when a total of HRK 200m was collected.

In accordance with the Ordinance on market manipulation and the obligation to report suspicions of market abuse and the Ordinance on reporting actual or potential infringements of the Market Abuse Regulation, the ZSE and investment firms submitted to Hanfa 12 reports relating to suspicions of market abuse and one report relating to suspicions of insider dealing. Hanfa received six reports from various natural persons and four complaints in relation to market abuse.

Supervision of issuers whose securities were admitted to trading in 2017 encompassed 130 share issuers (nine less than in 2016) and 11 bond issuers (eight less than in 2016). Hanfa continuously monitored the publication of regulated information in accordance with the provisions of the Capital Market Act and fulfilment of obligations regarding the publication of a takeover bid in accordance with the provisions of the Act on the Takeover of Joint-Stock Companies.

Hanfa conducted 154 off-site examinations of issuers related to transparency i.e. publication of regulated information, 42 off-site examinations related to acquisition and/or disposal of issuers' shares by managing persons and 24 off-site examinations related to acquisition and/or disposal of own shares and other financial instruments of issuers. There were also 11 on-site examinations of issuers focused at handling regulated information.

In cooperation with the Zagreb Stock Exchange and the Central Clearing Deposit Company, Hanfa organised the eighth annual training session aimed at issuers and focused at regulatory activities connected with reporting, shareholders' rights, MAR, CSDR and details in connection with the obligation of having a legal entity identifier (LEI).

Investment firms

Although some of the macroeconomic indicators continued to show a positive trend in 2017 (economic growth, decrease of foreign debt and positive outlook for the country's credit rating), the financial markets' segment as regards investment services and financial activities continued to stagnate, which was significantly influenced by the uncertainty of results regarding the restructuring of the Agrokor d.d. Viewed through the change in the number of legal entities licensed for providing investment services and conducting investment activities, 2017 saw further consolidation of the market.

One investment firm ceased to provide investment services, one credit institution started providing investment services, and two UCITS management companies were licensed to provide investment services, one of which provided such services in 2017.

Total income from performing investment activities and ancillary services under Article 5 of the Capital Market Act of investment firms, UCITS management companies and credit institutions increased in 2017 relative to 2016, by 27.1%. Increase in income of 21.2% was recorded by investment firms, credit institutions realised income growth of 28.4%, while the income of UCITS management companies grew by 22.1%.

As regards the total income from investment services and investment activities, investment firms' income accounted for 11.7%, the income of UCITS management companies accounted for 6.6%, while credit institutions income accounted for 81.7%.

Total assets of investment firms increased by 56% on the annual basis, which was primarily boosted by the increase of financial assets (100.7%), which accounted for 68.4% of total assets of investment firms as at 31 December 2017.

In 2017, investment firms made an after-tax profit of HRK 10.9m, which represents a 381.9% increase compared to the year before.

Hanfa initiated five regular on-site examinations of investment firms, UCITS management companies and credit institutions, with respect to the provision of investment services pursuant to the Capital Market Act.

Hanfa organised an educational programme which included lectures for certified pension fund managers, certified managers of pension insurance companies, brokers and investment advisors. The programme was attended by nine candidates.

Hanfa organised an examination cycle for brokers and an examination cycle for investment advisors. Both examination cycles consisted of two examination terms. The examinations for brokers were taken by 13 candidates, and passed by five of them. The examinations for investment advisors were taken by 138 candidates, and passed by 52 of them.

Investment funds

As at 31 December 2017, there were 21 registered companies managing investment funds. Nine companies managed UCITS and AIFs, five companies managed only UCITS and seven companies managed only AIFs.

Investment fund management companies realised an after-tax profit in the amount of HRK 52m, a decrease of 12% compared to 2016. Net results from fees from investment funds management recorded a decrease of 3.8%, resulting from the increase in fund management expenditure of 13.4%. Management companies are largely financed from own funds (capital and reserves make up 83.5% of liabilities), and most of the assets of management companies are invested in financial assets (73.3% of total assets).

In 2017, the increasing trend regarding the number of UCITS continued. There were five mergers recorded in Hanfa's register, while nine new UCITS were established. Two of the nine funds were bond funds, two were cash funds, one was equity fund, and one was balanced while three funds were categorized as other. As at 31 December 2017, three funds were in the process of liquidation.

Increase in net assets of UCITS funds was mostly due to the increase in net assets of bond funds, because relatively high net payments into existing funds. On the other hand, the category of cash funds recorded a decrease in the total value of net assets in the amount of HRK 2.4bn, which can be connected with relatively high net payments from funds.

The performance of UCITS observed in the currency of their unit value shows that, at end-2017, equity funds recorded returns ranging from -22.7% to 23.6%. 12 funds recorded negative returns. Balanced investment funds recorded returns ranging between -6.7% and 6.9%. As a result of unchanged monetary policy in the Eurozone, the returns of cash funds stayed at extremely low levels. Majority of cash funds recorded positive returns, ranging up to 1%, two cash funds recording negative returns as low as -0.9%, while one cash fund recorded extremely low returns of -7.6%. Bond funds recorded returns ranging between -3.5% and 5.3%. Funds categorized as other funds achieved yields in the range from -3.1% to 8.3%, due to their diverse investment strategies.

The share of domestic assets in UCITS total net assets at the end of 2017 further decreased compared to the previous year and amounted to 86%. The reason for the still high share of domestic assets lies mostly in the fact that the assets of cash funds (46.9%) and bond funds (33.8%) accounted for the larger part of UCITS funds' assets (80.7%), and these funds were not exposed to foreign markets to a significant extent, at end-2017. Investments in foreign assets primarily related to investments in shares, bonds, and to a lesser degree, investment funds. Equity funds' portfolios were dominated by investments in foreign assets, i.e. shares and, to a smaller extent, equity investment funds. Significant investors in foreign assets were balanced funds and funds categorized as other funds. They invested primarily in shares and investment funds. Bond funds were not heavily exposed to foreign assets, but the portion of their portfolios exposed to foreign securities (10%) was mostly related to foreign government bond investments (8.8%).

In 2017, nine AIFs were founded in the Republic of Croatia, all of them categorized as open-ended alternative funds with private offering. One fund was categorized as a basic AIF, while eight funds were categorized as special-type AIFs, seven of which were hedge funds and one was a fund for sovereign debt investment.

After the increase in net assets the Fund for Croatian Homeland War Veterans and Members of their Families in 2016, 2017 saw a 3.7% decrease in assets, as a result of market developments. At end-2017 (on 28 December 2017), net assets of the Retired Persons' Fund stood at HRK 188m. This fund stopped operating on 28 December 2017.

In 2017, Hanfa participated in the preparation of the draft new Alternative Investment Funds Act. As a result of previous practice and experience, this Act introduced three categories of AIFMs (small, medium-sized and large) in order to facilitate and simplify the establishment and operation of small and medium-sized AIFMs, introducing the possibility of establishing a closed-ended AIF without legal personality, improving the provisions related to licensing procedures, with relevant procedures being simplified, and introducing changes in the distinctiveness of AIFs, for the purpose of further development and growth of the investment fund market, as well as disburdening the supervised entities.

Due to entry into force of the International Financial Reporting Standard 9 Financial Instruments, adopted pursuant to the Commission Regulation (EU) 2016/2067, which repeals the application of the International Accounting Standard 39 Financial Instruments: Recognition and Measurement, adopted pursuant to the Commission Regulation (EC) 1126/2008, and due to entry into force of the Commission Delegated Regulation (EU) 2015/488, new ordinances that regulate this segment were adopted on the basis of the Alternative Investment Funds Act and the Act on Open-Ended Investment Funds with Public Offering.

As a part of the digitisation project, a new digitised method of receiving documentation was introduced, which led to adopting amendments to the ordinances adopted pursuant to the Act on Open-Ended Investment Funds with Public Offering, and amendments to the ordinances adopted pursuant to the Alternative Investment Funds Act, with the aim of enabling a faster and more straightforward submission of requests and documents to Hanfa, electronically via web forms.

Hanfa participated in the preparation of the Draft Act Implementing Regulation (EU) 2015/2365 on transparency of securities financing transactions and of reuse, the preparation of the Draft Act repealing the Act on Retired Persons' Fund, as well as the working group for the preparation of the Draft Act Implementing Regulation (EU) No 1286/2014 on key information documents for packaged retail and insurance-based investment products.

Hanfa's employees participated in the preparation of regulatory technical standards for the Commission Delegated Regulation (EU) 2017/653, in the work of the Investment Management Standing Committee of the European Securities and Markets Authority by way of preparing advice for the European Commission, technical standards, guidelines and opinions, consultation papers and various surveys of practices, recommendations regarding the UCITS IV Directive, UCITS V Directive and AIFMD, as well as in the preparation of draft amendments to the Regulation on European venture capital funds and the Regulation on European social entrepreneurship funds.

Hanfa also participated in the working group in charge of drafting a new Act on the Fund of Croatian Homeland War Veterans and Members of their Families. The current Act on the Fund of Croatian Homeland War Veterans and Members of their Families was adopted more than ten years ago. It was amended twice, in 2004 and 2008. An analysis of the current situation has determined that comprehensive interventions are needed, given the fact that during the application of this Act some issues arose that were not fully regulated, as well as to ensure the transparent and efficient operation of the Fund.

In 2017, a full-scope on-site examination of a UCITS management company was initiated, which included the risk management system and the compliance function, as well as of another UCITS and AIF company, which included general organisational conditions, investment process and asset investment of funds, and mechanisms of internal control.

Hanfa also initiated two separate targeted on-site examinations of one company managing AIFs and economic cooperation funds. The examinations focused on fund assets management and related risks, handling of conflicts of interest and activities concerning fund investor relations, regarding the investment of assets, and the verification whether investments of fund assets were connected with Agrokor d.d. and its affiliated and subsidiary companies. On 11 January 2018, this company's authorisation for work, i.e. management of economic cooperation funds was withdrawn, and the existence of conditions for a forced delegation of management tasks was determined.

Off-site supervision of investment funds and investment fund management companies was based on the analysis of daily and periodic reports on business operations and the analysis of annual financial statements of investment fund management companies and investment funds audited by an independent certified auditor, and the analysis of other information collected from supervised entities.

Due to violations and irregularities, six reports on off-site examinations of supervised entities were drawn, after which violations and irregularities were removed in one part. In four cases Hanfa issued decisions with warnings to management companies and AIFMs for failing to initiate winding-up proceedings of UCITS as a result of net assets of UCITS less than HRK 5m, and for charging the management fee contrary to the fund prospectus.

Pillar 2 and Pillar 3 pensions and pension payments

The mandatory and voluntary pension insurance market has been rising since the beginning of the pension reform and as at 31 December 2017, total net assets of mandatory and voluntary pension funds amounted to HRK 96.7bn, which is a HRK 8.2bn increase compared to the end of the previous year. These positive trends were primarily related to mandatory payments into pension pillar 2.

Same as in previous several years, at end-2017, there were four mandatory pension companies operating in the Republic of Croatia. Each company managed one mandatory pension fund belonging to each of the categories A, B and C.

At end-2017, the number of mandatory pension fund members was by 3.4% higher than at end-2016. Data from the Central Registry of Affiliates reveal that mandatory pension fund members are still quite reluctant to participate in the selection of their mandatory pension fund.

As at December 31 2017, total net assets of mandatory pension funds increased by HRK 7.7bn in comparison with the previous year, with an increase of HRK 5.7bn (73.1%) relating to net payments of members' contributions, while the increase in net assets of HRK 2.1bn (26.9%) resulted from returns achieved by mandatory pension funds.

Annual rates of return of category B mandatory pension funds ranged from 1.2% to 5.2% at end-2017. Category A mandatory pension funds recorded rates of return ranging from 3.3% to 7.1%, while category C mandatory pension funds recorded rates of return ranging between 5.1% and 7.5%.

There were four voluntary pension companies on the market, managing a total of eight open-ended voluntary pension funds and 19 closed-ended voluntary pension funds. This was an increase relative to the previous year due to one closed-ended voluntary pension fund and two open-ended voluntary pension funds being established in 2017. All open-ended voluntary pension funds recorded positive returns ranging between 2.1% and 4.31%, except one fund that recorded a negative return of -3,4%.

Returns of closed-ended voluntary pension funds ranged from -3.1% to 9.1% in 2017.

One of the fees that pension companies can charge for covering costs, and which makes up the majority of pension fund management income, is management fee. The Mandatory Pension Funds Act defines the maximum management fee, and all mandatory pension fund management companies apply the same fee, however its amount varies depending on the size of the asset under the management of a particular company. The basis for the fee calculation is made up from total assets minus financial liabilities of the fund. In 2017, the management fee rate was set at 0.39%. An annual reduction (of 7% in relation to the preceding year) of the management fee rate of is foreseen for the upcoming years, until the rate comes down to 0.3%.

According to the statement on financial position, as at 31 December 2017 the value of total assets of the pension insurance company reached HRK 498.2m, increasing by HRK 34.1m or 7.4% compared to the value of total assets as at 31 December 2016.

In the period from 1 January 2017 to 31 December 2017, the pension insurance company recorded profit before tax in the amount of HRK 5.8m, while profit after tax amounted to HRK 4.7m, which is HRK 1.6m less than in the same period in 2016.

As at 31 December 2017, the total number of pension contracts reached 12,158, of which 11,909 contracts were related to voluntary pension insurance (pension pillar 3 and direct lump-sum payments), and 249 contracts to mandatory pension insurance (pension pillar 2). The number of contracts fell by 1,546 relative to 31 December 2016. As at 31 December 2017, the number of beneficiaries stood at 11,729, of which there were 11,521 voluntary pension insurance beneficiaries and 251 mandatory pension insurance beneficiaries.

In 2017, Hanfa participated in the preparation of the Draft Act on Amendments to the Mandatory Pension Funds Act, which brought some improvements and corrected difficulties that had been noticed during its application in practice.

Due to entry into force of the International Financial Reporting Standard 9 Financial Instruments, adopted pursuant to the Commission Regulation (EU) 2016/2067, which repeals the application of the International Accounting Standard 39 Financial Instruments: Recognition and Measurement, adopted pursuant to the Commission Regulation (EC) 1126/2008, three new ordinances were adopted on the basis of the Mandatory Pension Funds Act, as well as three new ordinances on the basis of the Voluntary Pension Funds Act.

As a part of the digitisation project, a new digitised method of receiving documentation was introduced, which led to adopting amendments to the ordinances adopted pursuant to the Mandatory Pension Funds Act, and amendments to the ordinances adopted pursuant to the Voluntary Pension Funds Act, with the aim of enabling a faster and more straightforward submission of requests and documents to Hanfa, electronically via web forms. In accordance with the Mandatory Pension Funds Act, Hanfa adopted the Decision on the maximum percentage of the fee paid to the depositary, Decision on the harmonisation of the guarantee deposit and the Decision on the guaranteed returns of mandatory pension funds.

Hanfa also adopted the Ordinance amending the Ordinance on minimum standards, manner of calculating and criteria for calculating technical provisions of the pension insurance company, where the most significant changes relate to the calculation of technical provisions and of average return for mandatory or voluntary pension insurance.

As part of licensing operations, Hanfa issued one authorization for the establishment and management closed-ended voluntary pension funds. Approvals were also issued for the pension company management board members and supervisory board members, for the selection of depositaries for pension funds, for amendments of statutes of voluntary pension funds and for the statute and prospectus of a voluntary pension fund.

In 2017, Hanfa ended on-site examinations of two mandatory and voluntary pension companies and one mandatory pension company. In 2017, Hanfa finished an on-site examination of a credit institution that had started in 2016, regarding depository activities of mandatory and voluntary pension funds, with a focus on safekeeping and administration of financial instruments for the account of clients, including custodianship and related services.

Following the on-site examination of the pension insurance company's operations in 2016, focusing on the compliance of organisational requirements with regards to organisation and performance of activities of risk management function, compliance function with relevant regulations, internal audit function and actuarial function, as well as compliance of contracting process and payment of pensions with the Act on Pension Insurance Companies and other relevant regulations, in 2017, Hanfa issued a decision ordering elimination of violations and irregularities found during the on-site examination, as regards the implementation of internal control and the control of input when calculating technical provisions.

In 2017, Hanfa conducted continuous off-site examinations of pension companies and pension funds. The examinations focused on checking the accuracy of key data for members of voluntary pension funds, checking the accuracy of portfolio information and returns in prospectuses of mandatory pension funds, controlling the investment restrictions and controlling the evaluation of assets of pension funds issued by the Agrokor d.d., monitoring the delivery and correctness of submitted NAV reports and checking the required level of mandatory pension companies' guarantee deposit. Within off-site examination, the annual report on the operations of the Central Registry of Affiliates was reviewed.

Throughout the year, Hanfa continuously conducted off-site supervision of the pension insurance company in accordance with applicable regulations, through the process of collecting, analysing and controlling submitted reports (financial and additional reports, audit report, regular notifications), as well as on the basis information and documentation received upon a special request. The off-site examination included the control of compliance of submitted rule changes, pension contracts and unit amounts of pensions with valid regulations and subordinate regulations.

Hanfa organised an examination cycle for certified pension fund managers, and an examination cycle for certified managers of pension insurance companies. Both examination cycles consisted of two examination terms. In the examination cycle for certified pension fund managers, seven candidates took the exam and six of them successfully passed it. In the examination cycle for certified managers of pension insurance companies, four candidates took the exam and three of them successfully passed it.

Insurance

As regards the total gross written premium, the insurance market in Croatia saw an increase of 3.36%. At end-2017, the total gross written premium went over HRK 9bn. Looking at insurance classes, especially those with a significant share in the total gross premium, the largest increase was recorded by health insurance, life or annuity insurance where the investment risk is borne by the policyholder (unit-linked insurance) and motor vehicle insurance. The largest share in the gross written premium is still held by life insurance (24.5%) and motor vehicle liability insurance (22.6%).

The value of assets covering mathematical provisions intended for covering liabilities from life insurance contracts and other insurance contracts amounted to HRK 19bn, which was 11.3% more than the required coverage of mathematical provisions. The value of assets covering all other classes of insurance stood at HRK 12.1bn (44.1% more than the required coverage). Insurance companies mostly invested in government bonds. 77.3% of assets covering mathematical provisions and 44.1% of assets covering technical provisions were invested in such bonds. Investments in real estate, investments in stocks and business shares, money and deposits, and mortgages and loans made up a significant part of investments. Total income of insurance companies and reinsurance companies reached HRK 585.8m, which was HRK 3.3m less than in 2016.

The trend of insurance market consolidation continued in the past year which saw a merger of two companies. At end-2017, there were 20 insurance companies operating in the Republic of Croatia. This trend is certainly contributed by the new Solvency II regulatory framework implemented in the current Insurance Act, which places demands on companies both regarding the reporting and the establishment of management systems.

As part of reporting under Solvency II, a special emphasis was placed on the qualitative and quantitative reports that Hanfa received for the first time in the last year. Hanfa analysed in detail Solvency and Financial Condition Reports prepared by insurance companies and intended for the public, as well as Regular Supervisory Reports prepared by companies for Hanfa. The aim of such analysis was to strengthen transparency and market discipline, and to gain a thorough overview of the market and significant trends.

Last year Hanfa participated in activities related to the transposition and implementation of the EU legislation in the area of insurance, which included preparations for the implementation of the Insurance Distribution Directive, which will be transposed into the Insurance Act. The Directive introduces major changes in terms of the rules on the distribution of insurance products, the regulation of transparency in respect of commissions for sale and requirements regarding knowledge, expertise and competences for distributors of insurance products.

As part of its regular licensing activities, Hanfa issued 33 decisions approving the appointment of members of management boards of insurance companies, two decisions approving mergers and six decisions approving requests for the acquisition of qualifying holdings in insurance companies. It also issued 80 authorisations to carry out insurance representation business and four authorisations conduct insurance and reinsurance brokerage business.

When supervising insurance companies, Hanfa concentrated on the risks to which a particular company is exposed and the ability of the company to sustain future changes in economic conditions that could adversely affect the overall financial position. Hanfa also focused on assessing the valuation of assets and liabilities, assessing the compliance of solvency capital requirement, investing processes, provisions modelling processes, as well as sufficiency of provisions for claims and premium sufficiency. The supervision also covered key functions in companies, own risk and solvency assessment, IT system and the prevention of money laundering and terrorist financing.

In 2017, Hanfa conducted a total of nine on-site examinations, three of which were targeted, and it issued 12 decisions in relation to examinations initiated in 2016 and 2017. Seven decisions ordered the elimination of irregularities and violations, and insurance companies acted accordingly.

Leasing

In 2017, leasing operations were carried out by 17 leasing companies, while two companies initiated winding-up proceedings. Increased economic activity continued to exert a positive impact on the market leading to a rise in business operations when viewed through a number of newly concluded contracts, which increased by 18.8%, and their value, which increased by 26.9%. As regards leased assets, the largest increase of newly concluded contracts was recorded in the segment of passenger vehicles (18%), with their total value standing at HRK 4.1bn.

Total assets of leasing companies amounted to HRK 18.1bn, rising by 1.4% compared to 2016. This asset growth was mostly due to a rise in finance lease receivables. Finance lease made up 60.5% of assets, while operating lease accounted for 27%. Leasing companies were still primarily financed by credit and loans from banks and financial institutions, which made up 70.1% of their total liabilities. Their profit in 2017 reached HRK 219.7m.

For the purpose of regulatory unburdening and of complying with International Financial Reporting Standard 9, Hanfa amended ordinances regulating financial statements and additional reports of leasing companies. It also amended ordinances in connection with financing. As a part of the digitisation project, a new digitised method of receiving documentation from leasing companies was introduced. Last year, Hanfa issued eight approvals for new management board members, 14 approvals for the acquisition of a qualifying holding in leasing companies and one approval for a merger.

In 2017, on-site examinations focused on business processes of leasing companies and on credit risk management. One supervisory procedure was completed and the irregularities established on the basis of the supervision were removed, while another procedure is still ongoing and its completion is expected in 2018. Hanfa also continued with off-site examinations that had started in 2016 and were focused on reporting to Hanfa pursuant to the Leasing Act. It issued 15 decisions ordering the elimination of irregularities and violations, which companies subsequently eliminated.

Factoring

Problems in the Agrokor d.d. impacted the operations of factoring companies in the past year. In 2017, three factoring companies submitted requests for their work authorisations to be withdrawn, so at the end of the year there were nine companies at the market, and their assets amounted to HRK 2.6bn (a 56.5% decrease compared to 2016). The asset decline was mostly caused by a decrease in receivables for the discounting of bills of exchange in the amount of HRK 3.1bn. Factoring companies were mostly financed by loans from foreign banks and financial institutions, in the amount of HRK 1.9bn (a decrease of 45.5% relative to 2016), while the amount financed by domestic banks and financial institutions stood at HRK 334.9m, a decrease of 77% relative to the past year. At end-2017, capital and reserves of factoring companies stood at HRK 141.6m, falling by 83.7% compared to 2016.

At end-2017, factoring companies recorded loss totalling HRK 899.6m, while in 2016 the profit recorded amounted to HRK 168.5m. Six out of nine factoring companies reported loss amounting to HRK 902.9m, whereas three factoring companies reported profit reaching HRK 3.3m. In 2017, transaction volume reached HRK 6.4bn, decreasing by 66.4% in comparison with 2016. As regards factoring operations including the discounting of bills of exchange, transaction volume decreased by HRK 12.6bn (81.2%) amounting to HRK 2.9bn.

After the deadline for the alignment with the provisions of the Factoring Act expired on 31 December 2016, Hanfa issued seven authorisations for performing factoring operations, which included the adoption of decisions regarding ten approvals for the acquisition of a qualifying holding and 15 approvals for the appointment of members of management boards.

In the first half of 2017, Hanfa initiated five on-site examinations focusing on factoring operations including the discounting of bills of exchange. It established that operations in this area were carried out contrary to the provisions of the Factoring Act, and that risks were managed inadequately in view of the significant exposure to one legal entity and its related persons, which caused some of the factoring companies under examination to become unstable, illiquid and non-viable.

Judicial proceedings

During its examinations in the field of capital market, investment funds and insurance, Hanfa found the existence of misdemeanours committed with respect to regulations resulting in 20 indictments brought before the misdemeanour court in Zagreb. Final judgement was pronounced in respect of two cases, while proceedings relating to the remaining cases have not finished yet. Nine administrative disputes were initiated against Hanfa's decisions following complaints filed with the Administrative Court in Zagreb. Pursuant to the Administrative Disputes Act, Hanfa provided responses and submitted files requested based on the complaints filed. In these proceedings, as well as proceedings initiated in previous years, Hanfa's employees filed reports and attended hearings before the Administrative Court. The administrative disputes were related to administrative decisions in the area of capital market, investment companies and insurance market and are still outstanding.

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

In 2017, the President of the Board of Hanfa or his alternate attended seven meetings of ESMA's Board of Supervisors and six meetings of the Board of Supervisors of the European Insurance and Occupational Pensions Authority (EIOPA). Hanfa's representatives were involved in the work of 12 committees, four expert groups and three working groups of ESMA, as well as in the work of nine expert groups, one working group and four committees of EIOPA. In 2017, committees of ESMA and EIOPA issued over 300 decisions and organised more than 300 debates, mainly concerning the approval of numerous documents for public consultation, guidelines and recommendations, adoption of implementing and technical standards, analysis of trends, risks and vulnerability of the financial sector, organisation of the common market and, in this light, harmonisation of supervisory practices, activities of trade repositories and credit rating agencies, combat against money laundering and terrorist financing, identification of new instruments and services on financial markets and future trends and their impact on consumers and the financial stability of the European area.

Hanfa's employees participated in the preparation of materials and the provision of information needed to make decisions and issue opinions related to business operations of investment firms for meetings of the Board of Supervisors of the European Banking Authority (EBA), as well as in EBA's analyses in connection with the revision of prudential requirements for investment firms under CRD IV and the CRR and other types of reporting connected with the BRRD requirements. In 2017, the President of the Board of Hanfa or his alternate attended four meetings of the General Committee and one meeting of the Advisory Technical Committee of the European Systemic Risk Board (ESRB).

Through working groups, set up by the Ministry of Finance and the Ministry of Labour and the Pension System, for the adoption of or amendments to laws falling within Hanfa's competence, Hanfa participated, inter alia, in the drafting of the new Capital Market Act implementing MiFID II and in the drafting of amendments to the Insurance Act implementing the Insurance Distribution Directive. As a signatory to the Multilateral Memorandum of Understanding of the International Organisation of Securities Commissions (IOSCO) and the Multilateral Memorandum of ESMA, Hanfa exchanged information on the supervision of capital market with other competent authorities (signatories to the above-mentioned memoranda). Together with the Croatian National Bank, Hanfa was a part of the consortium of Member States selected in 2017 to offer technical assistance to institutions of Montenegro charged with supervision of financial sector under a twinning programme. The commencement of this project is expected in 2018, and Hanfa, together with competent authorities from Germany and the Netherlands, will participate in giving technical aid to the Insurance Supervision Agency and to the Securities Commission of Montenegro.

Via the Committee on the Prevention of Money Laundering and Terrorist Financing, Hanfa participated in the drawing up of opinions and responded to questions of supervised entities, it organised training sessions for representatives of supervised entities and undertook other activities related to the prevention of money laundering and terrorist financing. Hanfa continued its supervisory activities related to the implementation of regulatory provisions as regards the prevention of money laundering and terrorist financing by its supervised entities. One examination procedure started and finished in 2017, while two examinations started with their completion foreseen in 2018. These examinations focused on the prevention of money laundering and terrorist financing and on international restrictive measures. There were no decisions imposing supervisory measures on supervised entities in the area of prevention of money laundering and terrorist financing or international restrictive measures, since all violations and irregularities had been eliminated before the decisions were issued. Hanfa intensively participated in the working group for the preparation of the new Act on the Prevention of Money Laundering and Terrorist Financing, together with the Ministry of Finance, Anti-Money Laundering Office and the Croatian National Bank. As a member of the Inter-Institutional Working Group on the Prevention of Money Laundering and Terrorist Financing, presided by the Anti-Money Laundering Office, Hanfa submitted responses, information and opinions in relation to the inquiries of supervised entities associated with international restrictive measures.

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

In 2017, Hanfa received 186 complaints, of which 57 referred to the area of insurance market, 16 to capital market, nine to leasing, eight to investment funds, six to pension funds, two to factoring companies and one to the area of investment firms' operations. 78 complaints received did not concern Hanfa's scope and competence, while nine complaints received concerned Hanfa's own activities. Apart from dealing with the complaints received, Hanfa undertook various activities in the area of consumer protection. The purpose of these activities was primarily to develop the awareness of risks related to investments in financial instruments and of rights and obligations of supervised entities and users of their services. Hanfa continued with activities within ESMA and EIOPA, but also within the European Commission, where Hanfa chaired the Subgroup on Financial Literacy within the Expert Group on barriers to free movement of capital, in the context of the Capital Markets Union.

Educational activities intended for young people were carried out throughout the year. Hanfa posted four educational videos on its website, explaining the topics related to savings and investment principles necessary to make good financial decisions. A new educational brochure titled "Financial literacy" was published on Hanfa's website. Hanfa's activities included educational visits to secondary schools and universities all over Croatia, organisation of visits of secondary school and university students to Hanfa, organisation of student debates and participation in public events related to financial literacy (conferences, round tables, etc.). Hanfa highlighted the importance of financial literacy, explained basic concepts from the area of financial markets and described financial market participants, financial products and services, as well as its own role in the financial market. The focus was on raising awareness on the importance of being familiar with financial products and services before deciding on their use. These activities were often carried out in co-operation with other institutions (the Croatian Chamber of Commerce, the Office for Education, Culture and Sport of the City of Zagreb, Zagreb Stock Exchange, investment funds, pension funds, insurance companies, banks).

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

2017 saw necessary adjustments being made, processes being introduced and documentation required for ISO 20000 certification being created, all for the purpose of uniform management of Hanfa's IT services. For the purpose of the alignment of Hanfa's operation with the GDPR, a series of activities were carried out aimed at establishing the level of adjustment to GDPR requirements. Hanfa also engaged in activities aimed at the improvement of internal controls system, in accordance with the application of the Act on the Internal Controls System in Public Sector.

Hanfa's income in 2017 amounted to HRK 53.8m, while total expenses amounted to HRK 48m. The largest share in expenditure was accounted for by the expenditure for employees amounting to HRK 31.2m (67.6%). The average number of employees in 2017 at the end of the reporting period was 159. Material expenditure made up the next significant item in total expenditure, amounting to HRK 14.8m i.e. 27.9% of total expenses. Mandatory membership fees paid to ESMA and EIOPA made up a significant part of material expenses. In 2017, they amounted to a total of HRK 4.9m and accounted for 33% of material expenses and 10.2% of total Hanfa's expenses. Depreciation expenses amounted to HRK 1.8m and were 34.7% or HRK 454 thousand higher than in 2016, due to newly introduced IT systems and applications that depreciate during their useful life. On the basis of reported data on total revenues and expenditures, in 2017 Hanfa recorded surplus income over expenditure in the amount of HRK 5.8m, which was transferred into the state Budget of the Republic of Croatia, pursuant to the provisions of the Act on Hanfa. Pursuant to the Fiscal Responsibility Act, in 2017 Hanfa conducted a self-assessment of financial management and control systems. As a result, the 2016 Statement of Fiscal Responsibility was sent to the Croatian Parliament. By issuing the Statement, the Secretary General, in charge of Hanfa's financial and accounting affairs, testified to 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.

In 2017, the Board issued 1.386 decisions on 91 meetings, 52 of them being regular and 39 being emergency meetings. The Council held three meetings: on 4 March, 8 June, 23 September and 19 November, where the Council, in accordance with its competence under Article 12 of the Act on Hanfa, provided opinions and expert advice, for the purpose of improving the supervisory practice.

Capital market

1 Capital market

1.1 Market overview

The economic recovery in Croatia did not have any significant effect on investment activities, the growth of market indicators and capital market in general. In 2017, trading on the regulated market of the Zagreb Stock Exchange (hereinafter: ZSE) amounted to HRK 3.7bn, decreasing by 5.3% in comparison to 2016. Trading in shares within the order book amounted to HRK 2.6bn, an increase of 37.3%, while trading in bonds within the order book amounted to HRK 0.4bn, a decrease of 16.1%. Block trade in shares amounted to HRK 0.6bn, decreasing by 51.3%, while block trade in bonds fell by 68.3%, amounting to HRK 0.08bn. The decline in total turnover was primarily impacted by the decrease in block trade in shares and bonds, while the turnover of shares within the order book grew significantly. OTC turnover reached HRK 19.9bn, falling by 23.3%. The main stock index CROBEX decreased by 7.6%, CROBEX10 decreased by 10%, while CROBEXtr decreased by 5%. The CROBIS bond index grew by 2%, while CROBIStr rose by 6.5%.

MTF (CE Enter market) recorded a total turnover amounting to HRK 0.07bn, which is a 12.6% increase compared to 2016. The turnover of shares within the order book on MTF reached HRK 0.07bn, increasing by 11.5%. Block trade in shares on MTF reached HRK 4.8m, rising by 30.4% in comparison to 2016.

2017 was marked by problems in the Agrokor d.d. (the largest business entity in the Republic of Croatia) and the months-long suspension of trading in stocks of companies that were majority-owned by this company. This had a significant effect on the trade in shares and on the entire market.

On 7 July 2017, the Zagreb Stock Exchange started trading on the new trading platform XETRA and introduced a number of novelties related to trading in financial instruments, thus improving the overall market and rationalizing its business operations.

Xetra Trading System is a trading system operated and distributed by the Vienna Stock Exchange for Central and Eastern Europe.

Apart from the ZSE and Vienna Stock Exchange, Xetra and other Vienna Stock Exchange services are used by many other stock exchanges, such as Ljubljana Stock Exchange, owned by the ZSE.

2017 saw the trend of issuers delisting their shares from the regulated market being continued.

1.1.1 Capital market infrastructure

In 2017, participants on the regulated market traded in shares and bonds, while MTF trading involved shares only. At end-2017, the total market capitalisation of financial instruments admitted to the regulated market stood at HRK 236.1bn, increasing by 1.6% relative to 2016. Market capitalisation of financial instruments admitted to MTF reached HRK 3.9bn, decreasing by 7.3% relative to 2016.

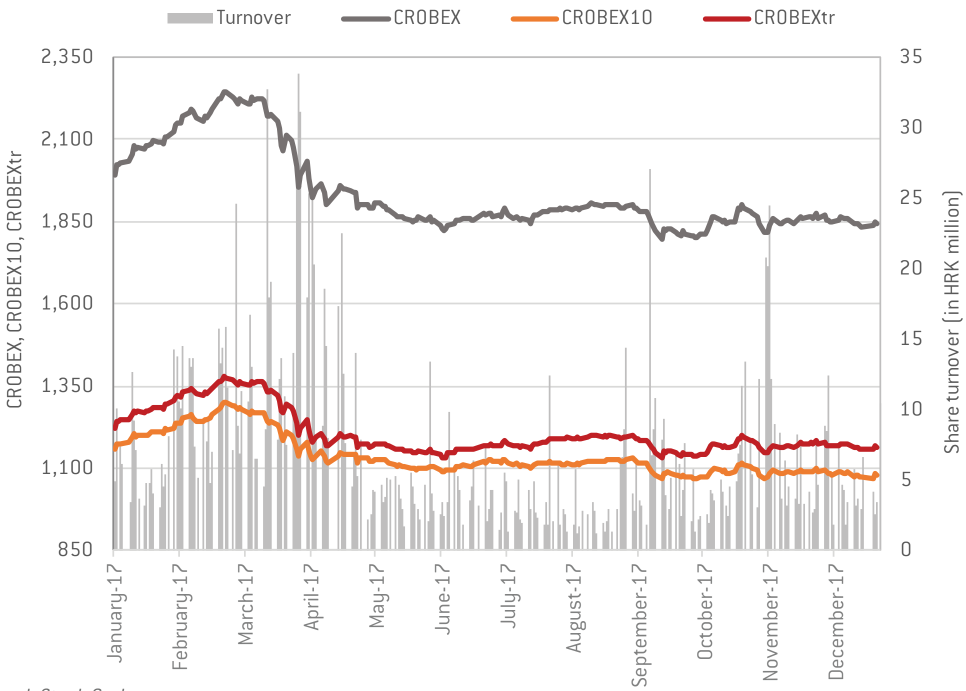
Table 1.1 Number of financial instruments on the regulated market and MTF as at 31/12/2017

Market type	Number of financial instruments	31/12/2016	31/12/2017	Change in comparison to 2016 (in %)
Regulated market	Shares	147	136	-7.5
	Official market	28	27	-3.6
	Regular market	119	109	-8.4
	Bonds	36	26	-27.8
	Official market	32	24	-25.0
	Regular market	4	2	-50.0
	Commercial papers	**0**	**0**	0.0
	Official market	0	0	0.0
	Regular market	0	0	0.0
	Structured products	**0**	**0**	0.0
	Official market	0	0	0.0
	Regular market	0	0	0.0
MTF	MTF	24	22	-8.3
	Shares	22	20	-9.1
	Rights	2	2	0.0

Source: Zagreb Stock Exchange

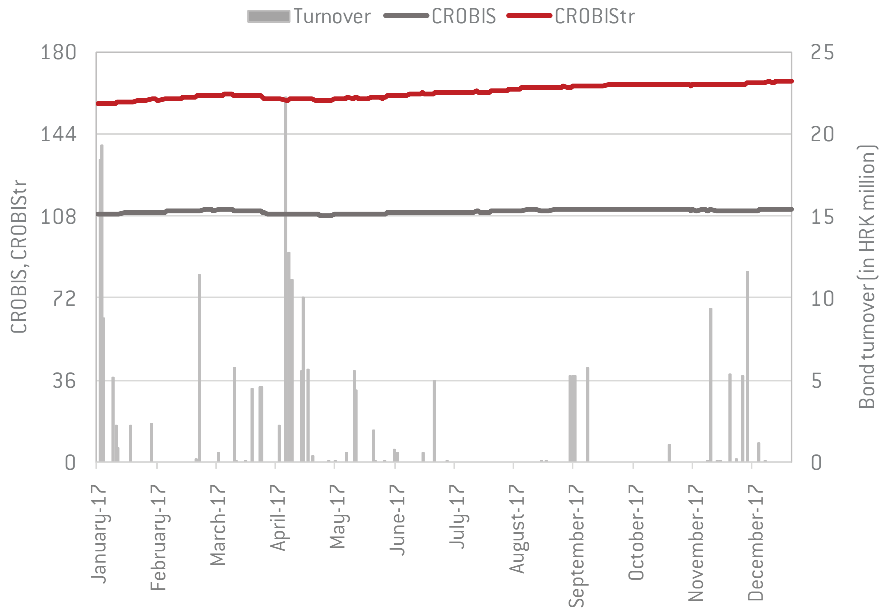
In 2017, six new shares were admitted for the first time on the official market of the Zagreb Stock Exchange, while 26 financial instruments were removed from the market. One bond was delisted because of issue annulment, while 14 bonds were delisted due to maturity. Shares were delisted due to decisions of the general assembly, bankruptcy, squeeze-out of minority shareholders and conversion of shares. Three shares were admitted to trading on MTF, while four shares were excluded due to inactivity of trading.

Chart 1.1 Changes in the values of the CROBEX, CROBEX10 and CROBEXtr indices and in the CROBEX share turnover on the ZSE in 2017



Source: Zagreb Stock Exchange

Chart 1.2 Changes in the values of the CROBIS and CROBIStr indices and in the CROBIS bond turnover on the ZSE in 2017



Source: Zagreb Stock Exchange

At end-2017, there were 16 members of the Zagreb Stock Exchange, as membership of one member ended. In 2017, two ZSE members acted as market makers for seven shares admitted to trading on the regulated market.

Table 1.2 Number of deposited securities

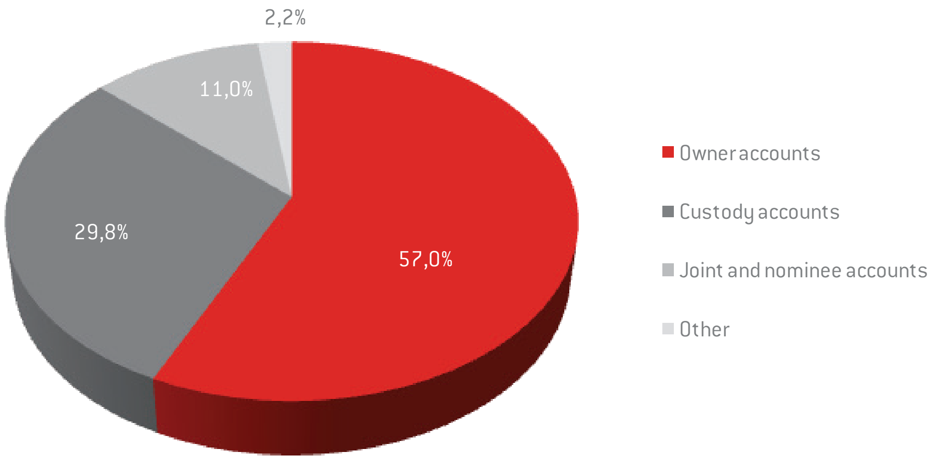
	31/12/2016	31/12/2017	Change in comparison to 2016 (in %)
Total	950	907	-4.5
Shares	845	813	-3.8
Bonds	69	63	-8.7
Other	36	31	-13.9

Source: CDCC

Transfers within the clearing and settlement system of the Central Depository and Clearing Company (hereinafter: CDCC) made up 80% of depository's operations. Other depository's operations were mostly focused on transfers associated with corporate actions and changes in registration of ownership position. Out of a total of 1,425 corporate actions carried out in 2017 (156 less than in 2016), more than 50% was related to the calculation of voting rights for the general assembly.

In 2017, a total of 218,278 transactions worth HRK 196.1bn were settled, which represents an increase of 23% relative to 2016. The total value of transactions settled within the clearing and settlement system decreased by 26% as a result of the reduction in prices of securities on the market. 94% of all transactions settled were transactions in shares, while transactions in bonds accounted for 55% of total transaction value.

Chart 1.3 Securities accounts structure in the CDCC depository as at 31/12/2017



Source: CDCC

In 2017, CDCC continued with the process of licensing the CDCC CCP Smart Clear d.d. company (hereinafter: CDCC CCP) for the provision of services as a central counterparty under EMIR[1]. The final decision on the request of the CDCC-CCP for the authorization to provide services as a central counterparty is expected in 2018.

1.1.2 Issuers

In 2017, a corporate bond of Erste&Steiermarkische Bank d.d. was admitted on the official market of the Zagreb Stock Exchange, as well as four bonds of the Ministry of Finance of the Republic of Croatia. A bond of the issuer Sunce koncern d.d. was admitted to the regular market. The company Magma d.d. changed its market segment, moving from the official market to the regular market and thus accepting less strict requirements concerning the transparent provision of information to the investor community. Three issuers admitted to the regulated market listed additional shares; one issuer to the official market and two issuers on the regular market.

1.2 Hanfa's regulatory activities

1.2.1 Normative activities

Draft proposal of the Capital Market Act – in general

The Capital Market Act (hereinafter: the CMA)[2] has been amended several time, primarily for alignment with the *acquis communautaire*, which is often subject to change in the area of capital market. Due to the need for further harmonisation of Croatian regulations governing the capital market with the EU regulations from the area concerned, and in order to avoid incoherence due to numerous previous amendments, the work on a new Draft Proposal of the Capital Market Act (hereinafter: the new CMA) began. Hanfa actively participated in the preparation of the new CMA. Public consultation on this Act lasted from 8 November 2017 to 8 December 2017.

Provisions of the CMA additionally regulate business operations of persons authorised to trade in financial instruments, they describe trading with financial instruments in more detail, and they prescribe conditions of trading in commodity derivatives, emission allowances and derivatives relating to emission allowances. The function of data delivery service providers was introduced. Inves-

1 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

2 Official Gazette, No 88/08, 146/08, 74/09, 54/13. 159/13, 18/15, 110/15, 123/16 and 131/17

tor protection has been enhanced to strengthen the framework for providing investment advice and portfolio management services, as well as improving the quality of information provided to clients in relation to the investment services they are offered. Dematerialised securities have been regulated, as well as the organisation and authority of the central securities depository, the central counterparty and the stock exchange, and the rights and obligations of participants in the capital market, particularly as regards the prohibition of insider dealing, unlawful disclosure of inside information and market manipulation (abuse). With a view to increasing transparency, the obligations as regards reporting to Hanfa and the European Securities and Markets Authority (ESMA) have increased. In addition, sanctions and measures that can be taken against legal and physical persons participating in the capital market have been made stricter, and tools have been prescribed for the implementation of measures assigned by the European Commission as a task to ESMA.

The novelties introduced by the new CMA are primarily linked to the harmonisation of the Croatian regulatory framework for capital market with MiFID II[3], which introduces greater regulatory requirements than existing ones, taking into account the development of technology and market infrastructure in the financial services industry (such as the emergence of new trading platforms and growth of high-frequency and algorithmic trading), seeks to improve the investor protection system and aims to maximize transparency and reduce fragmentation of data so that all market participants, and in particular investors, can make well-founded decisions in order to improve the efficiency of the financial system. The new CMA also provides for the full implementation of MIFIR[4], Regulation (EU) No 2016/1033[5], MAR[6], EMIR, CSDR[7] and the Prospectus Regulation[8] by establishing competent bodies, the scope of work and powers of the bodies responsible for their implementation, as well as appropriate misdemeanour provisions.

CDCC and non-materialised securities in the new CMA

As stated above, the new CMA enabled the implementation of provisions of CSDR, with the aim of promoting secure, efficient and uninterrupted settlement of all financial instruments in the European Union. Given that CSDR introduces the concept of central securities depository, it was necessary to add a new chapter within Part 5 of the CMA, which would regulate central depositories. CSDR defines a central depository as a legal person that operates a securities settlement system and provides at least one other core service as defined by that Regulation. Apart from the settlement service

3 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

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

5 Regulation (EU) No 2016/1033 of the European Parliament and of the Council of 23 June 2016 on markets in financial instruments and amending Regulation (EU) No 600/2014 on markets in financial instruments, Regulation (EU) No 596/2014 on market abuse and Regulation (EU) No 909/2014 on improving securities settlement in the European Union and on central securities depositories, OJ L 175

6 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

7 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

8 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

(operating a securities settlement system), these are notary service (initial recording of securities in a book-entry system) and a central maintenance service (providing and maintaining securities accounts at the top tier level). Henceforward, only central securities depositories licensed under CSDR will be able to manage settlement systems in the EU. Consequently, the CDCC, which currently governs the settlement system in the Republic of Croatia, has to undergo a licensing procedure under that Regulation and obtain a work authorisation from Hanfa, as the competent body.

New CMA and prospectus

The new CMA also enables the implementation of the Prospectus Regulation, which entered into force on 20 July 2017, and which is fully binding and directly applicable in all Member States. The Prospectus Regulation is specific for its gradual application of some of its provisions as laid down in Article 49, so one set of provisions is applicable from 20 July 2017, the second set from 21 July 2018, and the third set of provisions, which is the largest and refers to the remaining provisions of the Prospectus Regulation shall apply from 21 July 2019. The Prospectus Regulation is a major part of the European Commission's plan for the establishment of a capital market union, and from 21 July 2019, it will completely replace the current regulatory framework on prospectus, which consists of the Prospectus Directive[9] and any subsequent amendments thereto and by the Regulation (EU) No 809/2004[10] and any subsequent amendments thereto, including two sets of regulatory technical standards prescribed by the Delegated Regulation (EU) No 382/2014[11] and the Delegated Regulation (EU) No 2016/301[12].

In addition to ensuring the implementation of the Prospectus Directive, the new CMA also introduces certain nomotechnical and normative improvements in provisions transposing the current provisions of the Prospectus Directive and all subsequent amendments thereto. For example, it prescribes the obligation to send to Hanfa notices on exemptions from the obligation to publish a prospectus, which, although it existed in accordance with the provisions of the old CMA, is now more in-depth in terms of the deadlines in which the notice has to be delivered, as well as documentation that must be submitted to Hanfa. It also prescribes the legal framework for liability for damage on the basis of the published prospectus in connection with the public offering of securities and in connection with the listing of securities on the regulated market by defining the circle of persons responsible for the content of the prospectus and persons authorised to request reparation of liability damage from the prospectus, the content of property claims, the time limit of liability from the prospectus and statutory deadlines for compensation claims. In addition, it provides for the presumption of release of liability for damage. One of the most significant novelties regarding prospectuses is the introduction of the concept of liability for damage due to incompleteness or inaccuracy of essential information in the prospectus, which is based on the intent or ultimate negligence of responsible persons. Another novelty is liability in cases where the prospectus has not been published on time, or when the prospectus is not been published at all despite the obligation to publish it.

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

10 Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements, OJ L 149

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

12 Commission Delegated Regulation (EU) 2016/301 of 30 November 2015 supplementing Directive 2003/71/EC of the European Parliament and of the Council with regard to regulatory technical standards for approval and publication of the prospectus and dissemination of advertisements and amending Commission Regulation (EC) No 809/2004, OJ L 58

Regulated market and other trading venues in the new CMA

The part of the new CMA transposing MiFID II defines the terms used in that Directive, the organisational structure of the operator, requirements for the governing body of the regulated market operator, obligations that the operator has to fulfil when managing the trading venue, obligations to be met by persons with significant influence on the management of the regulated market, requirements regarding resilience and capacity of the regulated market trading system, circuit breakers, maintenance of liquidity on the regulated market, electronic trading, direct electronic access to the regulated market, tick sizes and synchronisation of business clocks. The new CMA also introduces a new trading venue – an organised trading platform, specifically designed for the market of non-equity financial instruments. It also introduces a subcategory of the multilateral trading facility – growing markets of small and medium-sized enterprises, with the aim to facilitate access to the capital market for small and medium-sized enterprises.

Implementation of the Regulation on indices used as benchmarks into Croatian legislation

Hanfa's representatives participated in the working group established at the Ministry of Finance with the aim of implementing the BMR[13] in the legislation of the Republic of Croatia, and preparing the Draft Act Implementing Regulation (EU) 2016/1011 on indices used as benchmarks (hereinafter: Act Implementing the BMR). The Act Implementing the BMR shall determine the competent supervisory authorities in accordance with the provisions of this Regulation and prescribe infringements for acting contrary to the Regulation, as well as the amount of fines for certain violations for legal and natural persons to which the Regulation applies.

This Regulation was adopted in order to harmonise the regulatory framework for reference values at the EU level and to ensure the proper functioning of the internal market and to improve the conditions for its functioning, to ensure a high level of consumer and investor protection and to prevent manipulation of reference values that could affect the price of financial instruments or financial contracts such as loans or mortgages.

> *Benchmarks are publicly disclosed values that are used to determine the price of financial instruments and financial contracts or to measure the performance of investment funds.*
>
> *The inaccuracy and incompleteness of indices used as benchmarks, or the suspicion of their accuracy and completeness, can undermine confidence in the market, cause losses to consumers and investors, and disrupt the real economy.*

Working on the Act Implementing the Regulation on transparency of securities financing transactions

In 2017, Hanfa continued to actively participate in the preparation of the Act Implementing the Regulation on transparency of securities financing transactions, which will ensure the implementation of the SFT Regulation[14]. The adoption of this act is expected to take place in 2018.

1.2.2 Licensing

1.2.2.1 Licensing of capital market infrastructure institutions

During the past year, Hanfa issued two decisions approving amendments to the Price List of the Zagreb Stock Exchange, and two decisions approving amendments to the Rules of the Zagreb Stock Exchange.

Due to introduction of the new Xetra trading system, some provisions of the Rules of the Zagreb Stock Exchange have been altered, primarily those related to trading on the regulated market and to membership.

In 2017, Hanfa issued four decisions approving the appointment of members of the CDCC management board.

13 Regulation (EU) No 2016/1011 of the European Parliament and of the Council of 08 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014, OJ L 171

14 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 EU L 337/1

The licensing of CDCC-CCP for the provision of services as a central counterparty under EMIR will continue in 2018, when it is envisaged that Hanfa, together with other members of the regulatory college composed of representatives of ESMA and the Croatian National Bank, will make a final decision on the request of the CDCC-CCP for the authorization to provide services as a central counterparty.

In September 2017, the CDCC submitted an application for authorisation within the meaning of Article 17 of CSDR. In order to continue to provide central securities depository services and to manage the settlement system, the CDCC has to align its operations with the provisions of this Regulation, which is why it was obliged to submit a request to Hanfa to be given an authorisation to work as a central depository, within six months of the effective date of the Regulation's technical standards (effective from March 2017). The review of this request found that it was not complete, so in November 2017, Hanfa reached a conclusion giving the CDCC an additional period of six months to complete the request. In this procedure Hanfa acts as the competent body that issues a work authorisation to the CDCC, and it is foreseen that the decision in this regard will be made in 2018.

1.2.2.2 Prospectuses and takeover bids

It also approved four requests for prospectus approval and one request for the approval of prospectus supplement. Out of the four approved prospectuses, two were related to the listing of shares to the regulated market, one was related to the public offering and listing of shares, and one was related to the public offering and listing of bonds. 2017 saw three less prospectuses than in 2016 being approved. The amount of approximately HRK 1.1bn was collected on the capital market via prospectuses in connection with the public offer, which was an increase compared to 2016, when a total of HRK 200m was collected.

Hanfa received 47 notifications[15] related to the use of exemption from the obligation to publish a prospectus pursuant to the provisions of Article 354 of the CMA, which stipulates the obligation to notify Hanfa about the intention to use the exemption from the obligation to publish a prospectus in relation to securities issue and admission. In 2016 it received 51 notifications of this kind. All the notifications received in 2017 related to the exemptions from the obligation to publish a prospectus when securities are issued, as prescribed by Article 351 of the CMA, while one notification also referred to an exception from the obligation to publish a prospectus in case of listing on a regulated market, under Article 352 of the CMA. The exemptions were as follows: offering to fewer than 150 natural or legal persons who were not qualified investors (29), offering of securities solely to qualified investors (18), offering to investors who are to pay at least EUR 100,000 in HRK equivalent per investor for each single offer (nine), offering to current or previous board members or employees by their employer or his affiliated company (four) and other exemptions under Article 351 of the CMA (five). As regards the exemption to publish a prospectus when securities are listed, referred to in Article 352 of the CMA, it concerned a request for admission of shares that in the 12-month period represent less than 10% of the total number of shares of the same kind that have already been admitted to the same regulated market. The exemptions received concerned shares (28), structured products (13) and bonds (six). Offers addressed to fewer than 150 natural or legal persons or offers addressed solely to qualified investors are in the lead when it comes to use in the past four years. According to Hanfa's data, approximately HRK 3bn was collected through the offers of securities with the use of exemption from the obligation to publish a prospectus.

Hanfa received a total of 14 notifications of prospectuses, as well as 30 notifications of supplements to prospectuses from competent authorities of other member states. Notified prospectuses were mainly related to programmes of structured securities issues of credit institutions. Notifications were received from regulators in Luxembourg (19), Austria (18) and Ireland (seven).

One takeover bid was approved, which was the least in relation to the three previous years (there were eight takeover bids in 2016). Based on takeover bids, a total of HRK 18.2m was paid for the deposited shares, which is less than in 2016, when the amount of HRK 308m was paid for the deposited shares in approved offers.

15 When calculating the total number of received notifications, four notifications in which the author referred to the exemptions provided for in Article 342 of the CMA were not taken into account.

Hanfa received a total of seven notifications on the use of exemption to publish the takeover bid. The exemptions were as follows: the transfer of shares of the target company did not lead to a change of the person who controls the target company (three), the decision of the General Assembly in accordance with Article 14(1)(3) of the Act on the Takeover of Joint-Stock Companies[16] approved the acquisition of shares without the obligation to publish a takeover bid (two), acquisition of shares in the pre-bankruptcy procedure (two). Two statements were issued, clarifying some of the provisions of the Act on the Takeover of Joint-Stock Companies.

1.2.3 Supervision

1.2.3.1 Capital market infrastructure supervision

In the last quarter of 2017, Hanfa commenced with a full-scope on-site examination of the Zagreb Stock Exchange. The examination focused on the measures and procedures that the Zagreb Stock Exchange is obliged to undertake with reference to the provisions of Articles 292 and 292a and Articles 304 and 305 of the CMA, in order to determine the fulfilment of the organisational requirements and management of risks to which the Zagreb Stock Exchange is exposed or could be exposed, especially in relation to the introduction of the new XETRA trading system.

Off-site examination of the Zagreb Stock Exchange was performed by collecting and analysing the reports on the operation of the regulated market and the MTF, which have to be submitted to Hanfa. Pursuant to the CMA, the ZSE submits to Hanfa data on its ownership structure (on a monthly basis), monthly reports on the acquisition/disposal of financial instruments by managing persons, monthly report on cancelled transactions, notifications on the admission to/removal from trading on the regulated market and admission to/removal from trading on the MTF, information on current business activities and changes in these activities, notifications on new market makers, notifications on volatility interruptions and suspensions of trading, changes in the membership and updated member lists and the annual financial statement for 2016 accompanied by relevant external auditor's report.

Hanfa participated in the process of introducing the new Xetra trading system at the Zagreb Stock Exchange by tracking and analysing all the actions and procedures related to the introduction of the system and trading itself, from the time it was made available to users.

Hanfa conducted on-site supervision as regards prohibitions and obligations under Articles 451 to 470 of the CMA concerning market abuse, and it conducted off-site supervision of trading in financial instruments on the regulated market and MTF in real time. Potential suspicions of market abuse are determined by monitoring publications of information related to individual financial instruments, analysing order entry and order changes within the trading system, initiating volatility interruptions and placing of issuers or financial instruments into observation segments.

In accordance with the Ordinance on market manipulation and the obligation to report suspicions of market abuse[17] and the Ordinance on reporting actual or potential infringements of the Market Abuse Regulation[18], the ZSE and investment firms submitted to Hanfa 12 reports relating to suspicions of market abuse and one report relating to suspicions of insider dealing. Hanfa received six reports from various natural persons and four complaints in relation to market abuse. All reports and complaints are analysed, relevant data and documentation are collected and possible market abuse is established. In case of a grounded suspicion of market abuse, reports with relevant documentation and evidence are submitted to competent authorities for further action.

Supervision of the CDCC's business operations was carried out continuously, through off-site and on-site examinations. Off-site examinations involved the collection of reports the CDCC is obliged to submit to Hanfa pursuant to the provisions of the Capital Market Act and Hanfa's decisions, as well as data from other sources. The CDCC regularly submitted monthly work reports, information on holders of qualifying holdings, annual financial reports and annual statement, as well as auditor's report, reports on the acquisition or disposal of fi-

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

17 Official Gazette, No 05/09

18 Official Gazette, No 60/16

nancial instruments by members of the CDCC's Management Board, Supervisory Board and employees, amendments to the Rules, Instructions and Price List of the CDCC, notifications of changes in membership and termination of membership, etc. Hanfa analysed all the data collected and, where appropriate, asked for additional explanations or data.

Pursuant to Hanfa's Decision on reporting on failed settlements, the CDCC regularly (every two weeks) informed Hanfa of failed settlements, via the form and at time intervals for 2017 as prescribed by ESMA, and Hanfa would regularly forward the received information to ESMA.

Reporting to ESMA and competent authorities of other Member States

Pursuant to Article 330(5) of the CMA, Hanfa shall immediately notify ESMA and other competent authorities of Member States of its decision to temporarily suspend and/or remove from trading financial instruments on the regulated market, regardless of the initiator of the suspension or removal. Through the ESMA – SARIS interface, Hanfa submitted 27 notifications on suspension and continuation of trading regarding 17 shares, one notification on suspension and continuation of trading in bonds and 11 notifications on removal from trading concerning shares.

Pursuant to requirements from the Short Selling Regulation[19], Hanfa quarterly submitted to ESMA a summary of information on net short positions relating to issued share capital and to issued sovereign debt and on uncovered positions relating to sovereign credit default swaps. In line with that Regulation and provisions of the Commission Delegated Regulation EU No 918/2012[20], Hanfa submitted to ESMA data on duration-adjusted amount of sovereign debt instruments issued by the Republic of Croatia.

Submission of data to ESMA through the MiFID Database

Articles 33 and 34 of the Regulation on record-keeping obligations[21] prescribe the obligations of competent authorities related to calculations, estimates and publication of data for shares admitted to trading on a regulated market. Pursuant to this, at the end of each calendar year (without delay), Hanfa is obliged to draw up and update the MiFID Database and is obliged to update this database within six weeks of the new listing and at the end of the listing. In 2017, Hanfa performed an annual update of the database, submitted one estimate for new listings, and updated the database after the publication of the removal from trading.

1.2.3.2 Supervision of Issuers

Supervision of issuers whose securities were admitted to trading in 2017 encompassed 130 of share issuers (nine less than in 2016) and 11 bond issuers (eight less than in 2016). Hanfa continuously monitored the publication of regulated information in accordance with the provisions of the CMA and fulfilment of obligations regarding the publication of a takeover bid in accordance with the provisions of the Act on the Takeover of Joint-Stock Companies.

Supervision of the obligation to publish the regulated information includes verifying whether issuers publish the required information and whether they publish them on time, in places and with content as prescribed by the CMA, as well as whether the issuers have established an appropriate internal process management system for publishing the regulated information that enables orderly and lawful fulfilment of prescribed obligations. Hanfa also carried out targeted examinations related to the obligation to publish issuers'

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

20 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

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

financial statements within the prescribed period, the obligation to include a new issue of shares on the official market and the obligation to publish inside information. Continuous monitoring of the obligation to publish a takeover bid involves verifying whether acquirers of shares in the issuer are obliged to publish a takeover bid as a result of certain acquisition of shares, and whether certain statements are considered to be statements on the intention to publish a takeover bid.

Hanfa conducted 154 off-site examinations of issuers related to transparency i.e. publication of regulated information, 42 off-site examinations related to acquisition and/or disposal of issuers' shares by managing persons and 24 off-site examinations related to acquisition and/or disposal of own shares and other financial instruments of issuers. There were also 11 on-site examinations of issuers focused at handling regulated information.

In cooperation with the Zagreb Stock Exchange and the CCDC, Hanfa organised the eighth annual training session aimed at issuers and focused at regulatory activities connected with reporting, shareholders' rights, MAR, CSDR and details in connection with the obligation of having a legal entity identifier (LEI).

Table 1.3 Regulated and other information submitted to the Officially Appointed Mechanism for the central storage of regulated information (OAM)

Type of information	Number of reports 2016	Number of reports 2017	Change
Annual reports	283	294	11
total audited	232	241	9
consolidated audited	87	93	6
unconsolidated audited	145	148	3
total unaudited	51	53	2
consolidated unaudited	17	20	3
unconsolidated unaudited	34	33	-1
Quarterly reports	795	820	25
consolidated	303	309	6
unconsolidated	492	511	19
Information on changes in the percentage of voting rights	132	99	-33
Acquisition and/or disposal of own shares	209	197	-12
Information submitted by persons performing managerial duties in issuers	195	253	58
Inside information	325	644	319
Inside information – change in disclosed inside information	2	0	-2
Information on changes in number of shares and/or voting rights	14	15	1
Information on number of changes in rights arising from issued securities	1	3	2
Information on new issues of debt securities	5	1	-4
General assembly – information on convocation, counterproposals and decisions	401	433	32
Annual document containing disclosed information	25	2	-23
Other regulated information	610	574	-36
Other information (non-regulated)	233	274	41
List of insiders	51	42	-9
Proof of announcements to the media	2,648	2,839	191
Proposal of amendments to the statute	0	0	0
Statements submitted to Hanfa	3	13	10
Other documents submitted to Hanfa	29	27	-2

Source: Hanfa

Investment firms

2 Investment firms

2.1 Market overview

Although some of the macroeconomic indicators continued to show a positive trend in 2017 (economic growth, decrease of foreign debt and positive outlook for the country's credit rating), the financial markets' segment as regards investment services and financial activities continued to stagnate, which was significantly influenced by the uncertainty of results regarding the restructuring of the Agrokor d.d.. Viewed through the change in the number of legal entities licensed for providing investment services and conducting investment activities, 2017 saw further consolidation of the market.

One investment firm ceased to provide investment services, one credit institution started providing investment services, and two companies managing open-ended investment funds with public offering (hereinafter: UCITS management companies) were licensed to provide investment services, one of which provided such services in 2017.

Table 2.1 Number of active investment firms and credit institutions providing investment services and performing investment activities and UCITS management companies with their registered office in the Republic of Croatia[22,23]

Date	Investment firms	Credit institutions	UCITS management companies
31/12/2015	8	15	7
31/12/2016	8	14	7
31/12/2017	7	15	9

Source: Hanfa

Income from provision of investment services and performance of investment activities[24]

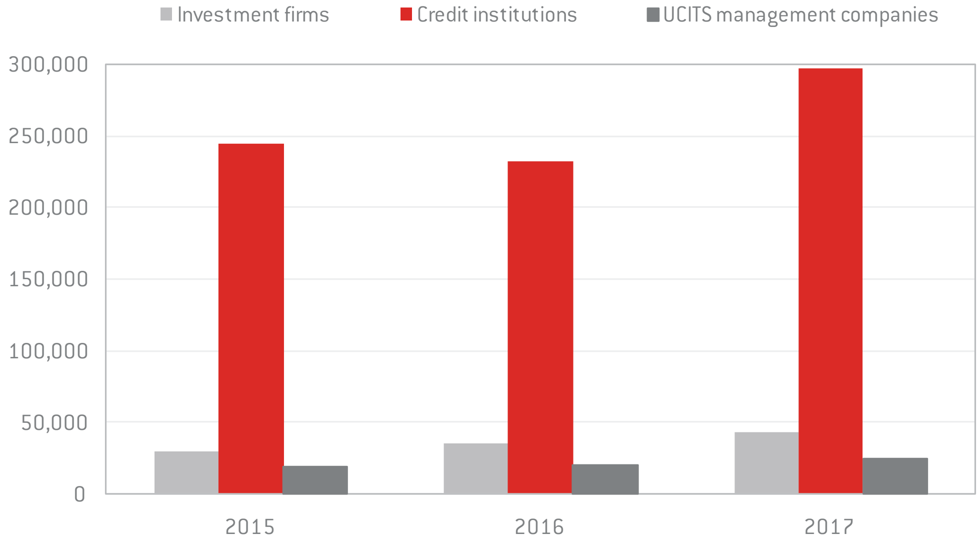
Total income from performing investment activities and ancillary services under Article 5 of the CMA of investment firms, UCITS management companies and credit institutions increased in by 27.1% in 2017 relative to 2016. Increase in income of 21.2% was recorded by investment firms, credit institutions realised income growth of 28.4%, while the income of UCITS management companies grew by 22.1%.

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

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

24 The data for previous years shown in Hanfa's 2017 Annual Report might differ from the data in 2015 and 2016 Annual Reports due to the application of the provisions of the Accounting Act (Official Gazette, No 78/15, 134/15 and 120/16) and International Financial Reporting Standards, due to changes in reporting methodology, as well as actions taken by investment firms in accordance with Hanfa's instructions.

Chart 2.1 Total income of legal persons authorised to provide investment services and perform investment activities from 2015 to 2017 (in HRK thousand)[25]



Source: Hanfa

As regards the total income from investment services and investment activities, investment firms' income accounted for 11.7%, the income of UCITS management companies accounted for 6.6%, while credit institutions income accounted for 81.7%.

As regards investment firms, the most significant item was income from execution of orders on behalf of clients, making up 34.3% of total income and increasing by 19.7% in relation to 2016. The most significant item in the income structure of UCITS management companies was income from portfolio management, making up 98.6% of total income and increasing by 22.2% in 2017. The largest share (22.7%) in the income structure of credit institutions is held by income from underwriting of financial instruments and placing of financial instruments without a commitment basis, which recorded an increase of 17.3% on an annual basis.

Table 2.2 Total income from provision of investment services and performance of investment activities in 2016 and 2017 (in HRK thousand)

	2016				2017			
	Investment firms	Credit institutions	UCITS management companies	Total	Investment firms	Credit institutions	UCITS management companies	Total
Income from reception and transmission of orders and income from execution of orders on behalf of clients	27,348	14,917	0	42,264	20,344	22,782	0	43,126
Income from portfolio management	595	282	19,347	20,864	595	282	23,642	24,519

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

	2016				2017			
	Investment firms	Credit institutions	UCITS management companies	Total	Investment firms	Credit institutions	UCITS management companies	Total
Income from investment advice	0	10	125	135	0	10	94	104
Income from underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis	0	13,756	0	13,756	0	49,221	0	49,221
Income from underwriting of financial instruments and/or placing of financial instruments without a commitment basis	834	57,732	0	58,565	13,375	67,718	0	81,094
Income from safekeeping and administration of financial instruments for the account of clients, including custodianship	1,035	42,006	0	43,041	1,302	38,331	0	39,633
Income from granting credits or loans to investors to allow them to carry out a transaction	95	2,493	0	2,588	137	3,546	0	3,683
Income from advice to undertakings on capital structure, industrial strategy and related matters	3,568	7,513	0	11,082	5,276	1,329	0	6,604

Source: Hanfa

Portfolio management and custody of financial instruments

As at 31 December 2017, as much as 99.4% of total value of assets under portfolio management service related to the assets of UCITS management companies, increasing by 8.7% relative to 2016. Total assets under custody of financial instruments decreased by 2.7% on a yearly basis, with the highest share (98.9%) taken by credit institutions, a decrease of 2.8% annually. The high concentration of financial services presented by types of legal entities is caused by the specialization of legal entities to provide specific financial services.

Table 2.3 Portfolio and custody assets as at 31/12/2016 and 31/12/2017 (in HRK thousand)

	Portfolio management		Change (in %)	Custody of financial instruments		Change (in %)
	31/12/2016	31/12/2017		31/12/2016	31/12/2017	
Investment firms	30,158	29,169	-3.3	646,154	691,026	6.9
Credit institutions	45,357	5,980	-86.8	66,062,392	64,185,070	-2.8
UCITS management companies	5,428,324	5,951,119	9.6	0	0	0.0
Total	5,503,840	5,986,268	8.8	66,708,547	64,876,095	-2.7

Source: Hanfa

Investment firms' annual financial statements

Total assets of investment firms increased by 56% on the annual basis, which was primarily boosted by the increase of financial assets (100.7%), which accounted for 68.4% of total assets of investment firms as at 31 December 2017. Changes in liability structure on an annual basis relate primarily to the increase of total liabilities (94.6%), which accounted for 61.6% investment firms total liabilities.

Table 2.4 Statement of financial position of investment firms as at 31/12/2016 and 31/12/2017 (in HRK thousand)

	Assets	31/12/2016	31/12/2017	Change
1	Tangible and intangible assets and long-term investments	7,143	4,851	-32.1
2	Cash and receivables	27,441	31,569	15.0
3	Financial assets	39,269	78,831	100.7
	Total assets	73,853	115,251	56.1
	Liabilities			
1	Capital and reserves	37,339	44,196	18.4
2	Payables	36,514	71,055	94.6
	Total liabilities	73,853	115,251	56.1

Source: Hanfa

In 2017, investment firms made an after-tax profit of HRK 10.9m, which represents a 381.9% increase compared to the year before. The largest contribution to the growth of total revenues was the increase in net income/expense from commissions and fees with a share of 60.9% and an increase of 41.01%. In the expenses structure, general operating costs accounted for 68% of the total expenses, with an annual increase of 12%.

Table 2.5 Statement of comprehensive income of investment firms for 2016 and 2017 (in HRK thousand)

	2016	2017	Change (in %)
Net income/expenses from fees and commissions	22,599	32,770	45.0
Net realised and unrealised profit/loss	1,561	3,487	123.4
Net interest income/expenses	2,323	1,797	-22.6
Net exchange rate differences	234	-715	-405.4
Total other income	848	3,754	342.5
Total other expenses	24,375	27,316	12.1
Total income	42,295	53,790	27.2
Total expenses	39,115	40,127	2.6
Profit or loss before tax	3,181	13,663	329.6
Profit tax	913	2,733	199.4
Profit or loss	2,268	10,929	381.9
Other comprehensive income	-546	-477	-12.7
Total comprehensive income	1,722	10,453	507.1

Source: Hanfa

Aggregated financial indicators of investment firms

Aggregated financial indicators of investment firms have not changed significantly relative to the previous year, which is the result of weakened activity of market participants. Total debt ratio, return on assets and return on equity increased compared to the previous year, primarily due to significant changes in the financial indicators of only one investment firm. The capital adequacy ratio was reduced compared to the previous year, but it is still higher than the minimum required (8%).

Table 2.6 Aggregated financial indicators

	2016	2017
Ratios (in %)		
Debt ratio	49.6	61.7
Return on assets	3.1	9.5
Return on equity	6.1	24.7
Capital adequacy ratio	50.6	38.3
Amounts (in HRK thousand)		
Total risk exposure	97,193	127,142
Total regulatory capital	22,954	23,217
Aggregated profit/loss	2,268	10,929
Aggregated assets	73,853	115,251

Source: Hanfa

2.2 Hanfa's regulatory activities

2.2.1 Normative activities

Due to the International Financial Reporting Standard 9 coming into use, Hanfa adopted the Ordinance on the structure and content of annual financial statements of investment firms, which applies to reporting periods beginning on 1 January 2018 and onwards. The Ordinance regulates structure and contents of financial reports submitted to Hanfa by investment firms and other external users in order to provide information on their financial position, business performance, cash flows, as well as deadlines and manner of submitting reports to Hanfa.

Hanfa's employees actively participated in the preparation of the new CMA as members of a working group established at the Ministry of Finance. This Act transposes the particularly significant MiFID II[26] and allows the direct application of MiFIR[27], which introduces changes important for the operation of investment firms, such as improving the organisation of such firms, greater post-trading transparency, greater investor protection tailored to the specifics of each investor category, and increasing demands in terms of protecting investors who invest in structured and complex products.

2.2.2 Licensing

Licensing procedures conducted in 2017 included approving or rejecting work authorisations for brokers, investment advisers and tied agents, issuing approvals to carry out the function of an investment firm management board member, and cessation of the provision of investment services and related ancillary services.

At the beginning of 2017, the Croatian National Bank issued an authorisation to a credit institution for providing investment services and ancillary services, on the basis of Hanfa's decision on a prior approval issued in 2016.

Two UCITS management companies started providing portfolio management services, which were approved as auxiliary activities under the Act on Open-Ended Investment Funds with Public Offering and the Alternative Investment Funds Act.

Hanfa issued three decisions approving the appointment of members of investment firm management boards. All three cases concerned the extension of the term for a member of an investment firm management board. Given that it is possible to issue an approval to appoint a member of the management board for a term of office shorter than the one requested in the application, in one case Hanfa decided to do so.

On 31 December 2017, the capital market in the Republic of Croatia included seven investment firms, 15 credit institutions and nine UCITS management companies providing investment advice and portfolio management services as auxiliary activities under the CMA.

At the end of the year, there were 114 issued authorisations for the work of investment advisers and two authorisations for brokerage work, which were entered in the Register of brokers / investment advisers. 11 cessations of conducting business as investment advisor and seven cessations of brokerage activities were also entered into these registers, on the basis of information from the brokers and investment advisors and the companies in which they performed their activities. There were also two changes of employers of brokers or investment advisors, given the possibility of fluctuation of employees within Hanfa's supervised entities (change of broker/investment advisor position within eight days from the termination of employment). Hanfa keeps record of and publishes relevant data also through registers of tied agents and companies authorized to provide investment services and conduct investment activities.

Table 2.7 Authorisations and approvals

Work authorisations issued	2014	2015	2016	2017
Brokers	10	13	4	2
Investment advisors	13	10	13	114
Tied agents	1	3	0	1
Investment firms	1	0	0	0
Approvals for Board Members	7	0	4	3
Prior approvals for credit institutions	2	0	2	0

Source: Hanfa

26 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

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

Table 2.8 Terminations of operating licenses

Terminations of operating licences	2014	2015	2016	2017
Brokers	15	9	7	7
Investment advisors	11	4	6	11
Tied agents	1	1	1	0

Source: Hanfa

Hanfa rejected one request for issuing a broker's license, since the applicant did not meet all the conditions for issuing the authorization prescribed by the Capital Market Act and bylaws at the time of decision-making.

At end-2017, one request for the authorisation to conduct business as a tied agent was rejected because the requesting company as a legal entity did not meet one of the prescribed conditions of good reputation required to issue the authorisation. An on-site examination initiated mid-year established that the applicant provided investment services and activities without having an authorisation to do so.

One investment firm was issued a decision on termination of its work authorisation based on the request submitted by the investment firm owner for the termination of the authorisation to provide investment services and related ancillary services. At the same time, the firm applied for and was issued an authorization to conduct business as a tied agent for promotional services, offers of investment firm services, receiving and transmitting orders from clients or prospective clients, placement of financial instruments and advice in respect of financial instruments or services offered by the investment firm.

In the past year Hanfa continued to receive notifications from supervisory authorities of other member states on the direct provision of investment services and investment activities and related ancillary services of investment firms with registered offices outside the Republic of Croatia in the Republic of Croatia. In 2017, Hanfa received 158 notices of intention to directly provide investment services and five notices on ceasing the provision of such services in the Croatian territory. At end-2017, there were 696 investment firms with their registered offices in Member States, authorised to directly provide certain investment services on the Croatian territory since the accession of the Republic of Croatia to the European Union.

Table 2.9 Notifications by Member States

Member State	Number of received notifications in 2016	Number of received notifications in 2017
United Kingdom	122	96
Cyprus	31	52
France	5	3
Germany	3	2
The Netherlands	3	2
Malta	2	2
Other	7	6

Source: Hanfa

Any investment firm with its registered office in the Republic of Croatia may establish a branch in another Member State. One investment firm submitted a request for notification to the competent body of a Member State, but Hanfa rejected it due to supervision procedure over this firm, and violations and irregularities that were found in its operations.

One investment firm with its registered office in the Republic of Croatia indicated its intent to directly provide investment services and investment activities in the EU member states, by sending a notification to Hanfa, which forwarded it to competent authorities of respective Member States. Provision of investment services and conduct of investment activities in Member States began on the day of receiving the notification by competent authorities of those States.

2.2.3 Supervision

In the past year, the supervision of investment firms' business operations was focused on controlling investment services, protecting client assets, monitoring activities of firms from the EU Member States and firms from third countries, and informing the public about risks of accepting offers from unauthorised firms, as well risks of trading in speculative financial instruments.

2.2.3.1 On-site supervision

In 2017, Hanfa initiated five regular on-site examinations of investment firms, UCITS management companies and credit institutions, with respect to the provision of investment services pursuant to the Capital Market Act. Two full-scope on-site examinations and one targeted on-site examination were carried out in investment firms, while UCITS management companies and credit institutions were subject to one full-scope on-site examination each. Apart from examinations of firms authorised to provide investment services, Hanfa also initiated two on-site examination procedures over firms, for the purpose of determining whether they provided investment services on the territory of the Republic of Croatia without an authorisation.

On the basis of the on-site examinations conducted, Hanfa issued one decision establishing the unauthorised provision of investment services, and one decision concerning the termination of supervisory process, as the supervised firm had filed a request for the termination of the work authorisation as an investment firm. The remaining supervisory procedures are still ongoing. As regards supervisory examinations that had been initiated in 2016, three decisions with supervisory measures were issued: one ordering the elimination of violations and irregularities, one with a warning and one with a special supervisory measure. It also issued eight decisions concerning supervisory processes that had started in 2017 and earlier, where violations and irregularities have been eliminated or had not been found.

After the supervisory procedure, a decision was made to prohibit one investment firm from providing investment services of receiving and transmitting orders and execution of orders on behalf of clients, with respect to derivatives for a period of two years. During that period, the investment firm is prohibited from bringing current and potential clients in connection with other firms, in relation to trading in derivatives. All promotional and advertising activities with respect to derivatives are also banned. In order to protect the interests of clients who were offered derivative investment services, Hanfa issued a decision ordering that, after arranging relationships with clients, in accordance with a client's order, open position should be closed or transferred to another investment firm and that the available funds should be paid to clients as regards the service in question.

Derivatives are speculative financial instruments whose trading often takes place outside the regulated market, on the so-called OTC market.

Derivatives markets allow traders to utilise leverage, allowing them to take a larger position while investing less money, thus maximising the potential profits, but also the losses.

In the wake of globalization, more and more attempts are being made by firms from the EU and third countries to offer their services to investors in the Republic of Croatia in order to expand their existing customer base and increase revenue. Most often, they are offering trading with complex financial instruments (derivatives), which are highly risky and are generally unsuitable for average investors. By using advanced technology, potential customers are able to access and start trading on the global financial market in an easy way, via online platforms. When providing services at the local level, foreign firms seek partners on the domestic market (domestic legal entities), which attract new customers and offer support before establishing business relationship with the foreign firm, and during the trading process. Quite often, such manner in which foreign firms provide services in the Republic of Croatia and such model of cooperation with domestic legal entities is not in line with the provisions of the CMA. In this regard, on the basis of information from regular activities or reports received from injured parties, Hanfa launches examinations of companies suspected of unauthorised provision of investment services.

Pursuant to the provisions of the CMA, an investment firm with its registered office in another EU Member State may, under certain conditions, provide investment services in the territory of the Republic of Croatia only in the following manner:

- *directly (after notification from a foreign regulatory authority)*
- *through a branch*
- *through a tied agent with registered office or permanent residence in the Republic of Croatia and with the approval of Hanfa*
- *through an investment firm or a credit institution that are authorised by Hanfa or the Croatian National Bank to provide investment services.*

Two targeted on-site examinations were conducted over domestic legal entities that had entered into business relationship with foreign investment firms and received a fixed monthly fee, or a fee per new client for their services. It was found that employees of domestic legal entities contacted domestic investors, offering them investment in foreign shares, mainly derivatives of shares such as contracts for differences, emphasising that they could earn big profits. On the basis of the examinations conducted, it was established that domestic legal entities had provided investment services without an authorisation. Hanfa notified relevant supervisory authorities about activities of foreign investment firms in question.

During the past year, Hanfa issued six public warnings on the activities of firms that offered services of trading in financial instruments without authorisation or Hanfa's approval. Given the increasing presence of offers in trading with speculative financial instruments by marketing agencies, Hanfa also issued a public warning about the risks of accepting such offers, and pointed attention to a warning from a foreign intelligence agency.

2.2.3.2 Off-site supervision

Within the framework of off-site supervision, Hanfa collected, analysed and processed investment firms' monthly reports on net liquid assets and quarterly reports submitted by investment firms, credit institutions and UCITS management companies on income and expenses arising from the provision of investment services and performance of investment activities, and on the management of clients' assets. These activities included the analysis of quarterly financial statements as well as quarterly reports on capital adequacy and exposure of investment firms. Data on clients' assets protection (funds control) was controlled on a weekly basis by Hanfa, with a periodic review of the documentation supporting the submitted data.

Hanfa assessed recovery plans of its supervised entities. Recovery plans must be developed by investment firms with the initial capital in the amount of HRK 6m, significant investment firms and investment firms ordered by Hanfa to develop such plans. In 2017, Hanfa assessed recovery plans of two investment firms that fulfilled requirements on the initial capital. This included determining their completeness and quality, taking into account the fact that these firms were not significant investment firms and consequently, they can make a recovery plan of a smaller scope. Investment firms are obliged to update their recovery plans at least once a year, and in case of changes in their recovery plans they must submit them to Hanfa for re-assessment. In order to protect clients' assets, Hanfa carried out control of compliance of financial instruments of investment firms and credit institutions' clients.

2.2.4 Examinations taken by candidates for brokers and investment advisors

Hanfa organised an educational programme which included lectures for certified pension fund managers, certified managers of pension insurance companies, brokers and investment advisors. The programme was attended by nine candidates.

Hanfa organised an examination cycle for brokers and an examination cycle for investment advisors. Both examination cycles consisted of two examination terms. The examinations for brokers were taken by 13 candidates, and passed by five of them. The examinations for investment advisors were taken by 138 candidates, and passed by 52 of them.

Investment funds

3 Investment funds

3.1 Market overview

In 2017, the net assets of UCITS increased. Compared to the end of the previous year, there is a clear decrease in the assets of cash funds in favour of bond funds. The reasons for this change can be found in the low interest rate environment, which is causing cash funds to have poorer yields, along with a relatively high yield on domestic bonds issues, making bond funds more profitable, and as such becoming more attractive to investors. In the first half of 2017[28], the net assets of AIFs recorded an increase. The reason for this is the beginning of work of newly founded AIFs with private offering i.e. significant net payments into these funds. In 2017, the AIF market was marked by the foundation of new funds (nine of them), which was a significant increase in the number of funds relative to the year before.

There are two types of investment funds in the Republic of Croatia: open-ended investment funds with public offering (hereinafter: UCITS) and alternative investment funds (hereinafter: AIFs). UCITS and AIFs are managed by companies managing open-ended investment funds with public offering (hereinafter: UCITS management companies) i.e. managers of alternative investment funds (hereinafter: AIFMs).

UCITS has no legal personality, and is established by a management company which manages it in its own name and for the account of holders of units in those assets, pursuant to provisions of the Act on Open-Ended Investment Funds with Public Offering (Official Gazette, No 44/16), prospectus and fund rules. UCITS are established for the purpose of raising cash by offering units in the fund through a public offering to all interested investors. Funds collected from investors are invested in transferable securities or other types of liquid financial assets, while observing the principle of risk distribution. Depending on changes in the value of assets in the UCITS, investors earn a return and, in addition to the right to a proportional share in the fund's profit, may require the redemption of units and exit the fund.

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

Each open-ended and closed-ended investment fund operating in the Republic of Croatia must have a depository, which carries on a series of activities for the fund, involving safekeeping of separate fund assets, keeping of separate accounts for the fund's assets, and other activities in accordance with the provisions of the Act on Open-Ended Investment Funds with Public Offering and the Alternative Investment Funds Act (Official Gazette, No 21/18). Duties of depositaries in the Republic of Croatia are carried out by credit institutions.

3.1.1 Management companies

As at 31 December 2017, there were 21 registered investment funds management companies[29] [30], same as in 2016. Nine companies managed UCITS and AIFs, five companies managed only UCITS and seven companies managed only AIFs.

Investment fund management companies realised an after-tax profit in the amount of HRK 52m,

28 The deadline for the submission of revised annual financial statements of AIFs with private offering in accordance with legal provisions is 30 June 2018, therefore, this report uses unrevised data on the status of AIFs' assets as at 30 June 2017.

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

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

a decrease of 12% compared to 2016. Net results from fees from investment funds management recorded a decrease of 3.8%, resulting from the increase in fund management expenditure of 13.4%. Management companies are largely financed from own funds (capital and reserves make up 83.5% of liabilities), and most of the assets of management companies are invested in financial assets (73.3% of total assets)[31].

3.1.2 Open-ended investment funds with public offering

In 2017, the increasing trend regarding the number of UCITS continued. There were five mergers recorded in Hanfa's register, while nine new UCITS were established. Two of the nine funds were bond funds, two were cash funds, one was equity fund, and one was balanced while three funds were categorized as other. As at 31 December 2017, three funds were in the process of liquidation.

Table 3.1 Comparison of the number of UCITS as at 31/12/2016 with that as at 31/12/2017

UCITS	31/12/2016	31/12/2017
Cash	20	22
Bond	15	16
Balanced	8	9
Equity	26	26
Other	22	22
Total	91	95

Source: Hanfa

Table 3.2 Net assets of UCITS as at 31/12/2016 and 31/12/2017 (in HRK thousand)

	31/12/2016	31/12/2017	Share (%)	Change (in %)	Payments in 2017	Pay-outs in 2017
UCITS	18,440,776	18,499,606		0.3	18,511,521	18,620,551
Cash	11,111,297	8,671,882	46.9	-22.0	12,693,813	15,469,677
Bond	4,048,794	6,261,893	33.8	54.7	4,321,155	2,067,673
Balanced	866,564	884,054	4.8	2.0	182,112	132,333
Equity	1,790,136	1,913,771	10.3	6.9	971,497	767,305
Other	623,985	768,006	4.2	23.1	342,944	183,563

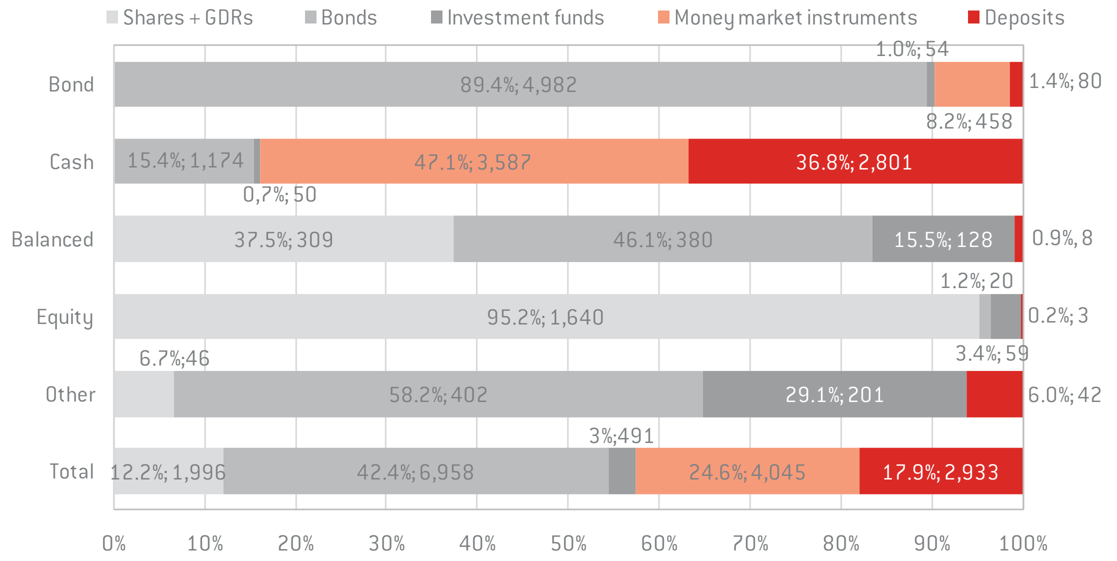
Source: Hanfa

Increase in net assets of UCITS funds was mostly due to the increase in net assets of bond funds, because of relatively high net payments into existing funds. On the other hand, the category of cash funds recorded a decrease in the total value of net assets in the amount of HRK 2.4bn, which can be connected with relatively high net payments from funds.

The performance of UCITS observed in the currency of their unit value shows that, at end-2017, equity funds recorded returns ranging from -22.7% to 23.6%. 12 funds recorded negative returns. Balanced investment funds recorded returns ranging between -6.7% and 6.9%. As a result of unchanged monetary policy in the Eurozone the returns of cash funds stayed at extremely low levels. Majority of cash funds recorded positive returns, ranging up to 1%, two cash funds recorded negative returns as low as -0.9%, while one cash fund recorded extremely low returns of -7.6%. Bond funds recorded returns ranging between -3.5% and 5.3%. Funds categorized as other funds achieved yields in the range from -3.1% to 8.3%, due to their diverse investment strategies.

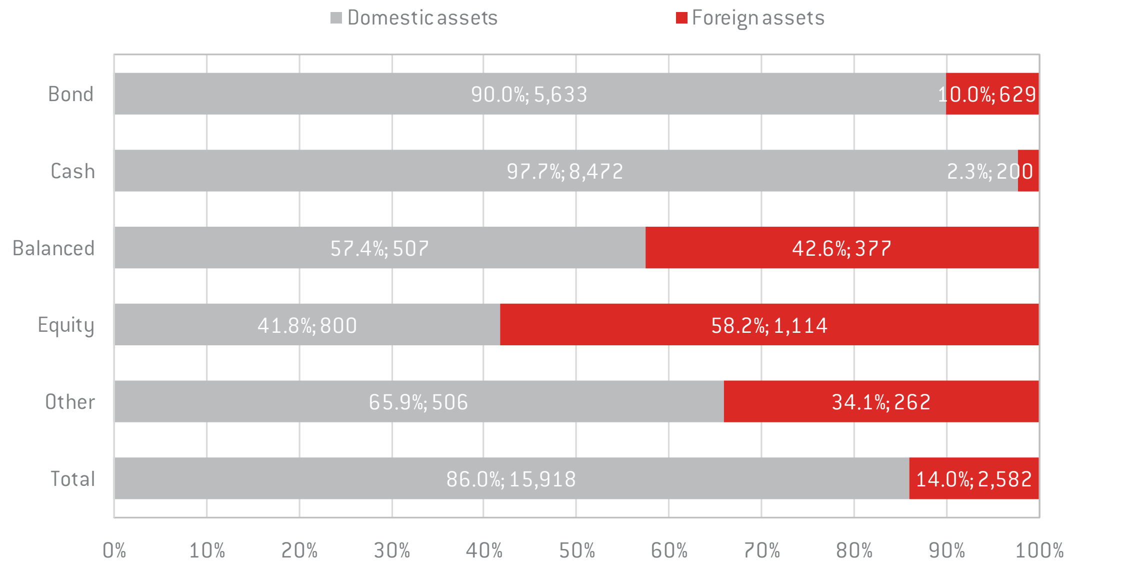
31 The Statement of financial position and the Statement of comprehensive income of investment fund management companies are provided in the Appendices.

Chart 3.1 Investment structure of UCITS as at 31/12/2017 (in % and in HRK million)



Source: Hanfa

Chart 3.2 Share of domestic and foreign assets in UCITS net assets as at 31/12/2017 (in % and in HRK million)



Source: Hanfa

The share of domestic assets in UCITS total net assets at the end of 2017 further decreased compared to the previous year and amounted to 86%. The reason for the still high share of domestic assets lies mostly in the fact that the assets of cash funds (46.9%) and bond funds (33.8%) accounted for the larger part of UCITS funds' assets (80.7%), and these funds were not exposed to foreign markets to a significant extent, at end-2017. Investments in foreign assets primarily related to investments in shares, bonds, and to a lesser degree, investment funds. Equity funds' portfolios were dominated by investments in foreign assets, i.e. shares and, to a smaller extent, equity investment funds. Significant investors in foreign assets were balanced funds and funds categorized as other funds. They invested primarily in shares and investment funds. Bond funds were not heavily exposed to foreign assets, but the portion of their portfolios exposed to foreign securities (10%) was mostly related to foreign government bond investments (8.8%).

3.1.3 Alternative investment funds

In 2017, nine AIFs were founded in the Republic of Croatia, all of them categorized as open-ended alternative funds with private offering. One fund was categorized as a basic AIF, while eight funds were categorized as special-type AIFs, seven of which were hedge funds and one was a fund for sovereign debt investment.

Table 3.3 Comparison of the number of AIFs as at 31/12/2016 with that as at 31/12/2017

AIF	31/12/2016	31/12/2017
Private offering	25	34
basic	9	10
hedge (special types)	7	14
venture capital (special types)	1	1
fund for sovereign debt investment (special types)	0	1
risk capital (special types)	2	2
risk capital – economic cooperation (special types)	5	5
closed-ended	1	1
Public offering	5	5
open-ended	2	2
closed-ended real estate	1	1
closed-ended	2	2
Total	30	39

Source: Hanfa

Table 3.4 Net assets of AIFs as at 31/12/2016 and 30/06/2017 (in HRK thousand)

AIF	31/12/2016	Share (%)	30/06/2017	Share (%)	Absolute change	Change (in %)
Private offering	2,894,991	89.5	3,258,954	91.2	363,963	12.6
basic	417,036	12.9	464,300	13.0	47,264	11.3
hedge (special types)	124,801	3.9	317,110	8.9	192,309	154.1
venture capital (special types)	6,585	0.2	48,107	1.3	41,522	630.6
fund for sovereign debt investment (special types)	0	0.0	44,406	1.2	44,406	-
risk capital (special types)	76,101	2.4	26,390	0.7	-49,711	-65.3
risk capital – economic cooperation (special types)	1,042,165	32.2	1,090,628	30.5	48,463	4.7
closed-ended	1,228,303	38.0	1,268,012	35.5	39,709	3.2
Public offering	340,922	10.5	314,682	8.8	-26,240	-7.7
open-ended	50,934	1.6	49,920	1.4	-1,014	-2.0
closed-ended	219,293	6.8	187,858	5.3	-31,435	-14.3
closed-ended real estate	70,694	2.2	76,904	2.2	6,210	8.8
Total	3,235,912	100.0	3,573,636	100.0	337,724	10.4

Source: Hanfa

3.1.4 Funds established under special acts

After the increase in net assets the Fund for Croatian Homeland War Veterans and Members of their Families in 2016, 2017 saw a 3.7% decrease in assets, as a result of market developments. At end-2017 (on 28 December 2017), net assets of the Retired Persons' Fund stood at HRK 188m. This fund stopped operating on 28 December 2017.

Table 3.5 Investment funds established under special acts as at 31/12/2016 and 31/12/2017 / 28/12/2017 (net assets in HRK thousand)

Investment fund	Net assets 31/12/2016	Net assets 31/12/2017 / 28/12/2017
Fund of Croatian Homeland War Veterans and Members of their Families	818,883	788,925
Retired Persons' Fund	190,813	188,909

Source: Hanfa

3.2 Hanfa's regulatory activities

3.2.1 Normative activities

Changes to the existing legal framework regarding alternative investment funds

In 2017, Hanfa participated in the preparation of the draft new Alternative Investment Funds Act (hereinafter: the new AIFA). As a result of previous practice and experience, this Act introduced three categories of AIFMs (small, medium-sized and large) in order to facilitate and simplify the establishment and operation of small and medium-sized AIFMs, introducing the possibility of establishing a closed-ended AIF without legal personality, improving the provisions related to licensing procedures, with relevant procedures being simplified, and introducing changes in the distinctiveness of AIFs, for the purpose of further development and growth of the investment fund market, as well as disburdening the supervised entities. Categories of AIFMs mutually differ with respect to size of assets under AIFM management and with respect to the category of investors to whom shares of certain AIFMs can be offered. It also enabled the implementation of the European Venture Capital Funds Regulation[32] and the European Social Entrepreneurship Funds Regulation[33] by designating Hanfa as the competent authority for the managers and funds concerned and it defined misdemeanour provisions. This was prescribed by the Act Implementing the European Venture Capital Funds Regulation[34] and the Act implementing the European Social Entrepreneurship Funds Regulation[35], while under the new AIFA, everything regarding AIFs shall be defined under a single regulation. It amended provisions regarding cross-border activities and marketing of units of AIFs, and it more clearly delimited responsibilities and competences of Hanfa and of foreign regulators.

Regulations adopted under the Act on Open-Ended Investment Funds with Public Offering and the Alternative Investment Funds Act[36]

The Act on Open-Ended Investment Funds with Public Offering was adopted on 29 April 2016, and it came into force on 19 May 2016. Pursuant to the final provisions of this Act, Hanfa was obliged to adopt implementing regulations within 12 months from the date of its entry into force. Hanfa adopted some of the implementing regulations in 2016, but most of them were adopted in 2017. Implementing regulations (ordinances) regulate the following areas

– determining the net asset value of UCITS and the price of UCITS units

32 Regulation (EU) No 345/2013 of the European Parliament and of the Council of 17 April 2013 on European venture capital funds, OJ L 115

33 Regulation (EU) No 346/2013 of the European Parliament and of the Council of 17 April 2013 on European social entrepreneurship funds, OJ L 115

34 Official Gazette, No 123/13

35 Official Gazette, No 123/13

36 The list of ordinances adopted by Hanfa in 2017 is provided in the Appendices.

– structure and contents of annual and semi-annual reports and other reports of UCITS
– structure and contents of annual and semi-annual reports and other reports of UCITS management companies
– forced delegation of UCITS management
– status changes of UCITS management companies
– form and amount of regulatory capital of UCITS management companies
– register of UCITS management companies and UCITS with Hanfa's authorisation for work i.e. approval for establishment and management.
– procedure for compensating investors in UCITS and/or compensating UCITS
– carrying out tasks of the UCITS depositary
– issuing authorisation for work and acquisition of qualifying holdings in UCITS management companies
– liquidation procedure and conditions for and manner of termination, extension and shortening of UCITS duration
– organisational requirements for UCITS management companies
– conditions for conducting activities of offering units in UCITS
– units in UCITS
– conditions for membership of the management and supervisory board of UCITS management companies
– issuing authorisations for the establishment and management of UCITS and changes of the prospectus and rules of UCITS

Pursuant to the AIFA, Hanfa adopted new ordinances that regulate:

– determination of net asset value and unit price of alternative investment funds
– structure and contents of annual and semi-annual reports and other reports of AIFs
– structure and contents of annual and semi-annual reports and other reports of AIFMs
– form and amount of capital of AIFMs.

New ordinances on the basis of the AIFA were adopted due to entry into force of the International Financial Reporting Standard 9 Financial Instruments, adopted pursuant to the Commission Regulation (EU) 2016/2067[37], which repeals the application of the International Accounting Standard 39 Financial Instruments: Recognition and Measurement, adopted pursuant to the Commission Regulation (EC) No 1126/2008[38], and due to entry into force of the Commission Delegated Regulation (EU) 2015/488[39]. This is why new ordinances have been adopted, pursuant to the AOEIF and regulating the subject in question.

As a part of the digitisation project, a new digitised method of receiving documentation was introduced, which led to adopting amendments to the ordinances adopted pursuant to the AOEIF, and amendments to the ordinances adopted pursuant to the AIFA, with the aim of enabling a faster and more straightforward submission of requests and documents to Hanfa, electronically via web forms.

Hanfa participated in the preparation of the Draft Act Implementing Regulation (EU) 2015/2365 on transparency of securities financing transactions and of reuse, the preparation of the Draft Act repealing the Act on Retired Persons' Fund, as well as the working group for the preparation of the Draft Act Implementing Regulation (EU) No 1286/2014 on key information documents for packaged retail and insurance-based investment products.

Hanfa's employees gave their opinion on the Draft Act on Amendments to the Act on Collection, Processing, Connection, Use and Exchange of Data on Receipts and Public Payments per Insured Persons, the Act on Amendments to the Act on Collection, Processing, Connection, Use and Exchange of Data on Receipts and Public Payments per Insured Persons, the Act on Amendments to the Act on the

37 Commission Regulation (EU) No 2016/2067 of 22 November 2016 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 9, OJ L 323

38 Commission Regulation (EC) No 1126/2008 of 3 November 2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council, OJ L 320

39 Commission Delegated Regulation (EU) 2015/488 of 04 September 2014 amending Delegated Regulation (EU) No 241/2014 as regards own funds requirements for firms based on fixed overheads, OJ L 78

Central Registry of Affiliates and the Act on the Transfer of Pension Rights. They also issued one opinion on the implementation of the AIFA.

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

Hanfa continued participating in the working group in charge of drafting a new Act on the Fund of Croatian Homeland War Veterans and Members of their Families. The current Act on the Fund of Croatian Homeland War Veterans and Members of their Families[40] was adopted more than ten years ago. It was amended twice, in 2004 and 2008. An analysis of the current situation has determined that comprehensive interventions are needed, given the fact that during the application of this Act some issues arose that were not fully regulated, as well as to ensure the transparent and efficient operation of the Fund.

Participation in the work of EU institutions

Hanfa took part in the design of regulatory technical standards for the Commission Delegated Regulation (EU) 2017/653[41]. It also participated in the work of the Investment Management Standing Committee of the European Securities and Markets Authority (ESMA) by elaborating advice for the European Commission, technical standards, guidelines and opinions, consultation papers and various surveys of practices, as well as recommendations regarding the UCITS IV Directive[42], UCITS V Directive[43] and AIFMD[44], and by preparing draft amendments to the Regulation on European venture capital funds and the Regulation on European social entrepreneurship funds.

3.2.2 Licensing

As a part of licensing procedures, Hanfa issued work authorisations and extensions thereof, authorisations for status changes of UCITS management companies, approvals for the establishment and operation of UCITS and authorisations for UCITS as regards selection of depositaries, rules and prospectus, significant amendments to the prospectus, change of depositary, delegation of management tasks, mergers of UCITS and inclusion of current UCITS funds into the umbrella fund. Licensing also related to the analysis of documents in the process of granting exemptions from the investment restrictions referred to in Article 250b of the Act on Open-Ended Investment Funds with Public Offering. Hanfa issued one approval for the delegation of management company's tasks to third parties and one approval for exemption from the provisions of Article 53(2)(3) of the AOEIF.

It also issued a work authorisation for an AIFM and approvals for the following: the establishment and operation AIFs, changes to rules of AIFs, selection and change of AIF's depositary, inclusion of AIFs into the umbrella fund and for the voluntary transfer of AIF's management tasks to another AIFM from the Republic of Croatia.

Licensing operations also included approvals for management board members of UCITS management companies and of AIFMs, and approval for the acquisition of a qualifying holding in a UCITS management company and an AIFM.

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40 Official Gazette, No 163/03, 82/04 and 41/08

41 Commission Delegated Regulation (EU) 2017/653 of 08 March 2017 supplementing Regulation (EU) No 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products (PRIIPs) by laying down regulatory technical standards with regard to the presentation, content, review and revision of key information documents and the conditions for fulfilling the requirement to provide such documents, OJ L 100

42 Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), OJ L 302

43 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

44 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

Hanfa received a total of 28 notifications from competent authorities of other Member States relating to the intention to conduct cross-border marketing of units of investment funds or to carry out investment fund management activities. Four notifications concerned UCITS, while 24 notifications concerned AIFs. Since the accession of the Republic of Croatia to the European Union until the end of 2017, Hanfa received a total of 122 notifications relating to the intention to conduct cross-border marketing of units of investment funds i.e. to carry out investment fund management activities, of which 114 notifications related to AIFs and eight related to UCITS.

On its website, Hanfa published a list of financial service providers from other EU Member States who have submitted a notification of their intent to provide services in the Republic of Croatia. During 2017, Hanfa received notifications from 13 firms about their withdrawal from cross-border marketing of units of investment funds, i.e. from carrying out investment fund management activities in the Republic of Croatia, and those firms were removed from the list on Hanfa's internet site.

Table 3.6 Comparison of the number of cases relating to licensing procedures with respect to the operation of investment fund management companies in 2016 with that in 2017

Licensing procedure	2016	2017
Authorisation for operation of a UCITS management companies and authorisation for operation of AIFM	0	1
Authorisation for operation of a small AIFM	2	0
Termination of operating licence	1	0
Approval of the establishment and operation of UCITS	11	9
Authorisation for establishment and operation of AIF	0	9
Approval for selection of depositary bank	11	18
Approval for change of depositary bank	3	1
Approval of Agreement with the depositary bank	3	0
Liquidation of funds	1	0
Approval for the inclusion of UCITS into the umbrella fund	0	2
Approval for the inclusion of AIFs into the umbrella fund	0	2
Approval for merger of funds	2	3
Approval for exemptions from the investment restrictions referred to in Article 256 of the AOEIF	8	7
Approval to carry out the functions of a management board member	17	16
Approval of the prospectus and prospectus amendments	14	11
Approval of the rules of the fund and of their amendments	18	19
Approval for delegating tasks to a third party	1	1
Approval for the acquisition of a qualifying holding in the management company	1	4
Approval for the company's status change (merger)	0	1
Approval for the exemption from the provisions of Article 53(2)(3) of the AOEIF	0	1
Authorisation/approval for the delegation of fund management tasks	3	2
Approval for the extension of work authorisation of UCITS management companies	0	1

Source: Hanfa

3.2.3 Supervision

3.2.3.1 On-site supervision

In 2017, Hanfa continued with on-site examinations that had started in 2016, of one UCITS and AIF management company, which focused on checking the investment process and investment of funds' assets, mechanisms of internal control, including risk management function, function of compliance with relevant regulations and the internal audit function, management of conflicts of interest and personal transactions, as well as controlling the prevention of money laundering and terrorist financing and the conduct of international restrictive measures.

In 2017, a full-scope on-site examination of a UCITS management company was initiated, which included the risk management system and the compliance function, as well as of another UCITS and AIF company, which included general organisational conditions, investment process and asset investment of funds, and mechanisms of internal control.

Hanfa also initiated two separate targeted on-site examinations of one company managing AIFs and economic cooperation funds. The examinations focused on fund assets management and related risks, handling of conflicts of interest and activities concerning fund investor relations, regarding the investment of assets, and the verification whether investments of fund assets were connected with Agrokor d.d. and its affiliated and subsidiary companies. On 11 January 2018, this company's authorisation for work, i.e. management of economic cooperation funds was withdrawn, and the existence of conditions for a forced delegation of management tasks was determined.

Hanfa continued with on-site examinations of credit institutions that had started in 2016, regarding depository activities of UCITS and AIFs, with a focus on safekeeping and administration of financial instruments for the account of clients, including custodianship and related services.

3.2.3.2 Off-site supervision

Off-site supervision of investment funds and investment fund management companies was based on the analysis of daily and periodic reports on business operations and the analysis of annual financial statements of investment fund management companies and investment funds audited by an independent certified auditor, as well as the analysis of other information collected from supervised entities. The objective of the analyses was to verify whether supervised entities aligned with the provisions of the AOEIF, AIFA, related subordinate regulations and their own internal documents, prospectuses and rules of certain investment funds.

Off-site examinations focused on the advertising material of UCITS; on Key Investor Information Documents (KIID) with respect to the Investment Policy Descriptions and Controls of Synthetic Risk and Performance Indicators (SPRU); checking the correctness of monthly reports for investors; overseeing the use of financial leverage by AIFs; supervision of audited annual financial statements with an emphasis on costs incurred by funds; supervision of records of complaints regarding the record-keeping and content of complaints; monitoring liquidity of a selected sample of UCITS; disclosure of additional information under the obligation from the SFTR[45] – disclosures in financial statements; supervision of delivery and correctness of the data provided in reports as regards the net asset value of UCITS and the price of UCITS (NAV reports); and the control of the investment restriction and valuation of funds' assets with respect to the securities issued by the Agrokor d.d. In addition to off-site examinations of UCITS and AIFs, Hanfa also reviewed the annual Report on the operations of the Fund for Croatian Homeland War Veterans and Members of their Families.

Due to violations and irregularities, six reports on off-site examinations of supervised entities were drawn, after which violations and irregularities were removed in one part. In four cases Hanfa issued decisions with warnings to management companies and AIFMs for failing to initiate winding-up proceedings of UCITS as a result of net assets of UCITS less than HRK 5m, and for charging the management fee contrary to the fund prospectus. One decision ordered a management company to provide information on the cost of using the stock exchange index, to disclose the information prescribed by the International Financial Reporting Standard 7, and, when compiling annual financial statements of UCITS, to disclose the maximum percentage of management fee charged to foreign UCITS in whose units the fund invested. Hanfa also issued a warning to a UCITS depositary for delivering incorrect data to Hanfa as part of reports on the calculation of net asset value of UCITS and the price of UCITS.

45 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

Pillar 2 and Pillar 3 pensions and pension payments

4 Pillar 2 and Pillar 3 pensions and pension payments

4.1 Market overview

The mandatory and voluntary pension insurance market[46] has been rising since the beginning of the pension reform and as at 31 December 2017, total net assets of mandatory and voluntary pension funds amounted to HRK 96.7bn, which is a HRK 8.2bn increase compared to the end of the previous year. These positive trends were primarily related to mandatory payments into pension pillar 2.

4.1.1 Mandatory pension funds

Same as in previous several years, at end-2017, there were four mandatory pension companies operating in the Republic of Croatia. Each company managed one mandatory pension fund belonging to each of the categories A, B and C.

The Croatian pension insurance system based on individual capitalized savings, i.e. the establishment and management of mandatory and voluntary pension funds (known as pension insurance pillar 2 and 3) is regulated by the Mandatory Pension Funds Act (Official Gazette, No 19/14) and Voluntary Pension Funds Act (Official Gazette, No 19/14) which entered into force in February 2014, repealing the Mandatory and Voluntary Pension Funds Act.

A mandatory pension fund is a fund established, on the basis of Hanfa's authorization, by the mandatory pension company and managed by it in the name of the company and for the joint account of the fund's members, in accordance with the Mandatory Pension Funds Act. A mandatory pension fund may belong to one of the categories A, B or C, which differ with respect to the duration of the fund membership until the retirement of the member, and consequently with respect to investment strategies. Category A funds are permitted to be exposed to stock markets in the amount of up to 55% of their net assets, category B funds up to 35% of their net assets, while category C funds are not permitted be exposed to shares.

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

Table 4.1 Mandatory pension fund (MPF) membership and activities in 2017

Categories of MPFs	A	B	C	Total
Balance as at 31 Dec 2016	5,369	1,755,823	22,977	1,784,169
First registrations	243	998	89	1,330
Subsequently completed registrations	0	53	1	54
Allocation by REGOS	0	64,556	0	64,556
Total new members	**243**	**65,607**	**90**	65,940

46 Historical data in Hanfa Annual Report for 2017 may differ from data in previous Hanfa's annual reports due to application of provisions of the Accounting Act (Official Gazette, No 78/15, 134/15 and 120/16), International Financial Reporting Standards, changes in reporting methodology, as well as due to actions taken by investment firms in accordance with Hanfa's instructions.

Categories of MPFs	A	B	C	Total
Transfers to another category within the same fund	64	8037	5	8,106
Transfers from categories within the same fund	327	66	7,713	8,106
Net change	**263**	**-7,971**	**7,708**	0
Transfers to another fund	42	373	0	415
Transfers from other funds	42	373	0	415
Total termination of membership	1	2,755	3,081	5,837
Balance as at 31 Dec 2017	5,874	1,810,704	27,694	1,844,272
Annual change (in %)	9.4	3.1	20.5	3.4

Source: REGOS

Data from the Central Registry of Affiliates (hereinafter: REGOS) reveal that mandatory pension fund members are still quite reluctant to participate in the selection of their mandatory pension fund.

Table 4.2 Net assets of mandatory pension funds as at 31/12/2016 and 31/12/2017 (in HRK thousand)

	31/12/2016	31/12/2017	Change (in %)
MPF category A	506,297	589,546	16.4
MPF category B	80,624,190	87,374,803	8.4
MPF category C	3,048,878	3,960,196	29.9
Total	84,179,365	91,924,545	9.2

Source: Hanfa

As at December 31 2017, total net assets of mandatory pension funds increased by HRK 7.7bn in comparison with the previous year, with an increase of HRK 5.7bn (73.1%) relating to net payments of members' contributions, while the increase in net assets of HRK 2.1bn (26.9%) resulted from returns achieved by mandatory pension funds.

Table 4.3 Payments to and from mandatory pension funds in 2017 (in HRK thousand)

Categories of MPFs	A	B	C	Total
Net contributions	36,796	5,471,194	155,474	5,663,464
Payments from other funds	38,213	36,017	964,841	1,039,071
Disbursements to other funds	15,455	1,022,731	493	1,038,679
Disbursements of funds upon adjustments	246	35,871	541	36,658
Disbursements of funds upon the closure of personal accounts	75	201,367	418,875	620,316

Source: REGOS

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

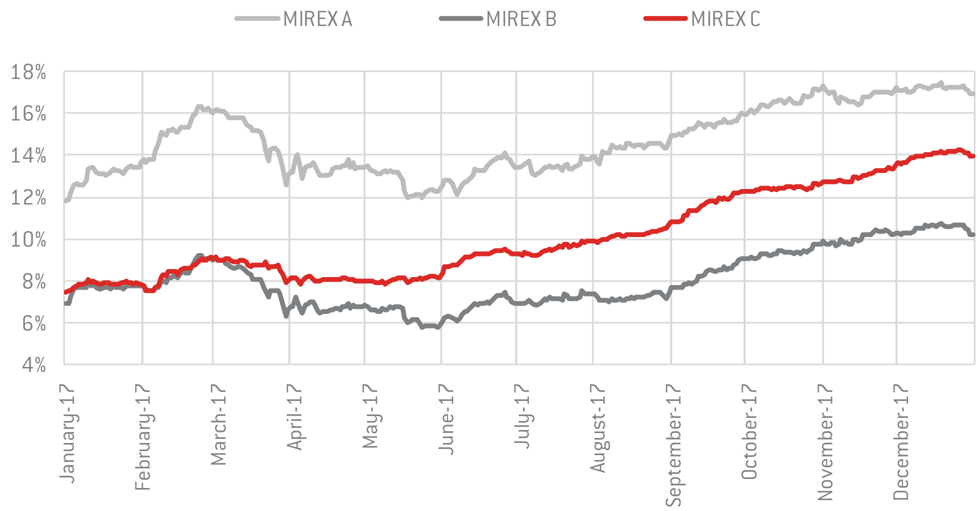
	Values of accounting units		Mandatory pension funds' rate of return (in %)	
	31/12/2016	31/12/2017	2017	Annualised rates of return since the beginning of operation
MIREX category A	127.6	133.4	4.6	9.0
MIREX category B	233.6	240.8	3.1	5.8
MIREX category C	118.1	125.3	6.1	6.9

Note: The performance of category A MIREX and category C MIREX is shown as of the start of business operations of mandatory pension funds belonging to categories A and C (21 August 2014). Category B MIREX is shown as from 30 April 2002.

Source: Hanfa

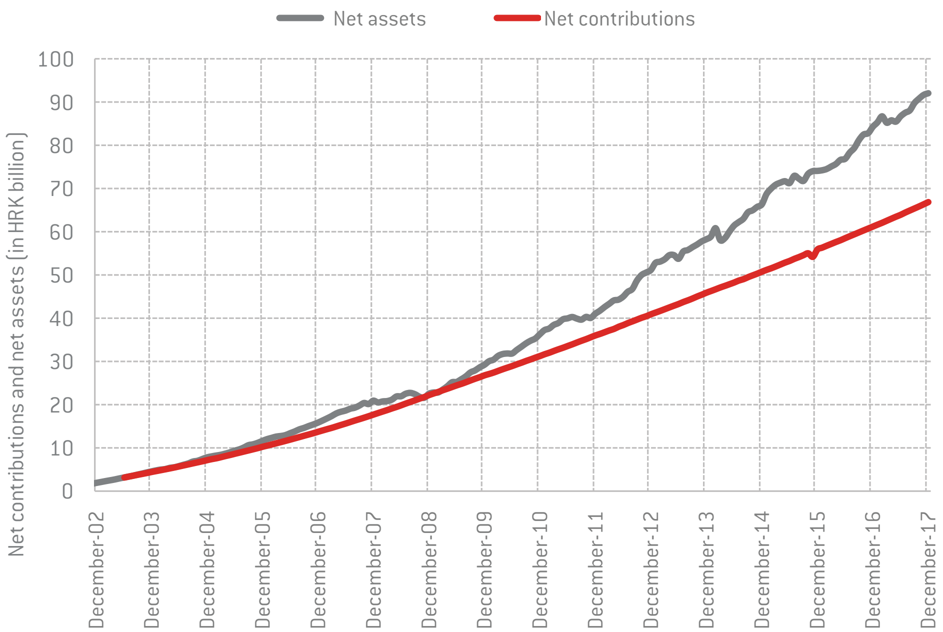
Annual rates of return of category B mandatory pension funds ranged from 1.2% to 5.2% at end-2017. Category A mandatory pension funds recorded rates of return ranging from 3.3% to 7.1%, while category C mandatory pension funds recorded rates of return ranging between 5.1% and 7.5%.

Chart 4.1 Growth rates of indices MIREX A, MIREX B and MIREX C during 2017



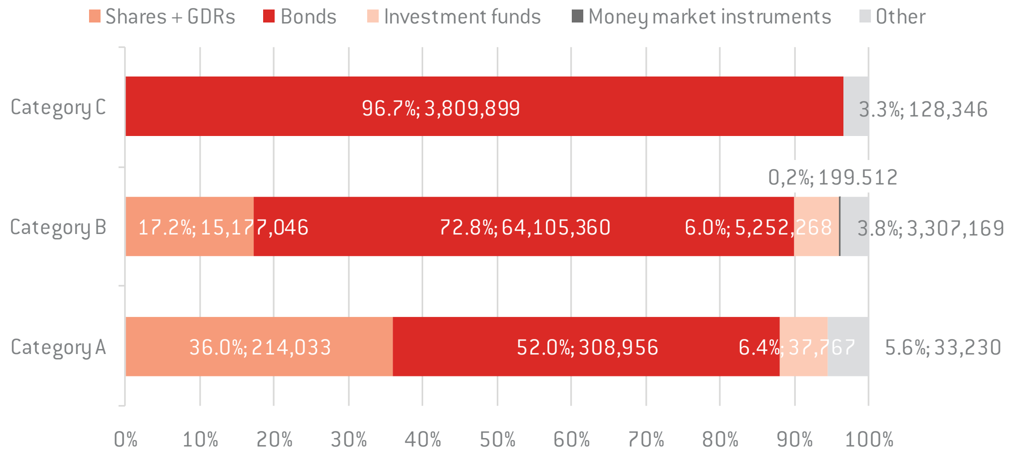
Source: Hanfa

Chart 4.2 Net contributions to mandatory pension funds and net assets of mandatory pension funds from 2002 to 2017



Source: Hanfa

Chart 4.3 Investment structure of category A, B and C mandatory pension funds in 2017 (in HRK thousand and in %)



Source: Hanfa

Investments of category A mandatory pension funds in bonds consisted only of investments in domestic government bonds (100%). As regards investments in shares, issuers from the Republic of Croatia (74.2%) were the dominant item here. 99.1% of assets of category A mandatory pension funds invested in investment funds concerned foreign equity funds, while only 0.9% concerned domestic funds. Category B mandatory pension funds' investments in bonds mainly consisted of investments in domestic government bonds (99.3%), while the proportion of domestic issuers in investments in shares stood at 64.3%. 84.4% of assets of category B pension funds invested in investment funds concerned foreign equity funds. Significantly larger amounts were invested in UCITS, making up 95.1% of all investments in investment funds, while AIFs accounted for only 4.9%. Category C mandatory pension funds' investments in bonds exclusively concerned domestic bonds (99.6%), of which investments in domestic corporate bonds made up only 4%, while the remaining investments concerned government bonds.

4.1.2 Voluntary pension funds

There were four voluntary pension companies on the market, managing a total of eight open-ended voluntary pension funds and 19 closed-ended voluntary pension funds. This was an increase relative to the previous year due to one closed-ended voluntary pension fund and two open-ended voluntary pension funds being established in 2017.

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

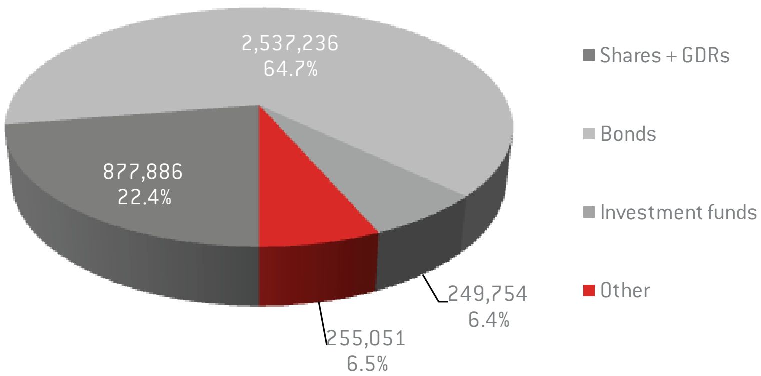
Table 4.5 Key indicators for open-ended voluntary pension funds

Data	31/12/2016	31/12/2017	Change (in %)
Total membership of OVPFs	257,049	285,822	11.2
Total gross contributions to OVPFs (in HRK thousand)	464,138	548,789	18.2
Total net assets of OVPFs (in HRK thousand)	3,548,401	3,895,569	9.8

Source: Hanfa

All open-ended voluntary pension funds recorded positive returns ranging between 2.1% and 4.31%, except one fund that recorded a negative return of -3,4%.

Chart 4.4 Investment structure of open-ended voluntary pension funds in 2017 (in HRK thousand and in %)



Source: Hanfa

Investments of open-ended voluntary pension funds in bonds mainly consisted of investments in domestic government bonds (99.8%). As regards investments in shares, issuers from the Republic of Croatia (82.7%) were the dominant item here. Open-ended voluntary pension funds also invested in UCITS. In the framework of investing in UCITS, they largely invested in foreign investment funds (87.5%) and to a lesser degree in domestic UCITS (12.5%).

Table 4.6 Key indicators for closed-ended voluntary pension funds

Data	31/12/2016	31/12/2017	Change (in %)
Total membership of CVPFs	29,237	30,387	3.9
Total gross contributions to CVPFs (in HRK thousand)	86,534	93,986	8.6
Total net assets of CVPFs (in HRK thousand)	777,088	849,556	9.3

Source: Hanfa

Returns of closed-ended voluntary pension funds ranged from -3.1% to 9.1% in 2017.

4.1.3 Mandatory and voluntary pension companies

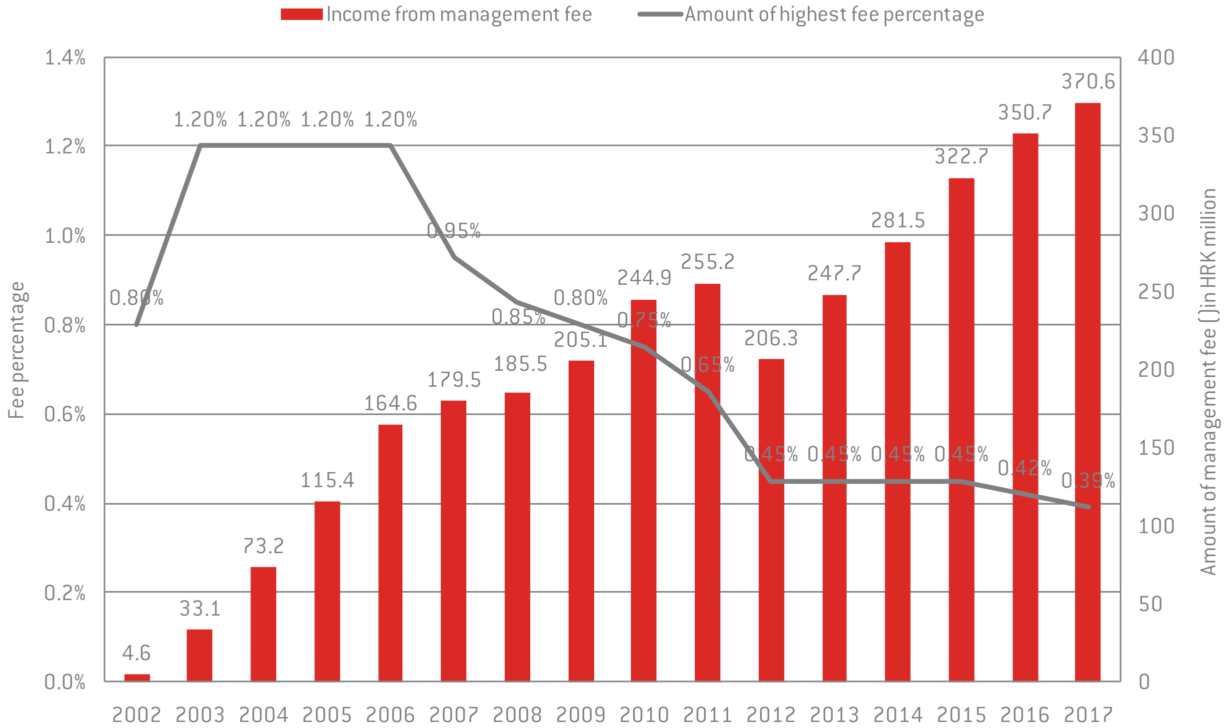
In 2017, mandatory and voluntary pension companies recorded an after-tax profit in the amount of HRK 212m, an increase of 12.7% relative to profit realised in 2016. Income from mandatory and voluntary pension fund management grew by 6.5% at annual level. Total assets of mandatory and voluntary pension companies increased by 3.7%. Management companies are largely financed from own funds (capital and reserves make up 91.8% of liabilities), and most of the assets of management companies are invested in financial assets, making up 87.2% of total assets[47].

One of the fees that pension companies can charge for covering costs, and which makes up the majority of pension fund management income, is management fee. The Mandatory Pension Funds Act defines the maximum management fee, and all mandatory pension fund management companies apply the same fee, however, its amount varies depending on the size of the asset under the management of a particular company. The basis for the fee calculation is made up from total assets minus

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

financial liabilities of the fund. In 2017, the management fee rate was set at 0.39%. An annual reduction (of 7% in relation to the preceding year) of the management fee rate of is foreseen for the upcoming years, until the rate comes down to 0.3%.

Chart 4.5 Parallel movement of the percentage of mandatory pension fund management fee and the aggregate amount of fee



Source: Hanfa

4.1.4 Pension insurance companies

According to the provisions of the Act on Pension Insurance Companies[48] a pension insurance company is a joint-stock company offering retirement programs and paying pensions to pension beneficiaries and other persons. There is only one pension insurance company operating in the Republic of Croatia.

According to financial reports[49], the value of total assets of the pension insurance company as at 31 December 2017 reached HRK 498.2m, increasing by HRK 34.1m or 7.4% compared to 31 December 2016. This was primarily a result of increased investments, which accounted for 93.9% of total assets and grew by HRK 24.3m in comparison with 31 December 2016. Significant increase in absolute terms was recorded by other assets, which increased by HRK 10.4m (53.5%) relative to 31 December 2016.

As at 31 December 2017, technical provisions amounted to HRK 425.3m and accounted for 85.4% of the pension insurance company's liabilities. Capital and reserves reached HRK 37.2m, decreasing by HRK 2m compared to 2016 due to smaller retained earnings and revaluation reserves. Pursuant to the provisions of the Act on Pension Insurance Companies, technical reserves are formed separately for mandatory and voluntary pension insurance. Technical provisions of voluntary pension insurance totalled HRK 280.7m, while assets covering technical provisions of vol-

48 Official Gazette, No 22/14

49 Financial statements of the pension insurance company are provided in the Appendices.

untary pension insurance amounted to HRK 336.1m, with the excess of assets over the provisions reaching HRK 55.3m. Technical provisions of mandatory pension insurance stood at HRK 88.7m, while assets covering technical provisions of mandatory pension insurance amounted to HRK 96.2m, with the excess of assets over the provisions totalling HRK 7.5m.

In the period from 01 January 2017 to 31 December 2017, the pension insurance company recorded profit before tax in the amount of HRK 5.8m, while profit after tax amounted to HRK 4.7m, which is HRK 1.6m more than in the same period in 2016. Total income reached HRK 236m, which was HRK 18.8m more than in 2016. The income structure was dominated by income from payments of pension companies and direct lump-sum payments from voluntary pension insurance (64.1%). Total expenses amounted to HRK 231.2m, increasing by HRK 17.2m compared to 2016. The most significant part of the expenses (70.6%) was accounted for by expenses arising from pension insurance contracts, of which HRK 130.1m was made up of payments from pension insurance, and HRK 33m of changes in technical provisions.

As at 31 December 2017, the total number of pension contracts reached 12,158, of which 11,909 contracts were related to voluntary pension insurance (pension pillar 3 and direct lump-sum payments), and 249 contracts to mandatory pension insurance (pension pillar 2). The number of contracts fell by 1,546 relative to 31 December 2016. As at 31 December 2017, the number of beneficiaries stood at 11,729, of which there were 11,521 voluntary pension insurance beneficiaries and 251 mandatory pension insurance beneficiaries.

4.2 Hanfa's regulatory activities

4.2.1 Normative activities

Draft Act on Amendments to the Mandatory Pension Funds Act

In 2017, Hanfa participated in the preparation of the Draft Act on Amendments to the Mandatory Pension Funds Act, which brought some improvements and corrected difficulties that had been noticed during its application in practice. The new Act prescribes an obligation for the pension company to establish a comprehensive and efficient process of assessing the credit standing of issuers in which the company intends to invest or invests the pension funds' assets, as well as the ban on automatic and exclusive reliance on credit rating provided by competent credit rating agencies, for the purpose of improving the quality of pension funds' investments and risk management, and thus better protection of fund members. It simultaneously creates the legal framework for the application of the Regulation on specific requirements regarding statutory audit of public-interest entities[50], given that pension companies and pension funds are public-interest entities. It also establishes the legal framework for the application of EMIR[51]. It shortens the deadline for the pension fund selection for the insured persons who do not choose the mandatory pension fund on their own (from six months to one month), and it is no longer necessary to approve every change in the pension fund statute, but only those changes that are considered essential. Changes have been made with respect to restrictions on the investment of pension fund assets, a new provision was introduced stipulating that the assets of the pension fund may consist of cash in accounts that can be held in accounts with other credit institutions, not just in the account with the depositary, due to a possibility of depositary's downfall. It is now possible to acquire already issued and newly issued financial instruments that have not yet been listed on the regulated market, as well as financial instruments that are included in the lower quotation of the regulated market, as opposed to earlier when pension funds were prevented from acquiring financial instruments that had already been issued and the authority of the issuer made a decision to include them on the regulated market or to include them on the stricter segment of the regulated market. The new Act provides an additional

50 Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC, OJ L 158

51 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

extension of the deadline for adjusting the exceeding of investment restrictions for more than three months, due to difficulties in adjusting the investment in cases of investments in financial instruments of the issuer over which pre-bankruptcy settlement proceedings have been initiated.

Draft Act on Amendments to the Voluntary Pension Funds Act

Hanfa participated in the preparation of the Draft Act on Amendments to the Voluntary Pension Funds Act. The amendments were made in order to comply with the provisions of Directive (EU) 2014/50/EU[52] and the Recommendation No 23 (Regulation and supervision of financial institutions) of the Council of Europe's MONEYVAL[53] Committee, with respect to the implementation of measures for the prevention of money laundering and terrorist financing.

Regulations adopted under the Mandatory Pension Funds Act and the Voluntary Pension Funds Act[54]

Under the Mandatory Pension Funds Act Hanfa adopted three new ordinances regulating the formulation of the net asset value and the value of accounting units of mandatory pension funds; annual, quarterly and other reports of mandatory pension funds, as well as structure and content of financial statements and other reports of pension companies managing mandatory pension funds.

Pursuant to the Voluntary Pension Funds Act Hanfa adopted three new ordinances regulating the formulation of the net asset value and the price of units of voluntary pension funds; annual, quarterly and other reports of voluntary pension funds, as well as structure and content of financial statements and other reports of pension companies managing voluntary pension funds. Three new ordinances on the basis of the Mandatory Pension Funds Act and three new ordinances on the basis of the Voluntary Pension Funds Act were adopted due to entry into force of the International Financial Reporting Standard 9 Financial Instruments, adopted pursuant to the Commission Regulation (EU) 2016/2067[55], which repeals the application of the International Accounting Standard 39 Financial Instruments: Recognition and Measurement, adopted pursuant to the Commission Regulation (EC) No 1126/2008[56].

As a part of the digitisation project, a new digitised method of receiving documentation was introduced, which led to adopting amendments to the ordinances pursuant to the Mandatory Pension Funds Act, and amendments to the ordinances adopted pursuant to the Voluntary Pension Funds Act, with the aim of enabling a faster and more straightforward submission of requests and documents to Hanfa, electronically via web forms.

Pursuant to the Mandatory Pension Funds Act, Hanfa adopted the Decision on the maximum percentage of the fee paid to the depositary, Decision on the harmonisation of the guarantee deposit and the Decision on the guaranteed returns of mandatory pension funds.

In addition, in 2017, Hanfa also issued five opinions on the implementation of the Mandatory Pension Funds Act and the Voluntary Pension Funds Act.

Participation in the work of EU institutions

In 2017, Hanfa continued to participate in the work of the European Insurance and Occupational Pension Authority (EIOPA) by filling the database of Pension Plans and Products and completing the self-assessment questionnaire as part of the EIOPA project "Comparative Analysis of Supervisory

52 Directive 2014/50/EU of the European Parliament and of the Council of 16 April 2014 on minimum requirements for enhancing worker mobility between Member States by improving the acquisition and preservation of supplementary pension rights, OJ L 128

53 Committee of Experts of the Council of Europe on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism

54 The list of ordinances adopted by Hanfa in 2017 is provided in the Appendices.

55 Commission Regulation (EU) No 2016/2067 of 22 November 2016 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 9, OJ L 323

56 Commission Regulation (EC) No 1126/2008 of 3 November 2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council, OJ L 320

Practices regarding the Application of Prudential Rules for Institutions for Occupational Retirement Provision". Hanfa participated in the work of the Occupational Pensions Committee (OPC) by filling out the Questionnaire regarding the legal framework for sharing information on cross-border activities of institutions for occupational retirement provision. Hanfa's representatives participated in the working group for the preparation of the Proposal for a Regulation of the European Parliament and of the Council on the Pan-European Pension Product – PEPP.

Draft Act on Amendments to the Act on Pension Insurance Companies

Given the obligation to comply with the Recommendation No 23 (Regulation and supervision of financial institutions) of the Council of Europe's MONEYVAL Committee, with respect to the implementation of measures for the prevention of money laundering and terrorist financing, and the implementation of Directive 2014/50/EU into national legislation, at the end of 2017, a working group was established for the purpose of drafting the Act on Amendments to the Act on Pension Insurance Companies. The group was established at the Ministry of Labour and Pension System, and Hanfa was its full and actively participating member.

Hanfa also adopted the Ordinance amending the Ordinance on minimum standards, manner of calculating and criteria for calculating technical provisions of the pension insurance company[57], where the most significant changes relate to the calculation of technical provisions and of average return for mandatory or voluntary pension insurance.

Pursuant to Article 135(2) of the Act on Pension Insurance Companies, Hanfa issued the Decision on the maximum fee from the remittance from the mandatory pension fund for covering the pension insurance company's costs for the year 2018.

4.2.2 Licensing

As part of licensing operations, Hanfa issued one authorization for the establishment and management to three closed-ended voluntary pension funds. Approvals were also issued for the pension company management board members and supervisory board members, for the selection of depositaries for pension funds, for amendments of statutes of voluntary pension funds and for the statute and prospectus of a voluntary pension fund.

Table 4.7 Comparison of the number of cases relating to licensing procedures with respect to the operation of pension companies and pension funds in 2016 and 2017

Licensing procedure	2016	2017
Approval of the appointment of a management board member of a mandatory/voluntary pension company	4	9
Approval of the appointment of a supervisory board member of a mandatory pension company	5	8
Approval of the establishment and operation of a mandatory pension fund	1	3
Approval of the choice and change of depositary	1	3
Approval of the statute/amendments to the statute of a mandatory pension fund	0	6
Approval of the statute/amendments to the statute of a voluntary pension fund	1	3
Approval of the prospectus and significant amendments to the prospectus of a voluntary pension fund	1	3
Approval of the delegation of tasks to a third party	2	0

Source: Hanfa

4.2.3 Supervision

4.2.3.1 On-site supervision

In 2017, Hanfa ended on-site examinations of two mandatory and voluntary pension companies and one mandatory pension company. These examinations focussed on investment process and the investment of funds' assets and in relation to that

57 Official Gazette, No 42/17

the establishment and the connection of internal control mechanisms, including risk management functions and compliance with relevant regulations. Such examinations of the investment process and the risk management system additionally completed and improved the internal approach to a risk-based supervision process.

After the completion of an on-site examination and the establishment of violations and irregularities, Hanfa issued a caution to a mandatory pension fund management company for overstepping the limitation on the investment of mandatory pension fund's assets. In this regard, it mandated the improvement of defined risk profiles of pension funds and the provision of effective and proportionate measurement and risk management techniques. One mandatory and voluntary pension company was issued a decision ordering it to improve the investment processes and procedures in the part related to investment strategies, macroeconomic analyses design, investment decision making, retroactive testing of performance targets, risk management, formal decision making on asset reclassification, trading in units of exchange-traded funds (ETF) and providing adequate resources for uninterrupted performance in the Financial Market Analysis Department.

In 2017, Hanfa finished an on-site examination of a credit institution that had started in 2016, regarding depository activities of mandatory and voluntary pension funds, with a focus on safekeeping and administration of financial instruments for the account of clients, including custodianship and related services.

Following the on-site examination of the pension insurance company's operations in 2016, focusing on the compliance of organisational requirements with regards to organisation and performance of activities of risk management function, compliance function with relevant regulations, internal audit function and actuarial function, as well as compliance of contracting process and payment of pensions with the Act on Pension Insurance Companies and other relevant regulations, in 2017, Hanfa issued a decision ordering elimination of violations and irregularities found during the on-site examination, as regards the implementation of internal control and the control of input when calculating technical provisions.

4.2.3.2 Off-site supervision

In 2017, Hanfa conducted continuous off-site supervisions of pension companies and pension funds. The examinations focused on checking the accuracy of key data for members of voluntary pension funds, checking the accuracy of portfolio information and returns in prospectuses of mandatory pension funds, controlling the investment restrictions and controlling the evaluation of assets of pension funds issued by the Agrokor d.d., monitoring the delivery and correctness of submitted NAV reports and checking the required level of mandatory pension companies' guarantee deposit. Within off-site examination, the annual report on the operations of REGOS was reviewed.

Throughout the year, Hanfa continuously conducted off-site supervision of the pension insurance company in accordance with applicable regulations, through the process of collecting, analysing and controlling submitted reports (financial and additional reports, audit report, regular notifications), as well as on the basis information and documentation received upon a special request. The off-site examination included the control of compliance of submitted rule changes, pension contracts and unit amounts of pensions with valid regulations and subordinate regulations.

4.2.4 Examinations taken by candidates for certified pension fund managers and certified managers of pension insurance companies

In 2017, Hanfa organised an educational programme which included lectures for certified pension fund managers, certified managers of pension insurance companies, brokers and investment advisors. The programme was attended by nine candidates. Hanfa organised an examination cycle for certified pension fund managers, and an examination cycle for certified managers of pension insurance companies. Both examination cycles consisted of two examination terms. In the examination cycle for certified pension fund managers, seven candidates took the exam and six of them successfully passed it. In the examination cycle for certified managers of pension insurance companies, four candidates took the exam and three of them successfully passed it.

Insurance

5 Insurance

5.1 Market overview

The introduction of the new Solvency II regulatory framework led to increased amounts of data and complexity of reports insurance companies are obliged to draw up and submit to Hanfa. The companies were also faced with additional requirements regarding the establishment of the system of governance and public disclosure. Due to increased regulatory requirements, which led to rising costs, in the last couple of years there have been several mergers of insurance and reinsurance companies with their registered offices in the Republic of Croatia. This trend continued in 2017, when two insurance companies were merged.

As at 31 December 2017, there were 20 insurance companies with their registered offices and operating in the insurance market[58] in the Republic of Croatia[59][60]. Insurance market participants also included the Croatian Insurance Bureau as an association of insurance companies, which also manages the Guarantee Fund, and the Croatian Nuclear Insurance and Reinsurance Pool EIG as an insurance and reinsurance economic interest grouping with the purpose of covering risks of liability claims for great damage arising from nuclear energy or for other great damage. In addition, one association of insurers was founded, in accordance with Article 350 of the Insurance Act. As at 31 December 2017, insurance representation and insurance and reinsurance brokerage business[61] was conducted by 308 insurance agencies, 47 insurance and reinsurance brokerage companies, 371 insurance representation crafts, 22 credit institutions, Financial Agency and HP – Hrvatska pošta d.d.

5.1.1 Insurance companies and reinsurance companies

Out of 20 insurance companies operating in the Croatian insurance market as at 31 December 2017, five insurance companies conducted life insurance business[62], seven insurance companies conducted non-life insurance business, while life and non-life insurance business was conducted by eight insurance companies. Compared to 31 December 2016, the number of insurance companies decreased by two due to a merger of one insurance and one reinsurance company with another insurance company. Following the merger of the reinsurance company, the only reinsurance company in the Republic of Croatia ceased to operate. However, reinsurance business may be conducted by an insurance company in accordance with Hanfa's authorisation.

58 The 2017 insurance market overview has been presented on the basis of the analysis of financial, statistical and additional reports submitted to Hanfa and following supervisory examinations. The data for the previous years shown in Hanfa's 2017 Annual Report might differ from the data in Annual Reports for 2015 and 2016 due to the application of the provisions of the Accounting Act (Official Gazette, No 78/15, 134/15 and 120/16), Insurance Act (Official Gazette, No 30/15), International Financial Reporting Standards adopted by the European Union, and due to actions taken by insurance and reinsurance companies following Hanfa's instructions. Data required under the Solvency II regime have not been included in this report, and will be published subsequently.

59 This report includes data on insurance and reinsurance companies with their registered offices in the Republic of Croatia. The report does not include insurance companies from other Member States that have submitted to Hanfa notifications of their intention to conduct insurance business in the Republic of Croatia under the freedom to provide services (directly) and under the freedom of establishment (through a branch).

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

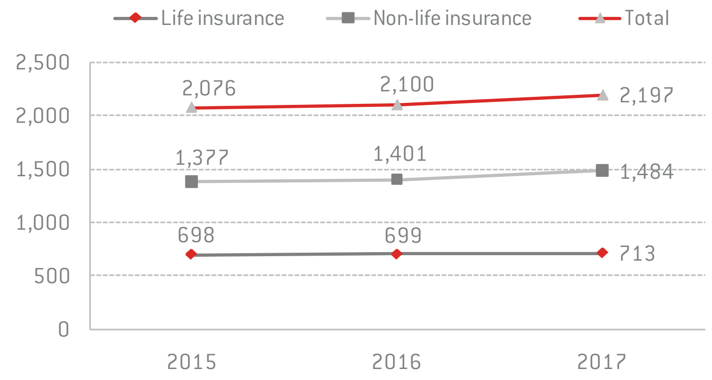
61 This report includes data on companies and crafts with their registered offices in the Republic of Croatia that conducted insurance representation business and insurance and reinsurance brokerage business in 2016 and 2017. Insurance agents and insurance and reinsurance brokers with their registered offices in other Member States that conducted insurance representation business and insurance and reinsurance brokerage business directly or through a branch are not covered by this report.

62 An insurance company with the authorisation to pursue life insurance business is also authorised, pursuant to Article 24(5) of the Insurance Act, to conduct insurance business within the insurance classes referred to in Article 7(2)(1) and (2) of the Insurance Act.

5.1.1.1 Gross written premium

The total gross written premium of insurance companies[63] in 2017 amounted to HRK 9.1bn, increasing by HRK 294.8m or 3.4% compared to the 2016 premium. The total gross written premium recorded by reinsurance companies amounted to HRK 36.7m, rising by HRK 37.1m compared to the previous year. Insurance density[64] reached HRK 2,197, continuing its upward trend recorded in the previous years.

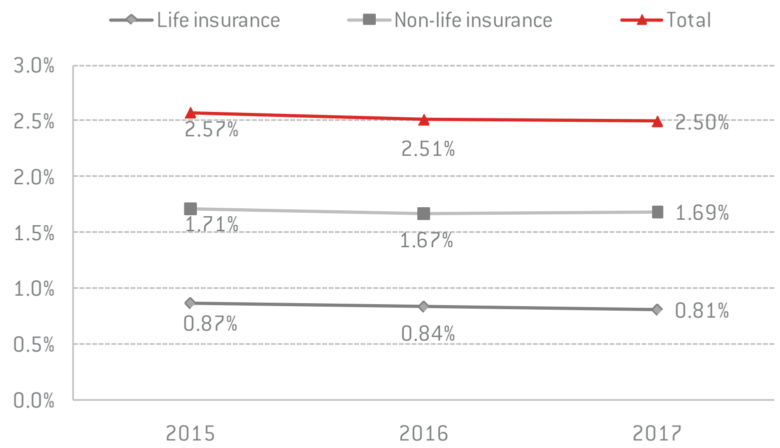
Chart 5.1 Insurance density in the 2015-2017 period (in HRK)



Source: Hanfa, Croatian Bureau of Statistics

As at 31 December 2017, the share of gross written insurance premium in GDP[65] amounted to 2.5%, almost equal as in the previous year, when it stood at 2.51%.6465

Chart 5.2 Proportion of the gross written premium in GDP in the 2015-2017 period



Source: Hanfa, Croatian Bureau of Statistics

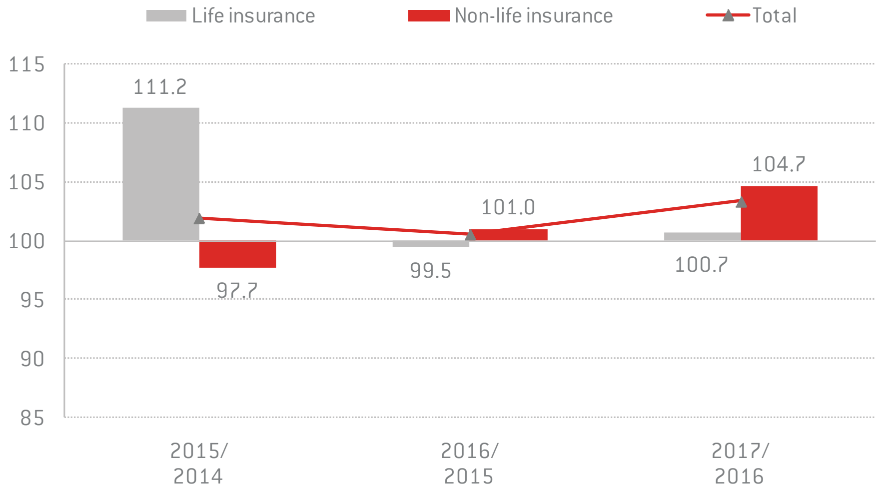
63 The amount of the 2016 gross written premium includes the premium by two insurance companies which were merged with an insurance company with its registered office in another Member State in 2016, while other data relating to 2016 in this report do not include information on these companies. Likewise, the amount of the 2015 gross written premium includes the premium by an insurance company which was merged with an insurance company with its registered office in another Member State in 2015, while other data relating to 2015 in this report do not include information on that company.

64 Insurance density is calculated as the ratio of gross written premium to total population. Population data have been taken from the website of the Croatian Bureau of Statistics (Statistics in line, Population by age and sex – mid-year estimate, average age of population, life expectancy and temporary data of 2017 mid-year estimate, of 23 February 2018)

65 GDP Data published in the Communication of the Croatian Bureau of Statistics, No 12.1.1/4 of 28 February 2018, or Statistics in line of 2 March 2018, Gross domestic product

The gross written premium concentration in the five largest insurance companies increased from 61.6% in 2016 to 64.8% in 2017. The non-life insurance group recorded a higher concentration than the life insurance group, with five insurance companies accounting for 74.7% of the total non-life insurance premium. The life insurance group recorded 64.4% of the premium concentrated in five insurance companies.

Chart 5.3 Gross written premium indices in the insurance industry in the 2015-2017 period



Source: Hanfa

Non-life insurance gross written premium amounted to HRK 6.1bn, increasing by HRK 273.0m or 4.7% relative to 2016. This was mainly due to a growth in the premium in insurance class 03 – insurance of land motor vehicles (a HRK 80.1m or 10.0% rise), in insurance class 02 – health insurance (a HRK 78.6m or 19.2% rise) and in insurance class 14 – credit insurance (a HRK 42.0m or 27.6% rise).

Life insurance gross written premium stood at HRK 2.9bn, an increase of HRK 21.8m or 0.7% compared to 2016. The rise of premium in this insurance group was exclusively due to a growth in the premium in insurance class 23 – Life or annuity insurance where the investment risk is borne by the policyholder, while other insurance classes within the group recorded a premium fall. Insurance premium involving lump-sum premium payments continued increasing and accounted for 40.7% of the gross written premium (38.1% in 2016). Life insurance premium involving instalment payments kept decreasing, but at a slower pace than in the preceding years.

Table 5.1 Gross written premium by insurance classes in 2016 and 2017 (in HRK thousand)

Code	Insurance class	2016	Share (%)	2017	Share (%)	Change (%)
01	Personal accident insurance	475,197	5.4	455,823	5.0	-4.08
02	Health insurance	409,206	4.7	487,840	5.4	19.22
03	Insurance of land motor vehicles	803,831	9.2	883,957	9.8	9.97
04	Insurance of railway rolling stock	4,552	0.1	7,973	0.1	75.15
05	Insurance of aircraft	10,794	0.1	10,136	0.1	-6.09
06	Insurance of vessels	141,464	1.6	148,707	1.6	5.12
07	Insurance of goods in transit	33,838	0.4	32,464	0.4	-4.06
08	Insurance against fire and natural disasters	582,124	6.6	622,887	6.9	7.00
09	Other property insurance lines	586,945	6.7	591,766	6.5	0.82
10	Motor vehicle liability insurance	2,042,862	23.3	2,049,320	22.6	0.32
11	Aircraft liability insurance	7,195	0.1	5,310	0.1	-26.19
12	Insurance against liability arising out of the use of vessels	43,527	0.5	38,424	0.4	-11.73
13	Other liability insurance lines	346,195	3.9	372,132	4.1	7.49
14	Credit insurance	152,344	1.7	194,350	2.1	27.57
15	Suretyship insurance	5,853	0.1	7,277	0.1	24.32
16	Insurance against miscellaneous financial losses	122,238	1.4	113,735	1.3	-6.96
17	Legal expenses insurance	3,743	0.0	4,651	0.1	24.25
18	Travel insurance	77,246	0.9	95,436	1.1	23.55
19	Life insurance	2,243,389	25.6	2,219,640	24.5	-1.06
20	Annuity insurance	42,814	0.5	28,621	0.3	-33.15
21	Supplementary insurance linked with life insurance	141,557	1.6	135,282	1.5	-4.43
22	Marriage and birth insurance	5,676	0.1	5,079	0.1	-10.51
23	Life or annuity insurance where the investment risk is borne by the policyholder	485,005	5.5	551,592	6.1	13.73
24	Tontines	0	0.0	0	0.0	-
25	Insurance with paid-up sum assured	0	0.0	0	0.0	-
Total non-life insurance (classes 01 – 18)		5,849,154	66.7	6,122,186	67.6	4.67
Total life insurance (classes 19 – 25)		2,918,441	33.3	2,940,214	32.4	0.75
Total (classes 01 – 25)		8,767,595	100.0	9,062,401	100.0	3.36

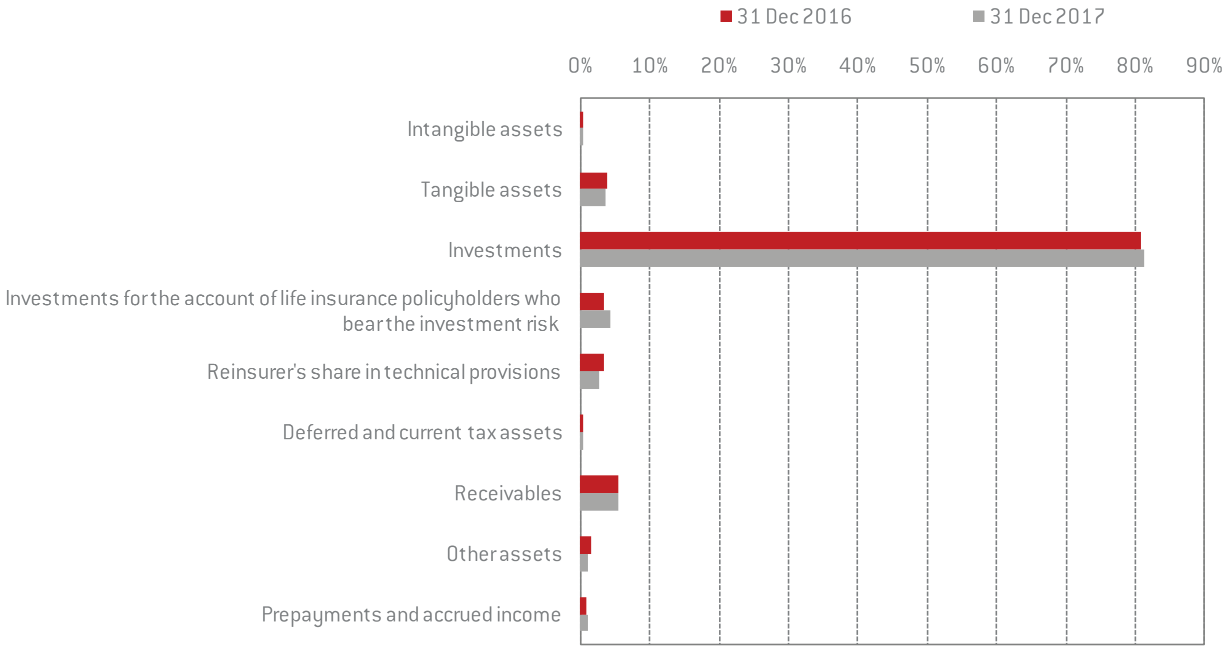
Source: Hanfa

The most common insurance class in the total gross written premium structure was life insurance (class 19), with the largest part of the gross written premium relating to risk 19.01 – Endowment insurance and amounting to HRK 1.8bn. The premium relating to risk 19.01 made up 19.9% of the total gross written premium, rising by 2.5% relative to 2016. Insurance class 10 – motor vehicle liability insurance accounted for the second largest share in the total gross written premium, with the major part of the gross written premium relating to risk 10.01 – insurance of owners or users of motor vehicles against liability for damage to third parties. The premium relating to risk 10.01 amounted to HRK 1.9bn and made up 21.5% of the total gross written premium, increasing by HRK 375.m or 2.0% compared to 2016. The average premium totalled HRK 924.3, falling slightly relative to the previous year, when it amounted to HRK 930.4.

5.1.1.2 Asset structure

As at 31 December 2017, total assets of insurance companies amounted to HRK 40.8bn, increasing by HRK 1bn or 2.6% compared to the previous year. Life insurance assets reached 56.3% of total assets, increasing by HRK 613.9m or 2.7%. Non-life insurance assets rose by HRK 423.7m or 2.4%.

Chart 5.4 Asset structure of insurance companies in 2016 and 2017 (in %)



Source: Hanfa

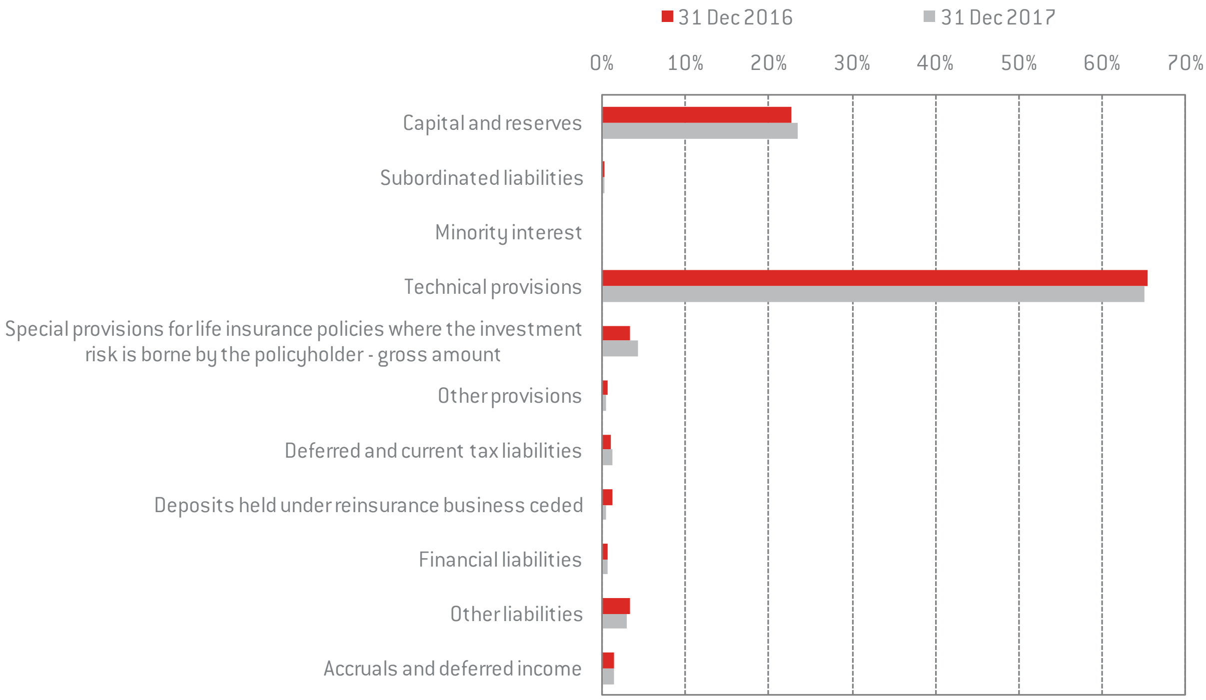
The most significant share (89.7%) in life insurance assets was accounted for by investments, while investments for the account of life insurance policyholders who bear the investment risk made up 7.5% of the assets. The major investment share was accounted for by investments in debt financial instruments classified in the portfolio of financial assets available for sale (45.2% of life insurance assets) and investments in debt financial instruments classified in the portfolio of investments held to maturity (24.1% of life insurance assets).

The largest share (70.4%) in non-life insurance assets was also made up by investments. As in life insurance investments, the major investment share was accounted for by investments in debt financial instruments classified in the portfolio of financial assets available for sale (26.6% of non-life insurance assets). A significant portion of the assets was related to receivables (11.7%) and tangible assets (7.4%).

5.1.1.3 Liability structure

As at 31 December 2017, the largest share (65%) in total liabilities recorded by insurance and reinsurance companies was accounted for by technical provisions, while capital and reserves made up 23.5% of their liabilities.

Chart 5.5 Liability structure of insurance companies in 2016 and 2017 (in %)



Source: Hanfa

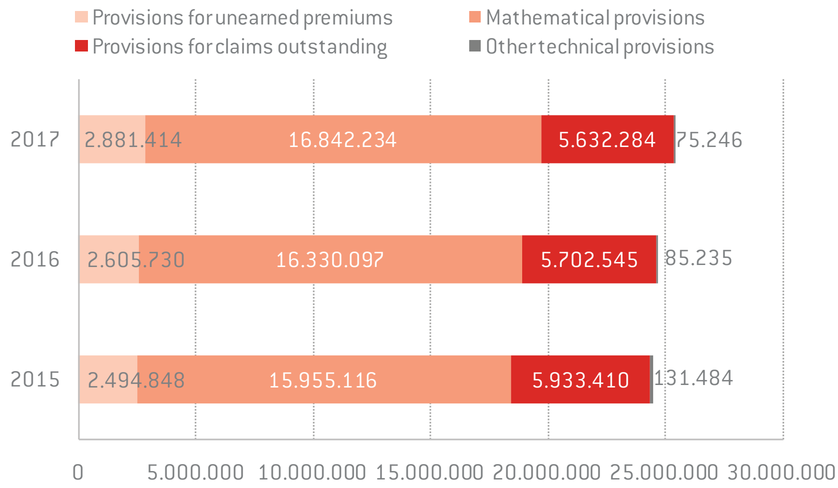
The life insurance liability structure was dominated by technical provisions (74.6%), with mathematical provisions reaching HRK 16.9bn (73.3% of life insurance liabilities) and accounting for their largest part. A significant share was also related to capital and reserves, which accounted for 14.8% of the life insurance liability structure, while special provisions for life insurance policies where the investment risk is borne by the policyholder (gross amount) made up 7.5% of life insurance liabilities.

Technical provisions dominated the non-life insurance liability structure as well (a 52.6% share), and were mostly related to provisions for claims outstanding, which amounted to HRK 6.1bn (34.3% of total liabilities). Capital and reserves accounted for 34.7%, while the remaining liability items made up a 5.7% share in total liabilities.

5.1.1.4 Technical provisions pursuant to accounting regulations

As at 31 December 2017, net technical provisions of insurance and reinsurance companies, as presented in the statement of financial position, amounted to HRK 25.4bn, rising by HRK 707.6m or 2.9% compared to 31 December 2016. This rise was mostly due to an increase in mathematical provisions reaching HRK 512.1m or 3.1% and to a growth in provisions for unearned premiums totalling HRK 275.7m or 10.6%. Other technical provisions recorded a decline in the amount of HRK 80.2m or 1.4%.

Chart 5.6 Net technical provisions pursuant to accounting rules in the 2015 – 2017 period (in HRK thousand)



Source: Hanfa

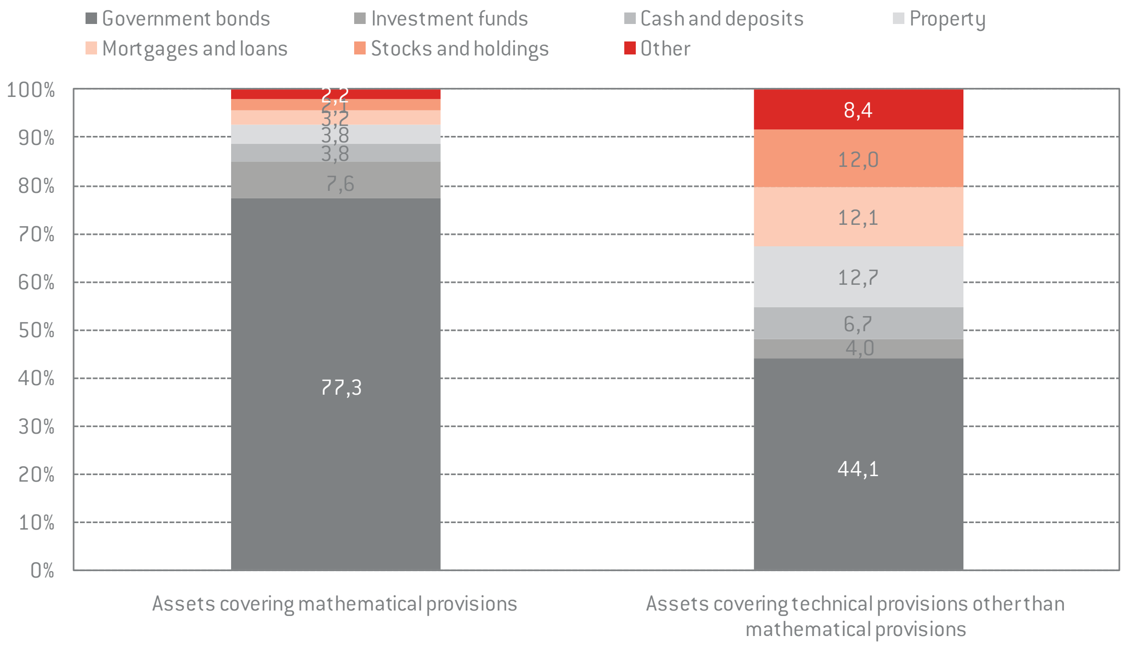
Mathematical provisions were also the largest item in the structure of net technical provisions, continuing their growing trend within total technical provisions for the past three years (from 65.1% in 2015 to 66.2% in 2017). A significant part of net technical provisions was also allocated by companies to claims for provisions outstanding, whose share in total net technical provisions has been decreasing continuously, from 24.2% in 2015 to 22.1% in 2017.

5.1.1.5 Investments in assets covering technical provisions pursuant to accounting regulations

The Insurance Act and European Commission regulations lay down general principles as regards asset investments, i.e. qualitative requirements for the identification, measurement, monitoring and management of risks arising from investments that insurance companies or reinsurance companies are required to abide by when making investment decisions, with particular regard to the prudent person principle. As at 31 December 2017, insurance companies invested HRK 19bn in assets covering mathematical provisions, i.e. HRK 1.9bn or 11.3% more than the required coverage of mathematical provisions, which amounted to HRK 17bn. The required coverage of technical provisions other than mathematical provisions[66] reached HRK 8.4bn, while a total of HRK 12.1bn was invested in assets covering technical provisions, HRK 3.7bn or 44.1% more than the required coverage. Companies are required to maintain a special register of assets covering technical provisions pursuant to accounting regulations, separately for assets covering mathematical provisions and assets covering technical provisions other than mathematical provisions.

66 The required coverage of technical provisions other than mathematical provisions is comprised of provisions for unearned premiums, provisions for bonuses and rebates, provisions for claims outstanding, equalisation provisions and other technical provisions pursuant to accounting regulations.

Chart 5.7 Structure of investments in assets covering technical provisions pursuant to accounting regulations as at 31/12/2017 (in %)

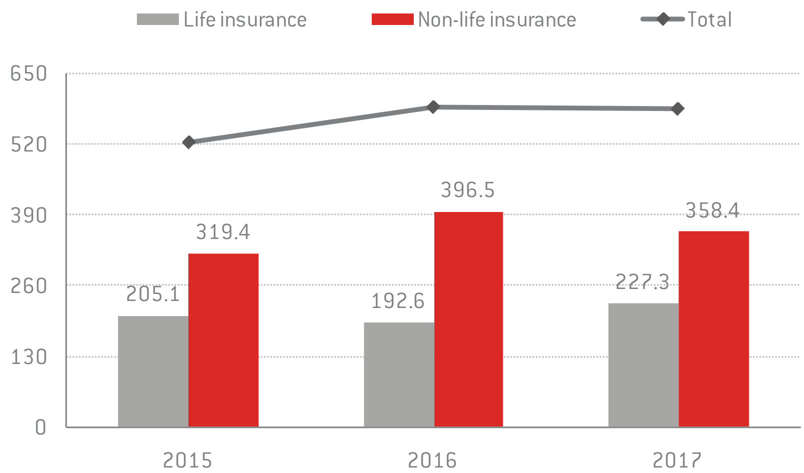


Source: Hanfa

5.1.1.6 Financial operating results

In 2017, insurance and reinsurance companies generated profit reaching HRK 585.8m, HRK 3.3m less than in 2016, when their profit totalled HRK 589.1m.

Chart 5.8 Operating results recorded by insurance and reinsurance companies from 2015 to 2017 (in HRK million)



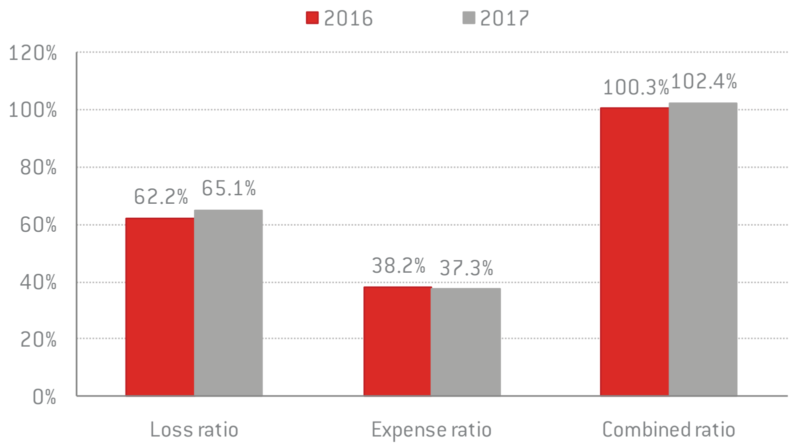
Source: Hanfa

The profit recorded by the non-life insurance group reached HRK 358.4m. Of this amount[67], 13 insurance companies recorded a HRK 393.4m profit, while three insurance companies reported loss amounting to HRK 34.9m. The life insurance group recorded a HRK 227.3m profit, of which a HRK 233.6m profit was generated by ten insurance companies, while a HRK 6.2m loss was realised by three insurance companies.

5.1.1.7 Insurance industry performance indicators

Key performance indicators[68] for insurance and reinsurance companies are loss ratio, expense ratio and combined ratio.

Chart 5.9 Insurance industry performance indicators for 2016 and 2017 (in %)



Source: Hanfa

In 2017, the loss ratio reached 65.1%, rising compared to 2016, when it stood at 62.2%. The life insurance loss ratio amounted to 92.8%, growing in comparison with 2016, when it totalled 91.7%. The non-life insurance loss ratio was 50.9%, increasing in comparison with 2016, when it reached 47%. The expense ratio amounted to 37.3%, a decrease compared to 2016, when it stood at 38.2%. The life insurance expense ratio totalled 25.0%, slightly better relative to 2016, when it reached 26.1%. This indicator amounted to 43.5% in the non-life insurance business, decreasing slightly compared to 2016, when it stood at 44.4%. The combined ratio totalled 102.4%, a modest growth in comparison with 2016, when it stood at 100.3%. The life insurance combined ratio was 117.8%, holding steady relative to 2016. In the non-life insurance business, this ratio amounted to 94.5%, getting worse compared to 2016, when it reached 91.4%. A combined ratio lower than 100% is considered desirable. This ratio is more significant as a non-life insurance business indicator, as in the life insurance business investment results must be taken into account as well, since the interest rate is implicitly included in the insurance premium and mathematical provisions. The calculation of the life insurance loss ratio which takes into account investment result shows a decrease from 67% in 2016 to 65.7% in 2017.

67 Operating results recorded by the non-life insurance group also included operating results achieved by an insurance company authorised to perform both life insurance business and non-life insurance business in accordance with Article 24(5) of the Insurance Act.

68 Data on the 2016 and 2017 indicators calculated on the basis of data from the statement of comprehensive income do not include data relating to insurance companies merged with other insurance companies during this period due to the accounting impact of the merger, neither do they include data relating to insurance companies merged with other insurance companies with their registered offices in other Member States.

5.1.2 Croatian Insurance Bureau

The Croatian Insurance Bureau (hereinafter: the Bureau), an association of insurance companies, is a non-profit organisation funded by insurance companies as members of the Bureau. Membership of the Bureau is mandatory for insurance companies engaged in activities relating to compulsory traffic insurance, while other insurance and reinsurance companies may join the Bureau on a voluntary basis. Financial operations of the Bureau include regular business operations (including taxable activity) and the Guarantee Fund.

5.1.2.1 Regular business operations

According to the balance sheet of the regular business operations[69], as at 31 December 2017, total assets of the Bureau amounted to HRK 11.7m, while total liabilities stood at HRK 3.7m. Sources of financing amounted to HRK 8m, and were comprised of own funds of the establisher and of the surplus of income over expenses.

Table 5.2 Abbreviated balance sheet of the regular business operations of the Bureau as at 31/12/2016 and 31/12/2017 (in HRK thousand)

No.	Item	2016	2017	Change (in %)
Assets				
Total assets		11,828	11,735	-0.8
1	Non-financial assets	6,257	9,343	49.3
2	Financial assets	5,571	2,393	-57.1
Liabilities				
Total liabilities and own sources		11,828	11,735	-0.8
1	Payables	3,775	3,718	-1.5
2	Sources of financing	8,053	8,017	-0.4

Source: Hanfa

The income from regular business operations of the Bureau (other than taxable activity) was largely accounted for by income from members, while expenses were mainly made up by salaries, remuneration and functional expenses. Income from the taxable activity of the Bureau comprised income from the Insurance Education Centre, income from consulting services, income from services provided to leasing companies and income from services provided to insurance agencies. Taxable activity expenses included expenses relating to consulting services, expenses relating to the organisation of seminars and other expenses.

Table 5.3 Income and expenses from the regular business operations of the Bureau for 2016 and 2017 (in HRK thousand)

No.	Item	2016	2017	Change (%)
A	Income			
1	Total income – regular business operations	10,282	8,351	-18.8
2	Total income – taxable activity	858	681	-20.6
B	Expenditure			
1	Total expenses – regular business operations	8,647	8,151	-5.7
2	Total expenses – taxable activity	1,064	802	-24.7

Source: Hanfa

69 The balance sheet of the regular business operations includes non-profitable operations, financed by members, and profitable operations (taxable activity), involving the organisation of seminars and consultations and other activities not financed by members of the Bureau.

5.1.2.2 Guarantee Fund

Pursuant to Article 45(1) of the Act on Compulsory Traffic Insurance[70], insurance companies conducting compulsory insurance business[71] 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 2017, total assets of the Guarantee Fund amounted to HRK 17.5m, increasing by 9.2% compared to the previous year.

Table 5.4 Abbreviated balance sheet of the Guarantee Fund for 2016 and 2017 (in HRK thousand)

No.	Item	2016	2017	Change (in %)
Assets				
Total assets		16,027	17,498	9.2
1	Non-financial assets	416	416	0.0
2	Financial assets	15,610	17,082	9.4
Liabilities				
Total liabilities and own sources		16,027	17,498	9.2
1	Payables	1,095	1,118	2.1
2	Sources of financing	14,932	16,380	9.7

Source: Hanfa

5.1.3 Croatian Nuclear Insurance and Reinsurance Pool, EIG

The Croatian Nuclear Insurance and Reinsurance Pool EIG (hereinafter: CN Pool) operates in the Republic of Croatia as an insurance or reinsurance association established pursuant to Article 351(1) of the Insurance Act. As at 31 December 2017, there were four insurance companies members of the CN Pool.

5.1.3.1 Financial statements

As at 31 December 2017, total assets of the CN Pool reached HRK 88.5m, decreasing by 5.9% compared to 2016. The asset structure was dominated by investments (77.6%) amounting to HRK 68.6m. The largest liability share (81.8%) was accounted for by technical provisions totalling HRK 72.4m. In the period from 1 January 2017 to 31 December 2017, the CN Pool generated profit totalling HRK 7.2 thousand and decreasing by HRK 28.4 thousand compared to the preceding year. Most of the income was made up by gross written premium amounting to HRK 17.0m and involving reinsurance premium for nuclear and related risks totalling HRK 10.5m and insurance premium for nuclear and related risks reaching HRK 6.5m. The largest part of expenses reported by the CN Pool was accounted for by acquisition costs amounting to HRK 10.4m.

5.1.4 Insurance representation business and insurance and reinsurance brokerage business

According to data submitted to Hanfa, the total income from insurance representation services and insurance and reinsurance brokerage services provided in 2017 reached HRK 596.9m, rising by HRK 49.3m or 9% relative to the preceding year. Credit institutions generated income from insurance representation services totalling HRK 215.8m and accounting for a 36.1% share in the total income recorded in insurance representation and insurance and reinsurance brokerage busi-

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

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

ness. Insurance agencies reported income from insurance representation business in the amount of HRK 214.7m, which made up a 36% share in the total structure of income generated from insurance representation and insurance and reinsurance brokerage business. Income of insurance and reinsurance brokerage companies amounted to HRK 84.4m (14.1% of total income), while income of insurance representation crafts amounted to HRK 76.2m and accounted for 12.8% of total income arising from this activity.

5.2 Hanfa's regulatory activities

5.2.1 Solvency II

Application of Solvency II

The application of the Solvency II regulatory framework for the second consecutive year provided for increased transparency and efficiency regarding supervised entities' business operations in the insurance market and for enhanced consumer protection. Future-oriented supervision of insurance and reinsurance companies imposes an obligation on the companies to recognise their own risk exposure on an on-going basis, which was the basis for their presentation of own risk and solvency assessment (ORSA Report). The companies also informed the supervisory authority directly of potential risks in upcoming reporting periods.

Reporting pursuant to Solvency II

Article 304(1) of the Commission Delegated Regulation supplementing the Solvency II Directive[72] lays down information to be submitted by insurance companies at predefined periods (Solvency and Financial Condition Report, Regular Supervisory Report, Own-Risk and Solvency Assessment Supervisory Report, annual and quarterly quantitative templates). 2016 saw, for the first time, the full implementation of the new Solvency II legislative and regulatory framework implemented in the Insurance Act. Therefore, in 2017, for the first time Hanfa received new reports relating to annual information pursuant to the Insurance Act, subordinate legislation and European acts directly applicable in Croatia. These were, among others, the Solvency and Financial Condition Report (SFCR), Regular Supervisory Report (RSR) and 2016 annual quantitative templates. In addition, in 2017 Hanfa received own-risk and solvency assessment supervisory reports and quarterly quantitative templates for the last quarter of 2016 and for the first three quarters of 2017.

Hanfa's 2017 supervisory activities placed special emphasis on qualitative and quantitative reports received for the first time considering that internal training underwent by its employees and the development of report quality assessment methodology and system took up a large share of its resources. The report assessment and analysis process implied intense communication and cooperation between Hanfa and insurance companies. This was, among other things, due to the importance of the SFCR and RSR as regards market transparency, enforcing market discipline, application of supervisory review process and provision of a comprehensive market overview (provided through the comparison and monitoring of trends).

The Solvency and Financial Condition Report is a report intended for publication which includes information on business operations and results reported by an insurance company and its management system, risk profile, valuation for solvency purposes and capital management during the reporting period.

The Regular Supervisory Report is intended for the supervisory authority and contains information on any changes in an insurance company's business and performance, system of governance, risk profile, valuation for solvency purposes and capital management over the reporting period. It should also include reasons for and effects of such changes.

The ORSA report is a single documented report which includes a business strategy, risk management, assessment of capital requirements and stress tests. It is intended for the company management board for the purpose of making valid, effective and necessary decisions.

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

EU regulations

In 2017, the European Commission adopted seven implementing regulations[73] regarding technical information and standards and standardised presentation formats.

Contents of key information documents for packaged retail and insurance-based investment products (PRIIPs) are regulated by the Commission Delegated Regulation (EU) 2017/653[74], taking into account the PRIIP Regulation[75].

A major part of tasks carried out in 2107 were focused on preparatory activities for the implementation of the Insurance Distribution Directive[76], expected in 2018. In October, the European Insurance and Occupational Pensions Authority (EIOPA) issued Guidelines under the Insurance Distribution Directive on insurance-based investment products that incorporate a structure which makes it difficult for the customer to understand the risks involved[77], to be complied or not complied with by Member States.

The Insurance Distribution Directive, which is going to be implemented in the Insurance Act through its amendments, introduces important novelties in the insurance market as regards insurance product distribution, transparency with respect to disclosure of information on the nature of remuneration received, cooperation between supervisory authorities and cross-border provision of services. It also requires all insurance distributors to have an adequate level of knowledge, expertise and competence. This requirement imposes rules on insurance, reinsurance and ancillary insurance intermediaries regarding professional training and good repute, thus ensuring a high quality of insurance distribution to consumers. All data on intermediaries are going to be available on Hanfa's

73 These were the following regulations:
- Commission Implementing Regulation (EU) 2017/2015 of 9 November 2017 laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 30 September 2017 until 30 December 2017 in accordance with 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, OJ L 296
- Commission Implementing Regulation (EU) 2017/1421 of 2 August 2017 laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 30 June until 29 September 2017 in accordance with 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, OJ L 2014
- Commission Implementing Regulation (EU) 2017/812 of 15 May 2017 laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 31 March until 29 June 2017 in accordance with 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, OJ L 126
- Commission Implementing Regulation (EU) 2017/309 of 23 February 2017 laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 31 December 2016 until 30 March 2017 in accordance with Directive 2009/138/EC of the European Parliament and of the Council (Solvency II), OJ L 53
- Commission Implementing Regulation (EU) 2017/1469 of 11 August 2017 laying down a standardised presentation format for the insurance product information document, OJ L 209
- Commission Implementing Regulation (EU) 2017/2190 of 24 November 2017 amending and correcting Implementing Regulation (EU) 2015/2452 laying down implementing technical standards with regard to the procedures, formats and templates of the solvency and financial condition report according to Directive 2009/138/EC of the European Parliament and of the Council, OJ L 310
- Commission Implementing Regulation (EU) 2017/2189 of 24 November 2017 amending and correcting Implementing Regulation (EU) 2015/2450 laying down implementing technical standards with regard to the templates for the submission of information to the supervisory authorities according to Directive 2009/138/EC of the European Parliament and of the Council, OJ L 310

74 Commission Delegated Regulation (EU) 2017/653 of 8 March 2017 supplementing Regulation (EU) No 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products (PRIIPs) by laying down regulatory technical standards with regard to the presentation, content, review and revision of key information documents and the conditions for fulfilling the requirement to provide such documents, OJ L 100

75 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

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

77 EIOPA-17/651 of 4 October 2017

website and through EIOPA's homepage. Insurance and reinsurance companies are going to have an insurance distribution monitoring and control function, a key function ensuring the proper implementation and control of policies and procedures in insurance and reinsurance distribution. In order to be ready for the new requirements, in 2017 Hanfa carried out preparatory activities in light of its supervisory function.

Participation in the work of EU institutions

In 2017, Hanfa's employees were involved in the work of EIOPA's committees, expert networks and the network of quality checks for translation, and in the work of the European Commission and Council. By participating in the work of EIOPA's committees and working groups, Hanfa's representatives took part in the preparation of relevant documents required for the decision-making process, peer reviews and actions to be taken in the entire European financial market.

In 2017, EIOPA published the following notifications regarding the insurance market, which were also disclosed on Hanfa's website: quarterly risk dashboards, monthly technical information on relevant risk-free interest rates term structures and on the symmetric adjustment of the equity capital charge, semi-annual Report on the Financial Stability in the European (Re)Insurance and Occupational Pension Fund Sector, consultation papers on sets of advice for the review of the SCR, on Guidelines on complex insurance-based investment products[78] and on the review of the Solvency II regulation, statistical information on the European insurance sector based on Solvency II regulatory reporting, questions and answers relating to a series of acts, regulations and guidelines, Guidelines under the Insurance Distribution Directive on insurance-based investment products (IBIPs) that incorporate a structure which makes it difficult for the customer to understand the risks involved, 2017 Financial Stability Report of the (re)insurance and occupational pensions sectors in the European Economic Area, analysis on the use of long-term guarantees (LTG) measures and equity risk measures, Opinion on the supervisory assessment of internal models including a dynamic volatility adjustment, information on the use of exemptions and limitations from regular supervisory reporting and on the use of capital add-ons, supervisory statement based on an analysis of the first SFCRs, representative portfolios for the calculation of volatility adjustments to the risk-free interest rate term structures, template for the Insurance Product Information Document (IPID), recommendations to improve consumer protection in the unit-linked market, consumer trends report on the insurance and pensions sector, recommendations for the review of the Commission Delegated Regulation (EU) 2015/35, information on the adoption of Commission Delegated Regulation with regard to product oversight and governance requirements for insurance undertakings and insurance distributors[79], information on the adoption of the Commission Delegated Regulation with regard to information requirements and conduct of business rules applicable to the distribution of insurance-based investment products[80], Joint Technical Advice for setting minimum requirements for

Long-term guarantees measures were introduced in the Solvency II Directive to ensure an appropriate treatment of insurance products that include long-term guarantees. They include the extrapolation of risk-free interest rates, matching adjustment, volatility adjustment, extension recovery period in case of non-compliance with the solvency capital requirement, transitional measure on the risk-free interest rates and transitional measure on technical provisions.

Equity risk measures refer to the application of a symmetric adjustment mechanism to the equity risk charge and the duration-based equity risk sub-module.

78 EIOPA-17/651 of 4 October 2017

79 Commission Delegated Regulation (EU) 2017/2358 of 21 September 2017 supplementing Directive (EU) 2016/97 of the European Parliament and of the Council with regard to product oversight and governance requirements for insurance undertakings and insurance distributors, OJ L 341

80 Commission Delegated Regulation (EU) 2017/2359 of 21 September 2017 supplementing Directive (EU) 2016/97 of the European Parliament and of the Council with regard to information requirements and conduct of business rules applicable to the distribution of insurance-based investment products, OJ L 341

manufacturers of PRIIPs with environmental or social objectives, updated versions of the source code used for the monthly risk-free interest rate term structures calculation, draft amendments to the ITS on reporting and disclosure, updated XBRL taxonomy, Opinion on the harmonisation of the EU recovery and resolution framework for insurers and reinsurers, supervisory statement on the first supervisory experiences on the implementation of the ORSA process by European (re)insurance companies, Thematic review of consumer protection issues in the unit-linked market, Call for Evidence on the treatment of unlisted equity and debt without external rating in the standard formula, methodology to derive the ultimate forward rate, Call for Information for the LTG Report, Report on functioning of colleges of supervisors, Joint Opinion on the risks of money laundering and terrorist financing affecting the Union's financial sector, Decision on the collaboration of the insurance supervisory authorities, draft Implementing Technical Standards (ITS) on a standardised presentation format for the IPID, Guidelines on facilitating an effective dialogue between insurance supervisors and statutory auditors[81] and Technical Advice on the implementation of IDD.

5.2.2 Normative Activities

Act on Amendments to the Insurance Act

Given the need to implement the Insurance Distribution Directive (IDD) into national legislation, and the need to amend certain provisions of the Insurance Act, in order to make them more transparent and efficient, in 2017, a working group was created to draft the Act on Amendments to the Insurance Act (hereinafter: the Draft Act). The group was created at the Ministry of Finance and Hanfa was its full member, participating intensively.

Solvency II Directive had been transposed into the Insurance Act earlier, introducing significant new developments in the insurance market. The main goals of this Directive are greater protection of insured persons, establishment of solvency limits, which will represent total exposure to all risks, avoiding the procyclicality of regulatory provisions and anticipating market changes.

81 EIOPA-16/858 of 02 February 2017

Solvency II Directive placed a special emphasis on managing potential unfavourable future events that may affect the operations of insurance companies. Such management involves stress tests in various adverse situations that can be predicted or planned such as disastrous events, negative impact of interest rates, capital market volatility, decrease in premiums, decrease in purchasing power of population, etc.

In this way, insurance companies can gain insight into potential weaknesses that are based on existing business frameworks, while stress tests enable them to look into the future and prepare for adverse trends.

The new legal framework concerning insurance came into force on 1 January 2016, and all insurance companies had to align with the novelties introduced by the Insurance Act, which demanded numerous adjustments in IT and other areas. The Insurance Act also contains provisions on insurance representation and insurance and reinsurance mediation which are aligned with the Directive on insurance mediation[82]. However, the Directive on insurance distribution came into force on 20 January 2016, and the deadline for its transposition into national legislation of Member State was 23 February 2018, at first. Since a delay in application is expected, this Directive should be transposed into the Insurance Act by 1 July 2018, and its application should start on 1 October 2018.

Main objectives of the Insurance Distribution Directive are:

- greater transparency
- equal levels of consumer protection regardless of the differences between distribution channels
- introduction of a simple and standardised insurance product information document (IPID), so that consumers can make informed decisions
- greater consumer protection when the insurance product is offered together with an additional non-insurance product or service, as part of a package or contract, when it is necessary to inform consumers whether it is possible to separately purchase these different elements and,

82 Directive 2002/92/EC of the European Parliament and of the Council of 9 December 2002 on insurance mediation, OJ L 9

if it is, give them an adequate description of the contract or package elements, as well as separate evidence of the costs and fees for each element

– introducing transparency rules and business behaviour rules to avoid consumers buying products that do not meet their needs.

The Draft Act proposes to prescribe the rules for the establishment and performance of insurance and reinsurance distribution operations in the territory of the Republic of Croatia and other EU Member States. As a new umbrella term “distribution of insurance” would be introduced, denoting the activity of proposing and concluding insurance contracts, consulting on insurance contracts or performing other preparatory actions for the conclusion of insurance contracts, or activity of concluding such contracts, or providing assistance in managing such contracts and their execution, especially in the case of processing damage claims. With regard to changes in terminology, it is important to point out that the current insurance and reinsurance brokerage companies will become insurance and/or reinsurance brokerage services companies, in accordance with the terminology used in everyday practice.

An important novelty planned by the Draft Act is the Insurance product information document, considering the fact that before the conclusion of a non-life insurance contract, the insurance distributor is obliged to provide the consumer with objective information about the insurance product in a comprehensible form, on the basis of information received from the consumer, so that consumer could make an informed decision. Consumers should also receive clear information on the status of persons selling insurance products and the type of remuneration they receive in the pre-contractual phase.

In addition to the amendments introduced as a result of the transposition of the Insurance Distribution Directive, amendments are to be made to other provisions of the Insurance Act, as regards the definition of reinsurance, the possibility of informing and exchanging information with other authorities on the suitability of the proposed acquirers of a qualifying holding, obligations of board members to notify Hanfa on the cessation of the function of a member of management or supervisory board, technical provisions in insurance where the policyholder bears the investment risk, and the possibility of consulting with the European Systemic Risk Board as regards the extension of deadline for measures to eliminate non-compliance with the solvency capital requirement.

Regulations adopted under the Insurance Act

In 2017, Hanfa adopted two amendments to the Ordinance on minimum standards, manner of calculating and criteria for calculating technical provisions pursuant to accounting regulations[83], where the most significant changes relate to interest rates connected with minimal standards, the method of calculation and parameters for the calculation of mathematical provisions of life insurance and other types of insurance and special provisions for life insurance policies where the investment risk is borne by the policyholder. These amendments have also changed the deadline for submitting the report of a nominated certified actuary.

5.2.3 Licensing

In 2017, Hanfa received 33 requests for the issuance of approval to candidates for the position of a member of the management board of an insurance company, two requests for the approval for the merger of the insurance company, and six requests for the authorisation to acquire a qualifying holding in an insurance company.

Hanfa also received and processed three applications for issuance of the certificate on successful completion of the examination of professional knowledge required to perform duties of a certified actuary i.e. for issuance of the authorisation to perform duties of a certified actuary.

Following the reception of applications, Hanfa issued authorisations to conduct insurance representation business and insurance and reinsurance brokerage business to 19 insurance agencies and 61 insurance representation crafts. It also issued four authorisations to conduct insurance and reinsurance brokerage business to insurance and

83 The list of ordinances adopted by Hanfa in 2017 is provided in the Appendices.

reinsurance brokerage companies. After having received notifications relating to termination of operation, Hanfa adopted decisions establishing the termination of authorisation to conduct insurance representation business granted to 28 insurance agencies, 29 insurance representation crafts, and one insurance and reinsurance brokerage company.

Table 5.5 Authorisations issued

Authorisations issued to carry out insurance representation and insurance/reinsurance brokerage business	2016	2017
Insurance agency	47	19
Insurance representation craft	107	61
Insurance and reinsurance brokerage company	1	4
Insurance agency at vehicle roadworthiness test garages	6	0

Source: Hanfa

Table 5.6 Authorisations/approvals that ended

Termination of approval/authorisation to carry out insurance representation or insurance/reinsurance brokerage business	2016	2017
Insurance agency	8	28
Insurance representation craft	7	29
Insurance and reinsurance brokerage company	2	1
Insurance agency at vehicle roadworthiness test garages	0	0
Insurance representation craft at vehicle roadworthiness test garages	1	0
Credit institution	2	0

Source: Hanfa

There were six examination cycles for applicants taking exams to obtain authorisation to carry out insurance representation or insurance/ reinsurance brokerage business, taken by 1,395 candidates. Examination for insurance agents was taken for 1,345 candidates, and examination for insurance and reinsurance brokers was taken by 50 candidates. A total of 1,159 candidates passed the examination (1,115 insurance agents and 44 insurance and reinsurance brokers), while 236 candidates failed.

Hanfa received a total of 299 notifications from legal entities and natural persons from other Member States, 38 of which related to direct pursuit of insurance business by insurance companies in the Republic of Croatia, while 261 related to direct pursuit of activities of insurance and reinsurance representation and brokerage. One domestic insurance company established a branch on the territory of another member state, under the freedom of establishment. At the same time, one domestic insurance company, three insurance representation companies and eight insurance and reinsurance brokerage companies sent notifications on the intention to directly provide services in the EU Member States, which Hanfa, in accordance with the rules on cross-border provision of services, sent to competent supervisory bodies in the Member States of the European Union.

Since the accession of the Republic of Croatia to the European Union, Hanfa has received a total of 1,435 notifications, of which 318 related to direct pursuit of insurance business by insurance companies, 1,110 to direct pursuit of activities of insurance and reinsurance mediation and three to pursuit of insurance representation business through a branch, while four branches of insurance companies from a member state have been established in accordance with the right of establishment. During that time, Hanfa received 50 notifications of activities on the territory of another member state, of which 14 notifications referred to direct pursuit of insurance business by insurance companies, three to the pursuit of insurance business under the freedom of establishment in another member state, and 33 to direct pursuit of activities of insurance and reinsurance representation and brokerage on the territory of another member state.

5.2.4 Supervision

5.2.4.1 On-site supervision

On the basis of supervision, verification and assessment, Hanfa determined whether insurance companies operated in accordance with the legal and other regulations under which they had to act, whether they had established an appropriate organisational structure and a stable management system, as well as capital that provided an adequate management system and coverage of risks the insurance companies are exposed to or could be exposed to in their business operations.

In accordance with the Insurance Act provisions, Hanfa conducted supervision based on an approach that is prospective and risk-based. It also assessed qualitative requirements associated with the management system. In defining the frequency and intensity of supervision, Hanfa was guided by the size and importance of insurance companies, as well as the scope, nature and complexity of risks present in their business operations.

Hanfa was also focused on reviewing and assessing valuation of assets and liabilities under the Solvency II Directive, reviewing and assessing compliance of solvency capital requirement by individual modules with the provisions of Solvency II Directive, investment process, provisions modelling process, sufficiency of provisions for claims, protection of interested persons referred to in Article 375 of the Insurance Act, premium sufficiency, compliance of key functions with legal provisions and adequacy of established organisation, as well the effectiveness of such organisation, review and assessment of own risk and solvency assessment (ORSA), IT system, prevention of money laundering and terrorist financing etc.

In 2017, Hanfa conducted a total of nine on-site examinations of insurance companies, three of which was targeted, and six were full-scope examinations. Three examinations started in 2016 and ended in 2017, four examinations started and ended in 2017, while two examinations started in 2017 and continued into 2018.

Supervision of insurance companies included the process of modelling and sufficiency of provisions for claims for class 03 (motor vehicle insurance) and class 10 (motor vehicle liability insurance), the process of operational risk management and IT risk management, outsourcing and key functions' compliance with legal provisions, the appropriateness of established organisational structure, process of calculating and recording commissions and other acquisition costs, the appropriateness of internal procedures, practices and behaviours that influence the protection of interested parties including the provision of information prior to the conclusion of an insurance contract and during its term, especially regarding life insurance, administrative processing of portfolio of life insurance where the investment risk is borne by the policyholder, process of investment in real estate, inspection and assessment of technical provisions design, calculation and recording of commission payments, conclusion and recording of insurance contracts, process of investment in shares and holdings of companies, and conclusion of repurchase agreements.

During the examination of business operations of insurance companies, certain violations and irregularities were established relating primarily to:

- irregularities in the process of design and control of provisions for claims and exposure to the operational risk in relation to the generation of adequate technical provisions
- discrepancy and inadequacy of internal regulations and procedures
- irregularities in relation to providing information to clients in the context of giving information prior to the contract conclusion
- inadequacy of the management system and the establishment of key functions in terms of compliance function, internal audit function, actuarial function and risk management function
- irregularities with respect to accounting records
- irregularities with respect to conclusion and management of policies covered by supervision
- irregularities with respect to investment in shares and holdings of companies, and conclusion of repurchase agreements.

All the above-mentioned violations and irregularities resulted from a failure to comply with the provisions of the Insurance Act[84] and regulations adopted under this Act and the Commission Delegated Regulation supplementing the Solvency II Directive.

In 2017, Hanfa issued 12 decisions relating to on-site examinations completed in 2016 and 2017. Seven of these decisions related to the elimination of violations and irregularities, and insurance companies acted in accordance with the decisions and deadlines prescribed by them. Five decisions concerned the termination of on-site examinations, with respect to insurance companies that acted in accordance with the decisions ordering elimination of violations and irregularities.

5.2.4.2 Off-site supervision

In the light of the new legislative and regulatory framework (Solvency II), throughout 2017, Hanfa continuously conducted prospective off-site examinations, taking into account all regulations, as well as additional EIOPA guidelines. Hanfa conducted supervision and control of all the regular supervisory reporting elements, that supervised entities were required to submit (financial, statistical and additional reports, audit reports, reports under Solvency II). In addition to obligatory reports, Hanfa particularly requested plenty additional information and documentation (for example, key function reports), which was also thoroughly analysed. Hanfa conducted numerous off-site examinations of insurance companies with focus on the analysis of financial and supervisory reports, analysis and review of ORSA reports and SFCR and RSR reports, compliance of investments with relevant regulations, and movement of indicators for types of insurance / insurance risks.

2017 saw 19 off-site examinations of insurance companies. Some of them were examinations that had started in previous years. Seven off-site examinations were initiated in 2018. As a result of a risk-based prospective approach, off-site examinations of insurance companies found irregularities and violations that were mainly related to the risk management system of premium insufficiency in the risk class 10.01 – insurance of owners or users of motor vehicles against liability for damage to third parties, and insurance class 03 – insurance of land motor vehicles, while some were related to disclosures in the notes to financial statements and to management systems. Hanfa issued eight decisions on the elimination of violations and irregularities in relation to off-site examinations that had started in previous years. As regards the remaining 11 off-site examinations, Hanfa is monitoring whether insurance companies are acting as prescribed by decisions.

After the completion of off-site examinations focused on the premium sufficiency in the insurance class 03 – insurance of land motor vehicles, Hanfa continued to monitor business indicators in this insurance class, and it established the worsening of indicators of three insurance companies.

These companies were given written recommendations aimed at achieving and insuring premium sufficiency, and enabling permanent fulfilment of all obligations under insurance contract in the insurance class given. Furthermore, three insurance companies were given recommendations in connection with assets valuation and assets value adjustment tests.

Pursuant to Article 204(8), in addition to ordering supervisory measures, Hanfa may issue written recommendations to its supervised entities for the purpose of improving their business, financial stability and position or mitigating risks they are exposed to or may be exposed to. It may also require follow-up statements regarding the implementation or failure to implement the recommendations.

A significant number of activities were focused on qualitative and quantitative reports under Solvency II. In 2017, Hanfa received RSR, SFCR and ORSA reports (around 4,500 pages), as well as annual and quarterly quantitative data.

Pursuant to the provisions of the Insurance Act with respect to the deadlines for submitting information on the annual basis, and deadlines for publishing SFCR reports in the transitional period, insurance companies were required to provide these reports no later than 20 May 2017, for the business year ending on 31 December 2016. All

84 Official Gazette, No 151/05, 87/08, 82/09 and 54/13

the companies complied with this requirement within the above-mentioned deadline. In addition, all the companies complied with the requirement to publish SFCR reports on their Internet pages, since SFCR reports are not aimed exclusively at Hanfa, but primarily at interested parties among the public. In addition, Hanfa requested (and received) from insurance companies their internal audit reports for 2016, actuarial function reports for 2016, and risk management function report, together with the 2016 risk catalogue.

Hanfa has established its own system for internal assessment on whether submitted reports meet the requirements set out in the Delegated Regulation supplementing the Solvency II Directive and the Guidelines on Reporting and Public Disclosure. Accordingly, in the analysis of reports Hanfa paid particular attention to whether every piece of quantitative data was substantiated and explained by a suitable qualitative description, especially with SFCR reports that were published. It also considered whether the information provided was relevant, reliable and comprehensible, reflecting the nature, scope and complexity of the insurance company's business operations. After the analysis, Hanfa would prepare end send individual written recommendations to companies. Companies should implemented the recommendations when preparing the RSR and SFCR reports for 2017. The recommendations consisted of a general section, describing in more detail what is expected from SFCR and RSR reports, and the section in which Hanfa addressed some of the shortcomings in the above-mentioned 2016 reports, with the aim of increasing the quality of future reporting.

Regulatory framework for business operations based on Solvency II, with respect to insurance companies management system prescribes a regular own risk and solvency assessment (ORSA).

Since ORSA is a new segment of forward-looking approach to risks, it presents a variety of challenges, both for companies and for Hanfa, as the supervisory authority whose task is to assess the quality of ORSA documentation, to determine whether companies properly assess their risks and solvency with regard to nature, scope and the complexity of risks inherent in their activity, and to understand the entire ORSA process, including the assumptions used, methods, results and actions taken after and during its implementation.

As early as in 2015, Hanfa developed its own system for internal evaluation of ORSA reports. The system was updated and upgraded in 2017. After the analysis of submitted reports, Hanfa held meetings with representatives of companies that had sent the reports. The purpose of the meetings was an exchange of views, so that Hanfa could gain better understanding of ORSA process, as well as business strategies and business models of companies. 21 meetings in connection with ORSA reports were held in 2017. In addition, companies were given individual written recommendations that, like recommendations on SFCR and RSR reports, consisted of a general part and a part where Hanfa describes some of the shortcomings in the 2016 ORSA Report. Further communication between Hanfa and companies as regards ORSA reports is planned, as well as continued cooperation, with the purpose of further upgrade of this process.

2017 saw the receipt of first annual quantitative reporting templates (QRT forms) for 2016. All the reports were successfully received within the prescribed deadline, until 20 May 2017, after which the validation process, which lasted until 30 June 2017, began. Unlike quarterly reporting templates, annual reporting templates require much more detail, there is an element of multidimensionality, and controls are more complex. In addition, annual reporting templates may contain around 18,400 pieces of data, which is 12 times more than in quarterly reporting templates. The number of rules for data validation has increased sixfold, and there are many more relations between templates that need to be consistent. Continuously communicating with insurance companies, Hanfa checked the completeness of forms and the consistency and purposefulness of data during the above-mentioned period.

In addition to annual reporting templates, all quarterly reporting templates of insurance companies were also received within the prescribed deadlines. Validation processes were successfully completed for each quarter, and all validated reports were submitted to EIOPA within prescribed deadlines. Once a year, EIOPA conducts an analysis and reports on the influence of the use of long-term guarantees and equity risk measures on the business operations of insurance companies. The 2017 analysis included all insurance companies in Croatia. They all submitted the required data within the prescribed deadlines. In the course of national validation, Hanfa would check the data submitted, and require from companies to send additional data and/or corrections, as needed. After that, Hanfa would send the data to EIOPA. After carrying out central validation and additional analyses, on 20 December 2017, EIOPA published on its website the 2017 Report on long-term guarantees measures, where aggregated data was published for each state that had participated in the collection of data for the LGT Report.

In addition, in 2017, EIOPA gathered information for the purpose of reviewing the methods, assumptions and standard parameters used to calculate the solvency capital requirement via standard formula i.e. for the purpose of giving technical advice to the European Commission. Hanfa collected additional information from insurance companies on three occasions in 2017. The data was collected from companies that met the predefined conditions, or were part of the predefined market share depending on the subject matter of information collected. After the validation, the information was forwarded to EIOPA.

In 2017, Hanfa's employees participated in 11 colleges of supervisors organised by group supervisors, for each individual company operating in the Republic of Croatia and being a member of the group with its registered office in another Member State. Apart from participation at meetings organised in the Member State in which a group has its registered office, membership of colleges of supervisors also implies Hanfa's on-going cooperation with group supervisors. Such cooperation implies regular reporting on activities carried out by insurance companies operating in the Republic of Croatia, participating in bilateral and multilateral teleconferences and dealing with various issues relating to companies that are group members.

During 2017, financial and supervisory reports of insurance agencies, insurance representation crafts and insurance brokerage companies were analysed. Hanfa conducted 20 off-site examinations of insurance agencies, insurance representation crafts and insurance brokerage companies, for which 20 administrative procedures were initiated. Furthermore, Hanfa received and analysed reports from the Bureau and the CN Pool.

Leasing

6 Leasing

6.1 Market overview

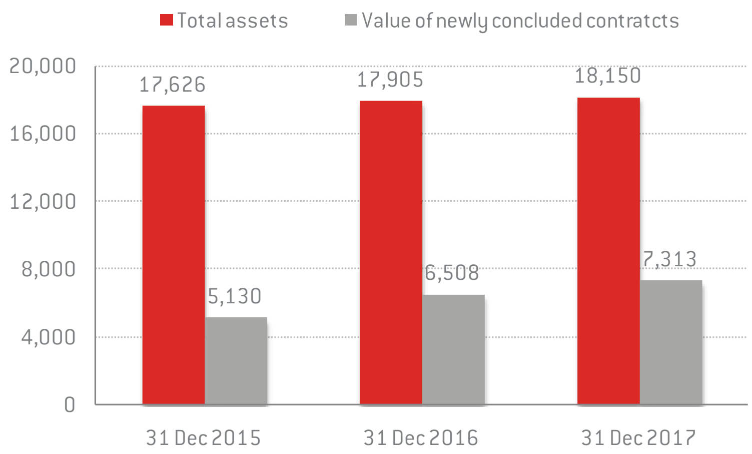
Increased economic activity continued to exert a positive impact on the Croatian leasing market in 2017, leading to a rise in business operations (number and value of newly concluded contracts). As at 31 December 2017, leasing operations[85] were carried out by 17 leasing companies[86], compared to 19 companies in 2016 (two companies initiated winding-up proceedings during 2017). The majority of leasing companies in the Republic of Croatia belong to groups of financial institutions. Initial capital of leasing companies as at 31 December 2017 amounted to HRK 577m.

A lease is a legal arrangement where the lessor acquires an asset by purchasing it from a vendor, thus obtaining the ownership right, and allows the lessee to use the leased asset for a period of time in exchange for one or more payments. Exceptionally, the lessor may provide leasing services involving leased assets acquired in another manner prescribed by law. In this case, the lessor is at the same time the vendor of the leased asset. Leases may be classified either as finance leases or operating leases. Under a finance lease, the lessee pays the lessor a defined fee during a period of time, that takes into account the overall value of the leased asset, bears the depreciation costs and has the option to purchase it and become its owner at the price that is lower than the fair value of the asset at the moment of exercise of the purchase option. The risks and benefits related to the ownership of the leased asset are mostly transferred to the lessee. Under an operating lease, the lessee pays the lessor a defined fee during a period of time, that does not have to take into account the overall value of the leased asset, the lessor bears the depreciation costs and the lessee does not have a purchase option. The risks and benefits referring to the ownership of the leased assets remain mostly related to the lessor, i.e. they cannot be transferred to the lessee.

85 The data for previous years shown in Hanfa's 2017 Annual Report might differ from the data in Annual Reports for 2015 and 2016 due to the application of the provisions of the Accounting Act (Official Gazette, No 109/07, 54/13, 121/14, 78/15, 134/15 and 120/16), of the Leasing Act (Official Gazette, No 141/13) and of the International Financial Reporting Standards, due to changes in reporting methodology and due to actions taken by leasing companies in accordance with Hanfa's instructions.

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

Chart 6.1 Assets and value of newly concluded contracts of leasing companies in the period from 2015 to 2017 (in HRK million)



Source: Hanfa

6.1.1 Asset structure

Total assets of leasing companies as at 31 December 2017 amounted to HRK 18.1bn, rising by HRK 245.1m or 1.4% compared to the same day the year before. The assets of the 17 active companies (other than the companies that initiated winding-up proceedings in 2017) rose by 1.2bn or 7% compared to 31 December 2016.

This asset growth was mostly due to a HRK 299.4m rise in finance lease receivables, a HRK 183.5m growth in other receivables and a HRK 36.9m rise in cash. There was a HRK 133.5m decrease in investments in branches, associates and joint ventures (reported mostly by one leasing company), a HRK 67.2m fall in inventory, and a HRK 35.1m decline in tangible assets leased out under an operating lease.

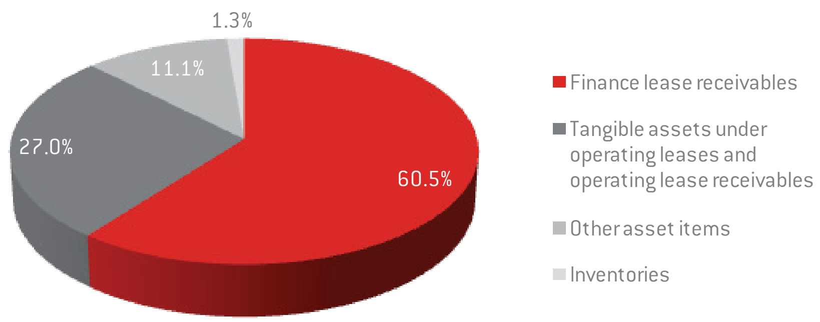
Table 6.1 Leasing companies' asset structure as at 31/12/2016 and 31/12/2017 (in HRK thousand)

Item	31/12/2016	31/12/2017	Change (in %)
Tangible assets leased out under an operating lease	4,785,435	4,750,381	-0.7
Operating lease receivables	166,397	156,721	-5.8
Finance lease receivables	10,681,394	10,980,846	2.8
Loans granted	70,870	52,917	-25.3
Inventories	308,427	241,238	-21.8
Other assets	1,892,062	1,967,554	4.0
Total assets	17,904,585	18,149,656	1.4

Source: Hanfa

The largest asset item was accounted for by finance lease receivables, making up 60.5% of the assets. Of this amount, short-term receivables accounted for HRK 3.6bn, while long-term receivables accounted for HRK 7.4bn. Tangible assets leased out under an operating lease and operating lease receivables accounted for 27% of total assets.

Chart 6.2 Leasing companies' asset structure as at 31/12/2017



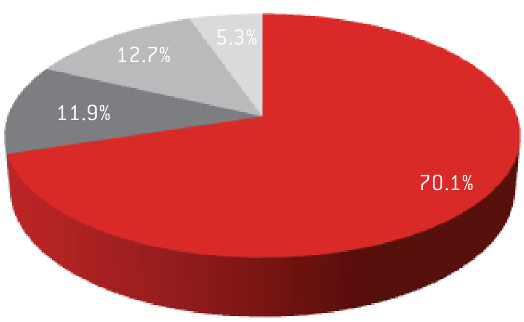
Source: Hanfa

The share of the three largest leasing companies in leasing companies' total assets reached 48% in 2017, increasing compared with the previous year, when it stood at 41.6%. All three largest leasing companies are members of bank groups.

6.1.2 Liability structure

Leasing companies' liability structure shows that their assets were still primarily financed by credit and loans from banks and financial institutions, which totalled HRK 14.9bn or 82% of total liabilities as at 31 December 2017, rising by HRK 285.1m or 2% compared to end-2016. The rise in the level of borrowing was due to the growth in business operations of leasing companies recorded in 2017.

Chart 6.3 Leasing companies' liability structure as at 31/12/2017



Source: Hanfa

Liabilities for credits and loans from foreign banks and financial institutions accounted for 70.1% of leasing companies' total liabilities, rising by HRK 257.3m. Liabilities for credits and loans from domestic banks and financial institutions also rose, by HRK 27.8m. Most leasing companies are majority-owned by foreign banks and their related financial institutions, which finance their operations.

Table 6.2 Leasing companies' liability structure as at 31/12/2016 and 31/12/2017 (in HRK thousand)

Item	31/12/2016	31/12/2017	Change (in %)
Capital and reserves	2,212,487	2,299,279	3.9
Credits from foreign banks and financial institutions	12,471,356	12,728,644	2.1
Credits from domestic banks and financial institutions	2,124,236	2,152,036	1.3
Other liabilities	1,096,506	969,697	-11.6
Total liabilities	17,904,585	18,149,656	1.4

Source: Hanfa

Liabilities for deposits and guarantees relating to amounts guaranteed under operating lease contracts decreased by HRK 62.2m or 17.7%, in line with the reduction in the value of active operating lease contracts.

As at 31 December 2017, capital and reserves amounted to HRK 2.3bn or 12.7% of total liabilities, increasing by HRK 86.8m compared with the previous year, mostly due to the reported profit for the current year.

Initial capital of all leasing companies amounted to HRK 577m, rising by 6% in comparison with the previous year.

6.1.3 Financial operating results

In 2017, leasing companies realised an after-tax profit reaching HRK 219.7m, significantly affected by interest income totalling HRK 312.3m. Profit from fees and commissions amounted to HRK

7.4m, decreasing by HRK 1.9m (20.4%) compared to 2016. Costs for value adjustment for impairment losses reached HRK 257.5m (mostly due to costs for value adjustment reported by one leasing company). In 2016, after-tax profit amounted to HRK 443.1m, due to the reversal of costs for value adjustment for impairment losses totalling HRK 299.5m.

Table 6.3 Statement of comprehensive income of leasing companies for 2016 and 2017 (in HRK thousand)

Item	1/1 – 31/12/2016	1/1 – 31/12/2017	Change (in %)
Interest income	544,542	553,252	1.6
Interest expenses	268,769	240,958	-10.3
Interest profit/loss	275,773	312,294	13.2
Profit from commissions and fees	32,288	31,644	-2.0
Expenses on commissions and fees	23,004	24,254	5.4
Profit/loss on fees and commissions	9,285	7,391	-20.4
Other operating income	1,720,630	1,864,306	8.4
Other operating expenses	1,774,517	1,651,852	-6.9
Profit/loss on other income and expenses	-53,887	212,454	-
Profit/loss before costs for value adjustment for impairment losses	231,170	532,139	130.2
Costs for value adjustment for impairment losses	-299,509	257,520	-
Profit/loss before profit tax	530,679	274,619	-48.3
Profit tax	87,621	54,902	-37.3
Profit/loss after profit tax	443,058	219,717	-50.4

Source: Hanfa

After-tax profit totalling HRK 220.7m was reported by 15 leasing companies, whereas two leasing companies recorded after-tax loss reaching HRK 1m.

6.1.4 Leasing companies' portfolio structure

The value of newly concluded contracts is the main leasing market activity indicator. In 2017, the total number of contracts and the value of newly concluded contracts in leasing companies' portfolio structure rose, by 8,400 or 18.8% and by HRK 805.3m or 26.9% respectively. The increase in the level of financing (especially of commercial vehicles) recorded in 2017 was the result of increased economic activity.

The value of active contracts as at 31 December 2017 dropped by 1% relative to 31 December 2016. However, the value of active contracts reported by 17 active companies (other than the companies that initiated winding-up proceedings in 2017) rose by HRK 815.4m or 6.2% relative to end-2016.

The share of the value of newly concluded contracts in active contracts reached 52.6% (in 2016 it stood at 46.3% and in 2015 at 37.3%), testifying to a rise in business operations on the leasing market. The data on the number and value of newly concluded contracts reported in 2017 point to the recovery of the leasing market.

Table 6.4 Leasing companies' portfolio structure as at 31/12/2016 and 31/12/2017

Date / Period from 1/1 to	Newly concluded contracts in the period			Active contracts as at		
	Number of newly concluded contracts	Value of newly concluded contracts (in HRK thousand)	Average value of newly concluded contracts (in HRK thousand)	Number of active contracts	Value of active contracts	Average value of active contracts (in HRK thousand)
31/12/2016	44,684	6,507,691	146	113,200	14,047,241	124
31/12/2017	53,084	7,313,041	138	120,781	13,902,783	115

Source: Hanfa

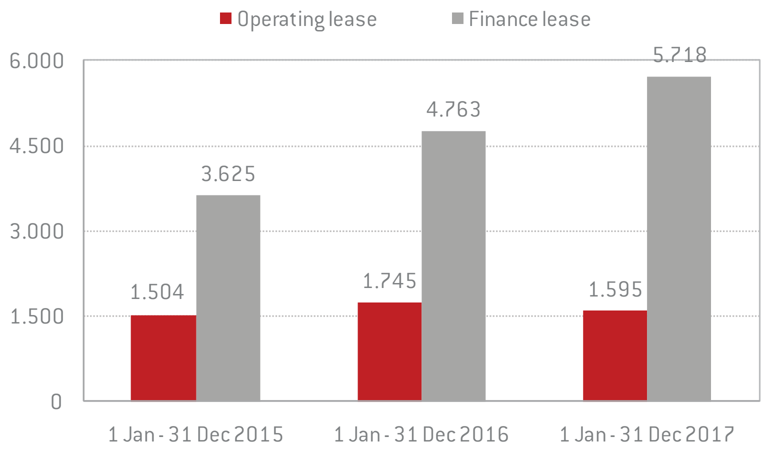
The value of newly concluded operating lease contracts decreased by HRK 149,5m, while the value of newly concluded finance lease contracts grew by as much as HRK 654.9m compared to the previous year. The proportion of operating lease in the structure of total value of newly concluded contracts amounted to 21.8%, while the proportion of financial lease accounted for 78.2%. The increase in the proportion of financial lease was mainly influenced by an increase in passenger and commercial vehicle financing.

Table 6.5 Number and value of newly concluded contracts of leasing companies in 2016 and 2017

Type of lease/period	Number of newly concluded contracts			Value of newly concluded contracts in (in HRK thousand)		
	1/1 – 31/12/2016	1/1 – 31/12/2017	Change (in %)	1/1 – 31/12/2016	1/1 – 31/12/2017	Change (in %)
Operating lease	19,428	22,388	15.2	1,744,661	1,595,112	-8.6
Finance lease	25,256	30,696	21.5	4,763,030	5,717,928	20.0
Total	44,684	53,084	18.8	6,507,691	7,313,041	12.4

Source: Hanfa

Chart 6.4 Leasing companies' portfolio structure – comparison of the values of newly concluded contracts in the period from 2015 to 2017 (in HRK million)



Source: Hanfa

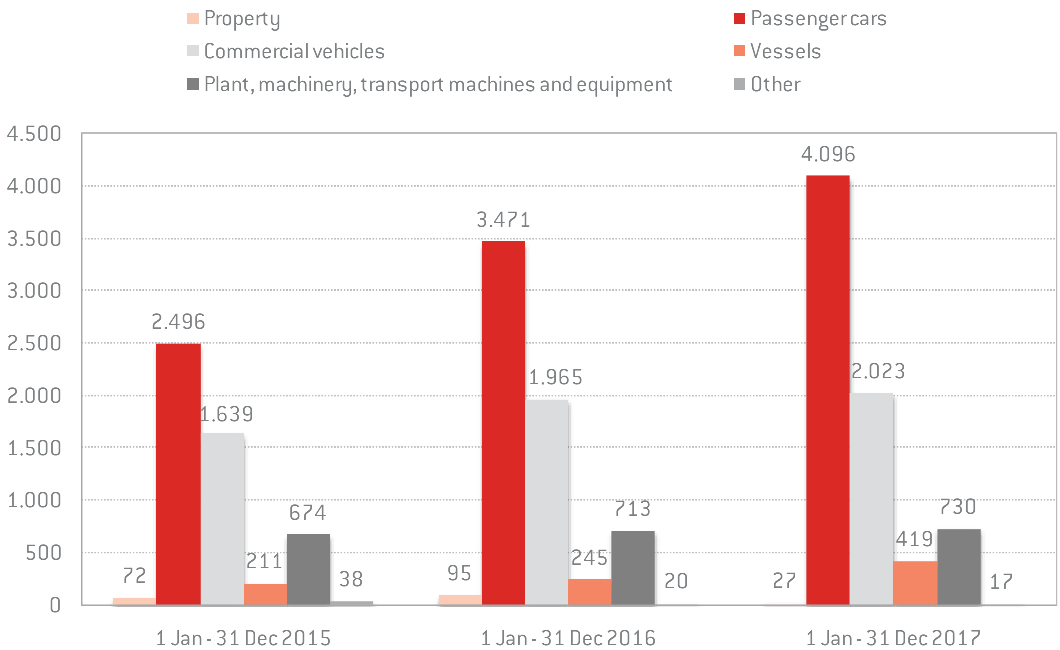
The portfolio structure of leasing companies' newly concluded contracts in the 2009-2015 period was under the influence of decreased economic activity and shows a fall in property value and a rise in the value of passenger and commercial vehicles. The largest number and highest value of newly concluded contracts in the 2017 portfolio structure was related to passenger cars, which recorded the sharpest increase (as much as HRK 625.7m), and were followed by commercial vehicles (with a HRK 58.4m value increase). An increase in the value of newly concluded contracts was also recorded by vessels (HRK 174.2m) and by plant, machinery, transport machines and equipment (HRK 17.2m).

Table 6.6 Value of leasing companies' newly concluded contracts by leased assets in 2016 and 2017 (in HRK thousand)

Leased asset	Value of newly concluded contracts in the period				
	1/1 – 31/12/2016	Share (in %)	1/1 – 31/12/2017	Share (in %)	Change (in %)
Property	94,750	1.5	27,111	0.4	-71.4
Passenger cars	3,470,569	53.3	4,096,268	56.0	18.0
Commercial vehicles	1,964,896	30.2	2,023,309	27.7	3.0
Vessels	244,840	3.8	419,022	5.7	71.1
Aircraft	0	0.0	0	0.0	0.0
Plant, machinery, transport machines and equipment	713,008	11.0	730,247	10.0	2.4
Other	19,628	0.3	17,084	0.2	-13.0
Total	6,507,691	100.0	7,313,041	100.0	12.4

Source: Hanfa

Chart 6.5 Leasing companies' portfolio structure – value of newly concluded contracts by leased assets in the period from 2015 to 2017 (in HRK million)



Source: Hanfa

Considering the fact that leasing companies are prohibited from concluding loan contracts, the proportion of loans in the structure of the value of active contracts has been decreasing constantly. This is due to the fact that loan contracts that had been active until the day of the legal regulation of leasing (21 December 2006) are held until the expiration, with no possibility of their extension.

Table 6.7 Number and value of leasing companies' active contracts in 2016 and 2017

Investment/as at	Number of active contracts as at			Value of active contracts as at		
	31/12/2016	31/12/2017	Change (in %)	31/12/2016	31/12/2017	Change (in %)
Operating lease	46,979	44,486	-5.3	3,201,019	2,928,944	-8.5
Finance lease	65,466	76,057	16.2	10,803,204	10,949,997	1.4
Loans	755	238	-68.5	43,018	23,842	-44.6
Total	113,200	120,781	6.7	14,047,241	13,902,783	-1.0

Source: Hanfa

As at 31 December 2017, passenger cars recorded the highest value of active contracts by leased/lent assets, in the amount of HRK 5.7bn or 41% of the total value of active contracts. The value of active contracts for commercial vehicles amounted to HRK 3.9bn (28.2% of the total value of active contracts), whereas the value of active contracts for property amounted to HRK 1.4bn (9.8% of the total value of active contracts).

Table 6.8 Value of leasing companies' active contracts by leased/lent assets as at 31/12/2016 and 31/12/2017 (in HRK thousand)

Leased/lent asset	Value of active contracts as at				
	31/12/2016	Share (%)	31/12/2017	Share (%)	Change (in %)
Property	2,882,769	20.5	1,364,795	9.8	-52.7
Passenger cars	4,749,771	33.8	5,695,420	41.0	19.9
Commercial vehicles	3,463,223	24.7	3,913,715	28.2	13.0
Vessels	440,298	3.1	593,469	4.3	34.8
Aircraft	643	0.0	476	0.0	-26.0
Plant, machinery, transport machines and equipment	2,447,794	17.4	2,286,103	16.4	-6.6
Other	62,744	0.4	48,805	0.4	-22.2
Total	14,047,241	100.0	13,902,783	100.0	-1.0

Source: Hanfa

As regards the exposure of leasing companies by activities, the largest share (34.4%) in the total value of newly concluded contracts was accounted for by wholesale and retail trade, transportation and storage, accommodation and food service activities. They were followed by manufacturing, mining, quarrying and other industries with a 13.1% share, and by professional, scientific, technical, administrative and support service activities with a 10.4% share in the value of newly concluded contracts. The value of active contracts relating to households rose by 26.4% relative to 31 December 2016, with their share amounting to 9.6% of the total value of active contracts as at 31 December 2017.

6.1.5 Capital adequacy

Leasing companies are obliged to meet capital adequacy requirements laid down in the Leasing

Act and the Ordinance on the capital of leasing companies[87]. In order for a leasing company to meet the capital adequacy requirements, two conditions must be fulfilled: both the initial capital and the capital level of the company must amount to no less than HRK 1m. As at 31 December 2017, all the leasing companies were meeting the prescribed capital adequacy requirements. One leasing company carried out recapitalisation (by increasing initial capital) totalling HRK 37.5m.

6.1.6 Leasing industry performance indicators

The debt ratio measures the share of leasing companies' assets financed by external funds (loans and credits from banks and financial institutions and other sources). As at 31 December 2017, this ratio totalled 0.873, meaning that 87.3% of total assets of leasing companies were financed by external funds, which is in line with business practices of leasing companies that base their business operations on borrowing. As at 31 December 2016, this ratio was somewhat higher and stood at 0.876.

Return on assets (ROA) is a ratio that measures net profit against total assets of the leasing industry. As at 31 December 2017, the aggregate return on assets for leasing companies amounted to 1.2%. As at 31 December 2016, this ratio stood at 2.5%.

6.2 Hanfa's regulatory activities

6.2.1 Normative activities

For the purpose of regulatory unburdening and of complying with International Financial Reporting Standard 9, Hanfa adopted new ordinances amending the existing ordinances relating to the structure and content of financial statements and additional reports of leasing companies and on the manner of and time limits for their submission, to regular reports and to the chart of accounts, including the instructions on how to complete and apply those reports. As regards licensing, amendments to ordinances were adopted relating to the issuance of authorisations for leasing companies' management board members and to requirements for leasing companies' supervisory board members, to the acquisition of qualifying holdings in leasing companies or other legal persons, and to regular reports and reports submitted at Hanfa's request.

2017 saw the introduction of a new, digitised method of receiving documentation from leasing companies, a project that went smoothly and was completed successfully.

During the year, Hanfa responded to inquiries regarding the application of the Leasing Act and accompanying subordinate regulations on an ongoing basis. It issued an opinion on the difference between operating lease and borrowing.

6.2.2 Licensing

As at 31 December 2017, the register of leasing companies contained 17 leasing companies authorised to conduct lease operations, while six leasing companies were undergoing winding-up proceedings. In 2017, two companies adopted decisions initiating voluntary winding-up proceedings. In line with legal provisions, leasing companies undergoing winding-up proceedings retain their authorisations to conduct lease operations. The winding up of the two companies was a result of strategic decisions made by their members. In accordance with its authority and competence, Hanfa continuously supervises these proceedings.

During the year, Hanfa issued eight decisions approving the appointment of leasing companies' management board members, mostly following the regular end of their term of office. Following intra-group rearrangements, 14 decisions were issued approving the acquisition of qualifying holdings in leasing companies, while one company was merged with another company within its group.

6.2.3 Supervision

Within the on-site supervisory procedure carried out during 2017, two reports were drawn up based on examinations that started in 2016 and in 2017

87 Official Gazette, No 60/14

respectively. The examinations focused on leasing operations and credit risk management. A supplement to a report was also drawn up, as well as two decisions ordering the companies to eliminate irregularities established during the examinations. Following one of the on-site examinations, the company acted in accordance with Hanfa's decision and eliminated the irregularities, after which the examination was completed and a report was drawn up establishing that the violations and irregularities had been eliminated. Activities relating to the other on-site examination are expected to follow in 2018. Hanfa also started an on-site examination focusing on leasing operations, which is expected to be followed by further steps and a report in 2018.

As regards off-site supervision, Hanfa's activities primarily included steps related to off-site examinations begun in 2016 with respect to reporting to Hanfa in line with the Leasing Act and accompanying ordinances. In this regard, two supplements to reports were drawn up and 15 decisions were issued for the purpose of eliminating violations and irregularities established. In respect of two off-site examinations which were followed by the supplements to the reports, Hanfa issued a decision establishing that the examinations had been completed. All other off-site examinations begun in 2016 with respect to reporting to Hanfa in line with the Leasing Act and accompanying ordinances were followed by decisions (15) establishing that the violations and irregularities established had been eliminated.

Hanfa also examined the entry of leased assets in the Register of Leased Assets and analysed contracts initially concluded as operating lease buy-back contracts after the expiration of those contracts. As a result, off-site examinations were initiated in respect of two leasing companies and were followed by two reports on off-site examinations relating to the entry of leased assets in the Register of Leased Assets and buy-back operating lease contracts concluded with a third party for the residual value. Consequently, decisions were issued ordering the elimination of the violations and irregularities established. In accordance with one of them, one of the companies eliminated its irregularities (related to the entry of leased assets in the Register of Leased Assets), which was followed by a decision establishing that the irregularities had been eliminated. A report on the company's activities relating to buy-back arrangements and on the classification of contracts is expected to follow in 2018.

The purpose of the Register of Leased Assets is to prevent fraud in leasing operations. In order to minimize risk of fraud, leasing companies are required to enter leased assets into the Register of Leased Assets in accordance with the Ordinance on the Register of Leased Assets.

Hanfa also continued to examine the timeliness and accuracy of reports received in line with the Leasing Act, Ordinance on the structure and content of financial statements and additional reports of leasing companies and on the manner of and time limits for their submission[88], Ordinance on the Chart of Accounts for leasing companies[89], Ordinance on the audit of leasing companies' reports[90], Ordinance on the capital of leasing companies[91] and Ordinance on the content of leasing companies' regular reports and reports submitted at the request of the Croatian Financial Services Supervisory Agency and on the manner and time limits for their submission[92].

In addition, as regards the monitoring and identification of systemically important institutions in accordance with the defined model for the identification of systemically important institutions, Hanfa updated and adjusted the model with respect to the leasing market.

88 Official Gazette, No 57/16 and 72/17

89 Official Gazette, No 63/14 and 132/17

90 Official Gazette, No 68/14 and 57/16

91 Official Gazette, No 60/14

92 Official Gazette, No 57/16 and 72/17

Factoring

7 Factoring

7.1 Market overview

At the end of 2017, there were nine factoring companies in the Republic of Croatia authorised by Hanfa in accordance with the Factoring Act[93] to carry out factoring operations. During the year, three factoring companies submitted applications for the revocation of their authorisations.

As at 31 December 2017[94], factoring companies' assets[95] totalled HRK 2.6bn, decreasing by 56.5% relative to 31 December 2016. The largest asset item were receivables for factoring and discounting of bills of exchange, reaching HRK 1.7bn (65.3% of the total assets). The transaction volume reached HRK 6.4bn, decreasing by 66.4% in comparison with the previous year.

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

Factoring companies' assets rose until 2013 and fell in the period from 2014 to 2107. In 2017, both the transaction volume and assets of factoring companies declined significantly. This was due to problems in Agrokor d.d., which had an effect on and partly defined the trends in some key factoring industry performance indicators in 2017.

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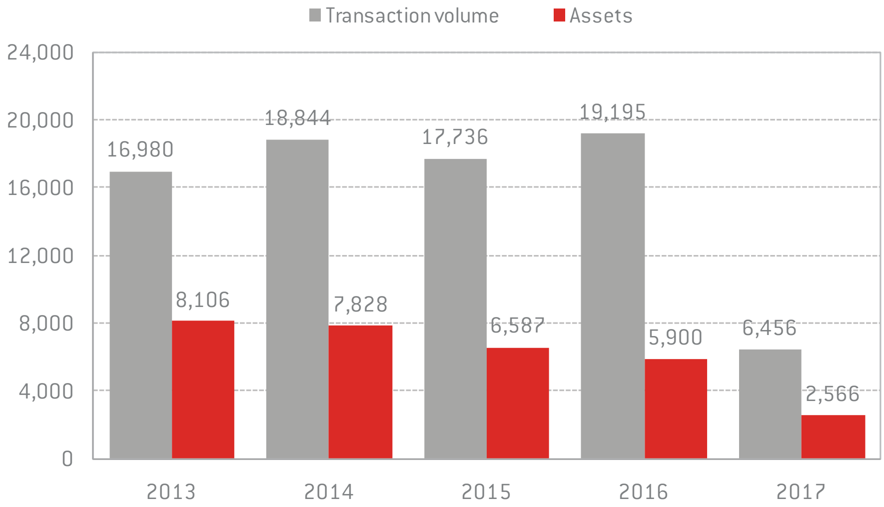
93 Official Gazette, No 94/14 and 41/16

94 Data for the previous years shown in Hanfa's 2017 Annual Report might differ from data in 2015 and 2016 Annual Reports due to the application of the provisions of the Accounting Act (Official Gazette, No 109/07, 54/13, 121/14, 78/15, 134/15 and 120/16), Factoring Act and International Financial Reporting Standards, and due to a change in the reporting methodology.

95 Data for 2016 and preceding years relate to data from Statistical Reports received from factoring companies and companies known to Hanfa to be providing factoring services. In accordance with the Ordinance amending the Ordinance on financial and additional reports and the chart of accounts of factoring companies (Official Gazette, No 41/16, 61/16 and 132/17), factoring companies submitted their annual financial statements for the first time as at 31 December 2017.

Data from Annual Report 2017 relate to the data from annual financial statements as at 31 December 2017 received from six factoring companies and to the data from quarterly financial statements as at 31 December 2017 received from three factoring companies.

Chart 7.1 Aggregate assets and transaction volume of factoring companies in the 2013-2017 period (in HRK million)



Source: Hanfa

The market share of the two largest factoring companies did not fluctuate significantly in the period from 2014 to 2017, and it amounted to 75.6% of total assets as at 31 December 2017, still indicating a high market concentration level. A factoring company with the largest share in total assets has remained the same since 2007. As at 31 December 2017, the market share of the remaining eight factoring companies reached 39.6% of total assets.

7.1.1 Asset structure

As at 31 December 2017, factoring companies' assets decreased by HRK 3.3bn in comparison with 31 December 2016. Current assets made up 97.2% of total assets (98.1% on the same day in the previous year), which is a common occurrence in the factoring industry. The largest asset item were factoring receivables (including reverse factoring receivables) with a 38.4% share and receivables for the discounting of bills of exchange with a 26.8% share.

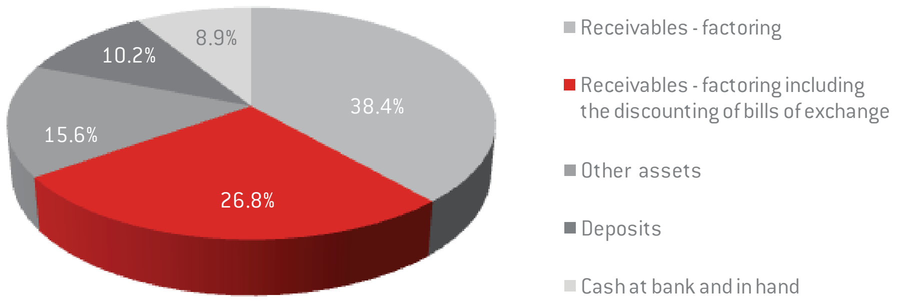
Table 7.1 Factoring companies' aggregate assets as at 31/12/2016 and 31/12/2017 (in HRK thousand)

Assets	31/12/2016	31/12/2017	Change (in %)
Receivables – factoring	1,471,948	985,549	-33.04
Receivables – factoring including the discounting of bills of exchange	3,773,592	688,642	-81.75
Deposits	20,614	262,814	1174.93
Cash at bank and in hand	176,945	227,580	28.62
Other assets	456,959	400,937	-12.26
Total assets	5,900,059	2,565,521	-56.52

Source: Hanfa

The asset decline was mostly caused by a decrease in receivables for the discounting of bills of exchange in the amount of HRK 3.1bn and in factoring receivables totalling HRK 486.4m.

Chart 7.2 Factoring companies' asset structure as at 31/12/2017



Source: Hanfa

7.1.2 Liability structure

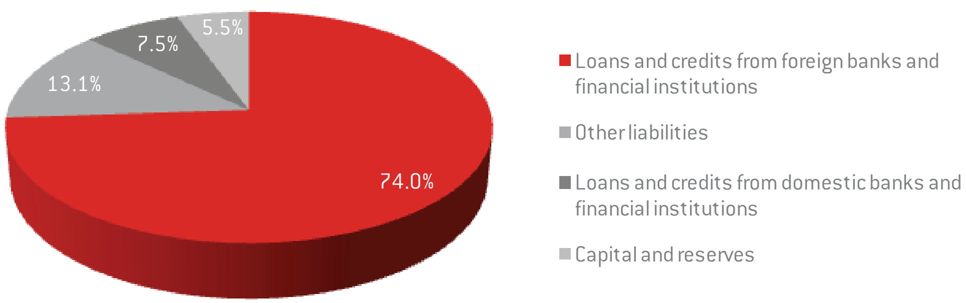
As at 31 December 2017, capital and reserves accounted for 5.5% of total liabilities, decreasing by HRK 729.2m (83.7%) compared with the previous year, when they made up 14.8% of total liabilities. This decrease was largely due to the loss registered by factoring companies in 2017.

Table 7.2 Factoring companies' aggregate liabilities as at 31/12/2016 and 31/12/2017 (in HRK thousand)

Liabilities	31/12/2016	31/12/2017	Change (in %)
Capital and reserves	870,808	141,571	-83.74
Foreign banks and financial institutions credits and loans	3,483,753	1,897,317	-45.54
Domestic banks and financial institutions credits and loans	832,357	191,660	-76.97
Other liabilities	713,140	334,973	-53.03
Total liabilities	5,900,059	2,565,521	-56.52

Source: Hanfa

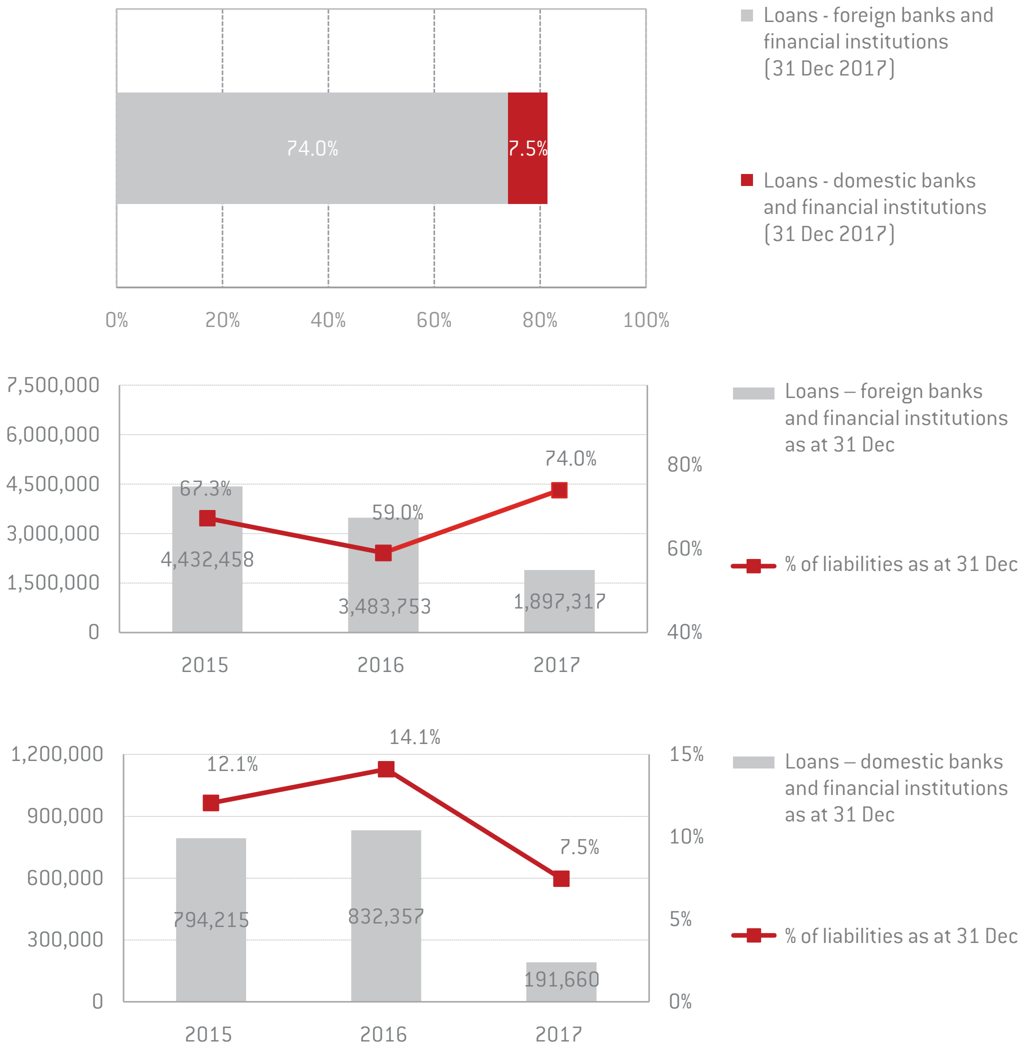
Chart 7.3 Factoring companies' liability structure as at 31/12/2017



Source: Hanfa

Factoring companies were mostly financed by foreign banks and financial institutions, whose liability share reached 74% at end-2017, increasing by 15% relative to end-2016. The share of domestic banks and financial institutions accounted for 7.5% of liabilities, decreasing by 6.6% relative to 2016. As regards liabilities by maturity, there was a change in their structure compared to end-2016, with long-term liabilities decreasing from 6.8% to 0.5% of total liabilities.

Chart 7.4 The largest liability items as at 31/12/2017 and their movements from 2015 to 2017 (in % and in HRK thousand)



Source: Hanfa

7.1.3 Financial operating results

The 2017 after-tax loss totalled HRK 899.6m and was due to costs of value adjustment, whereas in 2016 factoring companies reported after-tax profit amounting to HRK 168.5m.

Table 7.3 Aggregate profit and loss account of factoring companies in 2016 and 2017 (in HRK thousand)

Item	1 Jan – 31 Dec 2016	1 Jan – 31 Dec 2017	Change (in %)
Interest income	336,889	136,169	-59.6
Interest expenses	146,562	77,543	-47.1
Interest profit/loss	190,327	58,626	-69.2
Income from fees and commissions	55,058	12,482	-77.3
Expenses on fees and commissions	24,844	9,511	-61.7
Profit/loss on fees and commissions	30,214	2,971	-90.2
Other operating income	380,301	33,693	-91.1
Other operating expenses	377,268	1,006,692	166.8
Profit/loss on other income and expenses	3,033	-972,998	-
Total income	772,248	182,344	-76.4
Total expenses	548,674	1,093,746	99.3
Profit/loss before profit tax	223,574	-911,402	-
Profit tax	55,024	-11,814	-
Profit/loss after profit tax	168,550	-899,588	-

Source: Hanfa

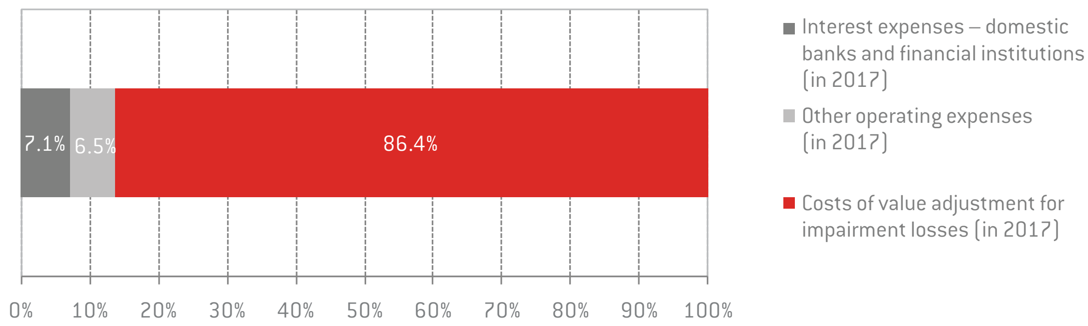
Factoring companies' total income amounted to HRK 182.3m, decreasing by HRK 589.9m (76.4%) in comparison with 2016, while their expenses reached HRK 1.1bn, rising by HRK 545.1m (99.3%) relative to the previous reporting period.

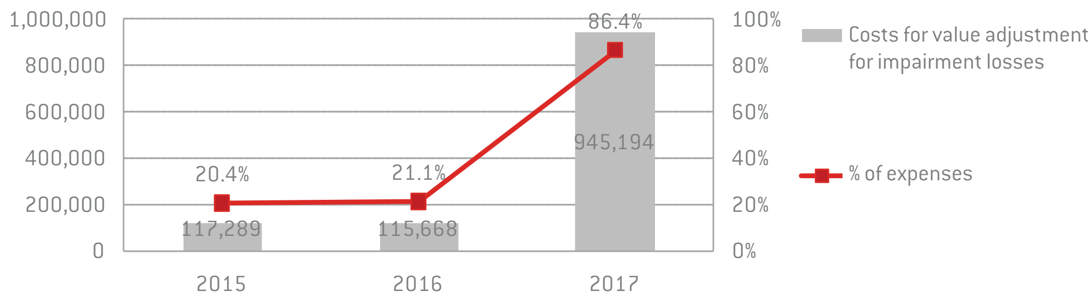
Interest income accounted for the largest share in the income structure, reaching 74.7% of total income in 2017. This income was mostly made up of income from factoring operations and the discounting of bills of exchange – factoring companies' key activities. Other operating income amounted to 18.5% of total income and was largely made up of profit from exchange rate differences.

The major share in total expenses was attributable to other operating expenses amounting to 92%, with costs of value adjustment being the most important item and making up 86.4% of total expenses. Interest expenses accounted for 7.1% of total expenses, with interest expenses with domestic banks and financial institutions accounting for 2.4% of total expenses, and interest expenses with foreign banks and financial institutions accounting for 3.4% of total expenses.

Costs of value adjustment reached HRK 945.2m, rising significantly relative to 2016, when they totalled HRK 115.7m (21.1% of total expenses).

Chart 7.5 The largest expense items in 2017 and costs of value adjustment for impairment losses from 2015 to 2017 (in % and in HRK thousand)





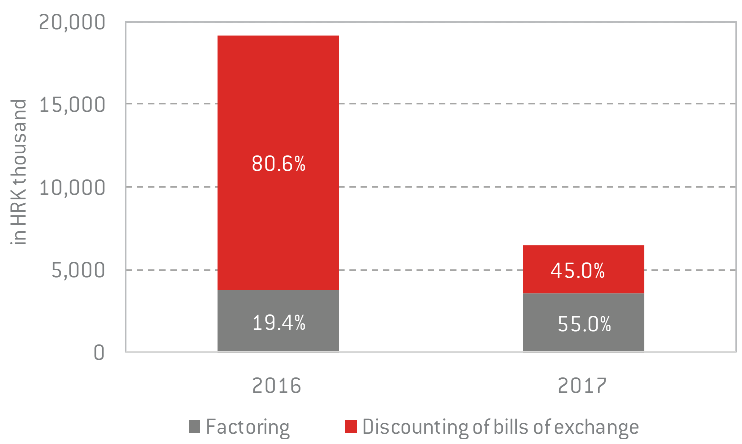
Source: Hanfa

Six out of nine factoring companies reported after-tax loss amounting to HRK 902.9m, whereas three factoring companies reported after-tax profit reaching HRK 3.3m.

7.1.4 Transaction volume

Transaction volume represents the cumulative amount of invoices purchased under factoring arrangements (including reverse factoring arrangements) and of bills of exchange discounted under factoring arrangements including the discounting of bills of exchange. In 2017, transaction volume reached HRK 6.4bn, decreasing by 66.4% in comparison with 2016, when it stood at HRK 19.2bn.

Chart 7.6 Transaction volume structure by activity in 2016 and 2017 (in % and in HRK thousand)



Source: Hanfa

The significant fall in transaction value was primarily due to a decrease in the volume of transactions relating to factoring arrangements including the discounting of bills of exchange, which declined relative to 2016 by HRK 12.6bn or 81.2% (from HRK 15.5bn to HRK 2.9bn). The volume of factoring arrangements (invoices purchased) fell by 4.8% relative to 2016 (from HRK 3.7bn to HRK 3.6bn).

Table 7.4 Transaction volume of factoring companies (in HRK thousand)

Item	Factoring	Factoring including the discounting of bills of exchange	Reverse factoring	Total
By recourse	2,512,151	2,906,153	1,037,877	6,456,181
With recourse	1,371,733	2,712,165	0	4,083,898
Without recourse	1,140,417	193,988	1,037,877	2,372,283
By residence of entities	2,512,151	2,906,153	1,037,877	6,456,181
Domestic factoring	1,800,103	2,899,722	629,719	5,329,545
Foreign factoring	712,048	6,430	408,158	1,126,636

Source: Hanfa

Recourse factoring accounted for a 63.3% share in the total transaction volume, whereas non-recourse factoring made up a 36.7% share. As much as 82.5% of the transaction volume related to domestic factoring involving resident entities.

7.1.5 Factoring industry performance indicators

In 2017, the debt ratio for factoring companies stood at 0.94, increasing in comparison with the previous year, when it stood at 0.85. The ratio rose due to a large decrease in capital caused by losses recorded in 2017.

As a result of substantial losses made in 2017, as at 31 December 2017 factoring companies reported a negative return on total assets (ROA) and a negative return on equity (ROE). As at 31 December 2016, ROA reached 2.9% and ROE stood at 19.4%.

7.2 Hanfa's regulatory activities

7.2.1 Normative activities

31 December 2016 was the expiration date of the 12-month period provided for the compliance with the provisions of the Factoring Act, which entered into force on 8 August 2014. The compliance period intended for legal persons providing factoring services and entered in the register of companies as at the day of the entry into force of the Act had been prolonged for the first time until 31 March 2016 and later until 31 December 2016 pursuant to the Amendments to the Factoring Act.

After the compliance period had expired, Hanfa provided a number of replies to inquiries relating to the application and implementation of the Factoring Act, especially as regards licensing issues.

In 2017, an ordinance[96] was adopted amending the existing ordinance regulating financial statements, additional reports and the chart of accounts of factoring companies for the purpose of compliance with International Financial Reporting Standard 9. An instruction was also drawn up defining the preparation and submission of factoring companies' reports in electronic form.

7.2.2 Licensing

As at 31 December 2017, the register of factoring companies contained nine factoring companies

96 The list of ordinances adopted by Hanfa in 2017 is provided in the Appendices.

authorised to conduct factoring operations. The factoring company which was undergoing winding-up proceedings during the year received a decision in September withdrawing its authorisation to conduct factoring operations. This was due to the fact that the company adopted such decision as it had stopped providing factoring services and meeting the requirements on the basis of which it had formerly received its authorisation.

In a joint procedure, Hanfa issued seven authorisations to conduct factoring operations, which included the adoption of decisions regarding ten applications for the approval to acquire a qualifying holding in a factoring company and 15 applications for the issuance of authorisations to factoring companies' management board members. Three decisions were also issued granting authorisations to management board members with no relation to compliance procedures: due to the regular end of their term of office in two cases and due to early termination of their term of office in one case.

Following the events on the financial market which had an effect on the factoring market as well, during 2017 three factoring companies submitted applications for the issuance of decisions withdrawing their authorisations to conduct factoring operations.

7.2.3 Supervision

In 2017, Hanfa continued supervising factoring companies' operations. Off-site supervision was based on the analysis of reports received from factoring companies, with the focus of examinations being the analysis of factoring industry risks and of types and characteristics of certain products and services offered by factoring companies.

Three off-site examinations were initiated in three factoring companies, focusing on value adjustment and capital adequacy as at 30 June 2017. It was found that the companies' internal act regulating the method of calculating value adjustment was not in compliance with International Financial Reporting Standard 39, as a result of which value adjustment for receivables was not reported in line with this standard as at 30 June 2017. An off-site examination focusing on capital adequacy as at 30 June 2017 found that the company in question did not meet capital adequacy requirements on that day. Therefore, Hanfa issued a decision ordering the company to increase its capital level and to align with Article 23(1) of the Factoring Act.

Pursuant to the Ordinance on financial and additional reports and the chart of accounts of factoring companies[97], factoring companies were obliged to submit their financial and additional reports as at 31 March 2017 for the first time. As of 30 April 2017, Hanfa verified the timeliness and accuracy of the reports received in relation to the requirements laid down in that Ordinance. It also continued verifying the defined capital levels and the timeliness and accuracy of the implementation of the Ordinance on factoring companies' capital[98] and the timeliness and accuracy of reports and notifications laid down in the Ordinance on the content of factoring companies' regular reports and reports submitted at the request of the Croatian Financial Services Supervisory Agency and on the manner of and time limits for their submission[99].

As regards the monitoring and identification of systemically important institutions in accordance with the defined model for the identification of systemically important institutions, Hanfa updated and adjusted the model with respect to the factoring market.

In the first half of 2017, five on-site examinations were initiated in five factoring companies focusing on factoring operations including the discounting of bills of exchange in the period from 1 January 2016 to 31 March 2017. During the examinations five reports were drawn up establishing that factoring operations including the discounting of bills of exchange were carried out contrary to the Factoring Act. Moreover, the companies failed to manage their risks adequately by allowing significant risk exposure to a legal entity and its related parties. This resulted in the risks materialising and expenses arising and causing some of the companies under examination to become unstable, illiquid and non-viable.

97 Official Gazette, No 41/16, 61/16 and 132/17

98 Official Gazette, No 12/15

99 Official Gazette, No 140/14

Judicial proceedings

8 Judicial proceedings

The provisions of the General Administrative Proceedings Act[100] apply to cases handled by Hanfa within the framework of its competence, unless otherwise provided by law. Acts issued by Hanfa are final and administrative disputes may be initiated against them, therefore making Hanfa a party in such administrative disputes.

In line with its statutory powers, Hanfa, as an authorised prosecutor, submits indictments to the Zagreb Misdemeanour Court (as the court having territorial and substantive jurisdiction) and to the Financial Inspectorate of the Republic of Croatia. Hanfa's employees actively participate in the misdemeanour proceedings by visiting the hearings, making reports and taking all other actions falling within Hanfa's competence.

Pursuant to the Misdemeanour Act[101], Hanfa is also authorised to publish final and non-final rulings in cases defined by special regulations (in 2107, it published rulings on misdemeanours committed pursuant to the Capital Market Act[102]) or in cases defined by relevant EU regulations. As opposed to published anonymised rulings and in accordance with relevant regulations, these publications make it clear they are non-final rulings and provide information on the type and characteristics of the violation and on the identity of the perpetrator.

As a part of the continued process of harmonisation with the *acquis communautaire*, Hanfa's representatives participated in the Working Group of the Croatian Ministry of Justice on Amendments to the Companies Act.

Hanfa's initiative regarding the education of government institutions' representatives continued in 2017, through further cooperation with the Zagreb Judicial Academy, in charge of lifelong training of judicial officials. The first lecturers held by Hanfa's employees were well attended by judges and state attorneys.

8.1 Misdemeanour proceedings

During supervisory procedures carried out in the area of capital markets, investment funds and insurance, Hanfa found illegalities defined by the Capital Market Act, Act on Open-Ended Investment Funds with Public Offering[103] (hereinafter: AOEIF), the Alternative Investment Funds Act[104] (hereinafter: AIFA), and Insurance Act[105], and in accordance with its powers, in 2017 it filed 20 indictments with the competent misdemeanour court in Zagreb.

Since its establishment on 1 January 2006 until 31 December 2017, Hanfa brought a total of 468

Table 8.1 Indictments brought in 2017

Area	Act	Number of indictments
Investment funds	Act on Open-Ended Investment Funds with Public Offering	5
	Act on Open-Ended Investment Funds with Public Offering and the Alternative Investment Funds Act	1
	Total	6
Capital market	Capital Market Act	11
Insurance Market	Insurance Act	3
Total indictments brought in 2017		**20**

Source: Hanfa

100 Official Gazette, No 47/09

101 Official Gazette, No 107/07, 39/13, 157/13, 110/15 and 70/17

102 Official Gazette, No 88/08, 146/08, 74/09, 54/13, 159/13, 18/15 and 110/15

103 Official Gazette, No 16/13 and 143/14

104 Official Gazette, No 16/13 and 143/14

105 Official Gazette, No 30/15

indictments for initiating misdemeanour proceedings.

The Act on Amendments to the Misdemeanour Act[106] provides for the possibility in the misdemeanour-legal system for the competent body in the procedure to accept the agreement between Hanfa and the defendant on the choice and type of sanctions. The competent body in the procedure shall not accept the parties' agreement in the misdemeanour proceedings if such agreement is at the expense of the defendant as regards the rules on the choice and type of sanctions, or if it is not lawful. The general tendency towards alternative dispute resolution led to acquittals in the period between 2014 and 2018.

Table 8.2 Indictments brought in the 2006 – 2017 period

Year	Indictments	Final judgement	Discontinuance*	Expiration of statute of limitations	Ongoing
2006	75	33	15	27	0
2007	72	15	13	44	0
2008	65	14	6	45	0
2009	49	13	1	34	1
2010	52	15	2	34	1
2011	33	14	1	15	3
2012	27	8	1	9	9
2013	30	13	1	7	9
2014	17	5	0	1	11
2015	17	4	0	0	13
2016	11	1	0	0	10
2017	20	2	0	0	18
Total	**468**	**137**	**40**	**216**	**75**

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

Source: Hanfa

8.1.1 Capital market

Following established misdemeanours committed in the area of capital market, Hanfa brought 11 indictments against perpetrators of misdemeanours for violations of the provisions of the Capital Market Act.

Eight indictments were brought against legal entities and responsible persons in the legal entities due to their failure to publish, within the prescribed deadline, the issuer's annual and quarterly report and audit report, due to their failure to ensure the annual report and quarterly report are available to the public and to deliver them to Hanfa and due to their failure to provide Hanfa with proof that they have met their obligation to publish the reports. Two indictments were related to the initiation of misdemeanour proceedings against natural persons due to their failure to submit, within the prescribed deadline, notifications on exceeding or falling below the threshold of voting rights in share issuers to addressees defined by the Capital Market Act. An indictment was brought due to violations of legal provisions by a legal person and responsible persons in the legal person, relating to their failure to inform Hanfa, within the prescribed deadline and in accordance with Article 354 of the Capital Market Act, of the use of the exemption referred to in Article 351 of the Capital Market Act. By 31 December 2017 three final rulings were issued with respect to these cases.

8.1.2 Investment funds

Following established misdemeanours committed in the area of investment funds, Hanfa brought six indictments against perpetrators of misdemeanours for violations of the provisions of the AOEIF and AIFA.

106 Official Gazette, No 157/13

An indictment was brought and misdemeanour proceedings were initiated against a legal person and responsible persons in the legal person due to the failure of the investment fund management company and its responsible persons to act in accordance with Article 57(2) and (3) of the AOEIF as regards business documentation handling and recording procedure. The indictment was also brought due to the failure of these persons to act in accordance with Article 107 of the AIFA and to apply the International Financial Reporting Standards pursuant to Article 63(1) of the AIFA. Misdemeanour proceedings were initiated against a legal person and its responsible persons due to the failure of the investment fund management company and its responsible persons to comply with restrictions laid down in Article 250(1)(6) of the AOEIF relating to investments of assets of open-ended investment funds with public offering in transferable securities or money market instruments. An indictment was initiated against a management company and its responsible persons due to their failure to act in accordance with Article 66(2) of the AOEIF as regards obligations to prescribe internal procedures and due to their failure to determine the value of UCITS pursuant to Article 159 and 160(1) and (2) of the AOEIF. Misdemeanour proceedings were initiated against an investment fund management company and its responsible persons because they invested assets of UCITS contrary to the provisions of the AOEIF. Misdemeanour proceedings were also initiated against an investment fund management company and its responsible persons due to their failure to submit their report on capital calculation as regards the type, contents and deadlines in accordance with the ordinance referred to in Article 22(2) of the AOEIF. Finally, misdemeanour proceedings were initiated against an investment fund management company and its responsible persons due to their failure to comply with restrictions laid down in Article 258 of the AIFA relating to investments of assets of alternative investment funds with public offering in transferable securities or money market instruments.

8.1.3 Insurance market

Following established misdemeanours committed in the insurance market, Hanfa brought three indictments for violations of the provisions of the Insurance Act.

An indictment was brought against an insurance company's management board members due to their failure to align the company's business operations with the provisions of the Insurance Act and to establish and implement an effective and reliable management system. Two indictments were brought against an insurance company and its responsible persons due to activities carried out contrary to the Insurance Act as regards the provision of information to policy holders during the conclusion of the contract.

8.2 Administrative disputes

Nine administrative disputes were initiated against Hanfa's decisions following complaints filed with the Zagreb Administrative Court. Pursuant to the Administrative Disputes Act[107], Hanfa provided responses and submitted files requested based on which the complaints had been filed. In proceedings initiated following these complaints and complaints filed in previous years, Hanfa's employees filed reports and attended hearings before the Zagreb Administrative Court as the court with territorial jurisdiction in line with the plaintiff's residence. The administrative disputes were related to administrative decisions in the area of capital market, investment companies and insurance market and are still outstanding.

The administrative dispute in the area of capital market was initiated for the purpose of initiating new joint-stock company takeover proceedings. The dispute relating to the investment company concerned a targeted on-site examination carried out in that company. Administrative disputes in the area of insurance market were related to a dispute of a natural person for the purpose of carrying out an examination of an insurance company and to decisions adopted by Hanfa (the remaining six disputes) relating to examinations of insurance companies initiated ex officio.

8.3 Criminal charges

Since its establishment on 1 January 2006 until 31 December 2016, Hanfa filed a total of 48 criminal charges to the State Attorney's Office.

107 Official Gazette, No 20/10, 143/12, 94/16 and 70/17

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

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

9.1 Participation in the work of EU institutions

In 2017, Hanfa's employees were involved in the work and coordination with relevant national authorities and institutions of the European Union regarding the alignment with regulations and practices of the European Union within the financial sector. Hanfa's employees need to devote more and more of their working time to ever increasing workloads related to these activities, which is becoming a significant burden for Hanfa's current resources.

9.1.1 Participation in the work of ESMA

In 2017, the President of the Board of Hanfa or his alternate attended seven meetings of the Board of Supervisors of the European Securities and Markets Authority (ESMA).

In 2017, there were four key activities ESMA was engaged in, namely promoting supervisory convergence, assessing risks to investors, markets and financial stability, completing a single rulebook for EU financial markets and directly supervising specific financial entities.

ESMA shifted the focus of its activities from building the single rulebook towards ensuring that it is applied in a consistent manner across the EU. The implementation of MiFID/MiFIR continued to be ESMA's first priority area for converging supervisory practices. This included the associated IT projects related to MiFID II and MAR. A single rulebook also continued to be developed as regards the areas of prospectuses and securitisation, and there were some initiatives in this regard related to investment fund.

In 2017, ESMA also continued producing databases required by legislation, thus dealing with increasing amounts of data and emphasising the importance of the quality of that data. It also continued considering the opportunities for conducting stress tests of investment funds on a pan-EU basis and the potential methodologies related to such activities.

As regards ESMA's direct supervision responsibilities, it focused on the use of databases to conduct targeted reviews, including on-site examinations of credit rating agencies and trade repositories. Having in mind its risk-based supervisory approach, it paid a lot of attention to interaction with financial market participants.

Hanfa's representatives were involved in the work of 12 committees, four expert networks and three working groups of ESMA, namely:

- Committee for Economic and Markets Analysis
- Corporate Finance Standing Committee
- Corporate Reporting Standing Committee
- CRA Technical Committee
- Market Integrity Standing Committee
- Financial Innovation Standing Committee
- Investment Management Standing Committee
- Investor Protection & Intermediaries Standing Committee
- IT Governance Committee
- Post Trading Standing Committee
- Secondary Market Standing Committee
- Takeover Bids Network
- Legal Network
- Market Data Reporting Working Group
- Translation Network
- European Enforcement Coordination Sessions
- Supervision Coordination Network
- Supervisory Convergence Standing Committee
- Commodity Derivatives Task Force.

9.1.2 Participation in the work of EIOPA

In 2017, the President of the Board of Hanfa or his alternate attended six meetings of the Board of Supervisors of the European Insurance and Occupational Pensions Authority (EIOPA).

In 2017, EIOPA focused on three main goals, namely strengthening supervisory convergence, enhancing consumer protection and maintaining financial stability.

Hanfa's representatives were involved in the work of nine expert networks, one working group and four committees. Hanfa also participated in the exchange of experience and supervisory practices, coordinated its activities with other supervisory authorities of Member States and submitted relevant information through participation in the following committees, working groups and networks of EIOPA:

- Equivalence Committee
- IT and Data Committee
- Occupational Pensions Committee
- Committee on Consumer Protection and Financial Innovation
- Stress Test Subgroup
- Network of Quality Checks for Translation
- Expert Network – Quantitative Requirements
- Expert Network – Risk Management
- Expert Network – Supervisory Information
- Expert Network – Internal Models
- Expert Network – Financial Stability
- Expert Network – Accounting and Auditing
- Expert network – Pensions.

In 2017, committees of ESMA and EIOPA issued over 300 decisions and organised more than 300 debates, mainly concerning the approval of numerous documents for public consultation, guidelines and recommendations, adoption of implementing and technical standards, analysis of trends, risks and vulnerability of the financial sector, organisation of the common market and, in this light, harmonisation of supervisory practices, activities of trade repositories and credit rating agencies, combat against money laundering and terrorist financing, identification of new instruments and services on financial markets and future trends and their impact on consumers and the financial stability of the European area.

9.1.3 Participation in the work of EBA

Pursuant to Article 16 of the Act on the Croatian Financial Services Supervisory Agency[108], Hanfa's employees participate in the preparation of materials and the provision of information needed to make decisions and provide opinions related to investment firms' operations for meetings of the Board of Supervisors of the European Banking Authority (EBA).

HANFA participated in EBA's analyses as regards the revision of the prudential requirements for investment firms under CRD IV[109] and the CRR[110] and other types of reporting connected with the BRRD requirements.

In cooperation with the Croatian National Bank, Hanfa complied with EBA's Guidelines on the rate of conversion of debt to equity in bail-in[111] and Guidelines on the treatment of shareholders in bail-in or the write-down and conversion of capital instruments[112], relating both to the Croatian National Bank and Hanfa.

9.1.4 Participation in the work of the ESRB

In 2017, the President of the Board of Hanfa or his alternate attended four meetings of the General Committee and one meeting of the Advisory Technical Committee of the European Systemic Risk Board (ESRB).

The ESRB continued with its activities concerning macroprudential analysis and risk identification, the analysis of national macroprudential measures and the assessment of issued recommendations. It issued four risk dashboards and published the Report on the cyclicality of capital requirements, Report on resolving non-performing loans,

108 Official Gazette, No 140/05 and 12/12

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

110 Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, OJ L 176

111 EBA/GL/2017/03, of 11 July 2017

112 EBA/GL/2017/04, of 11 July 2017

Report on the financial stability implications of the International Financial Reporting Standards, two reports on macroprudential aspects of insurance and the second "EU Shadow Banking Monitor".

9.1.5 Participation in the work of the Council and the European Commission

Following the European Commission's Capital Markets Union initiative, the Council and the Working Party on Financial Services, which includes Hanfa's employees, focused on legislative proposals made by the European Commission within the initiative. Hanfa participated in the preparation of documents comprising proposals for new regulations or amendments to existing regulations governing the functioning of EIOPA, ESMA and EBA, pan-European pension products, capital market infrastructure and central counterparties.

Hanfa continued managing the Subgroup on Financial Literacy within the Expert Group on barriers to free movement of capital established by the European Commission in 2016 within the Capital Markets Union initiative. It also participated in the work of the Expert Group of the European Securities Committee (EGESC).

9.2 Cooperation with domestic and international institutions

In 2017, Hanfa participated in the work of working groups on the adoption of or amendments to regulations falling within its scope of competence, set up by the Ministry of Labour and Pension System. This included the preparation of the Draft Capital Market Act implementing MiFID II, and the preparation of amendments to the Insurance Act implementing the Insurance Distribution Directive.

As a signatory to the Multilateral Memorandum of Understanding of the International Organisation of Securities Commissions (IOSCO) and the Multilateral Memorandum of ESMA, Hanfa exchanged information on the supervision of capital market with other competent authorities (signatories to the above-mentioned memoranda).

Together with the Croatian National Bank, Hanfa was a part of the consortium of Member States selected in 2017 to offer technical assistance to institutions of Montenegro charged with supervision of the financial sector under a twinning programme. The project is expected to commence in 2018, and Hanfa, together with competent authorities from Germany and the Netherlands, will provide technical assistance to the Insurance Supervision Agency and to the Securities Commission of Montenegro.

9.3 Prevention of money laundering and terrorist financing and international restrictive measures

As a participant in the money laundering and terrorist financing prevention system, via the Committee on the Prevention of Money Laundering and Terrorist Financing, Hanfa participated in the drawing up of opinions and responded to questions of supervised entities, organised education for representatives of supervised entities and undertook other activities related to the prevention of money laundering and terrorist financing.

In accordance with the provisions of the Act on the Prevention of Money Laundering and Terrorist Financing[113], and Act on International Restrictive Measures[114], Hanfa continued with its supervisory activities regarding the implementation of provisions of these Acts by supervised entities. In 2017, an examination focusing on the prevention of money laundering and terrorist financing and on international restrictive measures was initiated and completed, while two such examinations were initiated in 2017 and are expected to be completed in 2018. In 2017, there were no decisions imposing supervisory measures on supervised entities in the area of the prevention of money laundering and terrorist financing or international restrictive measures, since all violations and irregularities had been eliminated before the decisions were issued.

In accordance with the obligation of supervisory authorities to exchange data and information re-

113 Official Gazette, No 87/08 and 25/12

114 Official Gazette, No 139/08 and 41/14

lated to supervisory procedures, Hanfa continued to report to the Anti-Money Laundering Office at the Ministry of Finance on its supervisory activities. At the Croatian Chamber of Commerce, it gave a lecture entitled "The New Act on the Prevention of Money Laundering and Terrorist Financing (Official Gazette, No. 108/2017)" for representatives of supervised entities, providing answers to inquiries of associations of supervised entities at the Croatian Chamber of Commerce.

Furthermore, Hanfa intensively participated in the working group on the preparation of the new Act on the Prevention of Money Laundering and Terrorist Financing, together with the Ministry of Finance, Anti-Money Laundering Office and Croatian National Bank.

Hanfa's employees also continued to participate in the work of the Inter-Institutional Working Group on the Prevention of Money Laundering and Terrorist Financing (IIWG), presided by the Anti-Money Laundering Office. The group was mostly concerned with the drafting of the new Act on the Prevention of Money Laundering and Terrorist Financing, issues relating to the identification of the real owner and mutual cooperation between the members of the IIWG. In the context of inter-institutional cooperation, Hanfa submitted responses, information and opinions in relation to inquiries of supervised entities associated with international restrictive measures.

It also announced its intention to comply with Recommendation 23 relating to the regulation and supervision of financial institutions referred to in MONEYVAL's 4th Round Evaluation Report on the Republic of Croatia relating to the implementation of measures aimed at the prevention of money laundering and terrorist financing. Pursuant to this Recommendation, legislative provisions need to be adopted for the purpose of preventing acquirers of qualifying holdings and management board members of pension insurance companies from being associates of persons convicted of a crime, which also makes it necessary to define the term "associate".

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

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

10.1 Consumer protection and educational activities

In 2017, Hanfa received 186 complaints, which included complaints submitted following certain activities of Hanfa's supervised entities, complaints which do not fall within Hanfa's area of competence, complaints relating to Hanfa's activities and other general inquiries and complaints. The majority of complaints were received from natural persons.

Table 10.1 Number of complaints received in 2016 and 2017 by submitters

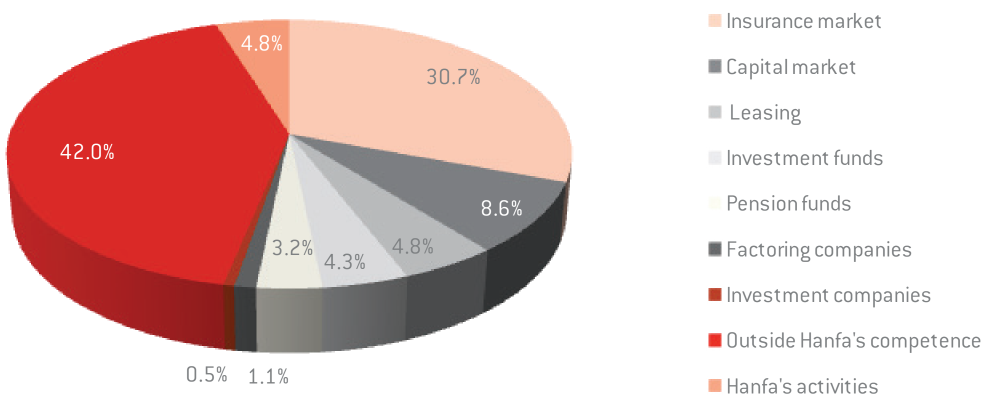
Type of complaint	Number of complaints received in 2016	Number of complaints received in 2017
Natural persons	111	147
Legal persons	19	24
Anonymous	6	15
Total	136	186

Source: Hanfa

Hanfa processes every complaint received, and following the reception of those falling within its competence, it requires documentation and statements from supervised entities referred to in the complaint. Where appropriate, it initiates examinations through administrative proceedings.

The majority of complaints falling within Hanfa's scope of activity and competence related to the insurance market (30.7%) and capital market (8.6%). A total of 4.8% of the complaints related to Hanfa's activities, whereas 42.0% of the complaints received fell outside Hanfa's scope of activity and competence.

Chart 10.1 Structure of complaints by Hanfa's area of competence



Source: Hanfa

A total of 57 complaints concerned the insurance market, of which 18 complaints related to clients' discontent concerning the claims handling procedure, i.e. discontent with the insured amount paid or failure to pay the insured amount, while 13 of the complaints related to the conclusion of insurance contracts, i.e. too high insurance premiums, discounts and incorrect application of the bonus/malus system. Conflicts relating to insurance contracts and concerning failure to meet contractual obligations and insurance terms and conditions were the subject of 12 complaints. Four complaints concerned unauthorised conduct of insurance representation business or unauthorised use of personal data, while three complaints were filed regarding marketing activities. Five complaints were filed regarding the supplementary insurance system, while two complaints concerned supervised entities' activities, i.e., in general, business operations carried out contrary to legislative provisions.

A total of 16 complaints related to the capital market, the majority of which (11) concerned the reporting of potential market abuse, i.e. misuse of inside information and market manipulation. Three complaints were related to miscellaneous irregularities in issuers' business operations and two complaints concerned joint-stock companies takeover procedures.

Nine complaints related to the leasing market, with the majority of them having been filed due to problems concerning lessees' payment issues and relating disputes. Some of the complaints filed due to payment issues involved calculation of default interest, irregularities in the final calculation and collection of debts, dispute over debt collection and charging of payment reminders under a lease contract broken due to non-payment, and debt collection by a debt collection agency. The remaining complaints concerned one of the following issues each: difference between the purchase price of a leased asset set in the lease contract and that in the invoices issued by a supplier, leasing company's decision to keep the first instalment, failure of the leasing company to establish provisions for any legal costs, dispute over the amount of claims set in the statement on the confiscation carried out with the debtor's consent, dispute between the lessee and the supplier after the supplier has kept the leased asset after the conclusion of the lease contract and the adjustment of the variable interest rate in the lease contract.

Three out of eight complaints relating to investment funds were filed due to discontent of fund members with the manner the fund was managed, i.e. with the negative return. Two of the complaints related to the manner of informing investors of issues regarding the purchase and redemption of investment fund units, another two related to activities following the request to change data on the unit holder and to the failure to pay a claim, while one complaint concerned activities carried out contrary to fund rules related to investors' participation in the profit.

Out of six complaints relating to the area of pension funds two were filed following activities of the pension company at the moment a person is acquiring their pension rights, two complaints concerned the manner of informing pension fund members of issues regarding the conclusion of contracts on voluntary pension fund membership, while the remaining two complaints regarded activities of pension companies related to marketing and investments of pension funds.

Two complaints were related to business operations of factoring companies. One of them was related to the fact that a factoring company had kept the collateral to itself, while the other concerned the alleged provision of factoring services without Hanfa's authorisation.

One complaint was received regarding activities of investment firms and concerned the breaking of a contract concluded with the investment firm.

Hanfa provided prompt replies to all the complaints falling within its area of competence, or within 30 days after the reception of the complaints, at the latest. Depending on specificities of each case, the replies included information on the course of action taken or on the result of such action. Submitters of complaints falling outside Hanfa's area of competence were referred to relevant authorities.

In addition to handling complaints of financial services users, Hanfa continued with its efforts in the area of consumer protection aimed at informing the public of the manner of functioning of the financial system and at enabling financial services users to obtain necessary information in a timely manner. The purpose of these activities was primarily to develop awareness of risks related to investments in financial instruments and of rights and obligations of supervised entities and users of their services. On its website, Hanfa published information on consultations with the public concerned in connection with subordinate acts under Hanfa's competence and calls for comments on their content on the central government portal for public consultations with the public concerned (e-Consultation Portal). It also published laws, subordinate regulations and their consolidated versions. Special attention was paid to the publication of public announcements and warnings of risk finance investments and operations for the purpose of investor protection, such as warnings about binary options, marketing agencies offering speculative trading without authorisation and risks related with investments in cryptocurrencies and Initial Coin Offering (ICO). Hanfa's warnings were also related to business operations of certain companies lacking Hanfa's authorisation to provide services under its competence. Publications on Hanfa's website also included warnings issued by the European Securities and Markets Authority (ESMA) and International Organisation of Securities Commission (IOSCO), educational texts, Q&A, manuals, data on supervised entities' business performance, and other relevant information and news. Consumer protection activities also involved preventive measures implemented through off-site and on-site supervision.

In 2017, Hanfa also continued with its activities related to European institutions: it presided over the Subgroup on Financial Literacy within the Expert Group on barriers to free movement of capital established by the European Commission in the context of the Capital Markets Union and it reviewed documents, submitted the requested data and reports on complaints and exchanged experience with other Member States in relation to consumer protection issues within the framework of ESMA's Financial Innovation Standing Committee and the Committee on Consumer Protection and Financial Innovation of the European Insurance and Occupational Pensions Authority (EIOPA).

Educational activities, mostly intended for young people, were carried out throughout the entire year. Four educational videos (one live-action and three animated) dealing with financial issues were released on Hanfa's website and are now publicly available free of charge. The videos are part of the financial literacy training carried out by Hanfa and are intended for those who wish to enhance their understanding of key saving and investing principles in order to be able to make better investment decisions. This was only one of Hanfa's activities defined on the basis of the financial literacy survey and carried out by Hanfa in cooperation with the Croatian National Bank and with the support of the Ministry of Finance, which had shown that the average score of financial literacy in Croatia was 11.7 out of 21 points.

On its website, Hanfa published a brochure entitled "Financial Literacy", which uses a simple and easily understandable language in order to explain the importance of the financial literacy to the general public, to describe the role and scope of competence of the supervisory authority and to summarise all its activities carried out so far in the area of financial literacy.

In cooperation with the Ministry of Finance, it supported the Croatian Chamber of Commerce and the City Office for Education, Culture and Sports of the City of Zagreb in the implementation of the pilot project entitled "More Knowledge Deepens our Understanding". The project was intended for professors and students of five secondary schools in the area of Zagreb, and involved 250 students and about 150 professors from the IV Gymnasium, XV Gymnasium, Secondary Commercial School, Hotel and Tourism Secondary School and Secondary School of Industry and Mechanical Engineering. A total of 40 lecturers gave lectures on seven thematic units: banking products and services, personal finances, insurance as an investment in our future, investment and pension funds, capital markets and importance of financial literacy for young people.

Hanfa also participated in thematic conferences under the title "Financial Literacy and Higher Education Institutions", organised by the Croatian Chamber of Commerce at the Faculty of Economics and Business in Rijeka, Faculty of Economics and Business in Zagreb and Split County Chamber. Taking account of bad financial literacy survey results achieved by young people, the students were made aware of the importance of financial literacy in a simple and interactive manner. Representatives of various financial institutions (investment funds, pension funds, Zagreb Stock Exchange, insurance companies, banks) provided them with basic information on the financial market and its participants, products and services, emphasising the importance of understanding financial products and services before making a decision to use them. Hanfa's employees gave a lecture on financial literacy on the Zagreb Stock Exchange as well.

During the year, Hanfa held lectures to secondary school and university students presenting the scope of Hanfa's activity and competence and its activities related to international cooperation (primarily its membership of ESMA, EIOPA and ESRB). The Effectus University College for Law and Finance and Hanfa organised a student debate entitled "Regulation of the Non-Banking Financial Sector – Need for More or Less Stringent Rules?" The debate was held on the premises of Effectus and the participating students, divided into two opposing groups, had made their preparations for the debate under the mentorship of Hanfa's employees.

Hanfa also joined the marking of the World and European Money Week through participation in the round-table discussion titled "How to Manage Your Money", held on the premises of the Ministry of Science and Education for the purpose of informing the general public of the activities carried out in the Republic of Croatia with the aim of increasing the level of financial literacy. The discussion involved members of the Operating working group for monitoring the implementation of measures and activities defined by the Action Plan for Enhancing Financial Literacy, coordinated by the Ministry of Finance.

10.2 Transparency

As a public authority, Hanfa continued meeting its obligations laid down by the Act on the Right to Access Information[115] (hereinafter: ARAI). It published relevant information in a timely and transparent manner and handled requests for access to information. Through the e-Consultation Portal, it conducted consultations with the public concerned on draft regulations from its area of competence. It also continued delivering its documentation to the Central Catalogue of Official Documents of the Republic of Croatia. The Digital Information and Documentation Office of the Croatian Government contains updated information relating to Hanfa. The implementation of the ARAI involved no costs recorded. Hanfa submits the Report on the Implementation of the ARAI to the Information Commissioner and the Government Office for Cooperation with NGOs on a regular annual basis. The 2017 Report was drawn up on the basis of data collected during proceedings following requests for access to information, consultations conducted during the year and data on Hanfa published on its website pursuant to Article 10 of the ARAI.

In 2017, Hanfa received and handled seven requests for access to information. Three requests received positive replies and their submitters were given access to the information requested. The notification in accordance with Article 23(2) of the ARAI was issued with respect to another three requests, providing explanation to the submitters that their requests cannot be regarded as requests for access to information and that, as parties to proceedings, they have access to information on legal, administrative and other proceedings pursuant to other regulations. One request for access to information was rejected, pursuant to Article 15(2)(2) (the information is a business or professional secret), Article 3(1) (there is reasonable suspicion that the publication of the information would jeopardise efficient, independent and impartial conduct of administrative proceedings) and Article 4(1) (the information is being produced, its publication before full and final information has been produced could seriously jeopardise the process of its production) of the ARAI. While handling the request, Hanfa carried out a Proportionality and Public Interest Test in order to establish whether the access to the information may be restricted for the purpose of protecting any of the protected interests and whether the provision of access to the information would seriously jeopardise that interest. Following the decision on the rejection of the request, one of the submitters filed a complaint with the Information Commissioner. However, considering that the reason for rejecting the request had also been the fact that the information was being produced at the moment the request was made and that its publication/submis-

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

sion would have jeopardised its production, it should be pointed out that Hanfa produced the information and published it on its website within the prescribed time limit. The submitter of the request and the Information Commissioner were informed of this fact.

On its website, Hanfa regularly publishes information regarding its scope of activity and competence laid down by the ARAI in order to notify the public concerned and general public of relevant information in a timely manner. This primarily involves decisions adopted at the Management Board's meetings, information on Hanfa's internal structure and tasks it performs, updated regulations classified according to Hanfa's areas of operation, registers, forms and data bases, information on tenders and tender results, FAQ and relevant data regarding the right to access information, including request forms.

Pursuant to Article 11(5) of the ARAI, at the end of 2017 Hanfa published its Annual Public Consultation Plan for 2018 including an overview of the subordinate regulations planned for the following year, deadlines for their adoption, planned duration of consultations and manner of their conduct.

During 2017, 92 consultations with the public concerned were conducted through the e-Consultation Portal regarding ordinances falling within Hanfa's scope of activity and competence. The responsibility for conducting consultations rests with the consultation coordinator, who is at the same time the information officer. The majority of consultations (86) were related to ordinances governing investment and pension funds, while the remaining consultations covered issues related to draft ordinances regulating investment companies and capital market, insurance, factoring and Hanfa's general business operations. After the consultations (usually lasting for 30 days) had finished, Hanfa published reports with an overview of and answers to suggestions and objections received from the public concerned.

The information officer continued its education at a conference entitled "Re-Use of Information and Open Data in Public Administration – Experiences from Germany and Croatia", organised by the Information Commissioner and the Konrad Adenauer Foundation. The conference emphasised the importance of promoting open data for modern democracies and provided an overview of German and Croatian experience in using open data. The information officer also took part in several seminars and conferences relating to the protection of personal data and implementation of the GDPR[116], held at the initiative of the Croatian Personal Data Protection Agency. The annual scientific and expert conference, organised by the Institute of Public Administration and also attended by the information officer, covered topics such as public administration, local self-government, administrative decentralisation, public confidence and public servants' sense of pride, protection of citizens' rights as regards public administration, and present situation and prospects of the administration.

Hanfa also provided access to information on its activities to the public through the media, whose representatives sent their inquiries via e-mail address press@hanfa.hr. Hanfa's employees took into consideration the need for a prompt delivery of the information requested, with special effort devoted to providing full information. Hanfa received and answered 64 inquiries from journalists, at the same time communicating with the general public through notices and interviews with the Board members published in the media.

116 Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation), OJ L 119

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

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

11.1 Operational activities and human resources

Improvement of internal business processes

In order to ensure uniform IT service management, in 2017 Hanfa made all the necessary adjustments, introduced new procedures and drew up documentation needed for ISO 20000 certification. The audit conducted in December confirmed that Hanfa's IT service management was in compliance with that standard.

For the purpose of the alignment of Hanfa's operation with the GDPR[117], which will enter into force on 25 May 2018, a series of activities were carried out aimed at establishing the level of adjustment to GDPR requirements.

Hanfa also continued improving its internal control system with respect to the implementation of the Act on the Internal Control System in Public Sector[118], with major improvements having been made in the area of strategic and operational risk management.

Human resources

In 2017, more than 80% of Hanfa's employees participated in the professional training involving seminars, lectures, workshops, courses, conferences, webinars, postgraduate studies etc. A series of lectures and workshops were also delivered by Hanfa's employees for their colleagues, while numerous internal workshops on compliance, EU regulations (MAR[119], MiFID II[120]), internal audit, International Financial Reporting Standards etc. were organised in cooperation with foreign and domestic experts.

11.2 Hanfa's financial operations

Hanfa's accounting and financial operations are carried out in accordance with the Act on Financial Operations and Accounting of Non-Profit Organisations[121] and subordinate regulations adopted under this Act.

As at 31 December 2017, Hanfa's total assets amounted to HRK 31.8m, with 79.4% being accounted for by financial assets, and 20.6% by non-financial assets. Total payables reached HRK 6.2m, making up 19.3% of total liabilities, while own sources accounted for 80.7% of total liabilities.

117 Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation), OJ L 119

118 Official Gazette, No 78/15

119 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

120 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

121 Official Gazette, No 121/14

Table 11.1 Hanfa's abbreviated balance sheet as at 31/12/2017 (in HRK thousand)[122]

Assets	**31,795**
Non-financial assets	6,546
Financial assets	25,249
Liabilities	**31,795**
Payables	6,153
Own sources	25,642

Source: Hanfa

In 2017, Hanfa was financed by fees from assets and income of supervised entities and fees charged for the provision of services, in accordance with Article 20 of the Act on the Croatian Financial Services Supervisory Agency (hereinafter: Act on Hanfa)[123].

The calculation and amount of fees and the manner of charging fees from assets and income of supervised entities collected by Hanfa in 2017 are defined by the Ordinance on the calculation, amount and charging of fees paid to the Croatian Financial Services Supervisory Agency in 2017[124]. The type and amount of fees and administrative charges for the provision of services falling within Hanfa's competence in 2017 are laid down in the Ordinance on the type and amount of fees and administrative charges paid to the Croatian Financial Services Supervisory Agency[125].

In 2017, Hanfa's total income amounted to HRK 53.8m, while total expenses amounted to HRK 48m.

Table 11.2 Hanfa's aggregate income and expenditure account for 2017 (in HRK thousand)

Income	**53,790**
Income received under special regulations from other sources	52,825
Income generated under the Ordinance on the calculation, amount and charging of fees paid to Hanfa in 2017	47,872
Income generated under Ordinance on the type and amount of fees and administrative charges paid to Hanfa	4,876
Other income received under special regulations	77
Income from assets	187
Income from donations (EU funds)	256
Other income	522
Expenditure	**47,959**
Employee expenses	31,226
Material expenses	14,839
Costs for employees	2,121
Costs for external staff	0
Expenses on services	6,768
Expenses on materials and energy	730
Other material expenses	5,220
Depreciation expenses	1,762
Financial expenses	59
Other expenses	73

Source: Hanfa

122 Hanfa's detailed balance sheet is provided in Table 3.1 in the Appendix.

123 Official Gazette, No 140/05 and 12/12

124 Official Gazette, No 121/16

125 Official Gazette, No 3/17

11.2.1 Income

In 2017, Hanfa's total income amounted to HRK 53.8m, of which 98.2% or HRK 52.8m was accounted for by income received under special regulations from other sources realised on fees from assets and income of supervised entities, fees for the provision of services within Hanfa's competence and other income received under special regulations. Income from assets, income from donations and other income totalled HRK 964,000 and made up 1.8% of total income.

The largest part of income received under special regulations from other sources (90.6%) consisted of income received under the Ordinance on the calculation, amount and charging of fees paid to Hanfa in 2017, while 9.2% of total income was received under the provisions of the Ordinance on the type and amount of fees and administrative charges paid to Hanfa. Total income increased by 1.3% compared to 2016.

On 25 August 2017, pursuant to the Ordinance on the calculation, amount and charging of fees paid to the Croatian Financial Services Supervisory Agency for 2017, Hanfa issued a Decision on exemption from paying a portion of fees, which exempted supervised entities from paying part of the fees for certain periods in 2017. The decision was adopted with a view to financially disburdening supervised entities in 2017.

Table 11.3 Income from fees from assets and income from supervised entities in 2017 (in HRK thousand)

Income generated under the Ordinance on the calculation, amount and charging of fees paid to Hanfa in 2017	Amount in HRK thousand	Share in total income
Income from pension companies	26,932	50.1%
Income from insurance companies	5,182	9.6%
Income from credit institutions	3,394	6.3%
Income from investment fund management companies	5,395	10.0%
Income from leasing companies	3,310	6.2%
Income from factoring companies	972	1.8%
Income from the Central Depository and Clearing Company	1,393	2.6%
Income from the Zagreb Stock Exchange	403	0.7%
Income from insurance brokers and agents	343	0.6%
Income from companies managing funds established under special regulations	285	0.5%
Income from pension insurance companies	123	0.2%
Income from investment firms	140	0.3%
Total	**47,872**	**89.0%**

Source: Hanfa

Under the Ordinance on the calculation, level and charging of fees paid to the Croatian Financial Services Supervisory Agency for 2017, Hanfa's income from supervisory fees, calculated from total assets and income of supervised entities, reached HRK 47.9m.

Total fees collected pursuant to this Ordinance accounted for 89% of total income, with the largest share in total income (50.1%) being accounted for by income from pension companies.

Pursuant to the Ordinance on the type and amount of fees and administrative charges paid to the Croatian Financial Services Supervisory Agency, Hanfa charges fees for services rendered within its scope of activity and competence in accordance with its statutory power laid down by the Act on Hanfa, Capital Market Act[126], Act on the Takeover of Joint-Stock Companies[127], Act on Open-Ended Investment Funds with Public Offering[128], Alterna-

126 Official Gazette, No 88/08, 146/08, 74/09, 54/13, 159/13, 18/15, 110/15 and 123/16

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

128 Official Gazette, No 44/16

tive Investment Funds Act[129], Insurance Act[130], Mandatory Pension Funds Act[131], Voluntary Pension Funds Act[132], Act on Pension Insurance Companies[133], Act on Lifelong Severance Payment or Supplementary Pension Purchase[134], Leasing Act[135], Factoring Act[136], Act Implementing Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories[137] and Act Implementing 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[138].

Hanfa imposes fees and administrative charges on its supervised entities and all other legal and natural persons and entities without legal personality addressing Hanfa with requests for measures falling within Hanfa's scope of activity and competence. Persons obliged to pay the fees and charges are also all other persons addressing Hanfa with information or requests for actions falling within Hanfa's scope of activity and competence.

Income from fees generated in 2017 under the above-mentioned Ordinance amounted to HRK 4.8m.

The following table provides a detailed overview of income realised from services falling within Hanfa's area of competence and rendered under special acts, amounting to 9.1% of total income in 2017.

Table 11.4 Income from services provided by Hanfa under special acts in 2017 (in HRK thousand)

Income generated under the Ordinance on the type and amount of fees and administrative charges paid to Hanfa	Amount in HRK thousand	Share in total income
Income generated under the Insurance Act	2,111	3.9%
Income generated under the Act on the Takeover of Joint-Stock Companies	585	1.1%
Income generated under the Capital Market Act	854	1.6%
Income generated under the Act on Open-Ended Investment Funds with Public Offering	334	0.6%
Income generated under the Alternative Investment Funds Act	159	0.3%
Income generated under the Leasing Act	232	0.4%
Income generated under the Factoring Act	146	0.3%
Income generated under the Mandatory Pension Funds Act, Voluntary Pension Funds Act and Act on Pension Insurance Companies	165	0.3%
Income from maintaining the Register of Leased Assets	145	0.3%
Income generated under the Act Implementing EMIR	5	0.0%
Income generated under and the Act Implementing CSDR	50	0.1%
Income from fees charged for educational programme for brokers, investment advisers, certified pension fund managers, certified pension insurance company managers	50	0.1%
Income generated under the Act on Hanfa (provision of opinions and copies)	40	0.1%
Total	4,876	9.1%

Source: Hanfa

129 Official Gazette, No 16/13 and 143/14

130 Official Gazette, No 30/15

131 Official Gazette, No 19/14 and 93/15

132 Official Gazette, No 19/14

133 Official Gazette, No 22/14

134 Official Gazette, No 153/13

135 Official Gazette, No 141/13

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

137 Official Gazette, No 54/13

138 Official Gazette, No 44/16

The largest portion of fees paid to Hanfa for the provision of services provided within its area of competence was charged under the Insurance Act, mostly for the organisation of examinations of professional knowledge and issuance of authorisations and approvals to conduct insurance representation and brokerage business.

11.2.2 Expenditure

In 2017, Hanfa's operational expenses amounted to HRK 48m, 0.6% less in relation to total expenses in 2016.

The largest share in the expenditure was accounted for by employee expenses, which amounted to HRK 31.2m (65.1%), declining by 4.4% relative to 2016. At the end of the reporting period Hanfa had an average number of 159 employees.

Material expenses made up another significant item in Hanfa's total expenditure, amounting to HRK 14.8m (30.9% of total expenditure), and growing by HRK 1.3m or 9.9% compared to 2016.

Membership fees paid to the European Securities and Markets Authority (ESMA) and European Insurance and Occupational Pensions Authority (EIOPA) also represented a major item in Hanfa's total material expenses. These costs, excluding other expenses related to the participation of Hanfa in the work of European supervisory authorities (obligatory attendance at meetings, participation in the preparation of regulations etc.), made up 33% of material expenses and 10.2% of total expenditure in 2017.

Depreciation expenses amounted to HRK 1.8m, rising by 34.7% or HRK 454,000 in comparison with 2016, due to newly introduced IT systems and applications that depreciate over their useful life.

As shown by the data on total income and expenditure, Hanfa recorded surplus income over expenditure in the amount of HRK 5.8m.

Pursuant to the provisions of the Act on Hanfa, surplus income over expenditure shall be paid into the state budget at the end of the year. Accordingly, Hanfa's surplus income realised in 2017 was paid into the state budget of the Republic of Croatia.

In accordance with the Act on Financial Operations and Accounting of Non-Profit Organisations, an external audit of Hanfa's 2017 financial statements was carried out, and the Independent Auditor's Report was published on Hanfa's website.

Pursuant to the Fiscal Responsibility Act, in 2017 Hanfa conducted a self-assessment of financial management and control systems. As a result, the 2016 Statement of Fiscal Responsibility was sent to the Croatian Parliament. By issuing the Statement, the Secretary General, in charge of Hanfa's financial and accounting affairs, testified to 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.

Appendices

12 Appendices

Appendix 1: Hanfa's Board, Council and internal organisation

Members of Hanfa's Board as at 31 December 2017:

Petar-Pierre Matek (President)

Mario Radaković (Deputy President)

Branka Bjedov Kostelac

Silvana Božić

Gordana Letica

Members of Hanfa's Council as at 31 December 2017:

Damir Vanđelić (President of the Council), representative of the Insurers Association at the Croatian Chamber of Commerce

Petar-Pierre Matek, President of the Board, Croatian Financial Services Supervisory Agency

Eugen Paić-Karega, representative of the Association of Leasing Companies at the Croatian Chamber of Commerce

Ivana Gažić, representative of the Business Activities and Financial Markets Intermediation Association at the Croatian Chamber of Commerce

Josip Glavaš, representative of the Association of Investment Funds Management Companies at the Croatian Chamber of Commerce

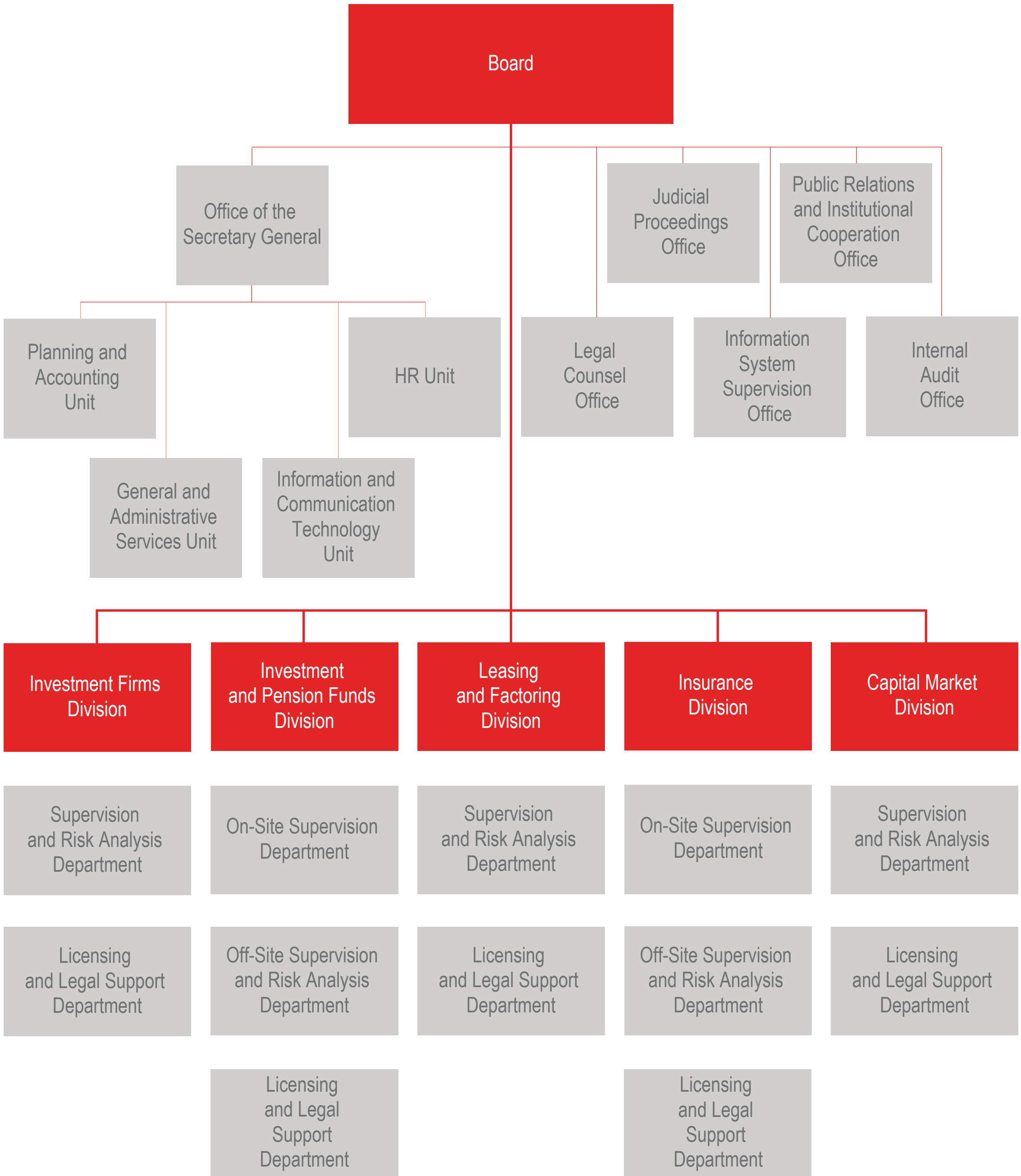
Kristijan Buk, representative of the Association of Pension Companies and Pension Insurance Companies at the Croatian Chamber of Commerce

Danka Mihaljević, Head of State Budget Execution Division at the Ministry of Finance

Ivana Ravlić Ivanović, Head of Financial System Division at the Ministry of Finance

Stipe Župan, Assistant Minister, Ministry of Finance

Internal structure:



Appendix 2: List of ordinances adopted in 2017

Capital market

1. Ordinance amending the Ordinance on the structure and contents of semi-annual and annual financial statements of the Investor Protection Scheme (Official Gazette, No 128/17)
2. Ordinance amending the Ordinance on the structure and contents of annual financial statements of the stock exchange (Official Gazette, No 128/17)
3. Ordinance amending the Ordinance on the structure and contents of annual financial statements of the central clearing and depository company (Official Gazette, No 128/17)
4. Ordinance amending the Ordinance on the structure and contents of annual financial statements of the stock exchange (Official Gazette, No 2/17)
5. Ordinance amending the Ordinance on the structure and contents of annual financial statements of the central clearing and depository company (Official Gazette, No 2/17)

Investment firms

1. Ordinance on the structure and contents of annual financial statements of investment firms (Official Gazette, No 118/17)

Open-ended investment funds with public offering

1. Ordinance on determining the net asset value of UCITS and the price of UCITS units (Official Gazette, No 128/17)
2. Ordinance on the structure and contents of annual and semi-annual reports and other reports of UCITS (Official Gazette, No 105/17)
3. Ordinance on the structure and contents of financial statements and other reports of UCITS management companies (Official Gazette, No 105/17)
4. Ordinance on the compulsory transfer of UCITS management activities (Official Gazette, No 47/17)
5. Ordinance on status changes of UCITS management companies (Official Gazette, No 47/17)
6. Ordinance on the structure and contents of financial statements and other reports of UCITS management companies (Official Gazette, No 41/17)
7. Ordinance on the structure and contents of annual and semi-annual reports and other reports of UCITS (Official Gazette, No 41/17)
8. Ordinance on the form and amount of own funds of UCITS management companies (Official Gazette, No 41/17)
9. Ordinance on the contents and manner of keeping the register of UCITS and UCITS management companies (Official Gazette, No 41/17)
10. Ordinance on compensating investors in UCITS and/or compensating UCITS (Official Gazette, No 41/17)
11. Ordinance on carrying out tasks of the UCITS depositary (Official Gazette, No 41/17)
12. Ordinance on issuing authorisation to and on acquisition of qualifying holdings in UCITS management companies (Official Gazette, No 41/17)
13. Ordinance on the liquidation and dissolution of UCITS (Official Gazette, No 41/17)
14. Ordinance on organisational requirements for UCITS management companies (Official Gazette, No 41/17)
15. Ordinance on conditions for offering UCITS units (Official Gazette, No 41/17)
16. Ordinance on the conditions for membership of the management and supervisory board of UCITS management companies (Official Gazette, No 41/17)
17. Ordinance amending the Ordinance on UCITS units (Official Gazette, No 41/17)
18. Ordinance amending the Ordinance on delegating activities of UCITS management companies (Official Gazette, No 41/17)

19. Ordinance amending the Ordinance on granting approval for the establishment and operation of UCITS and for changes to UCITS prospectus and rules (Official Gazette, No 41/17)
20. Ordinance on granting approval for the establishment and operation of UCITS and for changes to UCITS prospectus and rules (Official Gazette, No 3/17)
21. Ordinance on UCITS units (Official Gazette, No 3/17)

Alternative investment funds

1. Ordinance on determining the net asset value and unit price of alternative investment funds (Official Gazette, No 128/17)
2. Ordinance on the structure and contents of annual and semi-annual reports and other reports of alternative investment funds (Official Gazette, No 105/17)
3. Ordinance on the structure and contents of annual and semi-annual financial statements and other reports of AIFMs (Official Gazette, No 105/17)
4. Ordinance on the form and amount of capital of AIFMs (Official Gazette, No 41/17)
5. Ordinance amending the Ordinance on the structure and contents of annual and semi-annual financial statements and other reports of AIFMs (Official Gazette, No 41/17)
6. 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 41/17)
7. Ordinance amending the Ordinance on issuing authorisation for AIFMs and small AIFMs and on the acquisition of a qualifying holding in AIFMs (Official Gazette, No 41/17)
8. Ordinance amending the Ordinance on the liquidation and dissolution of AIFs (Official Gazette, No 41/17)
9. Ordinance amending the Ordinance on master and feeder alternative investment funds (Official Gazette, No 41/17)
10. Ordinance amending the Ordinance on AIF units (Official Gazette, No 41/17)
11. Ordinance amending the Ordinance on carrying out AIF depositary functions (Official Gazette, No 41/17)
12. Ordinance amending the Ordinance on the delegation of AIF management functions (Official Gazette, No 41/17)
13. Ordinance amending the Ordinance on the requirements for offering AIF units through a private offering (Official Gazette, No 41/17)
14. Ordinance amending the Ordinance on issuing authorisation for offering AIF units to retail investors in the Republic of Croatia (Official Gazette, No 41/17)
15. Ordinance amending the Ordinance on the requirements for membership of the management and supervisory board of AIFMs and for membership of the supervisory board of closed-ended AIFs with an external manager (Official Gazette, No 41/17)
16. Ordinance amending the Ordinance on status changes of open-ended AIFs (Official Gazette, No 41/17)
17. Ordinance amending the Ordinance on contents and manner of keeping the register of AIFMs and AIFs (Official Gazette, No 41/17)
18. Ordinance amending the Ordinance on granting approval for the establishment and operation of AIFs and for AIF rules (Official Gazette, No 41/17)

Mandatory pension funds

1. Ordinance on determining the net asset value and the value of accounting units of mandatory pension funds (Official Gazette, No 128/17)
2. Ordinance on annual, quarterly and other reports of mandatory pension funds (Official Gazette, No 104/17)
3. Ordinance on the structure and contents of financial statements and other reports of pension companies managing mandatory pension funds (Official Gazette, No 104/17)
4. Ordinance amending the Ordinance on the structure and contents of financial statements and other reports of pension companies managing mandatory pension funds (Official Gazette, No 39/17)

5. Ordinance amending the Ordinance on annual, quarterly and other reports of mandatory pension funds (Official Gazette, No 39/17)
6. Ordinance amending the Ordinance on permitted investments and additional investment limitations relating to mandatory pension funds (Official Gazette, No 39/17)
7. Ordinance amending the Ordinance on organisational requirements for pension companies managing mandatory pension funds (Official Gazette, No 39/17)
8. Ordinance amending the Ordinance on compensating members of mandatory pension funds and/or mandatory pension funds (Official Gazette, No 39/17)
9. Ordinance amending the Ordinance on carrying out activities of, conditions for and manner of appointing depositaries of mandatory pension funds and on withdrawal of their authorisation (Official Gazette, No 39/17)
10. Ordinance amending the Ordinance on the capital of pension companies managing mandatory pension funds (Official Gazette, No 39/17)
11. Ordinance amending the Ordinance on status changes of pension companies managing mandatory pension funds (Official Gazette, No 39/17)
12. Ordinance amending the Ordinance on the contents and manner of keeping the register of mandatory pension companies and mandatory pension funds (Official Gazette, No 39/17)
13. Ordinance amending the Ordinance on the conditions for performing the function of a member of the management and supervisory board of a mandatory pension company (Official Gazette, No 39/17)
14. Ordinance amending the Ordinance on the procedure, conditions and manner of delegating mandatory pension fund management tasks (Official Gazette, No 39/17)
15. Ordinance amending the Ordinance on the approval of the establishment and statute of a mandatory pension fund and on the informative prospectus of a mandatory pension fund (Official Gazette, No 39/17)
16. Ordinance amending the Ordinance on issuing authorisation to and on acquisition of shares or holdings in a mandatory pension company (Official Gazette, No 39/17)

Voluntary pension funds

1. Ordinance on determining the net asset value and the price of units in a voluntary pension fund (Official Gazette, No 128/17)
2. Ordinance on annual, semi-annual and other reports of voluntary pension funds (Official Gazette, No 104/17)
3. Ordinance on the structure and contents of financial statements and other reports of pension companies managing voluntary pension funds (Official Gazette, No 104/17)
4. Ordinance amending the Ordinance on the structure and contents of financial statements and other reports of pension companies managing voluntary pension funds (Official Gazette, No 41/17)
5. Ordinance amending the Ordinance on annual, semi-annual and other reports of voluntary pension funds (Official Gazette, No 41/17)
6. Ordinance amending the Ordinance on organisational requirements for voluntary pension companies (Official Gazette, No 41/17)
7. Ordinance amending the Ordinance on marketing and other information for members of voluntary pension funds (Official Gazette, No 41/17)
8. Ordinance amending the Ordinance on compensating members of voluntary pension funds and/or voluntary pension funds (Official Gazette, No 41/17)
9. Ordinance amending the Ordinance on requirements for offering pension schemes within voluntary pension insurance based on individual capitalised savings (Official Gazette, No 41/17)
10. Ordinance amending 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 funds (Official Gazette, No 41/17)

11. Ordinance amending the Ordinance on status changes of voluntary pension funds (Official Gazette, No 41/17)
12. Ordinance amending the Ordinance on the capital and technical provisions of voluntary pension companies (Official Gazette, No 41/17)
13. Ordinance amending the Ordinance on carrying out activities of, conditions for and manner of appointing depositaries of voluntary pension funds and on withdrawal of their authorisation (Official Gazette, No 41/17)
14. Ordinance amending the Ordinance on the contents and manner of keeping the register of pension companies and voluntary pension funds (Official Gazette, No 41/17)
15. Ordinance amending the Ordinance on the conditions for performing the function of a member of the management and supervisory board of a voluntary pension company (Official Gazette, No 41/17)
16. Ordinance amending the Ordinance on the procedure, conditions and manner of delegating voluntary pension fund management tasks (Official Gazette, No 41/17)
17. Ordinance amending the Ordinance on the approval of the establishment, prospectus and statute of a voluntary pension fund (Official Gazette, No 41/17)

Pension insurance companies

1. Ordinance amending the Ordinance on minimum standards, manner of calculating and criteria for calculating technical provisions of the pension insurance company (Official Gazette, No 42/17)

Insurance

1. Ordinance amending the Ordinance on minimum standards, manner of calculating and criteria for calculating technical provisions in accordance with accounting regulations (Official Gazette, No 59/17)
2. Ordinance amending the Ordinance on minimum standards, manner of calculating and criteria for calculating technical provisions in accordance with accounting regulations (Official Gazette, No 42/17)

Leasing

1. Ordinance amending the Ordinance on the chart of accounts for leasing companies (Official Gazette, No 132/17)
2. Ordinance amending the Ordinance on the structure and contents of financial statements and additional reports of leasing companies and on the manner of and time limits for their submission (Official Gazette, No 132/17)
3. Ordinance amending the Ordinance on the contents of regular reports of leasing companies and reports submitted at the request of the Croatian Financial Services Supervisory Agency (Official Gazette, No 72/17)
4. Ordinance amending the Ordinance on issuing authorisation to acquire a qualifying holding in a leasing company and another legal person (Official Gazette, No 72/17)
5. Ordinance amending the Ordinance on the requirements for membership of the management and supervisory board of leasing companies (Official Gazette, No 72/17)

Factoring

1. Ordinance amending the Ordinance on financial and additional reports and the chart of accounts of factoring companies (Official Gazette, No 132/17)

Hanfa

1. Ordinance on the calculation, level and charging of fees paid to the Croatian Financial Services Supervisory Agency for the year 2018 (Official Gazette, No 128/17)
2. Ordinance on the type and amount of fees paid to the Croatian Financial Services Supervisory Agency (Official Gazette, No 128/17)
3. Ordinance on the type and amount of fees and administrative charges paid to the Croatian Financial Services Supervisory Agency (Official Gazette, No 3/17)

Appendix 3: Hanfa's financial statements

Table 3.1 Hanfa's balance sheet as at 31/12/2017 (in HRK)

Account from the Chart of Accounts	Item	As at 1 January	As at 31 December	Index (5/4)
1	2	4	5	6
Assets				
	Assets (ADP 002+074)	33,237,066	31,795,220	95.7
0	**Non-financial assets (ADP 003+018+047+051+055+064)**	7,095,154	6,546,320	92.3
01	**Non-produced fixed assets (ADP 004+008-017)**	166,763	264,075	158.4
011	Tangible assets – natural resources (ADP 005 to 007)	0	0	-
012	Intangible assets (ADP 009 to 016)	1,705,557	1,945,529	114.1
0123	Licences	1,483,250	1,723,221	116.2
0124	Other rights	164,241	164,241	100.0
0128	Other intangible assets	58,066	58,067	100.0
019	Value adjustment for non-produced fixed assets	1,538,794	1,681,454	109.3
02	**Produced fixed assets (ADP 019 019+023+031+034+039+042-046)**	6,894,157	6,256,161	90.7
021	Buildings (ADP 020 to 022)	3,564,810	3,564,810	100.0
0212	Commercial buildings	3,450,670	3,450,670	100.0
0213	Other buildings	114,140	114,140	100.0
022	Plant and equipment	6,968,684	7,055,406	101.2
0221	Office equipment and furniture	6,066,936	6,128,141	101.0
0222	Telecommunications equipment	80,736	64,427	79.8
0223	Maintenance and security equipment	685,883	734,910	107.1
0225	Instruments and machines	30,123	30,123	100.0
0227	Machines and equipment for other purposes	105,006	97,805	93.1
023	Means of transportation (ADP 032+033)	957,770	893,764	93.3
0231	Means of road transportation	957,770	893,764	93.3
024	Books, artwork and other exhibits	167,044	167,044	100.0
0242	Work of arts (in galleries, museums etc.)	167,044	167,044	100.0
025	Growing crops and livestock (ADP 040+041)	0	0	-
026	Intangible produced assets (ADP 043 to 045)	3,013,644	3,608,429	119.7
0261	Software investments	3,013,644	3,608,429	119.7
029	Value adjustment for produced fixed assets	7,777,795	9,033,292	116.1
03	**Precious metals and other valuables (ADP 048)**	0	0	-
031	Precious metals and other valuables (ADP 049+050)	0	0	-
04	**Small inventory (ADP 052+053-054)**	0	0	-
041	Small inventory on stock	0	0	-
042	Small inventory in use	297,011	309,896	104.3
049	Value adjustment for small inventory	297,011	309,896	104.3
05	**Non-financial assets – work in progress (ADP 056 to 059+062+063)**	0	0	-
051	Buildings – work in progress	0	0	-
052	Plant and equipment – work in progress	0	0	-
053	Vehicles – work in progress	0	0	-
054	Growing crops and livestock – work in progress (ADP 060+061)	0	0	-
055	Other intangible produced assets – work in progress	0	0	-
056	Other non-financial assets – work in progress	0	0	-

Account from the Chart of Accounts	Item	As at 1 January	As at 31 December	Index (5/4)
1	2	4	5	6
Assets				
06	**Produced current assets (ADP 065+070+073)**	34,234	26,084	76.2
061	Inventory for the pursuit of activities (ADP 066 to 069)	34,234	26,084	76.2
0612	Materials inventory for regular needs	34,234	26,084	76.2
062	Production and products	0	0	-
063	Goods for resale	0	0	-
1	**Financial assets (ADP 075 +083+100+105+125+133+142)**	26,141,912	25,248,900	96.6
11	Cash at bank and in hand (ADP 076+080+081+082)	8,328,146	7,501,766	90.1
111	Cash at bank (ADP 077 to 079)	8,326,671	7,499,316	90.1
1111	Cash in the account with domestic commercial banks	8,326,671	7,499,316	90.1
1113	Interim account	0	0	-
112	Cash reserved	0	0	-
113	Cash in hand	1,475	2,450	166.1
114	Securities in hand	0	0	-
12	Deposits, guarantee deposits, employee receivables and receivables for prepayments made regarding taxes and others (ADP 084+087+088+089+095)	17,104,733	17,097,724	100.0
121	Deposits with banks and other financial institutions (ADP 085+086)	17,000,000	17,000,000	100.0
1211	Deposits with domestic banks and other financial institutions	17,000,000	17,000,000	100.0
122	Guarantee deposits	0	0	-
123	Employee receivables	705	2,074	294.2
124	Receivables for prepayments made regarding taxes and contributions (ADP 090 to 094)	0	0	-
129	Other receivables (ADP 096 to 099)	104,028	95,650	91.9
1291	Receivables for remuneration refunded	25,705	7,305	28.4
1293	Receivables for advances	21,000	24,238	115.4
1294	Other receivables	57,323	64,107	111.8
13	Loans (ADP101+102+103-104)	0	0	-
131	Loans to citizens and households	0	0	-
132	Loans to legal entities engaged in entrepreneurial activity	0	0	-
133	Loans to other entities	0	0	-
139	Value adjustment of loan receivables	0	0	-
14	Securities (ADP 106 +109+112+115+118+121-124)	0	0	-
141	Cheques (ADP 107+108)	0	0	-
142	Commercial papers and treasury bills (ADP 110+111)	0	0	-
143	Bills of exchange (ADP 113+114)	0	0	-
144	Bonds (ADP 116+117)	0	0	-
145	Options and other financial derivatives (ADP 119+120)	0	0	-
146	Other securities (ADP 122+123)	0	0	-
149	Value adjustment of securities	0	0	-
15	Shares and participations in equity (ADP 126+129-132)	0	0	-
151	Shares and participations in equity of banks and other financial institutions (ADP 127+128)	0	0	-
152	Shares and participations in equity of companies (ADP 130+131)	0	0	-
159	Value adjustment of shares and participations in equity	0	0	-

Account from the Chart of Accounts	Item	As at 1 January	As at 31 December	Index (5/4)
1	2	4	5	6
Assets				
16	Income receivables (ADP 134 to 137+140-141)	0	93,290	-
161	Customer receivables	0	0	-
162	Receivables for membership fees and membership contributions	0	0	-
163	Receivables for income under special regulations	0	0	-
164	Receivables for income from assets (ADP 138+139)	0	93,290	-
1641	Receivables for income from financial assets	0	93,290	-
165	Other receivables	0	0	-
169	Value adjustment for receivables	0	0	-
19	Prepayments and accrued income (ADP 143+144)	709,033	556,120	78.4
191	Prepayments	452,672	554,718	122.5
192	Accrued income	256,361	1,402	0.5
Liabilities and own sources				
	Liabilities and own sources (ADP 146+195)	33,237,066	31,795,221	95.7
2	**Liabilities (ADP 147+174+182+190)**	8,535,957	6,153,389	72.1
24	Liabilities for expenditures (ADP 148+156+164+168+169+170)	7,006,517	5,097,942	72.8
241	Liabilities for employees (ADP 149 to 155)	4,890,870	4,005,475	81.9
2411	Liabilities for salaries – net	2,249,996	1,341,165	59.6
2412	Liabilities for compensations – net	155,403	185,259	119.2
2414	Liabilities for tax and surtax on salaries	264,641	300,630	113.6
2415	Liabilities for contributions from salaries	419,912	456,077	108.6
2416	Liabilities for contributions on salaries	345,660	363,884	105.3
2417	Other liabilities for employees	1,455,258	1,358,460	93.3
242	Liabilities for material expenses (ADP 157 to 163)	1,466,484	1,026,413	70.0
2421	Remuneration of employees' costs	53,047	60,291	113.7
2425	Liabilities towards domestic suppliers	1,254,723	772,486	61.6
2426	Liabilities towards foreign suppliers	158,714	193,636	122.0
244	Liabilities for financial expenses (ADP 165 to 167)	403,323	6,909	1.7
2443	Liabilities for other financial expenses	403,323	6,909	1.7
245	Liabilities for financial aid funds collected	0	0	-
246	Liabilities for penalties and damages	209,735	11,245	5.4
249	Other liabilities (ADP 171 to 173)	36,105	47,900	132.7
2492	Liabilities for value-added tax	0	4,716	-
2493	Liabilities for prepayments, deposits, caution money received and other liabilities	36,105	43,184	119.6
25	Liabilities for securities (ADP 175+178-181)	0	0	-
251	Liabilities for cheques (ADP 176+177)	0	0	-
252	Liabilities for bills of exchange (ADP 179+180)	0	0	-
259	Value adjustment for liabilities for securities	0	0	-
26	Liabilities for credits and loans (ADP 183+186-189)	0	0	-
261	Liabilities for bank credits and credits from other creditors (ADP 184+185)	0	0	-
262	Liabilities for commodity and other loans (ADP 187+188)	0	0	-
269	Value adjustment for liabilities for credits and loans	0	0	-

Account from the Chart of Accounts	Item	As at 1 January	As at 31 December	Index (5/4)
1	2	4	5	6
29	Accrued expenses and deferred income	1,529,440	1,055,447	69.0
291	Accrued expenses	183,918	139,355	75.8
292	Deferred income (ADP 193+194)	1,345,522	916,092	68.1
2921	Accrued income	265,299	84,810	32.0
2922	Deferred income	1,080,223	831,282	77.0
Assets				
5	**Own sources (ADP 196+199-200)**	24,701,109	25,641,832	103.8
51	Own sources (ADP 197+198)	2,464,040	2,415,199	98.0
511	Own sources	2,464,040	2,415,199	98.0
512	Revaluation reserves	0	0	-
5221	Surplus income	22,237,069	23,226,633	104.5
5222	Income deficit	0	0	-
Off-balance sheet items				
61	Off-balance sheet items – assets	0	0	-
62	Off-balance sheet items – liabilities	0	0	-

Source: Hanfa

Table 3.2 Statement of Hanfa's income and expenditure for the period from 1/1 to 31/12/2017 (in HRK)

Account from the Chart of Accounts	Item	Realised in the previous year	Realised in the reporting period	Index (5/4)
1	2	4	5	6
Income				
3	Income (ADP 002 +005+008+011+024+032+041)	53,089,927	53,788,508	101.3
31	Income from the sale of goods and provision of services	0	0	-
32	Income from membership fees and membership contributions	0	0	-
33	Income under special regulations (ADP 009+010)	52,324,310	52,824,301	101.0
3312	Income under special regulations from other sources	52,324,310	52,824,301	101.0
34	Income from assets (ADP 012+021)	310,622	186,899	60.2
341	Income from financial assets (ADP 013 to 020)	310,622	186,899	60.2
3413	Interest on time deposits and demand deposits	293,926	166,968	56.8
3415	Income from positive exchange rate differences	16,696	19,931	119.4
342	Income from non-financial assets (ADP 022+023)	0	0	-
35	Income from donations (ADP 025 +028 to 031)	0	255,725	-
351	Income from donations from the budget (ADP 026+027)	0	255,725	-
3511	Income from donations from the state budget	0	255,725	-
352	Income from foreign governments and international organisations	0		-
353	Income from companies and other legal persons	0		-
354	Income from citizens and households	0		-
355	Other income from donations	0		-

Account from the Chart of Accounts	Item	Realised in the previous year	Realised in the reporting period	Index (5/4)
1	2	4	5	6
36	Other income (ADP 033+036+037)	454,995	521,583	114.6
361	Income from damages and refunds (ADP 034+035)	368,703	325,583	88.3
3611	Income from damages	11,219		0.0
3612	Income from refunds	357,484	325,583	91.1
362	Income from the sale of fixed assets	35,000	62,500	178.6
363	Other income (ADP 038 to 040)	51,292	133,500	260.3
3631	Liability write-off	0	22,666	-
3633	Other income	51,292	110,834	216.1
37	Income from related non-profit organisations (ADP 042+043)	0	0	-
Expenses				
4	Expenses (ADP 045 +057+098+099+110+115+126)	48,249,540	47,958,557	99.4
41	Employee expenses (ADP 046+051+052)	32,659,528	31,225,602	95.6
411	Salaries (ADP 047 to 050)	25,952,915	25,217,509	97.2
4111	Salaries for regular work	25,846,273	25,130,241	97.2
4112	Salaries in kind	106,642	87,268	81.8
412	Other employee expenses	2,412,057	1,927,393	79.9
413	Contributions on salaries (ADP 053 to 056)	4,294,556	4,080,700	95.0
4131	Contributions for health insurance	3,870,094	3,677,375	95.0
4132	Employment contributions	424,462	403,325	95.0
42	Material expenses (ADP 058+062+067+072+077+087+092)	13,502,486	14,838,431	109.9
421	Reimbursement of employees' costs (ADP 059 to 061)	1,738,403	2,120,852	122.0
4211	Business trips	509,147	658,719	129.4
4212	Travel, field and separate maintenance allowance	668,327	714,660	106.9
4213	Employees' professional training	560,929	747,473	133.3
422	Remuneration to members of representative and executive bodies, committees etc. (ADP 063 to 066)	0	0	-
423	Remuneration to volunteers (ADP 068 to 071)	0	0	-
424	Remuneration to external staff (ADP 073 to 076)	14,373	0	0.0
4243	Other costs	14,373		0.0
425	Expenses for services (ADP 078 to 086)	5,767,955	6,768,432	117.3
4251	Telephone, postal and transport services	203,596	196,770	96.6
4252	Daily and investment maintenance services	1,002,426	1,569,802	156.6
4253	Promotional and information services	95,787	54,000	56.4
4254	Public utility services	624,038	604,856	96.9
4255	Leases and rents	2,169,371	2,105,638	97.1
4256	Health care and veterinary services	49,200	124,550	253.2
4257	Intellectual and personal services	555,290	744,220	134.0
4258	IT services	162,790	206,875	127.1
4259	Other services	905,457	1,161,721	128.3
426	Expenses for material and energy (ADP 088 to 091)	720,023	729,508	101.3
4261	Stationery and other material expenses	305,645	322,963	105.7
4263	Energy	397,593	377,584	95.0
4264	Small inventory and car tires	16,785	28,961	172.5

Account from the Chart of Accounts	Item	Realised in the previous year	Realised in the reporting period	Index (5/4)
1	2	4	5	6
429	Other material expenses (ADP 093 to 097)	5,261,732	5,219,639	99.2
4291	Insurance premiums	46,630	59,445	127.5
4292	Representation	87,800	95,685	109.0
4293	Membership fees	5,126,917	5,064,359	98.8
4295	Other material expenses	385	150	39.0
43	Depreciation expenses	1,308,548	1,762,378	134.7
44	Financial expenses (ADP 100+101+105)	444,905	58,871	13.2
441	Interest on securities issued	0		-
442	Interest on credits and loans received (ADP 102 to 104)	0	0	-
443	Other financial expenses (ADP 106 to 109)	444,905	58,871	13.2
4431	Banking and payment system services	26,989	42,201	156.4
4432	Negative exchange rate differences and currency clause	7,808	16,670	213.5
4433	Default interest	410,108	0	0.0
45	Donations (ADP 111+114)	10,000	0	0.0
451	Current donations (ADP 112+113)	10,000	0	0.0
4512	Scholarships	10,000		0.0
452	Capital donations	0		-
46	Other expenses (ADP 116+121)	324,073	73,275	22.6
461	Fines, penalties and indemnities (ADP 117 to 120)	209,735	11,245	5.4
4613	Indemnities for employees	209,735	11,245	5.4
462	Other financial expenses (ADP 122 to 125)	114,338	62,030	54.3
4621	Net book value and other expenses for retired and disposed fixed assets	1,546	137	8.9
4623	Expenses for other tax levies	3,506	3,379	96.4
4624	Other expenses	109,286	58,514	53.5
47	Expenses for the funding of non-profit organisations	0	0	-
	Production and finished goods inventory at the beginning of the period	0		-
	Production and finished goods inventory at the end of the period	0		-
	Increase in production and finished goods inventory (ADP 130-129)	0	0	-
	Decrease in production and finished goods inventory (ADP 129-130)	0	0	-
	Total expenses (AOP 044-131 or 044+132)	**48,249,540**	**47,958,557**	**99.4**
	Surplus income (ADP 001-133)	**4,840,387**	**5,829,951**	**120.4**
	Income deficit (ADP 133-001)	**0**	**0**	**-**
5221	Surplus income – transferred	17,396,682	17,396,682	100.0
5222	Income deficit – transferred	0	0	-
	Income tax liabilities	0	0	-
	Surplus income available in the following period (ADP 134+136-135-137-138)	22,237,069	23,226,633	104.5
	Deficit of income for the coverage in the following period (AOP 135+137-134-136+138)	0	0	-

Account from the Chart of Accounts	Item	Realised in the previous year	Realised in the reporting period	Index (5/4)
1	2	4	5	6
Additional data				
11	Cash at the beginning of the year	6,285,298	8,328,146	132.5
11-payable	Total inflows of cash at bank and in hand	71,291,410	73,622,132	103.3
11-receivable	Total outflows of cash at bank and in hand	69,248,562	74,448,513	107.5
11	Cash at the end of the period (ADP 141+142-143)	8,328,146	7,501,765	90.1
	Income from EU funds	0	0	-
	Average number of employees at the end of the reporting period (whole number)	154	159	103.2
	Average number of employees according to working hours (whole number)	140	146	104.3
	Number of volunteers	0	0	-
	Number of volunteered hours	0	0	-
Value of realised investments in fixed assets		Realised value: in the same period last year	Realised value: in the reporting period	Index (5/4)
051	Buildings – work in progress	0	0	-
052	Plant and equipment – work in progress	298,657	227,473	76.2
053	Vehicles – work in progress	158,106	208,442	131.8
054	Growing crops and livestock – work in progress	0	0	-
055	Other intangible produced assets – work in progress	2,295,864	594,784	25.9
056	Other non-financial assets – work in progress	16,785	28,961	172.5
Item		As at 1 January	At the end of the reporting period	Index (5/4)
	Inventories	34,234	26,084	76.2
	Control sum (ADP 145 to 156)	2,803,940	1,086,049	38.7

Source: Hanfa

Appendix 4: Statistical overview

4.1 Pension funds

Table A1: Statement of financial position of pension companies (in HRK thousand)

Item	31/12/2016	Share (%)	31/12/2017	Share (%)
I. Financial assets	627,979	86.64	655,065	87.20
II. Receivables	41,811	5.77	41,467	5.52
III. Prepayments and accrued income	1,654	0.23	1,521	0.20
IV. Deferred tax assets	3,378	0.47	5,193	0.69
VI. Property, plant and equipment	6,577	0.91	5,635	0.75
VI. Investment property	0	0.00	0	0.00
VII. Intangible assets	8,705	1.20	11,018	1.47
VIII Other assets	33,144	4.57	31,362	4.17
Total assets	**724,800**	**100.00**	**751,261**	**100.00**
Capital and reserves	661,939	91.33	689,374	91.76
I. Subscribed capital	401,800	55.44	401,800	53.48
II. Capital reserves	4,490	0.62	4,490	0.60
III. Reserves	9,972	1.38	9,972	1.33
IV. Revaluation reserves	6,652	0.92	8,872	1.18
V. Retained profit or loss brought forward	50,781	7.01	52,142	6.94
VI. Profit or loss for the year	188,244	25.97	212,098	28.23
Payables	19,126	2.64	22,901	3.05
Provisions	12,797	1.77	5,476	0.73
Accruals and deferred income	29,460	4.06	31,563	4.20
Deferred tax liability	1,477	0.20	1,947	0.26
Total liabilities	**724,800**	**100.00**	**751,261**	**100.00**

Source: Hanfa

Table A2: Statement of comprehensive income of pension companies (in HRK thousand)

Item	2016	2017
Income from fund management	447,893	476,788
Contributions paid	394,489	419,226
Pension fund asset fee	53,383	57,544
Exit fee	21	18
Bonus payment	0	0
Fund management expenses	116,217	133,629
Transaction costs	233	278
Marketing costs	6,514	6,315
Sales agent costs	34,869	37,513
Other management costs	74,601	89,523
Fund management profit	331,676	343,159
Operating expenses	109,557	98,269

Item	2016	2017
Material costs	1,584	1,687
Staff costs	58,251	56,993
Depreciation and adjustment of value of other assets	5,756	5,314
Provisions	0	0
Other operating expenses	43,965	34,275
Profit from regular business activities	222,120	244,891
Net financial result	12,758	10,400
Other income and expenses	1,473	3,553
Pre-tax profit	236,350	258,844
Profit tax	48,106	46,746
Profit	188,244	212,098
Other comprehensive income	4,455	2,220
Total comprehensive income	192,699	214,318

Corrected data are available on p. 164.

Source: Hanfa

Table A3: Statement of financial position of the pension insurance company as at 31/12/2016 and 31/12/2017 (in HRK)

Identifier	Item	31/12/2016	31/12/2017	Change (in %)
Assets				
A	Intangible assets	289,944	304,236	4.9
B	Tangible assets	91,432	72,195	-21.0
C	Investments	443,638,193	467,946,195	5.5
D	Deferred and current tax assets	536,610	69,710	-87.0
E	Receivables	23,392	7,367	-68.5
F	Other assets	19,403,683	29,781,561	53.5
G	Prepayments and accrued income	90,030	40,327	-55.2
H	Total assets	464,073,284	498,221,590	7.4
Liabilities				
A	Capital and reserves	39,267,141	37,246,311	-5.1
B	Subordinate liabilities			
C	Minority interest			
D	Technical provisions	394,850,045	425,303,429	7.7
E	Provisions	8,620,138	11,207,656	30.0
F	Financial liabilities	27,866	867	
G	Deferred and current tax liabilities		30,050	-
H	Other liabilities	458,055	429,516	-6.2
I	Accruals and deferred income	20,850,038	24,003,762	15.1
J	Total liabilities	464,073,284	498,221,590	7.4

Source: Hanfa

Table A4: Statement of comprehensive income of the pension insurance company for 2016 and 2017 (in HRK)

Identifier	Item	2016	2017	Change (in %)
I	Income from payments of pension companies, lump sum payments and payments of other persons	121,571,387	151,159,314	24.3
II	Income from investments	95,623,563	84,702,218	-11.4
III	Profit from commissions and fees			
IV	Other income	1,774	93,478	5,170.7
V	Expenses arising from pension contracts	-143,820,986	-163,137,525	13.4
VI	Operating expenses	-6,447,572	-7,049,856	9.3
VII	Investment expenses	-62,970,653	-59,992,768	-4.7
VIII	Other expenses			-
IX	Profit or loss of the accounting period before tax	3,957,513	5,774,861	45.9
X	Profit tax	-785,685	-1,035,138	31.7
XI	Profit or loss of the accounting period	3,171,828	4,739,723	49.4

Source: Hanfa

4.2 Investment funds

Table B1: Statement of financial position of investment fund management companies (in HRK thousand)

Item	31/12/2016	Share (%)	31/12/2017	Share (%)
Property, plant and equipment	2,224	0.71	1,689	0.54
Property investment	0	0.00	0	0.00
Intangible assets	5,709	1.81	8,522	2.74
Financial assets	242,130	76.80	227,748	73.34
Receivables	60,950	19.33	68,109	21.93
Prepayments and accrued income	1,760	0.56	1,089	0.35
Deferred tax assets	551	0.17	1,813	0.58
Other assets	1,967	0.62	1,549	0.50
Total assets	**315,290**	**100.00**	**310,517**	**100.00**
Capital and reserves	249,696	79.20	259,193	83.47
Payables	52,832	16.76	37,019	11.92
Provisions	2,087	0.66	3,883	1.25
Accruals and deferred income	10,074	3.20	10,315	3.32
Deferred tax liability	602	0.19	108	0.03
Total liabilities	**315,290**	**100.00**	**310,517**	**100.00**

Source: Hanfa[139]

139 Data relating to Nexus Private Equity Partneri d.o.o. have not been included as the company failed to deliver its audited financial statement for 2017.

Table B2: Statement of comprehensive income of investment fund management companies (in HRK thousand)

Item	31/12/2016	31/12/2017
I. Income from investment fund management fees	245,838	251,089
II. Fund management expenses	84,765	96,081
Net result from investment fund management fees	161,073	155,009
III. Net income from portfolio management	11,432	13,183
IV. Income from the provision of investment advice	125	94
V. Financial income and expenses (profit/loss from investment in financial instruments)	4,916	884
VI. Overheads and administrative operating costs	103,456	103,968
VII. Depreciation and adjustment of value of other assets	2,432	2,095
VIII. Provisions	823	2,039
IX. Other operating income and expenses	3,152	2,198
X. Pre-tax profit or loss	73,986	63,265
XI. Profit tax	14,983	11,321
XII. Profit or loss	59,005	51,944
XIII. Other comprehensive income	2,401	934
XIV. Total comprehensive income	61,404	52,878

Source: Hanfa[140]

4.3 Insurance

Table C1: Abbreviated statement of financial position (balance sheet) of insurance companies and reinsurance companies (in HRK thousand)

	31/12/2016			31/12/2017		
	Life	Non-life	Total	Life	Non-life	Total
Intangible assets	26,131	80,624	106,755	23,313	90,557	113,870
Tangible assets	142,079	1,404,544	1,546,623	128,570	1,317,938	1,446,509
Investments	19,914,047	12,261,277	32,175,324	20,622,568	12,562,369	33,184,937
Investments for the account of life insurance policyholders who bear the investment risk	1,320,699	0	1,320,699	1,723,391	0	1,723,391
Reinsurer's share in technical provisions	404,234	925,992	1,330,225	108,020	1,003,577	1,111,597
Deferred and current tax assets	13,692	157,813	171,504	32,298	153,887	186,186
Receivables	196,829	1,980,994	2,177,823	160,063	2,093,380	2,253,442
Other assets	349,363	276,464	625,827	180,477	206,640	387,117
Prepayments and accrued income	13,392	332,650	346,042	15,664	415,676	431,340
Total assets	**22,380,466**	**17,420,358**	**39,800,824**	**22,994,364**	**17,844,024**	**40,838,388**

140 Data relating to Nexus Private Equity Partneri d.o.o. have not been included as the company failed to deliver its audited financial statement for 2017.

	31/12/2016			31/12/2017		
	Life	Non-life	Total	Life	Non-life	Total
Capital and reserves	3,082,157	5,977,785	9,059,942	3,400,865	6,190,721	9,591,586
Subordinated liabilities		21,116	21,116		6,000	6,000
Minority interest						
Technical provisions	16,874,052	9,179,780	26,053,833	17,154,163	9,388,612	26,542,776
Special provisions for life insurance policies where the investment risk is borne by the policyholder, gross amount	1,317,131		1,317,131	1,721,997		1,721,997
Other provisions	40,306	184,338	224,644	46,837	149,104	195,942
Deferred and current tax liabilities	179,397	262,172	441,569	228,784	258,435	487,219
Deposits held under reinsurance business ceded	391,860	90,210	482,070	97,753	86,879	184,632
Financial liabilities	87,114	171,256	258,370	87,313	208,898	296,211
Other liabilities	353,389	1,004,235	1,357,624	187,419	1,017,560	1,204,980
Accruals and deferred income	55,058	529,467	584,525	69,234	537,814	607,048
Total liabilities	**22,380,466**	**17,420,358**	**39,800,824**	**22,994,364**	**17,844,024**	**40,838,388**

Source: Hanfa

Table C2: Abbreviated statement of comprehensive income (profit and loss account) of insurance companies and reinsurance companies (in HRK thousand)

	1/1/2016 – 31/12/2016			1/1/2017 – 31/12/2017		
	Life	Non-life	Total	Life	Non-life	Total
I. Earned premiums	2,835,960	4,776,604	7,612,564	2,910,958	4,915,546	7,826,504
II. Investment return	1,033,504	654,098	1,687,601	1,044,445	780,361	1,824,807
III. Profit from commissions and fees	10,399	190,033	200,432	8,497	163,174	171,670
IV. Other insurance-technical income, net of reinsurance	3,582	52,165	55,747	4,484	69,742	74,225
V. Other income	6,154	93,184	99,338	10,848	82,370	93,218
VI. Claims incurred, net amount	-1,797,321	-2,381,995	-4,179,315	-1,789,088	-2,442,379	-4,231,468
VII. Change in mathematical provisions and other technical provisions, net of reinsurance	-426,626	61,802	-364,825	-533,774	32,237	-501,537
VIII. Change in special provisions for insurance policies where the investment risk is borne by the policyholder, net of reinsurance	-385,564	0	-385,564	-393,911	0	-393,911
IX. Bonuses and rebates, net of reinsurance	0	-11,158	-11,158	0	-5,624	-5,624

	1/1/2016 – 31/12/2016			1/1/2017 – 31/12/2017		
	Life	Non-life	Total	Life	Non-life	Total
X. Operating expenses, net	-751,100	-2,432,884	-3,183,984	-729,615	-2,437,437	-3,167,051
XI. Investment expenses	-262,719	-214,734	-477,452	-233,674	-531,323	-764,997
XII. Other technical expenses, net of reinsurance	-7,891	-124,007	-131,898	-9,187	-129,383	-138,570
XIII. Other expenses, including value adjustments	-10,236	-121,087	-131,323	-14,843	-44,680	-59,523
XIV. Profit or loss of the accounting period before tax (+/-)	248,141	542,022	790,163	275,140	452,604	727,743
XV. Tax on profit or loss	-55,542	-145,488	-201,030	-47,803	-94,156	-141,959
XVI. After-tax profit or loss of the accounting period (+/-)	192,599	396,534	589,133	227,337	358,448	585,785
XVII. Total income	3,892,822	5,735,282	9,628,104	3,983,196	6,014,567	9,997,763
XVIII. Total expenses	-3,700,223	-5,338,748	-9,038,971	-3,755,859	-5,656,119	-9,411,978
XIX. Other comprehensive income	291,722	72,483	364,204	164,850	110,116	274,966
XX. Total comprehensive income	484,321	469,017	953,337	392,187	468,564	860,751
XXI. Reclassification adjustments	0	0	0	0	0	0

Source: Hanfa

4.4 Leasing

Table D1: Total assets of leasing companies (in HRK thousand)

Item / Date	31/12/2016	31/12/2017
Fixed assets	13,439,210	13,150,175
Intangible assets	13,094	15,973
Tangible assets	5,041,859	4,993,425
Tangible assets – work in progress (investments in progress)	20,030	6,257
Tangible assets leased out under an operating lease	4,785,435	4,750,381
Property	655,437	608,065
Passenger cars	3,022,606	3,162,143
Commercial vehicles	609,079	646,323
Vessels	270,245	203,881
Aircraft	0	0
Plant, machinery, transport machines and equipment	227,033	129,908
Other	1,034	60
Other tangible assets	45,997	44,223
Assets lent and rented	190,396	192,565
Long-term financial assets	421,122	286,259
Investments in branches, associates and joint ventures	380,499	247,016
Investments in long-term securities	26,474	27,768
Long-term loans	11,199	8,547
Long-term deposits	654	508

Item / Date	31/12/2016	31/12/2017
Other long-term financial assets	2,296	2,420
Long-term receivables	7,837,336	7,742,433
Finance lease receivables	7,536,948	7,354,490
Other long-term receivables	300,388	387,943
Deferred tax assets	125,799	112,084
Current assets	4,378,252	4,903,107
Inventory	308,427	241,238
Short-term receivables	3,517,638	4,094,099
Operating lease receivables	166,397	156,721
Finance lease receivables	3,144,446	3,626,356
State and other institutions receivables	69,717	78,048
Other short-term receivables	137,078	232,975
Short-term financial assets	201,077	179,795
Investments in branches, associates and joint ventures	0	0
Investments in short-term securities	0	0
Short-term loans granted	59,671	44,370
Short-term deposits given	139,021	134,166
Other short-term financial assets	2,384	1,258
Cash at bank and in hand	351,110	387,976
Prepayments and accrued income	87,123	96,374
Total assets	**17,904,585**	**18,149,656**
Off-balance sheet items	8,967,633	23,608,985

Source: Hanfa

Table D2: Total liabilities of leasing companies (in HRK thousand)

Item / Date	31/12/2016	31/12/2017
Capital and reserves	2,212,487	2,299,279
Initial capital	544,448	577,017
of which owned by non-residents	428,951	464,147
Other reserves	-15,595	-13,792
Capital reserves	5,272,259	325,529
Retained profit / loss brought forward	-4,031,683	1,190,807
Profit/loss for the year	443,058	219,717
Provisions	99,687	89,579
Long-term liabilities	11,524,247	9,789,792
Foreign banks and financial institutions long-term credits and loans	9,772,935	8,110,958
Domestic banks and financial institutions long-term credits and loans	1,463,334	1,447,536
Lease liabilities for advance payment	9,406	7,049
Lease liabilities for deposits and guarantees i	262,952	213,416
Liabilities for issued securities	0	0
Other long-term liabilities	11,809	6,234
Deferred tax liability	3,812	4,598
Short-term liabilities	3,706,293	5,587,118

Item / Date	31/12/2016	31/12/2017
Foreign banks and financial institutions credits and loans	2,698,421	4,617,686
Domestic banks and financial institutions credits and loans	660,903	704,500
Liabilities for short-term securities	1,549	665
Liabilities for advances in respect of lease	45,317	48,084
Lease liabilities for deposits and guarantees	88,980	76,356
Other short-term liabilities	211,123	139,827
Accruals and deferred income	361,871	383,888
Total liabilities	**17,904,585**	**18,149,656**
Off-balance sheet items	8,967,633	23,608,985
Capital and reserves	417,530	435,759
Attributable to owners of the parent	417,530	435,759
Attributable to the non-controlling interest	0	0

Source: Hanfa

Table D3: Statement of comprehensive income of leasing companies (in HRK thousand)

Item / Period	1/1 – 31/12/2016	1/1 – 31/12/2017
Interest income	**544,542**	**553,252**
Interest income – finance lease	515,214	525,880
Interest income – loans granted	8,211	3,824
Other interest income	21,117	23,548
Interest expenses	**268,769**	**240,958**
Interest expenses on credits from domestic banks and financial institutions	62,259	64,474
Interest expenses on credits from foreign banks and financial institutions	186,172	152,817
Other interest expenses	20,339	23,666
Interest profit/loss	**275,773**	**312,294**
Profit from commissions and fees	**32,288**	**31,644**
Expenses on commissions and fees	**23,004**	**24,254**
Profit/loss on commissions and fees	**9,285**	**7,391**
Other operating income	**1,720,630**	**1,864,306**
Income from operating lease	1,333,782	1,272,045
Profit from sale of assets – operating lease	19,438	8,042
Profit from sale of assets – finance lease	23,470	31,688
Profit from reimbursable lease expenses	16,883	21,245
Profit from exchange rate differences	48,704	10,377
Other income	278,353	520,909
Other operating expenses	**1,774,517**	**1,651,852**
Loss on sale of assets – operating lease	12,114	22,416
Loss on sale of assets – finance lease	5,014	1,951
Loss on reimbursable lease expenses	6,280	8,213
Loss on exchange rate differences	62,134	52,727
Costs for depreciation of assets under an operating lease	1,031,407	990,250
Costs for depreciation of other assets	17,336	17,065

Item / Period	1/1 – 31/12/2016	1/1 – 31/12/2017
Staff costs	201,818	206,266
Overheads and administrative operating costs	184,285	166,512
Other expenses	254,128	186,452
Profit/loss on other income and expenses	**-53,887**	**212,454**
Profit/loss before expenses on value adjustment for impairment losses	**231,170**	**532,139**
Costs for value adjustment for impairment losses	-299,509	257,520
Profit/loss before profit tax	**530,679**	**274,619**
Profit tax	87,621	54,902
Profit/loss after profit tax	**443,058**	**219,717**
Attributable to owners of the parent	0	0
Attributable to the non-controlling interest	0	0
Other comprehensive income	**3,840**	**719**
Change in revaluation reserves (property, plant, equipment and intangible assets)	0	-1,089
Unrealised gains/losses on financial assets available for sale	2,948	1,293
Gains/losses on hedging instruments in a cash flow hedge	1,374	1,472
Actuarial gains/losses on defined benefit pension plans	412	-82
Gains/losses arising from translation of financial statements relating to foreign operations	0	0
Profit tax on other comprehensive income	894	877
Total comprehensive income	446,898	220,436
Attributable to owners of the parent	43,548	61,778
Attributable to the non-controlling interest	0	0
Reclassification adjustments	0	0

Source: Hanfa

Table D4: Structure of the portfolio of active lease contracts by type and by leased/lent asset

	As at	31/12/2016		31/12/2017	
	Item	Number of active contracts	Value of active contracts (outstanding contract value/outstanding receivables)[1] (in HRK thousand)	Number of active contracts	Value of active contracts (outstanding contract value/outstanding receivables)[1] (in HRK thousand)
Operating lease	**Total**	**46,979**	**3,201,019**	**44,486**	**2,928,944**
	Property	60	495,361	38	271,594
	Passenger cars	38,599	1,902,458	36,805	1,971,791
	Commercial vehicles	6,428	464,081	6,381	473,673
	Vessels	294	160,878	204	117,671
	Aircraft	0	0	0	0
	Plant, machinery, transport machines and equipment	1,329	177,740	995	94,203
	Other	269	501	63	12

	As at	31/12/2016		31/12/2017	
	Item	Number of active contracts	Value of active contracts (outstanding contract value/outstanding receivables)[1] (in HRK thousand)	Number of active contracts	Value of active contracts (outstanding contract value/ outstanding receivables)[1] (in HRK thousand)
Finance lease	**Total**	**65,466**	**10,803,204**	**76,057**	**10,949,997**
	Property	552	2,345,125	443	1,069,359
	Passenger cars	38,585	2,847,313	47,062	3,723,629
	Commercial vehicles	17,699	2,999,127	19,797	3,440,042
	Vessels	665	279,293	899	475,798
	Aircraft	2	643	1	476
	Plant, machinery, transport machines and equipment	7,053	2,269,459	7,210	2,191,900
	Other	910	62,243	645	48,793
Loans	**Total**	**755**	**43,018**	**238**	**23,842**
	Property	149	42,282	110	23,842
	Passenger cars	151	0	33	0
	Commercial vehicles	209	15	43	0
	Vessels	43	126	7	0
	Aircraft	0	0	0	0
	Plant, machinery, transport machines and equipment	203	595	45	0
	Other	0	0	0	0
Total	**Total**	**113,200**	**14,047,241**	**120,781**	**13,902,783**
	Property	761	2,882,769	591	1,364,795
	Passenger cars	77,335	4,749,771	83,900	5,695,420
	Commercial vehicles	24,336	3,463,223	26,221	3,913,715
	Vessels	1,002	440,298	1,110	593,469
	Aircraft	2	643	1	476
	Plant, machinery, transport machines and equipment	8,585	2,447,794	8,250	2,286,103
	Other	1,179	62,744	708	48,805

Source: Hanfa

1) Accrued notional amount of the operating lease portfolio structure refers to the amount of outstanding rent (excluding VAT) on operating lease contracts; this amount does not include the residual value. Accrued receivables refer to the outstanding amount of financing (outstanding principal) under finance lease contracts and loans, net of accumulated depreciation claim.

Table D5: Structure of the portfolio of newly concluded lease contracts by type and by leased asset

	Period from 1/1 to	31/12/2016		31/12/2017	
	Item	Number of newly concluded contracts	Value of newly concluded contracts (contract/financed value)[1] (in HRK thousand)	Number of newly concluded contracts	Value of newly concluded contracts (contract/financed value)[1] (in HRK thousand)
Operating lease	**Total**	**19,428**	**1,744,661**	**22,388**	**1,595,112**
	Property	9	47,455	4	655
	Passenger cars	16,985	1,295,474	20,474	1,304,489
	Commercial vehicles	2,184	291,233	1,763	222,900
	Vessels	58	75,864	24	49,307
	Aircraft	0	0	0	0
	Plant, machinery, transport machines and equipment	191	34,374	123	17,761
	Other	1	261	0	0
Finance lease	**Total**	**25,256**	**4,763,030**	**30,696**	**5,717,928**
	Property	18	47,296	24	26,456
	Passenger cars	17,036	2,175,095	21,857	2,791,778
	Commercial vehicles	6,130	1,673,663	6,338	1,800,409
	Vessels	245	168,976	401	369,715
	Aircraft	0	0	0	0
	Plant, machinery, transport machines and equipment	1,717	678,633	1,964	712,486
	Other	110	19,367	112	17,084
Total	**Total**	**44,684**	**6,507,691**	**53,084**	**7,313,041**
	Property	27	94,750	28	27,111
	Passenger cars	34,021	3,470,569	42,331	4,096,268
	Commercial vehicles	8,314	1,964,896	8,101	2,023,309
	Vessels	303	244,840	425	419,022
	Aircraft	0	0	0	0
	Plant, machinery, transport machines and equipment	1,908	713,008	2,087	730,247
	Other	111	19,628	112	17,084

Source: Hanfa

1) The contract value of the operating lease portfolio structure refers to the total contract amount equalling the total sum of the rent (excluding VAT) under operating lease contracts; this amount does not include the residual value. Financed contract value of the finance lease portfolio structure refers to the amount intended for financing the lessee (principal amount) under finance lease contracts concluded during the reporting period.

4.5 Factoring

Table E1: Aggregate balance sheet of factoring companies (in HRK thousand)

Item / As at	31/12/2017
Fixed assets	**70,789**
Intangible assets	1,555
Tangible assets	3,192
Long-term financial investments	9,397
Long term deposits	29
Other long-term financial assets	22,321
Long-term receivables	311
Deferred tax assets	33,983
Current assets	**2,494,169**
Receivables – factoring	587,698
Receivables – factoring including the discounting of bills of exchange	688,642
Receivables – reverse factoring	397,851
Receivables – interest, fees and commissions under factoring arrangements	39,775
Receivables – arrangements directly or indirectly related to factoring arrangements	7,500
Other short-term receivables	259,796
Short-term financial investments	0
Short-term deposits	262,785
Derivative financial instruments	2,446
Other short-term financial assets	19,884
Other assets	213
Cash at bank and in hand	227,580
Prepayments and accrued income	**563**
Total assets	**2,565,521**
Off-balance sheet items	2,748,953
Capital and reserves	**141,571**
Initial capital	312,692
of which owned by non-residents	*1,250*
Capital reserves	0
Revaluation reserves	-5
Other reserves	0
Retained profit/loss brought forward	728,472
Profit/loss for the year	-899,588
Provisions	**0**
Long-term liabilities	**13,809**
Foreign banks and financial institutions credits and loans	0
Domestic banks and financial institutions credits and loans	3,415
Other persons' loans	10,244
Other long-term liabilities	149
Deferred tax liability	0
Short-term liabilities	**2,404,284**
Foreign banks and financial institutions credits and loans	1,897,317
Domestic banks and financial institutions credits and loans	188,244
Other persons' loans	53,233
Liabilities under factoring arrangements	42,028
Derivative financial instruments	1,155
Other short-term liabilities	222,307

Item / As at	31/12/2017
Accruals and deferred income	**5,857**
Total liabilities	**2,565,521**
Off-balance sheet items	2,748,953
Capital and reserves	141,571
Attributable to owners of the parent	141,571
Attributable to the non-controlling interest	0

Source: Hanfa

Table E2: Aggregate profit and loss account of factoring companies (in HRK thousand)

Item / Period	1/1-31/12 2017
Interest income	**136,169**
Interest income – factoring	30,923
Interest income – factoring including the discounting of bills of exchange	65,505
Interest income – reverse factoring	27,781
Interest income – arrangements directly or indirectly related to factoring arrangements	0
Interest income – deposits given	237
Other interest income	11,723
Interest expenses	**77,543**
Interest expenses – domestic banks and financial institutions	26,581
Interest expenses – foreign banks and financial institutions	37,265
Other interest expenses	13,697
Interest profit/loss	**58,626**
Income from fees and commissions	**12,482**
Expenses on fees and commissions	**9,511**
Profit/loss on fees and commissions	**2,971**
Other operating income	**33,693**
Profit from exchange rate differences	19,664
Other income	14,029
Other operating expenses	**1,006,692**
Overheads and administrative operating costs	20,148
Staff costs	24,508
Loss on exchange rate differences	1,461
Costs of value adjustment	945,194
Other expenses	15,380
Profit/loss on other income and expenses	**-972,998**
Total income	**182,344**
Total expenses	**1,093,746**
Profit/loss before profit tax	**-911,402**
Profit tax	-11,814
Profit/loss after profit tax	**-899,588**
Attributable to owners of the parent	-899,588
Attributable to the non-controlling interest	0
Other comprehensive income/loss before tax	**-19**
Change in revaluation reserves (property, plant, equipment and intangible assets)	0
Unrealised gains/losses on financial assets available for sale	-19
Gains/losses on hedging instruments in a cash flow hedge	0
Actuarial gains/losses on defined benefit pension plans	0
Gains/losses arising from translation of financial statements relating to foreign operations	0

Item / Period	1/1-31/12 2017
Tax on other comprehensive income of the period	-3
Net other comprehensive income/loss of the period	-16
Total comprehensive income	**-899,603**
Attributable to owners of the parent	-369,426
Attributable to the non-controlling interest	0
Reclassification adjustments	10

Source: Hanfa

Table E3: Portfolio structure report – factoring as at 31/12/2017 (in HRK thousand)

Item	Transaction volume	Overdue receivables	Outstanding receivables	Value adjustment	Liabilities under factoring arrangements
By recourse	**2,512,151**	**314,950**	**410,534**	**126,376**	**21,788**
With recourse	1,371,733	299,247	198,405	118,512	14,610
Without recourse	1,140,417	15,703	212,129	7,864	7,179
By residence of entities	**2,512,151**	**314,950**	**410,534**	**126,376**	**21,788**
Domestic factoring	1,800,103	301,750	322,488	125,601	15,210
Import factoring	0	0	0	0	0
Export factoring	712,048	13,200	88,046	775	6,578
By maturity	**2,512,151**	**314,950**	**410,534**	**126,376**	**21,788**
Less than three months	1,776,862	157,763	202,925	108,089	10,560
From three to six months	636,963	71,887	145,461	7,536	9,844
From six to nine months	87,392	3,094	51,515	679	525
From nine months to one year	10,403	513	8,552	57	311
Over one year	529	81,693	2,080	10,014	548

Source: Hanfa

Table E4: Portfolio structure report – factoring including the discounting of bills of exchange as at 31/12/2017 (in HRK thousand)

Item	Transaction volume	Overdue receivables	Outstanding receivables	Value adjustment	Liabilities under factoring arrangements
By recourse	**2,906,153**	**1,153,008**	**355,198**	**810,609**	**52,604**
With recourse	2,712,165	1,137,906	275,838	795,768	52,021
Without recourse	193,988	15,102	79,360	14,842	583
By residence of entities	**2,906,153**	**1,153,008**	**355,198**	**810,609**	**52,604**
Domestic factoring	2,899,722	1,153,008	355,198	810,609	52,604
Import factoring	0	0	0	0	0
Export factoring	6,430	0	0	0	0
By maturity	**2,906,153**	**1,153,008**	**355,198**	**810,609**	**52,604**
Less than three months	2,297,504	720,504	37,839	480,892	28,101
From three to six months	481,690	384,064	120,148	220,236	21,848
From six to nine months	32,552	17,428	22,922	6,605	127
From nine months to one year	39,046	17,606	37,284	8,665	2,364
Over one year	55,361	13,406	137,004	94,211	164

Source: Hanfa

Table E5: Portfolio structure report – reverse factoring as at 31/12/2017 (in HRK thousand)

Item	Transaction volume	Overdue receivables	Outstanding receivables	Value adjustment
By residence of entities	**1,037,877**	**55,565**	**359,183**	**16,896**
Domestic factoring	629,719	43,213	223,180	13,200
Foreign factoring	408,158	12,351	136,003	3,697
By maturity	**1,037,877**	**55,565**	**359,183**	**16,896**
Less than three months	297,555	2,342	50,436	1,609
From three to six months	510,722	28,813	189,578	8,204
From six to nine months	207,521	24,380	99,408	6,745
From nine months to one year	22,079	30	19,762	338
Over one year	0	0	0	0

Source: Hanfa

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Abbreviations and symbols

15 Abbreviations and symbols

Act on Hanfa	Act on the Croatian Financial Services Supervisory Agency (Official Gazette, No 140/05 and 12/12)
AIF	Alternative Investment Fund
AIFA	Alternative Investment Funds Act (Official Gazette, No 16/13 and 143/14)
AIFM	Alternative Investment Fund Manager
AIFMD	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
AOEIF	Act on Open-Ended Investment Funds with Public Offering (Official Gazette, No 16/13 and 143/14)
ARAI	Act on the Right to Access Information (Official Gazette, No 25/13 and 85/15)
BRRD	Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council, OJ L 173
CCP	Central counterparty
CDCC	Central Depository and Clearing Company
CDCC CCP	CDCC-Smart Clear
CMA	Capital Market Act (Official Gazette, No 88/08, 146/08, 74/09, 54/ 13, 159/13, 18/15, 110/15, 123/16 and 131/17)
CMU	Capital Markets Union
CN Pool	Croatian Nuclear Insurance and Reinsurance Pool EIG
Commission Delegated Regulation No 918/2012	Commission Delegated Regulation No 918/2012 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
CRD IV	Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, OJ L 176 and Regulation (EU) No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, OJ L 176
CRR	Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, OJ EU L 176
CSDR	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
Delegated Regulation Supplementing the Solvency II Directive	Commission Delegated Regulation No 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), OJ L 12

EBA	European Banking Authority
EGESC	Expert Group of the European Securities Committee
EIOPA	European Insurance and Occupational Pensions Authority
EMIR	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
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
Factoring companies	Factoring companies and companies known to Hanfa to be providing factoring services
Hanfa	Croatian Financial Services Supervisory Agency
IIWG	Inter-Institutional Working Group on the Prevention of Money Laundering and Terrorist Financing
Insurance Distribution Directive	Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (recast), OJ L 26
IOSCO	International Organisation of Securities Commissions
LEI	Legal Entity Identifier
MAR	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
MiFID	Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC, OJ L 145
MiFID II	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
MiFIR	Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012, OJ L 173
MONEYVAL	Committee of Experts of the Council of Europe on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
MTF	Multilateral Trading Facility
OAM	Officially Appointed Mechanism for the central storage of regulated information
ORSA	Own Risk and Solvency Assessment
Prospectus Directive	Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC, OJ L 345
QRT forms	Quantitative Reporting Template forms
REGOS	Central Registry of Affiliates
Regulation on record-keeping obligations	Commission Regulation (EC) No 1287/2006 of 10 August 2006 implementing Directive 2004/39/EC of the European Parliament and of the Council as regards record-keeping obligations for investment firms, transaction reporting, market transparency, admission of financial instruments to trading, and defined terms for the purposes of that Directive, OJ L 241
ROA	Return on assets
ROE	Return on equity
Short Selling Regulation	Regulation (EU) No 236/2012 of the European Parliament and of the Council of 14 March 2012 on short selling and certain aspects of credit default swaps, OJ L 86

Solvency II Directive	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, OJ L 335
The Bureau	Croatian Insurance Bureau
UCITS	Open-ended investment fund with public offering
UCITS IV Directive	Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), OJ L 176
UCITS V Directive	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
UCITS management company	Company managing undertakings for collective investment in transferable securities
ZSE	Zagreb Stock Exchange

Corrigendum to data from the Annual Report:

- On page 139, Table A.2 Statement of comprehensive income of pension companies (in HRK thousand) is amended as follows:

Table A2: Statement of comprehensive income of pension companies (in HRK thousand)

Item	2016	2017
Income from fund management	447,893	476,788
Contributions paid	53,383	57,544
Pension fund asset fee	394,489	419,226
Exit fee	21	18
Bonus payment	0	0
Fund management expenses	116,217	133,629
Transaction costs	233	278
Marketing costs	6,514	6,315
Sales agent costs	34,869	37,513
Other management costs	74,601	89,523
Fund management profit	331,676	343,159
Operating expenses	109,557	98,269
Material costs	1,584	1,687
Staff costs	58,251	56,993
Depreciation and adjustment of value of other assets	5,756	5,314
Provisions	0	0
Other operating expenses	43,965	34,275
Profit from regular business activities	222,120	244,891
Net financial result	12,758	10,400
Other income and expenses	1,473	3,553
Pre-tax profit	236,350	258,844
Profit tax	48,106	46,746
Profit	188,244	212,098
Other comprehensive income	4,455	2,220
Total comprehensive income	192,699	214,318

Source: Hanfa